

Item No.	Classification: Open	Date: 9 July 2015	Meeting Name: Strategic Director of Finance and Corporate Services
Report title:		Gateway 2 - Contract Award Approval Corporate Insurances (Excluding Property Insurances)	
Ward(s) or groups affected:		All	
From:		Corporate Risk and Insurance Manager	

RECOMMENDATION(S)

1. That the strategic director of finance and corporate services approves the award of the liability insurance contract, following single supplier negotiations, to RMP QBE in the sum of £410,220 per annum for a period of 2 years plus the option to extend for a further year making a total contract value of £1,230,660 starting from the 1 October 2015.
2. That the strategic director of finance and corporate services also approves the award of the liability insurance claims handling to Gallagher Bassett in line with the liability insurers requirement, in the sum of £116,054 per annum for a period of 2 years plus the option to extend for a further year making a total contract value of £348,162, also starting from the 1 October 2015.
3. That the strategic director of finance and corporate services also notes that the insurance contract is with QBE and is placed by Arthur J Gallagher (AJG) and also that there will be a direct contract with Gallagher Bassett for the claims handling element.

BACKGROUND INFORMATION

4. The council's main insurances are currently placed with different contractors as follows:
 - 1) Property Insurances (Housing, Education, General, Commercial, Motor and Fidelity Guarantee) – ZMI
 - 2) Liability Insurances – AIG via RMP and placed by AJG
 - 3) Liability Claims handling with Gallagher Bassett
 - 4) Engineering inspection services and Insurances – HSB Haughton (HSBH) via RMP and placed by AJG
5. AJG, as stated in item '2', 'places the insurance business with the insurer. For the insured to access certain insurance markets, it must be via an insurance broker such as AJG.
6. This report relates to item '2)' and '3)' above, liability insurances which includes all liability insurance policies, including employers liability, public liability, officials indemnity, and professional indemnity insurance. It also includes the liability claims handling as under the terms of the liability insurance the council is required to use the insurer's affiliated claims handlers.

7. The current contract commenced on the 1 October 2010 for three years with the options to extend for two further periods of 12 months. In addition, the contracts were subject to a contract variation in both 2012 and 2013 following insurers breaking the long term agreement in each year. Both single year extensions were utilised and the reporting of contract variations were part of a separate gateway 3. Therefore, the current contract comes to an end on 30 September 2015.
8. Although there is no legal requirement to insure liability risk, the council does in fact insure against a comprehensive range of insurance risks to protect public assets against catastrophic potential losses.
9. By breaking the long term agreements in both 2012 and 2013, the liability insurance market was already showing signs that conditions were hardening. The other reason for the previous break in the long term agreement was as a result of the council's liability loss experience from 2009.
10. RMP, the underwriting agency for AIG, also formally advised the council that AIG would be leaving the public sector liability market, although they would be honouring any long term agreements currently in place. AIG leaving the public sector market was also a clear indication of state of the public sector liability insurance market.
11. There were no new insurance coverage requirements being sought. However any improvements in policy wording and level of cover did form part of the negotiation.
12. The gateway 1 report has been approved, and the procurement route outlined in the gateway 1 report was followed, namely a negotiation with the single supplier RMP QBE. This was on the basis, as outlined in the gateway 1 that there were no other acceptable terms available in the market.
13. Due to the council's recent adverse loss experience and insurance market conditions as outlined in the gateway 1 it was not viable to retender the liability insurance as previously intended.
14. Advice has been sought from our existing insurance advisor and whilst the advisor has recommended that the council investigates an alternative approach to financing insurance in the future, the advisor states that due to conditions in the insurance market this is not the right time. This advice has been supported by soft market testing.
15. Although the new contract will be with a different insurer, RMP who front AIG and will now be fronting QBE have provided a very good service to the council, both in terms of facilitating additional cover, responding positively to queries and helping to progress claims payments from insurers.
16. In addition, Gallagher Bassett are providing an already strong and improving service. This is borne out in the continuing improvements on key performance indicators and the strength of the day to day client relationship manager.
17. For information, QBE Insurance Group is one of the world's top 20 general insurance companies, with operations in all the key insurance markets. QBE Europe, a division of the parent company, has a Standard and Poor's financial

rating of A+ better than the normal minimum requirement for the council of an A rating.

18. The contract is for a period of two years plus an option to extend for a further single year. This will be on the basis of a long term agreement (LTA) with the contractor. The contract price will only change if the council increases the number or values of exposure to be insured, or if there is significant deterioration in the claim experience resulting in RMP QBE breaking the LTA. The claims costs are based on an estimate of number of claims, with adjustment made the following year against actual numbers.
19. Across both contracts this equates to an overall percentage increase of just over 3 percent.

