

LONDON BOROUGH OF CAMDEN	WARDS: ALL
REPORT TITLE: CAMDEN INSURANCE PROCUREMENT (FIN/2010/19)	
REPORT OF: DIRECTOR OF FINANCE	
FOR SUBMISSION TO: CABINET	DATE: 21 JULY 2010
<p>SUMMARY OF REPORT:</p> <p>This report outlines the background, objectives and timeline for the placing of insurance for the London Borough of Camden. It is brought before the Cabinet as it must approve the contract award strategy for revenue contracts with estimated value of £500,000 or more (in accordance with Contract Standing Order 3.2).</p> <p>Local Government Act 1972 – Access to Information</p> <p>The following items were used in the preparation of this report:</p> <p>No documents, which require listing, were used in the preparation of this report</p> <p>Contact Officer: Dean Wells, Insurance Manager Finance Department Town Hall Extension Argyle Street London WC1H 8NG</p> <p>Telephone: 020 7974 5790 Email: dean.wells@camden.gov.uk</p>	
<p>RECOMMENDATION: The Cabinet is asked to:</p> <ol style="list-style-type: none"> 1. Approve the procurement strategy for Insurance Services 2. Delegate to the Director of Finance the authority to award the contract 	

Signed:

Date:

1. BACKGROUND

- 1.1. At present, Camden has its main insurance programme coverage placed with Zurich Municipal (ZM). This was procured via a consortium of London Boroughs and the contracts commenced 1 January 2010 for a 27 month period.
- 1.2. In addition to this are a number of niche corporate insurances that were last procured in 2008 that are separate to the main insurance programme. This includes a buildings insurance policy procured on behalf of council leaseholders.

2. Leasehold Buildings Insurance

- 2.1. Camden is responsible for the procurement of property insurance for leaseholders of properties purchased under the Right to Buy and where leasehold interests have been voluntarily disposed of.
- 2.2. The current insurance arrangements for the leasehold buildings were competitively tendered in 2008 and were placed with Zurich Municipal from 1 April 2008 for a three year long term agreement with the option of a further two year extension.
- 2.3. Insurance contracts are usually 12 months in duration. A long term agreement for insurance purposes is an agreement between the council and the insurer where the council agrees to place the individual insurance policy with the insurer for the period of the agreement with the council receiving a discount in return. Renewals still occur annually within the long term agreement period. The insurers have the ability to break the terms of the long term agreement.
- 2.4. Due to adverse claims experienced under the policy, Zurich Municipal have advised that they are not prepared to agree renewal of the policy into the last 2 years extension period from 1 April 2011 under the current terms. In particular the number of and cost of claims for escape of water are increasing significantly. A summary of the current claims history is as follows:

Policy Year	Number of Claims Received	Payments that are expected to be made but haven't yet been	Payments that have been made	Combined Total of Payments made and Expected payments	Total Premium Paid	Loss Ratio (ratio of combined claim payments to premium paid)
2007-2008	464	£1,117,266.73	£270,961.02	£1,388,227.75	£1,912,364.54	72.59

2008-2009	563	£1,472,416.06	£222,342.52	£1,694,758.58	£1,882,471.00	90.03
2009-2010	560	£771,581.87	£1,492,753.89	£2,264,335.76	£2,004,025.45	112.99
2010 to date	48	£628.31	£123,928.69	£124,557.00	£2,005,038.00	6.21
Total	1,635	£3,361,892.97	£2,109,986.12	£5,471,879.09		

The number of claims and the cost of claims has risen over the last two years with the ratio of total claim payments to premium 90.03% in 2008/9 (insurers have paid out 90% of all premium received on claims) to 112.99% in 2009/10. This means that insurers will make a loss on 2009/10. The current year is incomplete but it is expected that this trend will continue.

Insurers are prepared to offer to renew the policy but will only agree to this with a 15% increase in premium. This represents a break in the long term agreement. As a result of this and based on legal advice obtained, the council is obliged to retender the policy to achieve best value.

3. Leaseholder Consultation

- 3.1. Under the Commonhold and Leasehold Reform Act (2002) (the Act), Camden as the freeholder is required to undertake a formal two-stage consultation process with leaseholders before a contract is awarded, if the contract is deemed to be qualifying under section 151 of the Act. A contract can be considered to be qualifying for a number of reasons, one of which is when the life of a contract runs for a period of longer than 12 months. As it is proposed to enter into a long term agreement that is longer than 12 months, this contract will be considered to be qualifying contract under the terms of the Act.
- 3.2. The consultation forms two parts and Camden is required to separately consult with leaseholders for each part. The first stage of the consultation is completed before the tender stage and consists of the Council consulting with leaseholders on the type of insurance cover. This stage is currently under way and will be completed mid-August 2010.
- 3.3. The second stage takes place after the tender has taken place and the results have been analysed. Officers will select the preferred option having taken into account the wishes of leaseholders in the first consultation stage. Leaseholders will then be advised of the preferred option and will be asked for their views.
- 3.4. In addition to the statutory consultation, the Leasehold Forum will be consulted and kept up to date with progress.

