

READING BOROUGH COUNCIL
REPORT BY DIRECTOR OF RESOURCES

TO:	POLICY COMMITTEE		
DATE:	24 SEPTEMBER 2018	AGENDA ITEM:	10
TITLE:	INSURANCE CONTRACT TENDER		
LEAD COUNCILLORS:	CLLR BROCK	PORTFOLIO:	CORPORATE AND CONSUMER SERVICES
SERVICE:	CORPORATE	WARDS:	ALL
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1. PURPOSE OF REPORT

- 1.1 The Council's current insurance contracts are due to expire on 31st March 2019. In order that the Council can mitigate its potential financial and legal liabilities going forward and transfer some of its potential claims exposure, there is a need to tender for a new insurance contract(s). The tender will incorporate the insurance requirements of 'Brighter Futures for Children'. Due to the value of the contract the tender will be advertised in the Official Journal of the European Union (OJEU) under the Public Contracts Regulations 2015. The new contract(s) must be agreed and in place for 1st April 2019.
- 1.2 This report seeks approval for the award of contracts for insurance for the Council's Liability, Motor Fleet and Property insurance arrangements, following a competitive tendering exercise.

2. RECOMMENDED ACTION

That Policy Committee:

- 2.1 Agree an open tender procedure under OJEU regulations be carried out with a view to the resultant insurance contract(s) being in place by 1st April 2019 allowing for an element of both self-insurance and cover by an external insurance policy as set out in paras 3.6 - 3.10 below.
- 2.2 Delegate authority to the Section 151 Officer in consultation with the lead portfolio holder and the Head Of Legal Services to make relevant decisions regarding policy cover, levels of deductibles and award the contract at the end of the tender process to the winning tenderer/s.
- 2.5 Agree the tender should include insurance cover for the new Children's Company 'Brighter Futures for Children'.

3. BACKGROUND

- 3.1 The current contracts for the Council's Liability, Motor Fleet and Property insurance arrangements expire on 31 March 2019.
- 3.2 On the advice of the Council's Insurance Brokers the new Children's Company will be included in the tender process and be covered under the Council's insurance arrangements as a 'Joint Insured' entity. This approach is the easiest and most cost efficient solution going forward. Premium charges and funding for self retained risk will be recharged to the Company.
- 3.3 The Council operates an insurance programme that balances self-retained risk with external insurance policy protection which is reviewed at each annual renewal. The insurance contracts have financial implications not only in the cost of the contract, but the level of self-retained risk exposure the Council wishes to accept. There are three options facing the Council - to self-insure entirely, to take an insurance programme which allows an element of self-insurance, but also the protection an insurance contract can give, or to transfer all insurable risk via an insurance contract(s). Based on the current financial climate, the availability and pricing of insurance, and the risk appetite of the Council we recommend continuing with the balanced option.
- 3.4 The outcome of the tender process will be that comprehensive insurance will be in place to protect the Council's financial legal liability whilst achieving value for money in respect of the premium paid.
- 3.5 The level of cover required will depend on the risk appetite of the Council and also the package which the insurers are prepared to offer. Therefore the exact insurance portfolio will be decided upon the level of exposure we are prepared to accept and the premiums and policies the various insurers are prepared to offer.
- 3.6 The current deductible (self-insurance element) for liability and property insurance is £100,000 and £50,000 per claim respectively. As part of the tender process it is proposed that alternative quotations are obtained to reflect both a £200,000 deductible and a £100,000 deductible respectively together with any other combination considered appropriate by the Section 151 Officer.
- 3.7 If a larger deductible is chosen then there will be a higher self-retained risk that would require appropriate funding. A review is undertaken at each annual renewal to ensure that the optimum deductible level is chosen based on the claims experience, anticipated claims exposure, size of the internal fund and the cost of the subsequent premiums.
- 3.8 An informed decision can then be made on the most appropriate deductible based on an optimisation analysis.
- 3.9 It is recommended that the contract(s) be let on a five year basis with the option to extend for a further two years. The anticipated cost of the premium and the potential length of the contract make this a major contract under the

Council's contract rules and the Insurance Manager will be working closely with Procurement.

- 3.10 The Council's appointed brokers (JLT Specialty Ltd) will also be assisting on the tender as the business has to be placed via an insurance broker as (with the exception of one insurer) insurers will only place business via a broker.

5. CONTRIBUTION TO STRATEGIC AIMS

- 5.1 Having appropriate insurance provision will safeguard the Council's properties, assets and services.

- 5.2 Adequate insurance provision will facilitate the Council remaining financially sustainable to deliver the service priorities covered in the Council's Corporate Plan.

6. COMMUNITY ENGAGEMENT AND INFORMATION

- 6.1 None relevant to these contracts

7. EQUALITY IMPACT ASSESSMENT

- 7.1 The Council has reviewed the scope of the service as outlined within this report and considers that the proposals have an equal impact on all members of the general public.

- 7.2 There is no overall change to service delivery at this time. Should any future updates/amendments be required, which result in service delivery changes, an equality impact assessment will be carried out.

8. LEGAL IMPLICATIONS

- 8.1 The contracts will be procured in accordance with the Public Contracts Regulations 2015 and the Council's Contract Procedure Rules.

- 8.2 It will be necessary to enter into contract(s) with successful service provider(s) for each service area as listed in this report.

9. FINANCIAL IMPLICATIONS

- 9.1 The contract has financial implications not only in the cost of the contract, but the level of exposure the council wishes to accept. If a larger deductible is chosen then there will be a greater risk of a payment having to be made from the insurance fund. An analysis will be undertaken to ensure that the optimum deductible level is chosen based on the claims experience, anticipated claims exposure, size of the internal fund and the cost of the subsequent premiums.

- 9.2 The level of the internal funds held by the insurance team must be adequate to reflect the potential risk exposure of the council. To this end regular independent monitoring of the funds is carried out. The latest review (June 2018) provides reassurance that the Council is currently adequately funding the self-retained risk element of its insurance programme. The budgeted annual

contribution to that funding going forward is also in line with that being recommended in the report.

- 9.3 The cost of the premium will be funded from the General Fund with recharges being made to each service area which benefits from the insurance provision (including the HRA, Brighter Futures for Children, & Schools). The cost of the premium for 2018/2019 for these contracts amounted to £884,000 (including 12% insurance premium tax) split across the major policy areas as follows -

Property £290,000

Liability £304,000

Motor £250,000

Directors & Officers (Brighter Futures for Children) £40,000

- 9.4 There are a limited number of insurers that are prepared to quote for local authority business in the UK, especially those authorities with children, adult, and highways risk exposures. Whilst insurers will consider the Council's total risk exposure and claims history when pricing their tender, insurers continue to review their premium ratings across all classes of business to reflect wider market issues. Points to note here are that insurers increased liability rates in 2017 to reflect the government's change to the Discount Rate which substantially increased insurers exposure to compensation payments for catastrophic injury. Insurers are also reviewing their rates following Grenfell and other national enquiries into child abuse. Current insurance market conditions are such that it is unlikely that any saving in the cost of the Council's insurance programme can be achieved.

10. BACKGROUND PAPERS

- 10.1 None