

Procurement of Council Insurance Programme

To: Strategy & Resources Committee

Meeting Date: 29 March 2022

From: Tom Kelly, Director of Resources

Electoral division(s): All

Key decision: Yes

Forward Plan ref: 2022/017

Outcome: To obtain approval to tender the corporate insurance programme for the Council for the period 2022 – 2027 and for the delegation of decision to let contracts to the Director of Resources.

Recommendation: The Committee is asked to:

- a) Note and approve the issue of a tender for the Council's insurance arrangements for the period 2022-2027; and
- b) Approve the delegation of the decision on the level of insurance to be purchased and the award of contracts to the Director of Resources in consultation with the Chair and Vice-Chair of the Strategy and Resources Committee.

Officer contact:

Name: Mark Greenall
Post: Head of Insurance
Email: mark.greenall@cambridgeshire.gov.uk
Tel: 01223 699112

Member contacts:

Names: Councillor Lucy Nethsingha / Councillor Elisa Meschini
Post: Chair/Vice Chair
Email: lucy.nethsingha@cambridgeshire.gov.uk; elisa.meschini@cambridgeshire.gov.uk
Tel: 01223 706398

1. Background

- 1.1 The Council's current insurance programme expires on 30th September 2022, it was last tendered in 2017. It is proposed that a tender process is undertaken to procure contracts of insurance to replace existing arrangements.
- 1.2 At last renewal in October 2021, the Council paid £1,086k in insurance premiums. The Council has for many years held large self insured retentions (excesses) on material damage and liability insurance policies in order to contain the cost of insurance spend and balance internal and externally insured risks.
- 1.3 The insurance market for public sector risks is currently relatively adverse with insurers requiring high premium levels and large self insured retentions especially on material damage and liability risks.
- 1.4 Ahead of tender preparations we have reviewed the Council's tolerance to financial risk, the level at which it buys insurance and what insurance it buys. As a result of this work, with the support of the Council's appointed insurance brokers, we will design a revised insurance programme which will serve, based on actuarial assessments of the Council's historic claims performance, to best manage the overall total cost of insurable risk.
- 1.5 The Council's Insurance Service, working with appointed insurance brokers, will lead the procurement exercise with the support of Procurement colleagues undertaking a compliant marketing exercise engaging insurers within the public sector market. The tender will be issued to the market by May 2022 with responses due July 2022 for assessment and decision by end August 2022. The new contracts of insurance will commence on 1st October 2022 with an intended duration of 3 years with an option to extend for up to 2 further years.
- 1.6 Not all insurance policies will be subject to a full tender process. The following specified risk areas will be subject to a request for quotation process led by brokers with procurement oversight. This is due to their specialist nature and limited market availability for the cover required by the Council. Due to the level of premium spend for these covers there is assessed to be no material impact on the council as a result of this approach
 - Terrorism, estimated annual spend £6k p.a
 - Fine Art, estimated annual spend £13k p.a
 - Solar, estimated annual spend £18k p.a.
- 1.7 It is essential that the Council has in place a robust programme for protection against the financial exposure to insurable risks, alternative programme and design structures will be considered and the final structure will be agreed by the Director of Resources in consultation with the Chair and Vice-Chair

2. Main Issues

Insurance Market

- 2.1 The public sector insurance market remains limited in the number of insurers operating

within the space. Traditional insurers have recently been joined by new market entrants who are providing additional capacity but overall competition remains limited.

- 2.2 There is a reluctance from general market insurers to operate in the local authority space due to the risks associated with local authority operations, particularly highways and children's social care.
- 2.3 Alternative risk transfer models have been investigated, most recently the Local Government Mutual (supported by the LGA). However these have not resulted in sufficient capacity within the market to be capable of offering a meaningful alternative to traditional insurance and at the time of this report there is no viable alternative to the purchase of insurance protection.
- 2.4 A significant increase in losses both domestic and worldwide has led to a general reduction in capacity and increase in premium rates. Insurers are being more selective of the risks that they choose to insure and have a general expectation of the insured taking a larger proportion of the risk through self insured retentions
- 2.5 We are currently expecting significant increases in material damage and liability insurance premium rates as a result of claims inflation, reinsurance cost increases and the ongoing limited public sector market.

