



**Mayor & Cabinet**

**Report title: Approval to Procure and award the Council's Insurances**

**Date:** May 2023

**Key decision:** Yes

**Class:** Part 1.

**Ward(s) affected:** All

**Contributors:** Karen Eaton, Group Manager, Insurance & Risk

## Outline and recommendations

Mayor & Cabinet are recommended to authorise officers to run a procurement for all of the Council's insurances that are due to expire on 30 November 2023.

The new insurance policies will be for a period of three years, with an option to extend for a further two years. The expected total value of the contracts will be £2.5m annually plus Insurance Premium Tax (currently 12%) but with individual values for each of the 8 Lots as detailed in the body of this report.

Mayor & Cabinet are recommended to:

Authorise officers to run a procurement for all of the Council's insurances that are due to expire on 30 November 2023, in accordance with the timeline set out above. The new insurance policies will be for a period of three years, with an option to extend for a further two years at a total estimated cost of £14.2m including IPT over the full 5 year period.

Approve the award of contracts to the preferred providers, provided the contract values are within authorised limits.

Delegate authority to Executive Director for Corporate Services (in consultation with the Director of Law, Governance and Elections and the Group Manager, Insurance and Risk) to select the preferred providers in accordance with the selection criteria published in the tender documentation and agree final form of contract.

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## Timeline of engagement and decision-making

February to April 2023	Project Team established and date gathering exercise undertaken to inform tender specification
April 2023	Tender Specification completed
May 2023	FTS notice and contract finder. Invitation to Tender and Standard Selection Questionnaire issued.
June 2023	Final Bid deadline
June – August 2023	Evaluation exercise
September 2023	Award report presented to Executive Director of Corporate Resources and Scrutiny
October 2023	Award decision letters issued
November 2023	Contract awarded. Protocol meetings held with new insurers
November 2023	Contract award notice published
1 December 2023	Cover incept/contract starts

### 1. Summary

1.1 This report seeks authority from Mayor & Cabinet to authorise officers to run a procurement for all of the Council's insurances that are due to expire on 30 November 2023 and to award the contracts.

1.2 The new insurance policies will be for a period of three years, with an option to extend for a further two years. The expected total value of the contracts will be £2.8m (including insurance premium tax - IPT) annually but with individual values for each of the 8 Lots as detailed in the body of this report.

### 2. Recommendations

2.1 Mayor & Cabinet are recommended to:

authorise officers to run a procurement for all of the Council's insurances that are due to expire on 30 November 2023, in accordance with the timeline set out above. The new insurance policies will be for a period of three years, with an option to extend for a further two years at a total estimated cost of £14.2m including IPT over the full 5 year period.

Approve the award of contracts to the preferred providers, provided the contract values are within authorised limits.

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Delegate authority to Executive Director for Corporate Services (in consultation with the Director of Law, Governance and Elections and the Group Manager, Insurance and Risk) to select the preferred providers in accordance with the selection criteria published in the tender documentation and agree final form of contract.

### 3. Policy Context

3.1 This report aligns with Lewisham's Corporate Priorities, as set out in the Council's Corporate Strategy (2022-2026):

- *Cleaner and Greener*
- *A Strong Local Economy*
- *Quality Housing*
- *Children and Young People*
- *Safer Communities*
- *Open Lewisham*
- *Health and Wellbeing*

3.2 These recommendations in this report support all of the Council's priorities generally through effective risk management and efficient placement of adequate insurance arrangements for all of its activities and duties.

### 4. Background

4.1 All of the Council's insurances were tendered during 2018 and new Long-Term Agreements (LTAs) for three years with an option to extend for a further two years were entered into.

4.2 The liability insurance LTAs were varied at the renewal in December 2020 and increased levels of excess were agreed to contain premium increases that would otherwise have applied.

4.3 The Property insurances were similarly varied at the renewal in December 2021.

4.4 All other policies were renewed within the terms of the LTAs.

4.5 The LTAs for all of the policies will expire in November 2023 so a procurement exercise is now required.

### 5. The Procurement Approach

5.1 The Tender process must be completed by 31 October 2023 with the contract being awarded in November 2023 so that arrangements can be put into place to enable the new contracts to start on 1 December 2023. A draft timetable showing the various stages is at Appendix A.

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## 5.2 Routes considered were Open, Negotiated, Consortia and Framework

Frameworks are not considered to represent the optimum route to market at this time. This is because use of a Framework could further limit the number of bidders in an already restricted market (for example, some of our existing providers are not included in any framework arrangements). Participants in the Frameworks are obliged to pay a levy that would likely be passed on in their pricing and this is estimated to be in the region of £14k annually). The Council would have to change its broking arrangements to the same framework and the same fee would apply. This may negatively impact on the broking arrangements for some covers arranged for Partners (e.g. CRPL) and would introduce delay to the process.

