

Central Bedfordshire Council

Executive

7 August 2018

Insurance Retender

Report of Cllr Richard Wenham, Deputy Leader and Executive Member for Corporate Resources (richard.wenham@centralbedfordshire.gov.uk)

Advising Officers: Charles Warboys, Director of Resources & S151 Officer (charles.warboys@centralbedfordshire.gov.uk)

This report relates to a Key Decision

Purpose of this report

To outline the approach to the Insurance Retender for April 2019.

RECOMMENDATIONS

Executive is asked to:

- 1. approve the approach and to give delegated authority to the Director of Resources, in consultation with the Deputy Leader and Executive Member for Corporate Resources to conduct the tender process and award appropriate contracts.**

Overview and Scrutiny Comments/Recommendations

It is not planned to take this matter to Overview and Scrutiny, as there is an existing delegation to the Director of Resources to make appropriate arrangements for insurance – see paragraph number 2 below. However, given the value of expenditure it is thought appropriate to bring the matter to the attention of Executive prior to entering into a new procurement exercise.

Issues

1. An organisation's insurance arrangements reflect a number of factors including any statutory requirements, the capacity to fund deductibles (the amount that must be paid out of pocket by the policy holder before an insurance provider will pay any expenses), the consideration of various risks and the availability of insurance products in the market.
2. The Scheme of Delegation by the Council to Senior Officers delegates to the Director of Resources the responsibility to make appropriate insurance arrangements for the Council.

3. The Council's current insurance arrangements were contracted from 1 April 2014, following an OJEU tender process, with Long Term Agreements (LTAs) with a number of insurers allowing for commitments of up to five years. The table below sets out the current insurers in place for the financial year ending 31 March 2019.

Risk	Brief Explanation	Lots (items that link to each other)
Material Damage General Properties including farms	Cover in respect of the perils to which buildings may be exposed. The Council insures the perils of Fire, Lightning, Explosion, Aircraft, Storm, Tempest, Flood, Burst Pipes, Subsidence, Earthquake. Perils not covered include: Malicious Damage, theft and accidental damage.	1
Material Damage Housing Properties	As for general properties, however this relates to housing stock.	1
Priory View	Specific property cover for Priory View.	1
Business Interruption – Loss of Revenue	Covers the loss of income that a business suffers after a disaster.	1 (needs to be with property)
Business Interruption – Additional Expenditure	Covers additional expenditure incurred after a disaster.	1 (needs to be with property)
St Mary's Church and Maulden Mausoleum	Specific property and contents cover.	1
Work in Progress	Specific cover for assets under construction.	1
Money	Specific cover for money in transit or held in the safe.	1
All Risks	Covers items such as artworks and sculptures.	1
Computer	Covers some computer items and musical instruments.	1
Contractors' Plant	Cover for damage to contractors' plant also known as hired in plant. Additional cover is incorporated for items of plant retained at Household Waste Reclamation Centres.	1
Debris Removal and Professional Fees*	*Currently included within the material damage policies, however there are potential savings to be made if this is separated out.	1
Education Properties	As for general property however this relates to local authority maintained schools.	2
Foundation Schools	As for general property, however this relates to voluntary aided/controlled schools	2
Commercially Leased Properties	As for general property, however this relates to commercial buildings. Cover also provides for loss of rent.	3

Risk	Brief Explanation	Lots (items that link to each other)
Residential Leased and Mortgaged Properties	As for general property, however this relates to leasehold property.	3
Employers' Liability	Cover in respect of claims for personal injury suffered by employees of the Council, resulting from the negligence of the Council, other employees or any volunteers assisting in the carrying out of its functions.	4
Public / Products' Liability	Cover for claims for personal injury or damage to property suffered by third parties, resulting from the negligence of the Council, its employees or any volunteers assisting in the carrying out of its functions.	4
Public Liability XoL (£10M XoL)	This is an excess of loss policy and provides additional cover above the primary liability policy.	4
Pollution Liability	This is an extension to the public liability cover.	4
Libel and Slander	Cover for claims made against the Council, its employees and Members by a third party alleging libel or slander.	4
Officials Indemnity	Cover for claims for financial loss suffered by third parties as a result of any negligent error or omission by an employee of the Council whilst carrying out their duties.	4
Professional Indemnity	Cover against financial loss arising from an error or omission, suffered by a third party as a result of advice given or reliance placed on calculations made, where there is a contractual relationship between the claimant and plaintiff. It is particular relevance now that some Directorates provide services under contract to, for instance Academies, Colleges and other external bodies.	4
Land Charges	Specific cover which is an extension of the Public Liability policy.	4
Public Health Act	Specific cover which is an extension of the Public Liability policy.	4
Hirer's Liability	Specific cover which is an extension of the Public Liability policy.	4
Theft by Employee (Fidelity Guarantee)	Cover against losses of property and money resulting from fraudulent acts and dishonesty of employees. It is a statutory requirement for Local Authorities to affect this cover	5
Motor Fleet General Vehicles	Cover in respect of risks relating to Motor Vehicles owned or operated by the Council. Any liability risk relating to Motor Vehicles has to be insured under a Motor Vehicle policy, being specifically excluded under a Public Liability.	6

