

## REQUEST FOR DEPUTY MAYOR FOR FIRE & RESILIENCE DECISION – DMFD78

### Title: Insurance renewals

#### Executive Summary:

This report recommends the Deputy Mayor for Fire and Resilience gives approval to the London Fire Commissioner (LFC) to appoint insurers as specified in the appended report LFC-0378, for a period of three years and at a total cost of up to £7,500,000.

The proposed cost of the insurance premiums represents a significant increase on the London Fire Brigade's (LFB) previous premium payments. This proposal has been arrived at following a competitive tender exercise to identify the best value policies available; the results of this exercise are summarised in the appendix to report LFC-0378.

The London Fire Commissioner Governance Direction 2018 sets out a requirement for the London Fire Commissioner to seek the prior approval of the Deputy Mayor before "[a] commitment to expenditure (capital or revenue) of £150,000 or above as identified in accordance with normal accounting practices...".

#### Decision:

That the Deputy Mayor for Fire and Resilience authorises the London Fire Commissioner to incur expenditure of up to £7,500,000 over three years for the appointment of the insurers specified in report LFC-0378.

#### 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:

21 July 2020

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

### Decision required – supporting report

#### 1. Introduction and background

- 1.1 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 were put in place in 2018 (LFC-0025) following an OJEU tender process, with LFB officers working with the broker, Gallagher. The existing policies were awarded on the basis of a three-year Long-Term Agreement (LTA) with the option of a two-year extension.
- 1.2 The fleet and liability covers were expected to be challenging to secure affordable premiums as part of the 2018 tender, partly due to the high value that can be experienced with some claims but also because of the Government change in the discount rate used to value liabilities which saw these increase significantly. Therefore as part of the preparation for the insurance tender in 2018, and to address cost pressures in these two main insurance risk areas, the LFB contracted the broker to undertake an Actuarial Fund Review and Programme Design Analysis, 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 to potential insurers to support the assessment of insurance risks, and therefore premiums. Despite there being only limited competition in the blue light/emergency services insurance market, this work allowed acceptable insurance arrangements to be put in place from 1 July 2018.
- 1.3 The LTA sets 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. The insurers provided renewal terms within the LTA for 2019/20 and the insurances were renewed accordingly.

#### 2. Objectives and expected outcomes

##### *Insurance renewals*

- 2.1 The renewal terms provided for 2020/21 however saw increases that were not in line with requirements set out in the LTA for combined liability and fleet policies. A summary of the insurance premium renewal costs for 2020/21, and the premiums for 2019/20, are shown in the table below.

Premium costs – £000	2019/20	2020/21
Liability policies	434	2,014
Motor fleet	598	899
Other policies	311	330
<b>Sub-total</b>	<b>1,343</b>	<b>3,243</b>
Insurance Premium Tax	160	388
<b>Total</b>	<b>1,503</b>	<b>3,631</b>

- 2.2 The insurer had provided an indication of significant cost pressure in relation to the liability and fleet covers for the renewal for 2020/21, with this being particularly significant for the liability covers as claims experience in relation to the Grenfell Tower incident developed. These had not however set out an intention to break the LTA, and therefore the premiums identified above were well in excess of those expected by LFB officers and the broker. The provision of the renewal premiums, and at rates above the LTA, in June not only meant that the planned approval mechanism has had to be changed, but also that the budget approved for 2020/21 was at a level well below that now required.

- 2.3 The insurance policies were renewed from 1 July 2020 for all areas other than liability and fleet, in line with obligations under the three-year agreement. The exception to this was airside liability where the LTA was broken, however this policy has a cost of £4,500 and was renewed to allow focus on addressing the fleet and liability covers.
- 2.4 Discussions took place with the broker during June 2020 to discuss options on the alternatives to renewal at the offered premiums for fleet and liability. Following these discussions, the broker then undertook two key activities, as follows:
- discussions with the existing insurer to negotiate an extension of the covers for liability and fleet, with the broker requesting a three-month extension of the covers, and for these to be provided at the 2019/20 rates; and
  - to undertake a soft market testing exercise to identify whether there was interest in the market to quote for the LFB policies, and whether this was likely to be at better rates than the existing insurer.
- 2.5 The conclusion of the discussion with the existing insurer was that they were prepared to only offer a one-month extension, and on the renewal terms. This offer was however accepted and the existing covers extended to 31 July 2020. The extensions, and the renewal of policies within the LTA, was approved using the existing delegation to the Director of Corporate Services as the arrangements were with the current insurers and were affordable within the existing budget.
- 2.6 The soft market testing had identified potential interest from alternative insurers, and a framework was identified to allow a tender process to be undertaken.

