

CABINET PROCUREMENT & INSOURCING COMMITTEE

CONTRACT AWARD REPORT

Title of Report	Procurement of Core Insurance Provision
Key Decision No.	FCR S180 Officer Key Decision Procurement of Core Insurance Provision - Property and associated risks (related to FCR S143) - For Noting
CPIC Meeting Date	17 April 2023
Classification	Open Report with Exempt Appendices A & B
Ward(s) Affected	All Wards
Cabinet Member	Councillor Robert Chapman Cabinet Member for Finance, Insourcing and Customer Service
Key Decision	Yes This results in the Council incurring expenditure or savings which are significant having regard to the Council's budget for the service/function.
Group Director	Ian Williams Group Director, Finance & Corporate Resources
Contract value, <u>both</u> Inclusive of VAT and Exclusive of VAT (for the duration of the contract including extensions)	£11,606,683 Including 12% insurance Premium Tax (IPT) VAT is not applicable to this contract
Contract duration (including extensions e.g. 2 yrs + 1 yr + 1 yr)	3 yrs + 2 yrs (optional extension)

1. Cabinet Member's Introduction

- 1.1. This report outlines the results of the 2022/23 re-tendering of the Council's property insurance policies. The insurance contract required re-tender following the last exercise undertaken in 2018, which saw the majority of insurance contracts approved for a period of 3 years with the inclusion of an optional 2 year extension.
- 1.2. The report focuses on Lot 1 - Property risks and follows the contract award report presented to Cabinet Procurement & Insourcing Committee under item FCR S142 Procurement of Core Insurance Provision, which led to the award of all contracts under the remaining Lots 2-6.
- 1.3. The decision relating to Lot 1- Property required further detailed review and was delegated to The Group Director, Finance and Corporate Resources, after consultation with the Chair of Cabinet Procurement and Insourcing Committee [CPIC.] This report is presented as a note on the process relating to that decision.
- 1.4. Since the last main re-tender exercise in 2018, the market environment for insurance remains relatively uncertain with reduced capacity for public sector risks and a hardening of the rate and associated terms, in particular in the property and professional indemnity markets. Financial pressures during the term of the expiring contract and adverse changes to the discount rates applied to catastrophic injury claims are factors that continue to lead to premium increases. There remains a continued focus on Housing related risks and reinstatement valuations are now subject to fourfold increases. Consequently at the outset of the tender exercise there was some concern that the Council may not be able to consolidate the competitive premium rates achieved at the time of the 2018 tender.
- 1.5. In the event, the tender exercise has managed to secure bids from the majority of public sector providers. In five of the six Lots tendered most areas of insurance will see a small increase in rates with two Lots, Motor Fleet & Liability, subject to a small premium saving. However, after evaluation of the property tender there is an overall increase in the Council's premium spend when compared to 2022/23.
- 1.6. The full details of the tendering exercise are contained within the main body of the report with the appendix showing the outcome of the various submissions.

2. Group Director's Introduction

- 2.1. The Council reviews and re-tenders its insurance portfolio on a regular basis, both to ensure value for money and to investigate alternative methods of financing the Council's insurable risks.

- 2.2. The last contract expired on 31 March 2023 and the Insurance Team has undertaken an extensive re-tendering exercise in conjunction with Marsh, the Council's insurance brokers. Insurance cover has been arranged for the Council, which includes the Authority's opted in schools. In total there were 6 insurance lots being tendered at this time. However, this report concerns Lot 1 only, the Council's own property risks.
- 2.3. Lots 2-6 have been awarded in accordance with Decision FCR S142 Procurement of Core Insurance Provision taken by the Cabinet Procurement and Insourcing Committee on 13 February 2023.
- 2.4. The decision to award the contract regarding Lot 1 - Property, has been delegated to the Group Director, Finance and Corporate Resources *"under terms as shall be agreed, in consultation with the Chair of Cabinet Procurement and Insourcing Committee, by the Director of Legal, Democratic and Electoral Services, and authorise the Director of Legal, Democratic and Electoral Services to prepare, agree, settle and sign the necessary legal documentation to effect the proposals contained in this report."*
- 2.5. The re-tendering included procurement assessments, and the Head of Procurement has assessed the procurement risk as low; hence this is the main report on this re tender. This paper is being brought at this time to note the process of the decision and also due to the overall cost of providing insurance cover for Lot 1- Property which is the region of £2.32m per annum.

