

**Committee: Cabinet**

**Date of meeting: 30 January 2020**

**Title of Report: Award of Main Insurance Contract**

**Report by: Julie Crellin, Director of Finance (Section 151 Officer)**

**Cabinet Member: Peter Thornton, Deputy Leader of the Council and Cabinet Member for Finance**

### **What is the Report About? (Executive Summary)**

1. The Council's contract for its main insurance services is due to expire on 30<sup>th</sup> April 2020. Work has been underway throughout 2019 to retender for these services.
2. This Cabinet report summarises the procurement process and recommends that the contract for the Council's main insurance services is awarded to Zurich Municipal for the next three years, with a potential two year extension. Zurich Municipal are also the current contracted provider for main insurance services for the Council.

### **Recommendation of the Director**

3. That all seven lots of the Council's main insurance contract be awarded to Zurich Municipal.
4. That the contract should be let for a three year period from 1st May 2020 to 30th April 2023 with a potential two year extension to 30th April 2025.

### **Background to the Proposals**

5. The Council's contract for its main insurance services is due to expire on 30th April 2020. Work has been underway throughout 2019 to retender for these services in accordance with the Council Procurement Rules set out in Part 5H of the Constitution.
6. The estimated cost of the main insurance contract is £1.900m per annum, and therefore the potential cost of the contract throughout the (maximum of) 5 year term is approximately £9.500m based on existing services insured.
7. In line with the Contract Procedure Rules, the contract has been competitively tendered through a national framework – the Yorkshire Purchasing Organisation (YPO) Framework. The framework includes the five main insurers providing specific insurance services to local authorities, including Zurich Municipal - the Council's current provider for main insurance services.

8. In retendering for these services, the contract has been split into seven separate lots. These lots relate to specific areas of insurance services covered by the contract. Details of these lots are provided in Appendix A but in summary relate to:
  - Lot 1 - Property
  - Lot 2 - Casualty
  - Lot 3 - Motor
  - Lot 4 - Personal Accident & Travel
  - Lot 5 - Computers
  - Lot 6 - Fidelity Guarantee (i.e. employee theft)
  - Lot 7 - Engineering
9. The tender for the insurance services permitted the Council to contract with individual suppliers for any number of lots and therefore, one or more suppliers could have been included in the final recommendations to the Cabinet Report.
10. The current main insurance contract, tendered in 2015, was based on five separate lots with property, computers and fidelity insurance comprising of one combined lot. It has been considered appropriate to split these out for the 2020 contract to offer the opportunity for a greater number of bids from the insurance market, with the aim of securing better value for money.
11. The deadline for insurers to reply to the tender was 9th December 2019. All bids received by the deadline have been assessed by officers with support and advice from the Council's external specialist insurance adviser, Marsh Ltd. The tenders were evaluated on "the most economically advantageous tender" basis, i.e. taking into account both the price of the bid and the quality of service provided by the insurer including its claims handling service. Each lot was assessed individually with the quality of insurance services attracting 70% of the total score with 30% of the weighting being applied to the cost of the insurance services.
12. Bids were received from four suppliers for one or more of the framework lots. Appendix 1 shows a breakdown of the assessment scores for each lot. Names of unsuccessful tenderers have been removed from the analysis as this is not public information.
13. Each bid was assessed by two experienced officers within the Council and the Council's external specialist insurance adviser, Marsh Ltd. A moderation process was carried out to ensure consistency of scoring.
14. Each 'peril' covered in the main insurance contract has an excess value. The Council is liable for any loss on an individual claim below this value. For example, the excess for a claim involving fleet or hire vehicles is £147,000. This level of excess helps to keep down the total premium paid by the Council. The level of excesses within the tender are based on those currently in place within the current Insurance contract and are reviewed annually by officers with advice from Marsh Ltd.

15. In addition to the main insurance contract, the Council also has a number of other specific insurance contracts for perils such as the Windermere Ferry, Port of Workington and school journeys. Due to the specialist nature of these risks, the insurance contracts are tendered separately. Due to the value of these other insurance contracts, and in accordance with the Procurement Rules set out within the Constitution, the award of the non-main insurance contracts is a decision of the Director of Finance.
16. Additionally for some services such as flooding, the Council does not have specific insurance cover, instead accepting the risk of perils occurring. This “self-insurance” is covered by the Council retaining earmarked insurance reserves for such events.

