

<b>Item No:</b> 17	<b>Classification:</b> Open	<b>Date:</b> 20 July 2010
<b>To</b>	Cabinet	
<b>Report title</b>	Gateway 2: Contract Award Approval – Corporate Insurance Procurement (excluding Property Insurance)	
<b>Ward(s) or groups affected</b>	All	
<b>From</b>	Finance Director	

**FOREWORD – COUNCILLOR RICHARD LIVINGSTONE, CABINET MEMBER FOR FINANCE AND RESOURCES**

1. This report sets out the recommendations for the award of three packages of corporate insurance to three separate contractors for a three-year period starting this October. There is then scope to extend these contracts on an annual basis up to October 2015.
2. The largest package covers liability insurance and engineering inspection and insurance. A second package covers motor insurance, including claims handling. The smallest package is for motor uninsured loss recovery.
3. Gateway 1 for this procurement was agreed by the previous executive in December. This has meant that the invitation to tender was made prior to the new administration and so there has not been scope to consider joint procurement with neighbouring authorities as part of this procurement. The ability to re-tender for 2013 gives the authority sufficient time to work with other authorities to explore joint procurement options for consideration at that time.
4. I am proposing that Cabinet, after consideration, agrees the recommendations set out below.

**RECOMMENDATIONS**

5. That the Cabinet approve the award of the various elements of the Corporate Insurance contracts in 3 packages to 3 separate contractors, for three years from the 1<sup>st</sup> October 2010.
6. That the Cabinet recommends that the Leader of the Council delegate approval to the Cabinet Member for Resource or the Finance Director, whichever is the most expedient, to exercise the Council’s options to extend the terms of the Corporate Insurance Contracts for up to a maximum of two single years (1+1), subject to appropriate reviews and satisfactory performance.

**BACKGROUND INFORMATION**

7. This contract is for the provision of Corporate Insurance (excluding Property) and the related claims handling to the Council for three years with an option to extend for a further two single years (1+1).
8. Specifically, the key elements of the contract are detailed below:

Contract packages	Contract element	Description
Contract package 1	Liability insurance	Includes public liability, employers liability, officers indemnity, professional indemnity, and hirers liability insurances
	Liability claims handling	All public liability claims handling (including above and below the Council's excess)
	Engineering Insurance	Engineering insurance for plant and equipment (including lifts and pressure vessels)
	Engineering Inspection	The inspection of relevant plant and equipment in line with statutory requirement
Contract package 2	Motor Insurance and claims handling	Motor insurance and motor claims handling for the motor fleet operated by the Council
Contract package 3	Motor ULR	The uninsured loss recovery element of a non-fault motor claim

9. Following review it was decided not to include Fidelity Guarantee in this Corporate Insurance procurement. There are separate arrangements in place for the Fidelity guarantee insurance.
10. The Contracts will become operational on the 1<sup>st</sup> October 2010.
11. The different contracts have different contract price review arrangements in place as follows:
- a. Liability insurance and claims handling has a fixed price for two years followed by increase subject to Average Earnings Index (AEI), published by the National Statistics Office;
  - b. Motor Insurance policy and claims handling is subject to an annual indexation in accordance with the rise or fall in the Average Earnings Index (AEI), published by the National Statistics Office;
  - c. Motor uninsured loss recovery is subject to an annual indexation in accordance with the rise or fall in the Average Earnings Index (AEI), published by the National Statistics Office.
12. It should be noted that following the 2010 Government emergency budget, Insurance Premium Tax (IPT) will increase in next 12 months from 5% to 6%. This tax applies to the insurance policy costs and unlike VAT is not reclaimable.
13. This procurement has followed an EU Open process as laid out in the Gateway 1 report which was approved by the Executive on the 15th December 2009.

