

**Decision Maker:** EXECUTIVE

**Date:** Wednesday 27 March 2019

**Decision Type:** Non-Urgent Executive Key

**Title:** CONTRACT AWARD: INSURANCE POLICIES

**Contact Officer:** James Mullender, Head of Finance, Adults, Health & Housing  
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**Chief Officer:** Director of Finance

**Ward:** All Wards

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1. Reason for report

1.1 Following the approval of the Executive on 21<sup>st</sup> May 2018 to tender for the provision of insurance policies, this report sets out the results of the tender process and recommends the award of contracts.

1.2 This report accompanies a Part 2 report also on this agenda.

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2. **RECOMMENDATIONS**

2.1. **The Executive is requested to:**

(a) **agree to award contracts for insurance policies for a period of five years from 1<sup>st</sup> May 2019 to 30<sup>th</sup> April 2024 with an option to extend for a further three years;**

(b) **confirm that the Council should continue not to purchase “Pool Re” Terrorism cover, on the grounds of excessive cost, as detailed in section 5.7; and**

(c) **note that authority has been delegated to the Director of Finance to approve the optional three year extension in consultation with the Portfolio Holder for Resources, Commissioning and Contracts Management, Director of Commissioning and Director of Corporate Services.**

## Impact on Vulnerable Adults and Children

1. Summary of Impact: Not Applicable
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## Corporate Policy

1. Policy Status: Existing Policy: To maintain appropriate levels of insurance cover to ensure adequate cover for Council properties, assets and services.
  2. BBB Priority: Excellent Council
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## Financial

1. Cost of proposal: included within Part 2 report
  2. Ongoing costs: included within Part 2 report
  3. Budget head/performance centre: Insurance Fund
  4. Total current budget for this head: £707k gross, £476k net. Insurance Fund as at 31<sup>st</sup> March 2018 stands at £3.7m
  5. Source of funding: Insurance Fund
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## Personnel

1. Number of staff (current and additional): Not Applicable
  2. If from existing staff resources, number of staff hours: Insurance claims are handled under a shared services arrangement with the Royal Borough of Greenwich
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## Legal

1. Legal Requirement: No statutory requirement or Government guidance.
  2. Call-in: Applicable
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## Customer Impact

1. Estimated number of users/beneficiaries (current and projected): Approximately 300 to 400 claims are received each year across all insurance covers.
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## Ward Councillor Views

1. Have Ward Councillors been asked for comments? Not Applicable
2. Summary of Ward Councillors comments: Not Applicable

### 3. COMMENTARY

#### 3.1. Background

- 3.1.1. Like most organisations, ensuring adequate insurance cover is in place is one of the ways that the Council manages risk. It is the responsibility of the Council to determine the best balance between the level of premiums paid to external insurers and internal self-insurance arrangements paid from the Insurance Fund earmarked reserve.
- 3.1.2. The Council has a number of separate insurance policies, and these policies are subject to excess and stop-loss arrangements so that claims are only chargeable to the insurers if the cost of an individual claim is greater than the excess and/or if the aggregate of all claims exceeds the relevant stop-loss. The aggregate stop-loss is designed so that the Insurance Fund is protected in the event of a significant claim or a large number of successful claims.
- 3.1.3. The Council has historically handled self-insured claims in-house (with the exception of own fault or disputed motor claims involving a third-party), as well as managing more serious/complex claims in liaison with the insurer. This service has been performed by the Royal Borough of Greenwich (RBG) under a shared service arrangement since January 2014 which is currently due to expire on 31<sup>st</sup> March 2020.
- 3.1.4. Following tender processes carried out in 2014 for casualty (public liability, employers liability and officials indemnity) and in 2016 for all other covers, the Council currently holds insurance policies as set out below, all of which are due to expire on 30<sup>th</sup> April 2019:

Policy	Insurer
Casualty	Zurich Municipal
Fidelity Guarantee	Zurich Municipal
Personal Accident & School Journey	Chubb
Property (including leased properties)	Zurich Municipal
Terrorism	Thistle
Engineering Inspection	Zurich Municipal
Motor	Zurich Municipal

- 3.1.5. At its meeting on 21<sup>st</sup> May 2018, the Executive agreed that an OJEU tender exercise be carried out for the Council's insurance policies (including any new policies that may be desirable) for a period of five years from 1<sup>st</sup> May 2019 to 30<sup>th</sup> April 2024, with an option to extend for a further period of three years.

