

LATE ITEMS / ADDITIONAL INFORMATION

COUNCIL MEETING 28 JUNE 2005

The following documents are provided herewith:

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LATE ITEM – CEO'S REPORT	RENEWAL OF WORKERS COMPENSATION INSURANCE, PUBLIC LIABILITY/PROFESSIONAL INDEMNITY INSURANCE AND PROPERTY INSURANCE FOR 2005/06 - [05581] [02882] [16173] [03080]	4



MEMORANDUM

TO: JOINT COMMISSIONERS

FROM: CHIEF EXECUTIVE OFFICER

DATE: 24 JUNE 2005

FILE REF: 41196

OTHER REFS:

SUBJECT: ITEM CJ129-06/05 - LOT 118 MINDARIE - BUSINESS PLAN FOR A MAJOR LAND TRANSACTION AND ESTABLISHMENT OF A REGIONAL (DEVELOPMENT) COUNCIL – [41196]

At the Briefing Session held on 21 June 2005, a query was raised as to whether an additional point could be added to the recommendation, to require minutes of the Regional Council to be provided to the City. It is proposed that an amendment to the officer's recommendation be made by an additional clause 7.

REVISED OFFICER'S RECOMMENDATION

That Council, BY AN ABSOLUTE MAJORITY:

- 1 ADOPTS the Business Plan as detailed in Attachment 2 to Report CJ129-06/05;**
- 2 APPROVES the Deed of Variation of Lease between the owners of Lot 118 Mindarie and the Mindarie Regional Council as expressed at Attachment 3 to Report CJ129-06/05;**
- 3 APPROVES the Lease Amendment between the owners of Lot 118 Mindarie and the Mindarie Regional Council as depicted at Attachment 4 to Report CJ129-06/05;**
- 4 AUTHORISES the Chief Executive Officer to execute the necessary documents to give effect to the Lease Amendment document between the City and the Mindarie Regional Council;**
- 5 APPROVES the negotiations for a Bush Forever settlement with the WA Planning Commission to proceed in accordance with the outline contained in the Lot 118 Mindarie Business Plan depicted at Attachment 2 to Report CJ129-06/05;**

- 6 **SUBJECT** to a resolution to proceed with the Establishment Agreement being passed by all of the other owner Councils, formally apply to the Hon. Minister for Local Government in accordance with Section 3.61 of the Local Government Act for the establishment of the Regional Council;
- 7 ***REQUESTS that all minutes of meetings of the Tamala Park Regional Council be tabled to the Council for its consideration.***

GARRY HUNT
Chief Executive Officer

**LATE ITEM - CHIEF EXECUTIVE OFFICER'S REPORT
COUNCIL MEETING - 28 JUNE 2005**

RENEWAL OF WORKERS COMPENSATION INSURANCE, PUBLIC LIABILITY/PROFESSIONAL INDEMNITY INSURANCE AND PROPERTY INSURANCE FOR 2005/06 - [05581] [02882] [16173] [03080]

WARD: All

RESPONSIBLE DIRECTOR: Peter Schneider
Corporate Services and Resource Management

PURPOSE

The purpose of this report is for Council to give consideration to the renewal of Workers' Compensation Insurance, Public Liability/Professional Indemnity Insurance and Property (ISR) Insurance for 2005/2006.

EXECUTIVE SUMMARY

This report provides details of insurance premiums from Local Government Insurance Services for the 2005/2006 financial year for: -

Workers Compensation Insurance	- Municipal Workcare Scheme
Public Liability/Professional Indemnity Insurance	- Municipal Liability Scheme
Property (ISR) Insurance	- Municipal Property Scheme

Also detailed within the report is a summary of costs and changes in relation to renewal of the City's insurance policies for Workers Compensation Insurance, Public Liability/Professional Indemnity Insurance and Property (ISR) Insurance for the 2005/2006 financial year.

It is recommended that Council ADVISES Local Government Insurance Services that Council:

- 1 *CONTINUES with its burning cost scheme of Workers Compensation insurance premium calculation (including the Govt HIH surcharge) for the 2005/2006 financial year based on the following:*

<i>Minimum Payment</i>	<i>1.63% of payroll</i>
<i>Deposit Payment</i>	<i>2.03% of payroll</i>
<i>Maximum Payment</i>	<i>3.53% of payroll</i>

with payment of the deposit premium total \$525,592.48 (excluding GST) to be in equal instalments with the First Instalment on 15 August 2005 and Second Instalment due on 15 November 2005;
- 2 *ACCEPTS the 2005/2006 premium for Public Liability/Professional Indemnity insurance cover of \$435,560.00 (exclusive of GST) with payment to be in equal instalments with the First Instalment on 15 August 2005 and the Second Instalment due on 15 November 2005;*
- 3 *ACCEPTS the 2005/2006 premium for Property (ISR) insurance cover of \$320,057.00 (exclusive of GST) with payment to be in equal instalments with the First Instalment on 15 July 2005 and the Second Instalment due on 15 September 2005.*

