



CABINET

REPORT

Subject Heading:	Extension of Council's Insurance Contract
Cabinet Member:	Cllr Roger Ramsey
CMT Lead:	Andrew Blake Herbert – Group Director Finance & Commerce
Report Author and contact details:	Vanessa Bateman – Internal Audit & Corporate Risk Manager ext 3733
Policy context:	Contract Extension
Financial summary:	Value of extension is £2.9m
Is this a Key Decision?	YES
Is this a Strategic Decision?	NO
When should this matter be reviewed?	January 2012
Reviewing OSC:	n/a

The subject matter of this report deals with the following Council Objectives

Ensuring a clean, safe and green borough	<input type="checkbox"/>
Championing education and learning for all	<input type="checkbox"/>
Providing economic, social and cultural activity in thriving towns and villages	<input type="checkbox"/>
Valuing and enhancing the lives of our residents	<input type="checkbox"/>
Delivering high customer satisfaction and a stable council tax	<input checked="" type="checkbox"/>

SUMMARY

- 1.1 This report informs members regarding the options available to the Council when the main insurance contract expires at the end of December 2012. It is proposed that the current contract is extended for two years from that date and approval is sought for this action.

RECOMMENDATIONS

- 1.2 It is recommended that Cabinet:
1. Note the options considered.
 2. Approve the two year extension to the contract with Zurich Municipal from 1 January 2013.
 3. To note the savings achieved and how this expenditure will be redirected.

REPORT DETAIL

- 1.3 In September 2007, following an EU rules compliant tendering exercise; Cabinet approved the award of the main insurance contract to Zurich Municipal. The contract was for the period of five years with the option to extend for up to a further five years.
- 1.4 The insurance contract provides cover over a range of classes including property, motor liability and other classes, including an element of self funding and the claims handling function linked to this.
- 1.5 The estimated value of the Insurance Contract is £1.5m annually.
- 1.6 In the current economic climate there have been a number of discussions across public sector bodies and including insurance providers about how organisations can save money on insurance. There are clear messages from the Insurance Companies that robust Risk Management arrangements are critical to ensuring a good claims history and therefore securing value for money and that this is where organisations should focus their attention.
- 1.7 Risk Management benchmarking exercises score LB Havering favourably against other Boroughs in the surrounding area. Since April 2011 the Insurance Service has been moved to be part of the Audit and Risk Service with the aim of aligning these two Risk Management activities more closely. Projects to consider the risks of the authority are underway and dialogue

with the Insurance Company around risk is on-going and does not just take place at times of renewal or contract extension.

- 1.8 The research conducted to inform this decision has also highlighted that competition between insurers could be increased by breaking up the main policy into smaller lots and therefore welcoming in more specialised insurance companies. This is an option that will be considered for the future; however costs of administering policies across more than one organisation must also be evaluated.
- 1.9 The original contract term expires at the end of December 2012. The options therefore available to the Council are to extend for a period of up to five years, in line with the previous decision by Cabinet, or to retender the insurance contract.
- 1.10 The following steps have been taken to gather information on which to base an informed decision:
1. Negotiations with Zurich Municipal regarding benefits from extending; and
 2. Advice from the Council's Insurance Broker regarding market conditions.
- 1.11 It has been negotiated with Zurich Municipal that rates will be guaranteed for two years following the extension (01.01.2013 to 31.12.2014), with the exception of the rechargeable policies where cover is arranged by the council and recharged to another party and non premium based services i.e. Claims Handling Fee (£80k) and Statutory Inspection Service for Engineering Plant and Lifts (£50k). A 5% reduction in rates will also be applied from 01.01.12, a year prior to the end of the current contract period. This equates to an annual revenue savings value of approximately £50k.
- 1.12 The Council's Insurance Broker, Jardine Lloyd Thompson, has provided a report which concluded that:

"Whilst there is still little evidence of increased rates filtering through into quotation terms at tender, it is fully expected that this is likely to happen at some point during 2012. As a result of this, Insurers are pricing cautiously. However, we are also seeing a trend of insurers showing a keenness to hang onto to business which is profitable and running well. As such, our expectations from insurers offering extensions would be for the terms to at the very least be the same as expiring.

