



Author/Lead Officer of Report: Stephen Bull,
Deputy Strategic Insurance Manager

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Report of: Diane Tomlinson, Strategic Insurance Manager

Report to: Laraine Manley, Executive Director of
Communities

Date of Decision: 26 October 2016

Subject: Property Insurance Tender

Is this a Key Decision? If Yes, reason Key Decision:-

Yes ☒ No ☐

- Expenditure and/or savings over £500,000

☒

- Affects 2 or more Wards

☐

Which Cabinet Member Portfolio does this relate to? *(Resources) Cllr Ben Curran*

Which Scrutiny and Policy Development Committee does this relate to? Not Applicable

Has an Equality Impact Assessment (EIA) been undertaken?

Yes ☒ No ☐

If YES, what EIA reference number has it been given? *(974)*

Does the report contain confidential or exempt information?

Yes ☐ No ☒

Purpose of Report:

To approve the commencement of the procurement process to re-tender the Council's existing property insurance portfolio. The existing contract expires on 31 March 2017.

Recommendations:

The Executive Director is recommended to approve the procurement of property insurance for the Council's portfolio of property assets via an OJEU compliant competitive tender exercise.

Background Papers:

Not applicable

Lead Officer to complete:-		
1	I have consulted the relevant departments in respect of any relevant implications indicated on the Statutory and Council Policy Checklist, and comments have been incorporated / additional forms completed / EIA completed, where required.	Finance: <i>(Insert name of officer consulted)</i> Hayley Dolling
		Legal: <i>(Insert name of officer consulted)</i> Sarah Bennett
		Equalities: <i>(Insert name of officer consulted)</i> Michelle Hawley (EIA Reference 974)
	<i>Legal, financial/commercial and equalities implications must be included within the report and the name of the officer consulted must be included above.</i>	
2	EMT member who approved submission:	<i>Laraine Manley</i>
3	Cabinet Member consulted:	<i>Cllr Ben Curran</i>
4	I confirm that all necessary approval has been obtained in respect of the implications indicated on the Statutory and Council Policy Checklist and that the report has been approved for submission to the Decision Maker by the EMT member indicated at 2. In addition, any additional forms have been completed and signed off as required at 1.	
	Lead Officer Name: <i>Stephen Bull</i>	Job Title: <i>Deputy Strategic Insurance Manager</i>
	Date: <i>06/10/2016</i>	

1. PROPOSAL

- 1.1 The Council's existing property insurance arrangements expire on 31 March 2017.
- 1.2 To ensure the continued financial protection of the Council's property assets a competitive tender exercise is required to ensure that a new contract can be entered into before the expiry date. The value of the tender is such that the opportunity to tender will be advertised through the Official Journal of the European Union (OJEU).
- 1.3 The only legal requirement for insurance is Fidelity Guarantee cover which forms part of this portfolio of insurances. All other covers are optional and based on the Council's risk appetite, best value and to protect its financial interests in its property.

2. HOW DOES THIS DECISION CONTRIBUTE?

- 2.1 The proposal does not directly affect individuals, but provides financial certainty in the ability to repair or rebuild property damaged by insured perils. In turn this ensures a continuance of service delivery from the various categories of property, including schools, Council housing, community assets and operational delivery buildings.

3. HAS THERE BEEN ANY CONSULTATION?

- 3.1 The Council is not required to consult on this proposal.

4. RISK ANALYSIS AND IMPLICATIONS OF THE DECISION

4.1 Equality of Opportunity Implications

- 4.1.1 There are no Equality of Opportunity Implications.

4.2 Financial and Commercial Implications

- 4.2.1 This is primarily a financial risk transfer mechanism so the protection of the Council's Assets to support ongoing delivery of services is central to the decision. The financial impact of losses from uninsured catastrophe events such as fire, storm and flood have the potential to present serious financial challenges for the Council without the benefit of appropriate insurance.

The value of the current contract is Circa £600K per annum. The 3 biggest stakeholders in terms of premium allocation are Schools (£200K), Facilities Management (£150K) and Property for Commercial Estate/Sheffield Retail Quarter (£100K). The largest stakeholder in terms of value of property insured is Council Housing Services with a sum insured of £3,279,017,834.

The Council remains in a strong position in terms of competitiveness of premiums due to an exemplary claims experience – but the insurance industry has suffered serious flood losses in the last 4 years and this could impact on premium requirements for all customers.

To mitigate this exposure we will

- a) Provide insurers with GIS flood mapping to identify Council property in known flood plains
- b) Seek alternative options for higher retention of storm and flood risk (currently £1 million)

Any proposed changes to the insurance programme based on alternative options will be approved at Executive Director level.

There are no other reductions in cover that would be likely to generate savings that would present value for money. Reductions in overall sum insured due to asset rationalisation, including transfers of schools to Academy status are already catered for in the structure of the policy cover.

The Council has already taken all commercially advantageous measures in terms of marketing the right mix of covers to attract most advantageous terms, including separating Terrorism insurance from this policy in 2015-16 and removing engineering inspection and insurance from this proposed tender to run as a separate procurement exercise in 2017-18.

There is no benefit to be gained from any combination of joint procurement exercises as Sheffield City Council is a significantly more attractive risk to property insurers than other authorities. A benchmarking exercise with Yorkshire authorities during the period of the current contract revealed that on average other authorities pay a rate per £1,000 sum insured that is more than double that which SCC can achieve.

Any impact of material changes to cost of the insurance premium will not impact on Portfolios until 2018-19 and early notice to affected areas will take place if required.

Commercial risks centre round an open, transparent and competitive tender process. Market engagement to encourage the broadest range of response from the market forms part of this challenge.

The Insurance & Risk team will be supported by Commercial Services to ensure compliance with relevant public procurement regulations.

Duration of the contract will be a maximum of 5 years (3 years with an option to extend for a maximum of a further 2 years).

4.3 Legal Implications

- 4.3.1 Under s114 Local Government Act 1972 the Council must take such security as it feels is sufficient in relation to employees that handle the Council's assets. This security is usually taken in the form of fidelity guarantee insurance. Outside of this specific legal requirement, the proposed insurance supports the Council's statutory functions by providing financial certainty in the ability to repair or rebuild property damaged by insured perils and is therefore incidental to the Council's statutory functions. The Council has a specific power to do anything (whether or not involving the expenditure, borrowing or lending of money or the acquisition or disposal of any property or rights) which is calculated to facilitate, or is conducive or incidental to, the discharge of any of their functions (s111(1) Local Government Act 1972).
- 4.3.2 An OJEU compliant competitive tender process is consistent with the requirements of the Public Contracts Regulations 2015 and Contract Standing Orders.

5. ALTERNATIVE OPTIONS CONSIDERED

- 5.1 We will tender on a range of insurance options and the selection of the preferred method will be subject to Executive sign off. The only other option is not to insure which is not a realistic option due to the significant financial risk.

6. REASONS FOR RECOMMENDATIONS

- 6.1 This is the preferred option due to the significant financial risks associated with loss of high value, strategically and operationally important property should insurance cover not be available to meet the cost of repairs.

The desired outcome is to secure the best available terms from the insurance market to continue protection of the Council's property assets.