

Finance and Resources Committee

10.00am, Tuesday, 5 September 2017

Property Insurance Tender 2017

Item number 8.4

Report number

Executive/routine

Wards

Executive Summary

This report seeks the approval of the Finance and Resources Committee to award contracts for the provision of property insurance for the Council. The term of the contract is five years with two 24-month discretionary extensions.

Over the nine-year duration, the total value of the contracts has been estimated at £4,636,911.

Property Insurance Tender 2017

1. Recommendations

- 1.1 It is recommended that the Finance and Resources Committee approves the award of the contracts for the provision of property insurance for the Council from 1 October 2017 until 30 September 2022 with two, 24-month discretionary extensions to the following tenderers:
 - 1.1.1 Lot 1 for owned and operational properties and an excess of £1,000,000 to Risk Management Partners with an estimated total value of £2,298,170.
 - 1.1.2 Lot 2 for Leased-out industrial and commercial properties to Zurich Municipal with an estimated total value of £1,847,973.
 - 1.1.3 Lot 3 for Leased-out theatres to Maven Public Sector with an estimated total value of £490,768.

2. Background

- 2.1 The Council insures its owned and operational buildings for the perils of fire, lightning, explosion and aircraft with a £250,000 excess. Losses are capped in each insurance year at £1,300,000 (the Stop Loss or Aggregate). Commercial properties owned by the Council and leased out are insured for fire and a full range of perils with a £250 excess. Both policies were tendered in 2012 and contracts were let for a period of five years. The contracts will expire on 30 September 2017 and there was therefore a requirement to review strategy and re-tender the services.
- 2.2 As the Council's assets are publicly owned, it requires to protect these by means of a suitable insurance programme. Failure to do so may result not only in financial loss but its ability to operate and potential reputational damage.
- 2.3 The Council adopts a policy of significant levels of self-insurance which is regularly reviewed taking account of its risk appetite.
- 2.4 A well-considered insurance programme provides best value by protecting the Council from losses it could not reasonably absorb within its budget whilst self-insuring those where there is an economic advantage to do so.
- 2.5 Links to two previous reports where the Finance and Resources Committee considered and approved the levels of excess on the Council's owned and operational properties are provided at 10.1 and 10.2.
- 2.6 To attract the best response from the insurance market a strategy was developed aiming to market the risk to appeal to as many insurers as possible and to ensure the

best possible outcome from the tender process with premium stability and budget certainty for the future.

2.7 The following strategy was implemented:

- 2.7.1 terms were requested for owned and operational buildings on the basis of expiring cover and also an increased excess of £1,000,000. Larger excesses are attractive to the market leading to lower attritional losses which are expensive to manage. The Council advised that it would reject the variant bid if the risk profile is too high;
- 2.7.2 a new long-term agreement was offered for a period of five years with two 24-month discretionary extensions as this provides certainty;
- 2.7.3 a three lot structure was offered to separate our specialisms to bring out the best results as follows:
 - i. Lot 1 - Owned and operational properties;
 - ii. Lot 2 - Leased-out industrial and commercial policies; and
 - iii. Lot 3 - Leased-out theatres.
- 2.7.4 a presentation was delivered to insurers in London to fully engage a market which has been reluctant to bid for public contract.

3. Main report

- 3.1 The contract is for the provision of property insurance for the City of Edinburgh Council.
- 3.2 This tender opportunity was advertised on the Official Journal of the European Union (OJEU) and the Public Contracts Scotland (PCS) portal on 17 May 2017.
- 3.3 The procurement process followed the Open Procedure due to the limited number of suppliers that can provide this service.
- 3.4 Following insurance best practice, the Price: Quality ratio of 90%:10% was recommended for the following reasons:
 - 3.4.1 as policy cover, must as a minimum meet the specification, Council wanted to drive the best commercial value from contract; and
 - 3.4.2 claims are handled separately by loss adjusters under a discrete contract.
- 3.5 The quality evaluation required evidence of bidders knowledge and experience by responding to method statements which covered details of the scope of cover, service delivery, business continuity, fair working practices and community benefits.
- 3.6 This Tender had three lots, allowing maximum market interest. Lot 1 also allowed variant bids to be submitted along with a fully compliant bid. The purpose of allowing an alternative to the standard tender requirements is to open the opportunity for innovation from the market create maximum choice for the council to achieve the best outcome possible. All four tenders for Lot 1 offered an alternative proposal

along with their standard bid. Tenders were received from four and five organisations for Lots 2 and 3 respectively.

