

ANGUS COUNCIL

RESOURCES AND CENTRAL SERVICES COMMITTEE

17 MARCH 2005

SUBJECT: INSURANCE SERVICES – AWARD OF TENDER

REPORT BY DIRECTOR OF FINANCE

Abstract: This report advises the Committee on the tenders received and recommends acceptance of the tender from Zurich Municipal for all covers, on the basis of a five year long term agreement

1 RECOMMENDATION

It is recommended that the Committee:-

- a) approve acceptance of the tender from Zurich Municipal, for all covers, on the basis of a five year long term agreement at an annual cost of £1,035,802.59 including IPT, representing net saving of circa £25K on 2004-05 premia, including those from amending motor deductibles in c) below.
- b) approve retention of current deductibles for all covers except motor
- c) approve an increase in deductibles for the fleet motor policy from £250 to £500 each claim, effecting annual savings in the region of £10,000 after additional self-insured costs
- d) note the level of deductibles on other covers will be reviewed annually
- e) note that should the long term agreement be broken by the provider, a further report will be brought to this committee with options for re-tendering the relevant class.

2 INTRODUCTION

- 2.1 Report 153/05 approved the conditional select list of tenderers for the provision of insurance services from 1 April 2005.
- 2.2 This report details the outcome of the re-tendering exercise and recommends acceptance of the tender from Zurich Municipal.

3 TENDER EXERCISE OUTCOMES

- 3.1 Subsequent to the agreement of the conditional approved list, Royal Sun Alliance withdrew their interest and tender documents were issued to:-

Zurich Municipal
AIG (through Risk Management Partners)
AXA (for Arts and Exhibitions insurances only)

for return to the Director of Law and Administration by noon on 28 February 2005.

- 3.2 All submitted their tenders timeously and tenders were scrutinised and evaluated by Officers, advised by Council brokers, Willis Ltd.

3.3 The value of the tenders lodged, net of IPT, were:

	Amount per Tender document (Option A)	Per Tender - After Checking	Notes
Zurich Municipal	£1,164,795.33	£1,167,069.01	Quoted gross of discounts
AIG	£1,215,605.00	£1,233,930.00	Quoted net of three year LTA discounts and no quotes for computer or all risks covers (including arts). Property and Fidelity Guarantee & Officials Indemnity quoted on different basis than tender.
AXA	£ 24,000.00	£ 24,000.00	Arts and exhibitions only, net of discount

3.4 Both Zurich Municipal and AIG have indicated additional discounts are available for a five year long term agreement. While it is recognised that there are both advantages and disadvantages to committing to a five year LTA, a breach in the LTA by the service provider allows the Council to consider re-tendering for the broken cover. Given this, and the financial discounts for such a tie in (equivalent to approximately £43K per annum for 5 years on Zurich Municipal package), it is recommended the five year option be taken, subject to a further report being brought to Committee on re-tendering options should the LTA be breached by the provider. Discussions with the Council brokers indicate that the additional discounts offered are very competitive and their recommendation is to contract for the five-year term.

4 ASSESSMENT

4.1 It can be seen from the table in 3 above that the Zurich Municipal rates are competitive, on a whole package basis. Considering the main individual covers of property, liability and motor, the quotes from Zurich Municipal are lower than those of AIG for both property and liability with little difference for the recommended deductibles option b for motor covers. It should be noted that the property quote from AIG is not in terms of the deductibles requested in the tender, nor is the fidelity guarantee quote on the tender base. Additionally, other indemnity limits quoted by AIG differ from the tender in some of the subsidiary policies. In all cases, the deductibles are higher and the indemnity limits lower than those requested.

4.2 Further, placing one element of cover with another insurer would invalidate additional package discounts offered by Zurich Municipal, making a mixed portfolio more expensive than placing all covers with Zurich Municipal. This is demonstrated in the table below which incorporates option a) deductibles for all covers except motor which applies option b) (see 4.4 below):-

Annual Costs, net of all discounts, on a 5 year LTA where all covers placed

	All covers with ZM	All covers with AIG	Motor with AIG*, balance ZM
Property	£ 362,618.69	£ 470,250.00	£ 381,703.89
Liabilities	£ 390,581.11	£ 450,450.00	£ 411,138.01
Motor	£ 145,849.06	£ 145,128.75	£ 145,128.75
Subsidiary covers	£ 89,273.20	£ 102,282.38	£ 93,971.79
Claims handling		£ 18,325.00	
	£ 988,322.06	£1,186,436.13	£1,031,942.44
IPT	£ 47,480.53	£ 56,820.93	£ 49,559.67
Total	£1,035,802.59	£1,243,257.06	£1,081,502.11

*restricted to over 21 year old drivers unless can demonstrate "procedures for monitor & control of drivers in relation to frequency and type of vehicles driven".

- 4.3 AXA, a more specialist insurer, have quoted for the arts and exhibitions element of the all risks policy. The equivalent quote from Zurich Municipal is included within the wider all risks quote (total of £36K) within the material damage element of the property covers. It is somewhat difficult, therefore, to make direct comparison. However, the same principle applies to the art insurances in that accepting an alternative to the Zurich Municipal quote would invalidate the 5% package discount.
- 4.4 The figures in the table above are all based on current levels of deductibles and a five year long term agreement. Options are available within the Zurich Municipal quote in relation to alternative deductibles. However, discussions with the Council's brokers and calculations in relation to the impact of higher deductibles on the self insured element of the fund indicates that net savings would only be feasible in the case of the motor covers, where it is estimated net £10K savings could be made. Notwithstanding this, the tender allows for reconsideration of the deductibles on an annual basis and this area will be kept under review to ensure the most appropriate levels are maintained on an annual basis.
- 4.5 Given the above, it is recommended the tender from Zurich Municipal be accepted on the basis of placement of all covers, on a 5 year long term agreement with deductibles and indemnities remaining the same, except for the increase to motor excesses. The annual value of this package, net of all discounts is shown below:-

Premiums after all discounts	
Property (option A)	£ 362,618.69
Liabilities (option A)	£ 390,581.11
Motor (Option B)	£ 145,849.06
Subsidiary covers (Option A)	£ 89,273.20
	£ 988,322.06
IPT	£ 47,480.53
	£1,035,802.59

5 FINANCIAL IMPLICATIONS

- 5.1 The full costs of the insurance premiums including IPT can be accommodated within the 2005/06 Revenue Budget base provision.

6 HUMAN RIGHTS IMPLICATIONS

- 6.1 There are no direct Human Rights implications arising from the contents of this report.

7 CONSULTATION

- 7.1 The Chief Executive and Director of Law and Administration have been consulted in the preparation of this report.

8 CONCLUSION

- 8.1 Willis Ltd, the Council brokers have advised at each stage of the tender process and are of the opinion that the package offered by the Zurich Municipal, for the five year term, offers the best option for the Council. The annual cost of the premiums of £1,035,802.59 including IPT represents savings of £25K on 2004-05 premiums.

NOTE

No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973, (other than any containing confidential or exempt information) were relied on to any material extent in preparing the above Report.

David S. Sawers
Director of Finance

JW
8 March 2005