

MUNICIPAL YEAR 2018/2019 REPORT NO.

MEETING TITLE AND DATE:

Corporate Insurance Arrangements
04/03/19

PORTFOLIO DECISION OF

Cabinet Member for
Finance & Procurement

REPORT OF:

Executive Director of
Resources

Item:

Agenda – Part:1

Subject: Corporate insurance
Arrangements

Wards: ALL
Key Decision No:4660

Cabinet Member consulted: Cllr Maguire

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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. Having adequate external insurance in place is integral to the functioning of the authority, enabling the Council to meet insurable financial losses that may arise from the delivery of services.

1.2 The Council's existing insurance contract is due to expire on 31/03/19. A tender exercise has now been carried out for the Council to enter into a five year Long Term Agreement (LTA) for 01/04/19 – 31/03/24.

1.3 Tender evaluation and pricing information are detailed within the enclosed Part 2 report.

1.4 The Council is a founding member of the Local Government Association (LGA) Mutual and remains committed to joining the mutual at some stage. We have thoroughly investigated the possibility of joining the mutual for this Contract and based on the information currently available it is difficult for the Council to make a financial commitment at this point. However, this route will be considered at the 3 year break of the contract.

2. RECOMMENDATIONS

2.1 To award the main corporate insurance contract and the leasehold right to buy contract to the recommended bidders as detailed in the Part 2 report.

2.1 To note the savings achieved through this tender exercise.

3. BACKGROUND

3.1 Current Insurance Arrangements

The Council's Insurance programme consists of the leasehold right to buy policy (which is recharged in full to leaseholders) and the main corporate insurance policies which cover the usual business activities of the Council. A summary of the current insurance arrangements are detailed in paragraphs 3.1 and 3.2 below –

3.1.1 Corporate Insurance Cover

The Corporate insurance cover is provided through a mixture of internal (Self-insurance) and external arrangements. The Council's insurance fund meets the costs of self-insured claims and claims within the 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 below –

Category	Insurer	Policy Deductible (excess)
Property	Zurich Municipal	£500,000
Additional covers Property	Zurich Municipal	£0 - £10,000
Liability	Aspen	£500,000
Fidelity Guarantee	Zurich Municipal	£25,000
Motor	Zurich Municipal	£500,000
Group Personal Accident & Travel	Zurich Municipal	£0
Engineering Inspection	Zurich Municipal	n/a

3.1.2 Leasehold Right To Buy Buildings 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 rebuild value.

A summary of the arrangement is detailed below

Number of bedrooms	Number of units	Insurer
1	858	OCASO
2	2518	
3	1501	
4	9	

3.2 Review of current insurance arrangements

3.2.1 The Council's existing insurance contract is due to expire on 31/03/19.

3.2.2 An actuarial review was undertaken in 2017/18 with the objective to ensure that the Council was achieving value for money whilst ensuring that suitable cover was in place to mitigate their insurable risks.

3.2.3 As part of this review, the Council's financial position, claims history, current insurance position, statutory position and risk profile were considered in detail. Consideration was also given to an alternative, higher deductible. This review allowed the Council to review the insurance programme to ensure that it had the right balance between risk and reward and to calculate the impact of considering a higher deductible.

3.2.4 Insurers tend to view local authorities as high risk mainly due to the risks associated with many statutory council functions and also the traditional risk structuring such as low policy excesses that many local authorities have historically favoured.

3.2.5 Due to the increased costs of premium at last renewal, it was considered that the Insurance Contract should be tendered rather than try to agree a one year extension. Tendering the Contract was favoured as it was likely to provide some premium savings. A one year extension was likely to result in a significant increase in premium.

3.3 The tender exercise

3.3.1 The Insurance market is somewhat restricted for Local Authority risks and the market can be influenced by various factors such as expensive claims, global exposures and the economic climate. Insurers tend to mitigate their losses by imposing stricter requirements and raising premiums.

3.3.2 The local authority insurance market has traditionally been dominated by three major Insurers. Given the complex nature of insurance and to enable the council to access other Insurers and generate market interest, JLT Speciality Ltd, a firm of Insurance brokers, was appointed to conduct the tender exercise.

3.3.3 The Insurance Contract was split into Leasehold right to buy insurance cover and the main Corporate Insurance cover.