#### **Timetable of procurement process followed**

14. The Timetable of the EU procurement process followed for these Contracts is as follows:

<b>INSURANCE PROCUREMENT CONTRACT TIMESCALES</b>	<b>Complete by:</b>
Gateway 1 – Presentation to CCRB (on behalf of CMT)	5th November 2009
Approval of Gateway 1 (Executive)	15th December 2009
Advertise the contract – OJEU	15th March 2010
Invitation to Tender (including PQQ)	20th March 2010 onwards
Closing Date for return of Tenders (52 days)	15th May 2010
Completion of evaluation of tenders	15th June 2010
Gateway 2 – Presentation to DCRB	17th June 2010
Gateway 2 – Presentation to CCRB	24th June 2010
Gateway 2 – Presentation to Cabinet for decision approval	20th July 2010
Scrutiny Call-in complete	5 <sup>th</sup> August 2010
End of Alcatel Period	15th August 2010
Contract Award	16th August 2010
Add to contract register	16 <sup>th</sup> August 2010
Contract Start	1st October 2010
Place award notice in Official Journal of European (OJEU)	1st October 2010
Contract Complete	30th September 2013

## **Description of procurement outcomes**

15. Full details of the procurement outcomes are contained in paragraphs 26 to 29.

## **KEY ISSUES FOR CONSIDERATION**

### **Policy implications**

16. Unlike most organisations, LBS, along with other major local authorities, is not legally required to compulsorily insure certain risks, including the Employers' and Motor Liability risks since we are exempt from the provisions of the Employers' Liability (Compulsory Insurance) and Road Traffic Acts respectively. However, as a matter of financial prudence, we along with most similar authorities do in fact insure against a comprehensive range of insurance contingencies including Employers' and Motor Liabilities, to protect public assets against catastrophic potential losses.
17. LBS is, however, required to have crime insurance (Fidelity Guarantee). LBS must also arrange engineering inspection for relevant plant by a "qualified independent person" under Health and Safety legislation. These contract arrangements include the engineering inspection for relevant plant.

18. There are separate arrangements in place for the property insurances. These, were therefore subject to a separate approval process and there is now a contract in place for property insurances until 30th September 2012.
19. In addition there are separate arrangements in place for the Fidelity Guarantee insurance, as stated in paragraph 9.

### Tender process

20. A Project Board involving the following stakeholders was established, listed below. Permanent members sat on the project board throughout the procurement, whilst other members were invited, as and when their input is required.

Job Title	Role	Status on Project board
Assistant Finance Director	Project Director	Chair of Board and Tender Evaluation Panel
Corporate Risk Manager	Project Manager	Permanent Member of Board and Tender Evaluation Panel
Insurance Manager (part only)	Project Member	Permanent Member of Board and Tender Evaluation Panel
Representative from Departments to evaluate appropriate elements of the tender		Occasional member as required
Procurement adviser from Strategic Procurement Team		Occasional member as required
Legal representative from Contracts Team		Occasional member as required

21. Representatives from Departments involved in specific insurance classes were asked to attend procurement meetings as required and participate in the evaluation process.
22. This team, with support from Legal services, developed all documentation for the procurement process including the Pre-Qualification Questionnaire (PQQ), specification and conditions of contract.
23. The Council's current insurance advisors helped to facilitate the procurement process and provide additional expertise as required. In addition it was decided that due to the complexity of the potential insurance package options and the Council's current internal funding arrangements, that an independent fund auditor would be utilised to assess the most appropriate shape of our insurance programme based on our claims experience.
24. The key stages in the tender evaluation process were:
- a. Evaluation Methodology: The evaluation panel agreed the evaluation methodology that would be applied to this procurement. As part of this agreement a set of evaluation criteria was produced, which was based on a weighted model (price 70% and quality 30%). See appendix 1 for full tender evaluation methodology.
  - b. Advertising of contract in the Official Journal: This contract was advertised in the Official Journal of the European Union.
  - c. Expression of Interest: A total number of 10 applicants had requested a copy of the Council's tender documentation in response to the OJEU adverts.

