

<b>Item No.</b>	<b>Classification:</b> Open	<b>Date:</b> 19 September 2017	<b>Meeting Name:</b> Strategic Director of Finance and Governance
<b>Report title:</b>		<b>Gateway 3 – Variation Decision</b> Property and related Insurances	
<b>Ward(s) or groups affected:</b>		All	
<b>From:</b>		Head of Financial and Information Governance	

### RECOMMENDATION(S)

1. That the strategic director of finance and governance approve the extension of the property insurance and related insurances contract, with Zurich Municipal (ZMI) for a period of one year with effect from 1 October 2017 at a total maximum estimated contract value of the extension of £1,500,000.
2. That the strategic director of finance and governance consider and approve changes to the insurance cover that may reduce the estimated contract value.

### BACKGROUND INFORMATION

3. The council's main insurances are currently placed with different contractors as follows:
  1. Property Insurances (Housing, Education, General, Commercial, Motor and Crime) – ZMI
  2. Liability Insurances – QBE via intermediaries Risk Management Partners (RMP) and Arthur J Gallagher (AJG)
  3. Liability Claims handling with Gallagher Bassett also via RMP and AJG
4. This report only relates to item 1 above, property insurances which include property insurance for schools, general council buildings (e.g. offices), council housing and commercial properties. It also includes other asset insurances: money; works of art and valuable items; crime; and motor insurance.
5. The current contract commenced on 1 October 2015 for two years with the option to extend for one further period of 12 months. This report seeks approval to utilise the single year extension.
6. Although there is no legal requirement to insure property, the council does in fact insure against a comprehensive range of insurance risks to protect public assets against potential catastrophic losses. The only exceptions are fidelity guarantee insurance (which is an element of the crime insurance) and motor third party insurance that the council is required to insure.

### KEY ISSUES FOR CONSIDERATION

## Key Aspects of Proposed Variation

7. Initial discussions with ZMI indicate an increase in the motor premium. This is for reasons outlined in the next section. Once the council has submitted the formal renewal form to the insurers, the insurers have confirmed they will offer formal terms and may include alternative options that could reduce the premium increase. An option may be to increase the self-insured excess. The original annual contract value from the gateway 2 report signed in 2015 was £1,277,383, with a total contract value of £3,832,149.
8. Any options will be reviewed, and the most suitable option for the council will be accepted in line with recommendation 2.

## Reasons for Variation

9. As a direct result of key external factors, namely the reduction to the 'discount rate', ZMI have advised that all their motor insurance renewals will be subject to a significant increase in premium rates, with some of the highest increases being faced by those insured who already have high insurance deductible levels. Other asset related insurances, including the significant property insurance element are not affected.
10. The discount rate relates to high value liability and motor injury claims where claimants are 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.
11. Since 2010 the discount rate has remained unchanged at 2.5 per cent. But it was announced that the discount rate will be changed to -0.75 per cent effective from 20 March 2017. This has led to a dramatic increase in reserves on all future high value liability and motor injury 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.
12. In addition, Southwark Council has a high insurance deductible level of £117,500 on each and every motor 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 and motor insurance sectors.
13. ZMI 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 and motor insurers and we see no benefit in going out to procure a new contract at this point.
14. ZMI may offer various insurance renewal options. These options offer the ability to reduce the insurance premium increase by further increasing the council's insurance deductible level.

## Future Proposals for this Service

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

## Alternative Options Considered

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

Option	Advantages	Disadvantages
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 motor 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

18. There are no identified risks as this is a contract extension with existing insurers and insurance claims handlers allowed for under the existing contract. As explained further below performance under the existing contract is good.

## Policy implications

19. There are no direct policy implications.

## Contract management and monitoring

20. 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, with operational responsibility for the motor insurance element handled by fleet services, and performance is monitored using a variety of techniques including quarterly review meetings, and a defined service level agreement.
21. ZMI'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. Contractor's willingness to engage with other relevant council functions to improve the insurance claims handling process, such as the council's fleet services team and corporate facilities management team and the regeneration division.
- c. Contractor's involvement in certain pro-active initiatives, such as schools fire protection and other property protection ad-hoc advice.
- d. Contractor's willingness to settle claims.

### **Community Impact Statement**

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

### **Social Value considerations**

- 23. 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**

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

### **Social considerations**

- 25. 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**

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

### **Financial Implications**

- 27. As noted above in the section 'Key Aspects of the proposed Variation', there is likely to be a direct increase in cost to the council for the motor element of the ZMI contract of insurance. In addition, there are areas where the council has a

potential indirect financial exposure due to the increase in insurance excesses for motor insurance.

28. In addition to the current excess levels, the increase in insurance excess would result in the council having to self insure any motor claims above £117,500 up to the increased self-insurance level agreed. However as previously stated there are very few claims above £117,500. The council currently has two open claims above the current deductible level.

