

Decision maker:	Cabinet member finance and corporate services
Meeting date:	Friday, 26 July 2019
Title of report:	Insurance cover renewal
Report by:	Chief finance officer

Classification

Report – Open

Exempt - The background papers are exempt from publication by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972 and it is considered that the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

Decision type

Key

This is a key decision because it is likely to result in the council incurring expenditure which is, or the making of savings which are, significant having regard to the council's budget for the service or function concerned. A threshold of £500,000 is regarded as significant.

Notice has been served in accordance with Part 3, Section 9 (Publicity in Connection with Key Decisions) of the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012.

Wards affected

All wards

Purpose and summary

To approve insurance cover renewal arrangements from 1st October 2019 following a tender process via the Insurance Services 2 - Crown Commercial Services (CCS) framework agreement.

Recommendation(s)

That:

- (a) the placing of the council's insurance business be approved at a cost of approximately £572k per annum (including Insurance Premium Tax (IPT)) for a maximum five year period 1 October 2019 to 30 September 2024 to include the following individual contract arrangements:**
- i. Material damage (with an excess of £50k) is placed with AIG via Risk Management Partners (premium £176k including IPT) and contractors all risk is placed with HSB via Risk Management Partners (annual premium £6k including IPT);**
 - ii. Fidelity guarantee is placed with Zurich Municipal (annual premium £6k including IPT);**
 - iii. Combined liability (including professional negligence, officials and members indemnity and hirer's liability) with an excess of £50k is placed with QBE via Risk Management Partners (annual premium £323k including IPT);**
 - iv. Motor fleet (including uninsured loss recovery) is placed with Zurich Municipal (annual premium £32k including IPT);**
 - v. Engineering (including inspection and insurance) is placed with HSB via Risk Management Partners (annual premium £6k including IPT);**
 - vi. Personal accident (including business travel) is placed with Zurich Municipal (annual premium £3k including IPT);**
 - vii. Computer is placed with HSB via Risk Management Partners (annual premium £3k including IPT);**
 - viii. Claims handling for liability and motor – Gallagher Bassett via Risk Management Partners to be appointed (annual premium £16k).**

Alternative options

1. There are no alternative options as all other received tenders cannot be accepted without the significant risk of procurement challenge.
2. There is no option to extend the current insurance, which expires on 30 September 2019. Without agreeing to this recommendation, the council will not hold valid certificates of insurance.

Key considerations

3. The council's current long-term agreements with existing insurers expire at the forthcoming renewal date of 30 September 2019. The council's insurance brokers have conducted a tender exercise on behalf of the council, via the CCS Insurance Services 2 framework agreement. The brokers, senior council officers from finance, commercial services and insurance have been involved in preparing the insurance specification and reviewing the tenders. The renewal specification remained consistent with the current insurance cover. The procurement for school insurance, again at consistent insurance cover level, was offered as a separate lot rather than contained within the council's insurance policy. The current policy value is £958k including IPT for the council and

schools insurance requirements combined. The recommended policy renewals total £572k including IPT for the council and £218k including IPT for schools, delivering a combined annual saving of £168k. The saving has been achieved by recommending a move to an alternative insurance provider.

4. The council has taken a similar approach to the tender undertaken in 2014, except that previously the council and schools insurance requirements were grouped together, under this procurement they were separated into two lots (Lot 1a council and Lot 1b schools). This will enable schools to have a direct relationship with the appointed insurer reducing management and administration costs and delays.
5. The council's insurance requirements were offered on a separate sub lot basis, consisting of material damage, fidelity guarantee, combined liability (including professional negligence, official's and member indemnity and hirer's liability), motor fleet (including uninsured loss recovery), engineering (including inspection and insurance), personal accident (including business travel), computer and claims handling. Between two and four bids were received for each sub lot. Insurance requirements for cyber, fine arts and terrorism were outside the parameters of the tender, as these are specialised policies, and will be placed separately, at minimal cost, by 30th September 2019. Three competitive bids were received for material damage with an excess of £50k, three bids were received for fidelity guarantee, two bids for combined liability with an excess of £50k, four for motor fleet, two for engineering, two for personal accident and two for computer cover.
6. Lot 1b schools was for a package consisting of material damage, contractors all risk, combined liability (including governors' and officers' liability), motor fleet (including uninsured loss recovery), engineering (including inspection and insurance), personal accident (including business travel), school journey and computer. One compliant bid was received.
7. Forty-three schools elected to participate in the council's retender and 21 (including all secondary schools) opted to arrange their own quotations. The equivalent full year cost for the 43 schools based on the existing insurance contract terms for 2019/20 would have been approximately £264k, compared with the tender price of £203k pa, a saving of £61k (equivalent to around 20%). This price includes all pupil numbers of statutory school age (including statutory nursery class pupils) but excludes pupils in governor run early years provision. Schools will need to declare these pupils to the insurer under separate cover.
8. A key principle of the new insurance tender for Lot 1b schools is that the insurer will deal direct with schools for invoicing and policy renewal, resulting in reduced administration and management costs for both schools and the council. In addition, the council reduces its risk from schools transferring to academy status midway through a policy year and incurring additional costs arising from complex school insurance claims.
9. The brokers' recommendations are made in accordance with the tender evaluation criteria scoring and therefore, reflect not only the premiums quoted by underwriters, but also the quality and depth of the covers and services offered. In all cases, the broker advise to accept the three year long term agreement with the option to extend for a further two years to secure better pricing and also to maintain consistent contract termination dates.
10. The broker reviewed each bid against the tender specification and the council's instructions. As all insurers' policy wordings differ, it is not possible to highlight every

