

REPORT FOR: **CABINET**

Date of Meeting:	15 January 2014
Subject:	Council Insurance Renewals 2014
Key Decision:	Yes
Responsible Officer:	Simon George, Director of Finance and Assurance
Portfolio Holder:	Councillor Tony Ferrari. Portfolio Holder for Finance
Exempt:	No, except for Appendices 1&2, which are exempt on the grounds that they contain “exempt information” under paragraph 3 of Part I of Schedule 12A to the Local Government Act 1972 (as amended) in that it contains information relating to the financial or business affairs of any particular person (including the authority holding that information).
Decision subject to Call-in:	Yes
Enclosures:	Appendix 1 – Exempt (Part II) – Tender Evaluation Appendix 2 – Exempt (Part II) - Evaluation Model

Section 1 – Summary and Recommendations

This report sets out an overview and the outcome of the competitive tendering process undertaken to seek new contracts through the Insurance London

Consortium (ILC) for the provision of Property and Liability insurance.

Recommendations:

Cabinet is requested to approve the award of the contracts for Property and Liability insurance from 1 April 2014 to 31 March 2019 as specified in Appendix 1 (Part II report).

Reason: (For recommendation)

Harrow is committed to the procurement of its external insurance arrangements through the Insurance London Consortium (ILC) under the terms of a Section 101 Agreement signed by the Leader of the Council.

An open tender process was conducted according to EU procurement rules for Part A Service contracts.

A pre-defined evaluation model was constructed to fairly evaluate each tender against a set of criteria established by the ILC and their appointed insurance brokers.

The bidders detailed in Appendix 1 (Part II report) achieved the highest total scores in the evaluation process.

Section 2 – Report

A. Introductory paragraph

- 2.1 Harrow Council is a member of the Insurance London Consortium (ILC), a group of nine boroughs whose aim is to reduce the cost of risk through a long-term collaborative commitment to risk management excellence and to achieve value for money for in relation to the cost of the Council's insurance provision through economies of scale.
- 2.2 The other member boroughs of the Consortium are Camden, Croydon, Haringey, Islington, Kingston, Lambeth, Sutton, and Tower Hamlets.
- 2.3 Each member borough has a nominated representative and all boroughs have equal voting rights.
- 2.4 Members are committed to the Consortium under a Section 101 Agreement, which was signed by the Leader of the Council with the authority of the Council's Legal Services team. Under the terms of the

Agreement a member borough must give 12 months notice of their intention to withdraw from the Consortium. Croydon is appointed as the Accountable Body and therefore, under the terms of the agreement, is the contracting party on behalf of the ILC in relation to commercial contracts, subject to the achievement of a majority vote.

- 2.5 The ILC strategy is to include all insurance policies within its remit upon the expiry of existing long-term agreements.
- 2.6 The current Property and Liability insurance contracts expire on 31 March 2014, as a result of which it has been necessary to re-tender these contracts in line with EU procurement legislation.

B. Background

- 2.7 Following the demise of the London Authorities Mutual Ltd (LAML), Harrow joined together with former LAML members to form the ILC with the aim of reducing the cost of risk for the public sector through a long term collaborative commitment to risk management excellence.
- 2.8 The Consortium initially operated under an informal memorandum of understanding. Having obtained the necessary authority from Legal Services and the Leader of the Council, the agreement was subsequently formalised by way of a Section 101 Agreement setting out the member's rights and responsibilities.
- 2.9 The first joint ILC insurance procurement was undertaken in late 2009. The Property and Liability insurance contracts were tendered, as a result of which ILC members achieved competitive terms and conditions for contracts commencing on 1 January 2010. A further successful tender exercise was undertaken two years ago culminating in the contracts being awarded for a two year period commencing 1 April 2012.
- 2.10 As the existing long-term agreements on the Property and Liability insurance contracts expire on 31 March 2014 it has been necessary for the Consortium to undertake a full procurement exercise in accordance with EU procurement legislation.

Procurement

- 2.11 As the Accountable Body, Croydon led the procurement exercise on behalf of all Consortium members. .
- 2.12 An open tender process was conducted according to the EU procurement rules for Part A Service contracts. Tenders were sought for a minimum three year period, with additional scoring available for extensions to a maximum of five years in order to ensure continuity of cover, reduce the amount of time spent on tenders, and take

advantage of a hardening market, whilst providing flexibility for the Council in the event of unforeseen market changes.

- 2.13 Historically the Consortium tenders have been run as open tenders with very specific terms sought. Whilst these have been successful in terms of price and additional benefits obtained, the number of bidders has declined, with only two bids received at the last tender. In an attempt to engage competition, the following actions were taken:
- The Government Procurement Service established Pro 5 framework, which includes 31 insurance markets, was used as recommended by the majority of the member borough's procurement teams
 - An insurance broker was contracted under the terms of the framework as an intermediary to encourage response
 - Market feedback was sought from insurers early in 2013 in order to understand the issues they experienced with ILC tenders
 - The market approach was softened in order to encourage bids from those markets who previously struggled with the ILC requirements, including a process during the tender enabling bidders to question / challenge the terms sought
 - The tender period was extended to 60 days to allow potential bidders time to understand and respond to our approach
 - A fully attended market presentation was undertaken at the broker's premises in order for bidders to appreciate our approach

Evaluation of Tenders

- 2.14 The basis of evaluation for the insurance tender is calculated according to the balance of importance between price and quality for each lot and is specified in the table below. The same evaluation criteria applies to all consortium members and is based on experience from previous consortium tenders and advice from independent insurance consultants acting on behalf of the ILC.

