

From: Zena Cooke – Corporate Director, Finance

To: Peter Oakford – Deputy Leader and Cabinet Member for Finance, Corporate & Traded Services

Subject: **Decision 21/00082 - Insurance Tender – Award of Insurance Programme Contracts**

Key Decision: Involves expenditure or savings of over £1m and represents significant policy decision

Past pathway Policy and Resources Cabinet Committee  
22 September 2021

Future Pathway: Cabinet Member Decision

Classification: Unrestricted

**Summary:**

This report seeks a Key Decision to be taken in relation to the award of insurance programme contracts that are due to commence on 1 January 2022.

The Deputy Leader and Cabinet Member for Finance, Corporate and Traded Services, is asked to agree;

- To confirm the policy position and KCC insurance requirements which make up the KCC Insurance Programme,
- To the undertaking of the necessary procurement, via an insurance broker, of the relevant Insurance Programme contracts
- To award the contracts to the successful bidders, as identified via the procurement process
- To delegate authority to the Corporate Director, Finance to, in consultation with the Cabinet Member for Finance, Corporate and Traded Services, consider and approve any extensions of the awarded contracts provided for as part of the original contract award and related arrangements.
- To delegate authority to the Corporate Director, Finance, in consultation with the Cabinet Member for Finance, Corporate and Traded Services, to take the necessary actions, including but not limited to, entering into necessary contracts and other legal agreements, as required to implement this decision.

## 1. Introduction

- 1.1 The Council's insurance programme is extensive and designed to protect its financial position in respect of losses it may suffer when undertaking the diverse nature of activities required to meet statutory duties and general business functions and income generating operations.
- 1.2 The current programme is held under a 5-year Long Term Agreement. This agreement ended on 31 December 2020 and a new programme was due to be tendered for 2021 but was postponed due to pressures placed on the authority by the Covid-19 pandemic and the volatility of the insurance market. Instead, a decision was taken to agree 12-month extensions with existing insurers and to resume the tender exercise this year, with a view to arranging new contracts from 1 January 2022.
- 1.3 This report outlines the tender exercise and seeks endorsement for the proposed decision to be agreed by the Deputy Leader and Cabinet Member for Finance, Corporate & Traded Services.

## 2. The Current Programme

- 2.1 The main insurance programme is currently held with Zurich Municipal under a 5-year Long Term Agreement. This agreement requires Zurich Municipal to provide cover by way of Casualty (*Public Liability, Employer's Liability, Officials Indemnity, Libel & Slander and Professional Indemnity*), Property and Motor policies.
- 2.2 In addition, the Council purchases several smaller policies with various other insurers. These include –
  - Industrial & Commercial Properties – AIG
  - Personal Accident / Business Travel – AIG
  - Personal Accident / School Travel – Chubb European Group
  - Terrorism – Lloyds Market
- 2.3 The objectives of the programme are to:
  - Provide financial certainty in relation to the Council's maximum exposure to individual high value claims and the overall cost of claims in any one year.
  - Provide financial certainty for claims that have been incurred but may not be reported for many years in the future.
  - Comply with the terms and conditions of contracts / agreements entered into by the Council.

It should be noted that in the absence of an appropriate insurance programme, the Council will be at risk of significant financial loss.

### **3 Value**

- 3.1 The overall cost of external premiums currently exceeds £3 million. The cost of premiums is met from the Kent Insurance Fund which is financed from corporate contributions and a school recharge programme.
- 3.2 The cost of premiums is controlled by KCC retaining the first part of any loss through variable levels of self-insurance (excess). This is currently £500k for every Public Liability and Employers Liability claim and up to £250k for claims involving damage to Council owned establishments.

### **4 Options for 2022**

- 4.1 When the policies expire on 31 December 2021, the Council has three options –
  - To seek a further 12-month extension to the current programme.
  - To do nothing and self-insure without additional insurance cover.
  - To undertake a tender exercise to procure a new insurance programme.
- 4.2 It is recommended the Council proceeds with a tender exercise to procure a new insurance programme. Whilst a further extension might be available, the proposed terms are currently unknown, and it is likely that prices would be increased in the absence of competition. Proceeding without insurance cover is not recommended as the Council would risk significant claims spend – particularly if a total property loss was to be suffered or a catastrophic personal injury claim was to be received.
- 4.3 Completing a tender exercise will allow the Council to explore all available market options, which is considered advantageous whilst the insurance market remains unsettled. The market has hardened since Covid-19 due to global uncertainty and limited investment opportunities, making re-insurance more expensive. However, there has been the emergence of several new companies since 2015 that are prepared to offer cover for local authorities and it is hoped this will present more competitive pricing options – particularly as the Council chose to accept a higher excess (£500k) on its Public Liability and Employer’s Liability policies in 2018, that has yet to be evaluated in the open market.

