

Item No.	Classification: Open	Date: 21 May 2015	Meeting Name: Strategic Director of Finance and Corporate Services
Report title:		Gateway 2 - Contract Award Approval Property Insurance (Housing, General, Education and Commercial)	
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 property insurance contract, following single supplier negotiations, to Zurich Municipal (ZMI) in the sum of £1,277,383 per annum for a period of 2 years plus option to extend for a further year making a total contract value of £3,832,149 starting from the 1 October 2015.

BACKGROUND INFORMATION

2. 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 intermediaries Risk Management Partners (RMP) and Arthur J Gallagher (AJG)
 - 3) Liability Claims handling with Gallagher Bassett also via RMP and AJG
 - 4) Engineering inspection services and Insurances – HSB Haughton (HSBH) via RMP and AJG
3. 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; fidelity guarantee; and motor insurance.
4. The current contract commenced on 1 October 2012 for one year with the options to extend for two further periods of 12 months. Both single year extensions were utilised and were part of a separate gateway 3. Therefore, the current contract comes to an end on 30 September 2015. 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 exception is fidelity guarantee insurance that the council is required to insure.
5. In 2009 and as a direct result of the council's property loss experience (3 large claims made against the property insurance cover in the previous 3 years) ZMI significantly increased their premiums on the housing property element of the

insurance contract, thus breaking the property insurance long term agreement (LTA) with the council.

6. This resulted in a single supplier negotiation with ZMI and revised property renewal terms for a three year LTA which held the insurance premium price but at a significantly increased self-insurance level.
7. Since the previous property renewal terms referred to above, the council has made another three significant claims, which has further worsened its position?
8. 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.
9. The gateway 1 report has been approved, and the procurement route outlined in the gateway 1 report was followed, namely a single supplier negotiation with the incumbent provider, ZMI. This was on the basis, as outlined in the gateway 1 that there would have no other acceptable terms available in the market.
10. Due to the council's recent adverse loss experience as outlined in the gateway 1 it was not viable to retender property insurance as previously intended.
11. The council has also had its insurance advisor undertake a soft market testing to gauge the likely level of response to a property insurance tender, and the expert opinion is therefore that there will be no other acceptable terms available in the market.
12. ZMI has performed well; the real test of any insurance policy is when the insured has a claim, that that claim will be paid. ZMI have to date always accepted the insured position and settled claims. Currently, the council also holds quarterly meetings with ZMI to monitor day to day performance and resolve any issues arising. One area where improvements have been required over the past 2 years is the provision of up to date claims information. ZMI have worked to improve the level and quality of claims information provided, and that is one area that the council continues to monitor closely to ensure that they satisfy the councils requirements.
13. 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 assets to be insured, or if there is another major loss resulting in ZMI breaking the LTA.

Procurement project plan

Activity	Completed by
DCRB Review Gateway 1: Procurement strategy approval	12 February 2015
CCRB Review Gateway 1: Procurement strategy approval	19 February 2015

Activity	Completed by:
Approval of Gateway 1	1 April 2015
Completion of Single Supplier Negotiation	24 February 2015
DCRB Review Gateway 2: Contract Award Report	26 March 2015
CCRB Review Gateway 2: Contract Award Report	16 April 2015
Approval of Gateway 2: Contract Award Report	XXXX2015
Add to contract register	22 April 2015
Contract start	1 October 2015
Initial Contract completion date	30 September 2017
Contract completion date – if extension(s) exercised	30 September 2018

KEY ISSUES FOR CONSIDERATION

Description of procurement outcomes

14. Following negotiation, ZMI agreed to hold the insurance premiums at the existing rate. Thus, the council will continue to pay £1,277,383 per annum for its property related insurances with no adverse changes to level of cover or increases in excess levels. This includes insurance premium tax at 6% and also increases in property valuations, and cover amendments since the last renewal. Based on the soft market testing results outlined in the gateway 1, this does suggest a positive result for the council. ZMI also agreed a number of contact incentives related to the Education, Housing and General Property insurances.
15. ZMI 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.
16. ZMI's final terms were only available for a short period of time. In addition, until the council had agreed the terms with ZMI, the council was at risk of the terms being withdrawn if there was another major loss, so the decision taker indicated to ZMI that the terms were acceptable in advance of the gateway 2 being finalised. The contract however does not begin until 1 October 2015.

Key/Non Key decisions

17. This is a key decision.

Policy implications

18. There are no policy implications.

Tender process

19. The council formally asked ZMI if they would consider offering terms to the council to effectively continue with the current property insurance arrangements. ZMI confirmed that they were.
20. The council then met with senior management from ZMI to present to ZMI the council's requirements. ZMI were then invited to present the council with renewal terms.
21. These renewal terms were evaluated by the council with the support of the council's insurance advisor and found to be satisfactory, and a recommendation was made to the decision maker to accept these terms.

Tender evaluation

22. As a single supplier negotiation was undertaken with the incumbent there was effectively no further evaluation undertaken other than the process already outlined in the tender process. 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

23. As the new contract will be with the existing provider, ZMI, 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 ZMI.

