

## Decision Report - Executive Decision

Forward Plan Reference: FP/22/11/10

Decision Date - 18/01/23

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### Insurance Policies Tender

Executive Member(s): Cllr Liz Leyshon - Deputy Leader of the Council and Lead Member on Finance and Human Resources

Local Member(s) and Division: n/a

Lead Officer: Jason Vaughan, Director of Finance and Governance, Somerset County Council

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### 1. Summary / Background

- 1.1** This is to request a decision to award contracts for insurance coverage to the proposed suppliers as per the attached confidential report (appendix A) for a period of three years with the option to extend for two periods of two years. The anticipated contract spend for the full duration is £7.6m

The existing policies of all the districts and County Council are all due to expire on 31<sup>st</sup> March 2023. In order to deliver new policies and insurance services to the Unitary Council an LGR sub workstream was set up including representatives from the Insurance Services of all Councils. The workstream worked with colleagues in SCC Commercial & Procurement, and in particular those services with assets (EG Property and fleet) to gather and verify large quantities of data. This was a very substantial exercise in terms of information gathering and specification of requirements. Thanks go to all colleagues who have contributed and especially the Insurance teams/representative in all Councils. Some new areas are now insured for the unitary Authority that were not present as a County Council such as HRA's and district investment properties.

The Insurance policies safeguard the financial position and stability of the authority and to protect it against any catastrophic financial losses. This is achieved through insurance/risk transfer: whilst the Council accepts an element of risk and maintains an insurance fund to cover such eventualities, it cannot accept open-ended insurance risks. A list of the Insurances tendered with a brief description can be found in Appendix B.

The Council's insurance approach uses a combination of external policies and self-insurance met by the insurance fund. This fund holds balances against

current and future insurance claims that the County Council may need to pay out (described in more detail in section 4.1) and for large claims external

## **2. Recommendations**

### **2.1. The Executive agrees**

- **the award of contracts of insurance for a period of three years from 1<sup>st</sup> April 2023 (with the option of a four-year extension), There is a critical need to ensure that insurance cover is in place by this date**
- **that Appendix A be treated in confidence, as the case for the public interest in maintaining the exemption outweighs the public interest in disclosing that information.**
- **to exclude the press and public from the meeting where there is any discussion at the meeting regarding exempt or confidential information (Appendix A).**

## **3. Reasons for recommendations**

**3.1** The proposed suppliers offer best value to the Council in terms of quality and price.

**3.2** Appendix A contains exempt information. "Exempt Information" is defined by Section 100 of the Local Government Act 1972 and by Schedule 12A to that Act. The information in Appendix A is exempt information because it is considered to fall within paragraph 3 of Schedule 12A. "*information relating to the financial of business affairs of any particular person (including authority holding that information)*". The public interest test is then applied and in this instance it is considered that the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

## **4. Market and Sourcing Approach**

**4.1.** The current market is difficult considering the global economic situation. This is partly the reason for the initial term of three years, research shows that the current difficulties concerning global markets and UK inflation is likely to last for this period and the initial term will then give Somerset Council the ability to review the marketplace and opportunities before committing to a longer term.

An open approach to the market has been taken. This allows any supplier to offer policies and means that the proposals will be based on the Authority's specific requirements and our processes and controls rather than using potential frameworks to source the policies required.

To allow suppliers to offer optimum proposals the arrangements have been split into 14 separate Lots. Part of this includes cover with two options of deductibles which helps us to assess the most appropriate level based on cost and risk.

The tenders were issued on the Supplying The Southwest procurement portal on 29<sup>th</sup> Sept 2022 with responses received back on 14<sup>th</sup> November 2022.

Members of the team and AJG evaluated the bid responses prior to a moderation session conducted by the Commercial & Procurement team. Some insurers made winning certain lots a condition of their acceptance of other lots in the tender, this was not as advised in the Invitation to Tender, procurement regulations and the lot structure. This process then provided a final Quality score which was combined with the pricing score. Evaluators, final agreed scores and prices are shown within the Confidential Appendix A

Details of the Lots, and the overall weightings applied are contained within Appendix B.

