

SUPPLEMENTARY BUSINESS PAPER 1

COUNCIL MEETING

Tuesday, 7 August, 2012

Distributed on 1 August 2012

Meeting commences at 6:30pm

**Council Chambers
Level 3, 2-14 Fisher Street
Petersham**

MEETING AGENDA – PRECIS SUPPLEMENTARY ITEMS

The following report appears as a late item with Mayoral approval as information required for the preparation of the report was not available at the time of distribution of the Business Paper.

1 Mayoral Minutes

2 Reports with Confidential Information

Reports appearing in this section of the Business Paper are confidential in their entirety or contain confidential information in attachments.

The confidential information has been circulated to Councillors separately.

C0812(1) Item 19 MEMBERSHIP OF METROPOOL AND UNITED INDEPENDENT POOLS 4

File Ref: 4556-02/43359.12

Report reviewing the costs and benefits of Council's current membership of the Metropool pooled insurance group having regard to the potential options of purchasing insurances through Statewide Mutual or going to the market. Continuing Council's membership of Metropool is recommended.

RECOMMENDATION 9

THAT:

1. Council move into closed session to deal with this matter as information contained in CONFIDENTIAL ATTACHMENT 1 of the Report is classified as confidential under the provisions of Section 10A (2)(c) and (d) of the Local Government Act 1993 as the information within this report, if disclosed, could confer a commercial advantage on persons with whom the Council proposes to or may conduct business.

And in accordance with Section 10A(4) of the Local Government Act 1993, that the Chairperson allow members of the public to make any representations as to whether this part of the meeting should be closed.

OR, WHERE THE MEETING IS NOT CLOSED:

- 1A. the Council resolve that CONFIDENTIAL ATTACHMENT 1 to the report be treated as confidential in accordance with section 11(3) of the Local Government Act 1993, as it relates to a matter specified in section 10A(2) of the Local Government Act 1993 and as such is to be treated as confidential.
 2. the report be received and noted; and
 3. Council advise Metropool that it has resolved to retain its membership of Metropool and United Independent Pools.
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Item No: C0812(1) Item 19
Subject: MEMBERSHIP OF METROPOOL AND UNITED INDEPENDENT POOLS
File Ref: 4556-02/43359.12

Prepared By: Brian Barrett - Director, Corporate Services

SYNOPSIS

Report reviewing the costs and benefits of Council's current membership of the Metropool pooled insurance group having regard to the potential options of purchasing insurances through Statewide Mutual or going to the market. Continuing Council's membership of Metropool is recommended.

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BACKGROUND

In the late 1980's the local government industry faced an insurance crisis. The major insurer of public liability and professional indemnity (PL/PI) cover for local government left the Australian market. Councils across Australia faced the potential of continuing operations without public liability and professional indemnity insurance cover. In 1990, Marrickville Council joined with Botany, Drummoyne, Holroyd, Hunters Hill, Lane Cove and Rockdale Councils to form a joint insurance scheme known as Metropool. Initially, the Deed of Agreement was between the councils and an insurance broker. The latter was charged with the responsibility of obtaining PL/PI insurance cover for the councils and to assist in managing risk within member councils. Councils carried responsibility for assessing and managing risk, and dealing efficiently with claims as they arose. Concurrently, a number of other insurance pools were formed across the industry.

By 1997 the nature of Metropool changed. A Deed was executed by each of the member councils in which they agreed to provide pooled cover for their joint risk, to purchase insurance cover as required, to develop programs to manage risk across member councils and to reduce the amount and frequency of losses. The deed had a 5 year term. The Board of Metropool comprised the Mayor and General Manager of each council or their representatives. Cover for Corporate Travel, Volunteers, Casual Hirers, Marine Transit and Fidelity Guarantee (fraud) is now included in Metropool contributions. A revised Deed was executed in 2002 following a further report to Council (Report GM83 at meeting 09/02 of 15 October 2002). This provided for an ongoing term of association rather than one with a fixed 5 year term. This can be terminated by 12 months written notice being given by a member council.

