

## WIRRAL COUNCIL

### DELEGATED DECISION

<b>SUBJECT</b>	<b>PROPERTY AND PERSONAL ACCIDENT INSURANCE TENDER</b>
<b>WARD/S AFFECTED</b>	<b>ALL</b>
<b>REPORT OF</b>	<b>INTERIM DIRECTOR OF RESOURCES</b>
<b>RESPONSIBLE PORTFOLIO HOLDER</b>	<b>COUNCILLOR PHIL DAVIES</b>
<b>KEY DECISION</b>	<b>YES</b>

#### 1. EXECUTIVE SUMMARY

- 1.1. This report confirms the procurement process for the Property and Personal Accident insurance contracts and makes recommendations as to the award of these contracts. Cabinet on 14 March 2013 agreed the Leader could take this decision under Delegated Authority and is requested to consider which of the available options on which insurers have quoted should be accepted. The contracts are for an initial period of 3 years with the option to extend for a further 1 + 1 year effective from 30 June 2013.

#### 2. RECOMMENDATIONS

- 2.1 That the individual lots are awarded to the companies indicated in Section 7.5 on the basis of the variations set out in Section 13.2.

#### 3. REASONS FOR RECOMMENDATIONS

- 3.1 In each case the company's submission has been evaluated as the most economically advantageous tender.
- 3.2 The premium savings associated with the variations in cover are considered to outweigh the Council's increased financial responsibility for the risks concerned.

#### 4. BACKGROUND AND KEY ISSUES

- 4.1 The vast bulk of the Council's insurable risks are self-insured with only catastrophe cover provided by the insurance market
- 4.2 Property insurance currently comprises several policies:
- (i) Material damage to buildings and contents from fire, lightning, explosion, (including the result of terrorist activity) aircraft, earthquake, riot, storm, flood and escape of water;
  - (ii) Additional expenditure and loss of revenue resulting from damage to buildings and contents;
  - (iii) Physical damage to works being undertaken on existing buildings;
  - (iv) Loss of or damage to museum exhibits and civic regalia from 'All Risks';

- (v) Loss of money;
- (vi) Financial loss due to fraud or dishonesty by Council employees;

- 4.3. The current Personal Accident insurance provides an indemnity in respect of:
- (vii) Death or bodily injury suffered by Members and officers as a result of assault sustained in the course of their duties;
  - (viii) Death or bodily injury suffered by specific groups of officers as a result of accidents sustained in the course of their duties;
  - (ix) Business Travel insurance for Members and officers in respect of authorized overseas journeys on Council business.
- 4.4. The policies were last subject to competitive tender in 2008. That resulted in the award of the Property insurance contract to Zurich Municipal and the award of the Personal Accident insurance to ACE Europe on the basis of five year Long Term Agreements which expire on 29 June 2013.

## **5. THE TENDER PROCESS**

- 5.1 The value of the contracts is such that the tender had to comply with public sector procurement legislation as well as the Council's standing orders. An open procedure was used. Support was provided by Corporate Procurement and the exercise was conducted through the Council's electronic procurement portal 'the Chest'. The Council was also supported by its insurance brokers JLT Public Sector Risks who undertook administrative tasks associated with the tender.
- 5.2 The contracts were divided into 5 lots and a notice published in the Official Journal of the European Union (OJEU) on 22 February 2013. Nine expressions of interest were received. Six of the companies met the essential criteria and were invited to tender.
- 5.3. Because the award decision had to be made in a period where no Cabinet meetings were originally planned permission was sought for the Leader of the Council to take a decision under delegated authority. The request was approved by Cabinet at its meeting on 14 March 2013.
- 5.4 Four valid tenders were received by the 12 April 2013 deadline for responses. The prices for each lot are summarised within Appendix 1.
- 5.5 Despite the global insurance market struggling with economic pressures and significant weather related losses premium rates generally have not been increasing significantly. The market for local authority insurance risks remains relatively restricted being dominated by 3 major companies all of which responded to the tender. There are in addition smaller companies that would be willing to compete for specific classes of business. However they are unaccustomed to local authority processes and the use of procurement portals. Only one such company submitted a tender.

