Wiltshire Council

Cabinet

21 January 2025

Subject:	**Insurance Services Tender**
Cabinet Member:	**Cllr Nick Botterill - Cabinet Member for Finance, Development Management, and Strategic Planning**
Key Decision:	**Key**

Executive Summary

Our current 5-year contracts for insurance services end on 31 March 2025. These contracts cover our potential financial liabilities for a variety of insurance claims such a public and employers' liability, motor vehicles and buildings.

A procurement process commenced in December 2024 to secure insurance cover from 1 April 2025, to ensure that the council has the right cover in place, including those covers that are required by law.

This report seeks approval for delegation to the Director of Finance and Procurement in conjunction with the Corporate Leadership Team to award the insurance cover to the successful bidders.

Proposals

That Cabinet notes:

1) The insurance lot structure and intended insurance arrangements;

That Cabinet agrees:

1) To delegate the award of the relevant contracts to the winning bidders to the Corporate Director, Resources, in consultation with the Cabinet Member for Finance, Development Management, and Strategic Planning.

Reason for Proposals

Not having insurance cover in place would expose the Council to significant financial risk.

Lizzie Watkin
Corporate Director, Resources

Wiltshire Council

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Purpose of Report

1. To set out the process being followed to obtain tenders for the council's insurance cover; the timetable being followed, the lot structure, claims self-handling arrangements, the agreed evaluation criteria and the award of contract(s) to the winning bidders.

Relevance to the Council's Business Plan

2. The provision of insurance cover helps to maintain all aspects of the Business Plan by providing a level of financial certainty in a volatile claims market.

3. Insurance is a financial mechanism whereby an individual or organisation can transfer an unknown potential liability into the certainty of a smaller but fixed annual cost.

Background

4. Our current insurance cover was awarded under a contract that commenced in March 2020 for a maximum of five years following the last tender process. The annual cost of the contract for the financial year 2024/2025 was £1.3m.

5. An insurance tender has been drawn up to reflect the current areas of cover that the council has as well as other areas where it currently chooses to self-insure but depending on the proposals received, it may be advantageous to change the approach. It has been made clear in our tender that the Council can choose not to purchase certain types of cover and that it can chose to purchase different lots from different providers if that is the outcome of the evaluation

6. The council has appointed Arthur J. Gallagher Insurance Brokers Ltd to advise on the tender, best industry practices and the current state of the insurance market.

7. The Brokers have assisted with the structure of the tender lots and the evaluation criteria for each lot and will be part of the evaluation process once the tenders are submitted. The Council will also independently review and assess the tenders received.

Main Considerations for the Council

8. The current insurance cover as awarded under various contracts that commenced on 1 April 2020 for a maximum period of five years following the last tender process. The annual costs of the contracts for the financial year 2024-2025 was £1.4 million.

9. The council is committed to ensuring that it maintains an optimum balance between internal and external insurance within a framework of prudent financial management.

10. In determining the balance between internal and external insurance the council will seek to:

    - Insure risks internally where it is financially prudent and advantageous to do so
    - Purchase external insurance or arrange cover through an alternative risk transfer arrangement:
        i. Where required by law, i.e. Employer's Liability and Motor Insurance
        ii. To cover catastrophic events
        iii. To limit the financial exposure of the council to the cumulative effect of multiple small losses.

11. An insurance tender has been drawn up to reflect the current areas of cover that the council has, as well as other areas where it currently chooses to self-insure but, depending on the proposals received, it may be advantageous to change the approach.

12. It has been made clear in the tender that the council can choose not to purchase certain types of cover and it can choose to purchase lots from different providers if that is the outcome of the evaluation.

13. The council has appointed Arthur J Gallagher Insurance Brokers Ltd to advise on the tender, best industry practices and the current state of the insurance market. The brokers have assisted with the structure of the tender lots and the evaluation criteria and will be part of the evaluation process once the tenders are submitted. The council's procurement and insurance teams will also independently review and assess the tenders received.

14. The lot structure is as follows:

    1. Lot 1 – Property – split by type, i.e. general, education, housing
    2. Lot 2 – Industrial and Commercial Property (where the council is the owner and landlord)
    3. Lot 3 – Casualty – which includes public liability, employers' liability, official's indemnity and professional negligence covers
    4. Lot 4 – Motor (for vehicles that the council owns, rents or leases in)
    5. Lot 5 – Personal Accident and Travel – for school trips and outings
    6. Lot 6 – Leasehold and Shared Ownership Housing (where the council is the vendor/freeholder)

15. The tender was released on 18 December 2024, then followed a period for prospective bidders to submit clarification questions, with final tender submissions to be received by 31 January 2025.

