

Item No.	Classification: Open	Date: 15 August 2017	Meeting Name: Strategic Director of Finance and Governance
Report title:		Gateway 3 – Contract extension approval Corporate Liability Insurances	
Ward(s) or groups affected:		All	
From:		Head of Financial and Information Governance	

RECOMMENDATION(S)

1. That the strategic director of finance and governance approve the extension of the corporate liability insurances contract, with QBE Insurance Ltd via RMP Ltd for a period of one year with effect from 1 October 2017 up to a total estimated contract value of the extension of £513,000.
2. That the strategic director of finance and governance approves the consideration of changes to the insurance cover that may reduce the estimated contract value increase.
3. That the strategic director of finance and governance also notes the associated extension as detailed in paragraph 6 of the liability insurance claims handling to Gallagher Bassett International Ltd in line with the liability insurer's requirement, for a period of one year with effect from 1 October 2017 at a total estimated contract value of extension of £117,000

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 – QBE via RMP and placed by AJG
 - 3) Liability Claims handling with Gallagher Bassett
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 2015 for two years with the options to extend for a further single period of 12 months. This report seeks approval to utilise the single year extension.

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.

KEY ISSUES FOR CONSIDERATION

Key Aspects of Proposed Variation

9. The initial terms offered by QBE via RMP are for an increase of the liability insurance premium of 25%. This is for the reasons outlined in the next section. Once the council has submitted the renewal form to the insurers, the insurers have confirmed that they will offer alternative options that may well reduce the insurance premium increase. These options are likely to include scenarios where the council increases its self-insured excess.
10. These options will be reviewed, and in line with recommendation 2, the most suitable option for the council will be accepted.

Reasons for Variation

11. As a direct result of key external factors, namely the reduction to the 'discount rate', QBE via RMP have advised that all renewals will be subject to a significant increase in premium rates, ranging from a 25% to 60% increase with some of the highest increases being faced by those insured who already have high insurance deductible levels.
12. The discount rate relates to high value liability injury claims where the claimant is likely to require long term medical support due to their injuries. Claims such as this are normally settled as a cash settlement and as there is an expectation that the claimant can then benefit from the interest accrued in the investment of a cash settlement, the cash settlement amount reached is discounted by a fixed percentage set by the Government.
13. Since 2010 the discount rate has remain unchanged at 2.5 percent. But it was announced that the discount rate will be changed to -0.75 percent, effective from 20 March 2017. This has a dramatic increase in reserves on all future high value liability claims and also those claims currently opened and not yet settled. This is a change that the insurers have stated that they were not expecting and therefore have not priced for in current insurance premiums.
14. In addition, Southwark Council has a high insurance deductible level of £500,000 on each and every claim. So whilst the council has not seen any significant deterioration in its claims experience it has been adversely affected by the increased financial risk of rising insurance premiums across the liability insurance sector.
15. QBE via RMP do not see the increase in insurance rates as a break in the council's long term agreement with them. We have not challenged this position as the rate increases will be applied by all liability insurers and we see no benefit in going out to procure a new contract at this point.

16. QBE via RMP will offer various insurance renewal options. These options are likely to offer the ability to reduce the insurance premium increase by further increasing the council's insurance deductible level.

Future Proposals for this Service

17. The council is currently considering options for procurement in 2018.

Alternative Options Considered

18. Due to the nature of the variation all reasonable steps were taken to consider alternative options to extending with the current providers.
19. The table below summarises these options and the advantages and disadvantages of each.

Option	Advantages	Disadvantages
Do nothing (let the contract lapse and not re-procure)	None	No insurance protection for council liabilities. Not an option as the council policy is to insure
Full external procurement for like for like insurance cover	Test price and scope of cover	Insufficient time to undertake a full procurement. Every indication that all other liability insurers have also increased premium rates as a result of the 'discount rate'
Full external procurement for alternative insurance financing solution (e.g. catastrophic insurance cover only)	Possible short term saving in premium but significant increase self-insured risk exposure	Not enough time to set up all the systems and processes and funding arrangements required to move to a catastrophic only cover
Extend with Current Providers	Provides continuity of cover and claims handling service	Increase premium for 1 year period Likely changes in scope of cover once further options have been received

Identified risks for the Variation

20. There are no identified risks as this is a contract extension with existing insurers and insurance claims handlers allowed for under the existing contract.

