



EXECUTIVE MEMBER DECISION

REPORT OF: Executive Member Finance & Governance

LEAD OFFICERS: Director of Finance

DATE: 17 May 2022

PORTFOLIO/S AFFECTED: ALL

WARD/S AFFECTED: ALL

SUBJECT: EMD-Strategy for Re-procurement of Council's Insurance Requirements from 1 April 2023

1. EXECUTIVE SUMMARY

The Council's current long term insurance agreement with Zurich Municipal ends on 31 March 2023. Under the requirements of the Constitution and Financial Procedure Rules the Council is required have adequate insurance cover in place. The intention is to carry out a formal re-tender of the insurance arrangements, with support from the Council's insurance broker Aon Risk Solutions (Aon), to have new insurance policies in place from 1 April 2023.

The cost of the current insurance arrangements is approximately £1.3m, including insurance premium tax or VAT where applicable. This includes relevant costs of premiums which are recharged to those Council schools that source some or all of their insurance cover via the traded service offer from the Council's Insurance Team and the premium for the Council's Commercial and Industrial property portfolio. The latter premium is recharged to tenants, where applicable, under the terms of the leases.

The aim of the tender exercise is to select the successful provider(s) of the Council's insurance requirements under a long term agreement(s) (LTA). Bidders will be requested to provide bids for an initial three year long term agreement, with an option to extend for up to a further two years.

2. RECOMMENDATIONS

That the Executive Member:

- approves the proposed arrangements to carry out a formal tender for the Council's insurance arrangements, with support from the Council's insurance broker, Aon Risk Solutions and the Council's Procurement team.
- notes that, following evaluation, the decision regarding the award of the contract to the preferred bidder(s) is delegated to the Director of Finance, unless there is a significant variation in the terms of insurance offered or there is a budget variation of £250,000.

The current LTA was for a three year period, with an option to extend for a further two years. This arrangement provided a level of certainty about the Council's insurance costs during the period of the LTA whilst providing an option for the Council to re-tender for its insurance requirements after three years if the insurance market changed significantly during the period. Aon have advised that this period is the optimal LTA and so it is proposed that we re-tender on this basis for the new insurance contracts from 1 April 2023.

3. BACKGROUND

Under the Council's Constitution and Financial Procedure Rules the Director of Finance is required to arrange and administer all insurance cover subject to Executive Board approval. Self-insurance may be approved where this is deemed to be the most economically advantageous option.

There is also a legal requirement for the Council to have insurance to cover motor liabilities.

The current insurance LTA with Zurich Municipal has been in place since 1 April 2017. In March 2021 the Director of Finance approved a waiver to extend the agreement from 31 March 2022 until 31 March 2023 due to market conditions at that time. There is a need to carry out an appropriate procurement exercise to ensure that the relevant insurance policies are in place after this date to provide continuity of cover.

As the value of the insurance contracts is over the threshold prescribed under the UK Public Procurement Regulations, the proposal is to carry out a formal procurement for the main insurances using a YPO Framework and separate procurements for specialist areas of insurance through quotation exercises in a format to be agreed with the Head of Contracts and Procurement and Aon.

Aon have recommended the use of a YPO Framework for the formal tender of the main insurances noting that some of the main benefits include -

- Greater market engagement than some other competitive tendering exercises;
- Leading Insurers in the Public Sector specialism are members;
- Technical scope and capability in Public Sector and Corporate contracting authorities activities can be extensive;
- Pre tender Insurer engagement;
- Pre-qualification questionnaire's already pre-agreed;
- Dynamic Purchasing System where additional markets can be added at relatively short notice;
- Allows for direct markets to be compared against open market and allows for an independent Broker to analyse and evaluate response from Direct Markets against other markets; and
- Official Journal of the European Union (OJEU) compliant.

There is a fee of 0.5% of the total contract amount however, this is paid by the winning insurer as a rebate fee to YPO and the Council would not be directly charged for the use of the Framework.

The insurances and related services that will be re-procured include the following areas:

- Property, including material damage, work in progress, all risks, business interruption, money, and theft;
- Casualty, including public and employers liability, officials indemnity, libel and slander and professional negligence;
- Motor fleet;
- Additional covers including balance of risks, fidelity guarantee, land charges, personal accident, business travel, Public Health Act, computer and property owners;
- Terrorism;
- Engineering and engineering inspection;
- Claims handling; and
- Marine.

In January 2021, prior to the waiver being approved to extend the current LTA for a further year to 31 March 2023, Aon advised that the insurance industry was experiencing the first hard market in 20 years. This had been driven by various factors including global losses, changes in medicine/ technology, changes in the discount rate used to calculate the value of long tail injury claims, low interest rates and the impact of Covid.

During 2020 Aon saw premiums for cover increasing from between 10% and 35% depending on the type of cover and claims experience. At the time Aon advised that previous experience of hard markets suggested that they lasted for three years but they felt that this could extend to five years this time due to the impact of the Solvency II Directive, concerning the amount of capital that EU insurance companies must hold to reduce the risk of insolvency.