BACKGROUND

In 1995/96 the former City of Wanneroo became an inaugural member of the Local Government Insurance Services insurance scheme operated under the auspices of WALGA. One of the main purposes of the scheme was to gain group purchasing power for all participating local governments in the areas of:

- Workers Compensation insurance (commenced 1995/1996)
- Public Liability/Professional Indemnity insurance (commenced 1995/1996)
- Property (ISR) Insurance (commenced 2002/2003)

As a member of these schemes, the provisions of the Local Government (Functions and General) Regulations 1996 apply which effectively obviates the need for the City to call tenders for Workers Compensation, Public Liability/Professional Indemnity and Property (ISR) insurances.

DETAILS

Workers Compensation Insurance

From 1 July 2001 the City elected to operate its workers compensation insurance through a "Burning Cost" arrangement. A burning cost arrangement operates where the annual premium is directly related to claims experience with a portion of the premium paid as a deposit and the remainder paid (if applicable) based on claims experience. The premium is based on claims paid and varies between minimum and maximum payments. It is capped at the maximum of 3.53% (inclusive of the government HIH surcharge) of total salaries/wages and superannuation paid to employees for the year.

By way of a simple example a burning cost insurance scheme works as follows:

The insured pays an initial deposit to the insurer based on a deposit premium. The remaining funds (to the limit of the maximum premium) are shown as a liability in the insured's (City of Joondalup) balance sheet pending further premium calls. The total expense of 3.53% (inclusive of the government HIH surcharge) of salaries/wages and superannuation is shown as an expense in the operating statement for that year.

The period of the burning cost contract is usually between three to five years depending on claims experience and can be settled at any time.

Should the cost of claims paid exceed the deposit premium then a further call is made against the City up to the maximum premium payable and charged against the unpaid balance of the maximum in the liability account in the balance sheet. Should the total cost of claims exceed the maximum, the insurer carries the additional cost. If the cost of claims are lower than the maximum at the end of the burning cost period then the City benefits and the savings are transferred from the liability account in the balance sheet to the operating statement when settlement has been finalised.

Municipal Workcare Scheme has advised the following rates, including Govt HIH surcharge, will apply for 2005/2006:

Burning Cost Premium	Minimum	1.63 % of payroll
	Deposit	2.03 % of payroll
	Maximum	3.53 % of payroll

Estimated salaries/wages and superannuation for 2005/2006 is \$25,891,255.00.

The government surcharge for the HIH collapse is payable on both the burning cost and the single rate premiums. It represents 0.03% of the City's estimated payroll for 2005/2006.

Public Liability/Professional Indemnity Insurance

The former City of Wanneroo (and the City of Joondalup since 1 July 1999) has been a member of the Municipal Liability Scheme since its inception on 1 July 1995.

Participants of the scheme since that time have enjoyed the benefits of lower premiums, enhanced insurance coverage and a more personalised service.

The scheme has advised its 2005/2006 terms and conditions and premium contribution will be \$435,560.00 excluding GST. The equivalent premium for 2004/2005 was \$463,890 excluding GST and for 2003/2004 \$471,730 excluding GST. The premium decrease is due to a reduction in MLS re-insurance costs.

Payment of the contribution will be:

50% of contribution	\$217,780.00 plus GST Payable 15 August 2005
50% of contribution	\$217,780.00 plus GST Payable 15 November 2005

The GST will be claimed back from the Australian Taxation Office as an input tax credit.

Property (ISR) Insurance

This scheme is a relatively new scheme set up by Local Government Insurance Services, which commenced on 1 July 2002. Previously the City requested Municipal Insurance Broking Services (MIBS) to seek tenders on the City's behalf.

The City's buildings were valued by the Valuer General's Office during 2003/2004 with the total valuation increasing by 2%. Since then values have been increased by the Cordell Building Cost Guide. Additionally the City has conducted an internal review of the valuation of the following insured asset classes, ie ornamental street lighting, library book stocks, artefacts and artworks, computer equipment, furniture and office equipment and other plant and equipment. Consequently the overall Declared Replacement Value has increased to \$170,534,404.00. The 2004/2005 declared value was \$133,304,431 with a premium of \$278,525 excluding GST.

The scheme has advised its 2005/2006 terms and conditions and premium contribution at \$320,057.00 excluding GST, an increase of \$41,532.00. The premium increase is due to an increase in the declared replacement value, offset by a decrease in the premium rate in the dollar.

Issues and options considered:

Not Applicable

Link to Strategic Plan:

Objective 4.1.1 – Ensure financial viability and alignment to plan.

Legislation – Statutory Provisions:

Workers Compensation insurance is a requirement of the Workers Compensation and Injury Management Act 1981.