Procurement project plan

Activity	Completed by
DCRB Review Gateway 1: Procurement strategy approval	12 March 2015
CCRB Review Gateway 1: Procurement strategy approval	19 March 2015
Approval of Gateway 1	7 May 2015
Completion of Single Supplier Negotiation	15 May 2015
DCRB Review Gateway 2: Contract Award Report	4 June 2015
Approval of Gateway 2: Contract Award Report	By 31 July 2015
Add to contract register	By 31 July 2015
Contract start	1 October 2015
Initial Contract completion date	30 September 2017 (but TBC)
Contract completion date – if extension(s) exercised	30 September 2018 (but TBC)

KEY ISSUES FOR CONSIDERATION

Description of procurement outcomes

20. RMP QBE were willing to keep the increase on the actual premium paid to an absolute minimum, effectively only 3%. This suggests a positive result for the council.
21. RMP QBE have also agreed to the LTA for a period of two years plus the option to extend for a further single year. Any decision to utilise this extension will be subject to a further gateway 3 to the decision maker for approval.

22. Gallagher Bassett's claims handling fee is based on an estimated number of claims generated and the increase is due to an estimated increase in claims numbers.

Key decisions

23. This is a key decision.

Policy implications

24. There are no policy implications.

Tender process

25. The council formally asked RMP QBE if they would consider offering terms to the council to effectively continue with the same liability insurance cover as previously provided by RMP AIG. RMP QBE confirmed that they were.
26. The council then met with senior management from RMP to present to RMP the council's requirements. RMP QBE were then invited to present the council with renewal terms.
27. These renewal terms were evaluated by the council with the support of the council's insurance adviser and found to be satisfactory, and a recommendation was made to the decision maker to accept these terms.

Tender evaluation

28. As a single supplier negotiation was undertaken there was effectively no further evaluation undertaken other than the process already outlined in the tender process. The insurance policy wording and cover, and other terms and condition remain broadly unchanged based on expert opinion of the insurance advisor. The renewal terms were simply evaluated by being compared against existing arrangements and also the council's insurance strategy.

Plans for the transition from the old to the new contract

29. As the new contract will be with the existing insurance agent, RMP, there will no need for a transition plan. However, the corporate risk and insurance manager will advise relevant operational teams of the results of the procurement and the appointment of RMP QBE.

Plans for monitoring and management of the contract

30. The new contract will continue to be monitored in the same way as the existing contract. There will be a quarterly contract management meeting, including relevant officers of the council and senior client manager from RMP, and the insurance adviser.
31. Although the insurance cover element of this contract does not lend itself to key performance indicators there is a qualitative review of a number of key elements, including response times to queries, progress on key insurance claims and policy

coverage clarifications. Equally important is that the quarterly meetings are also an opportunity for RMP to gain a better understanding of the council's risk management arrangements and to monitor the council's progress towards completing risk improvements.

32. The claims handling element of the contract has all the qualitative monitoring outlined above, and is also monitored against a set of key performance indicators. A report is prepared and reviewed at the quarterly meetings.

Identified risks for the new contract

No.	Risk	Risk Level with mitigation	Mitigating Action
1	Another significant liability insurance loss occurs during the contract period resulting in RMP QBE breaking their LTA and increasing insurances premium and/ or reducing cover	Low	<p>There have been significant improvements in risk management across the council, however regardless of action taken; there will always be the risk of serious events.</p> <p>The council will also continue to investigate the use of alternative approaches to insured risk financing going forward which may reduce the reliance on the insurance market.</p>
2	Risk of procurement challenge due to a full OJEU procurement not being undertaken	Low	<p>There is a potential procurement risk of challenge. However this is deemed to be a low risk as a result of:</p> <ul style="list-style-type: none"> • soft market testing • market advice provided by insurance adviser

Community impact statement

33. Pursuant to section 149 of the Equalities Act 2010 the council has a duty to have due regard in its decision making processes to the need to:

- Eliminate discrimination, harassment victimisation or other prohibited conduct.
- Advance equality of opportunity between persons who share a relevant protected characteristic and those who do not.
- Foster good relations between those who share a relevant characteristic and those that do not share it.

34. The relevant protected characteristics are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex, sexual orientation. The Public Sector Equalities duty also applies to marriage and civil partnership, but only in relation to the first point above. It is considered that there are no equalities issues arising from the award of this contract.

Economic considerations

35. Liability insurance is provided by a national company and there was no option for local economic benefit.

Social considerations

36. As the market is limited to one there were no further social considerations and as far as is understood this company already pays above the London Living Wage level.

Environmental considerations

37. There are no environmental implications.

Market considerations

38. This contract is outsourced. QBE and Gallagher Bassett are private companies with over 250 employees and provide their service nationally.

Staffing implications

39. The contract will be managed by the Corporate Risk and Insurance team as with the previous contract. There are sufficient resources within that team to ensure the contract is managed effectively.