3.3.4 For the Main Corporate Insurance Cover the Crown Commercial Services (CCS) Framework for insurance (RM3731) was used. This framework provides a list of insurance companies who have already expressed interest in the public sector insurance market. All providers have already been initially assessed as being capable of providing the range of insurances required by local authorities. This reduces the risk of the Council

placing business with an insurer who may not have adequate financial capabilities or who is unable to provide adequate coverage or fully appreciate the specialised risks involved in Council operations.

3.4.5 Most insurers who are capable and willing to insure local authorities are already on the CCS Framework. Their terms & conditions have already been agreed and the need to conduct lengthy negotiation or consultation is reduced. Non-cashable savings will be made because the timescales of the process and the resources required will be reduced. However, a Brokers Management fee of 0.75% premium and Insurance Premium Tax (IPT) is payable.

3.4.6 By using the framework route it is hoped that competitive rates will be offered as a result of comparison between providers that are already assessed as capable of supplying to the local authority market. This approach was used successfully in the previous tender in 2014 (Key Decision 3810) and also for the appointment of Aspen for public Liability insurance in 2015 (Key Decision 3994), both of which resulted in a small decrease in premium costs.

3.4.7 For the leasehold right to buy insurance contract the CCS framework was not used. The market for this type of insurance is extremely limited and one large insurer (who is the Council's current leasehold right to buy Insurer) is no longer listed on the CCS framework. To ensure that the contract was opened up to as many bidders as possible a decision was made to procure this insurance via the OJEU process.

3.3.8 For the main Corporate insurance cover, the risks were split into the following lots –

Lot 1	Property – including Material Damage, Contract Works, Commercial Leased properties, Fine Arts
Lot 2	Liability
Lot 3	Fidelity Guarantee (FG)
Lot 4	Motor, including uninsured loss recovery
Lot 5	Group Personal Accident (PA) & Travel
Lot 6	Engineering Inspection

3.3.9 Quotations were sought for cover based on the existing deductibles and also for an increased deductible on a number of specified lots – please see below

Lot	Description	Current	Alternative
1	Property	£500,000	£1,000,000
2	Liability	£500,000	£1,000,000
3	Fidelity Guarantee (FG)	£25,000	£25,000
4	Motor	£500,000	£1,000,000
5	Group Personal Accident (PA) & Travel	£0	£0
6	Engineering Inspection	n/a	n/a

Please note that Lot 6 is in relation to statutory inspections for Engineering equipment/plant and no deductible is applicable, as this is not technically an insurance cover.

3.3.10 In addition to the 2 deductible options the Council also requested bidders to provide quotations which would include a break clause, so the Council could cancel the Contract at any time to join the Local Government Association Mutual, if they so wished, without any financial penalties being imposed.

3.3.11 All quotations were requested on a 3 +1 +1 duration (after 3 years the Council has the option to cancel or extend the LTA for 2 years on an annual basis) with and without the break clause.

3.3.12 During the tender period a project was undertaken to re-evaluate all Council buildings to ensure that the sum insured figure was an accurate reflection of the Council's risks. As a result of this exercise the sum insured increased dramatically for all council owned buildings, including Schools and leasehold Right to buy properties.

3.3.13 On the positive side the Council's claims experience is good and is a positive reflection of the sound risk management policies and processes that exist within departments.

3.3.14 All received bids were evaluated by considering not only the price, but also the quality of the offering. The bids were assessed using the following weightings -

Lot No. & Description	Weighting			
	Price	Policy cover	Claims Service	Added Value*
Lot 1 (Property) Lot 4 (Motor) Lot 5 (PA/Travel)	60%	20%	10%	10%
Lot 2 (Liability)	50%	30%	10%	10%
Lot 3 (FG)	65%	25%	5%	10%
Lot 6 (Engineering)	55%	35%	n/a	10%

**to include policy add-ons, risk management, social benefits, innovation*

3.3.15 With regards to the assessment on price maximum points were awarded to the lowest bidder. A formula was used to adjust the scores for all remaining bidders to reflect the percentage difference in price. For each 1% higher the premium is than the lowest price quoted 6 points were deducted.

3.3.16 For the Leasehold Right to buy Contract, tenders were sought for 1 contract duration on a Long Term Agreement; 3 +1 +1 years (after 3 years the Council has the option to cancel or extend the LTA for another year). Quotations for the provision of a break clause were also sought, but no bids were received.

