

REPORT TO: CABINET

DATE: 5 DECEMBER 2019

TITLE: AWARD OF LONG TERM CONTRACT FOR INSURANCE SERVICES PROVISION

PORTFOLIO HOLDER: COUNCILLOR MIKE DANVERS, PORTFOLIO HOLDER FOR RESOURCES

LEAD OFFICER: SIMON FREEMAN, HEAD OF FINANCE AND DEPUTY TO THE CHIEF EXECUTIVE (01279) 446228

CONTRIBUTING OFFICER: STUART MOSELEY, INSURANCE AND RISK MANAGER (01279) 446215

This is a Key Decision
It is on the Forward Plan as Decision Number I010532
Call-in Procedures may apply
This decision will affect no ward specifically.

RECOMMENDED that Cabinet:

A Notes the outcome of the insurance tender process for the Council's main insurance programme as detailed below:

Policy Type	2020 Best Insurer Premium	Best Insurer
Lot 1 – Material Damage, Business Interruption, Money and Specified All Risks	£89,520.06	Zurich Municipal Insurance
Lot 2 – Property Owners	£32,989.77	QBE Insurance via RMP
Lot 3 – Contractor's All Risks	£6,626.07	HSB Engineering via RMP
Lot 4 - Terrorism	£17,436.00	Lloyd's Underwriters via Alesco
Lot 5 – Employer's Liability, Public/Products Liability, Officials Indemnity, Libel & Slander, Land Charges and Public Health Act	£163,032.79	Zurich Municipal Insurance
Lot 6 – Professional Indemnity	£4,258.82	QBE Insurance via RMP
Lot 7 - Crime	£4,411.76	QBE Insurance via

		RMP
Lot 8 - Computer	£2,923.81	HSB Engineering via RMP
Lot 9 – Engineering Inspection & Insurance	£33,479.64	Zurich Municipal Ins
Lot 10 – Motor Fleet	£3,320.06	Zurich Municipal Ins
SUB-TOTAL	£357,998.78	
Claims Handling (Liability only)	Not applicable	
Insurance Premium Tax @ 12%	£39,941.97	
VAT (Claims Handling and Engineering Inspection only) @ 20%	£5,029.80	
GRAND TOTAL	£402,970.55	

- B** Notes the outcome of the insurance tender process for Residential leaseholders Buildings Insurance as detailed within this report, which will be awarded to Ocaso SA subject to the outcome of the second leaseholder consultation.
- C** Authority is delegated to the Head of Finance and Deputy to the Chief Executive to make final contract awards following the outcomes of any minor clarifications, which are not expected to materially affect the evaluation.
- D** Approves the retention of Arthur J Gallagher as insurance brokers for the duration of the Long Term Agreement.
- E** Authority is delegated to the Head of Finance and Deputy to the Chief Executive and to seek revised terms from unsuccessful tenderers as set out in the Invitation to Tender (ITT) should the need arise once quoted premiums have been reviewed based on claims experience as at 31 January 2020 and to reflect any portfolio changes since submission of the ITT.

REASON FOR DECISION

- A** To enable the Council to enter into contracts for insurance service provision in compliance with OJEU and Standing Orders Relating to Contracts and Financial Regulations
- B** With regard to recommendation E, terms have been sought from insurers well in advance of the renewal date to accommodate the Council's budgetary process and tenderers will not hold terms open until that date. In view of this, a mechanism has been included within the ITT to request that terms be held open, subject to a review of claims experience as at 31 January 2020, until 1 April 2020. If the successful tenderers seek to revise terms based on updated claims experience, the Council reserves the right to go back to unsuccessful tenderers with the updated claims experience and seek revised terms from them. If these

terms prove to be better than the successful tenderers, then the Council reserves the right to change the award of contracts accordingly.

BACKGROUND

1. The Council previously renewed its Long Term Agreement (LTA) for insurance service provision and for residential leasehold buildings insurance at 1 April 2015. That contract expires 31 March 2020 and the Council is required to tender for a new insurance LTA.
2. Insurance brokers Arthur J Gallagher & Co. were selected to assist in the tender process, conducted under the EU Services Directive (OJEU) –Open Procedure – process, and are to be retained as the Council’s brokers for the duration of the LTA if required.
3. The traditional public sector insurance market is extremely limited and insurance contracts are complex with variable options to obtain optimum cover and price. In addition, much of the insurance market which could provide insurance cover only operates through brokers. The use of a professional insurance broker gives the level of support to run an Open Procedure process and provides greater opportunity to obtain cover from the wider commercial insurance market than would otherwise be the case.
4. In order to accommodate the complexity of the ITT for the Council’s main insurance programme, and to adhere to timescales required for statutory consultation with leaseholders for the residential buildings insurance contract, two separate tenders were made:
 - i) Council’s main insurance programme
 - ii) Residential Leasehold/Mortgaged Properties Buildings Insurance
5. The Council’s main insurance programme was split into nine ‘Lots’, reflecting the various Classes of Business being tendered, to enable specialist insurers to bid and provide potential wider market interest. A further Lot ten invited insurers to submit a package bid for combined Lots.
6. The residential leasehold buildings insurance was tendered as a single ‘lot’. This allows the contract to remain distinct from the council’s main insurance programme and enabled a discrete timetable to incorporate necessary statutory consultations.
7. For each tender, insurers were invited to bid on existing terms, and were also invited to provide any other option insurers might consider appropriate based on the information contained in and with the Invitation to Tender document. For the Main Insurance Programme, specific alternative policy excess options for Material Damage (Lot 1) and Liability (Lot 5) were also invited as set out in the ITT.

