

CABINET

20 SEPTEMBER 2011

Title: Tendering of Contract for Insurance, Claims Handling and Operational Risk Management Services	
Report of the Cabinet Member For Finance, Revenues And Benefits	
Open Report (with a private and confidential appendix)	For Decision
Wards Affected: None	Key Decision: No
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Accountable Divisional Director: Sandy Hamberger	
Accountable Director: Tracie Evans, Corporate Director of Finance and Resources	
Summary: In readiness for the expiry of the current contract for the provision of Insurance Services on 31 March 2012, officers will tender the contract using the "Negotiated Procedure" in accordance with European Procurement Directives. There is a limited market for the provision of Insurance Services for Local Authorities and an independent Insurance Broker has been engaged to ensure the widest possible selection of insurance companies are available to quote. Insurers expressing an interest in this contract will be short listed following a comprehensive evaluation. The Insurer to be appointed will have to prove they offer the best value for money solution for the Council. It is anticipated that a saving of between 10% and 15% on Insurance Premiums can be obtained in current Insurance market conditions. The current total annual premium is £1,011,000 therefore savings of between £100k and £150k are expected. There have been several options explored regarding potential joint working, length of contract and deductibles. Following a detailed analysis of the options, it is recommended that the Council continue to procure insurances as a stand-alone authority (Option 1).	
Recommendation(s) The Cabinet is recommended to agree: (i) The procurement of a stand-alone contract (Option 1) for managing the Council's insurance programme as set out in the report; (ii) To authorise the Corporate Director of Finance and Resources, in consultation with the Divisional Director of Legal and Democratic Services, to award the contract following the procurement process and to enact the extension options provided for within the contract in the event that it is deemed to be in the best interest of the Council.	

Reason(s)

The decision to tender the Council's insurance programme due to the expiry of the existing contract in March 2012 will enable the Council to obtain insurance on the best terms available in the current market and should lead to a reduction in insurance premiums payable; assisting the Council in being a well run organisation.

1. Background

- 1.1 The existing contract for the Council's insurance programme is with Zurich Municipal (ZM) and expires on 31 March 2012. ZM were appointed as the Council's insurers after a tender process in line with the European procurement directives in 2007. The market for Local Authority insurance in 2007 was limited; however there are now a number of new insurers that are willing to quote on Local Authority insurance programmes.
- 1.2 The current contract was for 3 years with an option for a further 2 years. This option was exercised as it was felt to be in the best interests of the Council at that time, given the state of the insurance market rates, to ensure value for money. However we now have to tender as the Council is coming to the end of the extension option. An insurance broker, at a cost of £4,500, has been engaged to ensure the widest possible selection of insurance companies from the limited Insurance Market are available to quote as it is a specialist area, as some Insurers will only deal with an Insurance Broker intermediary.
- 1.3 The current levels of self Insurance (deductibles) carried by the council for the main types of insurance is:
 - £150,000 in respect of Liability Claims
 - £100,000 in respect of Property Claims

These deductibles are applied for each and every claim.

The Council maintains an Insurance Fund to ensure that the financial liability for claims below the deductible will not impact on budgets. This is actuarially audited every 3 years.

- 1.4 Three options were explored (see Options Analysis at Appendix A- this document is in the private and confidential section of the agenda as it contains commercially sensitive information of a third party)
 - Option 1 was to continue to procure insurances as a standalone authority. This would see LBBB realising £100k-£150k savings in 2012/13, which would not be achieved under options Two and Three.
 - Option 2 was to join in the ILC (Insurance London Consortium). This was explored but due to the way that the Consortium purchases their contract and the on costs involved it was determined that the predicted savings were significantly lower than if the Council pursued its own tender option.
 - Option 3 was a Shared Service and One Policy arrangement with LB Havering. After a careful and full exploration of the costs, benefits and savings, both cashable and non cashable, it was decided that this was not the most

advantageous option at the present time. The evidence shows that the benefits and levels of savings in a joint service were not significant enough to warrant the resources required to implement a joint service. Additionally in the short term (two years) this option would significantly reduce the resilience of the section.

The requirement to synchronise the policy inception dates between the two boroughs would require LBBB to delay their tendering for an additional year. The impact of this would be that LBBB would lose an estimated £100,000-£150,000 savings that could be accrued in that year.