## **5. Links to County Vision, Business Plan and Medium-Term Financial Strategy**

**5.1.** The selected providers of Insurance are deemed value for money having been identified as the preferred solution via a competitive procurement process run by SCC Commercial & Procurement and evaluated by the Council's Insurance team and district representatives in conjunction with our brokers AJG. The business case anticipated £ 750k savings from the combined insurance and the policies will deliver significant savings which will be built into the MTFP which allows deliver of the councils plans and priorities. Further savings maybe possible if performance allows for rebates from the insurers.

As explained the costs of insurance are managed through an earmarked reserve called the Insurance Fund. This holds balances against current and future insurance claims that the County Council may need to pay out (some claims will take more than a single year to resolve). The adequacy of the Insurance Fund is regularly checked by our brokers' actuarial review. Insurance costs, including external premiums, are recharged to budgets in accordance with CIPFA guidance. This allows the Insurance Fund to be topped up, to ensure that it is adequate to meet expected future costs

The level of the Insurance Fund and the probable calls upon it are taken into consideration when the Director of Finance presents the report on the "robustness of the estimates" and the "adequacy of the reserves and balances" to Full Council in the budget setting and MTFP round

## **6. Implication of Local Government Reorganisation**

**6.1.** The policies within all authorities are due to expire on 31<sup>st</sup> March 2023 and as such the proposed arrangements will cover the entire insurance requirements of the new authority.

All five current authorities have been instrumental in identifying the future requirements and providing potential suppliers with a large amount of reference data so that the levels of risk can be adequately assessed by the potential suppliers.

In some cases, this will mean a change to the level of deductibles applied. Support has been provided from the team and from AJG to assess the optimum level of deductibles, considering the levels of risk and impact on the Council's insurance fund.

## **7. Consultations and co-production**

**7.1.** Prior to commencing the procurement, AJG reviewed the current arrangements within each of the Authorities, reviewed the current market and made proposals which were incorporated within the specification provided to bidders. The tendering for new insurance cover does not have a direct impact on any service users and therefore no such formal consultation was required. Key stakeholders have been consulted at all stages of the commissioning and procurement process including Procurement, Legal Services, Service teams including property, fleet, AJG, and Finance.

## **8. Financial and Risk Implications**

**8.1.** The council requires external insurance cover to avoid unacceptable financial risks. Decisions about insurance cover are intrinsically linked to risk management and risk appetite. The tender process has been undertaken with a view to reduce risks across the self-insured part of the Insurance Fund, and to protect the County Council's reserves.

In coming to the recommendations for the Executive, officers have carefully considered the tender bids against our known insurance risks and claims history. There is a risk decision to be taken as to the levels of deductibles (excesses) and cover provided, against the costs of premium incurred, but we have actuarial advice to confirm officers' deductible decisions.

The overarching aim of this tender was to put in place appropriate insurance cover for the new Council and achieve financial efficiencies in the process of arranging the cover, thus benefiting the Council and its residents. The

procurement activity and full claims records provided have both delivered a solution within budget and anticipated annual savings as shown in the confidential appendix A

Despite the lower cost of the premiums, it should be noted that any rise in claims may increase overall annual spend for the Council. In addition, spend may increase as the deductibles limit has been raised on some policies, therefore the Council may self-insure more claims.

<b>Risk</b>	<b>Mitigation</b>
There is only price certainty for the first 3 years of the contracts	Claims increases will be managed by an in-house claim handling team
Insurers not financially stable leading to collapse of organisation and no insurance cover for Council	Undertake annual checks on insurers awarded contracts
The excesses for different insurances are not set at the right level	The Council has the option to self-insure, it has an in-house claim handling team and has Gallaghers as consultant to provide expert advice on the market and for the procurement exercise.
Failure to conduct a compliant procurement in accordance with UK regulations leading to formal challenge	Process is being managed by the Insurance Manager in consultation with SCC Commercial & Procurement and AJG to ensure full compliance with regulations
Poor evaluation and decision making result in increased insurance costs over life of contract	Evaluation was undertaken in consultation with AJG 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 Insurance Manager is undertaking a review against deductible of the Council's long-term claims spends across liability and property risks to ascertain an appropriate level of self-insurance for the Council in the future.

