



Committee and Date

Cabinet
18th September 2013

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Item

10

Public

INSURANCE CONTRACT TENDER

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1. Summary

- 1.1 The current insurance contract for Shropshire Council is due to end on 31st March 2014. In order that the council can protect its legal liabilities and to give some risk transfer to its claims exposure, there is a need for a new insurance contract to be entered into. Due to the size of the contract the tender process will be run under OJEU regulations. The new contract must be agreed and be in place for 1st April 2014 to ensure continuance of cover.

2. Recommendations

- 2.1 A negotiated tender procedure under OJEU regulations to be entered into with the resultant insurance contract to be in place by 1st April 2014 to allow an element of both self insurance and cover by an external insurance policy.
- 2.2 The Section 151 Officer to be given delegated authority to make relevant decisions regarding policy cover, levels of deductibles and to place the contract at the end of the tender process.
- 2.3 The tender should include a request for quotations to cover a selection of different deductibles i.e. £100,000 and £250,000 in order that the optimum level of cover can be achieved.
- 2.4 The tender should give consideration to a contract agreement of three years with the option to extend for another two years.
- 2.5 The requirement of a bond is not necessary for this contract.

REPORT

3. Risk Management and Opportunities Appraisal

- 3.1 Through the purchase of an insurance policy the council is able to transfer some of its risk to another company in return for the payment of a fee. The level of cover required and the policy deductibles (i.e. the amount the council has to pay as a type of policy excess) that are agreed will depend on the risk appetite of the council together with an analysis of the claims history. The optimum risk exposure will allow the council to have reasonable premiums but also be satisfied that it can meet the level of exposure warranted by the choice of deductible.

- 3.2 It is imperative that the council's contract rules and that of the OJEU process are followed to ensure that there are no grounds for a legal challenge. To this end the Insurance Manager will work closely with the Procurement Manager at all stages of the tender process.
- 3.3 A risk register has been produced for this project and this is regularly updated. There is currently only one risk identified which exceeds the Council's risk tolerance level and that is: 'Insufficient interest in the market to obtain competitive tenders leading to failure to have insurance contract in place and financial exposure for the Council'. This has been scored as a medium risk.
- 3.4 To mitigate the above risk we have arranged to meet with prospective insurers prior to commencement of the tender process. This will allow us to give confidence to the insurers regarding the council and will also allow us to have an understanding of what the insurance market is looking for.

4. Financial Implications

- 4.1 The contract has financial implications not only in the cost of the contract, but the level of exposure the council wishes to accept. If a larger deductible is chosen then there will be a greater risk of a payment having to be made from the insurance fund. An analysis will be undertaken to ensure that the optimum deductible level is chosen based on the claims experience, anticipated claims exposure, size of the internal fund and the cost of the subsequent premiums.
- 4.2 The level of the internal funds held by the insurance team must be adequate to reflect the potential risk exposure of the council. To this end regular monitoring of the funds is carried out. In order to give assurance on the adequacy of the fund, a Fund Review has been commissioned by the Council's brokers. This will give an independent actuarial review of the fund which is expected by the external auditors.
- 4.3 The cost of the premium is funded from the internal insurance fund with recharges being made to each service area which benefits from the insurance provision. The cost of the premium for 2013/2014 amounted to £1,022,477.82 (including 6% insurance premium tax) split across the major policy areas as follows –

POLICY	AMOUNT
Property	£ 484,414.34
Liability	£ 371,182.88
Motor	£ 155,220.60
Directors & Officers (ip&e and STAR Housing)	£ 11,660.00
TOTAL	£1,022,477.82

- 4.4 Based on the fact that the insurance market has hardened, and following preliminary discussions with brokers and insurers, we do not anticipate any savings to be met as a result of the contract tender.

5. Background

- 5.1 The current insurance contract will cease on 31st March 2014 as a five year long term agreement is concluded. There are two options facing the council – the first to self insure entirely and the second to take an insurance programme which allows both an element of self insurance but also the protection that an insurance contract gives. Based on the current economic climate and the risk appetite of the authority we do not recommend the option of total self insurance.
- 5.2 The outcome of the insurance contract will be that comprehensive insurance will be in place to protect the council's financial legal liability whilst achieving value for money in respect of the premium paid.
- 5.3 The level of cover required will depend on the risk appetite of the council and also the package which the insurers are prepared to offer. Therefore the exact insurance portfolio will be decided upon the level of exposure we are prepared to accept and the premiums and policies the various insurers are prepared to offer. This will become apparent through the negotiated OJEU procedure.
- 5.4 The current deductible for liability and property insurance is £100,000. This was reduced from £250,000 when the council became a Unitary Authority. At the time of Unitary the increased level of exposure from an insurance point of view could not be clearly assessed. Therefore, as there was no increase in the internal insurance fund to reflect the increased exposure, it was decided to reduce the deductible until such time the exposure was known.
- 5.5 As part of the tender process we would recommend that alternative quotations be obtained to reflect both a £100,000 deductible and a £250,000 deductible and any other level considered appropriate by the Section 151 Officer. An informed decision can then be made on the most appropriate deductible based on an optimisation analysis.
- 5.6 We recommend that the contract should be awarded on a three year basis with the option to extend for a further two years. The anticipated cost of the premium and the potential length of the contract make this a major contract under the Council's contract rules and the Insurance Manager will be working closely with the Procurement Manager. In addition, the Council's appointed brokers will also be assisting on the tender as the business has to be placed via an insurance broker to adhere to FSA Regulations.
- 5.7 In order to assess the optimum insurance package a root and branches review of policy cover and requirements will be carried out by the Risk Management and Insurance team. Meetings have been arranged with the Chief Executive and Management Team to ensure an understanding of the current status of the council together with a clear picture of its direction of travel.
- 5.8 Prior to the tender documentation being submitted the claims data will be cleansed and all services that are no longer the responsibility of the council such as waste, crematorium and the leisure centres under the control of SERCO from a liability point of view will be clearly highlighted. This will ensure that when prospective insurers study the claims history to consider the

premium, only those risks applicable to the council going forward will be taken into consideration.

6. Additional Information

- 6.1 Under the Council's Contract Rules, consideration must be given to whether or not a bond is required for the successful contractor. Having given this further consideration in conjunction with the Section 151 Officer, it is considered that no bond is required. The financial status of the tendering companies is scrutinised with assurances given by the Brokers and also an independent financial check will be carried out by Audit.
- 6.2 A time table has been produced with the in-put from the Procurement Manager and the Council's Brokers, and this will be followed during the course of the tender process.
- 6.3 Under the Council's contract rules, a Procurement Checklist will be completed at each relevant stage of the process.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

Insurance Contract Risk Register

Contract Rules

Financial Rules

OJEU timetable

Cabinet Member

Mike Owen - Portfolio Holder: Resources, Finance and Support

Local Member

N/A

Appendices

None