



CABINET

Subject Heading:

Main Insurance Contract Award

Cabinet Member:

Cllr Roger Ramsey - Cabinet Member for Finance & Property

SLT Lead:

Jane West

Report Author and contact details:

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Policy context:

Insurance/Risk Management

Financial summary:

The contract is estimated to be worth £13.9m over the full available contract term of nine years ie the six year term plus extension up to a further three years.

The recommended award of this contract amounts to a first annual premium of £1.255m and will achieve a reduction in premium of £0.127m based on the expiring contract. This is estimated to amount to a reduction of premium of £1.4m over the full nine years.

It is recognised that the recommended award of the contract would result in a headline reduction in contract fee of approximately £0.100m in 2018-19. The effect on the general fund is yet to be quantified.

Is this a Key Decision?

Yes:

(a) Expenditure or saving (including anticipated income) of £500,000 or more

When should this matter be reviewed?

June 2019

Reviewing OSC:

O&S Board

The subject matter of this report deals with the following Council Objectives

Communities making Havering	[X]
Places making Havering	[X]
Opportunities making Havering	[X]
Connections making Havering	[X]

SUMMARY

The report seeks approval to award of the main insurance contract following an OJEU open tender process. This was jointly tendered with the London Borough of Bexley and split into four lots of Lot 1) Property, Lot 2) Casualty & FG, Lot 3) Motor and Lot 4) PA Group Travel. The contract period is six years from 1st July 2018 plus an option to extend for up to three years.

In accordance with the agreed process each lot is to be jointly awarded to the bidder providing the overall best value based on price and quality.

Four bidders responded, Bidder A, B, C & D. It is proposed that Lots 1,2 & 3 are awarded to Bidder B and Lot 4 is awarded to Bidder A and the best alternative option, Quote 1, be awarded for the property terrorism cover.

RECOMMENDATIONS

That the Cabinet

1. **Agree** the award of Lot 1) Property (excluding terrorism), Lot 2) Casualty & FG and Lot 3) Motor, to Bidder B on the basis set out in the report detail.
2. **Agree** the award of Lot 4) PA Group Travel to Bidder A on the basis set out in the report detail
3. **Agree** the award of the terrorism element of Lot 1 Property to the supplier providing the alternative Quote 1, as set out in the detail of the report. This exercises the right reserved in the Invitation to Tender not to award to the successful bidder under Lot 1.
4. **Note** the contract award Notices will need to be issued and the Insurance Team will need to mobilise to ensure a smooth transition where the award of a Lot is to a new insurer. New insurance schedules and certificates will need to be received and notification sent to relevant parties, including schools.

REPORT DETAIL

1. The council sought bids in an OJEU open tender process jointly with the London Borough of Bexley for provision of the insurance covers required to protect the council's assets and liabilities.
2. Bids were invited for a contract period of six years from 1st July 2018 with an option to extend for up to three years and split into lots as follows:
 - **Lot 1) Property**, with an option to separately award terrorism cover
 - **Lot 2) Casualty & FG**,
 - **Lot 3) Motor** and
 - **Lot 4) PA Group Travel**.

Responses

3. Tender responses were received from four bidders.
 - Bidder A responded on Lots 1, 2, 3 & 4
 - Bidder B responded on Lots 1, 2, 3 & 4
 - Bidder C responded in respect of Lot 3 only
 - Bidder D responded in respect of Lot 4 only.
 - Three alternative options were received for terrorism cover
4. Responses were anticipated from a further two bidders but they did not respond within the timeframe required.
5. There is a limited insurance market supplying local authority insurance and taking into account the current market conditions the bids received are very competitive.

Market Conditions

6. Insurance market conditions are proving challenging for local authorities currently. The insurance market is being affected by global and weather events which are affecting the reinsurance market, which in turn impacts on premium rating.
7. The recent reduction in the discount rate, which allows credit for anticipated investment income for large claims settled for long term care, is significantly increasing claim estimates. This impacts insurers who pay claims over and above the typical self insured retention levels of a local authority programme. We have seen evidence where insurers are consequently applying premium levies mid contract resulting in minimum increases of 15% to casualty premiums.
8. The local authority insurance field is also seeing greater demands on insurance provisions with historical claims, safeguarding issues generally and evolving case law (such as vicarious liability for foster parents). The Grenfell Tower fire is also having an impact on the insurance market for local authorities.

Evaluation

9. Bids were evaluated on a combination on 60% price and 40% quality and scored in accordance with the matrix published to bidders.
10. In accordance with the agreed process each lot is to be jointly awarded to the bidder providing the overall best value based on price and quality in each lot on the basis of the preferred option available and detailed in **Appendix A**.

Cabinet, 13 June 2018

11. All recommended winning bidders scored highest both overall and on price alone and in respect of the preferred options also provided the best price individually for Havering.

12. The evaluation results determine that the highest scoring bidders are as follows:

Lot	Winning Bidder
1) Property excluding terrorism	Bidder B
2) Casualty & FG	Bidder B
3) Motor	Bidder B
4) PA Group Travel	Bidder A
Terrorism	Alternative quote 1)

Outcome

13. Based on the prices quoted by the winning bidders and detailed in **Appendix A** this amounts to a first total annual premium for Havering of £1.255m which equates to a reduction in premium spend of £127k in the first year.