The Council fails to successfully appoint a provider for all requirements	AJG can use their expertise to identify alternative options if available.
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## 9. Legal and HR Implications

**9.1.** The Council has a duty to 'make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency, and effectiveness' (s3 of the Local Government Act 1999). It also has a fiduciary duty to be prudent in its use of resources, in the interests of residents.

The Council is purchasing insurance for its assets to safeguard against 'insurable' losses. The Council has utilised the support of its insurance brokers, AJG, to undertake the procurement exercise.

The Council has also followed the SCC Contract Procedure Rules and Standing Orders and has carried out a procurement exercise which complies with the public procurement rules.

There are no other immediate HR implications, nor any HR implications arising from the proposed decision.

## 10. Other Implications

### 10.1 Equalities Implications

The need for an Equality Impact Assessment (EIA) was considered, however, a conclusion was reached that as there were no implications for any public sector equalities duties due to the nature of the services being procured, an EIA was not required. Despite this, the preferred supplier will be required to comply with the Equalities Act 2010 and any relevant codes issued by the Equality and Humans Rights Commission

### 10.2 Community Safety Implications

None provided insurance in place

### 10.3 Sustainability Implications

No Implications

#### **10.4 Health and Safety Implications**

No Implications.

#### **10.5 Health and Wellbeing Implications**

n/a

#### **10.6 Social Value**

Following discussion with AJG it was agreed to remove the standard Social Value element for this particular procurement. The potential suppliers are large multinational and have negligible presence within the County. The bidders will be likely to have very developed carbon plans, and the nature of the service does not have a direct impact on the local environment or workforce. AJG advised that following their experience in other recent local authority tenders, the inclusion of Social Value was likely to result in fewer bids (especially if it had a high weighting within the process), or responses with undertakings that were unlikely to be delivered.

### **11. Scrutiny comments / recommendations:**

**11.1** To be provided verbally to the Executive

## 12. Background

- 12.1.** The Council's insurance approach uses a combination of external policies and self-insurance met by the insurance fund. This fund holds balances against current and future insurance claims that the County Council may need to pay out (described in more detail in section 4.1) and for large claims external 'catastrophe' insurance.

Tenderers were advised of the deductible limits that set the amount the council is prepared to accept as paying in the event of a successful claim. As an example, for the property lot the deductibles are £250,000 each loss other than when a single event leads to more than one loss only one deductible of £250,000 will be applicable for all claims caused by that one event. This is then subject to an annual aggregate limit of £750,000 after which amount our insurers are responsible to meet the payment. To ensure the best outcome for two lots (7 Combined Liability and 8 Motor) we sought quotes on different deductibles ie £250k and £1 million. to deliver the lowest total cost of risk.

After the bids were submitted with prices for the two different deductible options in respect of Lots 7 and 8 A J Gallagher's (Somerset County Council insurance Broker) (AJG) actuary provided advice on the appropriate deductible to select in order to achieve best value and thus deliver the lowest total cost of risk. To provide bidders with reassurance of the robustness of the Council's self-insurance arrangements they were provided with the detailed Insurance claims handling statement. This assisted in obtaining the most competitive prices from the bidders.

In a district, insurance is part of a job, only Somerset County Council has full time dedicated resources and thus has the ability to handle claims and to self-insure, any self-insurance payments is done via the insurance fund.

Expert advice was provided to the Council utilising the services of its broker AJG and their actuaries to check and advise throughout the process. The nature of an insurance tender is highly specialised and requires evaluating the total cost of risk, the policy wording against price, and the adequacy of policy coverage for the known risks that the Council faces in its varied services.

Not all insurance is being delivered via a tender, as some specialist insurance e.g., marine will be via the broker and Cyber insurance is not included.

The Council, as part of the tender documentation, made available 10 years of claims history. This has had a positive effect on market pricing of premiums to reduce costs and deliver cashable savings details of which can be found in appendix A.



A full open tender process, in compliance with the requirements of Public Contracts Regulations 2015 and SCC's Contract Procedure Rules and Standing Orders has been completed.

The tendering process has given officers the opportunity to test the market for a variety of options such as contract length and deductibles (excesses) to provide the best value for money options.

## **12.2 Competitive Tendering Process**

The proposed contracts are to be awarded following a competitive open tendering process.

