

SURREY COUNTY COUNCIL**CABINET****DATE: 24 FEBRUARY 2015****REPORT OF: MS DENISE LE GAL, CABINET MEMBER FOR BUSINESS SERVICES****LEAD OFFICER: SHEILA LITTLE, DIRECTOR OF FINANCE****SUBJECT: AWARD OF CONTRACT FOR THE PROVISION OF INSURANCE SERVICES – EXCLUDING BROKER SERVICES****SUMMARY OF ISSUE:**

This report seeks approval to award contracts for the provision of Insurance Services excluding Broker Services for the benefit of the Council to commence on 1 April 2015 as detailed in the recommendations as the current arrangements expire on 31 March 2015.

The report provides details of the procurement process, including the results of the evaluation process and, in conjunction with the Part 2 report, demonstrates why the recommended contract awards deliver best value for money.

Due to the commercial sensitivity involved in the contract awards process the financial details of the potential suppliers have been circulated as a Part 2 report.

RECOMMENDATIONS:

It is recommended that:

1. The contracts are awarded to the suppliers in the following lots:
 - Lot 1 Property – Zurich Municipal,
 - Lot 2 Fidelity Guarantee – QBE Insurance (via Risk Management Partners),
 - Lot 3 Commercial Properties – Zurich Municipal,
 - Lot 4 Casualty – QBE Insurance (via Risk Management Partners),
 - Lot 5 Motor Fleet – Travelers,
 - Lot 6 Group Personal Accident and Travel – AIG (via Risk Management Partners),
 - Lot 7 Terrorism - Pool Reinsurance
2. The contracts are to be awarded for three years with an option to extend for two further years for all lots.

REASON FOR RECOMMENDATIONS:

A full tender process, in compliance with the requirements of Public Contracts Regulations 2006 and the Council's Procurement Standing Orders has been completed. The recommendations provide best value for money for insurance cover in association with the lots as listed for the Council following a thorough evaluation process.

<u>DETAILS:</u>

Background

1. The contracts awarded support the Council's ability to continue to provide insurance cover for the Council. This is split into various policies held with different suppliers. The insurance premiums are reviewed annually to advise insurance charges for the following year. The current arrangements expire on 31 March 2015.
2. In order to provide expert procurement broker services within the highly specialist insurance market, the Council engaged the services of Jardine Lloyd Thompson Limited (JLT) to review existing policies and provide an insurance policy procurement service going forward. The nature of an insurance tender is highly specialised as it requires evaluating policy wording against price, and the adequacy of policy coverage for the known risks that the Council faces in its varied services.
3. A collaborative tender with other councils was considered but rejected. This is due to the claims history being specific to each authority or organisation and therefore premiums charged would relate to the highest claims record. A joint tender would therefore be of no benefit to the Council.

Procurement Strategy and Options

4. A full tender process, compliant with the Public Contracts Regulations 2006 and the Council's Procurement Standing Orders, has been carried out using the Council e-Procurement systems following the receipt of authority from Procurement Review Group (PRG) on 16 December 2014. This included advertising the contract opportunity in the Official Journal of the European Union (OJEU) on 10 November 2014.
5. Several procurement options were considered when completing the Strategic Procurement Plan (SPP) prior to commencing the procurement activity. These included the following options:
 - a) not putting insurance policies in place and self insure;
 - b) extending the current contracts and accepting increased premiums;
 - c) going out to tender for new policies.
6. After a full and detailed options analysis, the tender process described in paragraph 5(c) was chosen. The option was selected because, the option as described in 5(a) presented a high risk approach with Council funds tied up in an account for self insuring purposes and a better rate of return could be obtained by investing the money elsewhere. Option 5(b) would not have been affordable for the Council with the lack of competition possibly leading to external supplier challenge.

7. A joint procurement and project team was set up to include representatives from Insurance Services, Financial Services, JLT and Procurement.
8. All suppliers who expressed an interest in the tender were invited to tender for all lots as listed in the recommendations.

Use of e-Tendering and market management activities

9. In order to open the tender process to a wider range of suppliers than have previously been involved, the Council's electronic tendering platform was used.
10. Use of the electronic platform represents a major change from previous paper based processes and introduced a competitive process that was open and transparent to all involved.

