

To: City Executive Board

Date: 5th December 2012

Report of: Head of Finance

Title of Report: Award of Contract for the Supply of Insurance Services

Summary and Recommendations

Purpose of report: To recommend project approval and award of the contract to Tenderer B for the supply of Insurance services to the Council.

Key decision? No

Executive lead member: Councillor E Turner

Policy Framework: An efficient and effective Council

Recommendation(s): The City Executive Board are asked to:

- 1) Grant project approval for the supply of insurance services to Oxford City Council and award the contract to Tenderer B from 1st January 2013 for a period of 3 years with an option to extend for 1 year plus 1 year
- 2) To agree the changes to excesses outlined in paragraphs 4.4 to 4.5

1. Summary

- 1.1 This report sets out the procurement route that has been taken for procuring insurance services for all policies across the Council.

2. Background

- 2.2 Oxford City Council currently has a contract with Zurich Municipal for all of its Insurance Services.

- 2.3 The existing contract expired at the end of September 2012 and has been extended until January 1st 2012 under the same terms and conditions, to accommodate the procurement process.
- 2.4 Oxford City Council's Procurement Team, with technical support from Finance, have run the tendering exercise.
- 2.5 For this tender the Council used the South West Improvement Partnership Insurance Framework, which was set up by Teignbridge Borough Council. The framework has been tendered at OJEU level and is available for other local authorities to use. The Council has made use of this framework because it had: a) proved beneficial to many other Local Authorities in terms of achieving savings and b) the Framework covered all the insurance risk areas that the Council required. The use of the framework required the Council to acquire the support of an insurance broker, as the Council already had a relationship with Jardine Lloyd Thompson (JLT) their expertise was used in completing the tender documentation and subsequently evaluating the tender responses.
- 2.6 The value of this contract is approximately £500k per year.

3. Tender Process

- 3.1 The Council has conducted a mini competition inviting all 11 insurance suppliers listed on the framework to tender. However, some suppliers declined.
- 3.2 The framework had already pre-determined the relevant financial and technical evaluation criteria and outlined those providers who were able to meet the specification provided by Oxford City Council. The criteria is weighted 60% on service standards, discount and cover and 40% on price.
- 3.3 Four suppliers on the framework confirmed that they were able to meet the criteria listed in the tender documentation and submitted proposals to the Council.
- 3.4 JLT carried out an initial analysis of pricing and quality, and this was fed into the evaluation carried out by Finance officers.

4. Outcome

Of the four tenders received, two quoted for all of our policies as per the tender specification. A further two only quoted for single elements of our policies.

A comparison of the tenders received is shown below:

Summary of insurance tender evaluation

Lots	Current Premium	Tenderer			
		A	B	C	D
	£	£ score	£ score	£ score	£ score
Lot 1 - Property risks	188,283	261,513 82.07	175,961 100		
Lot 2 - Casualty	145,929	148,043 75.54	120,917 100		
Lot 3 - Motor Fleet	164,688	173,451 86.01	164,815 100		
Lot 4 - Group Personal Accider	9,825		4,592 96	6116 86.03	
Lot 5 - Fidelity Guarantee	8,516	8,658 82.68	7,506 100		
Lot 7 - Engineering	37,144		34,041 97.68		33,765 90
Lot 9 - Professional Indemnity-	1,125	28,500 58.11	1,295 94		
Total	555,514 n/a		509,128 n/a		n/a

Based on the current contract price (£555, 514) a saving of around 8.3% or £46k would be achieved if all insurance business is given to tenderer B, whose pricing structure includes a discount based on winning all work.

Whilst members may note that Tender D was cheaper for engineering insurance Tender B represents the was Most Economically Advantageous bid in overall terms.

In awarding the contract there are a number of changes which officers would recommend to existing insurance policies due to changes in insurable risks and claims history these are as follows :

- Increase excess on Libel & Slander; Land Charges and Public Health Act and Officials Indemnity to £50,000 for each category from £5,000, Nil, £5,000 and £5000 respectively. This would result in a lower premium saving of £19k. There have been no claims on these policies over the last 5 years, therefore there is a minimum risk to increase the excesses. To maintain an overall aggregate stop loss for all casualty insurance to £300,000 per year in total.
- Increase cover on General Properties to include a per event cover. A per event cover means that one excess per event applies, whereas with our current policy an excess applies to each property even if damaged in one event. The premium increase is £7,543.72 and is considered minimal for the mitigation it brings
- Blanket policy for Professional Indemnity, we currently have a Professional indemnity policy which covers our legal services external work. The Council is looking to increase its trading activities with external bodies over the coming years especially in blue collar services, to assist in the mitigation of financial pressures. Consequently there is a requirement to ensure that we have cover across all service areas, and a blanket policy is the most cost effective way of obtaining this. The increase in the

premium from Tenderer B is £5,905 per annum with an increased indemnity limit from £2 million to £5 million.

