

TITLE	Insurance Procurement: Retender
FOR CONSIDERATION BY	The Executive on 30 November 2017
WARD	None specific
DIRECTOR	Graham Ebers, Director of Corporate Services
LEAD MEMBER	Oliver Whittle, Executive Member for Finance

OUTCOME / BENEFITS TO THE COMMUNITY

Purchasing insurance cover for the Council provides an indirect benefit to the community by protecting the Council's resources from having to be used to fund claims, which could run to many £millions. Therefore, those resources can be targeted at and used for the council's key priorities (e.g. social care, highways).

The specific outcome is the procurement of high quality insurance cover for the lowest premium available in the Public Sector insurance market.

RECOMMENDATION

The Executive is recommended to approve:

- 1) the procurement (by way of Open Procedure tender) of the Council's insurance cover(s);
- 2) delegation of the design of the contract specification to the Director Corporate Services, in consultation with the Executive Member for Finance;
- 3) delegation to the Director of Corporate Services, in consultation with the Executive Member for Finance, authority to award the contract(s) to the successful bidder(s) following completion of the evaluation process.

SUMMARY OF REPORT

The Council's existing insurance programme consists of the following insurance covers: Public Liability, Employer's Liability, Officials' Indemnity/Professional Negligence, Property Damage and Business Interruption, Motor Fleet, Theft by Employees, Personal Accident, Marine, and the Engineering Inspection Service.

A retender process must be completed in order to ensure that the Council continues to be insured from 30th June 2018.

It is proposed to retender these covers on either:

1. a 3 year + 2 year + 2 year basis (i.e. an initial term of 3 years with 2 possible extensions of up to 2 years each); or

2. a 5 year + 2 year basis (i.e. an initial term of 5 years with 1 possible extension of up to 2 years).

Ongoing advice is being taken from the Council's appointed insurance brokers as to which contract term is most advantageous given the likely state of the public sector insurance market as we move in to 2018.

The retender will be conducted by the Council's appointed insurance brokers with full oversight by the Council's insurance and procurement specialists, as a fully compliant OJEU-level Open Procedure.

Background

The authority's insurance programme provides financial protection – it is essentially a 'loss financing mechanism' – across almost every aspect of the Council's operations: whether loss of, or damage to, property owned by the Council, or claims for compensation made against the Council.

It is therefore a key financial risk control mechanism that protects the Council's limited resources and provides peace of mind and reassurance to the authority.

The Council's insurance programme was last tendered in 2011 for a 3 year term with 2 separate 2 year optional extensions available. Both options were exercised. **The insurance programme must therefore be retendered and the contracts in place by 30th June 2018 if the Council is to continue to be insured.**

The alternative is to not purchase insurance cover. However, this would leave the Council exposed to the consequences of having to fund large losses from its own, limited, resources.

In 2016 the Corporate Leadership Team agreed a recommendation to increase the excess on the Public and Employer's Liability cover from £1,000 per claim to £50,000 per claim, effective for all claims occurring after 30th June 2016. Accordingly, the Council is 'self-insuring' up to £50,000 per claim. Any such claims payments are funded from the Council's earmarked Insurance Reserve.

The recommendation was based upon a full actuarial review carried out by the Council's retained brokers. The review considered the Council's past claims costs and the resilience of the Insurance Reserve. An increase in the excess to £50,000 was considered the ideal and most cost-effective balance of (1) premium paid to external insurers and (2) the level of 'self-insurance'.

The increase in the excess resulted in a significant reduction in premium of more than £350,000 for the 2016-'17 period of insurance. It is not proposed that the excess be further increased as part of this tender exercise: any potential premium reduction would be lower than the risk to the Reserve. However, the excess level will be kept under review.

