

Birmingham City Council

Report to Cabinet

Date: 15th December 2020



Subject: **PROCUREMENT STRATEGY FOR THE RENEWAL OF VARIOUS INSURANCE POLICIES (P0698)**

Report of: **Assistant Director - Service Finance**

Relevant Cabinet Member: **Councillor Tristan Chatfield, Finance and Resources**

Relevant O &S Chair(s): **Councillor Sir Albert Bore, Resources**

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Are specific wards affected?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No – All wards affected
If yes, name(s) of ward(s):		
Is this a key decision?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Forward Plan Reference: 008214/2020		
Is the decision eligible for call-in?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Does the report contain confidential or exempt information?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No

1 Executive Summary

- 1.1 To provide details of the procurement strategy for the renewal of insurance services for a period of 5 years with a break clause after 3 years commencing 1st April 2021, following a further competition exercise using the Crown Commercial Services (CCS) Insurances Services 3 - Brokerage and Related Services Dynamic Purchasing System.

2 Recommendations

That Cabinet:

- 2.1 Approves the proposed procurement strategy for the provision of insurance services following a further competition exercise using the Crown Commercial Services Insurances Services 3 Dynamic Purchasing System (DPS) in accordance with the requirements and approach outlined in Section 3 of this report.
- 2.2 Delegates authority to the Interim Chief Finance Officer in conjunction with the Assistant Director, Development and Commercial (or their delegate) and Acting City Solicitor (or their delegate) to award the contracts following completion of the procurement process.

3 Background

3.1 Background and Service Requirements

- 3.1.1 The existing contracts for insurance services are due to expire on 31st March 2021.
- 3.1.2 There is a requirement for the replacement of the following insurance policies:
 - Public Liability – provides an indemnity to the Council in respect of compensation claims received from third parties following personal injury or damage to property that exceeds the level of self-insurance.
 - Employers Liability - provides the Council with an indemnity against its legal liability to compensate those employees who sustain either a personal injury or contract an illness or disease during the course of their employment that exceeds the level of self -insurance.
 - Motor Insurance - provides cover on a comprehensive basis for both damage to Council motor vehicles, together with an indemnity in respect of the Council's legal liability to compensate motorists or third parties for any personal injury or damage to their property as a result of motor vehicle accidents that exceeds the level of self-insurance.
 - Leaseholder Policy – provides buildings insurance for properties bought under the Right to Buy scheme in the joint names of the leaseholder and the Council.
 - Fire Policy (excluding terrorism) – provides the Council with insurance cover against loss or damage to its property assets e.g. offices, schools, leisure facilities etc. and which fall above its levels of self-insurance arrangements following the catastrophic events of fire, lightning and explosion that exceeds the level of self-insurance.
 - Industrial / Commercial Policy (excluding terrorism) – provides the Council with insurance cover on a fire and full range of perils basis against loss or damage to its industrial and commercial property assets which are let to external tenants
 - Property Terrorism – property policies exclude damage caused by terrorist attack and the Council therefore procures separate cover for this risk in excess of the level of self-insurance.

- Engineering Inspection – provides statutory inspection of plant in Council' property.
- Fidelity Guarantee - Theft by employees and all theft of money.

3.2 Outcomes Sought

The following outcomes are anticipated as a result of the proposed procurement process to be carried out:

- to ensure the Council has the relevant level of cover to mitigate the risk should an incident occur.
- social value actions committed and delivered in accordance with paragraph 7.1.2.

3.3 Market Analysis

- 3.3.1 Insurance is an established market with wide range of suppliers, including generalist and specialist providers to increase competition and provide a comprehensive range of insurance services to customers including offering either a brokerage service or policies directly.

3.4 Strategic Procurement Approach

- 3.4.1 The following options were considered:

- To self-insure

The Council already carries a significant level of self-insurance in respect of its properties and potential liabilities. The proposed policies are designed to provide the Council with protection against any catastrophic losses that fall above these self-insured limits.

- Tender as a Birmingham only contract

This route would allow the Council to specify the service provision and enable the contract to be awarded within the timescales whilst also attracting the widest number of insurers or brokers (including local companies) to participate and tender for cover. However, using a collaborative framework agreement provides better value for money and is a more efficient route to market, therefore tendering as a Birmingham only contract was discounted.