## 5 Tender

- 5.1 The cost of obtaining new insurance arrangements will exceed the current OJEU thresholds and the Council is therefore required to competitively tender for new policies.  
The process will ensure the Council purchases the widest ranging cover that meets the varied needs of the organisation and ensures that all services are adequately protected.
- 5.2 Due to the specialist nature of the insurance market sector, the process will be overseen by the Council's broker – Gallagher. The Council has traditionally procured its own contracts through a specialist local authority insurance broker and proposes to again follow this model.
- 5.3 With the assistance of the Council's Commissioning Team, Gallagher has developed an 'Invitation To Tender' document. Cover will be divided into lots and insurers will be invited to bid for all or any of the following lots:
- Property - Material Damage (*to include Business Interruption, Money, Glass, Specified All Risks, and Theft*).
  - Casualty (*to include Public Liability, Employer's Liability, Officials Indemnity, Libel & Slander, Land Charges, Public Health Act, Hirers Liability*).
  - Motor Fleet
  - Property Owners
  - Fine Art
  - Works in Progress
  - Terrorism
  - Professional Indemnity
  - Crime
  - Personal Accident / Business Travel
  - Schools Offsite Activities
  - Computer
  - Marine
  - Package (combining two or more of the above).
- 5.4 It is proposed for the 'Invitation To Tender' to be open for a period of 7 weeks. Once this deadline has passed, an evaluation process will consider submissions against agreed selection criteria. The evaluation will be considered on a '50% price / 50% quality' basis and will assess aspects such as financial certainty, depth of cover, service delivery and claims handling. Gallagher will ultimately present a final report setting out the recommendations for cover.

## **6 Contract Award and Start Date**

- 6.1 Contracts will be awarded based on the most economically advantageous bid, with consideration being given to price and quality in line with the published evaluation matrix.
- 6.2 It is proposed that the Council will agree one or more contract(s) for a period of 3 years, with the option to extend for two further periods of one year (i.e. 3+1+1).
- 6.3 Successful bidders will be notified week commencing 22 November 2021 and all agreements will be subject to a 10-day standstill agreement.
- 6.4 Contracts will be awarded on 2 December 2021.
- 6.5 Cover for all policies will commence on 1<sup>st</sup> January 2022.

## **7 Financial Implications**

The three available options are set out below and all carry financial uncertainty. The insurance fund provides cover for these but the recommended option of proceeding to tender, is considered to carry the least amount of risk in terms of financial impact.

- Extending current contracts – the terms of these extensions would be unknown at this stage, and it is likely that premium prices would further increase in the absence of competition.
- To do nothing and self-insure – the Council would have no insurance cover and be totally exposed to unpredictable expenditure. The premium spend would be saved but there would be potential for significant claims spend.
- Complete the tender exercise – the market remains unsettled but there has been the emergence of several new insurance companies since the last tender in 2015 and a tender provides the opportunity for the Council to test the market and hopefully reduce premium spend.

## **8 Legal Implications**

The Council will be supported throughout the tender process by its broker Gallagher, who will complete the evaluation process on its behalf and ensure that all legal requirements are upheld appropriately.

## 9 Equalities Implications

An Equalities Impact Assessment has been carried out and no adverse impacts have been identified.

### 10. Recommendation

The Deputy Leader and Cabinet Member for Finance, Corporate and Traded Services, is asked to agree;

- To confirm the policy position and KCC insurance requirements which make up the KCC Insurance Programme,
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- To delegate authority to the Corporate Director, Finance to, in consultation with the Cabinet Member for Finance, Corporate and Traded Services, consider and approve any extensions of the awarded contracts provided for as part of the original contract award and related arrangements
- To delegate authority to the Corporate Director, Finance, in consultation with the Cabinet Member for Finance, Corporate and Traded Services, to take the necessary actions, including but not limited to, entering into necessary contracts and other legal agreements, as required to implement this decision.

### Contact Details

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