There are no consortia partner arrangements with similar timescales or that would enable the Council to specify its particular requirements.

The negotiated procedure has been utilised previously and was not considered to add value, though it extends the procurement process considerably.

The proposed procurement route recommended is an open tender following public advertisement via Contract Finder as this is expected to produce the optimum number of bids and encourage competitive bidding from the widest range of participants.

## 5.3

As with previous tenders, and reflecting the existing arrangements which have resulted in a spread of policies across various insurers, the insurances will be separated into 8 Lots and tenderers can bid for any or all of the Lots.

## 5.4

The Lots and evaluation criteria to be utilised are shown in the table below.

Lot	Price	Cover	Claims/ Service Delivery	Added Value & Innovation	Social Value
1. Property	50%	30%	10%	5%	5%
2. Commercial Properties	50%	30%	10%	5%	5%
3. Fidelity Guarantee	35%	45%	10%	5%	5%
4. Liability Insurance Cover	35%	40%	15%	5%	5%
5. Motor Fleet	55%	20%	15%	5%	5%
6. Engineering Services & Cover	50%	40%	N/A	5%	5%
7. Group Personal Accident/Travel	40%	30%	20%	5%	5%
8. Terrorism	50%	30%	10%	5%	5%

## 5.5

The Council's brokers, Marsh, will assist with the tender process. We will

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use industry standard evaluation methodology, which the insurance industry is familiar with. This methodology will detail the points to be awarded for each essential element and demonstrate the points reductions that will be made for restrictive terms, conditions, exclusions or endorsements imposed.

5.6 The reason for applying different evaluation criteria to each of the Lots is that certain aspects of each of the policies is of different importance to each. – e.g. the breadth of cover and claims handling arrangements are of greater importance than price for those policies where significant claims could arise and where policy wordings are less standardised and could result in indemnity being refused. The criteria are broadly the same as utilised in the last tender, but with Social Value now added as a criteria.

5.7 The evaluation panel for Lots 1 to 7 will comprise the Group Manager, Insurance & Risk, the Insurance and Risk Section Manager plus a representative from Marsh. Each will independently undertake technical evaluation and then come together to reach an agreed final evaluation. This will ensure that quality is assessed from an expert perspective. A representative from Procurement will participate in the Panel in an advisory capacity.

5.8 Marsh will not participate in the receipt of tender submissions or evaluation process for Lot 8 – Terrorism because a division of Marsh (albeit Bowring Marsh and not the Public Sector Practice) are the current providers and may wish to submit quotes for this Lot. This will avoid any conflict, or perception of conflict, arising. As this is a very specific cover and there are very limited variations in policy wordings, the evaluation process is relatively straightforward.

5.9 It is anticipated that the tender will be awarded for a period of 3 years, with an option to extend for a further two years.

5.10 We will be inviting variant bids (with varying levels of excess etc). These will be evaluated to identify which represents the best value for money when the level of risk to be carried by the Council as self insurance is taken into account. This means we may receive and need to evaluate separately multiple bids from individual suppliers.

5.11 Only insurers who are authorised by the Financial Conduct Authority (FCA) and who have a financial rating of A- or higher by Standard & Poor or equivalent or are similarly rated by Marsh's Market Security Team will be accepted.

5.12 The total annual value of the contracts is anticipated to be in the region of £2.8m annually, including insurance premium tax) and the breakdown across Lots is shown at Appendix 2.

## **6. Overview of Insurance Markets**

6.1 There remain a limited range of potential bidders in the Public Sector

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market, comprising a mix of insurers and Managing General Agents (MGA).

6.2 Although the markets are limited, it is anticipated that this project will be of interest to sufficient numbers to make it competitive, particularly by using the Open procedure which will be accessible to the entire insurance markets. The business is currently spread across a number of markets so it is reasonable to expect those would at least wish to retain their position, plus the scale of the Authority means that the risks they offer are quite significant in terms of premium income for winning bidders.

6.3 However, the insurance market as a whole remains difficult, and whilst competition is expected, it is not anticipated that this will drive down the pricing to any significant extent.

6.4 In Marsh's experience, recent tenders for other Authorities are showing higher pricing than similar exercises in previous years. Insurers are looking to address the impact of inflation on claims values, as well as their operating expenses, and the impact of modest investment earnings. Additionally, reinsurance costs have continued to rise with the costs being ultimately passed on to policy holders.

6.5 The above is before other factors, such as increased reinstatement costs, repair/replacement values and raised Wageroll/global commodity shortages etc are built in. Clearly, the effect of index linking at current levels has the potential to increase property premiums in the region of 20% even if rate rises are not applied and there is evidence of certain insurers requiring uplifts of sums insured at these levels as a condition of providing cover.

