



# NORWICH City Council

**Committee name:** Cabinet

**Committee date:** 15/11/2023

**Report title:** Procurement of Council Insurance Programme

**Portfolio:** Councillor Kendrick, Cabinet member for resources

**Report from:** Head of legal and procurement

**Wards:** All wards

**OPEN PUBLIC ITEM**

**KEY DECISION**

## **Purpose**

The purpose of this report is to seek Cabinet endorsement for the approach to the procurement of the Councils insurance cover and delegated authority to enter into the insurance contracts.

## **Recommendation:**

It is recommended that Cabinet delegate authority to the Executive Director with responsibility for insurance, in consultation with the Portfolio Holder for Resources, to enter into contracts for insurance cover for the Council.

## **Policy framework**

The council has five corporate priorities, which are:

- People live independently and well in a diverse and safe city.
- Norwich is a sustainable and healthy city.
- Norwich has the infrastructure and housing it needs to be a successful city.
- The city has an inclusive economy in which residents have equal opportunity to flourish.
- Norwich City Council is in good shape to serve the city.

This report helps ensure that Norwich City Council is in good shape to serve the City

## Background

1. Norwich City Council provides a wide range of services and holds a significant asset portfolio. Occasionally, things can go wrong or an accident happens, and it's important that when it does, the Council has insurance cover to manage the potential risk and exposure it faces. Our current insurance contract was purchased to operate from 1 April 2019, and therefore a new contract is now required for the period from 1st April 2024.
2. Due to the scale of its operations, the Council's insurance needs are complex; property insurance, for its housing and non-housing assets; public and employee liability, professional indemnity to protect the Council in respect of claims made against it, compulsory covers such as fidelity guarantee as well as more minor covers such as fine art insurance for its collection of art and civic regalia; and terrorism to protect the Council should a terrorist event result in damage or disruption to buildings.
3. The Council's current insurance programme is provided by a range of public sector insurance providers, primarily, Zurich Municipal, Travelers and QBE.
4. The management of the Council's insurance service is provided by Cambridgeshire County Council, who also provide services to a range of other authorities including Cambridge City Council, Milton Keynes Council and West Northamptonshire Council. The team have specialist resources to manage our insurance programme working with the appointed insurance brokers, Arthur J Gallagher. In respect of claims there is a mix of in house and insurer service provider management depending on the nature of the claim to be considered, where required on liability claims legal advice is generally provided by the insurers nominated solicitors, Weightmans. The contract with Cambridgeshire is managed through the Council's procurement service.
5. Historically, the Council has sought insurance on a 3 year term with the option to extend for up to 2 further years. A comprehensive review of the Council's insurance cover and policies is undertaken prior to a procurement process which is compliant with public contract regulations due to its value. Each year in the contract the Council is required to undertake a review of its level of cover, providing information on any emerging risks and ensure its policies and insured risks are up to date. Based on this, a revised premium is set by insurers at renewal.
6. The insurance market has been challenging since the last contract was entered into. Prior to this had been a long period of stability where premium rises had been low. A variety of events have contributed to growing premiums, including inflation in the building industry meaning repairs to buildings costing more, similar cost pressures in the motor industry, the growing concern of the impact of climate change and shifting risk appetite on the part of the insurance industry with suppliers withdrawing from the market.
7. As well as mitigating risk through increased premiums, insurers are also seeking to reduce their exposure in the event a loss happens – for example, capping the amount of insurance they will provide on specific assets, particularly properties that are vacant.