#### 3.2. Evaluation Criteria

- 3.2.1. Bidders were requested to respond to an Invitation to Tender and the following criteria were used in evaluating whether potential suppliers were able to deliver the required level of cover and service, using the Council's standard CIPFA-based evaluation method and 60/40 price/quality weighting. Details of the criteria are set out below:

- Price: contract price was evaluated on the CIPFA model, with each bidder allocated an initial 30 points and for each 1% the price was above or below the mean price, 1.2 points was added or removed respectively.
- Policy Cover: policy documents were compared to the specification in the tender documentation, which was based on the Council's existing cover, adjusted where relevant (e.g. number/value of buildings/vehicles etc.). Reductions were made where onerous terms, conditions, exclusions or endorsements would apply, or where the cover did not meet the specification (e.g. higher level of excess).

- **Claims Service:** policy documents were compared to the specification in the tender documentation. Reductions would have been made where the insurer was unable to meet the specification, taking into account the potential impact to the Council (e.g. response times on new claims taking longer than requested, loss adjusters not being available within 24 hours or monthly claim listing reports not being available), however all bidders were able to meet the requirements set out in the specification.
- **Added Value:** policy documents were examined for any items that would improve the quality of the service/product to the Council (e.g. low claims rebates, rate guarantees, cover enhancements, risk management services or the provision of training to Council staff).

3.2.2. The award criteria weightings for each lot is shown in the table below:

	<b>Price</b>	<b>Policy Cover</b>	<b>Claims Service</b>	<b>Added Value</b>
Lot 1 - Property	60.0%	25.0%	10.0%	5.0%
Lot 2 - Fidelity Guarantee	60.0%	30.0%	5.0%	5.0%
Lot 3 - Casualty	60.0%	25.0%	10.0%	5.0%
Lot 4 - Motor	60.0%	17.5%	17.5%	5.0%
Lot 5 - Engineering Inspection	60.0%	35.0%	0.0%	5.0%
Lot 6 - Personal Accident/School Journey	60.0%	25.0%	10.0%	5.0%
Lot 7 - Terrorism (First Loss)	60.0%	30.0%	5.0%	5.0%

### 3.3. **Cyber Insurance**

3.3.1. As noted in the gate report, officers were to consider the option of taking out cyber insurance. At present there isn't a suitable/comprehensive product for local authority risk available. In addition, elements of a cyber insurance policy are covered under the public liability cover, and some other elements would be covered under the current IT contract. This will be kept under review and if more comprehensive cover becomes available or other circumstances warrant it, then this may be considered separately at a later date.

### 3.4. **Asset Review**

3.4.1. Given the length of time since property insurance valuations had been carried out, and in order to ensure that Council assets have an appropriate insurance value, both to establish that assets are not under-insured, but also not over-insured and potentially inflate insurance premiums, the Executive agreed to vary the contract with Amey for Cushman and Wakefield to undertake an asset valuation review.

3.4.2. The top 50 highest value/highest risk properties were valued in November/December 2018, and the values were incorporated into the tender documents. In general, the valuations have increased fairly significantly, with the total value of the top 50 properties increasing from £419m to £485m.

3.4.3. Despite the increase in total property values, the property policy tenders were all at a lower value than the current policy, which is likely due to a combination of the increased reassurance up to date valuations provide, the length of the agreement, increased competition in the market and the reduction in value (as a result of the valuations) of the highest value properties (when considered together) – Churchill Theatre and Central Library.

### 3.5. **Actuarial Review**

3.5.1. An actuarial review of insurance claims has also been commissioned, which included statistical modelling on the potential total cost of claims based on various levels of deductible. This was used to help determine deductible level options for some of the Lots which could result in a

reduction to the combined costs of insurance claims and policy costs, and to help inform the recommended options taking into account the cost of the bids received.

- 3.5.2. As an example, from the modelling for the main elements of casualty, employers liability and public liability, (other elements were not included as claims are not frequent enough to facilitate any degree of accurate modelling), the 75<sup>th</sup> percentile value (a prudent/conservative estimate, the value for which 75% of the possible loss outcomes are smaller) would result in increased claim settlement costs of £76k, and the 90<sup>th</sup> percentile value (pessimistic estimate) would result in increased costs of £111k.