It should be noted that insurance rates are being impacted by a number of events, such as: (1) the recent hurricanes in America; (2) the Grenfell Tower tragedy; (3) changes to the compensation payment calculation formula that is set by the government which has resulted in compensation payments increasing by up to 100%. As such, the whole insurance market is experiencing upwards pressure on premium rates. Competitively retendering the Council's insurance programme will minimise the impact of these factors as far as possible.

The Invitation to Tender document is expected to go to the market in December 2017, with tenders returned and evaluations completed in April 2018. The new contract(s) of insurance must commence on 30th June 2018 to avoid any gaps in cover.

Analysis of Issues

The Council owns, or is responsible for, buildings, contents and other assets with a total 'insurance value', i.e. Sum Insured (S.I.), of c. £1,100,000,000. Within this figure, the S.I. on many individual premises runs to several £millions.

A claim against the Council – e.g. a child suffering catastrophic life-changing injuries in a school P.E. lesson – could result in a compensation payment and costs easily exceeding £20,000,000.

It is important for the Council to protect itself from the financial consequences of a large property loss – such as major fire or flood damage to a building – or a large compensation claim. Therefore, adequate and sufficient insurance cover is a key element in the Council's approach to risk management. Additionally, some insurance covers – such as Motor, Employer's Liability, Theft by Employees – are statutorily required.

The insurance programme is continuously monitored, reviewed and revised in order to ensure that it provides comprehensive and suitable cover for protecting the Council's resources.

Regardless of the overall duration of the contract, the cover is renewed on an annual basis and changes may be incorporated at each renewal (e.g. an increased excess, cancellation of particular covers). Therefore, there is always the ongoing opportunity to ensure that the contract remains cost effective and provides the necessary insurance cover that the Council requires.

Proposed Timetable

Begin collating required information	August 2017 ✓
Agree timetable, set out project, including Objectives and Evaluation Criteria	September 2017 ✓
Request confirmed claims experience from all insurers	By end November 2017
Provide in-house handling claims experience	By end November 2017
Compile draft tender document	1 st November – 1 st December 2017
Draft tender document approved by council project team	4 th December 2017 - 11 th December 2017
Publish Contract Notice (OJEU)	15 th December 2017
Publish Contract Finder Notice	17 th December 2017
Tender to Market	15 th December 2017
Tenders Returned (10am)	5 th February 2018
Meeting to review quotes received	6 th February 2018
Evaluate Tenders	6 th February 2018
Meeting to agree final evaluation markings	16 th April 2018
Final evaluation report prepared	23 rd April 2018

Final sign off by council project team and Director	7 th May 2018
Stand-still/Alcatel letters to tenderers (10 days)	8 th May 2018
Award the contract(s)	21 st May 2018
Publish Contract Award Notice (OJEU)	Within 30 days
Protocol meeting with new insurers (if required)	W/C 28 th May 2018
Inception of Cover	30 th June 2018

FINANCIAL IMPLICATIONS OF THE RECOMMENDATION

The Council faces severe financial challenges over the coming years as a result of the austerity measures implemented by the Government and subsequent reductions to public sector funding. It is estimated that Wokingham Borough Council will be required to make budget reductions in excess of £20m over the next three years and all Executive decisions should be made in this context.

	How much will it Cost/ (Save)	Is there sufficient funding – if not quantify the Shortfall	Revenue or Capital?
Current Financial Year (Year 1)	£0	Yes	Revenue
Next Financial Year (Year 2)	Not known at this stage	Yes	Revenue
Following Financial Year (Year 3)	Not known at this stage	Yes	Revenue

Other financial information relevant to the Recommendation/Decision

It should be noted that the price is subject to influences such as changes in the Council's risk profile, external factors affecting the insurance market, and any further changes to the rate of Insurance Premium Tax (currently 12%).

Cross-Council Implications

The Council's insurance cover provides peace of mind to all Council service areas: insured claims will be dealt with by way of insurance and will not have to be paid from scarce resources.

List of Background Papers

None

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Date 20 November 2017	Version No. 2.1

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