

<p>FCRS033 PROVISION OF INSURANCE SERVICES FOR LEASEHOLD RIGHT TO BUY PROPERTY (EXCLUDE PROVISION OF INSURANCE BROKER SERVICE)</p> <p>CONTRACT APPROVAL</p>	
<p>CPIC MEETING DATE (2021/22)</p> <p>6 December 2021</p>	<p>CLASSIFICATION:</p> <p>Exempt</p> <p>If exempt, the reason will be listed in the main body of this report.</p>
<p>WARD(S) AFFECTED</p> <p>All Wards</p>	
<p>CABINET MEMBER</p> <p>Councillor Robert Chapman, Cabinet Member for Finance</p>	
<p>KEY DECISION</p> <p>Yes</p> <p>REASON</p> <p>Spending/or saving</p>	
<p>GROUP DIRECTOR</p> <p>Ian Williams, Group Director, Finance and Corporate Resources</p>	

1. CABINET MEMBER'S INTRODUCTION

- 1.1. This report outlines the results of the re-tendering of the Council's Leasehold Buildings Insurance contract following a procurement exercise undertaken during September & October 2021. The existing insurance contract is due to

expire on 31 March 2022 following the incumbent suppliers sudden withdrawal from the UK market.

- 1.2. Under the terms of a residential lease where the Council is the freeholder, on properties mainly bought through the right to buy scheme, buildings insurance has to be provided, by the Council, for the leasehold dwelling. The insurance premium is then recharged to leaseholders on an annual basis.
- 1.3. This is a challenging time to procure insurance, with market uncertainty leading to increased premiums, a position not expected to change in the immediate future. This procurement exercise has sought to secure the best possible value for leaseholders within this climate, following an open procurement process to maximise the opportunity for companies to tender, together with a heavy weighting on price within the evaluation.

2. GROUP DIRECTOR'S INTRODUCTION

- 2.1. This report advises the Cabinet Procurement & Insourcing Committee of the results of the Leasehold Buildings Insurance procurement and recommends the award of a three year contract (with provision for a two year extension) to **Insurer A**. The policy covers damage to the demised property of the leaseholder(s) for normal household insurable perils.
- 2.2. Leaseholders who have property based in Council freehold dwellings, such as flats in Council blocks, under the terms of the lease have buildings insurance cover arranged through the Council. The premiums for this insurance are recharged to leaseholders as part of the established service charge process.
- 2.3. The Leasehold Buildings Insurance is currently held with Ocaso S.A. UK. The tender issued in late summer of 2021 is for a period of 3 years with the Council retaining the option to extend for a further 2 years. Prior to the issue of the Find a Tender Service (FTS) Notice, leaseholders were provided with an opportunity to raise any issues in respect of the leasehold insurance with a statutory 30 day consultation period. A summary of the observations received during the Section 20 consultation period is attached at **Appendix 1**. Each observation has been responded to directly.
- 2.4. The property insurance market is relatively restricted for local authorities with only a small number of potential bidders as the perception of risk is high. During this exercise three bids were received from established insurance providers. This represents a healthy and competitive response despite a hardening market.
- 2.5. The risk assessment for this procurement exercise was assessed as being low risk; however the cost over the contract life exceeds delegated powers and hence the report is now being put before the Committee.

- 2.6. Officers of the Council in conjunction with the Council's insurance brokers, Marsh, have evaluated the tenders received. Officers are recommending that a contract for 3 years with a 2 year extension at the Council's discretion be awarded to **Insurer A** and that statutory consultation with leaseholders to inform them of the decision and respond to queries now takes place following which formal notice about the Committee's decision will be made to both the successful and unsuccessful Insurers.
- 2.7. The costs of leasehold buildings insurance has limited impact on the Council due to the cost being recharged to individual leaseholders, however the Council is mindful, particularly in the current economic climate, of the need to ensure that costs are minimised, hence the high weighting (65%) attributed to cost in the evaluation process.

