



REPORT TITLE: Approval to increase insurance contract value.

Dates between which decision will be taken	<p>Earliest date: 8 May 2024</p> <p>Latest date: 24 May 2024</p>
Cabinet Member	<p>Councillor Lynden Stowe – Deputy Leader and Cabinet Member for Finance and Change</p>
Key Decision	<p>Yes</p>
Purpose of Report	<p>To seek approval to increase the aggregate value for the Council's eleven insurance contracts.</p>
Recommendations	<p>That the Cabinet Member delegates authority to the Deputy Chief Executive and Executive Director of Corporate Resources to increase the estimated aggregate value of eleven insurance contracts that are the subject of a competitive procurement process that is currently underway.</p> <p>The proposed estimated aggregate value of such contracts over the initial three year contract period should be increased from the estimated sum referred to in the Individual Cabinet Member decision dated 28th March 2023 (i.e. £1.26m pa) to a sum not exceeding £1.89m per annum. This potential increase is based on advice provided by the Council's insurance broker who advised that insurance premiums across the insurance market have risen significantly (by up to 50%) since the Council last tendered for insurance services.</p> <p>The final cost will not be known until the tenders have been received and evaluated.</p> <p>This increase will be funded from surplus funds in the Insurance Fund Reserve for the initial three year contract period. Following the conclusion of the procurement process (when actual costs will be known) an assessment will be made as to whether the Reserve could fund the two year extension. If not then the insurance contracts will either need to be retendered or an MTFS bid submitted for the period post June 2027.</p>
Reasons for Recommendations	<p>The Council's current corporate insurance contracts will expire on 23rd June 2024 therefore a decision on new insurance contracts needs to be made in late May / early June. Sufficient budgetary cover is needed to fund the expected increase in insurance premiums.</p> <p>It is a statutory requirement that the Council has in place insurance to cover motor insurance and employer's liability so the only options in these cases is to amend the level of cover. With a lower level of cover in these areas and without insurance cover in other</p>

	<p>areas the Council would need to hold higher levels of reserves to meet loss, damage or liability suffered by the Council.</p> <p>The current level of insurance cover is considered to be optimum level of cover based on advice from our insurance brokers – so it is not recommended that we change the level of cover.</p> <p>There has been an increase in insurance premiums since the Council last tendered for its insurance. This was not anticipated when the estimated aggregate value of the Council's required insurance contracts was approved pursuant to Individual Cabinet Decisions dated 23rd March 2023 and 12th September 2023. Based on recent market analysis and advice from our insurance broker the recommendation is to increase the contract value by up to 50%.</p> <p>The drivers for this increase are inflation, the higher value of total assets insured and general conditions in the insurance market. Whilst some increases are to be expected (for instance due to inflation), the insurance market has become more volatile in the recent few years with larger and more unpredictable increases in premiums.</p> <p>The exact premiums will not be known until the tenders have been received and evaluated. The final evaluation is expected to be received in the week commencing 27th May. A decision is required in advance of this date to ensure there is approval to allow the new contracts to be awarded prior to the existing insurance contracts expiring.</p>
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Resource Implications	<p>The insurance contract value could potentially increase in value from £1.26m p.a. to £1.89m p.a. if premiums increased by 50%.</p> <p>Hence the current insurance contract value of £6.3m (3 years + 2 years) could increase this value to £9.45m across the lifetime of the contract. An increase of up to £3.15m over the full 5 years or up to £1.89m over the initial 3 years of the contracts.</p> <p>It is proposed to fund the increase in premiums for the first 3 years of the contract by drawing from the Insurance Fund Reserve.</p> <p>This Reserve currently has a balance of £10.9m. An actuarial review in 2020 recommended a balance of £5.5m however the amount in this reserve has increased gradually over the last few years. If we use the same 50% increase assumption, then the balance on this Reserve should be £8.25m based on the same actuarial assumptions. Therefore there is the capacity to fund the 3 year increase in premiums from the surplus in this Reserve.</p> <p>A new actuarial review will be commissioned in the summer of 2024 to update the recommended Insurance Fund Reserve balance. Depending on the outcome of this actuarial review and the insurance contract procurement the recommended balance may be significantly different. At this stage a decision will need to be made about whether or not the Reserve has the capacity to fund the two year contractual extension. If there is insufficient Reserve funding for the contract extension period then the Council will either need to retender or submit an MTFs bid for the period post June 2027.</p>
Background Documents	<p>ICM Decision (23.03.23): Insurance Contracts Procurement</p> <p>ICM Decision (12.09.23): Insurance Contracts Procurement</p>
Statutory Authority	<p>It is a requirement that the Council has in place:</p> <p>Motor Insurance under the Motor Vehicles (Compulsory Insurance) Act 2022; and</p> <p>Employer's Liability insurance under the Employer's Liability (Compulsory Insurance) Act 1969.</p> <p>Without insurance cover for other areas the Council would need to hold higher levels of reserves to meet loss, damage or liability suffered by the Council.</p>
Divisional Councillor(s)	N/A
Officer	<p>Any representations should be sent to:</p> <p>Piyush Fatania Head of ARA and Insurance Services 01452 328883 Piyush.fatania@gloucestershire.gov.uk</p>

	By 5pm on 3 rd May 2024.
Timeline	An evaluation of the tenders received in response to the Council's invitation to tender shall be carried out by the insurance broker (Marsh), and their assessment is expected to be received in the week commencing 27 th May 2024. A final decision on which tenderers shall be awarded such contracts will be taken by the Council no later than the 3 rd of June 2024.

