

Report for: Cabinet

Date of Meeting:	23 September 2021
Subject:	Authority to Procure Liability & Property Insurance
Key Decision:	Yes - the proposed procurement will involve revenue expenditure in excess of £500,000
Responsible Officer:	Dawn Calvert - Director of Finance & Assurance
Portfolio Holder:	Councillor Natasha Proctor – Deputy Leader and Portfolio Holder for Finance & Resources
Exempt:	No
Decision subject to Call-in:	Yes
Wards affected:	All
Enclosures:	None

Section 1 – Summary and Recommendations

The purpose of this report is to seek Cabinet approval to re-tender the contracts for the provision of the Council's liability and property insurance and to award the contracts under delegated authority.

Recommendations:

Cabinet is requested to:

- 1) Grant approval to procure liability, property and terrorism insurance for the Council.
- 2) Delegate authority to the Corporate Director of Resources, following consultation with the Portfolio Holder for Finance and Resources, to award the contracts for liability, property and terrorism insurance.

Reason (for the recommendations):

Harrow is committed to the procurement of its major external insurance contracts through the Insurance London Consortium 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.

The decision to insure is driven by the need to protect the financial position and stability of the authority by providing financial protection against catastrophic losses, which is achieved through insurance risk transfer.

The long-term agreement with the current insurers for the Council's corporate property, liability and terrorism insurances expires on 31 March 2022, therefore it will be necessary to re-tender these contracts.

Section 2 – Report

Introductory paragraph

- 2.1 Harrow Council accepts a large element of risk with regards to insurance claims and maintains an insurance fund to cover such eventualities, however it is unable to accept open ended insurance risks hence the requirement for insurance cover. 'Catastrophe' cover is therefore procured through the insurance market.
- 2.2 Harrow is contractually bound to re-tender its major insurance contracts through the Insurance London Consortium under the terms of the Section 101 Agreement.

- 2.3 Together with the other Consortium members, Harrow entered the current contracts for liability, property and terrorism insurance for a period of five years effective from 1 April 2017.
- 2.4 The current long-term agreement expires on 31 March 2022 and as a result it is necessary to re-tender the contract.
- 2.5 It is not expected that this procurement will deliver savings to the Council. After a prolonged period of softening in the insurance market, offering reduced premiums year on year, the market is now hardening. Factors such as increased costs and incidence of global catastrophic disasters, a reduction in interest receipts and increased claims costs have combined to bring a reduction in capacity and strategic reviews from some insurers led to them realigning their appetite within the market. As a result, local authorities are generally seeing increases in insurance premiums.

3. Options considered

- 3.1 Do nothing – The current contracts expire on 31 March 2022 and if the procurement does not taken place the Council would have no insurance for its corporate assets or liabilities from 1 April 2022. Harrow would be faced with unlimited potential financial losses, therefore this is not considered to be an option.
- 3.2 Re-tender separately from the Consortium - Harrow is contractually obliged to re-tender its major insurance contracts through the Insurance London Consortium under the terms of the Section 101 Agreement. Accordingly, there is no alternative to re-tendering the insurance contracts as part of the Consortium.
- 3.3 Revise the Council's insurance requirements - Ahead of the proposed procurement, Aon, the appointed brokers for the Insurance London Consortium, are undertaking a programme modelling exercise based on actuarial calculations to review whether the current deductibles (policy excess) remain appropriate. This will inform the optimum balance between insurance and self-insurance for the forthcoming period of insurance.

4. Background

- 4.1 Harrow Council is a member of the Insurance London Consortium, 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.
- 4.2 The other member boroughs of the Consortium are Camden, Croydon, Haringey, Islington, Kingston, Lambeth, Sutton and Tower Hamlets.

- 4.3 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.
- 4.4 Each member borough has a nominated representative and all boroughs have equal voting rights.
- 4.5 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.
- 4.6 The strategy of the Insurance London Consortium is to include all major insurance policies within its remit upon the expiry of existing long-term agreements.
- 4.7 As the Accountable Body, Croydon would lead the procurement exercise on behalf of all Consortium members.
- 4.8 A full marketing and tender exercise is proposed to identify the most economically advantageous tender for the provision of the Council's corporate liability, property and terrorism insurance.
- 4.9 Each member borough is priced according to their individual insurance requirements and claims experience so there is no cross sharing of risk.
- 4.10 Full details of the proposed procurement and evaluation criteria are detailed later in this report.

5. Ward Councillors' comments – Not Applicable

6. Performance Issues

- 6.1 The procurement would 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.
- 6.2 There are no specific performance indicators affected by the proposed procurement.
- 6.3 In the event that the procurement is not undertaken the Council would have no financial protection for its assets and liabilities and would be faced with unlimited potential financial liability for claims made against the Council.