4. Proposals

- 4.1. Due to the requirements for consultation with leaseholders, and the long term agreement being broken part way through the contract period there is

insufficient time to procure via the consortium used for the council's corporate insurances. It is therefore proposed to obtain tenders for a five year long term agreement based on an initial two year period commencing on 1 April 2011 with a further three year optional extension from 1 April 2013. The initial two year period will allow the alignment of the leasehold policy expiry date with the majority of the other consortium members and will give the council the option to either procure via the consortium in two years time, or extend for the full five year period depending on prevailing market conditions at the time.

- 4.2. An objective is that the award of contracts is made to a suitable supplier(s) that can meet the requirements as set out in the contract documentation. In the main, this will be to provide appropriate levels of insurance cover, whilst ensuring required levels of service, a competitive price and continuous improvement.

5. Market Review

- 5.1. The insurance market for local authority risks has historically been limited to a small number of competitors that has resulted in reduced competition and higher rates.
- 5.2. The size of the Leasehold buildings contract makes it attractive to the market. Due to the current adverse claims experience, savings compared to the current arrangements are unlikely.

6. Procurement Approach

- 6.1. In compliance with Contract Standing Orders and the Public Contracts Regulations 2006, and in order to secure best value for money, it is proposed that tenders be obtained with insertion of a contract notice in Official Journal of the European Union (OJEU). The restricted procedure will be used, with an initial pre-qualification stage, which will exclude providers who fail to satisfy the Council's minimum financial and technical requirements.
- 6.2. A project team of officers has been established to undertake the entire process. This will include independent representation by the Council's retained insurance brokers Heath Lambert as well as representatives of the Housing and Adult Social Care Directorate Home Ownership team, and members of the Camden Leaseholders Forum. This team is deemed to be a sufficient resource that possesses the appropriate skills base to ensure the best interests of the Council and any stakeholders in letting the contract.
- 6.3. As the contract value will exceed £500,000, this project is subject to the Council's mandatory Strategic Procurement Tollgate process. The standards required for this process have been satisfied to date with clearance to proceed

subject to Cabinet approval.

7. Timetable

- 7.1. Due to the break of contract and the time required for consultation with leaseholders, there is little time to complete the procurement of the contract for 1 April 2011. The contract over its maximum life of five years is expected to be in the region of £12 million. The nature of the contract itself is relatively uncontroversial. The council as freeholder is legally obliged to procure buildings insurance on behalf of its leaseholders and the cost of this insurance is recharged. The Cabinet is therefore asked to delegate to Chief Officer approval of the contract award due to the urgency of making the 1 April 2010 deadline.
- 7.2. The proposed timetable of key milestones that is derived from the Project Implementation Document micro version is given below:

Milestone	Date
Leaseholder Consultation Stage 1 commencement	26/07/10
Leaseholder Consultation Stage 1 Ends	25/08/10
Issue OJEU Notice	28/08/10
Tenders received	30/11/10
Evaluation of tenders by	31/12/10
Leaseholder Consultation Stage 2 commencement by	31/12/10
Leaseholder Consultation Stage 2 Ends by	31/01/11
Obtain Chief Officer approval for contract award recommendation by	14/02/11
Standstill period*	28/02/11
Contract commencement	01/04/11

*The standstill period is a statutory requirement involving a 10-day delay, prior to contract award, affording aggrieved suppliers the opportunity to challenge the proposed contract award.

8. Evaluation Criteria

- 8.1. A weighted scoring system will be applied to decide the contract award. The award criteria will be based on the most economically advantageous tender.
- 8.2. For the Leasehold buildings contract, it is proposed that tenders be evaluated using a Price (80%) and Quality (20%) criteria as follows:

Criteria	Description of Criteria	Score
1	Price	
1.1	Price and Cost Effectiveness	80

2	Quality	
2.1	Claims Process	15
2.2	Demonstration of commitment of participation in successful long term agreements	5

9. Comments of the Director of Finance

9.1. The comments are incorporated into the body of the report.

10. Comments of the Director of Organisational Development

10.1. There are no Human Resources implications.

11. Comments of the Head of Legal Services

- 11.1. Insurance Services are part A services and covered by the full provisions of the Public Contracts Regulations 2006 and so a full OJEU advertised tendering process must be followed. The strategy proposed would comply with this.
- 11.2. Contract Standing Orders require that any contract with a value in excess of £5,000,000 must be awarded by the Cabinet. The Cabinet can further delegate this to the Director of Finance if it considers there are grounds to do so.