WIRRAL COUNCIL

PENSIONS COMMITTEE

18 JUNE 2009

REPORT OF THE DIRECTOR OF FINANCE

INSURANCE OF THE PROPERTY PORTFOLIO

1. EXECUTIVE SUMMARY

1.1 This report requests the Pensions Committee to accept the lowest priced tender for insuring the 27 properties held by MPF. The contract period will be for three years, commencing 25 June 2009. The tender process has been managed by CB Richard Ellis (CBRE), the property management agent and has followed Council procurement procedures.

2. ROLE OF PROPERTY MANAGING AGENT AND SCOPE OF POLICY

2.1 The task of procuring insurance for the property portfolio is part of the role of the property managers, CBRE.

2.2 The current policies, with Aspen, cover the three year period up to 25 June 2009, at a current gross annual cost of £615,045.47 including Insurance Premium Tax. They cover engineering and general insurance, property owners' cover and terrorism cover.

2.3 In making such arrangements CBRE uses a selected broker (Marsh) with expertise in the insurance of commercial properties, who seeks quotes from three prominent insurance companies.

2.4 The quotations are received via the Council tendering procedures, and are made available to the brokers and CBRE. The brokers study the tenders, and adjust the figures where possible to ensure that identical levels of cover are reflected in all quotations, and share their observations with CBRE and MPF. Where necessary further adjustments are made to make price comparisons as fair as possible.

2.5 An appropriate Financial Services Authority (FSA) compliant person from CBRE then makes a formal recommendation to MPF of the most economically advantageous proposal.

2.6 This latest tender has followed the traditional commercial property insurance arrangements of a gross premium basis, whereby a rebate is payable by the successful insurer to the broker, the agent and the landlord. This avoids MPF having both to pay a broker fee and to re-imburse the managing agent for the costs of setting out the detailed specification of the insurance requirements on each property, and administering the process generally.

2.7 It is standard practice for a small retrospective annual rebate from the insurer should the claims record for each particular year be deemed to be modest, but such income, which would accrue entirely to MPF, cannot be assumed.

3. **OUTCOME OF TENDER PROCESS**

3.1 Tenders were received from the three insurance companies invited to tender. The table below indicates the initial quotations, and represent an annual premium shown on a gross of commission basis.

Tenderer	£
Norwich Union (Aviva)	544,419.95
Zurich	634,097.06
Aspen	711,521.93

3.2 MPF wishes to have a £25m Property Owners' Liability cover.
As two tender responses covered a lower sum insured, the figures have been modified to allow for the £25m cover.

3.3 The Norwich Union (Aviva) proposal shows an annual 5% increase in premia in years 2 and 3. Because of this the average annual cost over 3 years is shown in paragraph 3.2. The Aspen proposal includes a 5% discount for a long term (3 year) agreement.

3.4 Adjustments have been made for the issues identified above resulting in the following final figures for consideration:

Tenderer	£
Norwich Union (Aviva)	573,427.00
Zurich	634,097.06
Aspen	678,055.54

3.5 An insurance premium tax of 5% is included in the above.

3.6 The quotations from Aspen are fixed in the sense that the current insurers are familiar with the properties, but Norwich Union (Aviva) and Zurich, in accordance with general practice, reserve the right to modify their premia, after due negotiation, should they find issues which are at odds with the information upon which they based their proposals. This reflects the acceptance that the costs and timescales of undertaking full surveys on all properties prior to submitting tenders are prohibitive, and that the quotations are made on the basis of information given and used in good faith. However, the brokers have indicated that the margin by which the tender from Aviva (Norwich Union) is lowest, should give adequate headroom to cover this eventuality.

3.7 The excess amounts per claim are £250 for Aspen and Zurich, and £350 for Norwich Union (Aviva).

3.8 The recommendation from CBRE is that the Norwich Union (Aviva) tender represents best value, in the sum of £573,427.00, including Insurance Premium Tax.

4. FUTURE MODIFICATIONS TO THE TENDER PROCESS

4.1 The above procedures differ in certain aspects from how the Council has procured other insurance. In particular, the broker being paid by commission rather than receiving a set fee, and the receipt of commission by MPF. These practices benefit MPF financially.

4.2 The next re-tendering of property insurance for MPF will cover the period from 25 June 2012. I shall review these aspects as part of that exercise.

5. FINANCIAL IMPLICATIONS

5.1 The costs of the insurance cover are recovered from tenants by way of service charges. Insurance of void areas falls to be met by MPF, resulting in a reduction in the net rental and service charge income.

5.2 Annual savings of some £41,000 should result from this procurement exercise. Tenants will benefit via a reduction in this element of their service charges.

6. STAFFING IMPLICATIONS

6.1 There are no staffing implications in this report.

7. EQUAL OPPORTUNITY IMPLICATIONS

7.1 There are none arising directly from this report.

8. **COMMUNITY SAFETY IMPLICATIONS**

8.1 There are no specific implications for any Member or Ward.

9. **LOCAL MEMBER SUPPORT IMPLICATIONS**

9.1 There are none arising directly from this report.

10. **LOCAL AGENDA 21 IMPLICATIONS**

10.1 There are none arising from this report.

11. **PLANNING IMPLICATIONS**

11.1 There are none arising from this report

12. **BACKGROUND PAPERS**

12.1 Tender Documents

12.2 Email 8 June 2009 from CBRE

13 **RECOMMENDATION**

That the Pensions Committee accepts the lowest tender for property insurance for a three year period from 25 June 2009 for the property portfolio.

IAN COLEMAN
DIRECTOR OF FINANCE

FNCE/130/09