#### **4. DESCRIPTION OF SERVICE AND SUMMARY OF THE BUSINESS CASE**

- 4.1. The Council's insurance policies cover all of the main activities of the Council, as well as its assets, including those of the remaining maintained schools, and most investment properties.
- 4.2. The Council currently receives around 300-400 insurance claims per year. A detailed analysis of the claims is included in the Insurance Fund Annual Report, which was last reported to Executive and Resources PDS Committee on 11<sup>th</sup> October 2018.

#### **5. CONTRACT AWARD RECOMMENDATION**

##### **5.1. Lot 1 - Property**

- 5.1.1. This lot comprises Material Damage (general, education, specified all risks, works in progress, commercial property) and Business Interruption (additional expenditure/increased cost of working, loss of rent). The current provider is Zurich Municipal and the 2019/20 budget for the premium is £273k, including Insurance Premium Tax (IPT).

- 5.1.2. Two options were requested:

- Option 1: £125k deductible and £750k aggregate
- Option 2: £250k deductible and £1,500k aggregate

- 5.1.3. Details of the bids received, scoring and recommendation for award are contained in the Part 2 report.

##### **5.2. Lot 2 – Fidelity Guarantee**

- 5.2.1. This lot includes cover for employee dishonesty, including third party computer or funds transfer fraud. The current provider is Zurich Municipal and the 2019/20 budget for the premium is £22k (including IPT).

- 5.2.2. Details of the bids received, scoring and recommendation for award are contained in the Part 2 report.

##### **5.3. Lot 3 – Casualty**

- 5.3.1. This lot incorporates public liability, employers liability, officials indemnity and professional indemnity. The current provider is Zurich Municipal and the 2019/20 budget for the premium is £297k (including IPT).

- 5.3.2. Three options were requested:

- Option 1: £125k deductible and £30m limit
- Option 2: £250k deductible and £30m limit
- Option 3: £125k deductible and £40m limit any one claim/£50m in total

5.3.3. Details of the bids received, scoring and recommendation for award are contained in the Part 2 report.

#### 5.4. **Lot 4 – Motor**

5.4.1. This lot incorporates general fleet vehicles, minibuses and leased cars. The current provider is Zurich Municipal and the 2019/20 budget for the premium is £55k (including IPT).

5.4.2. Two options were requested:

- Option 1: £50k deductible with an aggregate limit of £250k
- Option 2: £100k deductible with an aggregate limit of £300k

5.4.3. Details of the bids received, scoring and recommendation for award are contained in the Part 2 report.

#### 5.5. **Lot 5 – Engineering Inspection**

5.5.1. This lot incorporates periodic examination of and reporting on boilers, lifts, lifting equipment and various other items. The current provider is Zurich Municipal and the 2019/20 budget for the service is £12k (IPT does not apply in this case).

5.5.2. Details of the bids received, scoring and recommendation for award are contained in the Part 2 report.

#### 5.6. **Lot 6 – Group Personal Accident & School Journey**

5.6.1. This lot includes cover for any organised and authorised trip, including accidental death, bodily injury or assault sustained by nominated Council representatives whilst undertaking insured journeys. The current provider is Chubb and the 2019/20 budget for the premium is £11k (including IPT).

5.6.2. Details of the bids received, scoring and recommendation for award are contained in the Part 2 report.

#### 5.7. **Lot 7 – Terrorism (First Loss)**

5.7.1. Under Lot 1 (Property), the cost of providing “Pool Re” Terrorism cover was also evaluated. The prices quoted (provided in the Part 2 report) would not represent best value in the context of the Council’s insurance risk profile, and it is recommended that the Resources Portfolio Holder agree not to purchase this cover on the grounds of excessive cost.

5.7.2. As an alternative to the more comprehensive “Pool Re” cover, Lot 7 provides for “First Loss” Terrorism cover, which includes cover for property damage and business interruption following fire and/or explosion caused by terrorism. The current provider is Thistle, and the 2019/20 budget for the premium is £37k.