- Use a Collaborative Framework Agreement or Dynamic Purchasing System (DPS)

There are currently three collaborative framework agreements or DPS' compliant with the Public Contracts Regulations 2015 for insurance services in place, two awarded by CCS and the other by Yorkshire Purchasing Organisation (YPO) for use by other public authorities.

CCS Insurance and Related Services 3 Framework Agreement

This framework agreement covers two lots; one for brokerage and support service for all types of insurance and the other for a compensation claim handling service.

CCS Insurance and Related Services 3 DPS

This DPS covers all types of insurance services.

YPO Insurance Brokerage Framework Agreement and Insurance DPS

This covers all types of insurance services for either a brokerage service or a DPS for insurance services.

- 3.4.2 It is the recommended option to use a collaborative DPS on the basis there are a suitable breadth of suppliers and the route to market is more efficient and timely than carrying out a full procurement process. The CCS Insurance and Related Services 3 DPS has a broader range of suppliers and is the recommended route.

3.5 Procurement Approach

- 3.5.1 The recommended approach is to award a contract for an insurance broker to support the tender process for the procurement of insurance policies. The broker will provide strategic advice on the procurement exercises for the individual insurance policies.
- 3.5.2 A procurement process will then be undertaken for the various insurance policies in accordance with the protocol of the CCS Insurance and Related Services DPS.

3.6 CCS Insurance Services 3 DPS:

3.6.1 Background to the DPS

The DPS is an electronic system for established services which remains open throughout its duration for the ongoing admission of suppliers meeting the selection criteria and allows prequalified suppliers to participate in a customer's further competition for in scope services.

The Dynamic Purchasing System (DPS) is the vehicle onto which Insurance and Related Service providers will be awarded. This DPS vehicle will allow for suppliers to be added during the course of the agreement and can be accessed by Brokers acting as 'agents' for Public Sector Customers and by Customers direct, as per paragraph 3.5.1.

3.6.2 Sourcing Strategy

Contracts will be awarded to a single supplier on each of the policies on the basis of individual specialisms.

3.6.3 Duration

The duration of the contracts for individual insurance policies will be for a period of 5 years with a break clause after 3 years. This is considered to be the optimum period to ensure value for money in accordance with market conditions.

3.6.4 Scope and Specification

The scope and specification of the individual insurances is to ensure that the Council has effectively mitigated its risk and imperative that the Council has contracts in place for insurance to protect its risk profile.

3.6.5 Further Competition Assessment

3.6.5.1. Evaluation and Selection Criteria

The process to award contracts using the DPS includes the following key steps:

- Define the objective for the insurance required.
- Develop a written specification with defined outcomes and deliverables for each insurance-type.
- Use the Capability Assessment to identify the suppliers that can meet our requirements.
- Issue a final specification, evaluation criteria and associated weightings to identified suppliers.
- Receive and evaluate written proposals from suppliers.
- Inform unsuccessful suppliers providing feedback and evaluation scores.
- Award a contract to the successful suppliers and confirm the award to CCS.
- Provide feedback and evaluation scores.

The evaluation of tenders will be assessed as detailed below:

Initial Assessment A (Pass / Fail)

GENERAL INFORMATION	Scoring Assessment
Potential Supplier Information	Information only
Minimum Insurance Requirements	Pass / Fail
Declaration	Pass / Fail
Payment by BACS	Information only

Those organisations that pass all sections of Assessment A will proceed to the next stage.

Assessment B - Quality - Written Proposals (40% Weighting)

The assessment will be assessed on the criteria below:

Criteria	Sub-Weighting
Service Delivery	25%
Organisation and Resources	15%

Quality Management and Customer Care	10%
Social Value	50%

Social value is incorporated into the quality assessment in accordance with the framework agreement rules. .

Social Value (50% Sub-Weighting)

	Sub-Weighting	Sub-Criteria	Theme Sub-Weighting
Qualitative	30%	Partners in Communities	55%
		Good Employer	20%
		Ethical Procurement	25%
			TOTAL 100%
		BBC4SR Action Plan	Total of financial proxies (£) score
			TOTAL 100%
Quantitative	70%	BBC4SR Action Plan	Total of financial proxies (£) score
Overall Social Value	100%		

Tenderers who score less than 60% of the quality threshold i.e. a score of 60 out of a maximum quality score of 100 (60 marks out of 100) will not proceed to the next stage of the evaluation.

