

**Report of: Executive Member for Finance, Performance and Community Safety**

<b>Meeting of:</b>	<b>Date</b>	<b>Ward(s)</b>
Executive	21 July 2016	All

<b>Delete as appropriate</b>	<b>Exempt</b>	<b>Non-exempt</b>

**SUBJECT: Procurement Strategy - Insurance London Consortium (ILC) Liability and Property (including Optional Terrorism) Insurance****1. Synopsis**

- 1.1 This report seeks pre-tender approval for the procurement strategy in respect of ILC Liability, Property (including optional Terrorism) Insurance in accordance with Rule 2.5 of the Council's Procurement Rules.
- 1.2 The Council accepts an element of risk with regards to insurance claims, and maintains an insurance fund to cover such eventualities, it also procures 'catastrophe' cover through the insurance market for property and liability covers. The Council is a member of the Insurance London Consortium (ILC). Croydon Council is the Accountable Member of the Consortium and leading on this procurement. The ILC was formed in 2008 and consists of nine London Boroughs. All ILC members are participating in the Property and Liability insurance tenders.

**2. Recommendations**

- 2.1 To approve the procurement strategy for ILC Liability, Property (including optional Terrorism) Insurance as outlined in this report.
- 2.2 To delegate authority to award the contract, to the Corporate Director of Finance and Resources in consultation with the Executive Member for Finance, Performance and Community Safety.

### 3. Background

- 3.1 Islington is looking to procure property (with possible additional cover for damage to property as a result of an act of terrorism), and liability covers via an Insurance London Consortium (ILC) tender. During early 2016, the ILC decided not to extend the existing contract for property and liability insurance cover. The decision was made to go out to tender by the ILC due to an increase in rates and stop losses by the incumbent. Discussions were also held with the ILC's broker who has established that there could be a greater degree of interest in the tender now compared with the previous exercise. As a result, soft market testing was undertaken with brokers and insurers in order to secure feedback on the ILC's approach and establish market interest in a new contract. Permission is being sought by all nine boroughs of the ILC to procure a replacement contract for these insurance policies.
- 3.2 The arrangements will be funded from Islington Council's insurance fund, which is supported by contributions from service departments. The value of the contract for Islington for the potential five year duration (3+1+1) of the contract is estimated to range between £5-7m. The expenditure for this year and the previous year is approximately £2.3m. Islington receives insurance claims on an ongoing basis. In order to make savings the Council looks at ways of managing risk in order to reduce the number of insurance claims received. The service is benchmarked across the ILC and costs are lower than the majority of members and claim repudiation rates in line with other members.
- 3.3 The current contract expires on 31<sup>st</sup> March 2017. The contract notice is due to be published on OJEU on 1<sup>st</sup> August 2016 which will allow for sufficient time to establish a new contract before the current contract ends. Following the tender process, all boroughs will need to observe their internal governance procedures in order to award the contract in time for the start date of 1<sup>st</sup> April 2017. ILC and senior staff in Finance and Resources have been consulted regarding this proposal.
- 3.4 The commissioning team have considered the benefits of carrying out a collaborative procurement with ILC or procuring separately. The ILC is a nine borough collaborative group and a large scale collaborative procurement expects to bring economies of scale. It is anticipated that this will bring savings in respect of insurance premiums compared with individual procurement of insurance policies by Islington Council. The drawback of this is that smaller companies may not have sufficient resources to bid for this work. No suitable framework agreement has been identified, therefore, the preferred route is an OJEU competitive tender. The potential market for large-scale local government procurement is relatively limited, therefore the open procedure has been chosen as the most appropriate route.
- 3.5 The award criteria has been set by the ILC and in order to participate in the collaborate procurement the agreed criteria must be accepted. As part of the award criteria, bidders must provide proposals on how they will bring improvements to the economic and social well-being of the ILC boroughs through the delivery of these services. A requirement for the payment of London Living Wage (LLW) should only be included as a condition of this contract if there is no cross border interest in the contract following OJEU notice. However, market rates are in excess of the LLW levels. The ILC was established to deliver better value on the provision of insurance services for the member boroughs. The successful tenderer will undergo significant financial checks to ensure as far as is reasonably possible their economic sustainability. TUPE will apply to this contract.
- 3.6 The tender will be conducted in one stage, known as the Open Procedure as the tender is 'open' to all organisations who express their interest in the tender. The Open Procedure

includes minimum requirements which prospective bidders must achieve before their tender is evaluated against the advertised award criteria. The evaluation award criteria agreed by all ILC boroughs is 70% price and 30% quality. The award criteria is based on the following criteria and will be finalised by the ILC members prior to publication of the contract notice:

- Price 70%
- Quality 30% which is split as follows:
  - Policy cover 15%
  - Claims handling 10%
  - Added value 4%
  - Social value 1%

3.7 If there is no or insufficient insurance cover, the Council could be placed at considerable financial risk. The new contract will provide an opportunity to implement more robust contract management arrangements to maximise benefits for the ILC. The risk to stay with the present incumbent is that both premiums and stop loss figures could be increased further in future years. There is also the opportunity to test the market for competitive bids from a greater number of organisations than at the previous tender exercise, when only one bid was received. Should insurance premiums increase in future years, recharges to service departments will need to be reviewed and changed in line with the need to maintain a viable insurance fund for the Council.

