

NORTH SOMERSET COUNCIL DECISION

DECISION OF: ASHLEY CARTMAN, EXEC MEMBER FOR FINANCE
WITH ADVICE FROM: JO WALKER, DIRECTOR OF CORPORATE SERVICES
& MARK RODDAN, HEAD OF PROCUREMENT
DIRECTORATE: CORPORATE SERVICES



DECISION NO: CSD83 2019/20

SUBJECT: INSURANCE CONTRACTS

KEY DECISION: N/A

BACKGROUND:

This procurement plan relates to the council's insurance contracts, which are due for renewal on 31 March 2020. The current contracts provide a range of cover and claims related services external providers, and they form an integral part of the council's arrangements to mitigate risk.

DECISION:

It is requested that the procurement plan in respect of the Council's insurance contracts be approved to proceed.

REASONS:

Introduction

The council's current insurance arrangements expire under Long Term Agreement at 31/3/2020 and a full market tender is required. Our brokers Aon are assisting us in managing the procurement and have many years' experience running such tenders, whether they are OJEU or framework.

All insurance policies are included within the tender process other than the medical malpractice cover, as the market is restricted. The classes of insurances to be included within the procurement for the new contracts are as follows:

Public Liability, Employers Liability, Products Liability, Professional Indemnity, Officials Indemnity, Motor Fleet, Property Damage & Business Interruption, Fidelity Guarantee, Computer, Schools Personal Accident & Travel, Terrorism (stand-alone risk only), Engineering insurance & Inspection.

The council's current insurers are;

- Risk Management Partners – who provide cover for Casualty (Employers, Public and Products Liability), Officials Indemnity and Professional Indemnity, as well as Property,

Business Interruption, Motor, Computer, Fidelity Guarantee, Schools, Personal Accident and Travel, Balance of Risks and Engineering

- Beazley – who provide cover for Medical Maladministration
- AON Underwriting Managers – who provide cover for Terrorism in respect of stand-alone risks

Commissioning Plan

The commissioning plan for the council's insurance contracts was approved by the Executive at its meeting in June 2019.

Lessons Learned from previous projects

The outcome of the previous tender in 2015 was very successful for the council and we found that the joint approach with our brokers AON ensured that all elements of the process, options and strategies were well researched, documented and evaluated. The previous procurement also delivered financial savings to the council at a time when the market conditions were challenging to consumers.

However during the procurement process we did recognise that there was some confusion around 'packaged Lots' of insurance cover, which can potentially be difficult to evaluate in a fair and transparent manner. As a result in this procurement process we will ensure that individual 'Lots' require separate bids.

During the previous tender there was only one bid for medical malpractice meaning that comparison and competition was difficult. Our current market research has indicated that this position remains unchanged and so this element of cover is omitted from the tender as we recognise that some competition is required. The premiums for this particular element are well below OJEU minimums and so will be separately procured.

Requirement

A full review of current insurance arrangements has been undertaken and other than a few minor adjustments it is agreed that the core contract requirements, including the level of cover, has not changed materially in the last 5 years.

Procurement options have been fully considered, i.e. examples of this include to internally insure rather than purchase external insurance cover from the market-place, and also to join with other neighbouring councils to share contracts however these have been discounted for reasons of financial impact and assessment of risk. To follow these routes would result significant financial implications to the council and we do not have sufficient resources to cover all potential risk impacts, nor are we aligned in current practices.

The 'specification' will form part of the Invitation to Tender (ITT) which has been jointly drawn up by the council and AON, and this is supported by;

- a package of information about the council, for example, its make-up, management structures, employee profile, approach to risk, as well as its insurance claims history as this could significantly influence bidders and impact on their submissions, and

- a questionnaire and scoring matrix detailing each 'Lot' which will be completed by bidders, as this could also influence bidders and impact on their submissions.

Shown below is a listing of the proposed 'Lots' of insurance cover and services required by the council. These have been aligned to reflect a combination of current internal arrangements and working practices and also the range of providers within the external market-place.

