

## **EXECUTIVE SUMMARY:**

The purpose of this briefing note is to seek approval for a new five-year long-term agreement from 1 October 2023 in respect of Middlesbrough Council's Liability, Property & Motor fleet insurance arrangements following a full tender exercise.

Tender figures have now been agreed with the Council's broker and insurance adviser, pending acceptance of the expenditure. The five bids received are based on a 3-year Long Term Agreement with the option to extend for a further 2 years. Based on the tenders evaluated, it is recommended that the Council place each class of business with a separate insurer, rather than with one single insurer as at present.

This is based on an optimal insurance programme, which has considered the previous claims history of the local authority, plus a detailed assessment of the future risks facing the Council. The tender specification was marketed by AON as the Council's insurance brokers between 23 June and 4 August 2023.

A summary of the recommendations is that the Council accept the following bids for external insurance cover from 1 October 2023. The contract period is for a three-year initial term, followed by two single year extensions (if required).

Property – The Travelers Company - £194,178.12 per annum

Liability – Risk Management Partners - £234,125.00 per annum

Motor – Zurich Municipal - £39,696.10 per annum

All premiums above are subject to insurance premium tax at 12%.

The total value for the insurance arrangements tendered per year is £467,999.22, plus insurance premium tax at 12%, giving an annual total cost of £524,159. The total value of the contract award being placed for the whole five-year period (including extensions) is £2,620,795.

There is appropriate financial provision with the Council's revenue budget to undertake the new proposed agreement for a period from 1 October 2023 to 30 September 2026 (with a further option for the next two years thereafter), albeit that the expenditure of the revenue budget is annually approved. It is therefore recommended that the tender evaluation findings are accepted on the basis that they give continuity of cover, with a significant annual year on year saving included.

The Council's Procurement Team were heavily involved in all aspects of the tender process and outcome. Information gathered from and consultation with all directorates also contributed directly to the tender exercise.

In terms of the 2023 Tender Responses, the premium levels are lower than the 2022 renewal premium levels. The total cost of the previous year premiums was £814,994, which equates to a saving of £290,935. This amount though is not directly comparable as several schools (8) have now migrated to the government's Risk Protection arrangements prior to converting to academies. Also, we are seeking

separate arrangements for insurance cover for engineering and inspection systems within the Council and Fine Arts. Once these factors are considered the annual saving will be in the region of £180,000, or 22% of the current annual cost. This amount will be reinvested in the Council's insurance fund as reserve levels available are currently low and this will give a level of protection against any increase in new claims.

The current and proposed cost for external insurance is set out in the table below:

<b>Policy</b>	<b>Existing (£000)</b>	<b>Policy Adjs (£000)</b>	<b>Proposed (£000)</b>	<b>Saving (£000)</b>
Liability	331.939	(25.000)	262.220	44.719
Property	423.841	(84.435)	217.480	121.926
Motor	59.214	(1.000)	44.459	13.755
<b>Total</b>	<b>814.994</b>	<b>(110.435)</b>	<b>524.159</b>	<b>180.400</b>

## **Background**

The Council has not tendered its external insurance arrangements since 2007. In addition, the Council has been with its current insurer, Zurich Municipal, since its inception in 1996. In recent years, renewal premiums for the existing external insurance cover have increased significantly as the insurance market has hardened due to new and changing global and national risks.

Due to the lack of competition and the current insurer being in situ for many years, it has been difficult to assess whether the Council was achieving value for money from the annual cost of its insurance arrangements. It was agreed with the previous Director of Finance to tender the existing contract in April 2022. The current insurance premiums level and spend at 1 April 2023 exceeds £0.8m per annum.

## **The Approach**

Due to there not being a competitive process undertaken for some time, a full review of the Council's position in relation to insurance has been required.

- An actuarial review was undertaken which looked at all the current outstanding claims and made recommendations on the financial position of the insurance fund.
- An expected maximum loss study reviewed all services of the Council and collected data on current and future activities and associated risks. The aim being to determine the maximum financial risks applicable to future operation and to inform the structure of the proposed insurance programme.

- A broker was appointed to market the Council's insurance tender and to ensure that an appropriate level of competition/interest was generated.
- The insurance actuary was appointed as an independent adviser in relation to the maximum loss study and determining an optimal insurance programme for the next five years.
- Both the broker and the insurance actuary would assist Officers in the evaluation of the tenders received and in making a decision of what business to award.

## **Procurement Process**

The Council must ensure that appropriate insurance arrangements are in place to protect the council's assets and potential liabilities. In that regard, the Council proposes to take out new covers on its main classes of business in respect of its Liability, Property and Motor insurances for a 3-year period, with the option to extend for a further two years. Any proposed future increase in the contract price can only be imposed in accordance with the provisions of the existing contract. The Council's Procurement Team has confirmed that the proposed renewal complies with the current contract procedure rules.

When commissioning contracts for the procurement of goods, services, or the execution of works, the Council must comply with the Public Contracts Regulations 2015, failing which a contract may be subject to legal challenge from an aggrieved provider. The proposed award of this contract follows a selection exercise to enable a call-off in accordance with an appropriate Framework Agreement.

The purpose of a framework agreement is to select through a procurement/evaluation process several providers who can meet the service requirements of the Council as and when those services are required. If they are required, then the Council will undertake an exercise to call off the services from one or more of the providers who have been selected to be on the framework, and this may be through any number of ways (mini-competition or direct allocation) depending on the circumstances. A contract will then be formed between the Council and the chosen provider/s.

Tender documents and supporting appendices for the Insurance Contract were advertised on 23 June 2023, utilising the Yorkshire Purchasing Organisation Insurance Framework 978 via the Proactis Portal (open to pre-vetted bidders), where tender documents were made available to prospective bidders to download.

