



Leicester
City Council

WARDS AFFECTED
All

Audit and Risk Committee

24 October 2013

Tender for Council's Insurance Arrangements 2013

Report of the Director of Finance

1. Purpose of Report

1.1. To advise the Board of the outcome of this year's insurance tender exercise.

2. Recommendations (or OPTIONS)

2.1. The Board is recommended to note:-

- How the Insurance Contract has been awarded and to whom;
- The cost savings arising from the above, whilst our cover and excesses remain the same.

3. Summary

- 3.1. The Insurance Contract was last tendered in 2008 when a '3+2' year contract was awarded to Zurich Municipal. This contract was due to expire on 30 September 2013 and work on the tender commenced in October 2012, concluding in August 2013 with the award as detailed below. The 'new' contract will be split between Zurich Municipal (ZM) and Risk Management Partners (RMP) as detailed below in paragraph 4.6.
- 3.2. Significant cost savings have been achieved as detailed within this report, whilst we have been able to maintain the same (adequate) levels of cover in most cases; have increased cover to include boiler/pressure plant explosion; doubled the sum insured for museum exhibits; and seen no degradation in the amount of the excess that the Council has to carry.
- 3.3. Despite having split the contract provision between two companies, ZM have still pledged to maintain their 'risk management fund' at £50K p.a. over the five years of the new contract. Had we placed all the business with them once again, this fund would have increased to £80K. However, the savings by taking the Property and Terrorism through RMP more than outweigh this.

4. Report

- 4.1. The 2008 tender had achieved overall premium savings of 36.2% over the 2007/8 premium and taking into account the reduction in annual premium of £100K for extending, what was then, a 'Long Term Agreement'. Since that time, when the market was acknowledged as being 'soft', there had been signs that the insurance market was 'hardening' in many areas and the Council had, regrettably, suffered its largest loss for many years (Catherine Street School fire). It was against this background that our tender began with concern over our ability to make any savings over current premium.
- 4.2. The services of Gallagher Heath, a broker, were procured to assist with the process. They worked closely with, and under the guidance and supervision of, Brian Brookes, Insurance and Claims Manager.
- 4.3. The Public Sector Insurance market is relatively 'small', with only three companies offering a full suite of Local Authority Insurance requirements. Other companies are able to provide certain elements of cover – such as separate Motor or Property Insurance for example. The use of a broker meant we were able to fully explore all possibilities and consider a packaged approach rather than look to place all our cover with one provider (as in the past), whilst still exploring whether or not a large discount offered by any sole provider for supplying all of our insurances would be more economically viable.
- 4.4. A number of 'briefing events' were held with the aim of allowing other potential bidders to get 'to know' Leicester City Council to allow them to bid on an 'even playing field' when compared with Zurich Municipal (ZM) who had been the Council's sole insurers (with the exception of a small personal travel policy provided by ACE Europe Insurance) for the past eleven years.
- 4.5. The Council's policy needs were divided into six different lots, along with a seventh lot for the provision of all our needs by one insurer. We also asked for tenderers to bid for a five year contract as well as a 'three plus two' arrangement. This was with the specific aim of widening the tender to smaller, potentially local, firms who may not be able to provide all of our requirements. The make-up of the lots and 'bidders' for each group are given below:
 - Lot 1 – Property
 - Lot 2 – Terrorism
 - Lot 3 – Liability
 - Lot 4 – Personal Accident
 - Lot 5 – Motor
 - Lot 6 – Engineering
 - Lot 7 – All Lots Combined

4.6. Bids were received from four different tenderers across the six lots, with two bidding for the total package. Gallagher Heath managed the response for the Council and submitted a detailed summary report for consideration, which included scoring of the bids against our pre-set criteria. Based on this the contract is being awarded on a five year term and split lots basis as below:

- Lot 1 – Property – Risk Management Partners
- Lot 2 – Terrorism – Risk Management Partners
- Lot 3 – Liability - ZM
- Lot 4 – Personal Accident - ZM
- Lot 5 – Motor - ZM
- Lot 6 – Engineering - ZM

4.7. Final figures show that the combined, total premium will decrease by around 4.6% when compared to the 2008 tender, equating to a saving of around £350K over the five year life of the contract.

5. FINANCIAL AND LEGAL IMPLICATIONS

5.1. Financial Implications

5.1.1 The Council 'self-insures' most of its risk – effectively the Director of Finance acts as insurer for the Council as a whole, and maintains a fund with which to pay claims. The size of the fund is assessed by actuaries from time to time and stood at £11.2M on 31 March 2013. This is sufficient to cover estimated outstanding liabilities.

5.1.2 The Council, nonetheless, obtains 'catastrophe' cover from external insurers in case of single, large incidents or a high level of losses. The cost of this is charged to departments together with sums required to fund the self-insurance fund. The latter is the greater part of our annual costs.

5.1.3 As a consequence of retendering, external insurance costs will fall from £1.5M to £1.425M per annum. This will be taken into account, together with self-insured claims experiences in 2013/14 to set internal charges for 2014/15.

(Mark Noble, Head of Finance (Financial Strategy))

5.2. Legal Implications

5.2.1 Advice has been provided to the project officer on the Legal and Procurement implications of this project and it proceeded following an advert for the Council's requirement being placed on the OJEU website.

(Greg Surtees, Legal Services, 37 1421)

6. Other Implications

OTHER IMPLICATIONS	YES/ NO	Paragraph/References Within Supporting information
Climate Change	No	
Equal Opportunities	No	
Policy	No	
Sustainable and Environmental	No	
Crime and Disorder	No	
Human Rights Act	No	
Elderly/People on Low Income	No	
Corporate Parenting	No	
Health Inequalities Impact	No	
Risk Management	Yes	Insurance is a risk mitigant, therefore all of the paper.

7. Report Author

7.1. Tony Edeson, Head of Internal Audit and Risk Management – 37 1621