3. RECOMMENDATION(S)

Cabinet Procurement and Insourcing Committee is recommended to:

- 3.1. **Note the procurement process used for the procurement of leasehold buildings insurance.**
- 3.2. **Agree the award of the leasehold buildings insurance contract to Insurer A for a period of 3 years (with provision to extend for 2 years) following a 30 day statutory consultation with leaseholders.**

4. RELATED DECISIONS

- 4.1. Business Case and Risk Assessment (Low Risk) approved by the Group Director of Finance & Resources prior to issuing the Invitation to Tender and referred to Hackney Procurement Board (HPB) as an item for information.

5. REASONS FOR DECISION/OPTIONS APPRAISAL.

- 5.1. The Council has a legal requirement to procure and maintain a contract of insurance for both its own and leaseholders' interest in leasehold property acquired under the Right To Buy or similar legislation.
- 5.2. As part of our standard terms of lease the lessor (the Council) has a duty to arrange building insurance for the block, including the demised premises.
- 5.3. The current insurance contract was last tendered in 2020 and the appointed Insurer agreed to a 5 year (including a two year optional extension) contract, renewable annually. However, in August 2021 the Council was informed that the contracted insurer was withdrawing from the UK market and that terms would not be offered after 31 March 2022.

- 5.4. Having sufficient insurance cover is a risk management control for the Council without which it would have to meet the cost of any claims and would effectively be in breach of its lease obligations as a landlord.
- 5.5. The full premium is recharged to leaseholders via the existing service charge process managed by Hackney Housing. Purchasing the insurance via a market exercise ensures that the Council can demonstrate that it is seeking to procure the policy on the best available terms.
- 5.6. Terms have been sought on cover no less comprehensive than those currently in place. Where it was felt appropriate, based on the claims experience and observations from stakeholders, improvements to the cover provided were requested.

5.7. ALTERNATIVE OPTIONS (CONSIDERED AND REJECTED)

- 5.7.1. There are no feasible alternative options available to the Council.
- 5.7.2. To completely self-insure the assets and liabilities would create unmanageable levels of uncertainty and financial risk. It would demand the retention of financial provision(s) substantially over and above the cost of insurance premiums.
- 5.7.3. Undertaking a full open procurement process was considered the only viable option available to the Council in order to ensure it continued to meet its contractual liabilities from 1 April 2022 and to ensure qualifying leaseholders retained, unbroken, the financial security provided by an appropriate policy.
- 5.7.4. Regulation 72 - (Public Contract Regulations 2015) - Due to the impact of Covid-19 the option to invoke Regulation 72 (Public Contract Regulations 2015) has been considered and discounted.
- 5.7.5. Regulation 72 allows an authority to extend/award public contracts without triggering a requirement to conduct a fresh tender process in certain circumstances. However, the incumbent insurer's withdrawal from the UK market extinguishes the ability to extend the contract.
- 5.7.6. It has not been considered possible nor beneficial to attempt to award the contract based on terms offered by unsuccessful insurers in 2020. In any event this would merely delay the timing of our market procurement exercise rather than circumnavigate the decision.

6. PROJECT PROGRESS

- 6.1. **Developments since the Business Case approval.**
None.

6.2. **Whole Life Costing/Budgets:** The cost of the leasehold buildings insurance for 3 years is in excess of £6m, full details are within appendix 2. However the cost of the insurance is recharged directly to leaseholders using the established service charge procedure managed by Housing Services.

6.3. **SAVINGS**

6.3.1. There is limited scope for savings on this contract. There is however limited direct impact on the Council's budget from this procurement as the cost is recharged to leaseholders through the established service charge.

6.3.2. Whilst the response from the market was reasonable the proposed premium cost per annum represents a small increase on expiring (2021/22) rates.

6.3.3. The proposed annual premium represents an average increase on base rate of under £2 per annum, per dwelling. Premiums remain subject to Insurance Premium Tax (IPT) currently set at 12%.

7. **SUSTAINABILITY ISSUES**

7.1. **Procuring Green:** The Insurance Sector is a key stakeholder in the drive to combat climate change. Insurers predict significant increases in claims exposures due, for example, to the impact caused to property portfolios by an increase in extreme weather incidents.