Policy implications

21. There are no policy implications.

Contract management and monitoring

22. As there are no issues with the day to day performance of the contract, the current contract management and monitoring arrangements will remain unchanged. The contracts are currently managed by the Corporate Risk and Insurance team, and performance is monitored using a variety of techniques including quarterly review meetings, a defined service level agreement and key performance indicators.

23. QBE via RMP and the claims handler's performance of each contract element has broadly remained unchanged over the past year. Examples of good contractor performance include:

- a. Excellent support and involvement in the quarterly performance review meetings.
- b. Contractors' willingness to engage with other relevant council functions to improve the insurance claims handling process, such as the council's legal litigation team.
- c. Contractors' involvement in certain pro-active initiatives, such as third party insurance subrogation and insurance fraud investigations.
- d. Contractors' willingness to settle claims and provide free insurance training.

Community Impact Statement

24. This decision has been judged to have no or a very small impact on local people and communities.

Social Value considerations

25. The Public Services (Social Value) Act 2012 requires that the council considers, before commencing a procurement process, how wider social, economic and environmental benefits that may improve the well being of the local area can be secured. The social value considerations included in the tender (as outlined in the Gateway 1 report) are set out in the following paragraphs in relation to the tender responses, evaluation and commitments to be delivered under the proposed contract.

Economic considerations

26. There are no local economic benefits as all the contractors are national or international organisations with no local offices.

Social considerations

27. As these types of insurance providers are national or international organisations, social considerations from a local workplace perspective do not arise. Staff employed by this provider already receive in excess of the London Living Wage.

Environmental/Sustainability considerations

28. We seek to limit unnecessary travel and meetings, and as far as possible utilise on line systems to minimise paper waste.

Financial Implications

29. As noted above in the section "Key Aspects of the proposed Variation", there is a direct increase in cost to the council for liability insurance. In addition, there are areas where the council have a potential indirect financial exposure due to the likely increase in insurance excesses for liability insurance.
30. In addition to the current excess levels, the increase in insurance excess would result in the council having to self insure any public liability and officials indemnity claims above £500,000 up to the increased self-insurance level agreed. However as previously stated there are very few claims above £500,000. The council currently has no open claims above £500,000. Likewise there would be an increased self-insurance element for employers liability claims.
31. An increase in the insurance excess will be formally considered in the insurance fund review scheduled for later in 2017 and any increased exposure that the council is deemed to face as a result of an increased excess and potentially also an increased aggregate stop loss will be factored in to the auditor's assessment of the council's insurance reserve and any recommendations to the level of reserve. Funding options are under consideration.
32. Costs for this contract are contained within existing budgets.

Legal Implications

33. Please refer to the comments of the director of law and democracy.

Consultation

34. No additional consultation has been undertaken.

Other implications or issues

35. There are no other implications or issues.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Strategic Director of Finance and Governance (F&G17/001)

36. The recommendations in this report concern the extension of the corporate liability insurances contract, at total estimated value of £513,000, and the associated liability insurance claims handling service at an estimated cost of £117,000.
37. The contract costs will fall part in 2017-18, for which the council's general fund and housing revenue account budgets have been agreed, and part in 2018-19 for which budgets will be agreed in January and February 2018. The government grant to the council will be reducing, and the report identifies how the increasing cost of the contracts may be mitigated.

38. It is important that accurate and timely monitoring is completed of the costs incurred under the contract.

Head of Procurement

39. This report seeks the approval of the strategic director of finance and governance for the extension of the corporate liability insurances contract, with QBE via RMP for a period of one year with effect from 1 October 2017. The total estimated value of the contract extension is up to £513,000 and was included with the original contract.

