



CABINET PROCUREMENT & INSOURCING COMMITTEE

CONTRACT AWARD REPORT

Title of Report	Provision of Leasehold (Buildings) Insurance
Key Decision No.	F S267
CPIC Meeting Date	8 January 2024
Classification	Public (with Exempt Appendices)
Ward(s) Affected	All Wards
Cabinet Member	Councillor Robert Chapman, Cabinet Member for Finance, Insourcing and Customer Service Councillor Clayeon McKenzie, Cabinet Member for Housing Services and Resident Participation
Key Decision	Yes This results in the Council incurring expenditure or savings which are significant having regard to the Council's budget for the service/function.
Group Director	Jackie Moylan Interim Group Director of Finance
Contract value, both Inclusive of VAT and Exclusive of VAT (for the duration of the contract including extensions)	£25,827,127 (VAT exempt) Including Insurance Premium Tax (IPT) £23,059,935 (VAT exempt) excluding Insurance Premium Tax (IPT)
Contract duration (including extensions e.g. 2 yrs + 1 yr + 1 yr)	3 yrs + 2yrs* (*optional at Council's discretion)

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 to November 2023. The existing insurance contract is due to expire on 31 March 2024.
- 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 Protector Insurance. This year a formal tender process has been undertaken in respect of the placement of cover from 1st April 2024. The Invitation to Tender was released to market in September 2023 via the Open procedure on the basis of a new Long Term Agreement 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 now restricted for local authorities with only a very small number of potential bidders as the perception of risk is high. During this exercise two bids were received and only one from an established insurance provider. This represents an acceptable response in the context of a hardening market where some local authorities may have not received any traditional market response at all.
- 2.5. The risk assessment for this procurement exercise was assessed as being Medium 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 the successful Insurer.
- 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. Recommendations

Cabinet Procurement and Insourcing Committee is recommended to:

- 3.1 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 (Medium Risk) approved by the Hackney Procurement Board on 24th August 2023 prior to issuing the Invitation to Tender.

5. Reason(s) 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.

Following a Tender exercise, an annually renewable Insurance Contract was incepted with Avid from 1st April 2022 which formed part of a three year Long Term Agreement with the option to extend for a further two years.

However, the successful insurance agent, Avid, provided notice, in early 2023, that from the date of renewal they would no longer be able to fulfil the contract due to the termination of the contractual agreement with Accelerant, who provided Avid's underwriting capacity. Consequently the policy contract with Avid ended on 31st March 2023 and the Council sought an alternative insurer, on an emergency one-year basis, to meet its legal obligation.

The one year policy was placed with Protector and is due to expire on 31st March 2024.

- 5.3. Having sufficient insurance cover is a risk transfer mechanism 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.
- 5.4. 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.
- 5.5. 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.

5.6. Alternative Options (Considered and Rejected)

- 5.7. There are currently no feasible alternative options available to the Council.
- 5.8. 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 2024 and to ensure qualifying leaseholders retained, unbroken, the financial security provided by an appropriate policy.
- 5.9. **Self-Insurance**
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.

5.10. **Alternative Insurance Models**

The Council's Insurance Services team and broker, Marsh, continue to review alternative models in the context of the hardening market.

6. Project Progress

6.1. Developments since the Business Case approval

None

6.2. Whole Life Costing/Budgets

6.3. The cost of the leasehold buildings insurance for 3 years is in excess of £17m, 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.

6.4. Risk Assessment/Management

Risk	Likelihood	Impact	Overall	Action to avoid/mitigate risk
Lack of competitive bids due to constricted number of suppliers and adverse claim costs for Public Sector & Housing Landlords nationally	Me... ▾	Me... ▾	Me... ▾	Work undertaken to promote positive risk factors for The Council with potential suppliers. Specification to promote our Risk Strategy.
Emerging areas for new types of claims are not covered	Low ▾	Me... ▾	Low ▾	Ongoing monitoring of market developments and horizon scanning of new or developing risks i.e. climate / pollution / cyber
Inadequate levels of insurance cover due to inaccurate asset or activity information	Low ▾	Me... ▾	Me... ▾	Property valuations under review and asset registers reconciled with Department/Asset Managers - Insurance risk needs are now embedded in procurement and insourcing business case procedure
Inadequate insurance provision/reserves to	Low ▾	Me... ▾	Low ▾	Biennial fund reviews undertaken by external advisers to assess levels

cover claims in internal fund				required - levels adopted are prudent
-------------------------------	--	--	--	---------------------------------------

6.5. **Savings**

- 6.5.1. There is no scope for savings on this contract. However there is limited direct impact on the Council's budget from this procurement as the cost is recharged to leaseholders through the established service charge.
- 6.5.2. Terms had been sought on cover no less comprehensive than those currently in place. However, a number of factors including the limited market and adverse claims experience and the increase in the Council's sums insured have contributed to an increase in the annual premium from £4,433,589 to £5,165,425 (inclusive of IPT) which represents a percentage increase of circa 16.5%.
- 6.5.3. Whilst the response from the market was reasonable the proposed premium cost per annum represents an increase on expiring (2023/24) rates.
- 6.5.4. The proposed annual premium represents an average increase of approximately £92 per annum, per dwelling inclusive of Insurance Premium Tax (IPT) which remains at 12%.

