

Wards Affected:

All Wards

ITEM 18**CABINET****12 SEPTEMBER 2017****MILTON KEYNES COUNCIL INSURANCE PREMIUM PROCUREMENT**

Responsible Cabinet Member: Councillor Middleton (Cabinet member for Resources and Innovation)

Report Sponsor: Don McLure (Interim Corporate Director of Resources)

Author and contact: Mark Greenall (LGSS Insurance Manager) - (01223) 699112

Executive Summary:

To seek agreement for the placement of insurance contracts with the recommended insurers from 1 October 2017 as set out in the accompanying exempt Annexes and documents.

The exempt Annexes provides an overview of the insurance quotes received in respect of the separate lots and identifies the recommended insurer for placement of the individual cover risk for each lot based on the quality of the cover, and services and premium rate.

1. Recommendation

1.1 That the letting of insurance contracts (i) to (xii) below and set out in the exempt supporting documents be approved.

- (i) Lot 1 Material Damage – Company G referred to in the exempt Annex A and B.
- (ii) Lot 2 Property Owners – Company H referred to in the exempt Annex A and B
- (iii) Lot 3 Leasehold Properties - Company B referred to in the exempt Annex A and B.
- (iv) Lot 4 House owner - Company G referred to in the exempt Annex A and B.
- (v) Lot 5 Works in Progress - Company F referred to in the exempt Annex A and B.
- (vi) Lot 6 Terrorism - Company C referred to in the exempt Annex A and B
- (vii) Lot 7 Liability - Company H referred to in the exempt Annex A and B.
- (viii) Lot 9 Crime - Company F referred to in the exempt Annex A and B.
- (ix) Lot 10 Personal Accident/Travel – Company F referred to in the exempt Annex A and B.
- (x) Lot 11 Computer - Company F referred to in the exempt Annex A and B.

(xi) Lot 12 Engineering – Company I referred to in the exempt Annex A and B.

(xii) Lot 13 Motor – Company D referred to in the exempt Annex A and B.

1.2 That authority be delegated to the Corporate Director Resources to give effect to recommendations above including authority to agree any minor changes to the contracts before signature.

2. **Issues**

2.1 The existing contracts of insurance held by the Council expire on 30 September 2017 and Procurement and Commissioning on 7 February 2017 (Minute PC 69 refers) approved the commencement of a tender process to procure contracts of insurance to replace the existing arrangements. The process has been run through our Local Government Shared Services partnership in conjunction with Northamptonshire and Cambridgeshire County Councils, Northampton Borough Council and Northampton Partnership Homes Limited.

2.2 The Council is legally obliged to insure only Fidelity Guarantee (employee theft) and certain Motor risks. The Council is exempt from the provisions of the Employers Liability (Compulsory Insurance) Regulations. However as matter of financial prudence, given the value of the assets held by the organisation and the risks it faces in its everyday operations, the report recommends the Council to continue to carry significant insurance protection.

3. **Options**

3.1 The Council had a number of options open to it in respect of the management of insurable risks and in common with most other Councils has pursued a partial self-insurance approach, the options considered are summarised below:

(a) Partial Self Insurance – this is the stance currently taken by the Council in common with other local authorities. The Council carries a significant proportion of the insured risks itself through its internal Insurance Fund Reserve, but has external insurance protection once claims exceed a specified value. The Council can also buy aggregate loss protection where once a specified amount has been paid by the Council in self-insured retention (excess) in any one year the insurer meets all losses. Historically the Council has held fairly low levels of self-insured retention with no aggregate protection.

(b) Full Insurance – the Council could insure all insurable risks with limited self-insured retentions. Whilst providing financial certainty, this would cost the Council significant amounts in terms of premium spend and there are currently no insurers that would offer an organisation the size of the Council full insurance without a sizable self-insured retention. This approach is therefore not considered to be value for money or practical.

(c) Full Self Insurance – with the exception of Fidelity Guarantee and certain Motor risks the Council could fully self-insure. This would expose the Council to significant uncertainty in respect of the financial

impacts of losses and would place all the risk with the Council at a time when the organisation would unlikely have the financial reserves to meet a significant fully self-funded loss in addition to the usually expected losses the Council incurs on an annual basis (for example a large fire loss at Civic Offices in addition to routine liability and property claims).

- (d) Mutual/Pool Options – at this time there are no mutual or pooled insurance schemes available for the Council to join. The Local Government Association (LGA) has recently announced plans to explore the feasibility of developing a Mutual of Local Authorities for insurance cover, and the Council has agreed to explore whether this could be a viable option alongside the traditional insurance market in the future.

3.2 Insurance Tender Process

The tender is divided into separate lots to reflect the variety of risks that the Council is seeking to insure. Within the insurance market some insurers specialise in certain risks (i.e. property only or motor only) by not separating out the Council's insurance in this way we would limit the competition and available markets for the supply of the Council's insurance, thus potentially increasing premium costs.

