

GREATER **LONDON** AUTHORITY

REQUEST FOR DEPUTY MAYOR FOR FIRE & RESILIENCE DECISION – DMFD4

Title: Insurance arrangements for the London Fire Brigade

Executive Summary:

The LFB has a range of insurance policies in place to protect against the financial impact of liability claims and loss of assets, with annual premiums paid to insurers to provide the required level of cover. The existing insurance arrangements expire on 30 June 2018.

The LFB has undertaken a complex OJEU tender exercise for the provision of insurance services presented in 16 lots to address all insurance requirements. Insurers were invited to bid for single or multiple lots – and in some cases insurers offered packaged solution for multiple lots. The process was supported by the Brigade's insurance Broker (Gallagher). The report to the Commissioner LFC-0025 provides details on the current insurance arrangements, the consideration of alternative collaborative arrangements, the response to the invitation to tender, and proposes to delegate the appointment of insurers from 1 July 2018 to the Commissioner's Director of Corporate Services.

Decision:

The Deputy Mayor for Fire and Resilience consents to the London Fire Commissioner:

putting in place new insurance arrangements from 1 July 2018, subsequent to the procurement process, budgets, and delegations described by the report to the Commissioner LFC-0025.

Deputy Mayor for Fire and Resilience

I confirm that I do not have any disclosable pecuniary interests in the proposed decision.

The above request has my approval.

Signature:



Date:

14 June 2018

PART I - NON-CONFIDENTIAL FACTS AND ADVICE TO THE DEPUTY MAYOR

Decision required – supporting report

1. Introduction and background

- 1.1. The LFB has insurance policies in place to protect against the financial impact of liability claims and loss of assets, with annual premiums paid to insurers to provide the required level of cover. The current insurance arrangements have been in place since 2013. The existing policies were awarded following on OJEU tender process, with contracts awarded on the basis of a three-year Long Term Agreement (LTA) with the option of a two-year extension. The decision on the two-year extension was taken in 2016, so the existing insurance arrangements expire on 30 June 2018.
- 1.2. A complex insurance tender process consisting of 16 lots, with insurers able to offer responses to single or multiple lots, or packaged solutions for multiple lots, has been conducted to seek proposals to provide insurance services to the Brigade. The Invitation to Tender (ITT) drew heavily on previous experience from the last procurement exercise in 2013, together with recently undertaken Broker-led exercises by way of an Actuarial Fund Review and subsequent Programme Design Analysis to inform the future provision of insurance services. The ITT was published via the Blue Light portal on 20 March.
- 1.3. The Brigade received a strong response with 13 insurers submitting tenders across the 16 lots. Resultingly, the clarification and evaluation of the insurance options has taken some time and is ongoing. Due to complexities arising towards the end of the process, requiring further due diligence and consideration, it is proposed the Deputy Mayor consents to the delegation to the Commissioner's Director of Corporate Services the authority to appoint the successful insurers, providing the annual costs are within the approved budgets, currently £1,699kpa. This ensures that the Brigade is in a position to have the necessary insurance in place by 1 July 2018. The tender proposes a three-year commitment extendable by two years, providing for an £8,495k financial commitment, excluding any annual increases agreed with insurers to reflect changes in say payroll or property valuations, and to reflect market changes and claims history, with the cost managed through the central contingency for inflation.

2. Objectives and expected outcomes

- 2.1. This Decision ensures that the London Fire Commissioner remains to have access to appropriate insurance arrangements beyond 30 June 2018.

3. Equality comments

- 3.1. The Public Sector Equality Duty – and the potential impacts of this decision on those with protected characteristics (age, disability, gender reassignment, pregnancy and maternity, race, gender, religion or belief, sexual orientation) – has been considered by the London Fire Commissioner and the Deputy Mayor for Fire and Resilience. No impacts have been identified.

4. Other considerations

- 4.1. The Decision consents to the delegation of the appointment of insurers to the London Fire Commissioner.

5. Financial comments

- 5.1. The expenditure is to be funded through sums available to the Commissioner. There are no direct financial implications for the GLA.