Assessment B - Price (60% Weighting)

Tenderers will be required to complete a pricing schedule for each insurance policy based upon the cost of against a pre-determined specification that details the risk and policy / cover requirements.

Overall Evaluation

The evaluation process will result in comparative quality (including social value) and price scores for each tenderer. The maximum quality score will be awarded to the tender that demonstrates the highest for quality (including social value). The lowest price will be given the maximum score. Other tenderers will be scored in proportion to the maximum scores in order to ensure value for money and the proposed contract will be awarded to the first ranked tenderer.

3.6.6 Evaluation Team

The evaluation of the tenders will be undertaken by officers from the Finance – Insurance Section within the Finance and Governance Directorate, supported by Corporate Procurement Services.

3.6.7 Indicative Implementation Plan

The indicative implementation plan is as follows:

Cabinet Approval (Strategy)	15 th December 2020
Issue Invitation to Tenders	January 2021
ITT Submission Deadlines	January 2021
Evaluation Period	January / February 2021
Contract Award	March 2021
Mobilisation Period	March 2021
Contract Start	1 st April 2021

3.6.8 Service Delivery Management

3.4.9.1 Contract Management

The contract will be managed by the Finance Manager - Insurance, Finance and Governance Directorate.

3.4.9.2 Performance Management

The nature of this contract is related to the renewal of insurance policies and there are no significant information management issues to be addressed

4 Options Considered and Recommended Proposal

- 4.1 Not to have insurance in place and for the Council to entirely self-insure other than for statutory insurance – this is not an option as the risk and potential financial cost to the Council are too significant to be considered although a significant level of self- insurance will be retained. This recommend proposal is to have insurance in place and carry out a procurement process.
- 4.2 Undertake an open procurement process – This approach was discounted on the basis that using a DPS demonstrates better value for money.
- 4.3 Alternative procurement options are detailed in paragraph 3.4.1.

5 Consultation

- 5.1 No consultation external to the Council has been carried out as there has been no change to the service requirements.

6 Risk Management

- 6.1 The CPS approach is to follow the Council Risk Management Methodology and the Procurement and Contract Management Teams are responsible for local risk management. CPS maintains a risk management register and documentation

relevant for each contract. The risk register for this framework agreement has been jointly produced and owned by CPS and Finance. Arrangements are in place to ensure operational risks for the further competition exercises called off the DPS are mitigated as detailed in **Appendix 1**.

7 Compliance Issues:

7.1 How are the recommended decisions consistent with the Council's priorities, plans and strategies?

7.1.1 This project will make a direct contribution and is consistent with the Council's Priorities and Plan 2018 – 2022 (updated 2019). These policies are outlined below:

- The proposals support delivery of the Council's priorities in the Council Plan 2018– 2022 (2019 update), by providing protection against the financial exposure relating to any large claims arising during the delivery of these priorities, that fall outside of the self-insurance arrangements being received in respect of these risks.

7.1.2 Birmingham Business Charter for Social Responsibility (BBC4SR)

Compliance with the BBC4SR will be a mandatory requirement for tenderers and form part of the conditions of this contract. Tenderers will need to produce an action plan with commitments proportionate to the value of this contract. These actions will be monitored and managed during the period of the contract.

The social value outcomes tenderers will be required to address include in relation to the further competition exercise for each insurance policy:

Partners in Communities

- Support and mentoring in schools with financial education
- Volunteering, fundraising, donations and supporting local, relevant community organisations
- Innovative solutions as to how the insurance market can support the local communities across the city to assist with the improvement in social inequality and financial literacy
- A robust understanding and methodology for community engagement

Good Employer

- Provide good employment practices to increase the staff employability and quality of employment.

Ethical Procurement

- An ethical investment policy demonstrating how this is implemented in practice, particularly in relation to the Council

7.1.3 Legal Implications

Under S.111 Local Government Act 1972, the Council has power to support of the performance of the Council's primary functions which are contained in a raft of legislation according to the services areas in which the buildings / assets facilitate service delivery.