## **6. ASSESSMENT OF THE TENDER RESPONSES**

- 6.1 The submissions were evaluated on a most economically advantageous tender basis using both price and quality criteria. A maximum of 1,000 marks were available for each lot. Quality was judged in relation to:
- breadth of policy cover
  - effectiveness and efficiency of claims handling
  - provision of risk management advice
- 6.2 The breadth of policy cover score was supported by the work of JLT Public Sector Risks in providing technical assistance through analysis of the cover and policy wordings offered by each company.
- 6.3 In relation to price maximum points were to be awarded to the lowest price bidder. A formula was used to adjust the scores of all remaining bidders to reflect the percentage difference in price. For each percentage point that the premium is higher than the lowest price quoted points were to be deducted.
- 6.4 Although Lot 1 comprised 3 components (Material Damage/Business Interruption, Pool Re Terrorism and Money) price and quality were evaluated as one.
- 6.5 It was determined in advance that evaluation would be undertaken on the existing basis of cover. Tables summarising the evaluation of the submissions for each lot are shown in Appendix 2.

## **7. OUTCOME**

- 7.1 Lot 1 (Property). Zurich Municipal was evaluated as having the highest score. Award of this lot to Zurich Municipal is recommended.
- 7.2 Lot 2 (Fidelity Guarantee). Zurich Municipal was evaluated as having the highest score. Award of this lot to Zurich Municipal is recommended.
- 7.3 Lot 3 (Museums All Risks). Thistle was evaluated as having the highest score. Award of this lot to Thistle is recommended.
- 7.4. Lot 4 (Personal Accident and Business Travel). RMP was evaluated as having the highest score. Award of this lot to RMP is recommended.
- 7.5 A table comparing the tender prices for the recommended suppliers with the 2013/14 estimates for each lot is shown below.

Lot	Tender price	2013/14 Estimate	Difference
Property –Lot 1	£330,400	£315,000	+£ 5,400
Fidelity Guarantee –Lot 2	£39,400	£37,000	+£ 2,400
Museums All Risks –Lot 3	13,900	£24,500	-£ 600
Personal Accident & Travel – Lot 4	£6,600	£6,300	+£ 300
Terrorism – Lot 5	Currently included in Lot 1	Included in Lot 1	£0
<b>Total</b>	<b>£390,300</b>	<b>£382,800</b>	<b>+£7,500</b>

\* prices include 6% Insurance Premium Tax

## 8. POSSIBLE CHANGES TO THE EXTENT OF COVER

8.1 The tender process was used to request quotations based on reduced cover as well as on the existing basis of cover. Each alternative quotation and the associated premium saving are shown in the table.

Lot	Basis of Quotation	Annual Premium Saving	Acceptance Recommended?
1 (Property)	Remove cover for storm flood and escape of water for all properties other than schools and commercial / industrial properties	£24,500	Yes (see 6.2)
1 (Money)	Increase the excess on all claims from £100 to £200	£70	No (see 6.3)
2 (Fidelity Guarantee)	Standardise the limit of indemnity at £10m for all employees	£5,800	No (see 6.4)
2 (Fidelity Guarantee)	Standardise the limit of indemnity at £10m for all employees – and increase the excess from £25,000 to £100,000 per claim	£8,100	No (see 6.4)
3 (Museums All Risks)	Increase the excess from £1,000 to £25,000 per claim.	£1,500	No (see 6.5)
3 (Museums All Risks)	Increase the excess from £1,000 to £25,000 per claim - and set the maximum sum payable in respect of any single loss at £5m	£3,600	No (see 6.5)
4 (Personal Accident)	Reducing the cover for Members from accident and assault to assault only	£20	No. (see 6.6)
5 (Terrorism)	Set the maximum sum payable in respect of any single loss at £40m.	£31,000	Yes (see 6.7)