Lot 1 – Property, Business Interruption
Lot 2 – Liability
Lot 3 – Motor
Lot 4 – Engineering Inspection
Lot 5 – Fidelity Guarantee
Lot 6 – School Journey
Lot 7 – Terrorism
Lot 8 – Engineering – Sov Centre

It is anticipated that the final ITT and supporting documentation will be sent to the market in early November, for a bidder response at the end November / early December and an evaluation and award in February/ early March 2020. The new contracts are required to be in place by 31 March 2020 to ensure that the council suffers no loss of cover.

The evaluation of tenders will be undertaken by a joint panel consisting of AON, the Insurance Manager, Head of Corporate Accountancy, and the Strategic Procurement team.

Route to market

In the 2015 tender process the council used the CCS Insurance Framework RM958 although since that time there have been various revisions and updated versions to this framework. The current CCS Framework is due to expire on 28 February 2020 and although a revised version is due to be issued, details have yet to be released and we have been advised that this is not guaranteed and would be a significant risk to the timescales.

As a result it is the council's intention to procure its insurance contracts following a full OJEU Open Tender Process supported by the council's strategic procurement service. OJEU is the online journal for all public sector contracts relating to goods, services, works and utilities that are in excess of annual thresholds.

To ensure complete transparency and equity, EC procurement regulations require that contracts must be awarded using an EU/OJEU compliant route to market, which includes publishing the opportunity via OJEU. This process does mean that contracts are open to companies both in the UK and also across the EU, thereby ensuring the free movement of supplies, services and works.

The council's insurance contracts will be for a period of 3-years, with an option to extend for a further 2. This provides an optimum balance of ensuring that the council's insurance arrangements are protected from any annual volatility within the market-place, and also enabling the council to access any financial benefits should its insurance requirements

change over time, something which have been needed over recent years as the council reduced its schools portfolio following their transition to academy status.

Timescales

The timetable to be followed is listed below:

- 16 December – Issue tender opportunity to market, to be supported by claims history and risk registers; respond to clarifications where required.
- 17 January 2020 – Deadline for questions and further clarifications.
- 31 January 2020 - Receipt of tender submissions.
- February 2020 - Tender evaluation and analysis, NSC agrees award.
- 13 March 2020 – NSC and Aon to advise all tendering insurers of the intended contract award decisions, thereby initiating a “stand still” period during which time unsuccessful insurers may seek clarification of their decisions and / or commence appeal procedures
- 20 March 2020 - Aon issues Certificates
- 31 March 2020 - Contract commencement

Governance

The appointed contract manager is Karl Edney, and he will be supported throughout the process by AON, who are the council’s insurance brokers. The procurement process will be overseen and signed off by Mark Roddan, Head of Strategic Procurement, and Melanie Watts, the Head of Corporate Accountancy.

The procurement will follow the council’s approved process for contract awards of this size and will include the following steps;

- Commissioning Plan – approved by the Executive
- **Procurement Plan** – approved by the Exec Member, supported by the Director of Corporate Services and Head of Strategic Procurement
- Contract Award – approved by the Director of Corporate Services and Head of Strategic Procurement

Market / Suppliers

Although the insurance market for local authorities has largely been specialist with providers limited in number, current market conditions have shown that there are many more providers and therefore competition amongst them is increasing.

Larger insurers are aware of market changes and are keen to retain existing clients meaning that they are more flexible in the types of cover they offer to local authorities and package discounts are becoming more common-place, i.e. this is where the majority of insurance cover is provided within one contract, with the total price being lower than the sum of the parts. That being said, there are clearly opportunities for lower prices to be achieved from smaller insurers who wish to bid for individual categories or ‘Lots’ of cover.

The range of these issues within the market should provide more procurement opportunities for the council and therefore all options have been considered when developing the procurement plan and nothing has been discounted.

Another key driver in determining the tender price within the contract bids are the claims experience of the council over recent years, the contract length and the underlying policies which deal with risk and its management.

The latest claims statistics have shown that on balance the council's overall claims experience position has remained fairly static in recent years. We have seen reductions in the numbers and values of property claims and have also continued to achieve an above average level of repudiation for minor non-injury liability claims. However, whilst we have seen the numbers of smaller-liability claims reduce, the nature, complexity and value of other liability claims has risen from previous levels, as have claims associated with the motor fleet.

