

REPORT TO: CABINET

DATE: 11 DECEMBER 2014

TITLE: AWARD OF LONG TERM CONTRACT FOR INSURANCE SERVICES PROVISION

PORTFOLIO HOLDER: COUNCILLOR MIKE DANVERS

LEAD OFFICER: SIMON FREEMAN, HEAD OF FINANCE
(01279) 446228

CONTRIBUTING OFFICER: STUART MOSELEY, SENIOR INSURANCE OFFICER (01279) 446215

This is a Key Decision
It is on the Forward Plan as Decision number I002634
Call-in Procedures may apply
This decision will affect no ward specifically.

RECOMMENDED that:

A Cabinet notes the outcome of the insurance tender process as detailed below:

Lot	Description of Lot	Insurer	Policy	2015/16 Best Bid Combination
1	Various Covers	Insurer A and Insurer B via Supplier A	Material Damage	£112,921.27
			Works in Progress	£16,750.00
			Business Interruption	Included in MD premium
			Money	Included in MD premium
			Glass	Included in MD premium
			Specified "All Risks"	Included in MD premium
			Theft	Included in MD premium
			Material	£21,184.48

			Damage/Business Interruption - Terrorism	
2	Residential Leased/Mortgaged Properties	Insurer C	Residential Leased/Mortgaged Properties	£149,225.78
			As above - Terrorism	Included in above premium
3	Property Owners	Insurer A via Supplier A	Property Owners	£16,789.68
			As above - Terrorism	£4,239.22
4	Liability	Insurer D	Employer's Liability	£58,668.12
			Public/Products Liability	£274,614.00
			Officials Indemnity	£3,940.52
			Libel & Slander	£1,212.48
			Land Charges	£1,802.18
			Public Health Act	£407.57
5	Professional Negligence	Insurer E via Supplier A	Professional Negligence	£4,545.00
6	Fidelity Guarantee	Insurer D	Fidelity Guarantee	£3,951.24
7	Personal Accident/Business Travel	Insurer F	Personal Accident/Business Travel	£1,800.77
8	Engineering Inspection/Insurance	Insurer G	Engineering Inspection	£27,500.00
			Engineering Insurance	£6,875.00
9	Computer	Insurer B via Supplier A	Computers**	£3,351.03
10	Motor Fleet	Insurer D	Motor Fleet	£5,005.06
			Sub-Total	£717,107.02
			Claims Handling	Not applicable
			Insurance Premium Tax (IPT)	£41,376.42
			VAT (Claims Handling and Engineering Inspection only)	£5,500.00
			AJG Broker Fee	£8,000.00

Total	£771,983.44
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(**) Includes
Terrorism
£425.39.

- B** Authority is delegated to the Head of Finance in consultation with Portfolio Holder for Resources to make final contract awards following the outcomes of minor clarifications, which are not expected to materially affect the evaluation.
- C** Lot 2 (Residential Leasehold Buildings Insurance Contract) will be awarded subject to the outcome of the 2nd leaseholder consultation.
- D** The Council notes that Arthur J Gallagher & Co. will be retained as insurance brokers for the duration of the Long Term Agreement
- E** Quoted premiums are subject to review based on claims experience as at 31 January 2015 and any portfolio changes since submission of the ITT. If the Council exercises its right under Instructions to Insurers section 3.5 of the ITT to seek revised terms from unsuccessful tenderers, award of contract is delegated to Head of Finance in consultation with Portfolio Holder for Resources.