Risk Financing

- 2.6 Currently the Council retains the first £260k of all material damage claims and £750k of all liability claims. The amount the Council pays in retained claims in any one insurance period is capped by an aggregate deductible set at £790k and £5m respectively. The Council funds the self insured retention risks within its insurance reserves undertaking actuarial review of the amount of top-up required annually to the reserve each year.
- 2.7 Other insurance policies are subject to lower levels of excess as befits the risks associated with them and the inability to make meaningful premium savings by virtue of an increase in self insured retention.
- 2.8 It should be noted that the liability insurance deductible was increased by insurers in 2020 in response to a deteriorating claims experience driven by a number of larger liability claims, predominantly on the highways.

Insurance Programme Design

- 2.9 The Council will place to market a tender specification requesting cover for the key areas of insurable risk. Following consideration by the Insurance Service, other than the offsite travel policy purchased solely for use by schools, it is not proposed at this time that any insurance policies are lapsed and not insured, see 2.12 below.
- 2.10 We have instructed an insurance actuary to review the Council's material damage and liability claims histories and provide guidance as to the suggested level of self insured retention for these insurances. The balance of the Council's insurance covers have significantly less risk attached to them and do not command the same level of self insurance and were not considered by the actuary.

2.11 When considering the level of self insured retention we have reviewed the likely retained claims costs to the Council of the retention against the insurers premium requirements. On assessment we have selected retention levels for material damage and liability risks based on the cost of retained risks and premium when added together. Savings in premiums from higher retention levels may not necessarily be sufficient to justify the additional exposure on the Council's insurance funds. Following this work it is proposed that the Council will place before the market the following deductible options:

Material Damage	Option 1	£100k Deductible
	Option 2	£250k Deductible
	Option 3	Bidder specified variant
Liability	Option 1	£500k Deductible
	Option 2	£750k Deductible
	Option 3	Bidder specified variant

The tender presentation will include actuary suggested aggregate deductibles although from experience the market will provide terms with each bidder setting their own assessment of aggregate deductible. As part of the evaluation process work will be undertaken to assess the cost of each variation offered by the market.

2.12 With effect of 1st April 2022 schools will be insured in on a standalone insurance framework, removing them from the Council's main insurance programme. This outcome has been reached to ensure that the Council was able to offer the most comprehensive and cost effective insurance provision for schools and given national developments in the schools insurance market and that the responsibility and decision-making on insurance is for schools themselves. The framework cover provided to the schools from 1st April 2022 will result in lower insurance costs than would be achieved by using the Council's insurance arrangements or the alternative Risk Pooling Arrangement operated by the Education Funding Agency.

2.13 As a result of the removal of schools from the insurance arrangements there is likely to be a significant reduction in the risk exposure on material damage insurance which will result in premium savings. We have considered actuarial advice and given the lower risks associated with the remaining Council's property portfolio there is not expected any benefit to the Council of taking a deductible in excess of the current levels on material damage insurance.

2.14 The Council's liability risk exposure is primarily centred around highways and social care risks, it is not expected that the removal of schools will have a significant impact on the level of self insured retention. As a result it is recommended that we place market options based on the current level of retention and for comparative purposes reduced level.

3. Alignment with corporate priorities

3.1 There are no significant implications for the following corporate priorities

- Communities at the heart of everything we do
- A good quality of life for everyone
- Helping our children learn, develop and live life to the full

- Cambridgeshire: a well-connected, safe, clean, green environment
- Protecting and caring for those who need us

4. Significant Implications

4.1 Resource Implications

The following bullet points set out details of significant implications identified by officers:

- It is expected that overall the total cost of the Council's insurance arrangements will decrease compared to previous years. The decrease will be driven by the removal of schools from the programme. However the level of decrease will be reduced by virtue of the harsh market conditions.
- The premium costs for 2021/22 were £1,086K, at present the best estimate of the level of premium spend, excluding schools, for 22/23 is £810k, this is based on current deductible levels and whilst this takes account of inflationary factors we are not able to provide significant assurance as to the accuracy of this estimate as it is dependent on market factors, tender responses and ultimate programme design recommended during tender evaluation.
- It is believed that the overall level of the Council's self insured retention moving forward will reduce due to the removal of school risks from material damage cover.
- The Council retains appropriate levels of budget for insurance premium spend to cover the expected cost of its insurance for the 2022/23 insurance period.