Other factors which may impact on cost are the contract term, the level of excesses applicable to each claim, the aggregate stop levels (i.e. the limit placed on the council's financial exposure with regard to its own internal insurance cover), and also the added value elements of the contract, for example, the claims handling processes and timescales, and 'loss control' support provided.

Research has indicated that North Somerset Council may be seen as an attractive risk to most public sector insurers and so should receive a favourable number of responses to the ITT. Interest has already been expressed from the following organisations which is deemed sufficient for a competitive tender;

- Zurich Municipal
- QBE and AIG via Risk Management Partners (MGA)
- Travelers
- Mavern Public Sector
- Protector Insurance
- Volante via Edison Underwriters
- Allianz
- Ashdown Engineering
- Royal Engineering

Social Value, Sustainability & VCSE

It is intended that the council's Social Value considerations be included within specific elements of the contract award processes, as they are not necessarily directly relevant to the provision of insurance cover.

Social value components will be designed to bring additional benefits to the council such as the provision of, and access to, 'risk review' days, which could be aimed at providing support to enable the council to reduce specific risk issues they may encounter, e.g. motor-fleet or tree management risks which have been increasing in recent years.

The contract evaluation assessment has been designed to ensure that Social Value questions are included within the scoring matrix for the majority of our 'Lots' meaning the

suppliers will be asked to provide details of examples of where they have previously demonstrated social, and also what social value components they could provide to the council as part of this contract.

Evaluation

In broad terms the responses from potential suppliers will be scored using a weighting of 60% price, and 40% quality. However, the evaluation of 'quality' will incorporate responses and scores linked to the following components;

- 20% - 'level of cover' such as excess and stop-loss levels,
- 10% - 'policy and claims' such as flexibility, exclusions and response times, and
- 10% - 'other' such as social and added value

This criteria was also used within the 2015 tender process and is very much seen as the industry norm within the specialist insurance market-place, as it not only allows for a direct comparison of insurance premiums that the council will pay following the contract award, it also enables a comparison of financial components that are indirectly related to price, or which may result in the retention of residual financial risk by the council.

For example, the council will need to strike a balance between the level of premium it could pay and the amount of risk it will retain by way of excesses and stop-loss levels – we clearly recognise that lower premiums are likely to result in much higher excess and stop-loss levels, which when taken into account in a financial year, could mean that the council is worse off than if it had paid a slightly higher premium in the first instance.

The scoring also allows recognition for social value, innovation and quality responses.

Attached at Appendix 1 is an example of the proposed evaluation and scoring spreadsheet.

Section A, **the 60% price element**, allocates marks to bidders based upon their contract values. The lowest price will score the maximum price weighting marks, with the scoring reducing on a proportionate basis for the remaining tender price responses using the following formula:

$(\text{Lowest price received} \div \text{bidders price}) \times \text{price weighting}$

Section B, **the 40% quality element**, asks questions in a variety of formats, each of which have been designed to reflect the council's core contract requirements, these include the following;

- Pass / Fail - Some requirements are considered to be so significant that failure to meet them will result in the bid being excluded from the tender process,
- Yes / No – This provides the council with clarity and certainty over the bidders response,
- Name the Limit Requirements – The council needs to compare and evaluate some specific contract areas, e.g. excess levels,
- Questions requesting bullet points or written responses – This provides an opportunity for expansion and supporting detail, and is particularly useful in determining areas such as what claims system does the bidder use, and the claims process,

- Added value, innovations and enhancements – these questions will be scored by allocating points for Excellent. Adequate or Poor responses.

The submissions will be considered and evaluated by a panel which will be led by our brokers AON and the council's insurance manager, Karl Edney. Other members of the finance and procurement teams will also evaluate the bids to ensure that a fair and balanced consensus is reached.

Contract Management

As part of the current support package it is proposed that AON will contact the market and ensure that all bidders are registered on the portal prior to ITT. Once the contract has been awarded then they will also ensure that all required documentation is provided as required.