29. The increase in the insurance excess will be formally considered in the insurance fund review scheduled for later in 2017 and any reduced exposure that the council is deemed to face as a result of the increased aggregate stop loss will be factored in to the auditors assessment of the council's insurance reserve and any recommendations to the level of reserve. Funding options are under consideration.

### **Legal Implications**

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

### **Consultation**

31. No additional consultation has been undertaken.

### **Other implications or issues**

32. There are no other implications or issues.

## **SUPPLEMENTARY ADVICE FROM OTHER OFFICERS**

### **Strategic Director of Finance and Governance (F&G17/003)**

33. This report recommends the approval of an extension to the property and related insurance contract at a maximum cost of £1.5m. It is noted that this represents an increase of up to £233k on the current annual contract value. It is further noted that the increase is due to a change in the discount rate and it is likely that all other providers will increase their premium rates for the same reason. There may be scope for reducing the increase, but this may lead to further costs elsewhere in the insurance budget.

34. The current budget for insurance premiums and other payments is £2.134m, against which a favourable variance of £29k was forecast in the most recent Strategic Finance monitor. This includes budgets for all premiums and claims handling fees paid to all providers. There is therefore a probability that additional funding may have to be identified to cover the expected increase in premiums.

35. The motor insurance premium paid to ZMI in 2016-17 was £63k. It is estimated that this will increase by approximately 10% under the arrangements discussed in this report.

36. Once the new cost of the premium has been established any additional cost pressures will be considered as part of the 2018-19 budget setting process. They will be covered by other favourable variances forecast within the Strategic Finance budget for 2017-18 only.

#### **Head of Procurement**

37. This report seeks the consideration and approval of the strategic director of finance and governance for the extension of the property insurance and related insurances contract, with Zurich Municipal (ZMI) for a period of one year with effect from 1 October 2017. The total maximum estimated contract value of the extension of £1,500,000, making the whole contract with extension worth an estimated £4,054,766.
38. The report also asks that the strategic director of finance and governance considers and approves changes to the insurance cover that may reduce the estimated contract value as detailed in the report.
39. The report sets out that the staff under this contract are paid above the London Living Wage. Paragraphs 20 and 21 detail the detailed contract management and monitoring of the service that is undertaken and will continue under the extension period.

#### **Director of Law and Democracy**

40. This report seeks the approval of the strategic director of finance and governance to a one year extension of the property and related insurances contract with Zurich as further detailed in paragraphs 1 and 2. As this contract relates to insurance then the variation may be agreed by the strategic director of finance and governance by virtue of contract standing order 6.6.3(d)(i).
41. The original appointment in 2015 was subject to, and awarded in accordance with the EU procurement regulations, and it is therefore necessary to ensure that any variation to that contract is permitted under those regulations. Regulation 72 permits modifications to be made to contracts during their term in certain circumstances, including at regulation 72(1)(a), where the modification has been provided for in the original procurement documents in clear and precise terms and provided that the modification does not alter the overall nature of the contract. The possible one year extension is part of the original contract and accordingly these requirements are met.
42. Contract standing order 2.3 requires that no steps are taken to vary a contact unless the expenditure involved has been included in approved estimates, or is otherwise approved by the council. Paragraphs 27-29 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 28.9.17

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.

<b>1. DECISION(S)</b>
As set out in the recommendations of the report.

<b>2. REASONS FOR DECISION</b>
As set out in the report.

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

<b>4. ANY CONFLICT OF INTEREST DECLARED BY ANY CABINET MEMBER WHO IS CONSULTED BY THE OFFICER WHICH RELATES TO THIS DECISION</b>
NONE

<b>5. NOTE OF ANY DISPENSATION GRANTED BY THE MONITORING OFFICER, IN RESPECT OF ANY DECLARED CONFLICT OF INTEREST</b>
<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.

<b>6. DECLARATION ON CONFLICTS OF INTERESTS</b>
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**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
Property and Related Insurances procurement file	Finance and Governance Department/ Financial and Information Governance	Laura Sandy 02075257398

## APPENDICES

No	Title
None	

## AUDIT TRAIL

<b>Lead Officer</b>	Jo Anson, Head of Financial and Information Governance	
<b>Report Author</b>	Laura Sandy, Insurance Manager	
<b>Version</b>	V1	
<b>Dated</b>	19 September 2017	
<b>Key Decision?</b>	Yes	
<b>CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER</b>		
<b>Officer Title</b>	<b>Comments Sought</b>	<b>Comments included</b>
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
<b>Contract Review Boards</b>		
Departmental Contract Review Board	Yes	Yes
Corporate Contract Review Board	No	No
<b>Cabinet Member</b>	No	No
<b>Date final report sent to Constitutional/Community Councils/Scrutiny Team</b>	19 September 2017	