3. **Recommendations**

- 3.1. **There are no official recommendations set out in this report. This report is for informative purposes only and CPIC should note the following;**
- 3.2. **The various options considered in the procurement of the Council Insurance contracts and the reason for the deferment of Lot 1 - Property Risks.**
- 3.3. **In accordance with Key Decision FCR S143 and as set out in the recommendations of the report approved by CPIC on 13th February 2023 this report notes that:-**

The Group Director, Finance and Corporate Resources, after consultation with the Chair of Cabinet Procurement and Insourcing Committee, authorised the award of contract for [lot 1 - Property] to Supplier F on 17th March 2023 and approved officers to proceed with the contracts to ensure that insurance cover was in place for 1st April 2023.

4. **Related Decisions**

- 4.1. FCR S142 Procurement of Core Insurance Provision - Decision taken by the Cabinet Procurement and Insourcing Committee on 13 February 2023 to agree the award of contracts for Lots 2-6 and to delegate authority in respect of Lot 1 - Property.
- 4.2. Low Risk Business Case - Procurement of Core Insurance Provision. Approved on 11 October 2022 by Hackney Procurement Board (HPB.)

5. **Reason(s) For Decision / Options Appraisal**

- 5.1. The Council will always be exposed to a range of risks, some of which are insurable and others are uninsurable. The purchase of an effective insurance portfolio manages the potential exposure of the Council to the insurable risks.
- 5.2. The portfolio includes a significant degree of self-insurance, thereby avoiding what can best be described as “pound swapping” i.e. the additional premiums paid for low or no excess on insurance policies effectively cost £1 for £1 on meeting claims payments plus associated costs, and ensuring that the Council benefits from the reduction in claims.
- 5.3. This report covers the property insurance policies and arrangements which were due for renewal on 1st April 2023 identified as Lot 1 and excludes the residential leasehold buildings insurance contract and Lots 2-6 Casualty, Motor, Engineering, Personal Accident/Travel and Terrorism which have been reported on separately.
- 5.4. As mentioned in the Cabinet Member’s introduction, there was some concern that insurance premiums the Council could have faced prior to the procurement exercise would have resulted in increased costs to the Council. There was further concern that in the marketplace some insurers maintained caution about the risk profile of the public sector. In the case of Lot 1 - Property Risks, such concerns have been realised. Consequently the Council’s Insurance Services Team is working hard to mitigate claim exposures and to demonstrate to leading Insurers that the Council has implemented effective control measures and is willing to work in partnership with them to transfer or mitigate the risks it is exposed to and to reduce the overall cost of risk.
- 5.5. Recommendations to award the contract to the supplier set out in the main section of this report for Lot 1 - Property is the most economically advantageous. This reflects high quality scores for those selected. A full breakdown of what this covered in the evaluation is included within **Appendix B - Lot 1 Costs & Service Comparison Summary (Exempt)**
- 5.6. Please note that the premiums quoted within the report are subject to normal increases in line with index linking, higher rates of Insurance

Premium Tax, increased rebuilding costs, changes to assets and our claims performance.

- 5.7. As in previous years the cost of claims falling within the policy excess and for which the Council is responsible are met from the internal insurance fund and provision. These funds are reviewed annually (externally biennially) and the appropriate adjustments made within the normal finance activities.
- 5.8. Evaluation and assessment of Lot 1 - Property continued beyond the original procurement timetable with the support of Marsh and appropriate stakeholders within the Council in order to facilitate the detailed impact analysis and financial implications beyond the accepted risk appetite and to ensure there was sufficient time to mobilise the contract in time for the expiry of the previous contract on 31 March 2023.