Key Implications

11. By awarding a contract to the suppliers as recommended for each lot for the provision of Insurance Services to commence on 1 April 2015, the Council will be meeting its obligations to provide insurance cover for the Council and ensuring best value for money for this service.
12. The Council, as part of the tender documentation, made available 10 years of claims history to the suppliers who expressed an interest in tendering for the services. This has had a positive effect on market pricing of premiums to reduce costs and deliver cashable savings of £290,000 in Year 1 against the baseline cost for insurance services.
13. There will be a two week mobilisation period.
14. Performance will be monitored through ongoing review of the policy cover and the claims service provided by each supplier in addition to supplier achievement of added value and innovation proposals put forward as part of the tender submissions.
15. The management responsibility for the contracts lies with the insurance services group manager for Finance, Business Services. The contracts will be managed in line with the policies as tendered as part of the winning submissions to which the Council is expected to sign up in order to receive the cover provided. The policy prices will be fixed for the first year and then reviewed on an annual basis based on the individual insurance policies and claims history for the previous year.

Competitive Tendering Process

16. The contracts have been tendered following a competitive tendering exercise. It was decided that the open process was appropriate as there are a limited number of suppliers in this specialist market.
17. All suppliers expressing an interest in the advertised tender opportunity were invited to tender for the contract and were given 54 days to complete and submit their tender. A total of five tender responses were received.
18. These tender submissions were initially evaluated against financial selection criteria and then scored against the quality and commercial criteria and weightings as shown below.

Lot	Price	Policy Cover	Claims Service	Added Value and Innovation
1 – Property, 3 – Commercial Properties	45%	25%	5%	25%
2 – Fidelity Guarantee, 4 – Casualty, 5 – Motor Fleet, 7 - Terrorism	55%	20%	5%	20%
6 – Group Personal Accident and Travel	55%	20%	10%	15%

CONSULTATION:

19. Key stakeholders have been consulted at all stages of the commissioning and procurement process including Procurement, Legal Services, JLT, Insurance and Business Services and Finance.

RISK MANAGEMENT AND IMPLICATIONS:

20. Risks were appropriately identified and have been satisfactorily mitigated.
21. The policies include termination provisions to allow the Council to terminate the policies should priorities change.
22. All suppliers successfully completed satisfactory financial checks.

Category	Risk Description	Mitigation Activity
Financial	There is only price certainty for the first year of the contracts	Claims increases will be managed by an in-house claim handling team
	Insurers not financially stable leading to collapse of organisation and no insurance cover for Council	Undertake annual checks on insurers awarded contracts
	The excesses for different insurances are not set at the right level	The Council has the option to self insure, it has an in-house claim handling team and has employed JLT as consultants to provide expert advice on the market and for the procurement exercise.

Financial and Value for Money Implications

23. Full details of the contracts values and financial implications are set out in the Part 2 report.
24. The procurement activity and full claims records provided have both delivered a solution within budget and likely procurement savings to the value of £290,000 for the first year of the contract.
25. Despite the lower cost of the premiums it should be noted that any rise in claims may increase annual spend for the Council. In addition spend may increase as the excess limit has been raised on some policies, therefore the Council may self insure more claims.

Section 151 Officer Commentary

26. The Section 151 Officer confirms that the cost of the recommended insurance services is provided for in the current MTFP for 2015/16. The estimated saving of £290,000 will be reviewed on an annual basis.

Legal Implications – Monitoring Officer

27. The Council has a Best Value Duty to ensure it 'makes arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness'. It also has a fiduciary duty to be prudent in its use of resources for the interest of the residents. The Council is purchasing insurance for its assets to safeguard against 'insurable' losses.
28. As previously mentioned in the report the Council has utilised a consultant, JLT to undertake the tender exercise and ensure the Council is compliant with the Public Contracts Regulations 2006. The Council has also followed the Constitution's Procurement Standing Orders.
29. There are no other immediate legal implications arising from this report.

Equalities and Diversity

30. The need for an Equality Impact Assessment (EIA) was considered, however, a conclusion was reached that as there were no implications for any public sector equalities duties due to the nature of the services being procured, an EIA was not required. Despite this, the preferred supplier will be required to comply with the Equalities Act 2010 and any relevant codes issued by the Equality and Humans Rights Commission.

WHAT HAPPENS NEXT:

32. The timetable for implementation is as follows:

Action	Date
Cabinet decision to award	24 February 2015
Cabinet call in period	25 February to 4 March 2015
'Alcatel' Standstill Period	5 March to 16 March 2015
Contract Signature	March 2015
Contract Commencement Date	April 2015

33. The Council has an obligation to allow unsuccessful suppliers the opportunity to challenge the proposed contract awards. This period is referred to as the 'Alcatel' standstill period.

Contact Officer:

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Consulted:

Surrey Insurance and Business Services
Surrey Procurement and Commissioning
Surrey Legal and Finance Department
JLT

Annexes:

None - Part 2 report with financial details attached to agenda as item 17.