As part of the tender preparation the insurance team will review the Council’s existing insurance cover requirements, excesses, stop loss levels and indemnity limits with Aon with the aim of identifying alternative options for the future insurance arrangements for tenders to bid on, as well as the existing basis. This will include:

- Increasing the level of self-insurance by identifying alternative excess limits for bids to be provided; and
- Consideration of the options available to schools given the opportunity that they now have to use the Risk Protection Arrangement (RPA) for their cover requirements. The RPA is now available to schools directly through the Department for Education, as an alternative to the Insurance team’s existing traded service offer.

Alternative excess limits may provide cost saving opportunities for the Council whilst also making the Council a more attractive insurance risk for insurers and increase the number of bids received.

Directors will be asked to identify key contacts within each of their departments to work with the Insurance Team to ensure that the details provided to potential insurers regarding the Council’s insurance requirements are accurate and up to date. Colleagues from Procurement will also provide appropriate advice and support throughout the procurement process as and when required. This will ensure compliance with the Council’s contract procurement rules and procurement law and mitigate the risk of any challenge. The new insurance arrangements will commence from 1 April 2023 and last for a minimum of three years, with an option to extend for a period of up to a further two years.

The tender specification will be prepared with technical advice and support from the insurance broker Aon. The proposal is to evaluate the tenders received on the basis of Price, Scope of cover provided and Quality in accordance with the below table.

	<u>Price</u>	<u>Scope</u>	<u>Quality</u>
Property, Casualty, Motor	60	20	20
Computer, Crime/FG, PA and Travel, Terrorism, Medical Malpractice, Marine, Hired in Plant	60	20	20
Engineering	30	10	60

Cyber	60	20	20
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The invitation to tender will be issued towards the end of September with a closing date at the end of October 2022. Following this Aon will evaluate the tenders received, alongside an in-house evaluation, and prepare a report on the tender results, setting out their recommendations regarding the successful proposals. This will be considered by the Insurance Team, in liaison with the Director of Finance. Following this, a report will be prepared setting out the recommendations regarding the award of the insurance contract(s) for approval by the Director of Finance in early 2023.

4. KEY ISSUES & RISKS
 Executive Member approval is required for the proposed procurement strategy.

If the Council does not have the required insurance cover in place, it is breaching its statutory responsibilities. The Council would have to fund legal costs associated with defending any claims made against it and pay any proven claims along with associated third party costs from the Council's revenue budget and reserves. Depending on the nature of the claims, these could be significant sums.

5. POLICY IMPLICATIONS
 None

6. FINANCIAL IMPLICATIONS
 The Council provides for the insurance premium in its Revenue Budget. The 2021/22 budget provision for insurance is £1.345m. The price element of the tenders received will be assessed against the present premiums and the budget provision. The final costs will not be known until the full details for each policy is finalised with the successful bidder.

7. LEGAL IMPLICATIONS
 Failure to procure adequate and appropriate insurance cover will place the Council in breach of its statutory responsibilities. It will give rise to a significant risk of litigation, claims and complaints. The associated costs would have to be borne directly by the Council.

The contract will be in a form approved by legal officers in the Contracts and Procurement team. Procurement via a YPO framework will comply with the requirements of the Public Contracts Regulations 2015.

8. RESOURCE IMPLICATIONS
 Officer time in carrying out the re-procurement of the insurance arrangements will be considerable but will be undertaken using existing resources within the Audit & Assurance and Contracting and Procurement teams.

Assistance will also be required from relevant departments across the Council to provide the required information for the tender.

9. EQUALITY AND HEALTH IMPLICATIONS

Please select one of the options below. Where appropriate please include the hyperlink to the EIA.

Option 1 Equality Impact Assessment (EIA) not required – the EIA checklist has been completed.

Option 2 In determining this matter the Executive Member needs to consider the EIA associated with this item in advance of making the decision. *(insert EIA link here)*

Option 3 In determining this matter the Executive Board Members need to consider the EIA associated with this item in advance of making the decision. *(insert EIA attachment)*

10. CONSULTATIONS

Director of Finance

11. STATEMENT OF COMPLIANCE

The recommendations are made further to advice from the Monitoring Officer and the Section 151 Officer has confirmed that they do not incur unlawful expenditure. They are also compliant with equality legislation and an equality analysis and impact assessment has been considered. The recommendations reflect the core principles of good governance set out in the Council's Code of Corporate Governance.

12. DECLARATION OF INTEREST

All Declarations of Interest of any Executive Member consulted and note of any dispensation granted by the Chief Executive will be recorded and published if applicable.

VERSION:	1
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CONTACT OFFICER:	Colin Ferguson – Head of Audit & Assurance
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DATE:	10 June 2022
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BACKGROUND PAPER:	Nil
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