
REPORT FOR: CABINET

Date of Meeting:	8 December 2016
Subject:	Council Insurance Renewals 2017
Key Decision:	Yes
Responsible Officer:	Dawn Calvert, Director of Finance
Portfolio Holder:	Councillor Adam Swersky, Portfolio Holder for Finance and Commercialisation
Exempt:	No, except for Appendix 2, which is exempt on the grounds that it contains “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
Wards affected:	All
Enclosures:	Appendix 1 – Evaluation Criteria Appendix 2 – (Part II – Exempt) – Evaluation of Tenders

Section 1 – Summary and Recommendations

This report sets out an overview and the outcome of the competitive tendering process to seek new contracts through the Insurance London Consortium (ILC) for the provision of Property, Liability and Terrorism insurance.

Recommendations:

Cabinet is requested to approve the award of the contracts for Property Liability and Terrorism insurance as specified in Appendix 2 (Part II report) from 1 April 2017 to 31 March 2020, with the option to extend for a further two years in increments of 12 months.

Reason:

Harrow is committed to the procurement of its major external insurance contracts through the Insurance London Consortium (ILC) under the terms of an agreement under section 101 of the Local Government Act 1972 (the 'Section 101 Agreement') signed by the Leader of the Council and effective since 2010.

An open tender process was conducted according to EU procurement rules.

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 2 (Part II report) achieved the highest total scores in the evaluation process.

Section 2 – Report

Introductory paragraph

1. Harrow Council is a member of the Insurance London Consortium (ILC), a group of nine London 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 in relation to the cost of the Council's insurance through economies of scale.
2. The other member boroughs of the Consortium are Camden, Croydon, Haringey, Islington, Kingston, Lambeth, Sutton and Tower Hamlets.
3. Members are committed to the Consortium under a Section 101 Agreement, which was signed by the Leader of the Council in 2010 with the approval of the Council's Legal Services team.

4. Each member borough has a nominated representative and all boroughs have equal voting rights.
5. Croydon is appointed as the Accountable Body and therefore, under the Section 101 Agreement, is the contracting party on behalf of the Consortium in relation to commercial contracts, subject to the achievement of a majority vote.
6. The ILC strategy is to include all major insurance policies within its remit upon the expiry of existing long-term agreements.

Background

7. Harrow entered into the existing contract for Property, Liability and Terrorism insurance for a period of five years effective from 1 April 2014.
8. Shortly before the second anniversary of the contract the insurers indicated that they would not adhere to the terms of the multi-year agreement for the duration of the contract. This decision would result in financial implications for all member boroughs, with some significantly affected.
9. Upon receipt of the insurer's formal confirmation that they would not adhere to the terms of the contract the Consortium members voted to give notice to terminate the contract with the current insurers and to retender the contracts.
10. Legal advice was sought as to whether a claim could be made against the contractor but that advice was that any claim would be unlikely to succeed

Procurement

11. As the Accountable Body, Croydon led the procurement exercise on behalf of all Consortium members.
12. Historically there have been very few insurers prepared to underwrite local authority business although recent times have seen some new emerging markets with the appetite to underwrite the business. In order to encourage maximum participation in the tender external insurance brokers, Aon UK Ltd, were engaged on behalf of the Consortium.
13. An open tender process was conducted according to the EU procurement rules.
14. Tenders were sought for a minimum three year period, with the option to extend for a further two years in 12 month increments in order to ensure

continuity of cover whilst providing flexibility for the Council in the event of unforeseen market changes.

15. The number of bidders has declined in recent years, therefore in an attempt to maximise the number of insurers responding to the tender the following actions were taken:
- Market feedback was sought by the brokers prior to the commencement of the tender in order to understand the issues insurers experienced with Consortium tenders
 - A fully attended market presentation was undertaken at the broker's premises in order for bidders to appreciate the Consortium approach to the tender and raise any questions or concerns about the process
 - The market approach was softened in order to encourage bids from those markets who previously struggled with the Consortium requirements, including a process during the tender enabling bidders to question or challenge the terms sought
 - Market feedback indicated that some insurers will only bid for business where a significant level of self-insurance is retained by the insured party. Member boroughs endeavoured to streamline their insurance requirements as far as possible within their respective risk appetite; however as Kingston does not currently have an appetite for risk in line with other Consortium members it was agreed that they would participate in a separate standalone tender.