In 2005, Marrickville Council joined another pooled insurance vehicle, United Independent Pools (UIP) together with member Councils of Metropool and Westpool (a PL/PI insurance pool then comprising Blacktown, Blue Mountains, Fairfield, Hawkesbury, Liverpool, Parramatta and Penrith Councils). UIP initially offered pooled insurance for Industrial Special Risk (Property). It now also offers Councillors, Directors and Officers cover and cover for Statutory Liability (fines).

Experience has shown that a single council is unlikely by virtue of their size to be able to attract insurers to offer to meet their insurance needs. Some have gone to the London and US markets to attempt to negotiate insurance with limited success. In essence, Council has only two real alternatives available for PL/PI insurance – Metropool or Statewide Mutual. Unlike Metropool, Statewide Mutual is a mutual liability scheme in which councils collectively contract with the insurance broker, Jardine Lloyd Thompson Pty Ltd (JLT), to obtain insurance on their behalf. It currently provides cover for 134 NSW councils. Metropool tenders for broking, claims management and risk management consulting services for its members. Members of Statewide Mutual contract directly with JLT to provide broking services with no market testing of the cost or adequacy of the service provided. 'Add on' services appear to be provided to Statewide Mutual members by the consulting arm of JLT at the rate JLT determines from time to time.

As it is now 10 years since the Council reviewed its membership of Metropool, it is considered appropriate for Council to make a conscious decision whether to continue its association. Calling of Expressions of Interest is not a practical option as the insurance options available to Marrickville Council only comprise Statewide Mutual and Metropool. As a result, the offerings of both Metropool and Statewide Mutual have undergone a thorough analysis by the Risk and Insurance Coordinator. This has involved a detailed comparison of the relative costs, claims management approach, services provided and risk associated with each.

DISCUSSION

This report provides Council with information on the relative costs, services provided and risks associated with Statewide Mutual and Metropool.

Costs

CONFIDENTIAL ATTACHMENT 1 details the cost of each offering across all insurance forms currently provided by Metropool. Information was provided by Statewide Mutual following written requests. It is difficult to make a like for like assessment as each offers different suites of insurance products. A detailed analysis of the Metropool insurance offering has been undertaken. Where Statewide Mutual do not offer cover provided by Metropool, Jardine Lloyd Thompson Pty Ltd (JLT), who administer Statewide Mutual, have provided a price for that cover. Where services are provided by Metropool as part of their premiums, JLT have provided an estimate for these services.

It should be noted that there is no contribution formula for the Statewide Mutual offering. The pricing provided by JLT is very competitive. However, Statewide Mutual does not provide any certainty around how future premiums will be calculated for member councils. JLT would not provide comparative information on premiums offered to other councils but indicated that the prices offered to Marrickville Council would be comparable to those offered to similar sized councils with similar risk and claims profiles.

CONFIDENTIAL ATTACHMENT 1 also shows details of premiums currently paid by councils classified as Group 2 under the Department of Local Government's council classification system which were prepared to provided that information. This revealed that they paid an average premium of \$474,938 – JLT have offered Council \$300,000 as the PL/PI premium for 2012/13.

A recent new member of Metropool has advised that their property insurance rates with Statewide Mutual was 0.022% of insured value. Statewide Mutual has quoted Council a premium of \$216,000 for 2012/13 for property insurance. If the 0.022% rate was applied to Council's insured value, Marrickville Council's property premium would be \$528,000.

In addition to the direct cost, it is worth noting that retained earnings held within Metropool are transparently held for the benefit of each member as equity. Metropool is currently attempting to build reserves to the level required by the Australian Prudential Regulatory Authority of insurance companies. This provides a buffer against 'hardening' of the market i.e. where market premiums rise steeply, reserves can be called upon to soften the impact. These reserves can also be returned to member councils as the claims year from which they accrued is closed. Unlike reserves held in Statewide Mutual, the amount held on behalf of each council is transparently reported in each member's annual financial accounts.

Council currently has equity held by Metropool of \$1,681,000. During 2011/12 Council accrued equity in Metropool of \$311,000. Council's equity in UIP is \$244,000 of which \$155,000 accrued in 2011/12. While Confidential Attachment 1 reflects the 'net cost' of Metropool after average annual accrued equity is considered, this equity is only available to Council on closure of the claims year. Statewide Mutual offer reduced premiums up front.

