

Wiltshire Council

Cabinet

Date of meeting

Subject: Insurance Services Tender – Contract Award

Cabinet member: Richard Tonge - Finance, Performance, Risk, Procurement and Welfare Reform

Key Decision: Yes

Purpose of Report

1. To update Cabinet of the outcome of the Insurance Services Tender

To set out the options available for levels of insurance excesses and cover when letting the contract

Background

2. This report follows on from the report “Insurance Services Tender” which was presented to cabinet on 16/09/2014 and where it was resolved:
 - (a) To continue with insurance cover with a third party provider
 - (b) To delegate the decision on which lots to procure and which to self insure to the Cabinet Member for Finance and Associate Director for Finance

The minutes of the cabinet meeting on 16/09/2014 can be found by clicking on the following links <http://cms.wiltshire.gov.uk/documents/g8129/Printed%20minutes%2016th-Sep-2014%2010.30%20Cabinet.pdf?T=1>

Following on from the decision by Cabinet to tender for insurance services on 16/09/2014, the tender documents were prepared and the Insurance services contract was advertised on with the Official Journal of the European Union (OJEU) on 11/12/2014. The tender was split into 7 lots as agreed by cabinet.

The invitation to tender (ITT) set out clear criteria on how the bids would be scored and as such we are now in a position to award the contracts. Also included in the ITT was a request of bidders to provide a range of prices for different levels of insurance excess and the type of cover provided for our motor fleet. The intention was to allow the council to evaluate the risk of paying more for insurance claims with the reward of making savings on the contract costs (the premiums charged by the insurer)

The bids have been received and analysed by both officers and our brokers Arthur J Gallagher and officers are now in a position to update Cabinet on the results.

The tender included purchasing buildings insurance on behalf of our leasehold tenants who purchased their property under the right to buy legislation and where we are their landlord (the freeholder). The properties are generally flats and as per the terms of their lease, the Council arranges the insurance and recharges the premiums to the leaseholder. The leaseholders have been consulted during the tender in accordance with Section 20 of the Landlord and Tenant Act 1985 (as amended) and Schedule 2 of the Service Charges (Consultation Requirements) (England) Regulations 2003.

Main Considerations for the Council

3. The considerations are split into two sections:

1) Response to tender

We received bids from seven companies, with two companies submitting bids for all seven lots. The ITT set out clear instructions on how the tenders would be evaluated, based on 70% Price and 30% quality. One bidder, from now on known as Company G for reasons of confidentiality, has been successful in winning all seven lots. A breakdown of the overall scores for all lots is provided in Appendix 1.

The overall costs of the contract would be the same as the current cost at £1.118m per annum. This is seen as a successful tender as the current state of the insurance market and advice from our brokers at the outset was that the costs could increase by around 30%.

2) Level of cover

The ITT included a requirement to provide prices for a range of options on level of excess and cover. The aim was to evaluate any savings that could be made on the prices received against the risks involved in taking out the different levels of insurance cover. The options requested are shown in Appendix 2. Having now received the tenders, the options have been evaluated by comparing the premium savings with the extra costs that would have been incurred in the past 5 years through paying claims at the proposed levels of cover. A breakdown of the evaluation is given in Appendix 3.

Based on the Analysis the following recommendations are made to our current levels of cover:

- (i) **Increase the excess on general properties from £100,000 - £250,000.** General properties include our office buildings, libraries and leisure centres. This step would save £23,443 annually in premiums. Over the last 5 years we have had 72 claims of which 34 were paid and only 1 was over the current excess of £100,000. Based on the last 5 years paid claims we would have paid an extra £150,000 making an overall loss over the 5 year period of £32,787. However this change has been recommended because of our reduced property portfolio and through managing the risks with property services and our insurers, we can