- 8.2 The removal of cover for storm flood and escape of water from all properties other than schools and commercial / industrial premises is being recommended because the annual premium saving would appear to be greater than the cost of the additional losses which would in future have to be funded from repair and maintenance budgets. In the last 5 years total claims for properties other than schools and commercial / industrial premises have cost less than £4,000. However it needs to be borne in mind that the cost of claims in the future could differ significantly from past experience particularly given changing weather patterns.
- 8.3 Increasing in the excess on the Money policy from £100 to £200 per claim is not recommended because based on the claims experience in the past 5 years the reduction in premium is not sufficient to warrant the increased risk that would be assumed by the Council.
- 8.4 Introducing a standard £10m limit of Fidelity Guarantee cover for all employees is not recommended. Although this would mean an increase in cover for most employees for cheque signatories and some staff in Merseyside Pension Fund it would mean a reduction from the existing £20m cover. Whilst there are very few financial transactions above £10m the premium reduction offered is not large enough to warrant any change in cover.
- 8.5 Neither of the alternative options for the Museums All Risks insurance is recommended. The premium for the existing basis of cover is significantly less than the estimate for this policy. Indeed the Thistle policy actually offers better coverage than the current policy. Furthermore the premium savings offered for the increased excess and reduced limit of cover are not considered sufficient to warrant the increased risk that would be assumed by the Council.
- 8.6 Reducing the cover for Members from accident and assault to assault only is not recommended because the premium reduction offered is not large enough to warrant any change in cover. However the Risk & Insurance team would discuss with RMP removing from the policy some categories of officers for which cover is not a contractual obligation.
- 8.7 Previously there have been only two choices available to the Council in relation to cover for damage arising from terrorist acts.
- a) Not arranging any insurance at all or
  - b) Insuring every property for its full rebuilding value through the Government's Pool Re facility (the current basis of cover).

Since the last tender in 2008 the insurance market has developed a third option. This is to arrange cover on a 'first loss' basis. Such an arrangement would provide cover up to a pre-set maximum sum in the event of an insured terrorist incident. Under this alternative quotation the maximum amount payable in respect of any one incident would be £40m - a level that should be sufficient to cover the reinstatement of groups of Council buildings in major

centres in the borough. Under the Pool Re facility all Council properties would have to be insured for a replacement sum of approximately £800m. Terrorism insurance is currently an element of Lot 1. Taking up this option would cost £45,000 but would reduce the cost of Lot 1 by £76,000 (an annual saving of approximately £31,000). However any costs above £40m would have to be met from the Council's own resources. Having considered all the risks and costs the Interim Director of Resources is recommending the change in cover to a first loss basis.

## 9.0 RELEVANT RISKS

9.1 The risks associated with each of the possible changes to cover have been set out in section 8.

## 10.0 OTHER OPTIONS CONSIDERED

10.1 As none of the insurances are a legal requirement an alternative would be to not procure any insurance cover. However this would expose the Council to a potentially catastrophic unfunded loss.

## 11.0 CONSULTATION

11.1 No other consultation has been undertaken in respect of this matter.

## 12.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

12.1 There are no direct implications for these groups

## 13.0 RESOURCE IMPLICATIONS

13.1. The value of the existing contracts is approximately £383,000 per year. Tender prices for the existing basis of cover total approximately £390,000.

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Museums All Risks –Lot 3	13,900	£24,500	-£ 600
Personal Accident & Travel – Lot 4	£6,600	£6,300	+£ 300
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\* prices include 6% Insurance Premium Tax

13.2 Section 6 sets out options for amending the cover to reduce premiums.

<b>Lot</b>	<b>Tender price</b>	<b>Variations</b>	<b>Revised price</b>
Property–Lot 1	£330,400	-£24,500 -£75,600	£230,300
Fidelity Guarantee –Lot 2	£39,400	0	£39,400
Museums All Risks –Lot 3	£13,900	0	£13,900
Personal Accident & Travel – Lot 4	£6,600	0	£6,600
Terrorism Cover – Lot 5		+£44,600	£44,600
<b>Total</b>	<b>£390,300</b>	<b>£-55,500</b>	<b>£334,800</b>
<b>Estimate 2013/14</b>			<b>£382,800</b>
<b>Overall saving against Estimate</b>			<b>-£48,000</b>

\* prices include 6% Insurance Premium Tax

13.3 Any reduction in premiums would mostly benefit the General Fund.

13.4. There are no direct staffing, IT or asset implications.

#### **14.0 LEGAL IMPLICATIONS**

14.1 There are no direct implications arising from this report

#### **15.0 EQUALITIES IMPLICATIONS**

15.1 There are no direct implications arising from this report

#### **16.0 CARBON REDUCTION IMPLICATIONS**

16.1 There are no direct implications arising from this report.

#### **17.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS**

17.1 There are no direct implications arising from this report

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#### **APPENDICES**

Appendix 1 Summary of prices for different options within each lot

Appendix 2 Quality & price scores for each supplier (existing basis of cover)