7.2. Whilst this is a financial contract only, we are committed to work with the contracted provider to ensure that we drive further commitment to tackle climate change. The Association of British Insurers (ABI) has procured a *Climate Change Roadmap & Environmental Charter* for all participating Insurers.

7.3. During the implementation stage of the awarded contract and at annual renewal the contracted provider will be asked to provide an update on their compliance with such initiatives. Any deviation from acceptable levels of commitment and progress will be scrutinised accordingly.

7.4. On a smaller scale the contract stipulates the provision of soft versions of documentation and promoting online or telephone claim reporting will mitigate the need for paper records.

7.5. **Procuring for a Better Society:** The Council will work with the contracted provider to identify appropriate opportunities for local employment, or pathways to employment, such as apprenticeship and/or work experience opportunities throughout the lifetime of the contract.

7.6. The Insurance industry is widely believed to be at risk of a significant skills shortage and the Council aims to secure training opportunities for local

residents where appropriate, seeking advice and support from the Chartered Insurance Institute (CII.)

7.7. **Procuring Fair Delivery:** The procurement mechanism asked suppliers to commit to London Living Wage (LLW) remuneration where applicable.

7.8. **Equality Impact Assessment and Equality Issues:** There will be no equality issues directly applicable to the Council arising from this procurement.

8. **ALTERNATIVE OPTIONS (CONSIDERED AND REJECTED)**

8.1. There are no feasible alternative options available to the Council. Please refer to section (5.7) above .

9. **TENDER EVALUATION**

9.1. **Evaluation:**

9.1.1. Tender Evaluation Team: The tender evaluation team consisted of the following members of the Council's Insurance Services team supported by the Council's insurance broker, Marsh:

- Head of Insurance Services
- Senior Insurance Officer

9.1.2. Procurement Process: The financial value of the insurance contracts required that a Find a Tender Service (FTS) process was followed and given the limited number of providers in the local authority insurance market, an open procedure was deemed to be the most effective way to proceed. Access to existing Framework agreements was considered but discounted on the basis that it may exclude key suppliers.

9.1.3. Contractors submitting tenders: As noted previously there were a total of three suppliers who bid for the insurance contract. The full list of bidding contractors is included within the Appendix 2 (Exempt) to this report.

9.1.4. Tenders received from the three bidders have been evaluated on the basis of:

Criteria	Weighting
Price for Insurance Cover	65%
Assessment of Policy Cover	15%
Claims Service	15%
Added Value & Innovation	5%

9.1.5. **Appendix 2 (Exempt)** sets out in further detail the contractors who tendered and the evaluation of the tenders themselves.

9.1.6. **Preferred Option:**

The preferred option is **Insurer A** as set out in **Appendix 2 (Exempt)**

9.2. **Recommendation:**

9.2.1. The Cabinet Procurement & Insourcing Committee is recommended to progress the award of contract, subject to second leaseholder consultation, in accordance with the table immediately below:

Insurer/Provider	Score (%)*
Insurer A	97 (Lead Tender)
Insurer B	86
Insurer C	96

**Rounded up to the nearest %*

9.2.2. **Insurer A** at least met or exceeded all core requirements and scored highest overall against the evaluation criteria.

9.2.3. A comprehensive summary of the evaluation of the individual bids is included at **Appendix 2 (Exempt)** to this report and includes the names of the bidders.

10. CONTRACT MANAGEMENT ARRANGEMENTS

10.1. **Resources and Project Management (Roles and Responsibilities):** The Council has past experience of managing the implementation of new insurance arrangements. The Insurance Services section will provide the necessary resources with support from the Council's insurance broker, Marsh to ensure that the transition can be completed within the time frame available, as set out below.

