Havering
LONDON BOROUGH

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CABINET	**12 June 2024**
Subject Heading:	Insurance arrangements from 1st July 2024 – Contract Extension.
Cabinet Member:	Councillor Chris Wilkins - Finance and Transformation
ELT Lead:	Kathy Freeman - Strategic Director of Resources
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Policy context:	Insurance/Risk Management – Extension of insurance policy covers for 36 months under the Main Insurance Contract Award – Decision 13/6/2018
Financial summary:	The contract extension is estimated to be worth £7.5m over the full available contract extension term up to three years. The recommended award of this contract amounts to an anticipated first annual premium of £2.233m.
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 2027**
Reviewing OSC:	O&S Board

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

People **-** Supporting our residents to stay safe and well
Place **-** A great place to live, work and enjoy
Resources **-** Enabling a resident-focused and resilient Council **X**

SUMMARY

The report seeks Cabinet approval to extend the main insurance contract following expiry of the initial six-year period on 30th June 2024 based on an indication of terms. The contract commenced on 1st July 2018 and awarded by Cabinet on 13th June 2018 with an option to extend for up to three years from 1st July 2024.

There are three suppliers across the main insurance contract of four lots, Lot 1) Property, Lot 2) Casualty & FG, Lot 3) Motor and Lot 4) PA Group Travel. Revised terms and an indication of premium cost, based on the risk exposure at 1st Jul 2023 renewal has been provided to inform the contract extension decision.

RECOMMENDATIONS

1. Agree the extension of the Main Insurance Contract with the existing suppliers for 1+1+1 years based on the indicative terms as set out in the report detail.

2. **Delegate** authority to the Insurance Manager in consultation with the Strategic Director of Resources to agree final terms and agree the extensions on an annual basis during the 36-month extension period.

3. **Note** the progress made in identifying and compiling available property risk information and the need to invest in improving the level of detail available including surveys and valuation programme.

REPORT DETAIL

An indication of terms have been received to utilise the option to extend the Main Insurance Contract for 1+1+1 years from 1st July 2024 with the existing suppliers.

The existing suppliers are:

Lot	Supplier
1) Property excluding terrorism	Zurich
2) Casualty & FG	Zurich
3) Motor	Zurich
4) PA Group Travel	AIG via RMP
Terrorism	Lloyd’s via Marsh Ltd – Bowring Marsh/PACE

Property (excl. terrorism), Casualty & FG and Motor Lines

In view of the hardening insurance market, inflationary factors, limited suppliers and the premium increases experienced in 2023 early indications were sought to extend the contract for 1+1+1 years as set out in the original tender. Focussing on the main, lines of Property, Casualty & Motor. The initial terms received for Lot 1) Property were indicating over 200% increase when applying the inflationary indexation for increased building reinstatement values.

The property terms have been the main concern and priority focus of the negotiations. Housing stock risks are currently not well received in the market and are an on-going concern for insurers.

The concern around the housing stock risk has been the main driver leading the current insurer to revaluate Havering's property risk exposure which has had a knock on effect across the wider portfolio. 40% of the initial proposed increase related to the housing stock risk. The insurer's rationale highlighted this concern as well the impact of flood and weather related events being a major concern.

The pressures on the insurance market and HRA risks had a clear impact on the leasehold buildings insurance tender outcome in 2023 and were highlighted in the award decision.

Terms were closely scrutinised and insurer's rationale challenged which resulted in considerable concessions on the terms offered and in part offset against an increase in the property deductible as well as extending this to include HRA properties. Analysis of the terms also included commissioning a Risk Finance Optimisation Study (RFO) to assess the potential impact on the insurance fund and determining an optimal risk based premium level. It was appropriate to reassess the deductible level after six years, particularly taking into account inflationary and supply chain factors impacting claims inflation in the intervening period. The revised deductible level is generally in line with minimum levels utilised by other London Authorities.

Negotiation were widened to include the Casualty and Motor lines where further concession was achieved to maintain the proposed increases on those lines at a level below the anticipated inflation/claims inflation anticipated increases.

The financial analysis of the terms is set out in **EXEMPT** Appendix **A** Terms Analysis - Insurance Arrangements from 1st July 2024.

