

Cabinet

7 April 2020

**Name of Cabinet Member:**

Cabinet Member for Strategic Finance and Resources – Councillor J Mutton

**Director Approving Submission of the report:**

Director of Finance and Corporate Services

**Ward(s) affected:**

None

**Title:**

Procurement of Insurance

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**Is this a key decision?**

Yes - the proposals involve financial implications in excess of £1m per annum

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**Executive Summary:**

The Council purchases a variety of insurance policies including property, terrorism, contract works, fine art, combined liability, crime, personal accident and travel, school journeys, computers, medical malpractice and motor fleet. These insurance policies were procured via an OJEU compliant ESPO/CCS framework. This contract will expire on 30 November 2020. The Council's Financial Procedure Rules require Cabinet to approve any procurement which involves an annual contract value in excess of £1m per annum.

The council's activities result in a certain amount of predictable financial loss. It is not considered financially viable to insure against all these losses, as the insurance company will charge a pound in premium for each pound it anticipates it will pay in claims. In addition, it will charge a further amount for its administrative expenses, profit and insurance premium tax. In these circumstances the purchase of insurance is uneconomic. The Council's strategic approach to the purchase of insurance is to insure large losses which would have a significant impact on budgets and the provision of services. This is achieved by purchasing insurance with a deductible (the amount you pay before your insurance is triggered). The Council carries substantial self-insurance and the external insurance cover protects the Council above the policy deductible. Most losses/claims are paid from the Council's internal self-insurance fund.

In 2019-20 the Council's premiums amounted to £941,588 plus £112,990 for insurance premium tax. There is an additional charge of £66,360 for claims handling services. The total is £1,120,938.

This report seeks approval for the Council's nominated insurance broker Arthur J Gallagher, to carry out a further competition (on behalf of the Council) against an OJEU compliant DPS (ESPO 649) for insurance services. The intention is to enter into a three-year contract with the potential of a further 2 years extension period. A one-year contract would only be accepted if premiums were much higher than anticipated.

**Recommendations:**

Cabinet is asked to:

1. Grant authorisation for Arthur J Gallagher to (on behalf of the Council) carry out a further competition against ESPO 649 Framework for Insurance Services for a period of up to 5 years;
2. Grant delegated authority to the Deputy Chief Executive (People) and the Director of Finance and Corporate Services (following consultation with Director for Legal and Governance Services) to undertake all necessary due diligence and following completion of the competition to agree the contract award to the successful suppliers under the Framework;
3. Grant authorisation to the Director of Legal and Governance Services to enter into a 3-year contract (with a potential extension for a further 2 years) with the successful suppliers.

**List of Appendices included:**

None

**Background papers:**

None

**Other useful documents**

Proc2 – Title: Insurance Services – available by contracting Procurement and Commissioning on Tel: 024 7697 1417

**Has it been or will it be considered by Scrutiny?**

No

**Has it been or will it be considered by any other Council Committee, Advisory Panel or other body?**

No

**Will this report go to Council?**

No

## **Report title:**

### **1. Context (or background)**

1.1 The Council's external insurance programme is a critical part of the Council's risk financing arrangements for the protection of its employees, properties, assets and liabilities. Insurance protects the Council from the financial consequences of unexpected incidents, it encourages the Council to pursue its corporate strategic objectives and programmes of work to be able to invest with confidence. It also frees up sums which would otherwise be set aside to pay possible losses.

1.2 On 1 December 2015 the Council entered into a three-year contract, with an option to extend for a further two years for a range of insurance services covering property damage, business interruption, terrorism, contract works, fine arts, Directors and Officers, personal accident, travel, school journeys, computers, medical malpractice, motor, public and employers' liability, officials' indemnity, professional indemnity and engineering insurance. The option to extend for two years was exercised and this expires on 30 November 2020. No further contract extensions are available. A procurement process therefore needs to be undertaken to purchase further insurance coverage.

### **2. Options considered and recommended proposal**

Options considered include:

#### **2.1 Fully self-insure**

Full self-insurance would mean that the Council eliminates its' premium and insurance premium tax costs. The disadvantage is that all losses, including those which are unexpected and catastrophic would need to be funded by the Council. Resources would always need to be held in reserve to fund these losses. This means that these resources could not be put to work in the pursuit of the Council's core aims.

#### **2.2 Join a mutual**

A mutual is a joint risk pool that it is owned by and operated for the benefit of its members. Each member contributes into the pool and losses are paid from it. It does not have shareholders who want a return on its investment and its members have ultimate control over how it is run. The Local Government Association has formed a mutual for Councils which aims to offer a cost-effective alternative to traditional insurance, although to date it has not developed the critical mass required for it to be a desirable option in which the Council can share its risks.

#### **2.3 Purchase of Insurance via a Dynamic Purchasing System (Preferred Option)**

The public sector insurance market is a limited and specialist area. An effective way of reaching relevant insurance companies is via a Dynamic Purchasing System. This is because it is compliant with procurement legislation and provides access to pre-qualified insurance providers who can meet all the Council's insurance needs. All providers have been checked for financial stability, experience in the market and technical and professional expertise.

Two frameworks have been identified, these being Crown Commercial Service and ESPO.