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 2015, until 1 April 2015. 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 at 1 April 2010. That contract expires 31 March 2015 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) – Competitive Dialogue – process, and 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 a competitive dialogue process and provides greater opportunity to obtain cover from the wider commercial insurance market.
4. The insurance tender was split into 10 'Lots', reflecting the various classes of Business being tendered, to enable specialist insurers to bid and provide potential wider market interest. A further Lot 11 invited insurers to submit a package bid for combined Lots.
5. Insurers were invited to bid on existing terms, alternative policy excess options for Material Damage (Lot 1) and Casualty (Lot 4), 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.
6. Following responses to the OJEU Contract Notice, a shortlist of 23 qualifying insurers was drawn up based on eligibility (FCA Registered Insurers only), financial and economic standing, and technical capability to provide insurance cover for public sector or complex commercial organisations. Many of the insurers selected were specialists interested in key areas only such as residential leased/mortgaged properties or employer's/public and products liability.
7. The Invitation to Tender (ITT) was available from 19 September 2014 and the closing date for bids was 31 October 2014.
8. Eight bids were received from selected insurers and have been evaluated.

TENDER EVALUATION

9. In accordance with the ITT bids have been evaluated on a 50% Price: 50% quality evaluation.
10. The full evaluation has been prepared by the Council's brokers based on the

joint tender and evaluation exercise carried out between Arthur J Gallagher & Co. and the Council's Insurance Team. A copy of the full evaluation will be placed in the Members' Suite for reference.

11. Only the Council's current insurer submitted a package bid for all Lots. Several other package bids were received for a combination of Lots and a number of insurers submitted a bid for one or multiple Lots.
12. An initial evaluation was carried out based on price. In order to facilitate the price evaluation, actuarial work was carried out based on Total Cost of Risk (TCOR). This enabled the various options presented by insurers to be considered alongside each other since it evaluates both the cost of retained claims (policy excess) and the associated annual premium plus, where applicable, claims handling charges and taxes (Insurance Premium Tax and VAT).
13. Based on the received bids for each Lot, 16 combinations were assessed on price.
14. Bids were then evaluated on quality based on ITT requirements and comparison with insurer submissions. This included service standards, extent of policy cover, claims handling and range of additional services provided free of charge or as additional cost options.
15. Options for Lot 2 were subject to a first stage consultation with leaseholders prior to issue of the ITT. Evaluation of Lot 2 has been submitted for second stage consultation period with residential leaseholders. The best cost option is for five year LTA with [REDACTED], and the second best cost option is for 3+2 LTA with [REDACTED], providing up to 40% saving over current year premium with better cover.

TENDER RESULTS AND IMPACT

16. The recommended best combination bid is in direct comparison with the Council's existing insurance contract since it is based on the same policy excesses.
17. Insurance premium costs including Insurance Premium Tax, VAT (Engineering Inspection Contract) and the first annual broker fee is approximately £180,000 less than the current insurance contract, a saving of 20%. It should be noted however that rechargeable contracts for residential leasehold buildings insurance and commercial leasehold buildings insurance have made savings of £88,000 (36%) and £31,000 (58%) over existing premiums. Non-rechargeable premium savings therefore are approximately £60,000 (10%) compared with 2014/2015 premiums.

Lot	Description of Lot	Policy	2014/15 Renewal Premium	2015/16 Best Bid Combination	Saving/ (Increase)
1	Various Covers	Material Damage	£121,146.91	£112,921.27	
		Works in Progress	£23,167.34	£16,750.00	
		Business Interruption	£5,630.42	Included in MD premium	
		Money	£1,518.05	Included in MD premium	
		Glass	£1,887.43	Included in MD premium	
		Specified "All Risks"	£4,230.74	Included in MD premium	
		Theft	£1,537.22	Included in MD premium	
		Material Damage/ Business Interruption - Terrorism	£21,155.48	£21,184.48	
		Sub Total - Lot 1	£180,273.59	£150,855.75	£29,417.84
2	Residential Leased/ Mortgaged Properties	Residential Leased/ Mortgaged Properties	£230,747.37	£149,225.78	
		As above - Terrorism	£1,346.03	Included in main premium	
		Sub Total - Lot 2	£232,093.40	£149,225.78	£82,867.62
3	Property Owners	Property Owners	£46,492.11	£16,789.68	
		As above - Terrorism	£4,013.29	£4,239.22	
		Sub Total - Lot 3	£50,505.40	£21,028.90	£29,476.50
4	Liability	Employer's Liability	£68,451.25	£58,978.53	
		Public/Product s Liability	£291,065.94	£276,066.98	
		Officials Indemnity	£2,837.21	£3,961.38	