After that point then the council's Insurance Manager will manage the contract with insurers including areas such as; arranging monthly meetings, reviewing claims statistics and performance metrics, delivering risk management training, and accessing social value outcomes.

OPTIONS CONSIDERED:

The following options were considered:

- **Continue with current contract** – This is not a viable option as all the contract extensions have been utilised and the contract will terminate on 30 March 2020. There are no circumstances which would justify a procurement exception being sought.
- **Do not recommission this contract** – This would result in an unacceptable increase in financial risk for the council and would also result in the council failing to comply with statutory duties, such as ensuring that arrangements are in place in respect of public liability and employers liability cover.
- **Commission the service as set out in this procurement plan** – this is the preferred option.
- **Commission the service using other procurement routes and options** – e.g. use a Framework and run a mini competition, although this has been discounted as the relevant Frameworks are not currently available.

FINANCIAL IMPLICATIONS:

The 2019/20 revenue budgets approved to fund the external insurance contracts and associated fees for 2019/20 currently total c£780k, meaning that the anticipated total contract costs over a 5-year contract period could therefore be approximately £3.9m.

Costs

At this time it is not yet known what the costs of the new insurance contracts will be and so further information will be provided after bids have been received.

Funding

Funding for the insurance contracts is currently included within the approved revenue budget and it is anticipated that the new contract costs will be retained within this sum.

Should the new contract costs be higher than this then the council could consider a range of options, for example, including growth within the medium-term financial plan, reducing the scope of the insurance cover required, increasing stop-loss or excesses.

Should the new contract costs be lower than the base budget then a savings item would be included within the medium-term financial plan.

No decisions will be taken until after the contract evaluation process.

LEGAL POWERS AND IMPLICATIONS

The council is legally required to ensure that it has adequate arrangements in place to identify and cover its statutory responsibilities and significant liabilities and risks, including areas such as staffing, customers, service providers, service provision, asset portfolio and revenue generation.

The council has considered various ways of achieving this by providing and procuring insurance cover through assessing the types of insurance required to mitigate the anticipated risks, including evaluating the balance between internal and external premiums.

CONSULTATION

Consultation has been undertaken throughout the process with our brokers, service managers and suppliers within the market, and due regard has also been given to the requirements of the Official Journal of the European Union (OJEU)

RISK MANAGEMENT

Adequate levels of insurance cover are an essential part of the council's approach to manage and mitigate risk wherever required, and appropriate. Additional procurement risks are identified below:

Risk	Impact	Mitigation
No decision to proceed	delay or full cessation of recommissioning process	clear description of why this service is required as set out in this commissioning plan and pre-approval checks of this plan to be completed by senior Council officers.

Market failure (e.g.no bidders)	delay or full cessation of re-commissioning process, potential for increased costs if emergency service provision is required.	ensure the service specification accords with the level of available funds, this can be done through market engagement session.
Slippage of commissioning timescale	failure to hit key dates within the commissioning plan	build tolerance into the commissioning plan and complete tasks as early as possible.

EQUALITY IMPLICATIONS

Have you undertaken an Equality Impact Assessment? Yes / No

No equalities issues have been identified throughout the procurement process to date, as the council's insurance contracts are universal and do not have any detrimental impacts on any one individual or groups.

CORPORATE IMPLICATIONS


The contract and strategic management of this service will be the responsibility of the Interim Director of Finance, who will routinely report matters of key risk with the Statutory Officers Group.

BACKGROUND PAPERS


Executive Meeting, June 2019 – Commissioning Plan

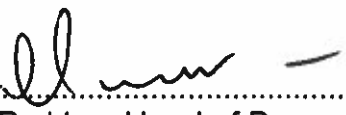
SIGNATORIES:

DECISION MAKER(S):

Signed: 
 Title: Ashley Cartman, Exec Member for Finance.....
 Date: 18/12/19

WITH ADVICE FROM:

Signed: 
 Title: Jo Walker, Director of Corporate Services.....
 Date: 18/12/19

Signed: 
Title: Mark Roddan, Head of Procurement
Date: 18/12/19