3.8 The Employment Relations Act 1999 (Blacklist) Regulations 2010 explicitly prohibit the compilation, use, sale or supply of blacklists containing details of trade union members and their activities. Following a motion to full Council on 26<sup>th</sup> March 2013, all tenderers will be required to sign the Council’s anti-blacklisting declaration. Where an organisation is unable to declare that they have never blacklisted, they will be required to evidence that they have 'self-cleansed'. The Council will not award a contract to organisations found guilty of blacklisting unless they have demonstrated 'self-cleansing' and taken adequate measures to remedy past actions and prevent re-occurrences.

3.9 The following relevant information is required to be specifically approved by the Executive in accordance with rule 2.6 of the Procurement Rules:

Relevant information	Information/section in report
1 Nature of the service	<p>Islington is looking to procure Property (with possible additional cover for terrorism damage to property) and liability covers via an Insurance London Consortium tender.</p> <p>See paragraph 3.1</p>
2 Estimated value	<p>The estimated value for the total 60 months is between £5 million and £7million.</p> <p>The agreement is proposed to run for a period of 36 months with an optional extension of 12 months, plus 12 months (total 60 months)</p> <p>See paragraph 3.2</p>

3 Timetable	Advert will be placed 1 August 2016 Contract will commence 1 April 2017.  See paragraph 3.3
4 Options appraisal for tender procedure including consideration of collaboration opportunities	Outcome of options appraisal are described within this report.  See paragraph 3.4
5 Consideration of: Social benefit clauses; London Living Wage; Best value; TUPE, pensions and other staffing implications	Outcomes are described within this report.  See paragraph 3.5
6 Evaluation criteria	The price/quality breakdown is: 70% price 30% quality.  The award criteria price/quality breakdown is more particularly described within the report.  See paragraph 3.6
7 Any business risks associated with entering the contract	Business risks are described within this report See paragraph 3.7

## 4. Implications

### 4.1 Financial Implications

- 4.1.1 The contract cost will be charged to the Insurance Fund annually from 2017-18, for which there is adequate budget provision. The recommended strategy, as agreed by the Insurance London Consortium of which Islington Council is a member, is for the contract to be awarded on the basis of 70% price and 30% quality. This will provide a good basis for achieving adequate value for money alongside an acceptable level of quality.

### 4.2 Legal Implications

- 4.2.1 The Council has a fiduciary duty to Council tax payers, and must carry out its functions in a business-like manner with reasonable care and skill. Adequate insurance provision is central to good governance, effective business planning and the safeguarding of the Council's assets. Accordingly the Council has power to enter into a contract for the provision of insurance cover to protect its assets, liabilities and risks under section 1 of the Local Government (Contracts) Act 1997 on the basis such subscriptions for insurance are properly required as being incidental to the discharge of its functions.
- 4.2.2 The estimated value of the procurement for the new insurance contract is above the financial threshold (£164,176) for service contracts for the full application of the Public Contracts Regulations 2015. Accordingly the contract is being advertised in OJEU using the open

procedure.

- 4.2.3 On completion of the procurement process the contract may be awarded to the highest scoring tenderer. In deciding whether to appoint the selected contractor the Executive will need to be satisfied as to the competence of the chosen tenderer and that the tender price represents value for money for the Council.
- 4.2.4 Under the section 101 agreement, the members of the Insurance London Consortium are responsible for taking procurement decisions albeit that any contract for insurance services/cover will be entered into direct by the relevant Consortium Member(s).

#### 4.3 **Environmental Implications**

- 4.3.1 This contract is not expected to have any significant environmental impacts. The contract will work to minimise environmental implications, such as by having electronic rather than paper billing only.

#### 4.4 **Resident Impact Assessment:**

- 4.4.1 The Council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The Council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage people to participate in public life. The Council must have due regard to the need to tackle prejudice and promote understanding. This contract is not a service that is directly provided to residents, therefore, it is not anticipated that there will be any impact on residents.

### 5. **Reason for Recommendations**

- 5.1 This report seeks approval to enter into a collaborative procurement for the Council's property and liability insurance contract. This new contract will ensure that there is no break in property and liability insurance provision for the Council.

**Appendices:** None

**Background papers:** None

#### **Final report clearance**

Signed by



30 June 2016

Executive Member for Finance, Performance  
and Community Safety

Date

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