

**Report for: Cabinet**

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<b>Date of Meeting:</b>	15 September 2022
<b>Subject:</b>	Council Insurance Renewals 2023
<b>Key Decision:</b>	Yes - the proposed procurement will involve revenue expenditure in excess of £500,000
<b>Responsible Officer:</b>	Dawn Calvert - Director of Finance & Assurance
<b>Portfolio Holder:</b>	Councillor David Ashton - Portfolio Holder for Finance & Human Resources
<b>Exempt:</b>	No
<b>Decision subject to Call-in:</b>	Yes
<b>Wards affected:</b>	All
<b>Enclosures:</b>	None

## **Section 1 – Summary and Recommendations**

This report seeks Cabinet approval to re-tender the contracts for the provision of the Council's motor, commercial property, crime, personal accident/travel, school journey insurance and engineering inspections and to award the contracts under delegated authority.

### **Recommendations:**

Cabinet is requested to:

- 1) Grant approval to procure motor, commercial property, crime, personal accident/travel, school journey insurance and engineering inspection contracts for the Council.
- 2) Delegate authority to the Corporate Director of Resources, following consultation with the Portfolio Holder for Finance and Human Resources, to award the contracts for motor, commercial property, crime, personal accident/travel, school journey insurance and engineering inspections.

### **Reason: (for recommendations)**

Harrow collaboratively procures its corporate external insurance contracts through the Insurance London Consortium under the terms of a legal agreement 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 losses, which is achieved through insurance risk transfer.

In addition, there are statutory requirements in relation to motor insurance and engineering inspections, which will be met through the commissioning of these contracts.

The long-term agreements with the current insurers for the Council's motor, commercial property, crime, personal accident/travel, school journey insurance and engineering inspection contracts expire on 31 March 2023, therefore it will be necessary to re-tender these contracts.

## **Section 2 – Report**

### **2. 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.
- 2.2 Harrow wishes to re-tender its corporate insurance contracts through the Insurance London Consortium under the terms of the legal agreement.
- 2.3 Together with the other Consortium members, Harrow entered the current contracts for motor, commercial property, crime, personal accident/travel, school journey insurance and engineering inspections for a period of five years effective from 1 April 2018.
- 2.4 The current long-term agreements expire on 31 March 2023 and as a result it is necessary to re-tender the contract.
- 2.5 There are no savings forecast arising from this procurement. As a result of a hardening insurance market rate increases continue to be seen across the insurance market and local authorities are generally seeing increases in insurance premiums.

### **3. Options considered**

- 3.1 Re-tender contracts on existing basis - Participate in the procurement together with the other members of the Insurance London Consortium. This is the recommended option.
- 3.2 Re-tender separately from the Consortium – Harrow could decide to leave the Insurance London Consortium if it no longer has legal or political authority or support to continue, but officers recommend remaining a member of the Consortium and participating in the latest procurement round to improve insurance procurement, share best practice, and benefit from combined purchasing power. This option is not recommended.
- 3.3 Do nothing – The current contracts expire on 31 March 2023 and if the procurement does not taken place the Council would have no insurance for many of its assets and no statutory engineering inspections from 1 April 2023. Harrow would be faced with potentially unlimited financial losses, therefore this is not considered to be an option.

## **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 signed up to a legal agreement covering the operation of the legal and administrative arrangements for the Consortium.
- 4.4 Each member borough has a nominated officer representative and all boroughs have equal voting rights.
- 4.5 Croydon is appointed as the Accountable Body and therefore, under the Agreement, is responsible for the day to day management of the Consortium and is the authorised signatory for entering into agreements with third parties on behalf of the Consortium members, though each individual member is the contracting party with the insurer.
- 4.6 The strategy of the Insurance London Consortium is to include all corporate 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 motor, commercial property, crime, personal accident/travel and school journey insurance and engineering inspection contract.
- 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 under section 10 of 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 many of its assets and liabilities and would be faced with unlimited potential financial liability for claims made against the Council. In addition, the Council could not meet its statutory requirements in relation to engineering inspections.