Quotations were invited for "Insurance Services excluding Broking Services".

The tender was "live" for six weeks, with the deadline for Tender Responses being midday on Friday 4 August 2023.

Potential Bidders were then able to ask Tender Clarification Questions up to midday on Wednesday 19 July 2023.

The strategic objective was to test the effectiveness of the insurance covers, with the contract to be awarded based on the most economically advantageous basis, evaluated against the Criteria and Weighting published in the tender documents.

### Optimal Insurance Programme

Following the actuarial review and expected maximum loss studies, a programme to be put out to tender was determined. The table below highlights the recommended structure and gives a direct comparison against the existing insurance cover held.

Recommended Programme							Current Programme				
Main Policy Group	Subgroup	XS (£k)	AGG (£k)	Cover per Claim	Cover per event	Cover Per Year	XS (£k)	AGG (£k)	Cover per Claim	Cover per event	Cover Per Year
<b>Liability</b>	EL	250	2,500	£5m	£10m	£25m	197	2,210	£25m	£25m	No Limit
	PL	250		£10m	£25m	£25m	250		£25m	£25m	No Limit
<b>Property</b>	MD/BI/Fire	250	750	£50m	£50m	£50m	197	750	£50m	£50m	No Limit
<b>Motor</b>	MD/Injury	250	750	£10m	£10m	£10m	197	None	£10m	£10m	No Limit

Key: XS – Excess Level AGG – Aggregate Cap EL/PL – Employee/Public Liability MD – Material Damage BI – Business Interruption

The conclusions reached on the programme structure are as follows:

- A traditional approach should be followed (i.e., a separate policy for each class).
  - The current (and medium-term financial position) suggests sustainable excess levels similar to the current programme values are required.
  - The need for relatively low excess levels means that premium reductions can only be achieved by pruning cover.

The main features of the above programme are:

- The same excess level across every class allows an ease of administration.
  - The excess levels are broadly the same as they are now suggesting they were set correctly in the past.
  - Split levels for EL & PL liability cover which are currently aggregated at present.
  - Remove unlimited insurance as limits can be defined.
  - An Aggregate cap limit has been included for the Motor policy and there has been a move to fully comprehensive insurance rather than third party only cover.

- Some insurance policies are not being renewed, such as officials' indemnity, professional indemnity, libel and slander. No claims have been received in these areas for the last ten years plus. These can be self-insured rather than buying external cover.
- Also, some elements of the current insurance programme have been removed to ensure that individual insurance classes are more in line with other local authority programmes. These are Engineering & Inspection and Fine Arts. The policies for these are being undertaken separately on a quotation basis during late 2023.
- Schools are not included in the above insurance arrangements. Any schools which still have not converted to academy status joined the Central Government Risk Protection Arrangements scheme from 1 April 2023. This advice was given to Schools by the Council in early 2023 as part of preparing for the main tender. Presentations were given by the DFE prior to Middlesbrough schools joining this.

### **Tender Evaluation Process**

The tenders were received by YPO, via their procurement portal, on 4 August 2023. These were distributed to the finance and investments team at the Council, the insurance broker and the insurance adviser for marking.

The evaluation process was undertaken on the following basis, which was set out in the tender specification. This was based on a marking scheme produced by the Council and reviewed by both the broking and procurement teams to ensure it gave a fair and equitable basis for award, but also that it was easy to understand.

<b>Award Criteria</b>	<b>% Available</b>
Price	30
Cover	40
Claims Handling	20
Risk Management	10
<b>Total</b>	<b>100</b>

The model used is based on a 30%/70% price/quality split.

A total of five bids were received. All insurers who bid for the Council's work are well known to the local authority insurance market. In addition, a financial solvency review was undertaken on each of these companies to ensure that they could cover the insurance programme for the whole of the 5-year term being offered.

The bidders and their scores are referred to in the Exempt appendix for Members information.

On this basis, it is recommended to award the relevant classes of business to the following insurers:

Liability – Risk Management Partners – Score 64 – Annual Premium £234,125

Property – The Travelers Company – Score 77 – Annual Premium - £194,178

Motor – Zurich Municipal – Score 65 – Annual Premium - £39,696

Several points can be made about the above tender evaluation results:

- All the bids received did not exactly mirror the insurance cover (for each class) that been requested in the Council's specification. As a result, quality scores were marked down accordingly for this.
- Even though they did not match the cover asked for, in all cases each insurer provided more cover than was required.
- The Liability result is very close. The main determining factor is that the winning quote is £50k cheaper in cash terms.
- Our insurance brokers have indicated that the Property result of moving from the current insurer to Travelers, is a general direction of travel for local authorities at present.
- On Motor, the bid received from Zurich Municipal is significantly lower than the two other bids and may not be sustainable, as they have not won any of the other insurance classes. It is recommended to award the business and see what the insurer accepts.

### **Next Steps**

For the Director of Finance to accept the above bids. This is an officer delegated decision from the Council's Executive as part of the annual tender pipeline report, which has already been considered and approved. The relevant amounts involved are set out in the Executive summary for the total contract period.

Award and notification letters will be circulated to the bidders informing them of the result, their scores, and some high-level feedback on their submissions.

Under the Public Contract Regulations 2015, there is then a stand-still period of a maximum of ten working days after this. This allows bidders to digest the results of the tender process, ask for further information, or formally challenge the outcome.

Once any questions or challenges have been dealt with the Council can then move to a formal award and contract arrangements. Transition plans between old and new insurers can then be formalised. The aim being to have signed contracts in place by the start date of 1 October 2023, even though the transition arrangements may continue beyond this point.