#### **2.4 Procure insurance via the Council's own tendering process**

The Council can undertake its own procurement exercise via its Insurance Broker. However, this would be inefficient because it would have to undertake pre-qualification checks that have already been completed under a DPS. Not only is this additional unnecessary administration but it is also an additional hurdle to getting responses back from Insurers.

- 2.5 The Council's preferred option is to proceed with the tender via the ESPO framework because it has knowledge of the insurance market, provides access to a known number of relevant pre-qualified insurers in a cost-effective manner and it already complies with procurement legislation.

### **3. Results of consultation undertaken**

- 3.1 No consultation has been undertaken as part of this process.

### **4. Timetable for implementing this decision**

- 4.1 The intended timescale is as follows:

Issue further competition documents	1 July 2020
Tender return date	7 August 2020
Completion of evaluation	7 September 2020
Contract award	23 October 2020

### **5. Comments from Director of Finance and Corporate Services**

#### **5.1 Financial implications**

Increases in premiums are being experienced across insurance markets currently. If these are translated into higher prices through the contracts tendered for as a result of this report, then these additional costs will need to be factored into the Council's financial position for 2020/21 and its medium-term financial position. The same is true of the impact of the Risk Protection Arrangement outlined below.

From 1<sup>st</sup> April 2020 all schools will be able to participate in the Department of Education's Risk Protection Arrangement (RPA) which in effect is a national mutual insurance pooling facility for schools. The RPA was previously only available to academy schools. It is anticipated that a number of Coventry's LEA schools may join the RPA and no longer require cover under the Council's insurance umbrella. It is unlikely in these circumstances that the Council's external insurance premiums will reduce proportionately in line with the reduction in school insurance contributions. As a result, any outflow of schools' business to the RPA will cause further financial pressure to the insurance budget. The total value of school contributions is c£0.4m which therefore represents the maximum financial exposure relating to the RPA. However, to the extent that some schools continue to use the Council's insurance cover and that external premiums may reduce depending on the number of schools requiring cover the actual financial impact will be less than £0.4m.

Schools have been provided with clear advice on the RPA including the risks that may exist in moving to this new arrangement.

## **5.2 Legal implications**

The Council has a general power under section 1 of the Localism Act 2011 to do anything an individual can do provided it is not prohibited by other legislation. The entering into of a contract for the provision of insurance cover to protect its assets and liabilities fits within this power. In accordance with the Council's Contract Procedure Rules and the Public Contract Regulations 2015, this contract must be procured as set out in the Public Contract Regulations 2015. This will be achieved through strict compliance with the provisions set out in the ESPO Framework.

## **6. Other implications**

None

### **6.1 How will this contribute to the Council Plan ([www.coventry.gov.uk/councilplan/](http://www.coventry.gov.uk/councilplan/))?**

The provision of Insurance has many links to the Council Plan. It helps the Council to be "Globally Connected" by providing insurances for the development of the city centre, other infrastructure and assets that promote Coventry as a visitor destination. It helps the city to be "locally Committed" with its links to the highways network, parks and other public spaces. It assists with the improvement of educational outcomes by providing protection for refurbishment and development projects. It enables the Council to deliver its priorities with fewer resources by freeing up resources, which would otherwise have to be held in reserve, to finance losses.

### **6.2 How is risk being managed?**

The key risks are:

- 6.2.1 There are a limited number of Insurance Companies that provide insurance for Councils. Therefore, a risk is that limited tenders will be received. The mitigating actions are that a framework is being used which will ease the suppliers' administrative burden and make it easier for them to respond. In addition, the tender is being conducted in a timely manner giving suppliers enough time to respond with their best proposition.
- 6.2.2 The global insurance market is cyclical, and indications are that the market is hardening, driving up the cost of insurance. In addition, factors relevant to Local Authorities in the United Kingdom, such as the cost of catastrophic personal injury claims, is also causing Insurers to increase rates, in some instances by as much as 30%. The mitigating action is that as part of the tender the Council must be able to demonstrate that it has good risk management in place for key insurable risks.
- 6.2.3 The RPA developments outlined in section 5.1 represent further financial risk to the Council. In mitigation the council is ensuring that schools are fully aware of the risks of moving to the RPA and the benefits of remaining within the Council's insurance arrangements. Any financial impact will be incorporated within the Council's budget setting processes.

### **6.3 What is the impact on the organisation?**

Insurance has links to staffing and human resources, information and communications technology, assets and the Council's corporate parenting responsibilities.

The Employers' Liability policy will respond if a member of staff has an accident and it is proven to have resulted from the Council's negligence. Similarly, the Public Liability policy will respond to accidents involving Looked After Children.

Property insurances protect physical assets and the financial consequences of damage whilst the Council's computer insurance protects information and communications technology.

#### **6.4 Equality and Consultation Analysis (ECA)**

In compliance with Section of 149 of the Equality Act 2010, the Council has considered the requirements of the Public Sector Equality Duty. It is not anticipated that the purchase of insurance policies will have any negative impacts on any groups with protected characteristics.

#### **6.5 Implications for (or impact on) climate change and the environment**

There are no implications for climate change and the environment.

#### **6.6 Implications for partner organisations?**

Having the protection of a comprehensive insurance programme will enable the Council to fully engage with partner organisations in the delivery of services to citizens.

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