An open day in August 22 was facilitated by AJG at which potential bidders were given a presentation regarding the upcoming tender with associated known details of the combined new unitary and an opportunity to ask questions.

All suppliers were invited to tender for the contracts and were given 47 days to complete and submit their tender. A total of 12 tender responses were received to the 14 lots

These tender submissions were initially assessed for compliance against the standard Selection Questionnaire criteria and then scored against the quality and commercial criteria as per Appendix B. Some insurers made winning certain lots a condition of their acceptance of other lots, this was not as advised in the ITT and each lot was evaluated on its own merit.

The policy prices will be fixed for three years for all lots, with the exception of Lot 4 where all bidders refused to fix prices and will require inflationary indexing. based on the individual insurance policies and claims history for the previous years.

## **12.3 Transition, Communication,**

There will be a transition plan for implementing the new insurance policies and meetings with the successful insurers pre vesting day, utilising the assistance of our broker.

All necessary communications will be provided by the insurance team to key stakeholders both internal and external. Further improvements and consistency of ways of working are under review.

## 12.4 Performance and further improvements/efficiencies

The management responsibility for the contracts lies with the insurance manager, who ultimately reports to the s151 officer. The contracts will be managed in line with the policies as tendered. The policy prices will be fixed for three years for all virtually all lots based on the individual insurance policies and claims history for the previous years.

Performance will be monitored through ongoing review of the policy cover and the claims service provided by each supplier. In addition, there will be monitoring of the achievement of added value and innovation proposals put forward as part of the tender submissions, e.g., low claims rebates, free days risk assessment, review of any obsolete engineering equipment to save inspection costs.

## 12.5 What happens next indicative timescales

Action	Date
Scrutiny Committee	10 January 2023
Executive decision Intention to award	19 <sup>th</sup> January 2023
Standstill Period/ Decision call-in period	19 -30 <sup>th</sup> January
Communications of insurances	February 2023
Cut over plan meetings with new insurers, assisted by brokers	February 2023
Contract Signature	February 2023
Contract Commencement Date	1 April 2023
Resolution of Lot 3 in consultation with AJG	By end Feb 2023

## 13. Background Papers

- 13.1 Appendix A – Confidential Evaluation Report
- Appendix B – Current spend and usage data

## **Report Sign-Off**

		Date completed
Legal Implications	Honor Clarke	12/12/22
Governance	Scott Wooldridge	04/01/23
Corporate Finance	Jason Vaughan	03/01/23
Customers, Digital and Workforce	Chris Squire	16/12/22
Property	Paula Hewitt / Oliver Woodhams	12/12/22
Procurement	Claire Griffiths	21/12/22
Senior Manager	Jason Vaughan	03/01/23
Commissioning Development	Sunita Mills / Ryszard Rusinek	09/12/22
Executive Member	Cllr Liz Leyshon - Deputy Leader of the Council and Lead Member on Finance and Human Resources	11/12/22
<b><u>Sign-off Key Decision / Consulted on Non-Key Decision</u></b>		
Local Member	n/a	n/a
Opposition Spokesperson	Opposition Spokesperson - Finance and Human Resources - Cllr Mandy Chilcott	19/12/22
Scrutiny Chair	Scrutiny for Policies and Place Committee - Cllr Gwil Wren	10/01/23

## Appendix B

### Current Spend data

	<b>Mendip</b>	<b>Sedgemoor</b>	<b>SCC</b>	<b>SW&amp;T</b>	<b>South Som</b>	<b>total</b>	<b>new Lot</b>
Prop Inc BI	£ 28,354	£ 33,136	£ 198,476	£ 102,538	£ 147,568	£ 510,073	1&5
Housing Property		£ 82,357				£ 82,357	2
commercial Property	£ 30,783	£ 37,396	£ 77,054	£ 60,892	£ 101,192	£ 307,317	3
Leasehold Property		£ 5,978				£ 5,978	4
FG Crime			£ 19,123	£ 3,500	£ 6,206	£ 28,829	6
PL, L&S etc	£ 50,250	£ 81,877	£ 532,780	£ 152,581	£ 87,177	£ 904,664	7
EL	£ 22,481			£ 42,062	£ 38,746	£ 103,288	7
Motor		£ 23,064	£ 37,083	£ 42,589	£ 32,675	£ 135,412	8
Group PA Travel	£ 1,037	£ 3,256	£ 16,924	£ 1,267	£ 1,709	£ 24,193	9
Eng Inspection & Insurance	£ 236	£ 2,353	£ 43,015	£ 8,027	£ 11,853	£ 65,484	10
oi	£ 3,706		£ 39,270	£ 5,438	£ 8,173	£ 56,587	11
PI	£ 3,766			£ 2,090	£ 8,075	£ 13,931	11
Trustee Indemnity	£ 250					£ 250	11
Terrorism	£ 11,575	£ 13,185	£ 34,513	£ 31,350	£ 28,763	£ 119,386	12
Fine Art					£ 3,089	£ 3,089	13
Directors & Officers		£ 6,340				£ 6,340	14
	<b>£ 152,438</b>	<b>£ 288,942</b>	<b>£ 998,238</b>	<b>£ 452,334</b>	<b>£ 475,226</b>	<b>£ 2,367,178</b>	