## The Procurement Exercise

8. Due to the significant value of the Council's insurance, the Council has to follow a procurement process that is compliant with the public contract regulations 2015. The Council has taken the approach of using an open tender which provides insurers the best opportunity to review the Council's specific needs rather than using a framework.
9. Ahead of the tender, the Council has undertaken a comprehensive review of each aspect of its insurance policy, informed by intelligence and recommendations provided by the insurance team and the insurance broker. At appendix 1, we have summarised some of the key areas of risk and change that the Council holds within its proposed procurement.
10. The Council also obtained an actuarial valuation to support recommended levels of deductibles (the level of excess the Council would pay in the event of a claim).
11. Information to support the tender was sought from across all service areas of the Council. Prior to issue of the tender to the market, Heads of Service and Executive Directors undertook a full review of the documents to ensure accuracy and validity. Heads of Service and Executive Directors have also input to relevant policy decisions on the level of cover sought.
12. The tender documents were published on the Government's Find a Tender service which is used to promote open opportunities nationally, with the broker also seeking to advise insurers of the opportunity. The tender has been broken down into different lots, meaning that insurers can either submit a tender for all of the Council's insurance, or just specific types of cover. This means the Council can pick the best outcome for each separate insurance area and ensure that it can attract a wide range of potential insurers, including specialist market insurers who may not be interested in the full package.
13. Following submission of tenders, an evaluation will be undertaken by the insurance team and brokers of the quality of bids, supported by the procurement team who will evaluate the financial value. The tender submissions will be evaluated based on price 60%, cover 25%, claims management 10% and social value 5%.
14. A decision was made to remove the following areas of insurance from the tender and instead seek a separate procurement route due to their specialist nature. Each element is expected to be under the threshold for a cabinet decision:
  - a. Fine Art – to be separately procured due to its specialist nature
  - b. Terrorism – to be separately procured due to its specialist nature
  - c. Engineering – this contract provides for the statutory testing of the Councils boilers, pressure equipment and lifting equipment and is usually placed within an insurance procurement as it comes with a limited policy of insurance. Advice from brokers is that the insurance is no longer fit for purpose and as such the Council is to issue a contract solely for statutory testing. The market for this service is dominated by around 5 suppliers however the experience of the Insurance team is that

the service provided by the suppliers is being significantly challenged by the availability of appropriately qualified engineers, as a result this has brought challenges to the provision of service where the supplier is changed and it has been recommended that the Council therefore work to retain the existing provider. As a result, the Council is seeking to extend its current contractual arrangements with the incumbent provider and review the position in two years.

- d. Cyber – as highlighted in appendix 1, again, this is a very challenging market with insurers generally unwilling to provide cover in this area unless Councils meet a strict minimum criteria. The Council does have some insurance cover for issues such as data breaches or data recovery and is working with the broker to identify what steps it needs to take to be able to approach the insurance market with work continuing outside of the tender.

15. Due to the complex nature of the Council's insurance needs, it is anticipated that there will need to be a process of clarification with suppliers and careful consideration of the submitted bids, which will lead to a final decision on the preferred options in January. A delegated approval is being sought at this stage due to the need to move quickly following evaluation to confirming the preferred provider and resolving contractual requirements before cover comes into place on 1 April 2024.

16. As with previous contracts, the Council will seek to enter a 3 year initial agreement with an annual review process inbuilt and 2 x 12 month extensions available for utilisation where appropriate.

17. The willingness of the market to provide the levels of insurance the Council seeks will become clearer through the tender process. Insurers may wish to cap the level of insurance it provides; however the Council can then seek to "layer" the insurance by seeking further insurance providers who will provide additional cover for that element not covered by the primary insurer. A final decision will need to be made on the level of cover that assesses the potential benefits and risks of each aspect of coverage.

## **Consultation**

18. As set out above, the Council's insurance broker has been an active participant in the service, enabling professional expertise informed by regular market engagement.

## **Implications**

### **Financial and resources**

19. Any decision to reduce or increase resources or alternatively increase income must be made within the context of the council's stated priorities, as set out in its Corporate Plan 2022-26 and budget.

20. The Council funds its insurance requirements through three means:

- a. The Council has a budget of £1.119m to pay for its insurance cover. This budget includes all aspects of the insurance, including those omitted from the current exercise (see paragraph 12). There is a risk that the

current tender, which is being undertaken to seek the most economically advantageous outcome for the Council, may ultimately see a rise in premiums. This will be kept under review as the tender process emerges alongside the Council's budget setting. Some elements of the insurance are distributed to tenants and leaseholders.

- b. The Council has an insurance reserve of £1.005m. This assists the Council in the event that a significant event occurs that requires payment from the insurance reserve. Each year, an actuarial review is undertaken to ensure the level of reserve is accurate.
- c. The Council has a balance of £100k from which it settles smaller claims. Any residual on the balance is used to top up the insurance reserve in line with actuarial advice annually.