3.3.17 For the leasehold right to buy contract, bids were assessed against the criteria set out in figure 1 below –

Criteria	Weighting
Price	55%
Assessment of Policy Cover and Administration Requirements	30%
Claims Service	10%
Added Value (<i>policy add-ons, risk management, social benefits</i>)	5%

3.4 Tender responses

3.4.1 6 Insurers submitted quotations for lots under the Corporate Insurance cover contract and 4 Insurers submitted quotations for the leasehold right to buy insurance contract. Full details are contained within the Part 2 report.

3.5 Points to note

3.5.1 The recommended bid is for a five year contract duration (3 year +1 +1) subject to an annual review retaining the current deductible levels. This LTA will offer the Council the benefit of premium discounts and fixed rates throughout the duration of the contract.

3.5.2 As is typical with Insurance LTAs there are usually no breaks during the fixed contract duration. However, quotations have been requested to include a break clause, which would allow the Council to terminate the contract during the contract duration with no financial penalties. It should be noted that the quotations which provide a break clause attract a higher premium, which would need to be paid for the duration of time that the Council's risks were insured with the relevant insurer. Please see Part 2 of the report which details which Insurers have provided quotations for this scenario.

3.5.3 Where Insurers have not provided quotations for a break clause, were the Council to opt to terminate the contract before the end of the 3 year duration, it could be liable to repay to the Insurers all discounts offered as part of the LTA.

3.5.4 The premiums offered are valid for a specific duration of time (only for timescales specified in this 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 or total property valuation.

3.5.6 Where the Council acquires a significant number of properties during the insurance contract period, there is flexibility to add these to the insurance contract although an additional premium may be required.

3.5.7 All Council residential leaseholders were consulted in line with the requirements under Section 20 of the Landlord Tenant Act.

3.5.8 All premiums payable for the leasehold right to buy contract are paid by leaseholders via annual service charges and all savings achieved under the leasehold right to buy tender are passed onto the Council's residential leaseholders.

4. ALTERNATIVE OPTIONS CONSIDERED

4.1 Increased deductibles

4.1.1 Quotations were sought, in respect of the main classes of business (Property, Liability and Motor), for the existing deductible (£500,000) and an increased deductible of £1,000,000.

4.2.2 All bidders provided quotations for both levels. an increased deductible for the main classes of business.

4.2.3 Whilst an increased deductible would provide some premium savings, a balance needs to be made between any premium savings and the risk of the Council receiving a claim that is valued over the existing deductible of £500,000. The quotations received are unlikely to provide sufficient savings to offset the risk of a high value claim being made in the Contract year.

4.2 Joining the Local Government Association (LGA) Mutual

4.2.1 Due to the limited number of insurance companies in the market willing to insure local authorities, the LGA are developing an Insurance Mutual. The Mutual aims to offer affordable, high quality risk transfer and risk management through a mutual structure for the benefit of the local government sector.

4.2.2 The London Borough of Enfield is a founding member of the LGA Mutual and it was hoped that the Mutual would be able to provide terms to the Council for insurance cover to commence on 01/04/19. However, at the time of tendering the Contract in December 2018 the LGA Mutual was unable to offer any terms, as they were still in the process of finalising their business model.

4.2.3 Discussions have taken place between the Council and the LGA Mutual. The LGA Mutual has advised that they will be able to provide quotations from 01/04/19; although it is unclear when cover could commence. Unfortunately it is not possible to delay placement of the Council's insurable risks until more is

known about what the Mutual have to offer because the Council's existing insurance policies expire on 31/03/19 and it would be an unacceptable risk to leave the Council wholly uninsured for any period of time.

4.2.4 The Mutual have advised that they should be able to offer terms to the Council for insurance cover to commence on 01/04/20; at which point the Council may wish to place their insurable risks with the LGA Mutual. In order to keep this as an option the Council would need to place the business with those Insurers who have provided a break clause.

4.2.5 The LGA Mutual have confirmed that the Council would not be required to place all their insurable risks with the Mutual, however if the Council wishes to join the Mutual then they would be required to place significant classes of business, such as Lot 1 (Property) and Lot 2 (Liability) with the LGA Mutual.

4.2.6 Fewer insurers provided break clause quotations than provided quotations for the standard 3 +1 +1 duration, with the quotes including a break clause costing significantly more than those without a break clause. Retaining the option of joining the LGA Mutual in one or two years rather than wait for the 3 year renewal break would be more expensive.