7. Environmental Implications

7.1 No environmental impact has been identified as a result of the proposed award of contract.

8. Data Protection Implications

8.1 There are no data protection implications as no personal identifying data is being shared.

9. Risk Management Implications

Risks included on corporate or directorate risk register? **No**

Separate risk register in place? **No**

The relevant risks contained in the register are attached/summarised below.
N/A

The following key risks should be taken into account when agreeing the recommendations in this report:

Risk Description	Mitigations	RAG Status
Procurement challenge	<ul style="list-style-type: none">▪ The tender would be run in accordance with relevant procurement legislation and Contract Procedure Rules▪ The project will be supported by the lead borough's legal and procurement teams	Green
Insurer failure	<ul style="list-style-type: none">▪ The supplier's financial status and standing will be required to meet minimum standards both at inception and for the duration of the contract▪ Insurers are regulated by the Prudential Regulatory Authority, part of the Bank of England, which promotes the safety and soundness of insurers and the Financial Conduct Authority, which regulates the behaviour of insurers	Green

Risk Description	Mitigations	RAG Status
Lack of responses to the tender from insurers	<ul style="list-style-type: none"> ▪ Market engagement would be undertaken to gain market intelligence ahead of re-tendering the contracts ▪ An 'open day' for insurers would be held to further stimulate interest in the tender 	Green
Increase in insurance premium	<ul style="list-style-type: none"> ▪ The risk of an increase in the cost of the insurance may be mitigated by a reduction in expenditure on insurance claims, however the volume and cost of insurance claims is volatile so this cannot be guaranteed ▪ It may be possible to reduce the cost of the insurance by increasing the policy excess or decreasing the amount of insurance cover purchased, however this in turn would reduce the amount of financial protection offered to the Council through its external insurance arrangements ▪ It may, therefore, be necessary to increase the budget for insurance premiums to ensure that the Council has adequate financial protection for its insurable risks 	Amber

10. Procurement Implications

10.1 The proposed procurement would be carried out in accordance with the Public Contract Regulations 2015 and the Council's own Contract Procedure Rules.

- 10.2 The procurement would be led by Croydon, the lead borough for the Insurance London Consortium.
- 10.3 There are a limited number of insurers in the market with an appetite to underwrite these risks, therefore an open tender is deemed to be the most appropriate procurement method.
- 10.4 The proposed evaluation criteria is:
- Price: 60%
Quality: 30%
Social Value: 10%
- 10.5 The proposed evaluation criteria is based on previous experience of similar tenders. It is a price led procurement exercise to procure insurance cover for catastrophic incidents.
- 10.6 The quality evaluation would be undertaken at Consortium level, rather than for each borough, as all members benefit equally from any policy enhancements available.
- 10.7 It is proposed that tenders are requested for a term of 3 years with the option to extend for a further 2 years. Offering a long-term agreement signifies commitment to insurers and results in lower premiums. A 3+2 long-term agreement is recommended to allow the opportunity to renegotiate rates at the end of year 3 by which time it is hoped that the hard market will have subsided.
- 10.8 The proposed timeline is to commence the procurement in October 2021 with the contract to be awarded in March 2022.
- 10.9 The new contracts would start on 1 April 2022.

11. Legal Implications

- 11.1 From a governance perspective the renewal of this contract is a business as usual activity. However, Cabinet approval is required in view of the value of the procurement.
- 11.2 Members of the Insurance London Consortium 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.
- 11.3 The procurement will be carried out in accordance with the Public Contracts Regulations 2015 and the Council's own Contract Procedure Rules.

12. Financial Implications

- 12.1 The combined cost of the corporate liability and property insurance contracts in 2021/22 is £375,830.
- 12.2 There is sufficient budget provision to cover the cost of the insurance premiums.
- 12.3 It is not possible to forecast the financial outcome of the proposed procurement, however as outlined in paragraph 2.5 it is not expected to deliver savings to the Council.
- 12.4 Any additional expenditure may be mitigated to an extent through stringent claims handling leading to a reduction in expenditure on insurance claims, however the volume and cost of insurance claims is volatile so this cannot be guaranteed. In the event that the cost of the new insurance contract exceeds the insurance premium budget the difference can be managed through the inflation budget.
- 12.5 London Living Wage would be referenced in the procurement, however this cannot be a mandatory requirement as this is a financial services product provided by insurers that may be based anywhere globally.

13. Equalities implications / Public Sector Equality Duty

- 13.1 There are no equalities implications attached to this decision. None of the corporate insurance contracts to be procured are provided to residents, customers, or employees but instead provide financial protection directly to the Council itself.

14. Council Priorities

- 14.1 The Council's corporate insurances protect the financial position and stability of the authority and by doing this they support all Council priorities.

Section 3 - Statutory Officer Clearance

Statutory Officer: Dawn Calvert
Signed by the Chief Financial Officer
Date: 2 September 2021

Statutory Officer: Stephen Dorrian
Signed on behalf of the Monitoring Officer
Date: 25 August 2021

Chief Officer: Charlie Stewart

Signed off by the Corporate Director
Date: 2 September 2021

Head of Procurement: Nimesh Mehta
Signed by the Head of Procurement
Date: 13 August 2021

Head of Internal Audit: Susan Dixon
Signed by the Head of Internal Audit
Date: 1 September 2021

Mandatory Checks

Ward Councillors notified: No, as it impacts on all Wards

EqIA carried out: No

There are no equalities implications attached to this decision. None of the corporate insurance contracts to be procured are provided to residents, customers, or employees but instead provide financial protection directly to the Council itself.

EqIA cleared by: N/A

Section 4 - Contact Details and Background Papers

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

Background Papers: None

Call-in waived by the Chair of Overview and Scrutiny Committee

NO