		Libel & Slander	£1,154.25	£1,218.89	
		Land Charges	£3,023.28	£1,811.71	
		Public Health Act	£365.10	£409.73	
		Sub Total - Lot 4	£366,897.03	£342,447.22	£24,449.81
5	Professional Negligence	Professional Negligence	£5,953.00	£4,545.00	£1,408.00
6	Fidelity Guarantee	Fidelity Guarantee	£4,035.31	£4,181.21	-£145.90
7	Personal Accident/Business Travel	Personal Accident/Business Travel	£3,739.84	£1,800.77	£1,939.07
8	Engineering Inspection/Insurance	Engineering Inspection/Insurance	£38,487.27	£34,375.00	£4,112.27
9	Computer	Computers	£6,956.23	3351.03	£3,605.20
10	Motor Fleet	Motor Fleet	£4,232.36	£5,296.36	-£1,064.00
		School Journey	£213.75	Not required	£213.75
		Total Insurance Cost before Taxes and Handling fee	£893,387.18	£714,783.39	
		Insurance Premium Tax (IPT)	£51,806.63	£41,376.42	£10,430.21
		VAT (Claims Handling and Engineering Inspection only)	£5,988.66	£5,500.00	£488.66
		AJG Broker Fee	Not applicable	£8,000.00	-£8,000.00
		Total Insurance Cost including Taxes and Handling fee	£951,182.47	£771,983.44	£179,199.03
		Total non-rechargeable covers	£651,627.74	£591,513.48	£60,114.26

Total Recharged Leaseholder Covers	£299,554.73	£170,254.68	£129,300.05
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18. It should be noted that a growth item £80,000 is required in 2015/16 to accommodate estimated liability claims policy excess amounts. In view of this, no overall saving is made on the GF/HRA insurance expenditure. However, under the current market conditions, this should still be viewed as a positive result.
19. The premium savings made are a reflection of the improvements in claims handling and other processes by the Insurance Team alongside improvements in risk management. It should be noted, however, that insurance rates are expected to increase over the term of the LTA so the Council must continue to pursue improved risk management and alternative insurance options.
20. The Council's Actuarial review as at 31 March 2014 showed the Council to be fully funded for Insurance Fund and pre-Fund liabilities with ongoing contributions of at least £325,000 required to sustain the Insurance Fund at a level to pay claims excesses based on the current insurance programme.
21. During the last 20 years the Council has paid at least £16m in insurance premiums but only recovered £8m in claims.
22. It is recommended that the Council continue to pursue alternative insurance and self-funded options. In this regard, reinvestment of any future insurance savings into the Insurance Fund would be recommended in order to build sufficient fund balance prior to the next LTA to allow greater self-insurance in the coming years. This will be dealt with in more detail within the Insurance Strategy document currently under review.

IMPLICATIONS

Regeneration (includes Sustainability)

None specific.

Author: **Graeme Bloomer, Head of Regeneration**

Finance (Includes ICT)

As outlined in the report.

Author: **Simon Freeman, Head of Finance**

Housing

None specific.

Author: **Andrew Murray, Head of Housing**

Community Wellbeing (includes Equalities and Social Inclusion)

Proposals offer the opportunity to deliver service insurance requirements at a significant saving to the Council in the medium to long term.

Author: **Graham Branchett, Chief Operating Officer**

Governance (includes HR)

The Council has adhered to the Public Procurement Rules and its own Contract Standard Orders therefore should not be open to challenge on the award of this contract.

Author: **Brian Keane, Interim Head of Governance**

Background Papers

[These are papers referred to in the preparation of the report that are not attached as appendices but that are available for public or Councillor study.]

Full ITT evaluation (Arthur J Gallagher & Co.)

Glossary of terms/abbreviations used

ITT – Invitation to Tender

LTA – Long Term Agreement