6. Legal comments

- 6.1. Under section 9 of the Policing and Crime Act 2017, the London Fire Commissioner (the "Commissioner") is established as a corporation sole with the mayor appointing the occupant of that office. Under section 327D of the GLA Act 1999, as amended by the Policing and Crime Act 2017, the mayor may issue to the Commissioner specific or general directions as to the manner in which the holder of that office is to exercise his or her functions.
- 6.2. By direction dated 1 April 2018, the mayor set out those matters, for which the Commissioner would require the prior approval of either the mayor or the deputy mayor for fire and resilience (the "Deputy Mayor").
- 6.3. Paragraph b of Part 2 of the said direction requires the Commissioner to seek the prior approval of the Deputy Mayor for commitments of capital or revenue expenditure of £150,000 or above.
- 6.4. This decision seeks the Deputy Mayor's approval for the Commissioner's revenue expenditure on insurance matters, having considered the advice of her General Counsel as described in the attached report. The Deputy Mayor may approve the requested expenditure if she be so minded.

Appendices and supporting papers:

LFC-0025 – London Fire Commissioner: Authority Insurance

Public access to information

Information in this form (Part 1) is subject to the Freedom of Information Act 2000 (FOI Act) and will be made available on the GLA website within one working day of approval.

If immediate publication risks compromising the implementation of the decision (for example, to complete a procurement process), it can be deferred until a specific date. Deferral periods should be kept to the shortest length strictly necessary. **Note:** This form (Part 1) will either be published within one working day after approval or on the defer date.

Part 1 Deferral:

Is the publication of Part 1 of this approval to be deferred? NO

If YES, for what reason:

Until what date: (a date is required if deferring)

Part 2 Confidentiality: Only the facts or advice considered to be exempt from disclosure under the FOI Act should be in the separate Part 2 form, together with the legal rationale for non-publication.

Is there a part 2 form – NO

ORIGINATING OFFICER DECLARATION:

Drafting officer to confirm the following (✓)

Drafting officer

Tim Somerville has drafted this report with input from the LFC and in accordance with GLA procedures and confirms the following:

✓

Assistant Director/Head of Service

Tom Middleton has reviewed the documentation and is satisfied for it to be referred to the Deputy Mayor for Fire and Resilience for approval.

✓

Advice

The Finance and Legal teams have commented on this proposal.

✓

Corporate Investment Board

This decision was agreed by the Corporate Investment Board on 11 June.

EXECUTIVE DIRECTOR, RESOURCES:

I confirm that financial and legal implications have been appropriately considered in the preparation of this report.

Signature

M. D. Allen

Date

11.6.18



LONDON FIRE BRIGADE

Report title

Provision of Insurance Services

Report to
London Fire Commissioner

Date
6 June 2018

Report by
Assistant Director, Finance

Report number
LFC-0025

NOT PROTECTIVELY MARKED

Summary

This report seeks approval to award contracts for the London Fire Brigade's insurance policies from 1 July 2018.

The LFB has a range of insurance policies in place to protect against the financial impact of liability claims and loss of assets, with annual premiums paid to insurers to provide the required level of cover. The existing insurance arrangements expire on 30 June 2018.

The LFB has undertaken an OJEU tender exercise for the provision of insurance services, supported by the Brigade's insurance Broker (Gallagher). This report provides details on the current insurance arrangements, the consideration of alternative arrangements via collaboration, the response to the invitation to tender, and requests delegation on the appointment of insurers from 1 July 2018.

Recommendations

The London Fire Commissioner approves:

- putting in place insurance arrangements from 1 July 2018; and
- delegates to the Director of Corporate Services the appointment of insurers from 1 July 2018, provided this is within the approved budget for 2018/19 of £1,699k.

Background

1. The LFB has a range of insurance policies in place to protect against the financial impact of liability claims and loss of assets, with annual premiums paid to insurers to provide the required level of cover. The current insurance arrangements have been in place since 2013. The existing policies were awarded following on OJEU tender process, with contracts awarded on the basis of a three year Long Term Agreement (LTA) with the option of a two year extension. The decision on the two year extension was taken in 2016, and so the existing insurance arrangements expire on 30 June 2018.
2. The LTA set out the agreed parameters for any variation in premium costs from year to year and required annual renewal terms to be quoted by insurers for the policies in place.
3. The insurance premium costs for 2017/18 are shown in the table below.