7. **Sustainability Issues and Opportunities, Social Value Benefits**

- 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.
- 7.9. **Social Value Benefits**
The suppliers were encouraged to provide significant social value offers in their bids. Whilst the primary method of achieving this is by providing the most economical value, the recommended suppliers met this request through a number of social and charitable propositions. Namely:
- Volunteering within the borough at Hackney led community events
 - Attendance and training talks at careers fairs and at schools.
 - Socially conscious investments
 - The development and focus on an Internal Graduate programme

8. Tender Evaluation

8.1. Evaluation:

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

8.2. **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.

8.2.1. Contractors submitting tenders: As noted previously there were a total of two suppliers who bid for the insurance contract. The full list of bidding contractors is included within the **Appendix 3 (Exempt)** to this report.

8.2.2. Tenders received from the two bidders have been evaluated on the basis of:

Criteria	Weighting
Price for Insurance Cover	65%
Assessment of Policy Cover	15%
Claims Service	10%
Added Value & Innovation	5%
Social Value	5%

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

8.2.4. **Preferred Option:**

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

9. Reason for Recommendation

9.1. 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 (%)*
Provider A	90% (Lead Tender)
Provider B	Disqualified

**Rounded up to the nearest %*

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

9.3. 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

<i>Key Milestones</i>	
S.20 Consultation Notice of Intent	3 July to 10 August 2023
Business Case Report to HPB:	24 August 2023
Advert Placed:	4 September 2023
Issue Tender:	4 September 2023
Tender Returns:	16 October 2023
Tender Evaluation:	17 October to 10 November 2023
Contract Approval Report considered at CPIC:	8 January 2023
S.20 Consultation Notice of Proposal	12 January to 23 February 2024
Contract Award Notice	26 February 2024
Standstill Period Expires	11 March 2024
Mobilisation Period:	12 March to 31 March 2024
Contract Commencement:	1 April 2024

10.2. 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.

10.3. There are no TUPE implications.

10.4. **Key Performance Indicators**

10.5. The contract to be awarded is a Contract of Insurance and not a service contract and is therefore not readily measurable through KPI's.

10.6. 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.

- 10.7. 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 5 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. 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 Interim Group Director Of Finance

- 11.1. The tender evaluation has identified a suitable provider 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

- 12.1. No implications identified.

13. Comments Of Acting The Director, Legal, Democratic & Electoral Services

- 13.1. On 24th August 2023 Hackney Procurement Board agreed a Medium Risk Business Case in respect of a tender process for the selection of an insurance provider for Buildings Insurance for Leasehold Properties. Paragraph 2.19 of Contract Standing Orders states that all procurements with a risk assessment of “Medium Risk” will be overseen by the Hackney Procurement Board at the Business Case stage and at Contract Award up to a value of £2m. Cabinet Procurement and Insourcing Committee will determine the award of contracts above £2m. The estimated value of the contract in this Report is above £2m so therefore Cabinet Procurement and Insourcing Committee can agree the recommendations in this Report.
- 13.2. Details of the procurement process undertaken by the Council to award this contract are set out in this Report. It should be noted that the increase in costs of the insurance will affect the service charge payable by leaseholders.

14. Comments Of The Procurement Category Lead

- 14.1. This procurement has been classified as medium 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 Manager and in accordance with the Council’s CSO’s and Public Contracts Regulations 2015. 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.
- 14.3. The tender process was fair, transparent, and non discriminatory. Marsh consultants have supported the tender process and shared their market knowledge. Under the current market circumstances, we have secured the best available option for insurance cover.

Appendices

Appendix 1: Summary of Section 20 Consultation Observations received

Exempt

Exempt Appendix 2:Evaluation Report prepared by Marsh
Exempt Appendix 3: Identification of Insurance Providers

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 Document

None

Report Author	Jamie Whitehouse _____ Head of Insurance Services (Acting) _____ jamie.whitehouse@hackney.gov.uk _____ Tel: 0208 356 1345
Comments for and on behalf of the Interim Group Director of Finance prepared by	Julie Curtis _____ Head of Finance - Housing and Regeneration _____ julie.curtis@hackney.gov.uk _____ Tel:0208 356 2261
Comments for and on behalf of the Acting Director of Legal, Democratic and Electoral Services prepared by	Patrick Rodger _____ Senior Lawyer _____ patrick.rodger@hackney.gov.uk _____ Tel: 0208 356 6187
Comments of the Procurement Category Lead	Leila Gillespie _____ Procurement Category Lead - Corporate Services _____ leila.gillespie@hackney.gov.uk _____ Tel: 0208 356 1147