#### *Procurement process*

- 2.7 Arrangements were therefore agreed with the broker for a tender process to be undertaken, making use of the time provided by the one-month extension of existing policies, to obtain alternative premiums for the liability and fleet covers from 1 August 2020. Tenders were invited for the period to 30 June 2023, with this, nearly, three-year period necessary to ensure interest from the market.
- 2.8 It is necessary for the London Fire Commissioner decision-making scrutiny to be completed by 24 July 2020 to allow new policies to be in place from 1 August 2020.
- 2.9 Having consulted with the LFB's insurance brokers, the route to market chosen by LFB officers, which both meets the London Fire Commissioner's (LFC) requirements and is most likely to deliver best value, is the framework Insurance Placement DPS Ref: 00978, provided by the Yorkshire Purchasing Organisation (YPO). The framework is managed by YPO and is compliant with the Public Contracts Regulations 2015 (PCR2015).

#### *Tender responses*

- 2.10 The insurance tender to obtain alternative premiums for the liability and fleet covers was managed by the broker on the LFB's behalf. The report from the broker is provided in the appendix to report LFC-0378.
- 2.11 The broker had undertaken a soft market test to identify potential interest in the market for the insurance covers and also to confirm a framework that could be used to facilitate the tender process. This early engagement with the market allowed a very tight timescale for the tender to meet the requirements to secure alternative arrangements from 1 August 2020, whilst complying with the requirements of the framework.

- 2.12 A robust procurement process was undertaken. Tender documents were sent to all nine suppliers on the YPO Framework, resulting in LFC receiving three compliant bids. These bids have been evaluated in accordance with the requirements of the YPO Framework and best practice. The bids recommended by are set out in the summary table below:

<b>Lot</b>	<b>Premiums 2020 to 2021</b>	<b>Recommended Bidder</b>
1 – Combined Liability	£1,361,000.00	Maven Public Sector
2 – Motor Fleet	£574,494.00	Protector
<b>SUB-TOTAL</b>	<b>£1,935,494.00</b>	
Insurance Premium Tax (and VAT)	£232,659.28	
<b>TOTAL</b>	<b>£2,168,153.28</b>	

- 2.13 Over three years, and allowing an additional 15% for renewal increases under the Long-Term Agreement, the amount of expenditure requiring approval is therefore up to £7,500,000.

#### *Collaboration opportunities*

- 2.14 Shared service options for the provision of insurance services have been considered across the GLA Group on a number of occasions.
- 2.15 Options were explored in 2014 following an approach from the 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.
- 2.16 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 had 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.
- 2.17 A further workshop was undertaken on insurance services via the Professional Services Working Group on GLA Collaboration. This reached similar conclusions to the 2017 review on the differences in insurance requirements across the GLA Group, although it did benefit from also including the London Ambulance Service in the discussions. The conclusion from the workshop was that a further review would be undertaken by the GLA insurance lead, who is responsible for the shared service

arrangements put in place following the 2014 review. The work on the 2020 insurance review is now reaching a conclusion and the report is expected in the next few weeks. Early indications are that this is not expected to have found any significant change to the circumstances reported in the 2017 review. However, advice referenced a hard market for insurance, linked to Brexit and the exit of significant insurance capital from the London market into Europe, and with many insurers reducing lines of business and/or capacity. However, the report is awaited and any recommendations will be reviewed and addressed.

### 3. Equality comments

- 3.1 The London Fire Commissioner and the Deputy Mayor for Fire and Resilience are required to have due regard to the Public Sector Equality Duty (s149 of the Equality Act 2010) when taking decisions. This in broad terms involves understanding the potential impact of policy and decisions on different people, taking this into account and then evidencing how decisions were reached.
- 3.2 It is important to note that consideration of the Public Sector Equality Duty is not a one-off task. The duty must be fulfilled before taking a decision, at the time of taking a decision, and after the decision has been taken.
- 3.3 The protected characteristics are: Age, Disability, Gender reassignment, Pregnancy and maternity, Marriage and civil partnership (but only in respect of the requirements to have due regard to the need to eliminate discrimination), Race (ethnic or national origins, colour or nationality), Religion or belief (including lack of belief), Sex, and Sexual orientation.
- 3.4 The Public Sector Equality Duty requires decision-takers in the exercise of all their functions, to have due regard to the need to:
  - (a) Eliminate discrimination, harassment and victimisation and other prohibited conduct.
  - (b) Advance equality of opportunity between people who share a relevant protected characteristic and persons who do not share it.
  - (c) Foster good relations between people who share a relevant protected characteristic and persons who do not share it.
- 3.5 Having due regard to the need to advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it involves having due regard, in particular, to the need to:
  - (a) remove or minimise disadvantages suffered by persons who share a relevant protected characteristic where those disadvantages are connected to that characteristic;
  - (b) take steps to meet the needs of persons who share a relevant protected characteristic that are different from the needs of persons who do not share it (;
  - (c) encourage persons who share a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.
- 3.6 The steps involved in meeting the needs of disabled persons that are different from the needs of persons who are not disabled include, in particular, steps to take account of disabled persons' disabilities.
- 3.7 Having due regard to the need to foster good relations between persons who share a relevant protected characteristic and persons who do not share it involves having due regard, in particular, to the need to—
  - (a) tackle prejudice, and
  - (b) promote understanding.