Premium costs - £000	2017/18
Combined Liability	333
Motor (includes Marine)	959
Premises (includes leasehold premises)	274
Other	55
Total	1,621

4. An insurance Broker (Gallagher) is retained to provide professional advice, manage the tendering of insurance services and put in place the various insurance covers required.

Consideration of collaboration opportunities

5. Shared service options for the provision of insurance services were explored in 2014 following an approach from the Greater London Authority (GLA) to manage its insurances services, together with those of the London Pensions Fund Authority (LPFA) and the London Legacy Development Corporation (LLDC). Whilst there was some potential for the LFB to manage the arrangements on behalf of the GLA and the LPFA, the requirements of the LLDC were considered to be too different to the LFB's own requirements to make any shared service viable. However a shared service solution was achieved for the GLA, LPFA and LLDC, with this being provided by Transport for London (TfL). At the time the LFB also considered whether its insurance arrangements should also be managed by TfL, however this wasn't pursued due to the cost, as this option was more expensive than the LFB's in-house provision.
6. Possible collaboration with the Metropolitan Police Service (MPS) was also investigated in 2014, however the MPS was undertaking a review and possible restructure of support services at the time, which subsequently led to it outsourcing a number of services. Contact has been maintained with the MPS and discussions continue. Insurance services have been maintained in-house at the MPS, and therefore have been considered as part of ongoing work on benchmarking of 'support' services with the MPS.
7. Other insurance models such as Mutuals and Consortiums have been considered in the past in the fire sector, and across the wider local government sector. These do have potential to deliver short term savings and/or economies of scale, but can require compromise on long term costs and/or insurance cover. The LFB is still required to meet costs from commitments made to the Municipal Mutual Insurance back in the 1990s, due to the number of years claims relating to conditions such as asbestosis and mesothelioma take to develop. Consortiums can have

challenges around insurance cover and risk appetite, as well as claims history, where these vary between participants.

8. A review of insurance services was undertaken by the GLA Collaborative Procurement Team in 2017. This review found that GLA functional bodies all operate their own model for the provision of insurance Broker services and make decisions on insurance cover based on their own risk profile, financial capacity and statute around their own creation and operation. This also extended to the internal approaches to the co-ordination of insurance business. The conclusion of the review was that the arrangements for each functional body should remain as they are so as to maintain flexibility in approach to risk retention and transfer. All functional bodies were deemed by the review to be independent and that statutory powers would have to change to enable joint purchase of insurance. From an insurance market perspective each body has separate interests, and cover would be required to be provided on that basis. There are only a small number of insurers that operate in the public sector market, and market feedback has indicated that any sort of joint approach might even increase insurance premium costs due to the wide ranging nature of the work that would be required.

Provision of insurance services from 2018

9. The work with the insurance Broker and insurers, as part of regular engagement in consideration of premium increases as part of the LTA, had identified certain premium cost pressures on the two main insurance covers of liability and motor. These cost pressures are caused by the market wide issue of the discount rate (which is an amount that personal injury claim settlements can be reduced by to reflect the investment return that a claimant might expect to make on the sum awarded) and insurance premium tax.
10. The discount rate was reduced from +2.75% to -0.75% (a swing of 3.5%) in 2017 (which can be a significant sum on multi-million pound claim settlements), and this triggered an immediate response from insurers on the impact this would have on liabilities and therefore premiums.
11. The insurance premiums paid by LFB have also been subject to rises in the rate of Insurance Premium Tax (IPT) which is currently 12%, increasing from 10% in 2016. IPT unlike Value Added Tax (VAT) is not recoverable by LFB.
12. To help mitigate some of the impact of these pressures, the LFB contracted the Broker to undertake an actuarial review of all LFB insurance claim liabilities, to ensure these were as robust as possible and support the challenge of liability estimates calculated by insurers. The results of this work formed an element of the information provided as part of this insurance tender process. However it was recognised that the value of this work could be limited if there was little competition in the blue light/emergency services insurance market.
13. Also to help address the cost pressures the level of the insurance excess on certain policies has been reviewed. A certain level of self insurance is accepted by LFB through the excess levels on its policies. These levels have been reviewed in light of the impact they have on premiums, particularly in relation to liability and motor. In considering any excess to be accepted on an insurance policy, and in addition to looking at the impact on premiums, it is important to understand the numbers of claims that may in future fall below any increased excess level and the level of reserves and other resources set aside to manage these costs.
14. The budget for insurance premium costs for 2018/19 is shown in the table below.

