

Report to:	Cabinet	Date of Meeting:	9 March 2023
Subject:	Proposed Insurance Procurement		
Report of:	Executive Director of Corporate Resources and Customer Services	Wards Affected:	(All Wards);
Portfolio:	Cabinet Member - Regulatory, Compliance and Corporate Services		
Is this a Key Decision:	Yes	Included in Forward Plan:	Yes
Exempt / Confidential Report:	No		

Summary:

The Council has a contract for insurance in place which was awarded in September 2018 on a three-year term, plus options to extend for two one-year periods. The existing insurance contract expires on the 28 September 2023. The contract exceeds the new UK Public Procurement Threshold, having an annual cost of £1,145,488. in 2022/23.

In accordance with Contract Procedure Rules, this report seeks Cabinet approval for the proposed arrangements so as to ensure the continued provision of effective insurance and to secure the most advantageous position for the Council.

It is recommended that the Council should undertake a procurement exercise, through the Yorkshire Purchasing Organisation (YPO) Dynamic Purchasing System Framework Agreement for Insurance Placement DPS - 978, for a new contract, to be effective from 29 September 2023 for three years with two one-year extensions.

Recommendation(s):

Cabinet is recommended to:

(1) Approve that the Council undertakes a procurement exercise for a new insurance contract, effective from 29 September 2023 onwards, using the YPO Dynamic Purchasing System Framework Agreement for Insurance Placement DPS - 978 for three years with two one-year extensions.

(2) Delegate authority to the Executive Director of Corporate Resources and Customer Services in consultation with the Cabinet Member, Regulatory, Compliance and Corporate Services to award the contract (and any subsequent extension) to the highest scoring bidder from the procurement exercise to be undertaken in 2023/2024

Reasons for the Recommendation(s):

The Council should tender the insurance programme to ensure that the Council obtains value for money in accordance with the Contract Procurement Rules.

Use of the YPO Dynamic Purchasing System Framework Agreement DPS - 978 for Insurance Placement beyond September 2023 also offers the opportunity to access a large number of pre-vetted insurers, including any new entrants to the market.

Alternative Options Considered and Rejected: (including any Risk Implications)

Renewing with the existing insurance programme insurers would be in breach of the Council's Contract Procedure Rules and would open the Council to challenge.

Council could self-insure and not insure through third parties. All claims including catastrophic claims would need to be paid for by the Council which the current financial budget is not designed to respond to. Insurance is designed to provide catastrophic cover for low likelihood but high financial impact. There are therefore no viable alternative options available or considered.

What will it cost and how will it be financed?

(A) Revenue Costs - 2022/23 premiums (including claims handling fees) amounted to £1,145,488. The cost is contained within the overall insurance budget. Should premiums increase then there will be less resources available to fund the costs relating to the Council's self-insured risks or further provision will be required from within the medium-term financial plan.

(B) Capital Costs - There are no capital costs arising from the report.

Implications of the Proposals:

Resource Implications (Financial, IT, Staffing and Assets):	
The costs associated with the insurance programme for 2022/23 are £1,145,488. The tender will be undertaken by the Audit and Risk Team with support from the Procurement Team.	
Legal Implications:	
If the Council extended the existing insurance arrangements in breach of the Contract Procedure Rules, the Council could potentially be exposed to legal challenge.	
Climate Emergency Implications:	
The recommendations within this report will	
Have a positive impact	N
Have a neutral impact	Y
Have a negative impact	N

The Author has undertaken the Climate Emergency training for report authors	Y
<p>The report has a neutral impact as there are no direct climate change implications from selecting new insurers. As part of the tender the Council would explore the climate change implications from each insurer and report the outcome once the tender has been completed.</p>	

Contribution to the Council's Core Purpose:

The provision of adequate and cost-effective insurance arrangements supports the delivery of the activities of the Council and protects the Council from major financial loss arising from claims.

Protect the most vulnerable: Neutral impact
Facilitate confident and resilient communities: Neutral impact
Commission, broker and provide core services: Neutral impact
Place – leadership and influencer: Neutral impact
Drivers of change and reform: Neutral impact
Facilitate sustainable economic prosperity: Neutral impact
Greater income for social investment: Neutral impact
Cleaner Greener: Neutral impact

What consultations have taken place on the proposals and when?

(A) Internal Consultations

The Executive Director of Corporate Resources and Customer Services (FD7087/23.) and the Chief Legal and Democratic Officer (LD 5287/23) have been consulted and any comments have been incorporated into the report

(B) External Consultations

None

Implementation Date for the Decision

Following the expiry of the “call-in” period for the Minutes of the Cabinet Meeting

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Appendices:

There are no appendices attached to this report:

Background Papers:

There are no background papers available for inspection

1. Introduction

- 1.1 The Council has an insurance programme with a panel of public sector focused insurance companies to provide catastrophic cover on known risks through a number of policies for example buildings/ contents, public liability, and employers liability cover. The insurance programme enables the Council to mitigate the catastrophic risks by “transferring” the risk with some caveats to a third party in exchange for a premium with some retention of the risk through the excess we have on each policy.
- 1.2 The last procurement exercise for the Council’s insurance programme was undertaken in 2018, resulting in a contract being awarded on a three-year term with an option to extend for two periods of one year. The insurance programme has been extended to the five-year maximum using the Chief Officer’s Report, in compliance with the Council’s Contract Procurement Rules, to 28 September 2023.
- 1.3 To ensure that the Council complies with the Contract Procedure Rules and ensure continuity of the Council’s insurance arrangements, a Cabinet decision is required as to whether to proceed on a new procurement exercise for the Council’s insurance programme which will be on a three-year Long-Term Agreement (LTA) with two one-year extensions.
- 1.4 The annual cost for the contract, contained within the Insurance budget, was £1,145,488– so exceeding the UK Procurement Threshold.