6. Alternative Options (Considered and Rejected)

- 6.1. **Insourcing:** Due to the nature of insurance as a risk transfer mechanism and the significant financial and resource risks associated with the activities of the Council it is not feasible to insource these contracts. In any event the Council retains an appropriate level of risk through the application of policy deductibles and self-insured retained limits.

7. Project Progress

7.1. Developments since the Business Case approval

- 7.1.1. The inclusion of a lot covering Fine Art & Heritage Assets was withdrawn from the procurement exercise prior to the market exercise. However, coverage relating to Fine Art & Heritage Assets was withdrawn from the open procurement and is now subject to annual market review via Marsh, with an estimated contract value of less than £5,000 per annum.
- 7.1.2. Insurance market conditions in relations to Lot 1 - Property have hardened significantly leading to reduced Insurer capacity, adverse terms and significant conditions relating to the application of policy cover.

7.2. Whole Life Costing/Budgets

- 7.2.1. In keeping with the existing contract(s) the cost of insurance premiums will be recharged to service areas and member schools with the internal fund used to meet claims below the policy deductible. Insurance costs are included within departmental budgets.
- 7.2.2. The Head of Insurance Services will continue to identify, analyse and address risk exposures with key stakeholders to reduce the frequency and cost of claims and to maximise any opportunity to reduce our overall insurance spend.

7.3. Risk Assessment/Management

- 7.3.1. This is designated a Low Risk project. Insurance policies by their nature are part of an approach to transferring risk, in this case from the Council to an external insurance company. This has been considered as part of the Finance and Corporate Resources directorate overall Corporate Risk Management Policy.
- 7.3.2. The current insurance arrangements are, with the exception of the areas covered by our internal fund, currently outsourced. The overall procurement has been risk assessed by the DPM in advance of the tender process commencing and assessed the risk as low.
- 7.3.3. The insurance risk register has recently been reviewed by the Head of Insurance Services and the register updated to take account of developments in insurance. The register is monitored on an ongoing basis with a formal review of the risks on an annual basis.

Risk	Likelihood	Impact	Overall	Action to avoid/mitigate risk
Lack of competitive bids due to constricted number of suppliers and adverse claim costs for Public Sector nationally	Low ▾	Medium ▾	Low ▾	Work undertaken to promote positive risk factors for The Council with potential suppliers. Specification to promote our Risk Strategy.
Emerging areas for new types of claims are not covered	Low ▾	Medium ▾	Low ▾	Ongoing monitoring of market developments and horizon scanning of new or developing risks i.e. pollution / cyber.
Inadequate levels of insurance cover due to inaccurate asset or activity information	Medium ▾	High ▾	Medium ▾	Property valuations under review and asset registers reconciled with Department/Asset Managers - Insurance risk needs are now embedded in procurement and insourcing business case procedure.
Inadequate insurance provision/reserves to cover claims in internal fund	Low ▾	Medium ▾	Low ▾	Annual fund reviews undertaken by external advisers to assess levels required - levels adopted are prudent.
Withdrawal of key Insurance Provider	Medium ▾	Medium ▾	Medium ▾	Market capacity and appetite for public sector risks remains ok as evidenced by the number of bids received. Contingency measures such as self-insurance and mutual arrangements continue to be reviewed should the market deteriorate beyond expectation and foreseeability.

8. Savings

- 8.1. Market conditions, particularly in relation to public sector property risks, are hardening with reduced capacity in the market leading to increased premiums and restrictive terms.

- 8.2. Given the number of variables that could impact on future premiums both from the wider market, Insurance Premium Tax rates and the individual experience of Hackney's claims ongoing risk management is essential in maintaining or improving the claims experience, which will in turn help to ensure that premium costs are contained.
- 8.3. However, the terms provided for all bids under Lot 1 - Property represent a clear hardening of the market and the overall result of the market exercise, compared to premium spend in 2022/23, leading to a significant premium increase. The overall % increase on 2022/23 premium spend across Lots 1-6 is now estimated to be 48%.
- 8.4. Insurance market conditions in relations to Lot 1 - Property have hardened significantly leading to reduced Insurer capacity, adverse terms and significant conditions relating to the application of policy cover.
- 8.5. The factors affecting the property market conditions are external and not within the control of the Council. However, implementing or maintaining the necessary risk controls and meeting policy conditions to mitigate the impact will continue to be a key task throughout the policy term.
- 8.6. Table below shows the net difference per annum between the final year of the 2022/23 contract and the proposed premium rates achieved during this tender exercise.

