

Report to the Cabinet

Report Reference: C-106-2009/10.

Date of meeting: 19 April 2010



**Epping Forest
District Council**

Portfolio: Finance & Economic Development.

Subject: Tender for Insurance Policies.

Responsible Officer: Bob Palmer (01992 564279).

Democratic Services: Gary Woodhall (01992 564470).

Recommendations/Decisions Required:

(1) To note the outcome of the tender exercise for the Council's insurance policies and enter into a three year agreement with Zurich Municipal; and

(2) To confirm that no changes are made to current excess levels.

Executive Summary:

The Council is currently insured almost exclusively through Zurich Municipal (ZM), an arrangement that has been in place for many years. When the last long term agreement was tendered in 2005 there was some interest from other providers but the discount provided by ZM for the whole package meant they were the cheapest overall. As that agreement expires at the end of June it was necessary to conduct a fresh tender exercise.

The Council participated in a collaborative procurement exercise, sponsored by the Regional Improvement and Efficiency Partnership (RIEP), with eleven other authorities. The outcomes of this process were disappointing as the only insurer to quote for the whole portfolio was ZM and ZM are only prepared to enter contracts for the whole portfolio of covers. Therefore the Council has no choice other than to enter into a new agreement with ZM.

Reasons for Proposed Decisions:

Contract Standing Order C20 requires approval from either Council or Cabinet before any tender valued in excess of £1 million can be accepted.

Other Options for Action:

Given the lack of any other providers quoting for the Council's entire portfolio of covers and ZM's "all or nothing" approach, the Council has no option other than to enter into a contract with ZM. There are limited options in terms of the length of contract and changes to the levels of policy excesses, but these are not recommended.

ZM have offered additional discount worth approximately £30,000 per year for the Council to enter into a five year agreement, rather than a three year one with an option to extend for a further two years. However, the Official Journal of the European Union (OJEU) notice published by the RIEP's consultant's stated that the extension option cannot be exercised until the end of year three. If the Council was to pursue this option it could be challenged as the contract would have been awarded on a different basis to that on which it had been advertised. Although the risk of challenge is small, given the level of spend on insurance if a Court was to find in favour of any challenger the penalties would run into hundreds of thousands of pounds.

The other options that exist are to increase the level of excess on a policy or policies. Previously, the excess level on the Public Liability (PL) policy was increased from £500 to £5,000 to achieve an annual reduction in premiums of £69,000, which has provided substantial savings to the Council. This time ZM have offered an annual premium reduction of £27,400 for increasing the PL excess to £10,000. Similarly ZM have offered an annual premium reduction of £16,700 on Employer's Liability (EL) if the Council increased the excess from £0 to £10,000. The Council's recent claims history suggests that the additional excess costs on both PL and EL would be likely to exceed the reduction in premium.

Report:

1. On 6 June 2005 Cabinet agreed to enter into a five year contract for insurance cover with ZM. The tender exercise in 2005 had been conducted with help from a broker, AON, and so in anticipation of a new tender a process to engage a broker had begun in September 2009. Before a broker had been appointed the Council was contacted by the RIEP and asked to participate in a collaborative procurement exercise. It was hoped that the combined size of the authorities in this exercise would generate wide interest from the insurance market and produce savings. To conduct this exercise the RIEP appointed a specialist insurance consultancy called The Risk Factor (TRF). The exercise was hosted by St Edmundsbury Council and also involved, Braintree, Chelmsford, Forest Heath, Great Yarmouth, Luton, North Norfolk, Rochford, South Holland, South Norfolk and West Lindsey Councils.
2. TRF ran the tender process, with the OJEU notice being published on 20 November and tenders returned on 10 February. Responses were then analysed and a number of suppliers made presentations and clarifications in early March. Based on an initial analysis of the responses TRF recommended awarding the policies for engineering, computers and contractors to HSB Engineering Insurance, the policy for personal accident to ACE Europe, engineering inspections to Bureau Veritas and all other policies to ZM.
3. Following the clarifications it became clear that ZM would only offer complete portfolio packages and were not prepared to offer cover for individual policy areas. As ZM were the only provider to quote for the key areas of EL and PL, TRF were forced to amend their recommendation as a split portfolio could not be achieved.
4. The tender shows an overall saving of £31,958, but unfortunately this results from a reduction of £62,378 on policies that are recharged to third parties. This contrasts with increases of £18,720 for housing related policies and £11,700 for policies charged to the General Fund, as summarised in the table below:

Funded by:	2010/11 Cost £	2009/10 Cost £	Increase £
General Fund	370,092	358,392	11,700
Housing Revenue Account	195,979	177,259	18,720
Recharged	86,000	148,378	-62,378
Total	652,071	684,029	-31,958

5. The largest increase amongst the General Fund policies is PL, which has increased by £34,380 from £112,601 to £146,981. This is off set by savings in other areas such as motor (£18,493) and employee's personal accident (£4,591).

Resource Implications:

Additional funds will be needed from both the General Fund and HRA to fund the increases in insurance premiums.

If Members are minded to take on the risk of the higher excesses an Insurance Fund is

available to meet additional excess costs. As at 31 March 2009 the insurance fund had a balance of £500,000. It would be possible to revert to lower excess levels in future if costs being incurred proved to far outweigh the reduction in premiums.

Legal and Governance Implications:

The Council is required to maintain appropriate levels of insurance cover for its activities.

Safer, Cleaner, Greener Implications:

There are no environmental implications.

Consultation Undertaken:

Other authorities involved in the collaborative procurement, the RIEP and TRF.

Background Papers:

None.

Impact Assessments:

Risk Management

Insurance is necessary to cover the risks associated with the Council's activities.

In the context of the options for action, a risk could be taken on entering into a five year contract. This would reduce costs by £30,000 per year but could be subject to an external challenge. A smaller risk would be to increase the excess levels on the EL and PL policies. This could provide a saving of £44,100 per year in premiums but is likely to lead to higher excess costs.

Equality and Diversity:

Did the initial assessment of the proposals contained in this report for relevance to the Council's general equality duties, reveal any potentially adverse equality implications? No

Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken? N/A

What equality implications were identified through the Equality Impact Assessment process?
N/A

How have the equality implications identified through the Equality Impact Assessment been addressed in this report in order to avoid discrimination against any particular group?
N/A