Background

1. The Council currently holds 11 insurance policies ranging from general property insurance through to specialist vehicles. All policies (below) are due to expire on 23 June 2024:
 - i. Property Insurance;
 - ii. Liability Insurance;
 - iii. Motor Insurance;
 - iv. Engineering Inspection/Insurance;
 - v. Computer Insurance;
 - vi. Marine Insurance;
 - vii. School Legal Expenses
 - viii. Travel Insurance;
 - ix. Fidelity Guarantee Insurance;
 - x. Travel and Personal Insurance; and
 - xi. Terrorism Insurance.
2. A procurement exercise is currently underway to re-procure these policies in accordance with the ICM Decision (23.03.23): [Insurance Contracts Procurement](#). The proposed contract length is an initial period of three years plus an extension of up to two years.
3. In the period since the insurance contracts were previously tendered the insurance market has become increasingly volatile and unpredictable and premiums have risen extensively across the board.
4. Market and broker information indicates that there is the potential for significant increases in property motor and liability insurances in particular – which are the highest value policies the council holds.
5. These potential increases are attributable to greater risk exposure regarding higher vehicle numbers, higher salary, turnover and employees. Wider inflation, supply chain issues, increased claims and an unstable market are also all impacting on current rates.
6. Whilst there is potential for some policies to reduce in premium, it's possible that we may see a net increase of up to 50% across all policies. The exact cost will not be known until the tenders have been received and evaluated.
7. This report proposes to fund the initial three years of increased insurance premiums from surplus funds in the Insurance Fund Reserve. The balance of this Reserve is currently £10.9m. An actuarial review of the Reserve will be carried out in the summer of 2024 to ascertain if the two year contract extension can also be funded from this source. If not, the Council will need to either retender or approve an MTFS bid for the period after June 2027.

Options

Option 1: Do not approve the proposed increase to the previously approved contract value. This may result in the Council being unable to renew some policies potentially leaving the council at financial risk (see below).

Option 2: Approve potential increase in contract values in advance and confirm actual increase when the Contract Award Decision record is completed. This will enable a swift approval of contract award decision without needing to return for additional approval if required.

Option 3: Wait for the end of the new tender process to ascertain exact costs of new contracts. This may result in an emergency decision being required for increased contract values – with insufficient time to approve before the existing contracts expire – leaving the council without insurance cover. This would result in a breach of the Council's statutory obligations in respect of Motor Insurance and Employers Liability Insurance. Moreover, it would mean that the Council would have no financial protection for its physical assets. It would also mean that in respect of legal liability, the risk of claims costs would remain with the Council while being uninsured. Maintained Schools buy into the Councils insurance cover under the Traded Services offering. If the Council were unable to provide such services, a key risk control oversight would be lost.

8. Option 2 is recommended.

Risks

9. The cost of insurance cover for the Council could increase by more than anticipated.
10. The Council has no option but to arrange Motor Insurance and Employer's Liability insurance. As without insurance cover the Council would be in breach of its statutory obligations by operating without adequate insurance to cover these statutory areas. For other areas, the Council risks significant costs and damages if something goes wrong such as a natural disaster, accident or legal action against it. Without insurance these costs would need to be funded from reserves or borrowing.

Financial implications

11. There has been an increase in the cost of the insurance policies annually from 2021 onwards. The drivers for the increase are inflation, the higher value of total assets insured and general conditions in the insurance market. The Council's insurance brokers have advised that this increase could be as much as 50%. If insurance premiums increase by the maximum forecast of 50% then this would result in additional costs of £630k pa, i.e. £3.15m over the length of the contract. Total cost for years 1-3 would be £1.89m.
12. The Insurance Fund Reserves are set aside to supplement any other budget provision to meet claims and smooth requirements on insurance expenditure. This reserves currently have a balance of £10.9m and detailed analysis of potential liabilities has confirmed that these reserves can be used to fund any additional premiums in years 1-3.

13. An actuarial review in 2020 recommended a balance of £5.5m however the amount in this reserve has increase gradually over the last few years. If we use the same 50% increase assumption, then the balance on this Reserve should be £8.25m based on the same actuarial assumptions. Therefore there is the capacity to fund the 3 year increase in premiums from the surplus in this Reserve.
14. A new actuarial review will be commissioned in the summer of 2024 to update the recommended Insurance Fund Reserve balance. Depending on the outcome of this actuarial review and the insurance contract procurement the recommended balance may be significantly different. At this stage a decision will need to be made about whether or not the Reserve has the capacity to fund the two year contractual extension. If there is insufficient Reserve funding for the contract extension period then the Council will either need to retender or submit an MTFS bid for the period post June 2027.

Climate Change and Ecological implications

15. Has the Climate Impact Assessment Tool (CIAT) been completed? Not Applicable.
16. Has an Ecological Impact Assessment (EclA) been produced, or will one be undertaken at a later stage? Not Applicable

Equality implications

17. Has an Equalities Impact Assessment (EqIA) been completed? Not Applicable

Data Protection Impact Assessment (DPIA) implications

18. A DPIA decision checklist has been completed and identified that no DPIA is required.

Social value implications

19. None in particular identified

Consultation feedback

20. N/A

Officer recommendations

21. See above in report.

Performance management/follow-up

22. N/A