

REPORT FOR: CABINET

Date of Meeting: 9 February 2012

Subject: Council Insurance Renewals 2012

Key Decision: Yes

[Decision involves revenue expenditure in excess of £500,000]

Responsible Officer: Tom Whiting, Assistant Chief Executive

Portfolio Holder: Councillor Graham Henson, Portfolio Holder for Performance, Customer Services and Corporate Services

Councillor Thaya Idaikkadar, Portfolio Holder for Property and Major Contracts

Exempt: No, except for Appendices 1 & 2, which are 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

Enclosures:

Appendix 1 (Part II Report)
Appendix 2 Evaluation Model (Part II Report)
Appendix 3 Equalities Impact Assessment

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 Liability and Property insurance.

Recommendations:

Cabinet is requested to approve the award of the contracts as specified in Appendix 1 (Part II report).

Reason:

Harrow is committed to the procurement of its external insurance arrangements through the Insurance London Consortium (ILC).

A restricted 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.

The winning bids provide a comprehensive cost-effective solution offering best value to the Council at significantly reduced costs, together with enhanced insurance cover.

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 for the public sector through a long-term collaborative commitment to risk management excellence.
- 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 the terms of a Section 101 Agreement, which was signed by the Leader of the Council with the authority of the Council's Legal Services team. 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 2012, as a result of which it has been necessary to re-tender these contracts in line with EU procurement legislation.

B. Options considered

- 2.7 Harrow is committed to the procurement of its external 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.
- 2.8 Consideration was given to whether the existing levels of deductible and aggregate continue to provide adequate financial protection, whilst delivering best value to the Council. Advice was sought from independent insurance brokers 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.

C. Background

- 2.9 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.

- 2.10 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.
- 2.11 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.
- 2.12 As the existing long-term agreements on the Property and Liability insurance contracts expire on 31 March 2012 it has been necessary for the Consortium to undertake a full procurement exercise in accordance with EU procurement legislation.

Procurement

- 2.13 As the Accountable Body, Croydon led the procurement exercise on behalf of all Consortium members. Tenders for insurance cover were sought for a minimum two-year period, with additional scoring available for longer term contracts to a maximum of five years.
- 2.14 A restricted tender process was conducted according to the EU procurement rules for Part A Service contracts. All procurement activities were undertaken in compliance with the Public Contracts Regulations 2006.
- 2.15 A notice was placed in the Official Journal of the European Union (OJEU) on 28 September 2011 following which a total of four PQQs were issued.
- 2.16 Legal advice has been sought from Wragge & Co Solicitors at all stages of the tender process to ensure compliance with procurement legislation.
- 2.17 As outlined in paragraph 2.8 above, independent advice was received to the effect that little premium savings would be achievable by increasing the existing levels of deductible. Accordingly, bidders were requested to price their bids on the basis of existing deductibles, which are £200,000 for Property and £300,000 for Liability.
- 2.18 The existing annual aggregate across both classes of business is £4,250,000. This is the maximum financial liability attaching to the Council in any one policy year for all Property and Liability claims, thus providing financial stability to the Council.

Evaluation of Tenders

- 2.19 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.

| Lot | Price % | Quality % |
|--------------------|---------|-----------|
| Lot 1. (Property) | 66 | 34 |
| Lot 2. (Liability) | 70 | 30 |

- 2.20 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.
- 2.21 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.
- 2.22 Details of the price evaluation score specific to Harrow are contained within Appendix 1 (Part II report).
- 2.23 In order to achieve the best possible combination of price and aggregate deductible for each borough, scoring for the price evaluation is based on a combination of price alone; aggregate alone; and combined price and aggregate.
- 2.24 To ensure there is no cross-sharing of risk, bidders are requested to price each member according to their individual insurance requirements and claims experience.
- 2.25 The breakdown between price and quality is based on the experience of the Consortium from previous tenders and advice from independent insurance brokers acting on behalf of the Consortium. It seeks to achieve a balance between price, which also takes into account deductible levels; term, which includes a 'rate guarantee'; and other added value items such as improvements in cover over and above the existing Consortium policy wording.
- 2.26 Thorough criteria were devised to evaluate the outcome of the quality bids, broken down between variations; multi-year deal; and added value.
- 2.27 The quality evaluation is undertaken at Consortium level, rather than for each borough, as all Consortium members benefit equally from any policy enhancements available.

