

# WEST DUNBARTONSHIRE COUNCIL

## Report by Executive Director of Corporate Services

### Corporate and Efficient Governance Committee – 16 February 2011

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#### **Subject: Renewal/Re-Tendering of the Council's Insurance Contracts**

#### **1. Purpose**

- 1.1 This report provides information on the renewal/re-tendering of the Council's insurance contracts.

#### **2. Background**

- 2.1 The meeting of the Corporate and Efficient Governance Committee on 27 January 2010 authorised the Executive Director of Corporate Services, in consultation with the Chair of the Corporate and Efficient Governance Committee, to renew the Council's insurance contracts which are subject of long term agreements.
- 2.2 Where it was not considered that the acceptance of terms issued by current insurers could be justified in terms of long term agreements, relevant legislation or best value, the Executive Director of Corporate Services, in consultation with the Chair of the Corporate and Efficient Governance Committee, was authorised to proceed to tender for the renewal of such insurances.
- 2.3 A report on the outcome of the renewal of the Council's insurance contracts, which are subject of long term agreements, would be submitted to a subsequent meeting of the Corporate and Efficient Governance Committee on completion of the renewal process.

#### **3. Main Issues**

- 3.1 In August 2007, the Council placed its main Insurance contracts i.e. property, combined liability, motor and miscellaneous risks with Risk Management Partners and their underwriting partner, Chartis Insurance UK Limited (formerly AIG (Europe) UK Limited). This was on the basis of a 3 year long term agreement with the option to extend for a further 2 year period (the long term agreement allows for a 2 year negotiated extension).
- 3.2 Under such an agreement, the Council is bound to offer the business to the existing Insurer, on an annual basis, who calculates their premium in line with certain agreed parameters. If the sum is outwith the agreed parameters, it is open to the Council to terminate the agreement and proceed to tender. These contracts were in the final year of the 3 year long term agreement.

- 3.3** In terms of the existing long term agreements, the Council offered its insurance business to the existing insurer.
- 3.4** Preliminary renewal terms were received from Risk Management Partners/Chartis Insurance UK Limited for a 2 year extension to the 3 year long term agreement. The initial terms received were on the basis of existing rates having been applied to updated underwriting information i.e. property sums insured figures, current motor fleet list etc submitted to the insurers as part of the renewal process. The insurer's underwriters were of the view that, given the low excesses applicable to these classes of business and the current claims experience particularly in relation to property and motor, it was making it difficult to offer any premium reductions hence the offer to renew on existing rates.
- 3.5** Whilst the initial terms were disappointing, however, further discussions entered into with the insurer's representatives to clarify assumptions within the renewal terms resulted in revised and improved terms being issued. Details are as follows:
- (1) The main areas of improvement can be seen in relation to the property, combined liability and motor covers with premium reductions for each of the 2010/11 and 2011/12 insurance years.
  - (2) A full property valuation in respect of Council owned 'general' properties i.e. council offices, depots, libraries etc has been undertaken. This has resulted in a reduction in the sums insured figure for this property category and a further reduction in the annual premium for this class of business.
  - (3) The claims management contract allows for the claims fee rates to be increased annually by 5%. The claims handling agents agreed to forego the annual inflation rate of 5% for the next two years and also to reduce the premium by a further 5% (total saving of 10%).

The total saving secured for the 2010/11 insurance year amounted to approximately £98,000 (this excludes insurance premium tax which is presently rated at 5% and VAT where applicable).

- 3.6** The insurance company which is presently underwriting the personal accident/travel (including educational excursions) contracts, namely ACE European Limited also issued renewal terms within the terms of the existing 3 year long term agreement. This was on the basis of a 2 year extension to the long term agreement.
- 3.7** Similarly, the insurance company which is presently underwriting the engineering insurance programme, namely Allianz also issued renewal terms within the terms of the existing 3 year long term agreement.

**3.8** The Mortgage Property 'Right to Buy' Block Buildings Insurance Policy was renewed on 1 April 2010. This was in terms of the existing long term agreement which entered into its final year at that time. Arrangements are presently being made for the contract to be re-tendered with effect from 1 April 2011.