PA Group Travel and Terrorism

These lines make up a small proportion of the contract value, 5.7% of the current annual premium. Indications are that these lines are offered at current rates with the annual permitted inflationary increases and adjustment for base changes such as pupil numbers and property acquisitions/disposal.

REASONS AND OPTIONS

It is recommended that the negotiated indication of terms provided by insurers is accepted and the Council extend the contract on the basis of these terms and in addition consider further programme adjustments eg deductible level, perils, risks insured at renewal point in 2025 and 2026.

This is to include the covers provided by all three suppliers across the four original Lots set out in the report detail.

Reasons for the decision:

Insurance needs to be in place to protect the council's assets and liabilities from the contract extension point of 1st July 2024. The contract is at extension point so insurers can offer revised terms including rate increases which do not constitute a contractual breach.

Any increase in pricing is disappointing, particularly given the financial burdens the Council faces, and the continued pressures on budgets, however the broker advises that the much improved position following negotiation is in line with what other insurers are doing.

At contract break point insurers have the opportunity to review terms and effectively "re-write" the risks. There has been significant pressure on the insurance market leading to a much hardened market than when the contract was tendered in 2018. Factors impacting the property market include inflation, claims inflation and supply chain challenges as well as worsening effects of climate change leading to more severe and frequent weather events and claims.

There is still much concern in the market around social housing risks, including tower blocks and cladding issues.

The indicative premium for the 2024 year is much improved from the initial proposal and the RFO study indicated that once the increased claims exposure is factored in, the premium level sits within the optimal level available within the market. These revised terms however are very much in line with renewal terms being offered in the market where insurers remain bound by an LTA currently. It is considered that the indicative terms are comparable or better than would be achieved if the contract were to be tendered in the current market.

In addition it is recommend to consider further programme adjustments in relation to upcoming claims performance and risk exposure. Further reviewing property deductible levels at renewal in 2025 and 2026 in light of the updated claims experience and risk exposure may ameliorate the impact of the further rate increases indicated in those years or enable them to be managed at the proposed level of increase.

The PA Travel & terrorism lines maintained rates continue to provide best value in the current market.

Options considered are.

a) Accept the negotiated indication of terms provided by existing insurers and look to enter into contract extension on the basis of these terms.
b) Tender the Property insurance line as standalone contract (Lot1)
c) Tender the full contract for all lines of insurance under the main contract (Lots 1-4)
d) Consider further programme adjustments e.g. deductible level, perils, risks insured.

The broker has provided comprehensive advice on the merits and weaknesses of each option taking into account the increased premium levels, the consistency of cover and the strength of the offering being in line with the tender in 2018. This has been balanced against the risks of tendering in an uncertain market that demands much improved risk and construction information as well as being more discerning on the extent and level of cover offered.

Tendering could provide a premium reduction which would have been the strong recommendation based on the original terms offered however it is unlikely that a lower contract price will be achieved based on the negotiated terms.

There may be a degree of uncertainty in the market in relation to Havering's financial standing following the capitalisation loan which could have a detrimental impact on market interest and terms.

Tendering is not considered a strong option currently. The market requires comprehensive underwriting information to enable a competitive process; whilst some progress has been made in compiling available information, it will take time to compile fully and obtain further detailed information required where gaps have been identified. The property portfolio offering would also benefit from property surveys and valuations which insurers are expecting to see as standard when evaluating such risks. Scheduling the tender for 2027 allows time, subject to funding being made available, for these projects to be completed, thus encouraging the best available outcomes.

There will be some uncertainty in the market around casualty lines as we await the imminent review of the discount rate for personal injury claims as well as the recent leaked announcement of a 22% increase in the level of damages to be awarded under the Judicial College Guidelines. These are all predicted to have a detrimental impact on the cost of claims under Casualty lines. This impact has not yet been realised under the Havering's current casualty line losses or extension terms but any prospective bidder would need to factor in the long term impact of these changes.

IMPLICATIONS AND RISKS

Financial implications and risks:

The financial analysis of the indicative terms and implications are set out in **EXEMPT** Appendix A Terms Analysis - Insurance Arrangements from 1st July 2024.

