

MUNICIPAL YEAR 2013/2014 REPORT NO. 117

MEETING TITLE AND DATE:

Cabinet – 13 November
2013

REPORT OF:

Director of Finance,
Resources and Customer
Services

Agenda – Part: 1	Item: 11
Subject: Insurance Contract	
Wards: ALL Key Decision No: 3810	
Cabinet Member consulted: Cllr Andrew Stafford	

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1. EXECUTIVE SUMMARY

- 1.1 The Council's insurance cover is provided through a mix of internal (self-insurance) and external arrangements.
- 1.2 The external insurance contract is due to expire on 31 March 2014.
- 1.3 The Council recently reviewed its insurance arrangements to ensure that it has the right balance between risk and reward. Following this review, the Council commenced a tender exercise to procure a new contract, which will commence on 1 April 2014.
- 1.4 Tender evaluation and pricing details are contained within the enclosed Part 2 report

2. RECOMMENDATIONS

- 2.1 To award the contract to the recommended bidders as detailed under paragraph 3.4.3 in the enclosed Part 2 report.
- 2.2 To note the savings achieved through this tender exercise.

3. BACKGROUND

3.1 Current Insurance Arrangement

A summary of the current arrangement is detailed in paragraphs 3.1.1 and 3.1.2 below

3.1.1 Corporate Insurance Cover

The corporate insurance cover is provided through a mix of internal (self-insurance) and external arrangements. The Council's insurance fund meets the costs of self-insured claims and claims within policy excesses, up to the aggregate stop limit (*maximum payable by the Council in each policy year*). Costs of claims above these levels are met by the external insurance providers.

The different categories of insurance under the current contract are detailed in the table below.

Category	Insurer	Policy Excess (deductible)	Aggregate Stop Limit (max. payable in year)
Property	Zurich Municipal	£500k	£2million
Liability	Travelers Insurance	£250k	£3million
Motor	Zurich Municipal	£155k	£446k
Engineering	Allianz	Not Applicable	Not Applicable
Additional Covers	Zurich Municipal	Various (£0 to £25k)	Not Applicable
Standalone Policies	Zurich Municipal	Various (£0 to £500)	Not Applicable

3.1.2 Leasehold Building Insurance Cover

As a freeholder, the Council arranges buildings insurance on behalf of its residential leaseholders. The insurance provides 'standard cover' and is rated on a bedroom basis, which in effect means that premiums are set on a one, two, three or four bedroom unit, regardless of their location and actual value.

A summary of the arrangement is detailed in the table below.

Type of Property	Number of Units	Insurer
1 Bedroom	787	Ocaso
2 Bedroom	2,324	

3 Bedroom	1,433	
4 Bedroom	7	

3.1.3 Insurance contracts are generally subject to a form of annual review. As part of the 2012 annual review of the Council's external insurance contract, a saving of £140k was achieved.

3.1.4 The contract for the external Corporate Insurance Cover and Leasehold Buildings Insurance Cover expires on 31 March 2014. This gave the Council the opportunity to review its current arrangements with a view to ensuring that it has the right balance between risk and reward. The objective of this exercise was to ensure that both the Council and Leaseholders were achieving value for money whilst ensuring that suitable cover is in place to mitigate their insurable risks.

Following this review, the Council commenced a tender exercise to procure a new contract, which will commence on 1 April 2014.

3.2 Review of the Current Insurance Arrangements

3.2.1 An actuary was commissioned to carry out a comprehensive strategic review of the Council's insurance arrangements.

3.2.2 As part of the review, the Council's financial position claims history, current insurance position, statutory position and risk profile were considered in detail. The Council's Risk Champions also participated in a workshop to consider insurable risks, pre-loss risk management and post-loss event control measures.

3.2.3 Although insurers tend to view Local Authorities as 'high risk' mainly due to the traditional risk structuring of low policy excesses and unlimited liability adopted by Councils, it is anticipated that with an innovative risk presentation and increased risk appetite, it is possible to achieve premium savings.

3.3 The Tender Exercise

3.3.1 The insurance market is generally volatile and influenced by various factors such as large claims, global exposure and the economic climate. It is deemed the market is now at a phase where insurers impose stricter requirements and raise premium rates to mitigate their losses.

3.3.2 The Local Authority market is dominated by three major insurers. Given the complex nature of insurance and to enable the Council to access other insurers and generate market interest, Marsh Ltd, a firm of insurance brokers, was appointed to conduct the tender exercise.

- 3.3.3 In accordance with the Public Contracts Regulations 2006, a Negotiated Procedure was used with the Tender advertised through the London Tenders Portal and the Official Journal of the European Union (OJEU).
- 3.3.4 The Council's insurance policies were split into Lots and a summary of the split together with weighting criteria used is detailed in the table, Fig 1, below.