JLT have indicated that it will rebate a proportion of surpluses from claims years but no information could be provided on how the rebates are split between members. Members do not have an absolute right to call on those funds once claims years to which they relate have been closed.

Claims Management approach

Decisions regarding whether claims will be referred to insurers under the Statewide Mutual offering are taken by its Board which comprises 3 staff from JLT and 8 nominees from member councils. Under the Metropool offering, each member council is a named insured party on each policy and can make a claim direct to insurers in its own right.

Metropool offers a claims management service free of charge to members and experience has shown this to be comprehensive and professional. Statewide Mutual charge for this service. Council officers could only gather anecdotal evidence of satisfaction levels of Statewide Mutual members with the service provided through JLT and as such no comments can be provided.

Product and services provided

Statewide Mutual offers a contact person with little broking experience, a claims contact and a relationship manager as part of their offering. Anecdotal evidence by members of Statewide Mutual offered to council staff suggests the 'add value' services offered are limited. This is somewhat understandable given the premiums quoted. Statewide Mutual offer 'off the shelf' insurance solutions to individual members as requested.

Metropool offer a nominated service team comprising 4 staff with extensive broking experience, many claims contact personnel and a service team of 2 across Metropool members. Insurance products are developed in consultation with members and tailored to their particular needs.

Risks

The major risks presented to council by continuing its membership of Metropool is that it is one voice on the Metropool Board and as such decisions regarding matters such as future contribution formulae, insurance products to be offered, the level of exposure taken by the pool below the insurance layers, the management of risk across member councils and the like are made by representatives of all member councils. Experience has shown that Board members have consistently operated collegiately over time with the primary focus on the mutual benefit of all members even where individual members may be impacted negatively. If Board members began operating in a self interested manner in the future, Council can cease its membership by giving 12 months written notice in any case.

If Council decides to cease its membership of Metropool it cannot remain a member of the United Independent Pool (UIP) separately and as such it would need to access insurances offered by UIP from Statewide or the market.

Any equity Council presently holds in Metropool/UIP would be returned to council on closure of the claims year to which the equity relates. The Metropool/UIP boards may make council an offer of an immediate equity return but this is likely to be lower than the equity reported as the cost of open claims may rise over time and Metropool would bear the risk of any change in those circumstances.

Re-entry to Metropool/UIP by Council in the future would be subject to the decision of the Boards of those entities and would likely require council to undergo and fund a due diligence review. There is no guarantee that council would gain membership in the future.

Item 19

The major risk presented to Council by the Statewide Mutual offering relates to the premiums offered. The premiums quoted by JLT do not appear to be indicative of other Group 2 councils officers were able to obtain during the review period. Statewide Mutual would not disclose premiums of other group 2 councils and do not have a contribution formula to ensure premiums are equitably determined among member councils. JLT has offered premiums that are significantly lower than those currently paid by other group 2 councils. These could be expected to rise significantly over time. Council does not have the benefit of a contribution formula with Statewide Mutual to ensure future premiums are transparently determined. The Statewide Mutual offering is inferior to the Metropool offering on risk management and claims management support services.

CONCLUSION

Having regard to the relative cost, services provided, management structures and risk associated with Metropool/UIP and Statewide Mutual, it is recommended that Council retain its membership of Metropool and UIP.

This will offer Council:

- a certain, competitive and transparent premium contribution formula based on relative size and claims history and an equity formula based on council's relative proportion of each of the pools;
- a voice on the strategic direction of the pools including addition of new members, renewal and insurance strategies;
- regular tendering of broking, claims management and risk management services;
- certainty of coverage in the event of a claim; and
- continuing demonstration of Council's commitment to work collaboratively with other councils within the industry in delivering value to residents.

FINANCIAL IMPLICATIONS

The current premium for Metropool is already included in the 2012/13 budget.

OTHER STAFF COMMENTS

Nil.

PUBLIC CONSULTATION

Nil.

RECOMMENDATION

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Director, Corporate Services

ATTACHMENTS

1. Comparison of Metropool/UIP and Statewide Mutual Premiums for 2012-13 - *Confidential*