Risk	Brief Explanation	Lots (items that link to each other)
	The Council does not have any cover for vehicles belonging to employees.	
Motor Fleet Leased Cars	As with general vehicles however this is specific to leased vehicles.	6
Uninsured Loss Recovery – plan to change to Motor Legal Expenses	Covers the legal costs involved in reclaiming uninsured losses after an accident that was not our fault.	7
Personal Accident / Travel	Provides cover for costs arising from unexpected events during business travel.	8
Schools' Personal Accident - onsite / off site cover	Personal accident cover for pupils, members of teaching and support staff at participating schools and designated volunteers/assistants. This includes incident that occur whilst on organised trips and within the school boundary.	9
Engineering Statutory Inspection	Provides for inspections of boilers, lifts, hoists and other plant to comply as required under Health and Safety legislation and other Statutes. This renewal is not due until 1 May 2020, however the contract will be awarded so that this will be coterminous with the other policies.	10
Claims Handling	Contract for dealing with claims – includes investigating and repudiating. This is instead of an inhouse claims' department.	11
Commercial Legal Expenses for Local Authority Schools	Cover for legal expenses associated with items such as contract disputes, construction contract disputes, employment disputes and criminal prosecution.	12

4. Possible additional policies to consider for the 2019 tender:

Risk	Brief Explanation	Lot
Terrorism	More refined state than previously, covers lone wolf attacks	13
Cyber, GDPR	Contract pays fines in line with GDPR	14

Costs

5. In total the cost of external insurance premiums, Insurance Premium Tax and claims handling for 2018/19 is £1.156m and includes insurance for both the Council and all the Maintained Schools, all of which opt into the arrangements. The annual overall cost of insurance to the Council will include both the deductible amounts, usually up to £100k per claim, for Liability and Material damage incidents in addition to the cost of premiums. Employers' and Public Liability claims can materialise many years after the cause of the claim.

6. CBC claims arising under the Employers' and Public Liability policies are currently handled by B4 Legal, an external claims handling company, whilst property damage claims within the £100k per claim deductible are managed in house by the Finance team. Significant property claims would be referred to the relevant insurer.
7. CBC currently enjoys access to the insurance market via a trusted advisor with FCA registration, rather than using a broker, which enables access to all appropriate and available markets. This avoids the in-built broker earnings (commission) and generates a transparent and efficient competition with conflict of interests designed out of the process. We will continue to use this service. This will include designing the tender documents as well as reviewing current arrangements and ensuring that what is being asked of the market is fit for purpose.

Insurance Premium Tax

8. Since the last tender in 2013 Insurance Premium Tax has doubled from 6% in 2015 to 12% from 1 June 2017. At present it is not anticipated that there will be such an increase over the tender award period however this uncontrollable element needs to be considered in budget implications.

State of the Market

9. The UK insurance market is largely stable although there have been some significant events resulting in certain insurers reviewing ratings. The change of Ogden Rates (a discount rate used to calculate damages payable to claimants suffering long term disability) has resulted in the deterioration of insurers' profits and the need to inject capital to meet FCA capital requirements. This resulted in some insurers swiftly increasing all relevant pricing by margins of around 10% whilst others are waiting to see a longer-term impact on profits before altering rates. This impacts upon all liability covers including motor insurance.
10. The Grenfell Tower incident has had an impact upon insurers' consideration of local authority housing risks although the medium-term impact on rating is yet to be seen. Therefore, presentation of the Council's risk and identification of building materials in high rise structures is paramount for tender purposes.
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Insurance Act 2015

12. This is the first tender since the Insurance Act 2015 came into force, which requires a true representation of the authority and its activities for insurers. The onus legally now lies upon the authority to proactively provide information relating to our services and prospective activities at the time of the tender, rather than on the insurer to ask appropriate questions.

This will involve cross departmental levels of communication and understanding and far more data being captured prior to the tender being advertised.

13. The division of the insurance portfolio into individual Lots per policy type allows the Council to take advantage of specialist insurers offering 'best of breed' policy wordings and rates. It also prevents cross subsidy of policy premiums where a more competitive individual premium might have been available but couldn't be taken as the cover is bundled into a larger Lot.

Lot Distribution

14. At any tender process, the structure of Lots should be re-visited to ensure that the structure is correct considering the developments of products in the market place. This way the right balance can be struck of covers which should sit together to avoid gaps in cover; whilst allowing opportunities for specialist insurers to offer superior cover and pricing. The structure has been indicated in the first table at paragraph 3 within this report.
15. Other types of insurance are available for the Council to consider purchasing. These include items such as terrorism and cyber risks. Policy wordings have been developed in both areas since the last tender. Prices of these two covers will be obtained so that an informed decision can be made as to whether to purchase them.

Length of Term

16. To maximise the response, terms on 3 plus 2 years will be requested and alternate extensions to this period will be invited which can then be evaluated.
17. It is anticipated that the overall costs will increase for insurance premiums, however the lots have been devised so as to attract more competition and hopefully lead to more cost effective premiums.
18. Tenderers will be invited to consider the use of LGSS Law with regards litigation.

Council Priorities

19. A sound approach and management of insurance contributes to the Council's Value for Money and enables the Council to successfully deliver its priorities. The recommendations will contribute indirectly to all 6 Council priorities.

Corporate Implications

Legal Implications

20. None

Financial Implications

21. The financial implications are set out in the report.

Equalities Implications

22. None

Conclusions and Next Steps

23. Due to the specialist nature of the insurance market, we will work with Procurement and a specialist Insurance Advisor to prepare the tender documents.
24. A more detailed and thorough review of Council services and proposed activities than in previous tender rounds will be required upfront for the tender documents, in line with the requirements of the Insurance Act 2015.
25. This work has already identified that in order to ensure best value for money, the insurance lots are procured on the basis set out above and for a 3+2 year term, although alternate options for contract length will also be sought.