difference between each bid. The broker highlighted all significant issues, and the council has reviewed the detailed documentation provided by each insurer to ensure that the council fully appreciates the limits to the purchased cover.

11. The council considered deductibles of £50k (as per their current policy) and £100k for both sub lot 1 (material damage) and sub lot 3 (combined liability). The broker prepared a Risk Finance Optimisation Study comparing these two options, that uses the council's claims data from 2007/08 to date. RMP's £50k deductible option is the most optimal for material damage cover and is recommended by the broker. RMP's £100k is the most optimal for combined liability cover, however being only marginally better than the £50k option the broker advised that it would be sensible to continue with the £50k excess option (as per the current insurance policy) for greater budgetary certainty.
12. The recommendation is for insurance arrangements for a five year period. There is an option to cease the arrangement after three years which will be considered if insurance cover needs alter significantly and therefore the premium varies considerably to the prices stated in this decision report.

Community impact

13. There is no significant community impact resulting from the recommended placing of the council's insurance policy renewal. However, failure to place appropriate insurance policies may lead to a loss of community assets as a result of unfunded and uninsured losses.
14. The proposal is in line with the council's corporate plan aim to make the best use of the resources available to meet the council's priorities and to manage our finances effectively to secure value for money and deliver a balanced budget.

Equality duty

15. The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate that we are paying 'due regard' in our decision making in the design of policies and in the delivery of services. As this is a decision on back office functions, we do not believe that it will have an impact on our equality duty.

Resource implications

16. The new insurance policies can be contained within the current budget, avoiding additional costs expected given the market trend of rising premiums.
17. Savings in premium costs of £168k per annum have been achieved when comparing the expiring total premiums for the council and schools combined with the new indicative total cost.
18. The council continues to not cover all its risks via insurance cover and like all council's "self-insures" lower-risk items. It does this by setting aside funds into an insurance reserve to smooth the effect of any uninsured liabilities, in the 2018/19 accounts this reserve totalled £0.3m.

19. A tri-annual actuarial review of the insurance fund was undertaken in 2017/18 to ensure that the correct levels of provisions were being set aside for any future liabilities. The council has ensured that these levels have been maintained and in the 2018/19 accounts the insurance provision totalled £2.0m. Another review will be commissioned in 2020/21 and this will determine the required funding to provide for the insurance liabilities going forward.

Legal implications

20. There is a statutory requirement for the council to purchase employers liability and motor vehicle insurance. The remaining insurance covers are discretionary and required by the council to mitigate the risk of the cost of insurance premiums and uninsured consequential loss.

Risk management

21. The insurance requirements have been reviewed in conjunction with the council's insurance broker to ensure policies are appropriate. The risk of not approving these recommendations is that the council could face legal challenge as the other tenders fail to meet the requisite levels of insurance quality and policy cover.
22. The level of insurance cover is being renewed on the same risk basis. An analytics study was completed to identify the optimal insurance solution. Optimal is defined as the most financially efficient blend of premium cost and retained cost. The assessment concluded that the economic cost of risk proposed is lower than if no insurance was brought. The optimal solution review considered the claim history from 2007/08 to consider both frequency and severity and to extrapolate estimated claim projections. Quotes with varying excess levels were sought and the conclusion was that the optimal solution was to remain with the current excess therefore not increasing the council's exposure to uninsured losses.

Consultees

23. None

Appendices

24. None

Background papers

Broker tender evaluation report (exempt from publication)

Broker Risk Finance Optimisation Study (exempt from publication)