- d. Tender Submissions – A total of 7 Tender submissions were received. As no applicants had advised that they were withdrawing from the procurement, email confirmation was sought from the 3 organisations who did not submit.
- Applicant X confirmed that they had not submitted and advised that the reason being that, once they had studied the requirements in detail and discussed them with various of their suppliers it became apparent that many of the suppliers planned to bid directly, which made the involvement of a broker surplus to requirements in this instance.
  - Applicant Y confirmed that they had not submitted and advised that the reason was, due to the lack of claims management opportunities for them.
  - Applicant Z also confirmed that they had not submitted and advised that the reason was that another part of their organisation had also expressed interest.
- e. Tenderers submitted for all or part of the contracts.
- f. Clarifications – There were a number of clarifications raised by bidders. All clarifications were responded to and both questions and answers circulated to all bidders.
- g. Initial Evaluation of Tenders including current insurance programme assessment which included:
- Detail the requirements for cover as outlined in the ITT (Invitation To Tender) - based on the current programme design.
  - Detail the responses in terms of cost and cover and how these match or differ from the requirements in the ITT.
  - Detail the issues that require clarification from the Tenderers bids to be discussed in the clarification meeting.
  - Detail the advantages and disadvantages of the responses.
  - In the meeting on the 2nd June comment provided by the independent fund auditor in terms of programme design based on a review of the claims history of LBS.
- h. PQQ assessments. As the procurement was based on an open process, the PQQ was assessed in parallel with the price and quality evaluation. The assessment covered: Finance, Equal Opportunities and Health and Safety. Tenderers had to achieve a pass for Finance, Equal Opportunities and for Health and Safety. Further details of the PQQ assessment are contained in paragraph 25.
- i. Clarifications (PQQ and, Quality and Price as applicable). There were a number of submissions clarifications required. These were raised individually with each of the Tenderer and each was provided with reasonable time to respond to the clarification.
- j. Clarification Meeting. Due to the complexity of liability insurance, it was decided that there would need to be clarification meetings, with the each of the Tenderers bidding for the public liability element of the contracts only.
- k. Final Evaluation. The final evaluation was undertaken by the Evaluation Board, the outcomes of which are detailed in paragraphs 26 to 29.

## Tender evaluation

25. PQQ assessment. All Tenderers were assessed against financial standards, Equal Opportunities and Health and Safety arrangements.

The organisations being recommended for award passed all elements of the PQQ.

26. Quality assessment. The following table presents the results for the quality assessments for each of the contract elements:

Insurance Type	Insurer						
	Bidder 1	Bidder 2	Bidder 3	Bidder 4	Bidder 5	Bidder 6	Bidder 7
Liability Insurance	28	26	24				
Engineering Insurance	30		29	30	29		
Motor Insurance	27		23				
ULR			23			27	26

*Quality Evaluation Pricing Matrix - Maximum Achievable Score = 30*

All Tenderers passed the quality threshold for all elements of corporate insurance contracts that they tendered for.

27. Price assessment. The following table presents the results for the quality assessments for each of the contracts elements:

Insurance Type	Insurer						
	Bidder 1	Bidder 2	Bidder 3	Bidder 4	Bidder 5	Bidder 6	Bidder 7
Liability	62	39	51				
Engineering	62		60	53	62		
Motor	39		62				
ULR			43			48	59

*Pricing Evaluation Pricing Matrix - Maximum Achievable score = 70*

28. The **overall** results for each of the returning bidders, following the clarifications described above, are set out in the table below:

Liability	Bidder 1	Bidder 2	Bidder 3
Quality score	28	26	24
Price score	62	39	51
<b>Total score</b>	<b>90</b>	<b>65</b>	<b>75</b>

*Overall Maximum score: 100*

<b>Engineering</b>	Bidder 1	Bidder 3	Bidder 4	Bidder 5
Quality score	30	24	30	29
Price score	62	51	53	62
<b>Total score</b>	<b>92</b>	<b>75</b>	<b>83</b>	<b>91</b>

*Overall Maximum score: 100*

<b>Motor</b>	Bidder 1	Bidder 3
Quality score	27	23
Price score	39	62
<b>Total score</b>	<b>66</b>	<b>85</b>

*Overall Maximum score: 100*

<b>ULR</b>	Bidder 3	Bidder 6	Bidder 7
Quality score	23	27	26
Price score	43	48	59
<b>Total score</b>	<b>66</b>	<b>75</b>	<b>85</b>

29. The panel, therefore, agreed that it should be recommended to the Cabinet that the contracts be awarded to:

- Bidder 1 – Liability - Liability insurance & claims handling
- Bidder 1 – Engineering - Engineering inspection & Insurance
- Bidder 3 – Motor insurance – Motor insurance & claims handling
- Bidder 7 – ULR - Motor uninsured loss recovery

### **Plans for the transition from the old to the new contract**

30. The majority of elements of the contracts will remain with the incumbent service providers. However, as part of the review of Corporate Insurance, further internal improvements in corporate insurance are being sought to improve on contract management and monitoring arrangements. In addition the process improvements identified through study of the insurance review have been incorporated into this tender where applicable.