Evaluation of Tenders

16. The contract will be awarded to the most economically advantageous tender in terms of value for money and quality. Quality will consider policy wordings, claims handling requirements, value added services and social value.
17. The detailed evaluation criteria is set out under Appendix 1.
18. The balance between value for money and quality for each lot is based on experience from previous tenders and advice from brokers and is specified in the table below.

Lot	Value for Money %	Quality %
Lot 1. (Property)	70	30
Lot 2. (Terrorism)	80	20
Lot 3. (Liability)	70	30

19. Bidders were requested to price each Consortium member according to their individual insurance requirements and claims experience to ensure there is no cross-sharing of risk.
20. Bidders were required to demonstrate compliance to the tender specification and meet minimum financial standards before proceeding to the value for money and quality evaluations.
21. The quality evaluation was undertaken at Consortium level, rather than for each borough, as all Consortium members benefit equally from any policy enhancements available.
22. The individual prices per borough were then added together and the value for money evaluation is based on the total Consortium price.
23. The winning tender for each lot was then decided on the basis of the highest scoring bid for the Consortium as a whole.
24. Details of the value for money evaluation scores specific to Harrow are contained within Appendix 2 (Part II report).

Implications of the Recommendations

25. Specific details of the implications are outlined in Appendix 2 (Part II report).

Options considered

26. 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, there was no alternative to re-tendering the insurance contracts as part of the Consortium.
27. 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.
28. Consideration was given to whether the existing limits of indemnity for Public & Employers' Liability insurance remain appropriate. The current limit of indemnity held by all members of the ILC is £50m and the insurance brokers advised in their expert opinion that this was excessive. It was recommended by the insurance brokers and subsequently agreed by the ILC members that a limit of indemnity of £25m would be requested in the tender. In the event that a higher limit is deemed desirable by any member borough this can subsequently be increased.
29. The current levels of deductible (policy excess) for both the Property and Liability contracts were also considered. The deductible is the first amount of each and every claim that is payable by the Council in the event of a claim. Actuarial calculations were undertaken by the insurance

brokers prior to the re-tendering of the contract and the calculations indicated that the likely premium savings from accepting increased deductibles were not sufficient to warrant the increased financial exposure to the Council.

Performance Issues

30. The award of the contracts will support the Council in providing value for money by striking a measurable balance between value for money and quality through evaluation criteria designed in a way to identify bids offering a quality service whilst offering best value insurance services.
31. There are no specific performance indicators affected by the award of the contracts.
32. 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 Implications

33. 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 procurement 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.

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 at this time to participate in the collaborative procurement.

The procurement process as detailed in this report meets the requirements of the Council's Contract Procedure Rules, EU public 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 2 (Part II report).

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

Equalities implications / Public Sector Equality Duty

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

Council Priorities

The decision to award this contract will support the Council's priorities and values by achieving a measurable balance between value for money and quality whilst ensuring the Council's insurance arrangements offer suitable and adequate financial protection for the delivery of its priorities and services.

Section 3 - Statutory Officer Clearance

Name: Sharon Daniels	<input checked="" type="checkbox"/>	on behalf of the Chief Financial Officer
Date: 9 November 2016		
Name: Stephen Dorrian	<input checked="" type="checkbox"/>	on behalf of the Monitoring Officer
Date: 2 November 2016		

Ward Councillors notified:	NO
EqIA carried out:	NO
EqIA cleared by:	No equalities implications have been identified as a result of the proposed award of contract

Section 4 - Contact Details and Background Papers

Contact: Karen Vickery, Service Manager – Insurance
 DDI: 020 8424 1995 E-mail: Karen.vickery@harrow.gov.uk

Background Papers: None.

Call-In Waived by the Chair of Overview and Scrutiny Committee	NOT APPLICABLE <i>[Call-in applies]</i>
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