In summary making the above adjustments to the base bid figure from Tender B would make the following change to the annual premium

	£
Base Bid – Tender B	509,127
Saving on casualty insurance	(19,000)
Increase on general property insurance	7,543
Increase on professional indemnity	5,905
Revised Bid - Tender B	503,575

The revised annual premium is shown as £503,575 a saving of £51,939 or 9.4% on the current premium.

5. Benchmarking and comparisons

Officers have carried out a review of premiums and excesses across a number of other local authorities, and although it is difficult to do a direct comparison without a detailed claims history of the other authorities, it would appear that excesses and limits of indemnity vary across other similar sized authorities.

	Oxford City £	Vale £	County £	Cherwell £	South £
Summary excesses					
Lot 1 - Property risks	500 to 100,000	250 to 5,000	200,000	250	500 to 10,000
Lot 2 - Casualty	Nil to 10,000	5,000	300,000	Nil	Nil to 7,500
Lot 3 - Motor Fleet	100	500	120,000	500	500
Lot 4 - Group Personal Accident	Nil	5,000	Nil	N/A	Nil
Lot 5 - Fidelity Guarantee	10,000	n/a	50,000	2,500	N/a
Lot 7 - Engineering	1,000	100 to 250	100	N/A	250 to 2500
Lot 9 - Professional Indemnity-	2,500	5,000	300,000	Nil	7,500

The only potential area for adjusting our excesses is within our Motor policy, where we currently have an excess of £100, but quotes were obtained from the tenderers for excesses of £1,000 and £5,000 for comparative purposes. Although tenderer A quoted for motor insurance they declined to give alternative quotes for excesses of £1,000 and £5,000. The quotes from tenderer B were £164,815, £142,101 and £136,284 for excesses of £100, £1,000 and £5,000 respectively.

Claims history on motor over the last 14 years is shown in Appendix A. The table shows :

- The Council has very few claims above £5k, in the last 12 months there have been around 77 accidents 47 have been for

£1,000 or less 26 were between £1000 and £5000 and 4 have been in excess of £5,000. The total paid and reserved on these claims is around £100k.

- The additional cost to the council of raising the excess from £100 to £1000 based claims for this year to date is around £42k whereas the reduced premium is only £22,714 per annum.
- The additional cost to the council of raising the excess from £100 to £5000 based in claims for this year to date is estimated at £87k whereas the reduction in premium is only £28,531 per annum

Based on the analysis of current claims history there is insufficient reduction in premium to warrant raising the insurance excess on motor to £5,000, since the additional cost to the council would be at least £60k per annum. Whilst increasing the excess to £1,000 is more attractive the current claims experience would suggest that the reduced premium is still not attractive enough to take on the higher risk as current claims experience would indicate additional costs of £87k versus a reduced premium of £28k

Within the tender from Tenderer B £10k worth of risk management advice and assistance has been offered. It seems sensible to spend the majority of this money to provide assistance to reduce the incidence of motor vehicle claims. Whilst claims are not reducing they are not increasing dramatically and it is considered that further risk management measures will ensure that the number of claims received and the value of the pay outs on each of these claims reduces over time. Indeed there have been recent changes such as improvements in driver training, tracking systems, the production of a driver's handbook and detailing our accident reporting policy have had an effect. All of these good practices will be continued and improved including reporting claims in a timely fashion via electronic means and ensuring sufficient information is provided to the insurers first time.

In conclusion therefore it is considered that there is no change at this time to the current motor vehicle excess of £100 per vehicle but that increased risk management activity is undertaken on motor with a view to reviewing/renegotiating the level of excess over the next 12 months, if the incidence of claims reduces.

6 Insurance Fund

6.1 The Council has a self insurance fund of approx £1.7m. An actuarial review was carried out during 2011/12 and evaluated that the fund was adequate for the purposes of the current insurance profile of the Council. The fund size also allows for the uncertainty that still exists around the insolvency run off of business with its previous insurers Municipal Mutual Insurance, and the potential clawback of previously paid claims on behalf of the Council that may be triggered.

- 6.2 Accounting practice is to charge the costs of claims above excesses to the insurance fund and then subsequently charge it to the service revenue account from where the claim originated. The extent of any resulting budgetary pressure will depend on amount required to 'top up' the insurance fund which is subject to annual review.