31. This transition process will implement improvements in the following key areas:

- The implementation and use of key IT systems to improve efficiency.
- The lead contractor, Bidder 1, for a number of key elements will work with the Council to implement robust contract management and monitoring.
- Actual physical staff resource for the contract i.e. who we will be getting and from where.
- Policy wordings and schedules at inception of insurance contract
- Details of the transition programme.
- Agreement of contract conditions.

### **Plans for monitoring and management of the contracts**

32. It is anticipated that this new contracts will require an enhanced approach to contract monitoring. In recognition of this, the Corporate Insurance team is in the process of developing a contract monitoring manual identifying the key requirements of the contract, including outputs and performance indicators.
33. The Corporate Insurance team is developing (during transition) a number of important performance indicators, which will need to be regularly monitored by a member of the corporate insurance team.
34. The Corporate Risk Manager will hold at least quarterly meetings with the successful Tenderers to monitor actual performance against the performance targets along with any other contractual issues that may arise.
35. It is expected that the new contracts, along with the new style of management will lead to better service delivery of insurance claims management in particular.

### **Community impact statement**

36. Liability claims handling will continue to be monitored to ensure that the provider continues to provide an acceptable service to members of the community who claim under the council's liability policy.

### **Sustainability considerations**

37. Environmental - The specification included the requirement for electronic exchange of information in order to minimise the need for paper records.
38. Economic - There are likely to be no additional running costs of this contract other than the costs of the contract. As this procurement is for a service there will be no additional life span of the contract remaining after the contract comes to an end. Due to the limited nature of the insurance market and the need to use national insurance markets, there is no opportunity for local economic benefit.
39. Social considerations - As part of the procurement process, Tenderers were assessed on their Equal Opportunity Policies. The Insurance Market is limited and there was a need to use national insurance providers.

### **Market Considerations**

40.

- The successful tenderers are private organisations
- The successful tenderers number of employees range from 40 to over 250 employees
- The successful tenderers have national area of activity

### **Resource implications**

### **Staffing implications**

41. There are no TUPE implications.



42. Once the contracts are up and running, the contract management will continue in the same way as with the current contracts. There are no immediate additional resource implications. This may change as a result of the corporate insurance review.

### **Financial implications**

43. The cost of future premiums and excess payments as a result of this procurement are contained within the existing budgeted resources for insurance as the risk of higher premiums due to difficult market conditions that persist within the financial sector has not greatly increased the insurance costs.
44. The expenditure budget for corporate insurance is adequate to meet the costs of this procurement.
45. In any one year of this new insurance agreement where the number of claims is higher than anticipated and general fund costs exceed the budget provision; there may be a one-off draw down on reserves held for this purpose. There may be circumstances where the higher costs relate to claims that are to be recharged to the housing revenue account or direct service organisations, and therefore not require a call on general fund reserves. However, the overall risk of higher costs is also mitigated by the use of aggregate stop loss insurance arrangements. The aggregate stop loss insurance limits the Council's maximum exposure in any one year.
46. Where the claims experience suggests that moving forward there will be a continued pressure on the general fund insurance budget, this pressure would need to be addressed through the annual budget process to ensure there is adequate resources available to meet the year on year costs of insurance and the need to maintain the insurance reserve at the required level.
47. There will be a generally positive financial outcome saving 6.5% of the total contract value. This is based on an insurance programme design including:
- Excess levels being maintained
  - Limits being maintained or increased (tree root liability)
  - Aggregate stop loss levels being maintained or reduce (liability)
48. All costs outlined include, where relevant I.P.T. tax of 5% but excludes VAT as this can be reclaimed by the council. It should be noted that following the 2010 Government emergency budget, Insurance Premium Tax (IPT) will increase in next 12 months from 5% to 6% of insurance policy cost.