4.2 Procurement/Contractual/Council Contract Procedure Rules Implications

Procurement to be managed in compliance with the Council's contract regulations and the Public Contracts Regulations 2015. The key risks arising from this procurement are as follows:

Insurance team fails to oversee robust tender process leading to breach of regulations	Process is being managed by Head of Insurance in consultation with Procurement and Council appointed insurance brokers to ensure full compliance with contracting regulations.
Poor evaluation and decision making result in increased insurance costs over life of contract	Evaluation will be undertaken in consultation with appointed insurance brokers to ensure errors or omissions in bids are identified and final recommendations represent most economically advantageous outcome for the Council.
Poor financial evaluation leads to selection of inappropriate levels of self-insurance leading to higher lifetime costs	Working with appointed actuaries the Council is undertaking a review of insurance self insured retention levels across long term claims spend within liability and property risks to ascertain an appropriate level of self-insurance for the Council in the future. This information will then be utilised to review bids received to ensure appropriate retention levels are selected.

Working with procurement colleagues the Insurance Team have considered social value within this procurement. It is considered that there are limited social value opportunities arising in this market. The provision of insurance is essentially a contract of performance in the event of a loss or liability arising and scope for social value in these contracts is not well developed. We are however aware that some providers do provide volunteer time, charitable donations and other support for local causes within their operating areas and we will consider that within the evaluation criteria as the project develops.

4.3 Statutory, Legal and Risk Implications

The Council is only required by statute to hold fidelity guarantee insurance. The need to hold employers' liability insurance is exempted by statute however the Council purchases this cover as a matter of financial prudence.

The Council can also claim an exemption from the provisions of the Road Traffic Act in respect of the need to have motor insurance when a vehicle is used on business. However as there may be instances when a vehicle is not strictly being driven on business and due to the significant financial risks associated with vehicle use the Council retains insurance on its fleet.

The key risks arising from this procurement are as follows;

The Council receives no bids from insurers for certain key or required insurances	The market remains competitive for all classes of insurance business and whilst premiums are increasing there is no expectation that the Council will fail to purchase insurance cover for any key insurance policy.
The insurance cover offered by the market includes significant exclusions not currently in place which impact upon the Council's risk exposure	At this time we are not aware of any major market changes to insurance cover or policy wordings that would materially increase the Council's risk exposure.

4.4 Equality and Diversity Implications

There are no significant implications within this category.

4.5 Engagement and Communications Implications

There are no significant implications within this category.

4.6 Localism and Local Member Involvement

There are no significant implications within this category.

4.7 Public Health Implications

There are no significant implications within this category.

4.8 Environment and Climate Change Implications on Priority Areas

4.8.1 Implication 1: Energy efficient, low carbon buildings.

Positive/neutral/negative Status: Neutral

Explanation: No direct impact

4.8.2 Implication 2: Low carbon transport.

Positive/neutral/negative Status: Neutral

Explanation: No direct impact

4.8.3 Implication 3: Green spaces, peatland, afforestation, habitats and land management.

Positive/neutral/negative Status: Neutral

Explanation: No direct impact

4.8.4 Implication 4: Waste Management and Tackling Plastic Pollution.

Positive/neutral/negative Status: Neutral

Explanation: No direct impact

4.8.5 Implication 5: Water use, availability and management:

Positive/neutral/negative Status: Neutral

Explanation: No direct impact

4.8.6 Implication 6: Air Pollution.

Positive/neutral/negative Status: Neutral

Explanation: No direct impact

4.8.7 Implication 7: Resilience of our services and infrastructure, and supporting vulnerable people to cope with climate change.

Positive/neutral/negative Status: Neutral

Explanation: No direct impact

Have the resource implications been cleared by Finance? Yes

Name of Officer: Tom Kelly

Have the procurement/contractual/ Council Contract Procedure Rules implications been cleared by the Head of Procurement? Yes

Name of Officer: Claire Ellis

Has the impact on statutory, legal and risk implications been cleared by the Council's Monitoring Officer or LGSS Law? Yes

Name of Legal Officer: Fiona McMillan

Have the equality and diversity implications been cleared by your Service Contact?

Yes

Name of Officer: Tom Kelly

Have any engagement and communication implications been cleared by Communications?

Yes

Name of Officer: Christine Birchall

Have any localism and Local Member involvement issues been cleared by your Service Contact? Not applicable

Have any Public Health implications been cleared by Public Health? Not applicable

If a Key decision, have any Environment and Climate Change implications been cleared by the Climate Change Officer?

Yes

Name of Officer: Emily Bolton

5. Source documents

5.1 None