Zurich Municipal have offered to reduce current rates by 5% of the final year of the initial period on the long-term agreement in return have requested confirmation that the option to exercise an extension is granted.

Recent tender results have shown that portfolios that are performing well are achieving stable rates and small reductions. London Borough of Havering continues to be a good risk and should we go to tender, we would anticipate being able to generate a good spread of quotations. However, given our earlier commentary as regards changing rates and our thoughts with

regards to 2012, we would feel unable to be as conclusive about making a recommendation for tender next year, particularly given that an offer of guaranteed reduced rates has been put forward”.

- 1.13 The report recommended the Council:
1. Ensures the extension is in line with the terms of the original tender;
 2. Considers the risk in accepting a deal in excess of the period that rates are guaranteed for;
 3. Further negotiates with Zurich Municipal in order to extend the rate guarantee for as long as possible into period of the contract extension; and
 4. Sends a letter to Zurich Municipal explaining the precise terms and basis of the acceptance of the extension when accepting the deal offered by them.
- 1.14 Recommendations 1 – 3 have been accepted and completed and 4 will be completed following approval of the decision by Cabinet. The outcome of recommendation 3 was to secure an additional year of guaranteed rates.
- 1.15 The estimated value of the two year extension is £2.9m.

REASONS AND OPTIONS

Reasons for the decision:

- 1.16 The option to extend for two years was chosen as rates would be guaranteed for the whole duration of the extension; the 5% reduction in rates provides savings before the end of the contract.
- 1.17 The quality of the service provided by Zurich Municipal is considered to be very good and strong and effective working relationships exist.
- 1.18 It is advantageous to have consistency in Insurance providers as there is a significant resource cost in tendering and in transferring insurers should an alternative provider or providers be selected.
- 1.19 Risk Management activities including projects to consider risk tolerance and appetite, future insurance needs of services and the costs/benefits of tendering smaller lots need to be explored more fully before we go back to the market and tender.

Other options considered:

- 1.20 The option to extend for one year was disregarded as this did not give sufficient negotiating advantages.

- 1.21 The option to extend for three plus years was disregarded because rates would not be guaranteed and the market conditions are hard to predict. Extending for two years would not prevent the Council negotiating a further extension, up to the five year term originally tendered, if this was considered at the time to be the best action.
- 1.22 The option to retender was disregarded due to the cost of the exercise and the market information provided by the broker.

IMPLICATIONS AND RISKS

Financial implications and risks:

The estimated value of contract 2008-2012 is £6.6m and the estimated value of extension is £2.9m. The estimated annual saving from the extension is around £50k.

There exists a need to carry out annual property surveys, for which there is no existing permanent budget, so it is planned that this saving will be used to create that budget – having better property information in turn lessens the risk of claims which should in turn bring down our premiums, hence the logic to deploying the saving in that way.

There are risks of not going to market as well as of accepting the extension offer and a cost of going to market. These risks relate in main to the potential to secure further reductions in rates for the period of the extension and the fact that the market conditions may deteriorate during the extension and make securing favourable rates for the future more of a challenge.

However on balance, the view is to maintain the existing contract on the reduced rates negotiated.

Legal implications and risks:

Under the Contracts Procedure Rules extensions to existing contracts are generally not permitted unless certain exceptions apply. In the circumstances of this extension the exceptions are that (1) value for money can be demonstrated, (2) the extension is for the same or a lesser value and period than the original contract (which is clearly the case), and one of three different conditions apply. The most relevant additional condition in this case is that the possibility of an extension was included in the original tender documentation. It is understood that there is evidence that the possibility of such an extension was so included. Therefore if Cabinet is satisfied that value for money can be demonstrated by the two year extension, rather than retendering the contract, then the legal risks of any successful challenge to the award should be minimal.

Cabinet, 18 January 2012

Human Resources implications and risks:

There are no human resource implications or risks arising directly from this report.

Equalities implications and risks:

There are no equalities implications or risks arising directly from this report.

BACKGROUND PAPERS

Insurance Programme Extension Review for London Borough of Havering Jardine
Lloyd Thompson

September 2007 Cabinet Report