Key timetable of events

9 <sup>th</sup> December 2019	Deadline for responses to tender
18 <sup>th</sup> December 2019	Review by CMT of Cabinet Award of Contract Report
10 <sup>th</sup> December 2019 - 5 <sup>th</sup> January 2020	Evaluation of submitted tenders
6 <sup>th</sup> January 2020	Marsh Tender Evaluation report received
6 <sup>th</sup> January 2020	Briefing provided to Cabinet Member for Finance
16 <sup>th</sup> January 2020	Cabinet Briefing to review draft Award of Contract Report
30 <sup>th</sup> January 2020	Approval of insurer(s) to be appointed for main insurance services at Cabinet
11 <sup>th</sup> February 2020	End of call in period
14 <sup>th</sup> February 2020	Insurers to be advised of the outcome of the insurance tender
1 <sup>st</sup> May 2020	New main insurance contract to commence

**Options Considered and Risks Identified**

**Option (a)**

- Award the contract as recommended. This is the preferred option.

**Option (b)**

- Do not award a contract for insurance services accepting the risk for all perils within the Council. The Council’s proposed insurance contract mitigates the risk of significant losses occurring to the Council.

Risks - Not awarding a contractor insurance services would expose the Council to potentially significant losses arising. Mitigation of this would require the Council to significantly increase its earmarked reserves.

### **Option (c)**

- Participate through the Local Government Mutual (“the Mutual”) for the provision of insurance services.
- The Mutual has been set up between the Local Government Association and 14 local authorities providing collective insurance services.

Risks - The option for obtaining insurance services through the Mutual was considered however it was not considered appropriate to progress this on the following grounds:

- Whilst the Mutual is accepting new business, there has been little take up on the Mutual to date.
- The scale of Cumbria’s insurance services is much greater than that of the founding partners of the Mutual which are predominately District Councils.
- The Mutual does not offer some key services included within the scope for the Council’s main insurance services, e.g. claims management.

### **Reasons for the recommendation/Key benefits**

17. All bids received by the closing date have been assessed by two experienced officers within the Council and the Council’s external specialist insurance advisor, Marsh Ltd. The evaluation was based on “the most economically advantageous tender” basis with 30% of the total score being based on the quoted price of the insurance services and 70% of the weighting was applied to the quality of the bid. The scoring for each lot is presented in Appendix 1 to this report.
18. Two companies provided bids for all seven lots, one company provided bids for three lots and the other company bid for one lot. The company that bid for three lots had two bids that were non-compliant as they failed on one or more of the essential criteria for the tender submission.
19. Zurich Municipal scored highest on each of the seven lots and therefore it is recommended that the contract for all lots is awarded to this insurance provider.

### **Financial – What Resources will be needed and how will it be Funded?**

20. Due process has been followed on procuring and awarding the contract and the recommendation to award the contract reflects the outcome of that process.
21. Funding for the main insurance contract is included within the Finance budget. As stated in paragraph 6 the estimated cost of the main insurance contract is £1.900m per annum, and the potential cost of the contract throughout the (maximum of) 5 year term is approximately £9.500m based on existing services insured.

22. The Draft Revenue Budget 2020/21, being considered by Cabinet elsewhere on this agenda, includes an MTFP savings proposal for £0.250m per annum as a result of the careful management of insurance claims handling, investment in records management and administration resulting in better repudiation of claims.

### **Legal Aspects – What needs to be considered?**

23. Section 111 of the Local Government Act 1972 enables local authorities to enter into contracts in order to deliver their functions.
24. The decision to award this contract due to the level of expenditure is a Key Decision and the Key Decision process must be followed.
25. The value of the insurance services contract is above the EU Threshold for Services. Due to the value of the services they were required to be procured in a manner compliant with the Public Contracts Regulations 2015. The YPO framework agreement was set up for the use of diverse contracting authorities. Legal have checked the OJEU notice and have undertaken due diligence to ensure that the Council can use this framework agreement. The call-off T&Cs were also reviewed and they are robust and fit for purpose.
26. Rule 6.4 of the CPRs has also been complied with in that the minimum process of conducting a written tender open advertisement appropriate to the market was followed.
27. From a legal perspective there are no concerns with the Recommendation this report.

### **Health and Safety Implications – What needs to be considered?**

28. The Council has a responsibility under the Health & Safety at Work Act 1974 to work with all services and contractors to ensure adequate health and safety provisions are in place. Effective health and safety management and robust control of any risks identified will aim to reduce the number and potential value of any insurance claims. Health and safety management has been adequately considered as part of the tender assessment process.