7. Other Options

- 7.1 The Constitution and Procurement Commissioning and Supplier Strategy advises that the City Executive Board considers what other options are available before giving major project approval and awarding a contract over £100,000. These are detailed below.

7.2 Continue as we are

This is not an option. The current insurance services contract expired at the end of September 2012 and has been extended until end of December 2012 to accommodate the current procurement process. To remain compliant with legislation and ensure best practice in providing value for money, the Council is obliged to make provision for a replacement contract.

7.3 Use an Existing Contract, set up by another organisation

As stated in 2.5, the Council has conducted a mini competition using the OJEU compliantly insurance framework tendered South West improvement Partnership..

8. Benefits of this Contract

- 8.1 Tenderer B provides the Most Economically Advantageous tender to the council together with the potential for a significant annual financial saving.
- 8.2 Tenderer B are also including a £10k risk management fund with the policy, which can be used to improve risk management at an operational or strategic level for the Council

9. Financial implications

- 9.1 The financial implications are set out in the body of the report. Awarding the contract to Tender B will provide a reduction on the annual premium of around £52,000 per annum should the additional adjustments identified in paras 4.4 - 4.5 be accepted.

10. Legal Implications

- 10.1 The insurance renewal has been undertaken in compliance of standard procurement processes through a framework agreement.

11. Risk Management

Risk	Likelihood	Mitigation
Preferred supplier experiences financial difficulties as a result of the decline in the insurance market	L	Adequate contract monitoring in place including monitoring financial position of supplier
Contract no longer satisfies Oxford City Council needs.	L	Keep contract under review and be aware of potential changes to insurable risks
Claims significantly exceed excesses	L	Increased risk management and monitoring of self insurance fund

12 Climate Change/Environmental Impact

- 12.1 There are no climate change/environmental impacts with this contract.

13. Equalities Impact

- 13.1 All tenderers are required to support and adhere to the Council's Living Wage Policy.

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List of background papers:

Version number:

APPENDIX A

MOTOR CLAIMS HISTORY - OXFORD CITY COUNCIL 1998 - SEPT 2012

	Total	Cost to Council			Additional Cost	
		£100 Excess	£1,000 Excess	£5,000 Excess	£100 to £1,000	£100 to £5,000
1998-98	£ 18,556.75	£ 2,183.75	£ 12,922.83	£ 18,556.75	£ 10,739.08	£ 16,373.00
1998-99	£ 69,106.45	£ 4,729.38	£ 27,135.00	£ 41,816.10	£ 22,405.62	£ 37,086.72
1999-00	£ 60,006.88	£ 5,305.00	£ 34,424.86	£ 55,403.91	£ 29,119.86	£ 50,098.91
2000-01	£ 110,849.18	£ 5,332.33	£ 33,146.01	£ 59,110.34	£ 27,813.68	£ 53,778.01
2001-02	£ 56,981.85	£ 4,119.91	£ 28,549.67	£ 43,091.61	£ 24,429.76	£ 38,971.70
2002-03	£ 96,212.79	£ 4,395.43	£ 29,615.37	£ 55,095.02	£ 25,219.94	£ 50,699.59
2003-04	£ 67,785.92	£ 4,900.00	£ 35,142.75	£ 60,817.69	£ 30,242.75	£ 55,917.69
2004-05	£ 73,381.19	£ 5,007.33	£ 36,802.64	£ 65,746.49	£ 31,795.31	£ 60,739.16
2005-06	£ 82,470.73	£ 5,577.57	£ 40,529.43	£ 77,710.28	£ 34,951.86	£ 72,132.71
2006-07	£ 140,443.40	£ 5,000.00	£ 38,051.89	£ 79,415.81	£ 33,051.89	£ 74,415.81
2007-08	£ 59,575.07	£ 6,367.75	£ 39,966.07	£ 55,447.49	£ 33,598.32	£ 49,079.74
2008-09	£ 85,052.08	£ 6,800.00	£ 46,103.12	£ 83,289.72	£ 39,303.12	£ 76,489.72
2009-10	£ 67,789.65	£ 5,906.45	£ 41,477.98	£ 65,699.29	£ 35,571.53	£ 59,792.84
2010-11	£ 88,208.84	£ 6,183.38	£ 45,018.86	£ 83,927.39	£ 38,835.48	£ 77,744.01
2011-12	£ 99,149.69	£ 7,000.00	£ 48,844.49	£ 93,829.58	£ 41,844.49	£ 86,829.58
	£ 1,175,570.47	£ 78,808.28	£ 537,730.97	£ 938,957.47	£ 458,922.69	£ 860,149.19