Financial implications

40. For the element of insurance and as outlined in the gateway 1, the council's recent event history and external factors have resulted in an increase in the premium charges in recent years. Through negotiation the council has managed to keep increase to a minimum and given this history the premiums moving forward continue to represent value for money, particularly as soft market testing suggests that the council would have faced both an increase in premium and an increase in excess charges to secure alternative insurance cover. While the actual cost of this contract exceeds the current revenue budget provision for liability insurance, this budget is supported by an insurance reserve which with the agreement of the strategic director for finance and corporate services can be drawn upon to meet any initial shortfall in budget.
41. The insurance claims handling must be provided by Gallagher Bassett under the terms of the insurance cover, and is based on an estimate of claims numbers going forward with an annual adjustment as necessary to account for an increases or decreases in estimated claims numbers. The estimated claims number going forward is an increase on previous years due to an increase in the number of claims being reported.

42. Both liability insurance and claims handling cover liability exposure arising across the council and moving forward a review will be undertaken to ensure that the costs of insurance are re-allocated to services appropriately.
43. The strategic director for finance and corporate services will advise how the longer term provision of liability insurance under the contract will be resourced, after consideration of the options available.

Legal implications

44. Please refer to the comments of the director of legal services.

Consultation

45. No additional consultation was undertaken.

Other implications or issues

46. There are no other implications or issues.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Head of Procurement

47. This report is seeking approval to award the liability insurance contract to RMP QBE and the claims handling to Gallagher Bassett following single supplier negotiations.
48. The procurement strategy to enter into single supplier negotiations with RMP QBE was approved through a Gateway 1 report in May 2015.
49. The report confirms that through negotiations the council have agreed a considerably lower percentage increase in the premium than initially offered which is a positive result for the council and goes some way to demonstrate that value for money is being achieved.
50. The existing monitoring and management arrangements will continue which will provide a qualitative review of key elements to measure the providers performance in providing both the insurance cover and claims handling element of the contract.

Director of Legal Services

51. The Director of Legal Services notes the contents of this report which seeks the approval of the Strategic Director of Finance and Corporate Services to the award of a contract for corporate insurances (excluding property insurances).

52. Under the Financial Standing Orders paragraph 1 (h) all insurance decisions are the responsibility of the chief finance officer. The decision to approve this award is therefore reserved to the Strategic Director of Finance and Corporate Services.'
53. On the basis of the information contained in this Report it is confirmed that this procurement was carried out in accordance with Contract Standing Orders and the relevant legal requirements.
54. The nature and value of these services are such that they are subject to the full tendering requirements of the Public Contract Regulations 2015 (PCR15). Pursuant to Regulation 32(2)(c) of the Public Contracts Regulations 2015 where the service can only be provided by a particular provider and competition is absent for technical reasons the council may award a contract using the negotiated procedure without prior publication. However this ground may only be used where no alternative or substitute exists. As noted in paragraph 14, the council has taken advice from its insurance advisor and undertaken soft market testing, and the expert advice is that there would be no other acceptable bids available in the market. The strategic director is advised that when relying on any ground for exemption from the requirements of the PCR15, there is a potential risk of challenge on the basis that the council does not have sufficient grounds to justify negotiation in these circumstances. However given the expert advice received it is considered that this risk is low.
55. Paragraph 12 of this report confirms the negotiated process undertaken as approved by the Gateway 1 report and that the best value tender is recommended for acceptance.
56. CSO 2.3 provides that a contract may only be awarded if the expenditure has been included in approved revenue or capital estimates or has been otherwise approved by, or on behalf of the Council. Paragraphs 40 to 43 (Financial Implications) of this Report confirm how the proposed contract will be funded.

Strategic Director of Finance and Corporate Services (MGD11/06/15)

57. The financial implications in paragraphs 40 to 43 are noted. It is observed that the increased cost of the contract cannot be contained within the current liability insurance budget but that any shortfall can be covered by drawing down from the insurance reserve, subject to agreement by the strategic director of finance and corporate services.
58. Covering any shortfall by drawing down from the reserve is an interim measure and it is further observed that the provision of liability insurance in the longer term will be reviewed.

FOR DELEGATED APPROVAL

Under the powers delegated to me in accordance with the Council's Contract Standing Orders, I authorise action in accordance with the recommendation(s) contained in the above report.

Signature

Date 22-7-15.....

Designation STRATEGIC DIRECTOR OF FINANCE AND CORPORATE SERVICES

BACKGROUND DOCUMENTS

Background documents	Held At	Contact
Corporate Insurances (excluding Property Insurances) Procurement File	Tooley Street, 2 nd floor, hub 1	Maureen McBain 02075257348

APPENDICES

No	Title
n/a	None

AUDIT TRAIL

Lead Officer	Jo Anson, Head of Financial and Information Governance	
Report Author	Maureen McBain, Corporate Risk and Insurance Manager	
Version	Final	
Dated	9 July 2015	
Key Decision?	Yes	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments included
Head of Procurement	Yes	
Director of Legal Services	Yes	
Strategic Director of Finance and Corporate Services	Yes	
Head of Specialist Housing Services	n/a	n/a
Cabinet Member	No	No
Contract Review Boards		
Departmental Contract Review Board	Yes	Yes
Corporate Contract Review Board	No	No
Cabinet	Yes/No	Yes/No
Date final report sent to Constitutional/Community Council/Scrutiny Team	Date/Month/Year	