Fig. 1

Lot Description	Weighting	
	Price	Quality
(Lot 1) – Material Damage; (Lot 2) – Liability; (Lot 3) – Motor Fleet; (Lot 4) – Group Personal Accident & Travel; (Lot 5) – Engineering Inspection; (Lot 6) – Contract Works; (Lot 7) – Fidelity Guarantee	60%	40%
(Lot 8) – Leasehold Flats	70%	30%
(Lot 9) – Claims Handling	30%	70%
(Lot 10) – Fine Arts; (Lot 11) – Commercial Leased Properties; (Lot 12) – Motor Uninsured Loss Recovery; (Lot 13) – School Journey	60%	40%

- 3.3.5 In addition to the policies specified under the various Lots, the Council also has Terrorism Insurance (buildings only), which is currently provided by its current buildings insurer through Pool Re (a scheme set up by the insurance industry in corporation with the UK Government).
- 3.3.6 Under the Pool Re scheme, terrorism cover is provided for all properties owned by the insured. There is no option to choose specific properties to insure.
- 3.3.7 Pool Re premium rates are provided annually, just before the start of a new insurance policy year. As premium rates could vary from year to year, terrorism insurance is not usually procured on the basis of a Long Term Contract common with other types of insurance covers.
- 3.3.8 An indicative Pool Re premium quote was, however, sought during this tender exercise. For comparison, an alternative indicative quote was separately sought from the Lloyds market.
- 3.3.9 Further details on the premium quotes for terrorism cover are set out in the Part 2 report.

3.4 Tender Expressions and Evaluation

- 3.4.1 Expressions of Interest were received from fifteen companies. However, only seven submitted a bid.
- 3.4.2 Please refer to the Part 2 report.

3.5 Points to Note

- 3.5.1 The recommended bid is for a 5 year contract duration subject to an annual review. This Long Term Agreement will offer the Council the benefit of premium discounts and fixed rates throughout the duration of the contract.
- 3.5.2 However, as is typical with insurance Long Term Agreements, there are no breaks during the fixed contract duration.
- 3.5.3 If the Council opts to terminate the contract before the end of the 5 year duration, it could be liable to repay to the insurers all discounts offered as part of the Long Term Agreement (usually built into the annual premiums advised by insurers).
- 3.5.4 The premiums advised are valid for a specific duration of time (only within timescales specified for the tender exercise) and are based on the Council's current risk profile, claims experience and total property valuation.
- 3.5.5 The premiums may be subject to change if there is a deterioration in the Council's risk profile / claims experience and/or change in property valuation.
- 3.5.6 Where the Council acquires a significant number of properties during the insurance contract period, there is the flexibility to add these to the current insurance contract although additional premiums based on the fixed rate under the contract will apply. On the other hand, the Council could choose to procure a separate insurance / policy for such properties outside this contract.
- 3.5.7 4,554 Council leaseholders were consulted in line with the requirements under Section 20 of the Landlord and Tenant Act. To date, we have received 3 written observations, none of which were objections.
- 3.5.8 All savings achieved under 'Lot 8 –Leasehold Flats' are passed on to the Council's Leaseholders.

4. ALTERNATIVE OPTIONS CONSIDERED

4.1 Total Self-Insurance

- 4.1.1 Self-insurance brings the need to maintain adequate level of resources to meet all likely claims / liability against an organisation. However, as a general rule, it is expected that the more an organisation decides to self-insure, the lower the cost of external insurance premiums.

4.1.2 The review of the current insurance arrangement carried out by our actuary revealed that the Council manages its risks well. However, in the current financial climate, it is prudent to continue to insure, externally, those major / catastrophic risks the Council may not be able to meet should they occur.

4.2 Joint Procurement

4.2.1 Consideration was given to a possible joint procurement with other Boroughs and especially the existing Insurance London Consortium (ILC), which was originally instigated in 2009 and currently has 9 members (Boroughs).

4.2.2 Membership for the ILC is subject to the approval of existing members and a successful risk review to ensure a reasonable fit with the philosophy of the Consortium. New members cannot automatically take advantage of existing ILC policies / contracts and will only benefit from the ILC procurement if they take part and are named in the original tender.

4.2.3 Partnership working across the ILC suggests members will see a reduction in areas such as procurement, supplier management and administrative costs.

4.2.4 Given that premium rates are generally commercially sensitive information, there is no data available to enable an assessment of whether Enfield Council could achieve premium savings or better rates by joining the ILC. However, it is to be expected that ILC premiums are set to cover the risks associated with the claims profile for all boroughs who are members of the Consortium, including any who do not manage their risks as well as LB Enfield. Therefore, it is unlikely that ILC rates would achieve significant, if any savings for this Council.