It is to be noted that:

The indicative premiums are based on the like for like position as at renewal 2023 for comparison purposes. The premiums are subject to final adjustments for staffing/pupil numbers and property changes etc.

There is a risk that deterioration in the risk or claims experience could detrimentally impact the terms. The proposals are indications, rather than formal, contract-certain quotations. This means that they could yet be altered due to unexpected factors outside of our control. It is anticipated that insurers would not renege from the positions arrived at thus far however other factors such as large-scale losses for London Borough of Havering, might prompt reconsideration.

The terms include property rate increases in 2025 and 2026, smoothing out the impact of a higher rate increase in 2024 included in the estimated contract value.

The analysis highlights the potential impact on the insurance fund and sets out the financial implications for the HRA. It provides options on funding losses within the deductible going forward either from the increased premium saving or by contribution of the saving to the insurance fund (Insurance Premium Tax at 12% is the net “saving” on the increase).

Aggregate stop levels are in place to limit the Council’s overall exposure within the insurance fund in any one year across different lines of business. These will be revised to take into account the increased deductible (first part of each and every loss) on the property exposure and extension of this to include HRA losses.

Property Valuations & Surveys

To be best placed to achieve interest in the market and acceptable terms with minimum restrictions it is necessary to provide more detailed property risk information, including up to date accurate rebuild values, construction information and risk surveys.

Investment is required to provide a programme of property valuations/surveys and indication of costs have been received as follows:

- Housing property from £8,000 (leasehold) to £23,650 (stock) with varying options around a mix of selection of onsite surveys and desktop valuations.
- Heritage Buildings £12,000 – based on survey of 8 key properties/sites rebuild valuations.
- Key sites flagged as enhanced insurer concern/interest - £7,500.
- Programme - ongoing rolling programme of 16 sites per year - £30,000 per annum.
- Survey – indication of price for 10 key high value or high risk properties £48,400.

The Council was aware of the likely increase in premium and included provision within the 2024/25 budget for the general fund for the extension to the contract and the ongoing programme of works required.

The one off investment listed above if approved will be met from corporate reserves. The Housing element of these costs will be met from the HRA.

Legal implications and risks:

The Council has the power to procure a contract for these services under Section 111 of the Local Government Act 1972, which allows the Council to do anything which is calculated to facilitate, or is conducive or incidental to, the discharge of any of its functions.

The Council also has a general power of competence under Section 1 of the Localism Act 2011 to do anything an individual can do, subject to any statutory constraints on the Council's powers. None of the constraints on the Council's Section1 power are engaged by this decision.

When procured, the value of the contract was above the threshold for services under the Public Contracts Regulations 2015 (PCR). The contract extension is therefore caught by the full PCR regime.

The addition of rates upon which the premium is calculated was provided for in the initial procurement documents in clear, precise and unequivocal review clause which stated the scope and conditions in which rates might be introduced. The modification does not alter the overall nature of the contract. The rate variation therefore is permissible under PCR 2015 Regulation 72(1)(a). Additionally, the extension is provided within the initial Long Term Agreement (LTA) and it is equally permissible under Regulation 72(1)(a).

The Council is a best value Authority. As set out in this report, officers consider acceptance of the rate increase represents value for money best value.
For the reasons set out above, the Council may proceed to extending the contract.

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:

Havering has a diverse community made up of many different groups and individuals. The Council values diversity and believes it essential to understand and include the different contributions, perspectives and experience that people from different backgrounds bring.

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the council, when exercising its functions, to have due regard to:

I. the need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
II. the need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;
III. Foster good relations between those who have protected characteristics and those who do not.

The insurance contract extension is not considered to have any equality or social implications and an Equality Impact Assessment is not considered necessary in the context of this financial services contract extension.

Health and Wellbeing implications and Risks

The insurance contract extension is not considered to have any health and wellbeing implications and risk in the context of this financial services contract extension.

Environmental and Climate Change Implications and Risks

The recommendations made in this report do not appear to give rise to any identifiable environmental and climate change implications.

BACKGROUND PAPERS

none