## Legal

21. The procurement is being undertaken in a manner compliant with the public contract regulations 2015.

## Statutory considerations

Consideration	Details of any implications and proposed measures to address:
Equality and diversity	No specific implications
Health, social and economic impact	No specific implications.
Crime and disorder	No specific implications
Children and adults safeguarding	No specific implications
Environmental impact	As part of the tender, insurers have been asked to submit social value information which will be included in the scoring of bids. This includes specific questions on how suppliers are working to reduce carbon and increase recycling and reuse within their operations.

## Risk management

Risk	Consequence	Controls required
The Council fails to obtain adequate insurance to cover its potential liabilities	If an event was to happen that the Council was not insured for, it would be expected to cover the costs and any liabilities of this	Comprehensive review of cover required followed by robust procurement process to obtain adequate insurance cover

Risk	Consequence	Controls required
The costs of the Council's insurance exceed the budgetary allocation	The Council may have to compromise on other resource allocation to ensure the level of cover required	Ongoing dialogue between finance and procurement as the outcome of the tender emerges to assess impact on Council budget

### Other options considered

22. The Council could have procured its insurance through a framework. Whilst frameworks can be effective where the Council is purchasing less complex and more standardised products, operating through an open tender gives best opportunity for the specific needs of the Council to be considered.

### Reasons for the decision/recommendation


23. To ensure that the Council has adequate insurance cover in place from 1 April 2024.

### Appendices:

Appendix 1 Key areas of risk and change within the Council's insurance

**Contact officer: Leah Mickleborough, Head of Legal and Procurement**

**Email address: [leahmickleborough@norwich.gov.uk](mailto:leahmickleborough@norwich.gov.uk)**

	<p>If you would like this agenda in an alternative format, such as a larger or smaller font, audio or Braille, or in a different language, please contact the committee officer above.</p>
---	--

## Appendix 1: Key areas of risk and change within the Council's insurance

Area of risk / change	Explanation
Housing – coverage for housing properties	It is increasingly common practice for housing authorities to only obtain insurance for those properties that are three stories and above. That means if something was to happen to a property less than 3 stories, the Council would directly pay the costs associated with this. The Council has taken this approach with its insurance for some time and it is anticipated that if we do otherwise, the costs of premiums would inevitably equate to a similar level to what it may pay in an average year now for restoration of such properties. However, this will be kept under review and the Council is gathering data required to investigate this with insurers in future.
All properties – developments to manage environmental risks	The Council does not presently have insurance for the risk of subsidence, meaning again any claims would be paid for directly by the Council. Most general fund properties are outside the key areas of risk within Norwich. This is being explored as part of the current insurance exercise. The Council is also adding insurance for work to support environmental efficiency and carbon reduction such as chargers, solar panels and heat pumps.
Loss limits	At present, the Council's insurers have limited the value they are willing to pay out on some properties, meaning if an event occurred the Council may not receive the full re-instatement cost and would have to carefully consider its options. We are seeking to address this through the current insurance tender, including whether insurers would be willing to layer cover to reduce their risk.
Deductibles	The Council's current deductible is generally £50k and an aggregate of £500k. This means that the Council pays £50k for any single claim, but is limited to £500k in total per year. This has been reviewed by actuaries to ensure it is appropriate. Shifting the level of deductible is unlikely to have a significant impact on premiums.
Business Interruption	The Council's current level of cover, at £37m, is comparatively extremely high. The advent of more mobile and hybrid working has reduced the reliance on City Hall and other work locations, meaning that high degrees of cover are no longer required. As a result, the insurance cover is being reduced to £10m in line with other authorities of a similar size. The

	<p>Council is also seeking to increase the length of time for cover to 4 years, and adding business interruption insurance at the multi-storey car parks so we could claim for loss of income if there was a significant downtime.</p>
Money	<p>The amount of physical cash the Council receives has significantly reduced, to the point where the level of cash at any one time is now less than the deductible we would have to pay to make a claim. As a result, this cover is being removed in future.</p>
Public and Employer liability	<p>Our current level of cover is £25m, however this is being increased to £30m to reflect inflation since it was last reviewed.</p>
Cyber	<p>The Council is obtaining cover for a data loss or reinstatement event. However, the market for cyber insurance is extremely challenging, with many insurers refusing to provide cover at present. We will continue to review how we might be able to secure cover with our insurance brokers.</p>