3.8 Paragraphs 5.3 and 5.4 of the Mayor's Budget Guidance stipulate that:

5.3 It will be a key objective for London's recovery to address the social and economic inequalities that have driven differences in the impact of Covid-19 across London's communities, as well as the inequalities created as a result of the crisis itself. In reviewing and repurposing their budgets to support London's recovery all members of the GLA Group must consider what steps they can take to address these inequalities.

5.4 All members of the GLA Group must also assess their wider budget proposals to consider both their potential impact on different groups of Londoners (including, but not limited to, those protected by equalities legislation), and are encouraged to consider how they can broaden their activities to further address poverty, economic inequality and social integration.

3.9 On 30 June 2020 the LFB Head of Strategic Finance wrote to all Heads of Department with budget packs to request their saving/growth proposals. As part of this communication a specific instruction was included which set out the LFB's obligations under the Equality Act and Public Sector Equality Duty, with guidance to support them to complete Equality Impact Assessments (EIAs) on relevant proposals.

3.10 No Equality Impact Assessment (EIA) was undertaken as part of this report, but will be addressed as part of the budget process in consultation with the LFB's Inclusion Team who will support the preparation of EIAs on proposals as appropriate.

#### **4. Other considerations**

##### *Workforce comments*

4.1 No workforce implications have been identified therefore no staff side consultations have taken place.

##### *Sustainability implications*

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

#### **5. Financial comments**

5.1 The insurance renewal premiums for 2020/21 at £3,631k were substantially in excess of the budget available and would have been expected to result in an overspend in the current financial year, and lead to a draw on LFB's general reserve to address this.

5.2 The tender process to put in place alternative insurance arrangements for fleet and liability covers has achieved a substantial reduction in the total cost of the premiums. The LFB's Medium-Term Forecast (MTF) had been updated to reflect the £3,631k renewal premiums from the existing insurers. The terms secured through the tender process for the Liability and Fleet covers at £2,168k represent a substantial reduction from the renewal terms for these covers of £3,169k. This reduction will now be reflected in the MTF and reduce the budget gap in future years. The new premiums do however reflect the changes in insurance conditions, particularly in relation to the Grenfell Tower incident on liability covers, and are still in excess of the 2020/21 budget, and so options to manage the impact in the current year are being considered alongside the costs of LFB's response to the pandemic and the requirement in the Mayor's budget guidance to address a £10m reduction in funding.

5.3 There are no other 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 The General Counsel to the London Fire Commissioner has reviewed report LFC-0378 and notes that the arrangement proposed is consistent with the Commissioner's power under section 5A of the Fire and Rescue Services Act 2004 to procure services they consider appropriate for purposes incidental to their functional purposes.
- 6.3 Part 6 – Financial Regulations of the London Fire Commissioner Scheme of Governance sets out at para 11 (e) that, "The Director of Corporate Services is responsible for ensuring that proper insurance exists where appropriate and the level of cover and risk is reported in the Statement of Accounts." Report LFC-0378 sets out the recommended insurances and level of cover.
- 6.4 LFB Procurement have been consulted in the drafting of this report.
- 6.5 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"). Paragraph (b) of Part 2 of the direction requires the Commissioner to seek the prior approval of the Deputy Mayor before "[a] commitment to expenditure (capital or revenue) of £150,000 or above as identified in accordance with normal accounting practices...".
- 6.6 The Deputy Mayor's approval is accordingly required for the London Fire Commissioner to purchase the insurances discussed in this report.
- 6.7 The disposal price set out in this Report satisfies the LFC's legal requirement to obtain best consideration on disposal of its assets as required by Section 123 of the Local Government Act 1972.

## **Appendices and supporting papers:**

Appendix 1 - Report LFC-0378 – Insurance renewals 2020

**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? YES**

If YES, for what reason:

The commercial interests of the London Fire Commissioner require deferral of the decision until after the cooling off period for new contracts.

Until what date: 1 November 2020

**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**

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

✓

**Assistant Director/Head of Service**

Niran Mothada 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.

✓

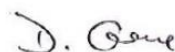
**Corporate Investment Board**

This decision was agreed in draft form by the Corporate Investment Board on 20 July

**EXECUTIVE DIRECTOR, RESOURCES:**

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

**Signature**



**Date**

23 July 2020