- 2.28 Under the heading of variations, additional points are awarded where bidders offered enhanced cover over and above the existing ILC policy wording. A maximum of 12 points are available.
- 2.29 For the multi-year deal, 12 additional points are available for bidders offering in excess of the minimum specified contract and reduced premiums in return for improved claims experience.
- 2.30 Ten additional points are available for added value for bidders offering extra benefits perceived to bring a monetary benefit to the Consortium, such as a risk management allowance.
- 2.31 The winning tender for each lot is then decided on the basis of the highest scoring bid for the Consortium as a whole.
- 2.32 The combined Price: Quality scores for the bidders are set out in Appendix 1.

Implications of the Recommendation

- 2.33 The tender exercise has brought a positive outcome for the Council through both enhanced cover and significant cost savings.
- 2.34 Overall, Harrow has achieved a decrease in costs, together with increased insurance cover and reduced aggregates. The result clearly continues to show the benefit of the consortium arrangement.
- 2.35 Specific details of the cost savings are outlined in Appendix 1.
- 2.36 The contracts tendered are subject to two-year 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.

Conclusions

- 2.37 As a result of the re-tendering of these contracts Harrow will benefit from reduced premiums effective from 2012/13.
- 2.38 The premiums are subject to two-year rate guarantees, thus providing financial stability for the Council.
- 2.39 The Council will also benefit from wider and improved policy coverage.
- 2.40 The new contracts will be subject to lower annual aggregates, as a result of which the Council's maximum annual liability is reduced providing greater financial protection to the Council.
- 2.41 Of the nine boroughs that form the Consortium, Harrow achieved the most favourable result.

Financial Implications

The total revenue cost associated with the contract is specified in Appendix 1.

Although the Council will achieve premium savings from the award of the contract some of the saving is attributable to a reduction in sums insured, as the Council is no longer able to insure the seven high schools that converted to Academy status.

As the Council is prohibited by law from insuring the Academies in line with its existing insurance arrangements, the premium savings achieved as a result of the re-tendering of insurance contracts will be offset against the loss of income from trading with Academies.

Like for like premium savings, excluding those savings arising from Academies, equate to approximately £70,000.

The premium reduction has been factored into the budget for 2012/13.

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 by an unsuccessful bidder, 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 legal advice has been sought throughout the tender process.

Equalities implications

Was an Equality Impact Assessment carried out? Yes

No impact has been identified, as the delivery of the service is universal and accessible to all customers equally.

Corporate 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: Steve Tingle | <input checked="" type="checkbox"/> | on behalf of the Chief Financial Officer |
| Date: 25/1/12 | | |
| Name: Matthew Adams | <input checked="" type="checkbox"/> | on behalf of the Monitoring Officer |
| Date: 27/1/12 | | |

Section 4 – Performance Officer Clearance

| | | |
|------------------------|-------------------------------------|---|
| Name: David Harrington | <input checked="" type="checkbox"/> | on behalf of the Divisional Director Partnership, Development and Performance |
| Date: 24/1/12 | | |

Section 5 – Environmental Impact Officer Clearance

Name: Andrew Baker



on behalf of the
Divisional Director
(Environmental
Services)

Date: 23/1/12

Section 6 - Contact Details and Background Papers

Contact: Karen Vickery, Service Manager – Insurance
DDI: 0208 424 1995

Background Papers: None

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

NOT APPLICABLE

[Call-in applies]