Tenders were evaluated under the following criteria

Cover	The extent of policy cover provided	30%
Quality	The quality of underwriting support and the ability of the supplier to support the management of claims and provide a sustainable insurance programme for the Council	20%
Claims	Agreement of insurer to Council's preferred claims management processes and ability of insurer to provide robust claims management processes.	10%
Price & Financial Certainty	Price of annual insurance including any self-insurance costs and agreement of bidders to long term agreements and discounts	40%

4. Implications

4.1 Policy

The aim of the tender is to allow the Council to procure the most economically prudent insurance programme with a balance between the quality of insurance protection provided and the financial sustainability of the insurance premiums and self-insured retentions over the lifecycle of the contracted period.

Cabinet is asked to note that in respect of 'material damage' insurance, a significant amount of value was added to the sums insured to ensure that the Council is protected from the risk of being underinsured. Whilst this has impacted any like for like premium savings, it does ensure the Council is protected from potentially significant financial risk in the event of a major property loss.

Whilst premium reductions have been achieved in some areas overall savings have been only marginal based on a combination of additional insurance cover being required in some areas and in what is becoming an increasingly challenging insurance market.

The recommended programme has been designed to provide some measure of premium certainty with a number of providers offering long term agreements, rate guarantees and, subject to claims performance, premium rebates.

4.2 Resources and Risk

Whilst insurers are being more selective about the risks they insure and the level of premium they apply to insurance arrangements, we have received a good level of response with competitive terms being provided for the Council's insurance.

- 4.3 The Council's renewal premium for 2016 was £1,064k, as set out in Annex C. As advised to Procurement and Commissioning in February 2017. Given inflation in insurance premiums and the need to address the issues with regard to prudent insurance cover, it is estimated that this would have increased to £1,127k had the insurance been renewed on the basis of the existing programme, as set out in Annex D.

It was previously identified that due to a sustained period of budget pressures, increased funding may be required to support insurance related spend within the Council.

As a result of the evaluation process it is recommended that the Council renew its insurance arrangements with a variety of insurers, the full year effect premium spend for 2017/18 is expected to reduce to £1,024k, as set out in Annex E. This represents both a modest premium saving, but also provides the additional necessary areas of insurance cover identified in the tender process.

The projected future insurance premiums, based on the Council's expiring insurance programme structures are shown in Table One below for reference.

Cabinet is asked to note that an increase in insurance premium tax, from 9.5% at last insurance renewal, to 12% will incur an additional full year effect cost of £24,000 based on the 2016/17 insurance costs.

Whilst every endeavour has been made to make the 2018/19 estimate as accurate as possible, inflation factors to property sums insured, alterations to Council services and changes to the level of taxation on insurance premiums may all have an impact on the future cost of premiums.

Table One - Summary of Overall Insurance Premium Costs

	Previous Year*	Current Year*	Forecast	
	2015	2016	2017	2018
	£000	£000	£000	£000
Estimated external premium based on current insurance structure (as included in P&C Committee paper 07/02/2017)	986	1,064	1,127	1,249
Recommended Programme effective October 2017	N/A	N/A	1,024	1,095
Benefit/Cost Avoidance			103**	154

* Figures relate to Insurance year rather than financial year (i.e. October to September) please refer to Annex C.

** Please note this figure includes savings against leasehold property insurance, these savings of £61,000 are not cashable to the Council as costs are passed to leaseholders in full.

N	Capital	Y	Revenue	N	Accommodation
N	IT	N	Medium Term Plan	N	Asset Management

4.4 Carbon and Energy Management

This proposal has no impact upon the Council's Carbon & Energy Management Policy.

4.5 Legal

The identity of the winning tender in each lot should remain confidential until the end of the stand still period. The stand still period is the period of ten days following notification of the contract award decision in which unsuccessful bidders can challenge the tender process.

Financial information relating to the each of the bidders is commercially sensitive to the companies involved in the tender process.

The tender for the insurance of the Council has been run in conjunction with Cambridgeshire and Northamptonshire County Councils, Northampton Borough Council and Northampton Partnership Homes Ltd.

The process has been managed in compliance with the EU Procurement Regulations and a robust evaluation and moderation process has been undertaken to mitigate any significant risk of challenge.

4.6 Other Implications

There are no equality, sustainability, Human Rights Act and e-government implications associated with this decision.

The Council purchases insurance for building risks associated with dwellings purchased under Right to Buy legislation. Under the terms of Section 20 of the Housing Act the Council is obliged to consult with leaseholders and interested parties in respect of the purchase of the insurance for leasehold dwellings. This is being undertaken by colleagues in Housing with support from LGSS.

N	Equalities/Diversity	N	Sustainability	N	Human Rights
N	E-Government	Y	Stakeholders	N	Crime and Disorder

Annexes: Confidential and Exempt Evaluation Criteria (Annexes A to E)

Background Papers: None