Policy Coverage	Difference (per annum) Compared to 2022/23 Rates
Property / Material Damage	c.£1.5m
* Excluding Fine art/Heritage Assets and Leasehold Buildings Insurance	

9. **Sustainability Issues and Opportunities, Social Value Benefits**

Bidders were provided with Hackney's Sustainable Procurement Strategy and points were awarded according to their evidence, demonstration and commitment to those values as listed below.

9.1. **Procuring Green**

- 9.1.1. Across all lots climate change and associated environmental impacts have a direct bearing on claims exposure, claim cost and therefore claim premiums. The recommended supplier presented strong evidence of a reduction in CO2 emissions, and targets for net nil emissions and carbon neutral operations, e.g.

- The use of 100% renewable energy.

- The implementation of electric only fleet.
- Cycle to work scheme.

9.1.2. Across multiple lots, the recommended insurers have in place a system for the re-use, recycling and environmental salvage of equipment. Similarly, policies are in place for the promotion of paperless files, digital upskilling and video conferencing to reduce travel and employing locally (dependent on policy offered).

9.2. **Procuring For A Better Society**

9.2.1. The primary economic benefit to the Council is mitigating the financial exposure to unforeseen risks versus the cost of premiums. The insurer's aim is to help the Council reduce the number and costs of claims, which in turn has a direct bearing on premiums and allows money saved to be returned directly to the Council and in turn to the community. Insurance premiums are invested by the insurers until such time as they are required to pay claims. A recommended insurer will use a significant percentage of premiums collected into investments with a social objective.

9.2.2. Further, the different recommended suppliers offer a variety of volunteering opportunities for their staff with offers to assist in Hackney based community projects and/or present at careers fairs or school events.

9.2.3. Under one lot, the recommended supplier has developed an associated product for top up insurance to benefit SMEs, ensuring adequate cover requirements are met and assisting the Council to fulfil the commitment to work with and support local SME businesses.

9.2.4. The procurement was open and fair and received bids from eight insurers across the lots.

9.3. **Procuring Fair Delivery**

9.3.1. The nature of the various lots means the recommended suppliers can be required to have a local presence - i.e engineers / assessors for attendance on site at incidents or inspections. London is a central hub for many of the insurers who commit to using the local workforce where applicable. Between them, the recommended suppliers have committed to paying the London Living Wage, have in place policies covering Modern Slavery and are ranked highly in various external ethical standards rankings.

9.4. **Equality Impact Assessment and Equality Issues**

9.4.1. No specific issues of concern have been identified.

9.5. **Social Value Benefits**

9.5.1. All the suppliers were encouraged to provide significant social value offers in their bids. Whilst the primary method of achieving this is by providing the

most economical value, and freeing up Hackney funds to be spent in the community, the recommended suppliers met this request through a number of social and charitable propositions. Namely:

- Volunteering within the borough at Hackney led community events.
- Attendance and training talks at careers fairs and at schools.
- Socially conscious investments.
- Grants for local organisations via community funds and charitable partners.
- Contracting locally wherever possible.

