

From: John Simmonds, Deputy Leader and Cabinet Member for Finance and Procurement  
Andy Wood, Corporate Director of Finance and Procurement

To: Policy and Resources Cabinet Committee - 10<sup>th</sup> of September 2015

Decision No: 15/00078

Subject: Award of Insurance Programme Contract(s)

Classification: Unrestricted

Past Pathway of Paper: Not applicable

Future Pathway of Paper: Cabinet Member Decision

Electoral Division: All

**Summary:** This paper advises on the Procurement Plan and Key Decision to be taken in relation to the current tender of the corporate insurance programme due to commence on 1 January 2016.

**Recommendation(s):** The Policy and Resources Cabinet Committee is asked to consider and endorse or make recommendations to the Cabinet Member for Finance and Procurement on the proposed decision to award the contracts for insurance which commence in January 2016 and associated inspections in accordance with the terms and conditions of the recent tender exercise undertaken by the Council.

## **1. INTRODUCTION**

1.1 Insurances for the Council, including its schools, are arranged corporately. All existing insurance contracts expire on 31 December 2015 and it is necessary to ensure that a new corporate programme of insurance is in place ready to commence on 1 January 2016. This report advises on the current tender exercise that has already commenced and seeks authority for the Deputy Leader and Cabinet Member for Finance and Procurement to make the decision on the award of contracts(s).

## **2. FINANCIAL IMPLICATIONS**

2.1 The costs of insurance premiums are recharged to the Kent Insurance Fund and then charges are made to service directorates and schools.

## **3. POLICY FRAMEWORK**

3.1 The insurance programme supports the above as it helps to provide financial protection against the risks associated with the delivery of services as well as enabling the Council to comply with contract/agreement terms and conditions.

## **4.1 Introduction**

4.1.1 All of the contracts under the current corporate insurance programme, which commenced in January 2009, expire on 31 December 2015. Since they are not capable of being extended further it has been necessary to commence a tender exercise and invite bids from the insurance market to compile a new programme.

## **4.2 Background**

### Business Objectives

4.2.1 The business objectives of the programme are to:

- Provide financial certainty in relation to KCC'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 into the future
- Comply with legislation (Employers Liability Compulsory Insurance Act, Road Traffic Acts as applicable to local authorities)
- Comply with the terms and conditions of contracts/agreements entered into by KCC

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

### Value

4.2.2 The overall cost of external premiums for 2015 exceeds £3 million. The cost of premiums is met from the Kent Insurance Fund which is financed from recharges to directorates and schools. Indications from recent tender exercises undertaken by other county councils would suggest that the overall cost of future external premiums could increase.

4.2.3 The cost of premiums are controlled through KCC retaining the 1<sup>st</sup> part of any loss through variable levels of self-insurance (excess) which is £100k for each and every Public Liability and Employers Liability claim and up to £250k for claims involving damage to our own establishments. As part of the tender exercise the cost benefit of increasing self – insured levels will be explored as a means to try and control expenditure on external premiums.

### Current Supply Arrangements

4.2.4 Insurance is provided by number of suppliers. Zürich Municipal Insurance is the main insurer however a few smaller policies have been placed with other insurers in the Lloyd's market where they were more competitively priced. KCC has been insured by Zürich Municipal since 2002 and has enjoyed a long period of stability.

### **4.3 Insurance Market**

- 4.3.1 The local authority and commercial insurance markets work very differently. Whilst private sector insurers are used to working with heavy risks (e.g. oil rigs) they are reluctant to enter the local authority market. It seems that the root cause of the problem lies with the public sector procurement process which they are not prepared to engage with. As a result, competition in the public sector insurance market has been historically problematic.
- 4.3.2 Over the years the Government has tried to intervene in this market to improve competition with the last venture being the Crown Commercial Service (CCS). This has met with limited success and it is understood that the government is undertaking a further review to see how more private sector insurers might be encouraged to enter the restricted local authority market. Unfortunately, the results of this exercise will not be available in time to assist the Council with its tender.
- 4.3.3 There have also been attempts by local authorities to improve market opportunities through locally developed procurement frameworks. One such framework is that based in the south-west which is open for the Council to use.
- 4.3.4 Both options have been considered as part of the ongoing management of the procurement of insurance but ultimately we have dismissed them. The insurance programme is already a sizeable piece of business and the Council does not need to join with any other authority to bolster its purchasing power within the insurance market. Whilst some authorities have entered into collaborative arrangements or worked with frameworks they have reported mixed results with regard to savings. Unfortunately, if the Council decided to use CCS or any other framework it would not be possible to obtain separate bids in parallel to compare costs. Also, CCS and framework providers require an annual fee payment of around 0.5% of the overall value of the contract which, during the life of Council's future contract, could exceed a total additional payment of over £100k whereas the current external fee of running an independent tender exercise with the assistance of the Council's broker is a one-off payment of less than £5k.

### **4.4 Procurement plan**

- 4.4.1 The approach to the current tender has been influenced by the significant price increases applied to recent tender exercises undertaken by other local authorities and the need to obtain best cover at the right price.
- 4.4.2 The tender is being done through Finance and Procurement and KCC's appointed insurance broker Arthur J Gallagher. The Council has traditionally procured its own contracts through a specialist local authority insurance broker and will again follow this model.
- 4.4.3 Due to the restricted nature of the local authority insurance market and refusal of certain insurers and Lloyd's syndicates to deal with clients direct, working through a broker is the only viable option to enable the Council to maximise its access to opportunities within the market.
- 4.4.4 The Council has sought advice from its specialist insurance broker as to how it might structure its tender to obtain best value from the market. The broker

recommended that the Council work with the widest of options to allow insurers to present a menu of bids and maximise the Council's flexibility when assessing submissions.

4.4.5 The recommended options for bids were:

- Block programme with the majority of main policies placed with one insurer and minor policies place where overall best value can be achieved.
- Separately insuring risks by class i.e. one insurer provides cover for motor, another for Public Liability/Employers Liability etc.
- Some other hybrid i.e. insuring risks in layers where one insurer covers the 1<sup>st</sup> £20m of risk, the 2<sup>nd</sup> covers the next £20m and so on until 100% of cover has been arranged.

4.4.6 All contracts will be awarded on the basis of an initial three-year period with two times two year optional extensions to make a total of seven years.

4.4.7 It was agreed by the Commissioning & Procurement Board December 2014 that the tender would follow the Open Procedure.

4.4.8 The Prior Indicative Notice was published in February 2015 and the OJEU notice was published at the start of July with all tender responses being received by the end of August.

4.4.9 Evaluation and clarification is now being undertaken by KCC in conjunction with its insurance broker and is expected to complete by the end of October.

4.4.10 It is then proposed that John Simmonds, Deputy Leader and Cabinet Member for Finance and Procurement, will take the Key Decision for the award of all contracts by 6 November 2015 so insurance policies can be confirmed and with all necessary certificates obtained prior to 1 January 2016.

4.4.11 There are no legal implications other than the Council must have adequate arrangements in place in compliance with the Employers Liability and Road Traffic Act requirements.

4.4.12 There are no inequalities implications.

## **5. RECOMMENDATION(S)**

The Policy and Resources Cabinet Committee is asked to consider and endorse or make recommendations to the Cabinet Member for Finance and Procurement on the proposed decision to award the contracts for insurance which commence in January 2016 and associated inspections in accordance with the terms and conditions of the recent tender exercise undertaken by the Council

## **6. BACKGROUND DOCUMENTS**

6.1 There are no background documents.

## **7. Appendices**

Appendix 1 – Proposed Record of Decision

## **8. CONTACT DETAILS**

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