### **Legal implications**

49. Advice has been taken and will continue to be sought where necessary from the contracts section of Communities, Law and Governance. As stated, as part of the transition process, contract condition matters will be worked through with the successful contractors.

### **Other implications or issues**

50. There are no other implications or issues.

## **SUPPLEMENTARY ADVICE FROM OTHER OFFICERS**

### **Strategic Director of Communities, Law & Governance**

51. The Strategic Director of Communities, Law & Governance notes the contents of this report, which seeks the approval of the Cabinet to the award of the corporate insurance contracts that are described in Recommendation 1.
52. CSO 4.5.3 requires any possible options to extend the contract to be included as part of the proposed recommendations within the Gateway 2 report and Recommendation 2 confirms those options. In accordance with CSO 4.5.3, the Cabinet is also asked to recommend that the Leader of the Council delegate the decision(s) to exercise those options at a future date to the Cabinet Member for Resources or the Finance Director, whichever is the most expedient at the relevant time.
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 all of the relevant legal requirements.
54. As part of the contract award process, there will need to be a standstill period of a minimum of 10 calendar days between notification of each of the successful tenderers that they have won a contract and the award of the contract to that tenderer, so as to allow unsuccessful tenderers the opportunity to challenge (if they decide to) the award of the relevant contract.

### **Finance Director**

55. The financial implications are addressed in the main body of this report

### **Head of Procurement**

56. This report is seeking approval to award three insurance packages to three providers as detailed in paragraphs 5 and 29.
57. The procurement process followed was according to the procurement strategy GW1 report which was approved in December 2009 and as such was an EU compliant process in line with contract standing orders. With the insurance market being specialist, officers took advice from an insurance advisor throughout the process. This was done in a managed way ensuring that officers maintained an overview and control of the process.
58. Both the approach to contract packaging and the tender process were designed in a way to ensure that the council could secure the best possible deal, taking advantage of any volume discounts that may have been offered. Paragraph 47 confirms that the outcome of this procurement process will on average make a saving of 6.5% with no increase in excess levels, aggregate stop levels etc.

59. Paragraphs 32 - 35 outlines the contract monitoring and management arrangements for this contract going forward. Changes have been made to the previous management arrangements and KPIs introduced to help ensure that service delivery improves.

## BACKGROUND DOCUMENTS

Background documents	Held At	Contact
None	n/a	n/a

## APPENDICES

Appendix number	Title of appendix
1	Corporate Insurance Tender evaluation document

## AUDIT TRAIL

<b>Lead Officer</b>	Finance Director		
<b>Report Author</b>	Corporate Risk Manager		
<b>Version</b>	Final		
<b>Dated</b>	29th June 2010		
<b>Key Decision?</b>	Yes	<b>If yes, date first appeared on forward plan</b>	August 2009

### CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER

Officer Title	Comments Sought	Comments included
Strategic Director of Communities, Law & Governance	yes	yes
Finance Director	yes	yes
Head of Procurement	yes	yes
<b>Contract Review Boards</b>		
Departmental Contract Review Board	yes	yes
Corporate Contract Review Board	yes	yes
<b>Cabinet Member</b>	yes	yes
<b>Date final report sent to Constitutional Support Services</b>		9 <sup>th</sup> July 2010

## Appendix 1

### Tender Evaluation

The Council has set up a Tender Evaluation Panel (TEP) to assess the Tender submissions received in relation to this procurement. This Panel consists of officers from across the Council with a combined understanding and working knowledge of the services to be provided. The TEP has set the evaluation criteria against which all submissions will be assessed.

The following information details the methodology for assessing each submission responding to this Invitation To Tender (ITT).

#### Stage 1 - Initial evaluation of the PQQ questionnaire.

The following assessment will apply:

Stage 1 PQQ evaluation element	Detail	
B. Financial Information	i) The Tenderer must be FSA registered ii) The Tenderer must have at least an 'A' rating from Standard & Poor (or equivalent)	PASS/ FAIL
C. Equal Opportunities	(additional general and criteria information contained in appendix fourteen)	PASS/FAIL
D. Health and safety	(additional criteria information contained in appendix fourteen)	A threshold of 75% will apply

**Please note that only those Tenderers reaching the above PQQ thresholds will be considered for the next stage of the evaluation process.**

These and other PQQ responses will also be used in the Quality evaluation at stage 2.