Lot	Price %	Quality %
Lot 1. (Property)	67	33
Lot 2. (Liability)	67	33

- 2.15 An initial price evaluation is undertaken for each member; the cost per borough is added together and averaged. The bidder's variance from the average is then calculated and points are added or deducted for every percentage point from the average.
- 2.16 The price evaluation also includes points for the variance from the maximum acceptable annual aggregate, therefore a similar calculation is undertaken and points are awarded to bidders offering annual aggregates that are lower than the maximum acceptable aggregate.

- 2.17 Details of the price evaluation score specific to Harrow are contained within Appendix 2 (Part II report).
- 2.18 To ensure there is no cross-sharing of risk, bidders are requested to price each Consortium member according to their individual insurance requirements and claims experience.
- 2.19 The breakdown between price and quality seeks to achieve a balance between price; term, which includes a 'rate guarantee'; and other added value items such as improvements in cover over and above the minimum policy cover specification.
- 2.20 Thorough criteria were devised to evaluate the outcome of the quality bids, broken down between variations; multi-year deal; and added value.
- 2.21 The quality evaluation is undertaken at Consortium level, rather than for each borough, as all Consortium members benefit equally from any policy enhancements available.
- 2.22 Under the heading of variations, additional points are awarded where bidders offered enhanced cover over and above the minimum policy cover specification.
- 2.23 For the multi-year deal, additional points are available for bidders offering in excess of the minimum specified contract and reduced premiums in return for improved claims experience.
- 2.24 Additional points are also available for added value to bidders offering extra benefits perceived to be favourable to the Consortium, such as a risk management allowance, and Corporate Social Responsibility.
- 2.25 The winning tender for each lot is then decided on the basis of the highest scoring bid for the Consortium as a whole.

Implications of the Recommendation

- 2.26 Specific details of the cost implications are outlined in Appendix 1 (Part II report)
- 2.27 The contracts tendered are subject to rate guarantees, providing financial stability for the Council whilst not locking boroughs in to long-term agreements that could limit options they may wish to pursue as a result of the public sector austerity measures

C. Options considered

- 2.28 Harrow is contractually obliged to re-tender its Property and Liability insurance contracts through the ILC under the terms of the Section 101 Agreement. Accordingly, in view of the forthcoming expiry of existing

long-term agreements there was no alternative to re-tendering the insurance contracts as part of the Consortium.

2.29 Whilst the Council accepts a large element of risk with regards to insurance claims and maintains an insurance fund to cover such eventualities, it is unable to accept open ended insurance risks hence the requirement for insurance cover. 'Catastrophe' cover is therefore procured through the insurance market.

2.30 Consideration was given to whether the existing levels of deductible (policy excess) and aggregate continue to provide adequate financial protection, whilst delivering best value to the Council. The deductible is the first amount of each and every claim that is payable by the Council and the aggregate is the maximum financial liability attaching to the Council in any one policy year for all Property and Liability claims, thus restricting the financial exposure to insurable risk. Advice has been sought from independent insurance consultants and an independent actuary as to whether premium savings could be achieved through increasing policy deductibles. However their advice was that little savings would be achieved in this way, as based on the Council's claims experience there have been few claims exceeding the existing deductibles.

Legal Implications

ILC members are committed to the Consortium under a Section 101 Agreement, which was signed by the Leader of the Council with the authority of the Council's Legal Services team. Under the terms of the Agreement a member borough must give 12 months notice of their intention to withdraw from the Consortium. The Council is therefore contractually bound to enter into the contracts.

The procurement process as detailed in this report meets the requirements of the Council's Contract Procedure Rules, EU procurement requirements and the Council's duty to secure best value under the Local Government Act 1999.

Financial Implications

The total revenue cost associated with the contract is specified in Appendix 1 (Part II report).

There is sufficient budget provision to cover the cost of the insurance premiums.

Performance Issues

The award of the contracts will support the Council in providing value for money by striking a measurable balance between price and quality through

evaluation criteria designed in a way to identify bids offering a quality service whilst offering best value insurance services.

There are no specific performance indicators affected by the award of the contracts.

In the event that the contracts were not awarded the Council would have no financial protection for its assets and liabilities and would be faced with unlimited potential financial liability for claims made by and against the Council.

Environmental Impact

No Environmental Impact has been identified as a result of the proposed award of contract.

Risk Management Implications

Risk included on Directorate risk register? No

Separate risk register in place? No

The key risk is that a challenge is made, thus jeopardising the commencement date of the contract and potentially leaving the Council without adequate insurance. The risk of a successful challenge has been mitigated as far as possible, as the tender has been run in accordance with legal and procurement advice sought by the Accountable Body.

Risk of delivery failure is minimal with the supplier's financial status and standing required to meet minimum standards both at inception, and for the duration of the contract.

Equalities implications

No equalities implications have been identified as a result of the proposed award of contract.

Priorities

The decision to award this contract will support the Council in providing value for money by striking a measurable balance between price and quality through evaluation criteria designed in a way to identify bids offering a quality service whilst offering best value insurance services.

Section 3 - Statutory Officer Clearance

Name: Dawn Calvert

on behalf of the
Chief Financial Officer

Date: 11 December 2013

Name: Stephen Dorrian

on behalf of the
Monitoring Officer

Date: 10 December 2013

Section 4 – Performance Officer Clearance

Name: David Harrington

on behalf of the
Divisional Director
Strategic
Commissioning

Date: 6 December 2013

Section 5 – Environmental Impact Officer Clearance

Name: Andrew Baker

on behalf of the
Corporate Director
(Environment &
Enterprise)

Date: 5 December 2013

Section 6 - Contact Details and Background Papers

Contact: Karen Vickery, Service Manager – Insurance
E-mail: Karen.vickery@harrow.gov.uk
DDI: 0208 424 1995

Background Papers: None

**Call-In Waived by the
Chairman of Overview
and Scrutiny
Committee**

NOT APPLICABLE

[Call-in applies]