7.1.4 Pre-Procurement Duty under the Public Services (Social Value) Act 2012

Consideration of whether to undertake a consultation exercise was discussed during the planning stage and it was agreed that this would not be required as tenderers will be asked how their bid addresses social value as part of the evaluation and no additional stakeholder consultation was required. This consideration also included how this procurement exercise might improve the social and economic well-being of the city and will be addressed by evaluating social value.

7.2 Financial Implications

- 7.2.1 The insurance premiums estimated to be a total of £16,539,420 will be funded from the specific existing budgets within Corporate Finance.

7.3 **Procurement Implications**

- 7.3.1 This report concerns the procurement strategy for the insurance services and the implications are detailed throughout the report.

7.4 **Human Resources Implications**

- 7.4.1 Not applicable.

7.5 **Public Sector Equality Duty**

- 7.5.1 The requirements of Standing Order No. 9 in respect of the Council's Equal Opportunities Policy will be incorporated into the Contract.
- 7.5.2 The requirements of the Equality Act 2010 will be specifically included in the Contract to comply with, the Act.

8 Appendices

- 8.1 List of Appendices accompanying this Report:
1. Appendix 1 - Risk Register

Appendix 1 – Risk Assessment

Risk No	Risk description	Risk mitigation	Residual / current risk			Additional steps to be taken
			Likelihood	Impact	Prioritisation	
1.	Insufficient tender responses to ensure competition.	Requirement using DPS CCS Framework with large number of suppliers. Also contact potential bidders to advise of opportunity.	<i>Low</i>	<i>Low</i>	<i>Material</i>	None
2.	Tender results challenged.	Issue report on procurement procedures followed to show due diligence.	<i>Low</i>	<i>Low</i>	<i>Material</i>	None
3.	Contractor(s) ceases trading during the contract period.	Check financial statements for insurance as a tender qualification already undertaken as part of the CCS framework, and on an on-going basis as part of the Supplier Performance Review.	<i>Low</i>	<i>Low</i>	<i>Severe</i>	Situation kept under on-going review by Contract manager and reported as part of Supplier Performance Review process.
4.	Contractor merges (or bought) by competitor.	Check of financial statements of parent company already undertaken by CCS for the framework. And on-going consult with Legal Services and novate contract if applicable.	<i>Low</i>	<i>Low</i>	<i>Material</i>	Situation kept under on-going review by Contract manager and reported as part of Supplier Performance Review process.
5.	Under performance from supplier	Monitoring of supplier performance at regular intervals with built in review meeting. Levels of work linked to performance.	<i>Low</i>	<i>Medium</i>	<i>Severe</i>	Situation kept under on-going review by Contract manager and reported as part of Supplier Performance Review process.
6.	Reputational risk from unethical practices	Monitoring of supplier and customer complaints at regular intervals with built in review meeting. Levels of work linked to performance.	<i>Low</i>	<i>Low</i>	<i>Material</i>	Situation kept under on-going review by Contract manager and reported as part of Supplier Performance Review process.

Measures of likelihood/ Impact:

Description	Likelihood Description	Impact Description
High	Almost certain, is expected to occur in most circumstances. Greater than 80% chance.	Critical impact on the achievement of objectives and overall performance. Critical opportunity to innovate/improve performance missed/wasted. Huge impact on costs and/or reputation. Very difficult to recover from and possibly requiring a long term recovery period.
Significant	Likely, will probably occur in most circumstances. 50% - 80% chance.	Major impact on costs and objectives. Substantial opportunity to innovate/improve performance missed/wasted. Serious impact on output and/or quality and reputation. Medium to long term effect and expensive to recover from.
Medium	Possible, might occur at some time. 20% - 50% chance.	Waste of time and resources. Good opportunity to innovate/improve performance missed/wasted. Moderate impact on operational efficiency, output and quality. Medium term effect which may be expensive to recover from.
Low	Unlikely, but could occur at some time. Less than 20% chance.	Minor loss, delay, inconvenience or interruption. Opportunity to innovate/make minor improvements to performance missed/wasted. Short to medium term effect.

Key:

Severe	Immediate control improvement to be made to enable business goals to be met and service delivery maintained/improved
Material	Close monitoring to be carried out and cost effective control improvements sought to ensure service delivery is maintained
Tolerable	Regular review, low cost control improvements sought if possible