## Stage 2 – Detailed Evaluation of the Tender response

### Quality Evaluation

Submissions will be assessed on the basis of Quality and Price. A weighted model will be applied (Quality 30%, Price 70%).

The quality assessment will be based on the information received from Tenderers in response to the ITT.

Each quality element has been weighted according to its importance to the Council's running of the Contract. Tender responses will be assessed against the Council's requirements.

### Quality Assessment Evidence

Tenderers are requested to provide information at various points in this tender documentation in order to support the quality assessment. These include but not limited to:

- Policy wordings and extensions
- Details of cover / limits that can not be provided as requested in the ITT
- Details of your Account Personnel (including risk management personnel) - knowledge, experience and role on this contract
- Details of your Claims Management system
- Details of your own service standards/ charters (if above and beyond that contained in Council's service standard requirements)
- References
- Information provided in the returnable schedules

### Quality Scoring

Out of the total points available for each question, a weighted score will be applied as follows:

Assessment	Score	Basis of score
No Submission	0 points	No submission was made
Very Poor	1 points	Unacceptable, an unsatisfactory response
Poor	2 points	Only some of the requirements met
Acceptable	3 points	A satisfactory response, which meets the basic requirements.
Good	4 points	Good response, which meets all requirements and gives some confidence
Excellent	5 points	Meets all requirements and gives full confidence OR exceeds expectations and gives some confidence

### Quality Evaluation Criteria

The following matrix contains the evaluation criteria for Quality with weightings as agreed by the tender evaluation panel.

Criteria	Detail	Weighting
<b>Quality (30 Points)</b>		
Experience within Public Services Sector	Policy wording specific for the sector (to what extent does the cover offered match requirements of the tender specification and are there any significant exclusions or conditions)  Extensions to policy cover dealing with current issues / legislation.	7
Underwriting Approach	Account support as demonstrated in the bid  Own Service standards and Customer Charter  Compliance with the Authorities' standards as ITT  References from existing clients	7
Claims Handling / service	Third Party settlement philosophy in line with the Authorities approach.  Authorities choice of solicitors / loss adjusters  Compliance with the Authorities' Service Standards.  Facilities provided by Approved Repairers  Client based claims management system.  Clear, compliant, accurate and timely financial reporting and monitoring  Maximise use of 'e'documentation  References from existing clients  Transition plan (as demonstrated in the bid )	9
General Service	Overall approach, quality of staffing, support, policies etc  Transition plan (as demonstrated in the bid )	4
Risk Management and Risk Control Experience and Resources	Loss Control Surveyors / Advisors with local authority risk experience.  Appreciation of local authority funding limitations.  Risk Management consultants / training with Local Authority experience	3
<b>Total (Quality)</b>		<b>30 points</b>

## Price Evaluation

Each of the different insurance options will be evaluated based on the pricing criteria below:

Criteria	Weighting
<b>Price ( 70 Points )</b>	
<b>Premium Terms - Competitive baseline cost to provide cover as requested. Guaranteed premium . Cost for alternative deductibles / limits of Indemnity.</b>	<b>50</b>

<b>Other price factors :</b>	Package discounts	
	Long term agreement discounts	
	Long term agreement discounts	<b>20</b>
	Low claims rebate / other efficiency savings	
	Risk management funding	
	Other innovative pricing mechanisms	
<b>Total (Price)</b>		<b>70</b>

<b>Total (price and quality)</b>		<b>100</b>
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Cost of Cover

The cost of cover will be based on a relative score. The lowest sum will receive the maximum score and the higher scores will receive a score that is relative to the lowest sum. I.e. the following formula will be applied:

$$\text{Lowest sum} / \text{other sum} \times 40\%$$

**Thresholds**

The following thresholds will apply:

Stage 2 Evaluation element	Threshold
Quality (overall)	60 % of the total quality score

**Please note that no bidder will be recommended for award unless they meet a quality score of at least 60% of the total quality score available.**