4.3. Self-insurance

4.3.1 Self-insurance would result in premium savings but brings the need to maintain adequate level of resources to meet all likely claims/ liabilities against the organisation.

4.3.2 If the contract is not re-tendered, the Council will have to completely self-insure against its liabilities. The ability to self-insure is dependent on the provision and maintenance of an adequate internal insurance fund, which for complete self-insurance may be in the tens of million pounds.

4.3.3 As a measure of the risk arising from claims against the Council over the last five years, the value of reserves has fluctuated between £402k to £3.4m, with reserves in excess of £1m for a small number of claims. Whilst the value of future claims is difficult to predict, it would be necessary to increase the value of the Fund to cover these potential liabilities. In the current financial climate, it is prudent to continue to insure externally for those major/ catastrophic risks that the Council may not be able to meet should they occur.

5. REASONS FOR RECOMMENDATIONS

5.1 To award the Insurance contracts to the recommended bidders as detailed in the Part 2 report will ensure the Council complies with legislative requirements and has adequate financial protection in the event of a major loss.

6. COMMENTS FROM OTHER DEPARTMENTS

6.1 Financial Implications

See Part 2 report. As a result of this procurement exercise the Council have been able to negotiate significant savings.

6.2 Legal Implications

6.2.1 Section 111 of the Local Government Act 1972 permits local authorities to do anything which is calculated to facilitate, or is conducive or incidental to, the discharge of their functions.

6.2.2 Furthermore, the Council has a general power of competence under section 1(1) of the Localism Act 2011 to do anything that individuals may do, provided it is not prohibited by legislation and subject to Public Law principles.

6.2.3 The insurance services are above the threshold where the Public Contracts Regulations 2015 (the Regulations) require a European tender exercise. For its corporate insurance cover, the Council has conducted a mini competition under CCS Framework Agreement for Insurance (RM3731). The service has confirmed that the Council is a Contracting Authority which is eligible to use this Framework Agreement. The use of Framework Agreements is compliant with and allowed for in the Regulations.

6.2.4 For the Leasehold right to buy insurance cover, the service has confirmed that an OJEU process was conducted in accordance with the Regulations.

6.2.5 The decision to award the insurance contracts is a Key Decision and therefore needs to comply with the Council's governance process in respect of Key Decisions including publication in the Forward Plan (see CPR1.22.4).

6.2.6 The contracts need to be in a form approved by the Director of Law and governance.

6.2.7 The Cabinet Member has power to approve these recommendations under CPR 1.22.

6.3 Property Implications

Property Services have been consulted on this process and the schedules of property to be insured have been checked.

6.4 Procurement Implications

The procurement has been carried out in line with the Councils Contract Procedure Rules, EU and UK regulations.

7. KEY RISKS

7.1 If the Council fails to procure a new insurance contract, its assets and liabilities will be uninsured with effect from 01/04/19.

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.

7.3 There is a risk of the premiums rising within the duration of the Contract due to a deterioration in claims experience, change in risk profile or an increase in sums insured.

8. IMPACT ON COUNCIL PRIORITIES – CREATING A LIFETIME OF OPPORTUNITIES IN ENFIELD

8.1 Good homes in well-connected neighbourhoods

Adequate insurance ensures the protection of an adequate housing supply in the event of a catastrophic loss of housing stock.

8.2 Sustain strong and healthy communities

Safeguarding the Council's funds ensures that necessary monies are preserved for vital council services, such as those who benefit the health of the community.

8.3 Build our local economy to create a thriving place

For those considering an event/project with the Council knowing that the Council has adequate insurance may influence their decision to invest. The presence or lack of insurance may be the deciding factor for those considering investing in the local economy or contemplating working in partnership with LBE for a joint initiative or event. It is therefore imperative for the Council to be adequately insured, so as to attract investment and initiatives that allow Enfield to thrive.

9. EQUALITIES IMPACT IMPLICATIONS

It is not relevant or proportionate to undertake an equalities impact assessment/analysis of the tender of the Council's Insurance contract 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 part of the Council, the loss will be assessed on the basis of legal liability determined by the facts of the incident and not on 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 direct health & safety implications arising from this report.

12. HUMAN RESOURCES IMPLICATIONS

There are no direct 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.