3.7 The evaluation scores are as follows:

| Lot 1 | | | | |
|--------------------------|-------------------|---------------------|----------------|--------------|
| Tenderer | Price Score (90%) | Quality Score (10%) | Overall Tender | Overall Rank |
| Risk Management Partners | 90.00 | 3.69 | 93.69 | 1 |
| Supplier 2 | 76.92 | 6.38 | 83.29 | 2 |
| Supplier 3 | 63.56 | 4.38 | 67.94 | 3 |
| Supplier 4 | 56.94 | 6.19 | 63.12 | 4 |

| Lot 1 Variant proposals | | | | |
|--------------------------|-------------------|---------------------|----------------|--------------|
| Tenderer | Price Score (90%) | Quality Score (10%) | Overall Tender | Overall Rank |
| Risk Management Partners | 90.00 | 3.69 | 93.69 | 1 |
| Supplier 2 | 71.04 | 6.38 | 77.41 | 2 |
| Supplier 3 | 60.82 | 4.38 | 65.20 | 3 |
| Supplier 4 | 52.57 | 6.19 | 58.75 | 4 |

| Lot 2 | | | | |
|------------------|-------------------|---------------------|----------------|--------------|
| Tenderer | Price Score (90%) | Quality Score (10%) | Overall Tender | Overall Rank |
| Zurich Municipal | 90.00 | 6.38 | 96.38 | 1 |
| Supplier 2 | 84.17 | 6.19 | 90.35 | 2 |
| Supplier 3 | 52.82 | 3.38 | 56.19 | 3 |
| Supplier 4 | 41.97 | 3.19 | 45.15 | 4 |

| Lot 3 | | | | |
|---------------------|-------------------|---------------------|----------------|--------------|
| Tenderer | Price Score (90%) | Quality Score (10%) | Overall Tender | Overall Rank |
| Maven Public Sector | 90.00 | 6.19 | 96.19 | 1 |
| Supplier 2 | 72.27 | 5.00 | 77.27 | 2 |
| Supplier 3 | 62.03 | 6.38 | 68.40 | 3 |
| Supplier 4 | 51.51 | 6.94 | 58.44 | 4 |
| Supplier 5 | 27.79 | 5.88 | 33.66 | 5 |

3.8 The pricing schedule was based on the annual premium, net of a Long-Term Agreement Discount and Insurance Premium Tax.

3.9 A Summary of Tendering the Process is provided at Appendix 1.

3.10 The saving in annual premium between Lot 1 (£250,000 excess) and Lot 1 Variant (£1,000,000 excess) is £97,703. Whilst the saving appears small in comparison to the risk, historically it can be shown that in the event of a large loss insurers subsequently increase premium and the Council will effectively re-pay the loss in

future premiums. The previously approved reports at 10.1 and 10.2 provide this historical background and rationale for moving to the increased excess. In addition insurance premium tax has risen from 6% to 12% in recent years and further increases are anticipated. Unlike VAT this is not recoverable.

- 3.11 It should be noted that the aggregate offered for a £1,000,000 excess is £2,000,000. This means that losses in any one insurance year are capped at £2,000,000.
- 3.12 In preparation for the increase in excess, savings from previous insurance tenders have been retained within the Insurance Fund to assist Services with losses over £250,000.
- 3.13 It is notable that in the last 14 years the Council has only suffered one claim over £250,000 and a recovery was made from a third party so in effect no loss over £250,000 has occurred in this period.
- 3.14 The winning tenders for cover as expiring on Lots 2 and 3 represent a considerable saving and should therefore be awarded to Zurich Municipal and Maven Public Sector respectively as they represent best value.