10. **Tender Evaluation**

- 10.1. The tender evaluation team consisted of Council's Head of Insurance Services and Senior Insurance Officer supported by the Council's insurance broker, Marsh.
- 10.2. The Standard Questionnaire (SQ) checks and due diligence have been completed by the Hackney Procurement Manager. Financial status checks have been undertaken by Marsh.
- 10.3. The Council undertakes a level of self-insurance to provide the optimum level of self-insurance compared to the use of external insurers as described in section 5.
- 10.4. The key output was to ensure that the Council has cost effective insurance cover, on the best available terms, to commence on 1 April 2023 and to be able to manage any insurance claims made or received by the Council.
- 10.5. The financial value of the insurance contracts required that a Find a Tender Service process was followed and given the limited number of providers in the local authority insurance market, an open procedure was deemed to be the most effective way to proceed.
- 10.6. As noted previously there were a total of eight suppliers who bid for at least one insurance contract lot and four bids were received in respect of Lot 1 Property. This is considered a very healthy market response. The full list of contractors who bid for Lot 1 property risks is included within **Appendix A (Exempt)**
- 10.7. Summary of Insurance Market Engagement:

LOT No.	Policy Coverage	Supplier Bids Received
1	Property	4 Bids

- 10.8. However, two bids under Lot 1 - Property did not meet the requirements of the Invitation to Tender Pass/Fail criteria in relation to the fundamental basis of cover.
- 10.9. Evaluation Criteria and Weightings: The criteria used to evaluate the submitted bids are shown in the table below and includes the overall score of the contractor recommended for award of contract:

LOT No.	Price	Policy Cover	Claims Handling	Added Value & Innovation	Social Value
1	45%	30%	15%	5%	5%

- 10.10. Where a bid is providing something significantly different to what has been requested, further reductions in points / percentage scores have been applied as expressly described and quantified in the Invitation to Tender (ITT) and accompanying evaluation sheet.
- 10.11. **Recommendation:** Cabinet Procurement and Insourcing Committee is asked to note the award of Lot 1 Property in accordance with the table immediately below:

Lot	Coverage	Lead Score (Rounded)	Lead Bid
1	Property	91%	Supplier F

- 10.12. A comprehensive summary of the evaluation of the individual bids is included as **Appendix B (Exempt)** to this report and includes the names of the prospective suppliers for each lot.
- 10.13. The award under Lot 1 met the primary requirements of the Business Case and subsequent Invitation to Tender.

11. **Contract Management Arrangements**

- 11.1. The Council has past experience of managing the implementation of new insurance arrangements. Insurance Services will provide the necessary resources with support from the Council's insurance broker, Marsh, to ensure that the transition can be completed within the timeframe available, as set out below.

Key Milestones	
Officer Key Decision	17 March 2023
Intention to Award Notification	17 March 2023
Standstill Period:	18 - 28 March 2023
Contract Award:	28 March 2023
Cover/Contract Commencement:	[00:01] 1 April 2023
Supplier Review Meetings	Within 40 days followed by quarterly performance/risk review meetings

11.2. Insurance Services within the Financial Management division of the Finance and Corporate Resources Directorate will assume responsibility for the ongoing contract management of all insurance contracts.

11.3. Insurance Services division manages the current contracts on behalf of the Council. The section will continue to work closely with both insurers and relevant stakeholders to monitor claims experience and to provide risk management training.

11.4. The contracts will be managed within existing resources and in compliance with the contract management system.

11.5. Implementation of the contracts and policy cover will be undertaken via a series of mobilisation meetings and coverage specific objectives with the successful supplier, supported by Marsh.

11.6. There are no TUPE risks associated with these contracts.

11.7. **Key Performance Indicators**

11.7.1. The contracts to be awarded are Contracts of Insurance and not service contracts and are therefore not readily measurable in this context. The Invitation to Tender identified indicative service & correspondence response times.

11.7.2. During the contract implementation phase performance measures will be mutually agreed with each supplier contextual to the coverage being provided. This is likely to include key measurable areas such claim performance, defensibility rates, complaint resolution and underwriting response periods.

11.7.3. Performance of all suppliers will be closely monitored by the Head of Insurance Services and Senior Insurance Officer to ensure that they meet the expectations and commitments stated in the insurance contract.

11.7.4. Conversely the performance of the Council against defined claims loss ratios, Ministry of Justice protocols and risk improvement actions will be tracked by the Insurer.

