



LONDON FIRE BRIGADE

Decision title

Insurance Renewals 2020

Recommendation by

Assistant Director, Finance

Decision Number

LFC-0378x-D

Protective marking: OFFICIAL – COMMERCIAL SENSITIVITY

Publication status: Published with redactions

Summary

Report LFC-0378x provides an update on the insurance renewals 2020 and seeks approval to award contracts for the London Fire Brigade's (LFB) insurance policies on fleet and liability from 1 August 2020.

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 were put in place under a three-year agreement, with a possible two-year extension, from 1 July 2018. The tender process for this was undertaken following a GLA Group review of insurance arrangements in 2017, as well as specific work with the broker to review insurance liabilities.

The insurances under the agreement are renewed on an annual basis, where the premiums remain within the Long-Term Agreement (LTA) and budget available.

During the Spring officers worked with insurers to provide information to inform the renewal premiums. In preparation for this the insurer had provided an indication of the risk of higher premiums, ahead of LFB providing the required renewal information. The LFB provided the insurer with the renewal information in mid-April. The insurer then provided renewal terms in early June, which were subject to further discussion and clarification. It was at this point that it became clear that the insurance policies for liability and fleet had renewal terms for 2020/21 that were outside the LTA, and in excess of the budget available.

It then became clear that the intention to confirm the renewals through the delegated authority in place would not be possible, and that therefore urgent action was required in order to secure insurance cover for these two areas. Existing policies were extended for one month to allow time for an accelerated tender process.

Report LFC-0378x sets out the results from the tender and seeks approval to put in place new insurance policies for fleet and liability covers from 1 August 2020.

Decision

That the London Fire Commissioner:

1. Approves the appointment of the insurers identified in Appendix 1, from 1 August 2020, [REDACTED]
[REDACTED]
[REDACTED]
2. Delegates authority to renew the insurer appointment on an annual basis to the Assistant Director, Finance in consultation with the Director of Corporate Services, as long as the cost is within the total amount set out in above.



Andy Roe
London Fire Commissioner

This decision was remotely
Date signed on Thursday 23 July 2020

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Insurance Renewals 2020

Report to	Date
Commissioner's Board London Fire Commissioner	16 July 2020

Report by	Report number
Assistant Director - Finance	LFC-0378x

Protective marking: **OFFICIAL - Sensitive**

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Summary

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This report sets out the results from the tender and seeks approval to put in place new insurance policies for fleet and liability covers from 1 August 2020.

Recommended decisions

That the London Fire Commissioner:

1. Approves the appointment of the insurers identified in Appendix 1, from 1 August 2020, [REDACTED]
[REDACTED]
[REDACTED]
2. Delegates authority to renew the insurer appointment on an annual basis to the Assistant Director, Finance in consultation with the Director of Corporate Services, as long as the cost is within the total amount set out above.

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 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.
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.
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.

Insurance Renewals 2020

4. The renewal terms provided for 2020/21 however saw the LTA broken 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
Sub-total	1,343	3,243
Insurance Premium Tax	160	388

Total	1,503	3,631
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5. 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.
6. 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.
7. 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.
8. 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.
9. 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 2020

10. 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.
11. The results of the tender process were presented in a report from the broker on 20 July 2020. It will then be 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.
12. Having consulted with our 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

13. 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 at Appendix 1.
14. 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.
15. 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:

Lot	Premiums 2020 to 2021	Recommended Bidder
1 – Combined Liability	£1,361k	Maven Public Sector
2 – Motor Fleet	£574k	Protector
Sub total	£1,935k	
Insurance Premium Tax (and VAT)	£233k	
Total	£2,168k	

Budget Impact

17. The insurance renewal premiums for 2020/21 at £3,631k were substantially in excess of the budget available and would be expected to result in an overspend in the current financial year, and lead to a draw on the general reserve to address this.
18. The tender process to put in place alternative insurance arrangements for fleet and liability covers was expected to achieve a reduction in the total cost of covers from £3,631k, however given the changes in the insurance conditions, particularly in relation to the Grenfell Tower incident on liability covers, it was expected that there would still be a substantial financial impact in the current and future financial years. The LFB's Medium-Term Forecast (MTF) was therefore updated to reflect the anticipated increase in insurance costs and forms part of the budget gap identified for future years. The reductions in premiums secured through the tender mean that the MTF can be further updated and this will have a positive impact on the budget gap, and reduces this by about £1m. The forecast additional cost in the current financial year is reduced by about £0.8m, and reflects the period of the insurance renewals and that the current financial year includes three months at the old rate, one month (extension) at renewal rates and eight months at the new rate.

- 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. These are subject to a separate report to the Commissioner's Board.

Decision Making Process

- In view of the very tight timescales available to put in place alternative insurance arrangements it has been necessary to seek agreement from the London Fire Commissioner and the Deputy Mayor for Fire and Resilience to take decisions outside of the usual Board cycles. However, the expected due diligence by the London Fire Commissioner and the Greater London Authority (GLA) has been performed before the final decisions taken. Key information in this report had been discussed with key parties in the decision-making scrutiny, so they were aware of the urgent decision required. This report formed the basis of a report to the Corporate Investment Board (CIB) at the GLA, with final figures presented verbally to the meeting, to allow the CIB approval on 20 July. Scrutiny of the decision by the Deputy Mayor formed part of this process, but was not reported to the Deputy Mayor's Fire and Resilience Board due to the constraints of the time allowed. The final decision is to be taken by the London Fire Commissioner by 24 July 2020, to allow new insurance arrangements for fleet and liability to be in place from 1 August 2020.

Consideration of Collaboration Opportunities

- Shared service options for the provision of insurance services have been considered across the GLA Group on a number of occasions.
- 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.
- 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.
- 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.

25. The work on the 2020 insurance review is now reaching 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.

Finance comments

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

Workforce comments

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

Legal comments

28. 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.
29. The General Counsel has reviewed this report 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.
30. 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." This report sets out the recommended insurances and level of cover.
31. Procurement have been consulted in the drafting of this report.
32. 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...".
33. The Deputy Mayor's approval is accordingly required for the London Fire Commissioner to purchase the insurances discussed in this report.

Sustainability implications

34. There are no direct sustainability implications arising from this report.
35. London Fire Commissioner and decision takers are required to have due regard to the Public Sector Equality Duty (s149 of the Equality Act 2010) when exercising our functions and taking decisions.

36. 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.
37. 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.
38. The Public Sector Equality Duty requires us, in the exercise of all LFC functions (i.e. everything the LFC does), 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.
39. 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.
40. 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.
41. 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.
42. 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.

43. 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.

44. No EIA was undertaken as part of this report, but will be addressed as part of the budget process in consultation with the Inclusion Team who will support the preparation of EIAs on proposals as appropriate.

List of Appendices

Appendix	Title	Protective Marking
1.	Insurance broker renewal report	