

EAST AYRSHIRE COUNCIL

CABINET – 20 OCTOBER 2010

NEGOTIATED EXTENSION TO EXISTING CONTRACT FOR ENGINEERING INSURANCE – ALLIANZ ENGINEERING LTD

Report by Executive Director of Finance and Corporate Support

1 PURPOSE OF REPORT

- 1.1 To seek approval of the Cabinet for the negotiated extension of the current long term agreement for engineering inspection and insurance with Allianz Engineering Ltd for a further period of 1 year up to and including 30 September 2013. This is expected to deliver a reduction of annual premiums of £0.040M per annum over the 3-year period.

2 BACKGROUND

- 2.1 The engineering inspection and insurance contract is subject to a long-term agreement covering the period 1 October 2007 to 30 September 2012. However, the contract requires the premium to be agreed annually, with the only permitted adjustment being for inflation. The previously negotiated premium expired on 30 September 2010, although the contract is still in place until 30 September 2012.
- 2.2 The contract covers the inspection of all statutory plant and equipment, including but not limited to Boiler and Pressure Plant, Lifting Plant, Electrical and Mechanical Plant within Council facilities and buildings, including the inspection of fixed electrical wiring systems.
- 2.3 As part of the annual insurance renewal process, the Council's Risk Manager has had discussion with the Account Manager of both Allianz and Zurich, who between them provide the bulk of the Council's insurances. At this stage however only Allianz are prepared to renegotiate their existing terms.

3 EXPECTED OUTCOMES

- 3.1 The company has offered to reduce the annual premium for engineering insurance and associated inspections by £0.040M, in return for extending the existing long term agreement by a period of a further 12 months. This would result in savings over the remaining 3 year period of the agreement of £0.120M.
- 3.2 This offer has been made based upon the existing partnership relationship that we enjoy with Allianz, and the recognition of the benefits of maintaining this over the remaining period of the agreement.

- 3.3 Zurich Municipal, in considering its own underwriting position, has not been able to offer any reduction in the current terms but has indicated that it will hold rates at the current level (plus inflation) under the requirements of the long-term agreement. This is considered a positive indication of the overall risk control measures and risk management practices evidenced within the Council.

4 FINANCIAL IMPLICATIONS

- 4.1 The current annual cost of engineering inspection and insurances is £0.200M; it is anticipated that through negotiating a further years extension to the current agreement there will be revenue savings of £0.120M over the remaining period of the contract. This will reduce the overall cost of insurance to the Council and contribute to the overall savings required in each of these years.
- 4.2 However, as the Council's Standing Orders Relating to Contracts at paragraph 20(2) are to the effect that, "Where the appropriate Executive Director/Executive Head of Service/Head of Service considers that an existing contract should be extended (except by the exercise of a pre-existing contractual option to extend the contract) with the existing contractor/supplier/provider, he/she shall obtain the approval of the Cabinet, both in respect of the extension and of the terms agreed with the existing contractor/supplier, stating the reasons for the proposed extension" the approval of Cabinet is required to allow the extension of this agreement.

5 LEGAL/HUMAN RESOURCES IMPLICATIONS

- 5.1 As detailed in paragraph 4.2 the approval of Cabinet is required in terms of paragraph 20(2) of the Council's Standing Orders Relating to Contracts due to the proposed negotiation of contractual terms with Allianz Limited.
- 5.2 Extending the contract beyond the original terms could result in a challenge from alternative providers. The Council has therefore placed a Voluntary Ex Ante Transparency (VEAT) Notice stating our intention to renegotiate and award the contract to a named provider. During the period of the VEAT Notice other companies could challenge our approach and ultimately could force us to retender for a new contract starting 1 October 2012.
- 5.3 If however, the Cabinet is not minded to approve the extension to the contract, there would be no adverse impact on the existing contract through placing the VEAT Notice.
- 5.4 There are no policy or human resources implications arising from this report.

6 RISK MANGEMENT IMPLICATIONS

- 6.1 Allianz's principal role is to undertake all engineering inspections of all statutory plant and equipment, including but not limited to Boiler and Pressure Plant, Lifting Plant, Electrical and Mechanical Plant. The company has delivered the service in a consistent and acceptable manner during the previous 12 years, which is considered essential in contributing to meeting our obligations in respect of health and safety in this particular area.
- 6.2 There is a risk that in not accepting these revised terms now that the market conditions change and price increases are experienced at the next renewal date.

7 RECOMMENDATIONS

It is recommended that Cabinet:

- i) Approves the negotiated extension of the existing engineering inspection and insurance contract with Allianz in accordance with paragraph 20(2) of the Council's Standing Orders Relating to Contracts, subject to no challenges arising from the VEAT Notice, and
- ii) Otherwise note the content of the report.

Alex McPhee
Executive Director of Finance and Corporate Support
06 October 2010

LIST OF BACKGROUND PAPERS

Nil

Any person wishing further information should contact Craig McArthur, Head of Finance (Telephone 01563 576300).

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