4. Measures of success

- 4.1 The contract(s) will have several key performance indicators included which covers:
- Policy renewals;
 - Payment; and
 - Communications
- 4.2 The contract will be managed by Insurance Services Team.

5. Financial impact

- 5.1 If a £1,000,000 excess is adopted for Lot 1 the decrease in premium from those expiring is £239,054 per annum. This represents a 48% reduction.
- 5.2 If a £250,000 excess is adopted for Lot 1 the decrease in premium from those expiring is 29%
- 5.3 The annual reduction in premium for lots 2 and 3, which are recharged to tenants total £118,901.
- 5.4 The costs associated with procuring this contract are estimated at up to £10,000.

6. Risk, policy, compliance and governance impact

- 6.1 An Insurance Services representative will be responsible for contract management and will monitor the performance of the contract throughout the term.

7. Equalities impact

- 7.1 There is no relationship to the public sector general equality duty to the matters described in this report and no direct equalities impact arising from this report.

8. Sustainability impact

- 8.1 Sustainable procurement can take a multitude of forms, however, for the purposes of this contract the Council concentrated on Community Benefits.
- 8.2 Tenderers offered varying levels of community benefits and were scored accordingly, below is a summary of the community benefits which will be realised:
- 8.2.1 Five free risk assessment surveys;
 - 8.2.2 A workshop in a school, college or community group in Edinburgh to demonstrate business and employment opportunities for clerical/sales/engineering work in Engineering Insurance/Inspection;
 - 8.2.3 Annual Employability Day for young people in the Edinburgh area to assist them with creating a CV and preparing for interviews; and
 - 8.2.4 Donation of food and personal hygiene items to Edinburgh Northwest food bank, each quarter.
- 8.3 The delivery of Community Benefits will be monitored by the service area.

9. Consultation and engagement

- 9.1 No consultation or engagement was undertaken due to the limited scope of the contract.

10. Background reading/external references

- 10.1 [Property Insurance Strategy – report to Finance and Resources Committee, 16 June 2009](#)
- 10.2 [Property Insurance Strategy Update – report to Finance and Resources Committee, 19 March 2015](#)

Stephen S. Moir

Executive Director of Resources

Contact: Margaret Rae, Insurance Manager

E-mail: margaret.rae@edinburgh.gov.uk | Tel: 0131 529 4750

11. Appendices

Appendix 1 - Summary of Tendering and Tender Evaluation Processes

Appendix 1 - Summary of Tendering and Tender Evaluation Processes

| | |
|------------------------------|---|
| Contract | Contract for the provision of property insurance for The City of Edinburgh Council |
| Contract period | 1 October 2017 to 30 September 2022 with an optional extension of up to two 24 months periods to 30 September 2026 |
| Estimated contract value | £4,636,911 over nine years (based on £1M Excess) |
| Governing UK Regulation | Public Contracts (Scotland) Regulations 2015 |
| EC Procedure chosen | Open |
| Standing Orders observed | 2.4 EU Principles applied 2.7 Commercial and Procurement Manager provided resource to undertake tendering 3.2 Director has responsibility for all contracts tendered and let by their Directorate 5.1(b) Tenders evaluated on basis of most economically advantageous criteria |
| Tenders returned | 13 |
| Tenders fully compliant | 13 |
| No. of recommended suppliers | 3 |
| Primary criterion | Most economically advantageous offer |
| Secondary criteria | Price (90%) |
| | Quality (10%) |
| | Q1. Scope of Cover 50% |
| | Q2. Terms and Conditions 20% |
| | Q3. Service Delivery 20% |
| | Q4. Business Continuity 2.5% |
| | Q4. Fair Work Practices 2.5% |
| | Q5. Community Benefits 5% |
| Evaluation Team | The evaluation team consisted of officers from the Council's Insurance Service. |