16. This allows the council to take a full view on what lots to award, decide on levels of self-insurance, and other matters regarding coverage.

17. A report with recommendations as to the cover to be taken out will be produced by the Procurement team, in conjunction with the broker and Insurance Manager, and presented to the Director of Finance. The council will notify all bidder(s) of the outcome and cover will commence on 1 April 2025. The contract(s) will be for a maximum of 5 years (3 years with an optional 2 year extension).

18. The Excesses will be set against each of the policies for the major risk areas. These currently vary depending on the insurance category and are set out in the appendices.

19. Arrangements for dealing with claims also varies according to type and value and these are included in the same table.

20. The council also has a limit known as a “stop loss” which caps the maximum amount that can be paid in any one insurance year. These limits vary across the different insurance types ranging from £0.65m to £1.5m. Once the relevant limit is reached and additional claims are paid in full by the insurer, regardless of the value.

21. Currently it is not envisaged that the way claims are handled or the in-house limits will alter.

Safeguarding Implications

22. There are no safeguarding implications associated with this tender exercise.

Public Health Implications

23. There are no public health implications associated with this tender exercise. :

Procurement Implications

24. The Procurement team have been closely involved in the design and operation of this tender exercise. The Procurement team have been responsible for releasing the tender, dealing with clarification questions and collating the final bids.

25. The tender will be conducted in line with relevant UK Procurement legislation, the Council’s constitution and applicable policies.

26. The Insurance Team and brokers, as subject matter experts, have also had close involvement.

27. The evaluation of the final bid(s) will be a collaboration between Procurement, the Insurance Team and the brokers.

Equalities Impact of the Proposal

28. There are no specific Equalities impact relating to the proposal.

Environmental and Climate Change Considerations

29. There are no specific considerations outside of the Council’s existing policy.

30. There will be no changes to energy consumption.

31. There will be no changes to emissions relating to this proposal.

32. There are no environmental risks associated with the proposal.

33. This contract is planned to run for a maximum of 5 years.

Workforce Implications

34. This proposal will be supported by existing workforce capacity.

Risks that may arise if the proposed decision and related work is not taken

35. If insurance cover is not in place for 1 April 2015 the council will directly bear the cost of all claims made against it, which represents a significant financial and reputational risk, as well as threatens service delivery,

Risks that may arise if the proposed decision is taken and actions that will be taken to manage these risks

36. Claims against the council will continue to be received and will continue to be managed in line with existing practices.

37. It is possible that due to worsening market conditions, the insurer(s) breaks the long-term agreement. The council then has the option of accepting the change or can chose to go back to the market via another tender process.

38. Insurance can be seen a risk management tool whereby unavoidable risks can be managed by converting some of the risk into an annual fee, the value of which is known. This is a form of risk transfer.

39. Conversely, good risk management processes and associated controls and checks can reduce insurance claims occurring and, when claims are made, can be used to defend the Council against the claims.

Financial Implications

40. The full financial implications will only be known when all the tenders have been received and evaluated. As part of the evaluation, consideration will be given to the levels of excess and stop losses which will also have an impact on the premium for each lot

41. The aim is that by balancing these risks that the council takes in terms of self-insurance and third-party coverage; the cost will not be greater than that currently paid.

42. However, due to high levels of inflation over recent years and changes to the insurance market, if this is not possible then the balance of premium and retained risk will be assessed and balanced so that the most prudent option is chosen.

Legal Implications

43. This procurement exercise is being carried out in line with relevant UK Procurement legislation, the Council's constitution and applicable policies.