## Lots Used and weighting applied

Lot Number	Cover	Quality Weighting	Price Weighting
1	<p><b>Property Combined</b>  <i>Building and contents cover for properties owned by the Council or for which they are responsible (including schools). Standard perils include fire, flood, theft, vandalism etc</i></p>	60%	40%
2	<p><b>Housing Properties</b>  <i>Provision against damage to Housing Properties</i></p>	60%	40%
3	<p><b>Property Owners</b>  <i>Commercial property insurance – owned by the Council and leased to a tenant. Similar perils as above. Minimal excess as there is a tenant (avoiding risk).</i></p>	60%	40%
4	<p><b>Leasehold &amp; Mortgaged properties</b>  <i>Provision against damage to Leaseholders properties</i></p>	60%	40%
5	<p><b>Works in Progress</b>  <i>Buildings in the course of construction or improvement, including site security.</i></p>	60%	40%
6	<p><b>Crime</b>  <i>Employee fraud or dishonest acts cover.</i></p>	60%	40%
7a	<p><b>Combined Liabilities (£1m deductible – current SCC level)</b>  <i>Employers liability covers when the employee proves that the Council as an employer has failed in their duty of care (e.g. accidents in the workplace)  Public liability covers when the claimant proves that</i></p>	60%	40%

	<i>the Council has failed in their duty or have been negligent and caused the claimant to suffer loss or damage (e.g. a tyre hitting the kerb).</i>		
<b>7b</b>	<b>Combined Liabilities (£500k deductible)</b> <i>description as above</i>	<b>60%</b>	<b>40%</b>
<b>8a</b>	<b>Motor Fleet (£1m deductible)</b> <i>Standard comprehensive motor policy for employees driving our vehicles or hire vehicles for work purposes.</i>	<b>60%</b>	<b>40%</b>
<b>8b</b>	<b>Motor Fleet (£500k deductible – current SCC level)</b> <i>description as above</i>	<b>60%</b>	<b>40%</b>
<b>9</b>	<b>Personal Accident</b> <i>School journeys and business travel policy, which covers injury and loss of personal items</i>	<b>60%</b>	<b>40%</b>
<b>10</b>	<b>Engineering inspection service</b> <i>To carry out the inspections under our statutory duty for plant and equipment on SCC premises, e.g. lifts</i>	<b>70%</b>	<b>30%</b>
<b>11</b>	<b>Combined Liability Official Indemnity and Professional Indemnity</b> <i>Professional indemnity covers a breach of professional duty due to any neglect, error or omission. This applied where SCC is providing a paid service to others. Officers indemnity covers where SCC are obliged to pay compensation for financial loss by an error committed by an employee</i>	<b>60%</b>	<b>40%</b>
<b>12</b>	<b>Terrorism</b> <i>Provision against damage &amp; disruption as a result of acts of terrorism</i>	<b>60%</b>	<b>40%</b>

<b>13</b>	<b>Fine Art</b> <i>Provision against loss or damage to works of art / museum items</i>	<b>60%</b>	<b>40%</b>
<b>14</b>	<b>Directors and Officers Liability</b> <i>Provision against legal liability as a result of negligence on the part of Officers &amp; Directors of disclosed companies</i>	<b>60%</b>	<b>40%</b>