12. **Comments Of Group Director Of Finance And Corporate Resources**

- 12.1. The tender evaluation has identified suitable providers for the Council's property insurance programme. The insurance cover is placed with an established public sector insurer operating in the UK market and based on an evaluation of the cost of the policy, an assessment of the policy cover itself and the quality of the service from the providers.
- 12.2. However, as set out in paragraph 8.3 the terms provided for all bids under Lot 1 - Property (for which the decision is deferred and delegation proposed) represent a clear hardening of the market and the overall result of the market exercise, compared to premium spend in 2022/23, has resulted in a significant premium increase. As a result, there is an estimated increase of up to 48% on the 2022/23 spend. We have made provisions for this increase in the 2023/24 budget.
- 12.3. As with the existing contract the cost of insurance premiums will be recharged to service areas and schools with the internal fund used to meet claims below the insurance deductibles. Insurance costs are included within departmental budgets.
- 12.4. The total value of the contract for lot 1 only is £ £11,606,683 including Insurance Premium Tax (IPT). This cost is for the full 5 (3+2) years of the contract subject to renewal terms as mentioned in paragraph 5.6.

13. **Comments Of The Director, Legal, Democratic & Electoral Services**

- 13.1. On 13th February 2023 Cabinet Procurement and Insourcing Committee agreed to delegate authority to the Group Director, Finance and Corporate Resources to award the contract for the lot 1 - Property contract under terms as shall be agreed, in consultation with the Chair of Cabinet Procurement and Insourcing Committee, by the Director of Legal, Democratic and Electoral Services, and authorise the Director of Legal, Democratic and Electoral Services to prepare, agree, settle and sign the necessary legal documentation to effect the proposals contained in this report.
- 13.2. On 17th March 2023, pursuant to such delegation, the Group Director, Finance and Corporate Resources authorised the award of insurance contract for lot 1 - Property to Supplier F.
- 13.3. The recommendations in this Report are for noting only. Nevertheless, paragraph 3.3.17 of the Council's Constitution states that Cabinet Procurement and Insourcing Committee is authorised by Cabinet to give detailed consideration on all issues relating to procurement practice and policy. Therefore Cabinet Procurement and Insourcing Committee Is permitted to agree the recommendations in this Report.

14. **Comments Of The Procurement Category Lead**

- 14.1. Hackney Corporate Procurement has been involved in some stages of this Open tender process. On the 11 of November it was issued the contract Finder Notice HACK001-DN638397-57638982 in accordance with the Public Contract Regulation giving companies one month to place their bid.

Hackney procurement managed the clarification questions and the compliance of bids received ensuring compliance to the Councils Contract Standing Order.

- 14.2. Bids were handed over to Marsh for evaluation, moderation and finance analysis check, Hackney procurement team was not involved in these stages of the tender process.
- 14.3. This report gives confidence that all steps were taken to ensure we followed the procurement best practices and I am satisfied that the outcome of the evaluation provides the Council with a value for money following a fair and open tender process.

Exempt

By Virtue of Paragraph 3 Part 1 of schedule 12A of the Local Government Act 1972 Appendices to the report are exempt because they contain Information relating to the financial or business affairs of any particular person (including the authority holding the information) (being information of bidders in a confidential procurement process) and it is considered that the public interest in maintaining the exemption outweighs the public interest in disclosing the information as revealing the identity of bidders and prices submitted may prejudice best value being driven through the procurement and any commercial arrangements the Council may enter into in due course.

EXEMPT Appendix A: Table of Bidders 2023 [EXEMPT]

EXEMPT Appendix B: Cost & Service Comparison Summary 2023 [EXEMPT]

Background Documents

None

Report Author	Michael Pegram Head of Insurance Services michael.pegram@hackney.gov.uk
Comments for and on behalf of the Group Director of Finance and Corporate Resources prepared by	Mizanur Rahman Chief Accountant mizanur.rahman@hackney.gov.uk
Comments for and on behalf of the Director of Legal, Democratic and Electoral Services prepared by	Patrick Rodger Senior Lawyer patrick.rodger@hackney.gov.uk
Comments of the Procurement Category Lead	Leila Gillespie Procurement Category Lead leila.gillespie@hackney.gov.uk