8. The ITT for the Main Insurance Programme was available to bidders from 10 September 2019 and the closing date for bids was 11 October 2019. Eight bids have been received and evaluated.
9. The ITT for the Residential Leasehold Buildings Insurance was available from 14 August 2019 and the closing date for bids was 6 September 2019. Four bids have been received and evaluated. One of the bidders are new and not a recognised market for this type of cover that has responded before.

ISSUES/PROPOSALS

Tender Evaluation

10. In accordance with the ITT bids have been evaluated on a 40 percent price: 60 percent quality evaluation.
11. Full evaluations of each tender have been prepared by the Council's brokers based on the joint tender and evaluation exercise carried out between Arthur J Gallagher and the Council's Insurance Team.
12. An initial evaluation of each lot was carried out based on quality. Quality scores of less than 60 percent of the total score available for the response to method statements resulted in those potential providers being excluded from the evaluated lot. This was built into the ITT to ensure that an overly low price did not obscure a bid whose quality was fundamentally unacceptable.
13. Qualifying bids were then evaluated on price. For each lot, the best overall bid was awarded 40 percent and all other tenders for that lot were awarded a proportion of 40 percent based on the formula $\text{Lowest Price/Price} \times \text{Price Weightage}$.
14. The Residential Leaseholder buildings insurance tender was subject to a first stage consultation with leaseholders prior to issue of the ITT. Evaluation of the tender has been submitted for a second stage consultation period with residential leaseholders. The recommended option put to leaseholders is for a five year LTA rather than a 3+1+1 arrangement.

Tender Results and Impact

15. The recommended best combination bid for the Council's main insurance programme is in direct comparison with the Council's existing insurance contract since it is based on the same policy excesses. Increased limits of indemnity under Employer's and Public Liability covers was an option sought during the tender. While some terms were secured during the tender, these will be reviewed as it may be possible to secure better terms from Excess Layer insurers. It is recommended that the Council should consider increasing the limits of indemnity for Employer's and Public Liability covers from £25m to £50m.

16. Residential leasehold buildings Insurance premium costs including Insurance Premium Tax is around 14 percent less than 2019/2020 based on the tender submission. Note, however, this is subject to a review of claims experience as at 31 January 2020. This premium saving will directly benefit the council's leaseholders.
17. Insurance premium costs for the Council's main insurance programme including insurance premium tax, VAT (Engineering Inspection Contract) and annual broker fee provides a saving of approximately 42 percent compared with 2019/2020.
18. It should be noted however that only two bids were secured for Material Damage/Business Interruption cover despite wider initial interest. The principal reason given by potential providers who did not submit bids is the high value of the Housing Stock, coupled with the high number of Tower Blocks. Furthermore, the recommended provider for Lot 1 Material Damage/Business Interruption requires independent valuations to be carried out on the tower block sums insured.
19. Harlow is unusual for a District Council in having 14 tower blocks, one of which is listed. While the Council is confident in its fire safety compliance, the insurance market is clearly nervous in the aftermath of the Grenfell Tower disaster. It should also be noted that whereas the previous District Valuer provided sums insured based on Housing archetypes and beacon codes, an exercise is currently underway to provide the current valuer with properties' Gross Internal Area (GIA) to ensure rebuild sums insured are accurate and up to date.
20. The premium savings made are a reflection of the continued robust claims recording and handling by the council's own Insurance Team alongside significant improvements in risk management. Appendix A shows the Total Cost of Risk (TCoR) for Employer's Liability, Public Liability, Housing and General Properties insurance between 2010 and 2020. The chart in Appendix A shows stable TCoR between 2014 and 2019. By extrapolating the claims costs which fall below the policy excess and using the quoted premiums from the preferred bidders for the new insurance contract, it can be seen that a considerable saving is estimated in 2020/21 during the first year of the new contract for these policies compared to previous years. It is possible that insurance rates might increase over the term of the LTA and any changes in property sums insured will also be directly reflected in premiums charged.
21. Against the backdrop of the outcome of the insurance tender exercise and the premium reductions achieved it is important to consider the Council's medium and long term options for insurance strategy and risk management. Effective property risk management will ensure that the property portfolio is attractive to insurers. In addition to good risk management, it is recommended that the Council continue to review alternative insurance and self-funded options. In this regard, reinvestment of insurance savings into the Insurance Fund would

be recommended in order to build sufficient fund balance prior to the next LTA to provide options for greater self-insurance in the coming years.

IMPLICATIONS

Environment and Planning (Includes Sustainability)

None specific.

Author: Andrew Bramidge, Head of Environment and Planning

Finance (Includes ICT and Property & Facilities)

As set out in the report.

Author: Simon Freeman, Head of Finance and Deputy to the Chief Executive

Housing

As outlined in the report.

Author: Andrew Murray, Head of Housing

Community Wellbeing (Includes Equalities and Social Inclusion)

None specific.

Author: Jane Greer, Head of Community Wellbeing

Governance (Includes HR)

None specific.

Author: Simon Hill, Head of Governance

Appendices

Appendix A – Total Cost of Risk

Glossary of terms/abbreviations used

GIA – Gross Internal Area

ITT – Invitation to Tender

LTA – Long Term Agreement

TCoR – Total Cost of Risk