Premium costs - £000	2018/19
Combined Liability	360
Motor (includes Marine)	912
Premises (includes leasehold premises)	372
Other	55
Total	1,699

15. This budget allows for some inflationary pressure, but assumed no particular increase in insurance premiums.

OJEU tender process

16. An OJEU insurance tender process has been conducted by LFB Procurement, with support from the insurance Broker, to seek proposals to provide insurance services to the Brigade. The Invitation to Tender (ITT) drew heavily on previous experience from the last procurement exercise in 2013, together with the recently undertaken Broker led exercises by way of an Actuarial Fund Review and subsequent Programme Design Analysis to inform the provision of insurance services moving forward. The ITT included substantial detailed information about the Brigade and its insurance requirements. The ITT was published by Procurement via the Blue Light portal, on 20 March, and presented in 16 lots to address all insurance requirements. Insurers were invited to bid for single or multiple lots – and in some cases insurers may also offer packaged solution for multiple lots.
17. The Brigade received a number of tender submissions across the lots, submitted to the deadline of 4 May. In all 13 insurers have submitted bids, with some of these being for single lots but others covering multiple lots. The different lots attracted different numbers of bids, which to an extent reflects the level of specialism required.

Review of tender submissions and recommendations

18. As part of the services provided to LFB, the Broker is required to, not only fully support the insurance procurement process but also, prepare a detailed analysis and summary, including recommendations, of the tender submissions.
19. Given the interest that it has been possible to generate, with 13 insurers submitting tenders across the 16 lots, the clarification and evaluation of the various insurance options has taken some time and is still ongoing. It is therefore recommended the LFC approves putting in place insurance arrangements from 1 July 2018, and delegates to the Director of Corporate Services the decision on the individual insurers to be appointed across the lots provided these are within the approved budget for 2018/19 of £1,699k.
20. The decision on the appointment of individual insurers will be supported by the report from the Broker. This report will provide a detailed consideration of all tender responses received and include
- Details of the insurance services to be provided under each lot;
 - Detailed analysis for each lot, including potential insurers and premiums;
 - Analysis of variant bids, to include any package solutions;
 - Analysis of overall costs of options for the insurance arrangements; and
 - Recommendations on the appointment of insurers

21. Following decision by the LFC the contracts will be awarded with the new insurance arrangements to commence from 1 July 2018.

Finance comments

22. This report is prepared by the Assistant Director, Finance and as such Finance comments have been incorporated into the report.

Workforce comments

23. No Workforce implications have been identified therefore no formal consultation has been undertaken.

Legal comments

24. General Counsel has reviewed this report and has no comments at this stage. Further stages of the procurement process will be monitored and advice will be given to the Director of Corporate Services when a recommendation is presented to them.

Sustainability Implications

25. There are no direct sustainability implications arising from this report.

Equalities Implications

26. There are no specific equalities implications arising from this report.

Consultation [Note: this section is for internal reference only – consultation information for public consideration should be included within the body of the report]

Name/role	Method consulted
Felicity Carter (General Counsel's Department) – Combined Liability	Review meetings/consultation.
Floyd Philip (Procurement) – Motor, Marine and Airside	Review meetings/consultation.
Lloyd Bentley (TSS) – Property	Review meetings/consultation.
Bobbie Fisher (Procurement) – procurement process	Review meetings/consultation.
Mark Atkinson (Head of Procurement) – procurement process	Review meetings/consultation.
Michael McCarthy (Procurement) – procurement process	Review meetings/consultation.
Miles Smith (General Counsel) – procurement process	Review meetings/consultation.
Saminara Rahman (General Counsel's Department) – procurement process	Review meetings/consultation.
Steven Adams (General Counsel's Department) – decision making process	Review meetings/consultation.