Key Milestones	
1st Leaseholder Consultation	3 September - 4 October 2021
Find a Tender Service] Advert Placed:	8 September 2021
Report Presented to CPIC	6 December 2021
2nd Leaseholder Consultation	8 December 2021 to 9 February 2022
Standstill Period Starts	11 February 2022
Award Contract	26 February 2022
Protocol Meetings with Insurer	1 March - 31 March 2022
Contract start	1 April 2022

- 10.1.1. The Insurance Services division within the Finance and Resources Directorate will assume responsibility for the ongoing contract management of all insurance contracts. The Insurance Services division manages the current contracts on behalf of the Council. The section will continue to work closely with both insurers and relevant departments to monitor claims experience and to provide risk management training.
- 10.1.2. There are no TUPE implications.
- 10.2. **Key Performance Indicators:** The contract to be awarded is a Contract of Insurance and not a service contract and is therefore not readily measurable through KPI's.
- 10.2.1. However, key targets and where possible KPIs shall be agreed and set during the mobilisation stage of the contract to help protect the interests of the leaseholder and the Council.
- 10.2.2. In the meantime, the performance of the Insurer and their agents will be monitored closely by the Council's Insurance Services team and each provider has committed to meeting the following minimum and measurable standards;

Main KPI Targets Set	Monitoring
1. Claim settlement to be made within 14 working days	Regular (at least quarterly) "360" review meetings & Monthly Management Information (MMI)
2. Written enquiries to be responded to within 4 working days	Regular (at least quarterly) "360" review meetings & Monthly Management Information (MMI)
3. Telephone enquiries to be responded to within 24 hours	Regular (at least quarterly) "360" review meetings & Monthly Management Information (MMI)
4. Data integrity & GDPR compliance	Online access to core handling system &/or Monthly Management Information (MMI) & breach referral process
5. Renewal terms issued six months in advance of renewal	Pre-renewal meeting
6. Claim triggers to be established based on peril type, value &/or sensitivity to allow early intervention	To be agreed by all parties within mobilisation meeting

11. COMMENTS OF THE GROUP DIRECTOR OF FINANCE AND CORPORATE RESOURCES

- 11.1. The tender evaluation has identified a number of suitable providers for the leasehold buildings insurance contract. The insurance cover is recommended to be placed with **Insurer A**, an established provider, based on an evaluation of the cost of the cover, an assessment of the policy cover itself and the quality of the service from the provider.

11.2. As with the existing contract the cost of insurance premiums will be recharged to leaseholders. The staffing and budget required to implement and manage the contract shall be met within existing resources as this is a continuation of service provision.

12. VAT Implications on Land & Property Transactions

No implications identified.

13. COMMENTS OF THE DIRECTOR, LEGAL & GOVERNANCE SERVICES

13.1. Pursuant to Contract Standing Orders 2.5.3 and 2.9.1 this proposed contract award (Low Risk and with a contact value above £2m) must be approved by Cabinet Procurement & Insourcing Committee.

13.2. The value of the contract is in excess of the current Find a Tender Service (FTS) limit of £189,330 over the contract term and the procurement of the contract has been undertaken in accordance with the Public Contracts Regulations 2015, including the publication of a Find a Tender Service (FTS) notice.

14. COMMENTS OF THE PROCUREMENT CATEGORY LEAD

14.1. This procurement has been classified as low risk and this report has been prepared for Cabinet Procurement & Insourcing Committee's consideration due to the value of the overall contract for the maximum period of five years (fixed for 3 years with the Council retaining the option to extend for a further 2 years).

14.2. The procurement and evaluation of bids has been carried out with the support of the Procurement Category Lead and in accordance with the Council's CSO's, procurement guidelines and EU procurement regulations. The primary considerations for the procurement of leasehold buildings insurance is to ensure that leaseholders have sufficient insurance cover and that the cost of insurance is achieved at the lowest price without compromising the terms of the insurance cover.

APPENDICES

Appendix 1: Summary of Section 20 Consultation Observations received

Appendix 2: **Exempt:** Evaluation Report prepared by Marsh

Appendix 3: **Exempt:** Identification of Insurance Providers

EXEMPT

By virtue of paragraph(s) **3**, part 1 of schedule 12A of the Local Government Act 1972 appendices 2-3 are exempt because they contain information relating to the

financial or business affairs of any particular person (including the authority holding the information) and it is considered that the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

BACKGROUND PAPERS

None

In accordance with The Local Authorities (Executive Arrangements) (Meetings and Access to Information) England Regulations 2012 publication of background papers used in the preparation of reports is required

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