2. Tender Process

- 2.1 In light of the fact that Insurance provision is a service contract and contractually complex it lends itself to a negotiated procedure. Although negotiated procurements are seen as more risky when handled poorly; it is considered the standard route for the provision of Insurance services (e.g. Cardiff CC, Manchester Fire Service & West Sussex CC amongst others). If the general principles are followed, with a limited specialised market, the risk of utilising a negotiated procedure is very low.
- 2.2 The contract, which will be reviewable annually, is estimated to be valued at approximately £3million over a 3 year term. The actual period of the contract could be anything from 3 to 7 years and include options to extend, and therefore the savings will increase accordingly. Other options which will be explored, that may have a bearing on the potential savings, will be levels of the deductibles within the policies.
- 2.3 It is confirmed that the relevant provisions of the “Contracts Guidance Notes”, “Contracts Rules”, “Contracts Codes of Practice” and the “Financial Rules” of the Council’s Constitution and the EU Procurement Rules will be fully adhered to.
- 2.4 Insurance services is a Part A Service and must be awarded in accordance with the provisions of EU Regulations and are subject to the full regime (Directive 92/50/EEC for Service Contracts).

3. Tender Evaluation

- 3.1 The evaluation panel will consist of representatives from Insurance, Risk Management, Finance, Procurement and the appointed Insurance Broker
- 3.2 Contracts will be awarded on the basis of the best value for money offer to the authority.

Quality of product will be weighted against price using the following criteria:

Pricing	55%
Flexible Claims Handling Arrangements	15%
Local Government Sector Experience	10%
Underwriting Approach	10%
Operational Risk Management Experience & Resources	5%
General Service Standards & Requirements	5%

- 3.3 All interested insurers will have to demonstrate, when submitting their

quotations, their ability to meet the criteria outlined above.

4. Financial Implications

Implications verified by: Mark Taylor, Group Manager, Corporate Finance

- 4.1 The Council's insurance premiums currently amount to £1,011,000 annually. The existing contract with Zurich ends on 31 March 2012 and a formal tender process is required under European Procurement Directives. Estimated savings of between £100k and £150k per year over three years have been targeted by the Insurance Team but best value will be maximised.

5. Legal Implications

Implications verified by: Eldred Taylor-Camara, Group Manager, Legal Services

- 5.1 The procurement of public contracts for goods, services and works is governed in the UK by the Public Contracts Regulations 2006 (as amended) which implements EU Directives in the UK. The Regulations set out the procedures and rules under which such procurements must be conducted. Under the Regulations, insurance services are classified as Part A services and as such need to be procured in accordance with the full EU procurement regime.
- 5.2 There are four procedures set out for the procurement of services. In most cases it is expected that contracting authorities such as the Council, will use either the open or restricted procedures for the procurement of most services. Where the procurement is particularly complex, the competitive dialogue procedure may be used, and only in very exceptional circumstances specified in the Regulations, may the negotiated procedure be used
- 5.3 The Council is proposing to use the negotiated procedure to procure these services. The negotiated procedure is a procedure that is usually reserved for the procurement of only the most complex procurements.
- 5.4 However, under Regulation 13 (c) a contracting authority may use the negotiated procedure with the prior publication of a contract notice when the nature of the services to be provided, in particular in the case of services specified in category 6 of Part A of Schedule 3, is such that specifications cannot be established with sufficient precision to permit the award of the contract using the open procedure or the restricted procedure.
- 5.5 Insurance services fall within the Financial Services category covered by category 6 in Part A. As such, provided the Council satisfies all the other requirements of the Regulations and can otherwise establish that the circumstances of the procurement of these services complies with the Regulation i.e. that specifications cannot be established with sufficient precision to permit the award of the contract using the open procedure or the restricted procedure, the negotiated procedure may be used.
- 5.6 In approving the procurement, Members must be satisfied that reasons for using this procedure are made out.
- 5.7 It is expected that Corporate Procurement and the Legal Practice will be consulted throughout the procurement of these services.

6. Other Implications

6.1 Risk Management

The principal reason for having Insurance is to ensure budgetary certainty. The knowledge that you are covered for the amount over the excess in the Policy allows resources to be used elsewhere. If the Council did not buy insurance and was completely self funded then if, for example, a School valued at £12 million was burnt down it would have to be rebuilt and paid for out of current resources whereas with insurance in place, the Council is only liable for the first £150,000. This is exemplified by the Campbell Infant School fire claim that is being settled by Insurers at £2.5m which would have had to have been found if the Council wasn't insured.

Background Papers Used in the Preparation of the Report:

- "Retendering of Council's Insurance Contract" Report to Cabinet, 6 February 2007 (Minute 137)

List of appendices:

- Appendix A - Other Options analysis (this is contained within the private and confidential section of this agenda)