14. It is recognised that the recommended award of the contract would result in a headline reduction in contract fee of approximately £0.100m in 2018-19. The effect on the general fund is yet to be quantified. Once the actual saving on the general fund is known Cabinet will be informed.

15. The contract price also represents some enhancements in cover as well as reductions in deductible levels, which will reduce the amount the council pays towards claims.

16. The policy terms will allow for inflationary increases year on year to reflect increased rebuilding values of properties and Average Weekly Earnings (AWE) increases.

17. Taking these factors into account it is estimated that the value of the contract over the full nine year period (Including permitted extensions) would amount to £13.9m.

18. Other changes in risk would also proportionally affect premium e.g. new buildings or acquisitions, new functions etc. outside of this estimated cost.

19. In challenging market conditions, when premium increases were potentially anticipated, this represents an excellent result of an estimated £1.4m reduction in premium spend over nine years and has been achieved by a full and detailed ITT being presented to market which fairly presented the risk.

REASONS AND OPTIONS

Reasons for the decision:

20. The council needs to have insurances in place to meet legal requirements or provide compulsory insurances and to adequately protect the council's assets and liabilities.
21. The most cost effective way to achieve this is to procure insurance cover and combine this with appropriate self insured retention levels under a risk and financial management insurance programme.
22. Based on the level of risk and claims experience, options for alternative quotes on reduced deductible levels were sought. The rationale was supported by the findings of an actuarial fund review conducted prior to tendering.
23. Other options were factored in to seek quotes to enhance cover or provide alternative options

The options were:

Lot 1 Property

- the right reserved not to award terrorism and seek alternative options
- each council can award independently

Lot 2 Casualty & FG

- reduce self-insured retention level from £170k to £125k
- extend Fidelity Guarantee (FG) cover to include crime

Lot 3 Motor

- reduce self insured retention level from £170k to £25k

The financial impact of these is detailed in **Appendix A.** and recommended award includes all these alternative options. The reason for the following reasons

24.

Lot 1 Property

- The bidders under Lot 1 have offered quotes via Pool Reinsurance Company Ltd "Pool Re", the government backed scheme
- Pool Re offers cover only on a fully comprehensive basis i.e. all properties
- Recent terrorist events may have influenced a significant increase in premium under Pool Re
- Alternative quotes have been obtained on a "First Loss" basis i.e. capped exposure on the basis such an event would be localised rather than borough wide.
- Havering can award independently and this is not impacted by Bexley's preference.

The alternative quotes for terrorism cover have been provided based on a first loss basis of £150m sum insured and for a three year agreement.

Lot 2 Casualty & FG

- The claims experience and number of claims falling between the difference in deductible levels makes the additional premium quoted cost effective.
- The addition of crime cover extends the Fidelity Guarantee cover to include actions of a third party as well as employees.

Lot 3 Motor

- The claims experience and number of claims falling between the difference in deductible levels make the additional premium quoted cost effective.

Other options considered:

25. Havering to tender alone – This was rejected as collaboration with a oneSource partner borough enabled the sharing of best practice and efficiency savings in aligning programmes.

26. To further collaborate in a shared tender with Newham – this was rejected as Newham’s programme does not lend itself to alignment at the current time with incompatible contract periods. The contract period has been set however to allow flexibility to facilitate further collaboration in the future if this is to the advantage of the oneSource partner boroughs.

27. Utilise an existing framework – this was rejected as this would have limited the contract period available to us, would have required the appointment of a broker via the framework initially and would incur the additional fee of 0.75% on the value of the contract.

IMPLICATIONS AND RISKS

Financial implications and risks:

The annual cost of the expiring contract is £1.400m. The premium includes approximately £0.200m charge to Commercial Properties/specific recharges and £1.200m charged to the Insurance Fund within the General Fund which includes £0.150m in respect a of balance of risks cover for schools.

The full year Insurance General Fund budget is £1.200m for 2018-19, as set at Council in February 2018.

As a result of extending the expiring contract in 2018-19 for three months to the 1st July 2018, £0.300m will be charged to the Insurance Fund and the rest of the budget will be utilised to fund the remaining 75% of the new annual contract.

The recommended award would result in a headline reduction in contract fee of approximately £0.100m in 2018-19, however the effect on the general fund is yet to be quantified but should be favourable.

Legal implications and risks:

Officers seek to award the services as detailed within the lot information in this report. The Council has power under section 1 of the Localism Act 2011 to agree the recommendations in this report.

The value of the proposed procurement is above the threshold for services and officers have procured through an advertised open OJEU procedure compliant with Part 2 of the Public Contracts Regulations 2015.

The recommendations in this report are in line with the requirements of the Councils constitution and Contract Standing Orders.

Human Resources implications and risks:

There are no HR implications or risks arising directly that impact on the Councils workforce from this report.

Equalities implications and risks:

There are no equality or social implications regarding the awarding of this contract and an Equality Impact Assessment is not considered necessary, as confirmed by the Corporate Equality Advisor.

BACKGROUND PAPERS

None