2. Market Appraisal

- 2.1 The Council receives comprehensive market advice and guidance from its brokers, Marsh, who took over from AON, in 2020.
- 2.2 The previous update to the Cabinet in July 2017 indicated that there had been a number of new entrants into the local authority insurance sector and that whilst councils were initially reluctant to place cover with new insurers it was expected that there would be increased competition over time as the market settled down with the new insurers leading to a positive impact on premium. The report also indicated that there would be headwind with the proposed change in the Claims Discount Rate and the likely impact of this will be premium increases for casualty and motor claims.
- 2.3 The 2017 report also noted that the introduction of a Crown Commercial Services (CCS) Framework Agreement for Insurance Services means that the subsequent

procurement exercise can be completed in a shorter timeframe, whilst allowing the Council to access a large number of pre-vetted of insurers (so providing assurance regarding the performance of new insurers) and so offering the most advantageous procurement opportunity to the Council.

- 2.4 The current assessment of the insurance market is quite different from 2017. The insurance market has changed significantly as a result of the impact of Covid-19 and then recovery. During the global recovery from Covid-19 supply chain issues have arisen and more recently events in Ukraine leading to unexpectedly high inflation which is having a marked effect on the costs of for example material damage cover. The current Insurance Market is described as “hard” with insurers having reduced appetite for risks particularly poorly maintained or perceived high risks with premiums rising to reflect the increased cost of claims and insurers general poor profitability. Insurers are in some cases not providing cover where they think the risk is unappetizing and/ or is outside their risk appetite which as discussed above is reduced from pre-Covid-19.
- 2.5 During the past two years councils have seen significant cost pressure in the Council’s liability insurance premiums whilst more recently material damage cover has seen increased costs as a result of the spike in inflation this year which has impacted on building costs leading to claim costs increasing.
- 2.6 In addition, the Government launched a new insurance vehicle in April 2020, the Risk Protection Arrangement (RPA), aimed at Local Authority Maintained Schools, which had been previously aimed at Academy Schools only. The RPA was priced significantly lower than the current insurance cover the Council could obtain for schools and was designed to further increase competition in the schools’ sector. Unfortunately, the existing insurers in the local authority sector stated that whilst they were supportive of more competition felt that the cover provided under the RPA did not full indemnify the risks that are presented by schools in particular from the Council’s education responsibility perspective. This led to a position that if schools left the local authority insurance programme that although there would be a reduction in the premium for material damage cover there would not be a reduction in the liability premium. Historically the Council has recharged to the individual Sefton School the relevant proportion of the insurance premiums from the Council Insurance Programme.
- 2.7 The current position with the insurance market is that the current “hard” market is believed to have peaked at the moment although that might change if other unexpected events occur in the future. To be successful in tendering in this market the Council has to demonstrate that it is managing all of its assets in line with statutory requirements as well as good practice and has embedded effective risk management practices in place at all levels of the organisation.
- 2.8 During the past three years the council has focused on improving risk management across the Council both in terms of operational risk management in its many forms such as health and safety, inspection regimes, learning from claims as well as improving corporate risk management to help improve the achievement of the Council’s Strategic Objectives. We have worked closely with all of the insurers taking advantage of the risk improvement services they offer to help shape the Council’s insurance risk management approach. This should help

to influence the insurers perception of the Council's risk management approach and how embedded it is across the organisation

3. Options available

- 3.1 There are potentially three options available:
- 3.2 Extend the existing insurance arrangements for at least a year but the Council's Contract Procedure Rules, are clear that we cannot extend this arrangement in these circumstances. Therefore, the action is not considered to be a viable option for consideration by the Council.
- 3.3 Allow the existing insurance arrangements to lapse and to self-insure from 28 September 2023. This would expose the Council to potential catastrophic losses and to pay the costs of any, and all claims. This would be outside of the Council's current risk appetite and the costs of this approach are not considered as part of the Council's Medium Term Financial Plan therefore this option is also not considered to be a viable option
- 3.3 Undertake a tender exercise utilising the YPO Dynamic Purchasing System Framework Agreement for Insurance Services Placement, the rationale for the framework discussed below, with Procurement Team assistance using the CHEST and working closely with the Council's Insurance Broker.

4. Preferred Option

- 4.1 Although the insurance market remains challenging the preferred option is to conduct another tender exercise similar to that undertaken in 2018 via the CCS Framework, but this time utilising the YPO Dynamic Purchasing System Framework Agreement for Insurance Placement DPS – 978. The YPO Framework will enable the Council to access a large number of pre-vetted insurers (so giving an independent view of the performance of new entrants to the market. The preferred arrangement for the tender would be for a three year (LTA) with the possibility of two one-year optional extensions.
- 4.2 There will be consultation with the Council's schools for their commitment to the tender and should they indicate that they will stay within the arrangements the school would be obliged to stay for the next period of insurance term unless they transfer to academy status.
- 4.3 The proposed framework route has been changed from the 2018 procurement exercise conducted via CCS as the YPO framework has since been introduced which includes the same public sector insurers as the previous framework. However, there are financial savings to be obtained as Sefton Council, being an Associate Member of YPO, benefits from an annual rebate / dividend back from YPO dependent upon the volume of spend via their frameworks as well as not paying a management fee to YPO for the placement of the insurance programme work which we did with the previous CCS framework.