### **Council Plan Priority – How do the Proposals Contribute to the Delivery of the Council's Stated Outcomes? (Outcomes - People in Cumbria are Healthy and Safe, Places in Cumbria are well connected and thriving, the Economy in Cumbria is growing and benefits everyone)**

29. The Council's vision is to be "A Council that works with residents, businesses, communities and other organisations to deliver the best services possible within the available resources". The Council's approach to managing its insurance services through a mix of consolidating the main insurance services, having separate insurance policies for specific perils (e.g. Windermere Ferry) and self-insuring for other perils (e.g. flooding) helps to ensure that Council resources are used effectively.

## What is the Impact of the Decision on Health Inequalities and Equality and Diversity Issues?

30. There are no health inequalities, equalities or diversity issues as a result of the proposed retendering of the main insurance contract.

### Appendices and Background Documents

Appendix 1 - Assessment of Evaluated Bids

### Key Facts

Electoral Division(s): All

Executive Decision	Key Decision Included in Forward Plan	Exempt from call-in	Exemption agreed by scrutiny chair	Considered by scrutiny, if so detail below	Environmental or sustainability assessment undertaken?	Equality impact assessment undertaken?
Y	Y	No	N/A	No	No	No

Approved by the relevant Cabinet Member/s on 6 January 2020

### Previous relevant Council or Executive decisions

None

### Consideration by Overview & Scrutiny

Not considered

### Background Papers

None

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**Analysis of Main Insurance Lots and Bids Received**

<b>Lot 1 - Property</b>		Zurich Municipal	Bid 2	Bid 3	Bid 4
<ul style="list-style-type: none"> <li>• Material Damage (Buildings, Contents, etc.)</li> <li>• Business Interruption</li> <li>• Work In Progress</li> <li>• Money</li> <li>• Schools Balance Of Perils</li> </ul>	Quality	62.1%	60.2%	Fail*	No bid
	Price	30.0%	20.6%	Fail	No bid
	Total	92.1%	80.8%	Fail	No bid

<b>Lot 2 - Casualty</b>		Zurich Municipal	Bid 2	Bid 3	Bid 4
<ul style="list-style-type: none"> <li>• Employer's Liability: £50m limit</li> <li>• Public Liability: £50m limit</li> <li>• Libel/Slander: £5m limit</li> <li>• Land Charges: £5m limit</li> <li>• Official's Indemnity: £5m limit</li> <li>• Hirer's Liability; £5m limit</li> <li>• School P.T.A. Liability: £10m limit</li> </ul>	Quality	62.4%	60.7%	No bid	52.0%
	Price	30.0%	29.4%	No bid	29.5%
	Total	92.4%	90.1%	No bid	81.5%

<b>Lot 3 - Motor</b>		Zurich Municipal	Bid 2	Bid 3	Bid 4
<ul style="list-style-type: none"> <li>• General Fleet &amp; Hire Vehicles</li> <li>• Community Transport Vehicles (vehicles loaned out to the wider community)</li> <li>• Comprehensive cover on all vehicles</li> </ul>	Quality	63.0%	63.3%	58.0%	No bid
	Price	30.0%	17.1%	21.1%	No bid
	Total	93.0%	80.4%	79.1%	No bid

<b>Lot 4 - Personal Accident &amp; Travel</b>		Zurich Municipal	Bid 2	Bid 3	Bid 4
<ul style="list-style-type: none"> <li>• Personal accidents whilst undertaking work activities</li> <li>• Travel insurance for business trips</li> </ul>	Quality	68.7%	58.1%	No bid	No bid
	Price	30.0%	4.9%	No bid	No bid
	Total	98.7%	63.0%	No bid	No bid

<b>Lot 5 - Computers</b>		Zurich Municipal	Bid 2	Bid 3	Bid 4
<ul style="list-style-type: none"> <li>• Computer suites at Cumbria House and Penrith Fire HQ</li> <li>• Note: excludes desktop / laptops or ancillary equipment</li> </ul>	Quality	70.0%	55.7%	Fail*	No bid
	Price	17.4%	30.0%	Fail	No bid
	Total	87.4%	85.7%	Fail	No bid

<b>Lot 6 - Fidelity Guarantee</b>		Zurich Municipal	Bid 2	Bid 3	Bid 4
• Theft by employees (nil excess)	Quality	59.0%	57.0%	No bid	No bid
	Price	30.0%	19.2%	No bid	No bid
	Total	89.0%	76.2%	No bid	No bid

<b>Lot 7 - Engineering</b>		Zurich Municipal	Bid 2	Bid 3	Bid 4
• Statutory health and safety inspections of lifting equipment and other items	Quality	70.0%	61.5%	No bid	No bid
	Price	23.5%	30.0%	No bid	No bid
	Total	93.5%	91.5%	No bid	No bid

\* Failed bids relate to those where the insurer has submitted a bid which is non-compliant with the essential criteria for the tender submission.