Risk Management considerations:

Insurance is a Risk Strategy to limit potential losses to the City's assets to the deductible amount of individual policies.

Financial/Budget Implications:

Workers Compensation Insurance \$525,592.48 (excluding GST)

Public Liability Insurance \$435,560.00 (excluding GST)

Property Insurance \$320,057.00 (excluding GST)

Policy implications:

Policy 2.1.3 – Occupational Safety and Health outlines the City's commitment to providing a safe and healthy work environment for all its employees. Workers Compensation insurance links to this policy as does the burning cost premium option.

Regional Significance:

Not applicable.

Sustainability implications:

Property Insurance – financial and social sustainability is addressed by ensuring continuity of assets used in delivery of the City's services.

Public Liability Insurance – financial sustainability is addressed by ensuring the City's risk exposure to third party claims is reduced to deductible amount.

Consultation:

Not applicable.

COMMENT

Workers Compensation Insurance

The scheme has been notified that the City's estimated Salaries/Wages and Council Contribution for Superannuation for the 2005/2006 financial year is \$25,891,255.00.

There are two options open to Council in relation to Workers Compensation Insurance.

- 1 Single Rate option
- 2 Burning Cost option

Under the Burning Cost method Council's maximum premium is capped at the single rate premium, however savings are possible as outlined in the details section of this report, depending on the City's claims history.

Using the two methods of calculation the premiums are as follows: -

(a) Single Rate			
	Total	3.53 % of payroll	\$913,961.30 plus GST
(b) Burning Cost Rating			
	Minimum	1.63 % of payroll	\$422,027.46 plus GST
	Deposit	2.03 % of payroll	\$525,592.48 plus GST
	Maximum	3.53 % of payroll	\$913,961.30 plus GST

(The deposit premium payment and the single rate payment includes the government HIH surcharge and is payable in two payments 15 August 2005 and 15 November 2005).

An assessment of the claims history and risk profiles over the last few years indicates that it is more cost advantageous for the City to continue with a performance rating method for Workers Compensation insurance premium calculation (burning cost).

Based on the above calculations the maximum insurance cost exposure is \$913,961.30 (depending on final payroll calculations at end of financial year) with the distinct ability to have savings at the end of the burning cost period based on a reduction in claims experience.

The maximum insurance cost exposure for 2004/05 was \$864,044.00 with a deposit of \$496,886.00. The reason for the overall increase in 2005/06 is a direct consequence of the increase in the value of the City's wages and salaries estimate.

Public Liability/Professional Indemnity Insurance

The City's contribution for these liability insurances for 2005/2006 will be \$435,560.00 exclusive of GST, a decrease of approximately 6% over 2004/2005. The decrease on premium is due to a reduction in MLS re-insurance costs.

Acceptance of this quotation is recommended.

Property (ISR) Insurance

In previous years the City called tenders for this insurance cover through brokers Municipal Insurance Broking Service. Due to the lack of interest by insurers to tender (in 2001/2002 only two insurers tendered), nil tenders were received for 2002/2003, Local Government Insurance Services set up a Property (ISR) Insurance Scheme for local governments which commenced from 1 July 2002.

The total declared Replacement Value for the 2005/2006 financial year is \$170,543,404.00 dissected into the following classes:

Buildings	\$141,761,906.00
Library Book Purchases	\$9,067,660.00
Ornamental Street Lighting	\$6,482,515.00
Artefacts and Artworks	\$310,700.00
Computer Equipment	\$5,564,900.00
Furniture & Fittings	\$1,054,700.00
Other Plant and Equipment	\$1,428,603.00
Miscellaneous Structures	\$3,313,420.00
Business Interruption	\$1,550,000.00

Total	<u>\$ 170,534,404.00</u>
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Excess on Claims

Standard Excess	\$ 2,500	
Lighting Damage Excess	\$10,000	
Vandalism/Malicious Damage Excess	\$10,000	
Named Cyclone	\$50,000	Minimum
Earthquake Damage Excess	\$20,000	or 1% whichever is the lesser

The property (ISR) insurance premium for this cover for the 2005/2006 financial year will be \$320,057.00 exclusive of GST.

The insurance premium for 2004/2005 was \$278,525 exclusive of GST. The increase in the premium of \$41,532.00 is due to an increase in the declared replacement value offset by a decrease in the premium rate in dollar.

Acceptance of this quotation is recommended.

ATTACHMENTS

Nil

VOTING REQUIREMENTS

Simple Majority

RECOMMENDATION

That Council ADVISES Local Government Insurance Services that Council:

- 1 CONTINUES with its burning cost scheme of Workers Compensation insurance premium calculation (including the Govt HIH surcharge) for the 2005/2006 financial year based on the following:

Minimum Payment 1.63% of payroll
Deposit Payment 2.03% of payroll
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