

DECISION TAKER: Councillor Neil Cutler, Cabinet Member for Finance & Performance

REPORT TITLE: EXTENSION OF INSURANCE CONTRACT

4 DECEMBER 2023

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WARD(S): ALL

PURPOSE

The purpose of this report is to seek approval from the Cabinet Member for Finance and Performance for an extension to the council's current insurance policies (contracts) for a further period of 12 months from 1 April 2024. By extending the term it is in the best interests of the council as detailed within this report.

RECOMMENDATIONS:

1. That the Cabinet Member for Finance and Performance approves an Exception to Contract Procedure Rules to enter into a further 12-month extension of the Long-Term Agreement (LTA) for Insurance Services and associated policies (contracts) from 1 April 2024.
2. That Authority is delegated to the Corporate Head of Finance (s151 Officer) in consultation with the Service Lead – Legal Services (Interim) to seek insurance premiums for the period 1 April 2024 – 31 March 2025 and enter into the policies (contracts).
3. That Authority is delegated to the Corporate Head of Finance to review and progress options recommended by the Hampshire Insurance Forum (HIF) for insurance policies from April 2025 onwards.

IMPLICATIONS:**1 COUNCIL PLAN OUTCOME**

- 1.1 Effective use of insurance as part of the council's risk management approach supports the management of threats and opportunities to achieve the priorities included in the Council Plan 2020-25.

2 FINANCIAL IMPLICATIONS

- 2.1 The 2023/24 premia are set out in the table below:

Policy (contract)	Insurer	2023/24
		Renewal premium (£) ex IPT
Property damage	Protector via AJG	26,290
Property Owners (commercial tenants)	Protector via AJG	24,484
Commercial Combined	Protector via AJG	266,192
Terrorism	Protector via AJG	15,938
Combined Liability	Protector via AJG	154,909
Motor fleet	Protector via AJG	15,202
Local Authority Combined	Zurich Municipal	5,762
Fidelity Guarantee	Zurich Municipal	6,320
Engineering inspection	Zurich Municipal	26,054
Total cost of premia		515,097
IPT @ 12% not reclaimable		62,791
Total cost of services		26,054
Total cost of insurance		603,942

- 2.2 The cost of the council's 2024/25 insurance premia and renewal terms will not be known until closer to 1 April 2024, but increases are expected to be within budget. Officers are currently working with the council's insurance broker AJG on preparation for the annual renewal.

3 LEGAL AND PROCUREMENT IMPLICATIONS

- 3.1 The Long-Term Agreement (LTA) for insurance services was procured collaboratively as a single group made up of ten Hampshire borough and district councils via a public procurement process compliant with the Public Contracts Regulations 2015 (PCR2015). Each borough and district subsequently has its own policies (contracts) under the LTA.

- 3.2 The council's Contract Procedure Rules (CPRs) allow for contract extensions where they are put in place before the contract expiry date and where the proposed extension is in accordance with the contract terms.
- 3.3 The Exceptions to CPR's 41.1 process sets out circumstances in which an Exception can be used. The relevant Exception for this extension of the insurance services policies (contracts) is:

- f) By extending the term (either by exercising an option within the contract or otherwise) or varying and/or extending the scope an existing contract, it is in the best interests of the council.

4 CONSULTATION AND COMMUNICATION

- 4.1 Consultation on the content of the report has been undertaken with the Cabinet Member for Finance and Performance and Executive Leadership Board (ELB).

5 ENVIRONMENTAL CONSIDERATIONS

- 5.1 None directly from the content of this report.

6 PUBLIC SECTOR EQUALITY DUTY

- 6.1 None directly from the content of this report.

7 RISK MANAGEMENT

- 7.1 The council's overall risk appetite is defined as 'moderate', tending always towards exposure to only modest levels of risk in order to achieve acceptable outcomes. The council's Risk Management Policy 2022-23 sets out an approach to controlling risks which is described as the five key elements or '5 Ts':

- Tolerate
- Treat
- Transfer
- Terminate and
- Take the opportunity.

8 OTHER KEY ISSUES

- 8.1 None.

9 SUPPORTING INFORMATION:

- 9.1 Ten borough and district council members of the Hampshire Insurance Forum (HIF) worked collaboratively to procure a Long-Term Agreement (LTA) for insurance services from 1 April 2020 for an initial 36-month period with the potential to extend up to 24 months. Fareham Borough Council led the

procurement on behalf of HIF via an OJEU Open Procedure in accordance with the Public Contracts Regulations 2015.

- 9.2 A collaborative tender was agreed by all HIF members (with the exception of one authority), to maximise economies of scale and buying power. Across the ten Authorities, approx. £2.67m savings have been calculated to have been achieved across the initial 36 months of the LTA.
- 9.3 As a collaborative the HIF authorities committed to spend via the LTA approximately £4 million a year on insurance premiums covering a number of risk areas including employers and public liability, property material damage, motor, professional negligence, personal accident, terrorism and engineering. This figure relates to the initial 3 years of the contract (2020 -2023) and since then premia have increased further due to global events and other pressures.
- 9.4 Each of the ten councils have entered their own policies (contracts) under the LTA. WCC's current policies are detailed above in 2.1. Please note that the LTA does not cover cyber insurance. The decision to procure cyber insurance was made after the tender process was completed, hence the cyber policy is a standalone contract. It is not subject to an LTA agreement and is renewed each year in accordance with CPRs.
- 9.5 Individual policies are tailored to each authority which means that each authority's claims history and risk management influences their premium rather than the group's premiums and vice versa.
- 9.6 The initial LTA ended on 31 March 2023 and all HIF agreed to exercise the option to extend this by 12 months. All HIF members have been asked for their agreement to extend this by a further 12 months. This is the last option to extend the insurance contract for a year, and from 2025 a full tender process for the insurance services is required.
- 9.7 HIF is supported by the professional service of insurance broker AJG whose role is to act as an insurance intermediary. The council is the client and AJG offer access to insurance products and services which would otherwise not be directly available to the council. As an insurance broker, AJG are permitted to provide advice on insurance matters and are regulated by the Financial Conduct Authority (FCA).
- 9.8 When the HIF collaboration went out to tender in 2020 the insurance market was becoming much more challenging after an unprecedented period of soft (low) rates. The subsequent Covid pandemic and other more recent developments and geopolitical events have also added uncertainty. The market has hardened, and this combined with inflationary factors within the current economic environment has meant that premiums are generally increasing across the board. The increases indicated by the current provider for a one-year extension are generally in line with what can be seen from other insurers; this is also borne out from the council's insurance broker AJG's experience of recent tender results. Therefore, AJG is recommending to HIF

that that the one-year extension is exercised at this juncture with incumbent insurers.

10 OTHER OPTIONS CONSIDERED AND REJECTED

- 10.1 The council could choose not to agree to an extension of the LTA and conduct a tender process in isolation. This would not secure the council best value as we would not benefit from the economies of scale released through the collaborative arrangement. The state of the market will soften in future, although there is no set timing when the hard market ends, this will potentially result in better premiums and renewal terms if an approach to the market is made next year rather than now.
- 10.2 In addition, AJG have advised that there is currently a large increase in the number of public insurance tenders due to Covid delays and the market is flooded. Demand is expected to fall over the next few months and an extension and later tender to the market from HIF could attract better terms and/or a higher number of tenders returned.

BACKGROUND DOCUMENTS: -

Previous Cabinet/Committee Reports or Cabinet Member Decisions: -

[DD58 - Extension of Insurance Contract](#)

Other Background Documents: -

Winchester City Council Risk Management Policy 2022/23

APPENDICES:

None.