40. The report also seeks the approval of the strategic director of finance and governance for the consideration of changes to the insurance cover that may reduce the estimated contract value increase as is outlines in paragraphs 11-16. The strategic director of finance and governance is also asked to note the associated extension of the liability insurance claims handling to Gallagher Bassett in line with the liability insurer's requirement, for a period of one year with effect from 1 October 2017 at a total estimated contract value of extension of £117,000 (set out in paragraph 6).

41. The plans for contract management and monitoring of the contract are set out in paragraphs 22 and 23 of the report, whilst paragraph 27 confirms that staff confirm receive the London Living Wage.

Director of Law and Democracy

42. This report seeks the approval of the strategic director of finance and governance to the extension of the corporate liability insurances contract and associated claims handling as further detailed in paragraphs 1-3. The decision to approve this variation is one which must be taken by the relevant chief officer or under their delegated authority in line with contract standing order 6.6.3(e), and therefore may be taken by the strategic director of finance and governance.

43. The value and nature of these services are such that they are subject to the Public Contract Regulations 2015, and therefore any variation of the contract must meet the requirements of Regulation 72 of those regulations. One permissible ground for variation is where the possible modification has been included in clear, precise and unequivocal review clauses/options. As noted in paragraph 7, the possible extension for a period of 1 year from 1 October 2017 is an option included within the contract documents.

44. Contract standing order 2.3 requires that no steps should be taken to vary a contract unless the extension has been approved. Paragraphs 29-32 confirm the financial implications of this variation.

PART A – TO BE COMPLETED FOR ALL DELEGATED DECISIONS

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 24-8-17

Designation STRATEGIC DIRECTOR OF FINANCE AND GOVERNANCE

PART B – TO BE COMPLETED BY THE DECISION TAKER FOR:

- 1) All key decisions taken by officers
- 2) Any non-key decisions which are sufficiently important and/or sensitive that a reasonable member of the public would reasonably expect it to be publicly available.

1. DECISION(S)
As set out in the recommendations of the report.

2. REASONS FOR DECISION
As set out in the report.

3. ALTERNATIVE OPTIONS CONSIDERED AND REJECTED BY THE OFFICER WHEN MAKING THE DECISION
As set out in the report.

4. ANY CONFLICT OF INTEREST DECLARED BY ANY CABINET MEMBER WHO IS CONSULTED BY THE OFFICER WHICH RELATES TO THIS DECISION
None

5. NOTE OF ANY DISPENSATION GRANTED BY THE MONITORING OFFICER, IN RESPECT OF ANY DECLARED CONFLICT OF INTEREST
<i>If a decision taker or cabinet member is unsure as to whether there is a conflict of interest they should contact the legal governance team for advice.</i>
N.A.

6. DECLARATION ON CONFLICTS OF INTERESTS

I declare that I was informed of no conflicts of interests.*

or

~~**I declare that I was informed of the conflicts of interests set out in Part B4.***~~

(* - Please delete as appropriate)

BACKGROUND PAPERS

Background Papers	Held At	Contact
Corporate Insurances (excluding property) procurement file	Finance and Governance Department/ Financial and Information Governance	Laura Sandy 020 7525 7398

APPENDICES

No	Title
None	

AUDIT TRAIL

Lead Officer	Jo Anson, Head of Financial and Information Governance	
Report Author	Laura Sandy, Insurance Manager	
Version	Final	
Dated	15 August 2017	
Key Decision?	Yes	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments included
Strategic Director of Finance and Governance	Yes	Yes
Head of Procurement	Yes	Yes
Director of Law and Democracy	Yes	Yes
Director of Exchequer (for housing contracts only)	No	No
Cabinet Member	No	No
Contract Review Boards		
Departmental Contract Review Board	Yes	Yes
Corporate Contract Review Board	No	No
Cabinet Member	No	No
Date final report sent to Constitutional/Community Councils/Scrutiny Team	15 August 2017	

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