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**To: Scotland Excel Executive Sub Committee**

**On: 27 March 2015**

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**Report by: The Clerk**

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**Heading: Professional Indemnity Insurance Cover**

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**1. Summary**

- 1.1 On 20 June 2014, the Clerk submitted at paper to the Scotland Excel Joint Committee that set out insurance options for professional indemnity insurance to cover the risk of claims relating to Scotland Excel's procurement functions.
- 1.2 The Joint Committee agreed that cover of £10 million should be put in place with a deductible of £50,000. The cover was arranged and has been in place from 1 July 2014, expiring on 31 March 2015.
- 1.3 This paper sets out the position with regards to renewing Scotland Excel's professional indemnity cover.
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**2. Recommendations**

- 2.1 The Sub Committee is asked to consider the position outlined in this report and agree to renew cover on existing terms with effect from 1 April 2015, and at an annual premium cost of £63,600.
- 2.2 The Sub Committee is further asked to consider providing delegated authority to the Director of Scotland Excel to put this cover in place on an annual basis subject to the cover continuing to provide best value, and in consultation with Renfrewshire Council's insurance brokers and advisors, provided there is no significant increase in the risks covered or the value of the cover.
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**3. Background**

- 3.1 Being aware that the professional indemnity (PI) policy cover for Scotland Excel was due to expire on 31 March 2015, Aon UK Ltd (Insurance brokers and advisors) sought to identify the best possible terms for renewal of cover with effect from 1 April 2015 for a period of one year.
- 3.2 Aon contacted all PI providers on Lot 1 of the Crown Commercial Services Framework for Insurance Services to ascertain if any would be interested in underwriting Scotland Excel's professional indemnity risk. Of all the providers who are noted on the Supplier Matrix for Lot

1 of the Framework as able to underwrite PI insurance, only one indicated that they might be able to provide terms for a policy, based on the current £10m limit of indemnity and the £50,000 deductible. There was no guarantee however that the supplier would provide a quotation and so Aon considered that this position demonstrated that the CCS framework would not be a viable option for the risk.

3.3 Aon therefore advised that there would only be two remaining options:

- a) negotiate renewal for a further year with the existing insurers
- b) obtain alternative quotations from specialist PI insurers.

3.4 Of these options, Aon recommended negotiation of renewal with the existing insurers, for the following reasons:

1. A potential claim has been notified to insurers; moving insurers before this matter is concluded would not be advisable as there would be the potential to lose influence over the outcome of the claim.
2. A marketing exercise was undertaken in 2014 where a number of specialist insurers were approached, following which cover was placed with the most economically advantageous insurers. This is a very specialist area with few insurers willing to underwrite the risk. There have been no new entrants to the market since then and furthermore insurers would require to be notified of the potential claim. Consequently Aon did not anticipate that more favourable terms would be available and a further marketing exercise could lead to existing insurers revising their rating upwards or not offering renewal.

3.5 It is also worth noting that the PI cover is currently underwritten by three distinct insurers meaning that the risk is spread which also provides more favourable terms for such a specialist risk.

3.6 A completed policy proposal was submitted to insurers and this provided updated information with regards to:

- a) Details of the five largest contracts awarded by Scotland Excel in the last three years:
  - Children's Residential Care £300m
  - Street Lighting Materials £140m
  - Roadstone £140m
  - Heavy Vehicles £135m
  - Light Vehicles £100m

(Note this totals £815m which is an increase of £324m on the previous year's figures).
- b) Communications on the status of the current potential claim
- c) Scotland Excel's income for the current year and the estimate for 2015/15 (£3.215m each year)
- d) Total value of current contracts (£286.3m annual value)
- e) Total number of current frameworks (17 frameworks)

- 3.7 The insurers have returned with a revised annual premium for 1 April 2015 to 31 March 2016 (both dates inclusive), of £63,600
- (This compares with the equivalent annual premium paid in 2014/15 of £63,658.21, of which 9 months of cover was paid, for July to March).
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### **Implications of the Report**

1. **Financial**  
As reported to the Joint Committee in June 2014, premiums payable during 2014/15 were to be paid from existing reserves and the costs of premiums for future financial years would be included within the budget for Scotland Excel.
  2. **HR & Organisational Development** – n/a
  3. **Community Planning** – n/a
  4. **Legal**  
The Scotland Excel terms and conditions document includes the power to Scotland Excel to make arrangements for insurance cover in respect of its procurement activities.
  5. **Property/Assets** – n/a
  6. **Information Technology** – n/a
  7. **Equality & Human Rights** – n/a
  8. **Health & Safety** – n/a
  9. **Procurement** – n/a
  10. **Risk**  
The financial risk which would be borne by the member councils of the Joint Committee in the event of a challenge to Scotland Excel resulting in a payment of compensation is transferred to insurers via the PI policy subject to a deductible of £50,000 and a limit of indemnity of £10m.
  11. **Privacy Impact** – n/a
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### **List of Background Papers**

- (a) Paper to the Joint committee, 20 June 2014 “Professional Indemnity Insurance Arrangements”
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