5.7.3. Details of the bids received, scoring and recommendation for award are contained in the Part 2 report.

#### 5.8. **Extension Period**

5.8.1. As agreed by the Executive on 21<sup>st</sup> May 2018, authority has been delegated to the Director of Finance to approve the optional three year extension in consultation with the Portfolio Holder for Resources, Commissioning and Contracts Management, Director of Commissioning, and Director of Corporate Services.

## **6. MARKET CONSIDERATIONS**

- 6.1. There are currently only five key insurers in the main Local Government insurance market: Zurich Municipal, Risk Management Partners (RMP), Maven, Travelers and Protector Forsikring.

## **7. STAKEHOLDER CONSULTATION**

- 7.1. This is a corporate Council contract that does not materially affect the way services are provided to Council stakeholders. No formal consultation is required.

## **8. SUSTAINABILITY AND IMPACT ASSESSMENTS**

- 8.1. This proposal has been judged to have little or no impact on local people and communities.

## **9. POLICY CONSIDERATIONS**

- 9.1. To maintain appropriate levels of insurance cover to ensure adequate cover for Council properties, assets and services.

## **10. GDPR CONSIDERATIONS**

- 10.1. All Insurers shall be instructed to process Council data in a secure manner giving consideration to appropriate technical and organisational measures to comply with, but not exclusively;

- UK Data Protection Act 2018
- UK Data Protection Act – Part 3 Law Enforcement Processing
- General Data Protection Regulation 2016
- Freedom of Information Act 2000
- Re-use of Public Sector Information Regulations 2005
- Local Government Act 2000
- Computer misuse Act 1990
- Police and Criminal Evidence Act 1984
- Privacy and electronic Communications Regulations (PECR) 2003

- 10.2. All gathering, storing and use of information for the purposes of provisioning, and utility of insurance policies will be conducted in line with the principles of current UK Data Protection law and specifically Article 32, General Data Protection Regulation 2016

- 10.3. The Council shall ensure that all information processed for purposes of provisioning, and utility of insurance policies is necessary and proportionate to the activity.

- 10.4. The Council shall ensure that the Insurance provider does not use information relating to individuals for profiling, marketing or other activities incompatible with the original purpose for processing unless there is a clear opt in and subsequent opt-out option available.

## **11. PROCUREMENT RULES**

- 11.1. This report seeks to award the following insurance contracts for five years from 1st May 2019 to 30th April 2024 with an option to extend for a further three years:

- 11.2. This process has been carried out in line with the requirements of the Public Contracts Regulations 2015.

- 11.3. The competition requirements set out in 8.2.1 of the Contract Procedure Rules have been met.

- 11.4. Following the decision, an OJEU Award Notice will be issued and, as the contract value is over £25k, an award notice will need to be published on Contracts Finder. A mandatory standstill period will need to be observed.
- 11.5. The actions identified in this report are provided for within the Council’s Contract Procedure Rules, and the proposed actions can be completed in compliance with their content.

## 12. FINANCIAL CONSIDERATIONS

- 12.1. The 2019/20 gross budget for insurance policies is £707k, of which £231k is recovered from schools and tenants, leaving a net budget of £476k, as set out below:

<b>Policy</b>	<b>2019/20 budget £'000</b>
Property	273
Fidelity Guarantee	22
Casualty	297
Motor	55
Engineering Inspection	12
Personal Accident & School	11
Terrorism	37
<b>Gross budget for policies</b>	<b>707</b>
Recharges to schools/tenants	-231
<b>Net budget for policies</b>	<b>476</b>

- 12.2. Financial implications of the contracts recommended for award are included in the part 2 report.

## 13. LEGAL CONSIDERATIONS

- 13.1. This report seeks the approval of the Executive to award the insurance policy contracts specified in the Part 2 report for a period of five years from 1st May 2019 to 30th April 2024 with an option to extend for a further three years.
- 13.2. The relevant procurement process has been complied with as reported in paragraph 11 of this report.
- 13.3. The report author will need to consult with the Legal Department regarding the execution/sealing of the contracts.

<b>Non-Applicable Sections:</b>	Personnel and IT Considerations, Impact on Vulnerable Adults and Children
Background Documents: (Access via Contact Officer)	Formal Consultation on the Procurement Strategy for Insurance Policies, Executive 21 <sup>st</sup> May 2018