6.6 Generally, insurers are requiring detailed information to consider risks such as property (including valuations information) and there are occasional issues where a bidder submits terms but is unable to provide full cover/limits that are requested or are having limitations imposed by their reinsurers.

## **7. Financial implications**

7.1 This report recommends the re-procurement of the Councils insurance policies that are due to expire on 30 November 2023.

7.2 The premium for these policies, together with sums set aside for contribution to specific insurance provisions and reserves, are contained within the insurance budget that forms part of the overall Corporate Resources Directorate budget.

7.3 The insurance premiums cover a range of core Council risks as well as those in relation to Lewisham Homes, the HRA and a majority of Lewisham Schools, all of which are recharged accordingly. The recharging arrangements for Lewisham Homes will change once they return to Council control however the timing for this is not currently known, though likely before the new Policies begin.

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7.4 As with any new procurement there is a risk that costs will increase and cause a budget pressure. Should this arise then options to re-structure the programme to minimise the impact of any premium increases will be investigated and actuarially assessed following the receipt of bids.

7.3 Any increases in premiums could impact on the funding available within the budget to fully fund insurance reserves and this in turn could impact on the headroom available in these reserves to fund the insurance savings taken in previous years as follows –

- £3.00m over a ten-year period from 2013/14
- £3.00m was agreed in 2016/17
- £2.25m over a ten-year period, was agreed in 2017/18.

n.b. the saving taken for 2013/14 onwards is due to end and is subject to the outcome of the 2023/24 budget process.

## 8. Legal implications

### Approval to Procure

8.1 The report seeks approval to procure external providers to provide Council insurance. The different insurance required has been separated into “lots”. Under the Public Contracts Regulations 2015 (“Regulations”) where a proposed provision of services may result in contracts being awarded in the form of separate lots, the total contract value shall be the total value of all such lots. Given the potential spend on the contracts (at a length of 3 years with the option to extend for up to a further 2 years) the contracts would be categorised by Contract Procedure Rules as a “Category A” contract. The report sets out the other options considered and explains why this is the recommended option.

8.2 Assuming that Mayor and Cabinet accepts the recommendation to procure providers, the Contract Procedure Rules (“CPR”) place requirements on how that should happen. The CPR require that when letting contracts steps must be taken to secure value for money through a combination of cost, quality and competition, and that competitive tenders or quotations must be sought depending on the size and nature of the contract (Rule 5). Given the potential spend on this contract the Public Contracts Regulations 2015 as amended by the Public Procurement (Amendment etc) (EU Exit) Regulations (“the Regulations”) will apply. The requirements of both the CPR and the Regulations would be satisfied by use of an open tender procedure. As a Category A contract, it would be for Mayor and Cabinet to take a decision on the award of any contract.

### Approval to Award

8.3 This report proposes that Mayor and Cabinet approve the award of contracts for Council Insurance. This report further proposes that Mayor and Cabinet instruct the Executive Director for Corporate Resources in consultation with the Director of Law, Governance and Elections and Group Manager,

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Insurance and Risk to give effect to this decision by applying the selection and award criteria to determine and enter into contracts with the preferred providers.

8.4 The decision to award the contracts contained in this report means that it is a Key Decision. It is therefore required to be contained in the current Key Decision Plan and the Council's Key Decision procedure must be followed.

8.5 Provided that the final contract values are within authorised limits set out in the recommendation and the preferred providers are selected in accordance with the selection and award criteria published in the tender documentation, then the selection by Executive Director for Corporate Services of the preferred providers in accordance with Mayor and Cabinet's direction will not be a Key Decision. For audit purposes a written record should be kept setting out how the selection process has been applied and the preferred provider selected, and officers from Legal Services should be consulted as necessary throughout the selection and award process.

## **9. Equalities implications**

9.1 There are none arising directly from this report.

## **10. Climate change and environmental implications**

10.1 There are none arising directly from this report.

## **11. Crime and disorder implications**

11.1 There are none arising directly from this report.

## **12. Health and wellbeing implications**

12.1 There are none arising directly from this report.

## **13.1 Social Value implications**

13.1 Social Value is included in the evaluation criteria and bidders will be awarded points if they are able to demonstrate added social value.

## **Report author(s) and contact**

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Comments for and on behalf of the Executive Director for Corporate Resources

Provide the name of the author of the financial implications.

Peter Allery

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Comments for and on behalf of the Director of Law and Corporate Governance

Provide the name of the author of the legal implications.

Mia Agnew

## **Appendices**

- *Appendix 1- Tender timetable*
- *Appendix 2 – breakdown of Lots and Premiums*

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