- reduce the risks of a major incident, which are rare. This change also brings the excess in line with the rest of our non housing property portfolio.
- (ii) **Increase the excess on Employers Liability (EL) from £100,000 - £200,000.** EL is where a member of staff claims and we are liable for their loss. This step would save £13,144 annually in premiums. Over the last 5 years we have had 50 claims of which 22 were paid, but none were over the current excess of £100,000, therefore we would have made an overall saving over the 5 year period of £62,435. We have robust staff policies and procedures in place and a risk management culture and process that makes this change worthwhile.
 - (iii) **Increase the excess on Public Liability (PL) from £100,000 - £200,000.** PL is where a member of the public claims against us and we are liable for their loss. This step would save £55,332 annually in premiums. Over the last 5 years we have had 5,659 claims of which 1,762 were paid, with seven being over the current excess of £100,000. Based on the last 5 years paid claims we would have paid an extra £219,511 making an overall saving over the 5 year period of £43,414. The large premium saving and low level of paid claims over the current excess means this change will be worthwhile. Whilst we have had a lot of claims in the last five years, high value claims are rare and the work carried out by services (particularly in highways with the new APP for reporting highway defects and the highways contract bedding down) is reducing the risk of a large claim.
 - (iv) **Change the cover on vehicles (motor fleet) from comprehensive to Third party fire and theft only.** Comprehensive cover includes all the council's and third parties costs of claims regardless of who is at fault. The costs are generally to repair / buy replacements vehicles/ legal costs and compensation for injuries suffered. Third party cover would only cover the third parties costs and the Council's costs if the damage is by fire or theft of one of our vehicles. The change for motor insurance means that the council will have to pay all costs to repair its own vehicles where the accident was our fault or if the fault was shared with a third party. This step would save £90,136 annually in premiums. Over the last 5 years we have had 565 claims of which 317 were paid, with 89 not being covered by third party fire and theft only insurance. Based on the last 5 years paid claims, we would have paid an extra £357,455 making an overall saving over the 5 year period of £70,690. The change of cover will not change processes as our fleet team currently arrange for our vehicles to be repaired. Most claims involving damage to our vehicles are small value claims but around 80% of all claims do not involve a third party driver, in other words where a Council vehicle damages another person, their property or vehicle. These accidents therefore could potentially have been avoided. In changing the insurance cover, risk management work will be carried out with fleet and services on driver quality and awareness.

The combined saving of these measures would reduce the annual premium by £174,000, making a saving overall on current costs of 16%. However more financial risk is taken on as a result. Based on the last 5 years paid claims we would have paid an extra £726,966, making an overall saving over the 5 year period of £143,652.

Safeguarding Considerations

4. None

Public Health Implications

5. None

Environmental and Climate Change Considerations

6. The council has a climate change adaptation plan which aims to mitigate and prepare for unavoidable climate change in order to minimise damage and claims. However extreme weather events such as flooding are projected to become more common and this may impact on the frequency of future claims by the council.

Equalities Impact of the Proposal

7. None

Risk Assessment

8. **Risks that may arise if the proposed decision and related work is not taken**

If the proposed decision is not taken, the council will have to self Insure from 01/04/2015. This would leave the Council with a significant financial risk. The reasons for this risk are detailed in the original cabinet report.

Risks that may arise if the proposed decision is taken and actions that will be taken to manage these risks

9. **Level of Cover** – Changing the level of cover does mean that we are at risk of incurring extra costs from claims received and where accidents in our vehicles are our fault. The Council has an insurance reserve of £4million, which is specifically in place as a financial safety net for extra costs of claims as a result of taking on more risk. However, in order to mitigate the extra risk Council will take on, the insurance team will work with services to draw up an action plan, actions include:
 - o Working with fleet services and services where driving is a key part of delivery (such as refuse collection) to improve driver awareness and training
 - o Working with property services to ensure we have adequate procedures for areas such as closed sites and fire safety inspections
 - o Working with highways services to increase awareness of the consequences of not following the procedures and recording data correctly

Financial Implications

10. **Level of Cover** – Changing the cover means the Council can make budget savings. However, with the savings comes a potential for increased costs of insurance claims where the claim is above the excess, or in the case of motor insurance, it will incur more costs. The likelihood of using an insurance reserve is

increased but the options analysis shows that over a five years period, overall money would have been saved.

Legal Implications

11. None

Options Considered

12. (i) Not changing the level of insurance cover - This was discarded as it means the opportunity to make budget savings is lost.

Conclusions

13. The contract for insurance services is placed with Company G

The level of cover changes identified will generate enough savings over the life of the contract to make the extra financial risks worthwhile. It is clear that officers of the Council will need to work on the risks of large value claims and improving our claims analysis on motor to ensure the risks are reduced.

Recommended Decision

14. 1. To place the contract for insurance services with the winning bidder as per the tender criteria for all lots tendered. The contract term is for 3 years with an option to extend for 2 years.
2. Change the level of cover as follows:
- (i) General Properties - Increase the excess on from £100,000 - £250,000.
 - (ii) Employers Liability - Increase the excess from £100,000 - £200,000
 - (iii) Public Liability - Increase the excess from £100,000 - £200,000
 - (iv) Motor - Change the cover on vehicles from comprehensive to Third party fire and theft only.

Reason for Recommended Decision

15. 1. The tender process has been completed and Company G gained the highest score on all seven lots
2. The savings identified outweigh the extra financial risks taken up based on the last five years claims history and more can be done to mitigate the risks.

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Appendices

Appendix 1 – (The bidder's names have been removed for reasons of confidentiality and are referred to as Company A-G)

Appendix 2 - Level of Cover options considered as per the ITT

Appendix 3 – Options Analysis

Appendix 4 – Comments Received during consultation period