Plans for monitoring and management of the contract

24. 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 ZMI, and the insurance advisor. Although this type of 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 ZMI to gain a better understanding of the council's risk management arrangements and to monitor the council progress towards completing risk improvements.

Identified risks for the new contract

No.	Risk	Risk Level with mitigation	Mitigating Action
1	Another significant property insurance loss occurs during the contract period resulting in ZMI breaking their LTA and increasing insurances premium	Low	There have been significant improvements in property risk management across the council, however regardless of action taken, there will always be the risk of another serious event. The council will also continue to

	and/ or reducing cover		investigate the use of alternative approaches to insured risk financing going forward which may reduce the reliance on the insurance market.
2	Risk of procurement challenge due to a full OJEU procurement not being undertaken	Low	There is a potential procurement risk of challenge. However following soft market testing this is deemed to be a low risk.

Community impact statement

25. 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 person 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.

26. 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

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

Social considerations

28. 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

29. There are no environmental implications.

Market considerations

30. This contract is outsourced. ZMI is a private company, with over 250 employees and provides its services nationally.

Staffing implications

31. 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

32. The Commercial insurance which is £103,060 per annum is settled by the Property Division and recharged by them directly to commercial leaseholders.
33. For the remaining elements of insurance and as outlined in the gateway 1, the council's recent event history has resulted in a significant increase in the premium charges of the incumbent property insurance provider. However 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 property 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.
34. Property insurance covers housing, general, education, commercial and other asset protection and moving forward a review will be undertaken to ensure that the costs of insurance are re-allocated to services appropriately. This is particularly important where the re-allocation is to services not funded within the general fund, for example the housing revenue account.
35. The strategic director for finance and corporate services will advise how the longer term provision of property insurance under the contract will be resourced, after consideration of the options available.

Legal implications

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

Consultation

37. No additional consultation was undertaken.

Other implications or issues

38. There are no other implications or issues.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Head of Procurement

39. This report is seeking approval for the appointment of Zurich Municipal (ZMI) following single supplier negotiations. The report details the requirement for insurance cover across the council's assets and confirms that this will be for existing coverage. Permission to enter into negotiations with ZMI was approved through a Gateway 1 report in February 2015.
40. The report details the requirement for insurance cover across the council's assets and confirms that this will be for existing coverage. Permission to enter into negotiations with ZMI was approved through a Gateway 1 report in February 2015.
41. Paragraph 10 confirms that following the council's recent adverse loss experience, expert opinion is there will be no other acceptable terms available in the market. Consequently officers assessment is that the premium negotiated with ZMI represents the best value possible for the council and as such justifies the procurement route taken.
42. The report confirms that the council has also been able to secure further benefits including a reduction in insurance excess and a claims performance adjustment which goes some way to demonstrate the council is achieving value for money.
43. Paragraph 24 outlines the monitoring and management arrangements that will continue to be in place.

Director of Legal Services

44. This report seeks the approval of the strategic director of finance and corporate services to the award of the property insurance contract to Zurich Municipal as further detailed in paragraph 1.
45. The nature and value of these services are such that they are subject to the tendering requirements of the Public Contract Regulations 2015 (PCR15). However as noted in the gateway 1 report and at paragraph 9 of this report, the council entered into single supplier negotiations with the current provider, ZMI, on the basis that they were the only provider able to offer acceptable insurance terms to the council. Regulation 32(2)(b) of the PCR15 allows the council to award a public contract by a negotiated procedure without prior publication where the services can only be supplied by a particular provider due to competition being absent for technical reasons. However this ground may only be used where no alternative or substitute exists. As noted in paragraph 11, the council has taken advice from its insurance advisor and undertaken soft market testing, and the expert advice is that there are no other acceptable terms available in the market.
46. Contract standing order 2.3 requires that no steps should be taken to award a contract unless the expenditure has been approved. Paragraphs 32-35 confirm the financial implications of this award.

Strategic Director of Finance and Corporate Services (F&CS15/001)

47. The strategic director of finance and corporate services notes the award of the property insurance contract, following single supplier negotiations, to Zurich Municipal (ZMI) in the sum of £1,277,383 per annum.

48. The financial implications note that for the Commercial Insurance the costs of £103,060 per annum is settled by the Property Division and recharged by them directly to commercial leaseholders.
49. The contract affects the financial years 2015/16 to 2017/18. The budget for 2015/16 has been agreed by council assembly for the general fund and by cabinet for the HRA. The actual cost of this contract exceeds the current revenue budget provision for property insurance, and 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.
50. Further work is needed to ensure that the costs of insurance are re-allocated to services appropriately, and as to how the longer term provision of property insurance under the contract will be resourced.

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 21.5.15

Designation STRATEGIC DIRECTOR OF FINANCE AND CORPORATE SERVICES

BACKGROUND DOCUMENTS

Background documents	Held At	Contact
Property Insurance 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	21 May 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	Yes/No	Yes/No
Cabinet	Yes/No	Yes/No
Date final report sent to Constitutional/Community Council/Scrutiny Team		Date/Month/Year e.g. 5 July 2010

