Coventry City Council

Public report
Cabinet Report

Cabinet 11 April 2023

Name of Cabinet Member:
Cabinet Member for Strategic Finance and Resources - Councillor R Brown

Director approving submission of the report:
Interim Chief Executive (Section 151 Officer)

Ward(s) affected:
None

Title: Procurement of Insurance

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, business interruption, contract works, fine art, employers' liability, public liability, crime, engineering inspection, personal accident and travel, school journeys, computers, and motor fleet. These insurance policies were procured via an OJEU compliant ESPO framework. The three-year contracts will expire on 30 November 2023 and there are options to extend the long-term agreements for two further years.

The Council's Contract Procedure Rules require Cabinet to approve any procurement which involves an annual contract value in excess of £1m per annum.

In 2022-23 the Council's premiums were £1,517,000 including insurance premium tax. There is an additional charge of £66,000 for claims handling services. The total is £1,583,000. This total includes a premium for terrorism insurance of £75,000.

The purchase of terrorism Insurance will be outside of any tender. The reason for this is that terrorism insurance is provided by the Lloyds of London insurance market, and they do not respond to local authority tenders. The provision of the insurance through Lloyds will involve a traditional purchase of insurance using multiple insurers via, what is known as a line slip. This method is not suitable for procurement routes and there is no available framework that will address this. Terrorism insurance is specialised and involves significant input from the Insurance Broker who models potential maximum losses based on certain terrorist type events to ensure best value.or the remaining insurances, the intention is to run a further competition on those insurance policies where the Insurer has not honoured the long-term agreements (contractually they can do this) and have indicated that they require a further rating increase in 2023-24. Early consultation with an Insurer indicates a rating increase of 10%, which would be in addition to increased premiums caused by sums insured going up. Where an Insurer has indicated that the rate will not go up (premiums may still increase because sums insured have gone up) the recommendation is for the Council to extend the long-term agreements where this can be done.

The intention is to appoint Arthur J Gallagher via low value Direct Award through the YPO 964 framework to act as Insurance Brokers for the Council. Arthur J Gallagher will then in turn run a further competition under the YPO Insurance Placement DPS on behalf of the Council, where the contracts cannot be extended at the rates provided by the current long-term agreements.

Recommendations:

Cabinet is asked to:

1) Grant authorisation for Arthur J Gallagher to (on behalf of the Council) carry out a further competition against a YPO Insurance Placement Dynamic Purchasing System for a period of up to 3 years (with a potential extension for a further 2 years) on those policies where extensions of the long-term agreements cannot be obtained at the current rates.

2) Grant delegated authority to the Interim Chief Executive (Section 151 Officer), following consultation with the Chief Legal Officer, 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 Interim Chief Executive (Section 151 Officer) to enter a 3-yearcontract (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: 02476 977 241

Has it or will it be considered by scrutiny?

No

Has it 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: Procurement of Insurance

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 the One Coventry Plan and programmes of work and invest with confidence. It also frees up sums which would otherwise be set aside to pay losses.

1.2 The Council's activities in pursuit of the One Coventry Plan result in a certain amount of predictable financial loss. It is not considered financially viable to insure against all 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 the delivery of the One Coventry Plan, budgets, and the provision of services. This is achieved by purchasing insurance with a deductible (the amount you pay before 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.

1.3 On 1 December 2020 the Council entered a three-year contract, with an option to extend for a further two years for a range of insurance services covering property, contract works, fine art, employers' liability, public liability, crime, personal accident and travel, school journeys, computers, and motor fleet.

2. Options considered and recommended proposal

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 cannot be put to work in the pursuit of the Council's One Coventry Plan.

2.2 Purchase insurance via a dynamic purchasing system

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.

2.3 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 Dynamic Purchasing System. Not only is this additional unnecessary administration but it is also an additional hurdle to getting responses back from Insurers.

2.4 The Council's preferred option is to proceed with the tender via the YPO Insurance Placement Dynamic Purchasing System 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

No consultation has been undertaken as part of this process.

4. Timetable for implementing this decision

The intended timescale is as follows:

Issue further competition documents	10 July 2023
Tender return date	14 August 2023
Completion of evaluation	27 September 2023
Contract award	17 October 2023

5. Comments from Interim Chief Executive (Section 151 Officer) and Chief Legal Officer

5.1. Financial Implications

Increases in insurance rates and property reinstatement costs are driving up the cost of insurance. If these are translated into higher prices through the contracts tendered for, then these additional costs will need to be factored into the Council's financial position for 2023-24 and its medium-term financial position.

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 framework.

6. Other implications

6.1. How will this contribute to the Council Plan (www.coventry.gov.uk/councilplan/)?

The provision of insurance has many links to the One Coventry Plan. It contributes directly to the continued financial stability of the Council by protecting against the impact of sudden financial shocks caused by major losses. It contributes to improving outcomes and tackling inequalities within our communities by protecting investment in Adult Social Care, Childrens Services, and schools. It contributes to increasing economic prosperity through insurance of projects such as Two Friargate and to tacking the causes and consequences of climate change by protecting investment in Very Light Rail.

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

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 aframework 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 the market is currently in a "hard" phase. This means that the cost of insurance is high and increasing. To mitigate this risk, as part of the tender, the Council must be able to demonstrate that it has good risk management in place for key insurable risks. In addition, the Council is obtaining advice about what the most cost-effective levels of policy deductibles are, in order that the best value for money available, can be achieved.

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. **Equalities / EIA?**

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?**

The purchase of insurance encourages investment in projects that tackle the causes and consequences of climate change.

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 residents.

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