**3.9** For future insurance tendering processes, the Council is exploring the feasibility of entering into a shared service arrangement with City of Edinburgh Council to identify potential improvements to our specification process and procedures so as to generate efficiencies and savings.

#### **4. People Implications**

**4.1** There are no people implications.

#### **5. Financial Implications**

**5.1** Given the renewal terms which have been secured as detailed above, there are no adverse financial implications for the authority. A premium summary for the insurance year 2010/11 is provided in Appendix 1.

#### **6. Risk Analysis**

**6.1** Failing to adopt these proposals may have resulted in best value not being achieved by the Council in terms of premium costs, levels of cover and service provision.

**6.2** Adopting these proposals will ensure that the Council continues to make financial savings during the term of the long term agreements and has maintained the level of insurance services provided whilst still maintaining flexibility in the management of its insurance programme.

#### **7. Equalities Impact**

**7.1** No significant issues were identified in a screening for potential equality impact of this service.

#### **8. Conclusions and Recommendations**

**8.1** The Council's insurance contracts i.e. property, combined liability, motor, miscellaneous risks, engineering insurance programme, personal accident/travel (including educational excursions) which are subject to long term agreements were renewed on 1 August 2010. The existing insurers have remained on cover.

**8.2** The Mortgage Property 'Right to Buy' Block Buildings Insurance Policy has been renewed with the existing insurer in terms of the long term agreement with effect from 1 April 2010. Arrangements are presently being made for the contract to be re-tendered with effect from 1 April 2011.

**8.3** The Committee is asked to:-

- (1) note the arrangements that have been made regarding the renewal of the Council's various insurance contracts within the terms of existing long term agreements on 1 August 2010;
- (2) note the arrangements that have been made regarding the renewal of the Mortgage Property 'Right to Buy' Block Buildings Insurance Policy on 1 April 2010 and that the Contract will be re-tendered with effect from 1 April 2011.
- (3) delegate authority to the Executive Director of Corporate Services, in consultation with the Chair of the Corporate and Efficient Governance Committee, to re-tender the Mortgage Property Blanket Insurance Policy and to accept the most economically advantageous tender, the outcome of which will be reported to the Corporate and Efficient Governance Committee.

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**Joyce White**  
**Executive Director of Corporate Services**  
**Date 21 January 2011**

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**Person to Contact:** David Connell, Head of Finance & ICT, Garshake  
Tel (01389) 737191  
E-mail [david.connell@west-dunbarton.gov.uk](mailto:david.connell@west-dunbarton.gov.uk)

**Appendices:** Appendix 1 – Premium Summary for the Insurance Year 2010/11

**Background Papers:** Report by the Executive Director of Corporate Services to the Corporate and Efficient Governance Committee on 27 January 2010

**Wards Affected:** All Wards

**APPENDIX 1**

<b>RISK CATEGORY</b>	<b>RISK</b>	<b>PREMIUM 2010/11 (£)</b>
Combined Property	Material Damage - Property, Business Interruption – Additional Expenditure, Removal of Debris, Professional Fees, Money, Theft, 'All Risks', Computer	£497,196.00
	Contractors 'All Risks' - Works in Progress	£9,300.00
Casualty	Public Liability Employer's Liability Official's Indemnity Libel & Slander Public Health Act	£550,000.00
Motor	Motor Vehicles	£130,470.00
Miscellaneous	Fidelity Guarantee	£11,000.00
	Personal Accident/Travel(Educational Excursions inc)	£20,561.76
Claims Handling	Claims Handling Fee	£49,120.00

<b>RISK CATEGORY</b>	<b>RISK</b>	<b>PREMIUM 2010/11 (£)</b>
Mortgage Property	Mortgage Properties	£590,884.13
Engineering	Engineering Insurance/Inspection & Hired in Plant	£37,871.80

\*Above figures exclude Insurance Premium Tax (presently rated at 5%) and VAT, where applicable.