44. The tender will include the Council's terms and conditions of contract.

45. Legal advice will be sought where necessary.

Overview and Scrutiny Engagement

46. No specific consultation with Overview and Scrutiny has taken place

Options Considered

47. The options are as follows:

- Do nothing/self-insure all losses – This would give rise to a significant and unmeasurable ongoing financial burden. There would be no limit to the value of claims that the council could face, whereas with insurance and stop losses there is. A small number of large value claims could have a catastrophic effect on finances and adversely affect service delivery.
- The council to establish its own captive insurance company as a method of alternative risk transfer – This would allow the council to directly access the reinsurance market, whilst self-insuring its own risks. In effect, the "premiums" paid would be reinvested into paying for claims and for risk management. However, this is currently not a feasible option due to high start-up costs and large amounts needing to be set aside (often offshore) to allow for claims to be paid, thus being only feasible for much larger organisations. Central government have issued a consultation in November 2024 on the introduction of a UK-based captive insurance framework which would sit outside of Solvency II regulation. Depending on the outcome and any resultant legislation, this is an option that we will continue to monitor. (see appendix 2)
- Purchase insurance cover from 1st April 2025 – this is the only current feasible option and allows for certainty. Even if options a or b above were taken, some kind of insurance would have to be taken out in relation to employers' liability and motor insurance as these are legally required.

Conclusions

48. The conclusion is that purchasing insurance is the most sensible and suitable option, and that for practicality purposes, authority to make the award will be delegated to the Director for Finance.

Lizzie Watkin - Corporate Director, Resources

Report Author: Kay Beckett, Insurance Team Lead

Appendices

Appendix 1 – Current excess levels and claims handling arrangement
Appendix 2 – Overview of captive insurance

Background Papers

None

Appendix 1

Current Excess levels and claim handling arrangements

	Property Damage	Employers Liability	Public Liability (Injury)	Official Indemnity / Land Charges / Professional Indemnity	Motor (Own Damage)	Motor (Third Party Damage)
Current excess	£250,000	£400,000	£400,000	OI £400,000, PI & Land £100,000	£1,000 third party fire and theft	nil
Handling arrangements	Self handle up to excess	Insurer handles whole	See note 1	Insurer whole process	see note 2	Insurer handles whole process. See note 2

NOTES

1 Property damage or injury claims valued up to £25,000 are handled by the Insurance Team. Claims over this amount, complex claims or issued claims valued up to £50,000 are dealt with by In-House Legal Services. Above £50,000 claims are notified to Insurers who may then take on the claim handling if they wish, leave it In House, or appoint their own Solicitor.

2 Non-insured or below excess self-handled. Theft or fire claims over excess dealt with by Insurer. Non-fault own damage claims sent to Insurer for referral to Uninsured Loss Recovery agent.

Appendix 2
<u>Overview of Captive Insurance</u>

The establishment of a captive insurance company as a method of alternative risk transfer instead of insurance is not a feasible option for the council to transfer/mitigate its risks at this time.

Local authorities tend towards conservative management of financial risks, which without the certainty of insurance could be unlimited. The insolvency of Municipal Mutual Insurance (with a vast financial impact on its Local Authority policyholders, including this authority) being a noted case in point.

We acknowledge that the placement of risks via captive schemes has the potential to be less costly than via traditional insurance placements, however, insurance is an established method of capping and transferring risk.

The council's insurance portfolio already makes use of large deductibles, reinsurance and stop losses to retain certainty of its maximum financial liability and effectively self-insure all but the largest risks.

The council's Insurance Team also handles claims (dealing with lower most level claims in-house) and works alongside the corporate risk function to advise on operational risk matters.

As it stands, the council cannot afford to self-insure all its risks without an effect on service delivery, and additionally is not approved by the Financial Conduct Authority (FCA) to be able to do this. There is also the matter of compulsory insurances such as Employers' Liability and Motor insurance which are statutory requirements.

Central government have issued a consultation in November 2024 on the introduction of a UK-based captive insurance framework which would sit outside of Solvency II regulation. The consultation runs until early February 2025 and secondary legislation would be likely to be required to allow the captive framework to operate.

While we will follow the outcome of the consultation with interest and will certainly investigate it further as an option at the end of the next fixed term (potentially with the pooling of risks with other local authorities). There is also the possibility of the government providing either seed capital or parental guarantee to the Local Government Mutual, which has thus far not been able to establish itself as a viable alternative to commercial insurance.

Current Risks/limitations:

- Timescales involved – 6-12 months (not possible before 1/4/2025)
- Capital requirements as required by Solvency II
- Most captives are held offshore
- Limited market for direct reinsurance
- Same PRA/FCA requirements for authorisation And ongoing compliance as standard insurers
- High initial set-up costs
- Uncertainty of maximum financial liability

Potential benefits:

- Reduced cost of premium

- Ability to reinvest premiums into increasing insurance claim reserves and potentially as a source of funds that can be spent on service delivery
- Taxation advantages
- Ability to directly access the reinsurance market