## 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"> <li>▪ The tender would be run in accordance with relevant procurement legislation and Contract Procedure Rules</li> <li>▪ The project will be supported by the lead borough's legal and procurement teams</li> </ul>	Green
Insurer failure	<ul style="list-style-type: none"> <li>▪ The supplier's financial status and standing will be required to meet minimum standards both at inception and for the duration of the contract</li> <li>▪ Insurers are regulated by the Prudential Regulatory</li> </ul>	Green

Risk Description	Mitigations	RAG Status
	<p>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</p>	
<p>Lack of responses to the tender from insurers</p>	<ul style="list-style-type: none"> <li>▪ Market engagement would be undertaken to gain market intelligence ahead of re-tendering the contracts</li> </ul>	<p>Green</p>
<p>Increase in insurance premium</p>	<ul style="list-style-type: none"> <li>▪ 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</li> <li>▪ 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</li> <li>▪ 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</li> </ul>	<p>Amber</p>

## 10. Procurement Implications

10.1 The Council can participate in this collaborative procurement under the legal agreement.

- 10.2 Under the terms of the legal agreement it is the ILC Board, made up of representatives from the nine boroughs, who determine the overall scope of the procurement, including the fundamentals such as price/quality split, rather than it being determined by the individual boroughs.
- 10.3 Each member borough has a nominated representative and all boroughs have equal voting rights. All decisions regarding the scope of the procurement are decided on the basis of a majority vote.
- 10.4 The proposed procurement would be carried out in accordance with the Public Contracts Regulations 2015 and the Council's own Contract Procedure Rules.
- 10.5 There will be a soft market engagement exercise undertaken by brokers in order to gain market intelligence prior to agreeing the final scope of the tender then a full tender and evaluation exercise involving all member boroughs and led by Croydon, the lead borough for the Insurance London Consortium.
- 10.6 There will be six separate lots and bidders may quote for one or multiple lots:
- Lot 1 - Motor Insurance
  - Lot 2 - Commercial Property Insurance
  - Lot 3 - Crime Insurance
  - Lot 4 - Engineering / Inspection Insurance
  - Lot 5 – Business Travel/ PA Insurance
  - Lot 6 - School Journey
- 10.7 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 to maximise competition.
- 10.8 The proposed evaluation criteria is:
- Price: 60%
  - Quality: 30%
  - Social Value: 10%
- 10.9 The basic structure of insurance policy wordings across the market is broadly similar and the industry is heavily regulated, therefore this will be a price led procurement exercise. The quality score will be awarded based on policy cover enhancements and lack of cover restrictions.
- 10.10 A 60:40 price/quality split is the most common across the market in relation to insurance procurement. This reflects the importance of price but also provides sufficient weighting on the quality aspects.

- 10.11 The quality evaluation will be undertaken at Consortium level, rather than for each borough, as all members benefit equally from any policy enhancements available.
- 10.12 For each lot except commercial property there will be one successful bidder appointed as insurer for all member boroughs, as the aim is to appoint the most economically advantageous tenderer collectively for the London boroughs. The award for commercial property insurance will be on a per borough basis, as the cost of this insurance is recharged to the tenants.
- 10.13 It is proposed that tenders are requested on the basis of a 5 year long-term agreement. A longer fixed contract term is usually more attractive to suppliers, as they will not need to factor in risk to pricing a contract that could end after an initial period and are therefore seeking to mitigate the risk of the contract ending at the initial period by pricing for maximum revenue over the initial period.
- 10.14 The proposed timeline is as follows:
- Tender publication 3 October 2022  
Tender return dated 7 November 2022  
Evaluation 8 November 2022 – 2 December 2022  
Member approvals December 2022/January 2023  
Contract award February 2023
- 10.15 The new contracts would start on 1 April 2023.

## **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 can procure their insurance contracts collaboratively under public procurement rules and the council's Contract Procedure Rules.
- 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 current combined cost of the insurance contracts to be re-tendered is £204,767.
- 12.2 The insurance premium for the commercial property insurance, currently circa £45,000, is recharged to the tenants of the commercial units.



- 12.3 There is sufficient budget provision to cover the cost of these insurance premiums.
- 12.4 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.
- 12.5 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.
- 12.6 London Living Wage will be included in the tender documentation as a requirement. However, as this procurement is for financial services products the service may be provided by insurers that are based anywhere globally, therefore it cannot be a mandatory requirement.

### **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.

## **Section 3 - Statutory Officer Clearance**

### **Statutory Officer: Dawn Calvert**

Signed by the Chief Financial Officer

Date: 2 August 2022

### **Statutory Officer: Stephen Dorrian**

Signed on behalf of the Monitoring Officer

Date: 22 August 2022

### **Chief Officer: Charlie Stewart**

Signed off by the Corporate Director

Date: 10 August 2022

### **Head of Procurement: Nimesh Mehta**

Signed by the Head of Procurement

Date: 29 July 2022

**Head of Internal Audit: Susan Dixon**

Signed by the Head of Internal Audit

Date: 12 August 2022

## **Mandatory Checks**

**Ward Councillors notified:** NO, as it impacts on all Wards

**EqlA 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.

## **Section 4 - Contact Details and Background Papers**

**Contact:** Karen Vickery, Service Manager – Insurance

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**Background Papers:** None

**Call-in waived by the Chair of Overview and Scrutiny Committee - NO**