4.2.5 In addition, Enfield Council's insurance arrangement / contracts are not similar to the ILC's whose members have harmonised renewal dates.

4.3 Insurance Services Framework Agreement

4.3.1 In conjunction with Pro5, The Government Procurement Service (GPS) developed and implemented an Insurance Services Framework Agreement in February 2013.

4.3.2 Some of the promoted benefits of using this Framework Agreement are reduced procurement timescales, varied choice of suppliers (30 insurers and 11 brokers) and legality (framework in line with EU regulations).

4.3.3 The Framework Agreement is, however, subject to a Management Charge of 0.5% payable by the supplier (e.g. insurer).

- 4.3.4 It is envisaged that insurers will pass this Charge to customers, in addition to actual premiums quoted.
- 4.3.5 Having only been recently implemented, there was no data or case studies to enable a reasonable assessment of actual benefits / savings the Council will achieve by using the Framework.

5. REASONS FOR RECOMMENDATIONS

- 5.1 Awarding the contract to insurers as detailed in the Part 2 report will ensure the Council complies with legislative requirements.
- 5.2 It will also ensure adequate financial protection for the Council exists in the event of a major loss.
- 5.3 Going by the output of the internal survey carried out as part of the recent review of the Council's insurance arrangement, Terrorism is not deemed a significant risk in Enfield. No claim has ever been made under the terrorism cover and none of the Council's properties are in Pool Re's highest rating (risk) zone.

6. COMMENTS OF THE DIRECTOR OF FINANCE, RESOURCES AND CUSTOMER SERVICES AND OTHER DEPARTMENTS

6.1 Financial Implications

- 6.1.1 The Insurance Premiums will be met from within existing budgets.
- 6.1.2 Without adequate insurance cover being provided through external insurers there would be a need for a significant increase in the current insurance fund balance to cover potential future losses.

6.2 Legal Implications

- 6.2.1 The general power of competence under s.1 (1) of the Localism Act 2011 states that a local authority has the power to do anything that individuals generally may do provided it is not prohibited by legislation and subject to Public Law principles. The proposed award of the insurance contracts is in accordance with this power.
- 6.2.2 The value of the contract is above the EU threshold and therefore the contract must be tendered in accordance with the Public Contract Regulations 2006 ("PCR 2006").
- 6.2.3 At all times during the procurement process the Council must ensure compliance with the EU treaty principles of transparency, proportionality, equality and non-discrimination.

6.2.4 Throughout the engagement of the service provider, the Council must ensure value for money in accordance with the overriding Best Value Principles under the Local Government Act 1999.

6.2.5 The insurance contracts must be in a form approved by the Assistant Director of Legal Services.

6.2.6 Please refer to the Part 2 report for additional comments.

6.3 Property Implications

6.3.1 Appropriate levels of insurance cover should be maintained for all property assets in the London Borough of Enfield's property portfolio.

6.3.2 Section 18 of the Landlord and Tenant Act 1985 defines service charges as repairs, maintenance, or insurance or Landlord's costs of operational management. Therefore procurement of a new contract as identified in this report will be subject to Consultation Requirements of the Landlord and Tenant Act 1985 Section 20.

7. KEY RISKS

7.1 If the Council fails to enter into the new contract, its assets and liabilities will be uninsured with effect from 01 April 2014.

7.2 Where financial liabilities are or could be incurred, adequate funds must be set aside to meet them. In the absence of adequate external insurance arrangements, the Council will potentially be faced with unlimited financial liabilities.

8. IMPACT ON COUNCIL PRIORITIES

8.1 Fairness for All

An optimum mix of insurance arrangements will assist the Council to meet insurable financial losses that may arise from the delivery of services to all residents.

8.2 Growth and Sustainability

An optimum mix of insurance arrangements will assist the Council to achieve its objectives in the area of growth and sustainability.

8.3 Strong Communities

An optimum mix of insurance arrangements will assist the Council to achieve its objectives in the area of strong communities.

9. EQUALITIES IMPACT IMPLICATIONS

It is not relevant or proportionate to undertake an equality impact assessment/analysis of the extension of current insurance contracts as the items summarised in this report only affect the Council's ability to meet financial losses arising from its insurable risks.

Where a third party suffers loss due to negligence on the part of the Council, the loss will be assessed on the basis of legal liability determined by the facts of the incident and not an individual's personal circumstances or characteristics.

10. PERFORMANCE MANAGEMENT IMPLICATIONS

There are no specific performance management implications arising from this report.

11. HEALTH AND SAFETY IMPLICATIONS

There are no specific health and safety implications arising from this report.

12. HR IMPLICATIONS

There are no specific HR implications arising from this report.

13. PUBLIC HEALTH IMPLICATIONS

Items summarised in this report do not have a direct impact on the health and well-being of the public in Enfield.

Background Papers

None