


<p><b>London Borough of Hammersmith &amp; Fulham</b></p> <p><b>CABINET</b></p> <p><b>7 MARCH 2016</b></p>	
<p><b>AWARD OF LEASEHOLD BUILDINGS INSURANCE CONTRACT</b></p>	
<p><b>Report of the Cabinet Member for Housing – Councillor Lisa Homan</b></p>	
<p><b>Open Report</b></p>	
<p><b>Classification - For Decision</b></p> <p><b>Key Decision: Yes</b></p>	
<p><b>Wards Affected: All</b></p>	
<p><b>Accountable Director: Kathleen Corbett – Director of Finance &amp; Resources and Joint Lead Director for Housing</b></p>	
<p><b>Report Author: Ray Chitty – Shared Service Insurance Manager</b></p>	<p><b>Contact Details:</b>  Tel: 07739315565  E-mail:  Ray.Chitty@rbkc.gov.uk</p>

**1. EXECUTIVE SUMMARY**

- 1.1 Where the Council is the freeholder of a building and has sold residential properties under a long lease it is required under the terms of the individual leases to insure the property for buildings insurance purposes.
- 1.2 The current leasehold buildings insurance ends on the 31<sup>st</sup> March 2016. This report summarises the procurement and consultation process to date as well as the suggested changes to the current policy cover including:
  - Different rates for owner occupiers and those who sublet;
  - Enhanced cover for all leaseholders
  - Premium savings for all leaseholders

**2. RECOMMENDATIONS**

- 2.1. That Members note Officers’ recommendation that the cover be placed with the successful tenderer, Ocaso S.A on the basis of a 5 year contract, and subject to comments of leaseholders during the second stage consultation under section 20 of the Landlord and Tenant Act 1985 (as amended).

2.2. That authority be delegated to the Cabinet Member for Housing in conjunction with the Joint Lead Directors for Housing to:

- a) Award the contract for the provision of building insurance to the successful tenderer for a period of 5 years, on the basis of the option preferred by majority of those leaseholders who respond to the second stage consultation and subject to due regard being taken of the outcome of the section 20 consultation as described in paragraphs 7.3 to 7.5 of this report.
- b) Approve any necessary amendments and variations to the contract in light of the consultation.

### **3. REASONS FOR DECISION**

- 3.1. The successful tenderer following an OJEU compliant tender process was evaluated against the criteria of Price, Insurance Cover, Claims Service and Added Value as the winning bidder against all three lot options: - Standard Cover, Standard Cover with £100 excess and Accidental Damage with £100 excess. The summary of the tender evaluation matrix is included in Appendix 1.
- 3.2. Hammersmith and Fulham Council as freeholder are required to arrange buildings insurance for leaseholders in accordance with the terms of the individual residential leases.

### **4. INTRODUCTION AND BACKGROUND**

- 4.1. As freeholder of housing properties some of which are sold to leaseholders; the terms of the individual leases require Hammersmith and Fulham Council to arrange suitable buildings insurance and the leaseholders to re-pay those insurance costs to the Council. The current insurance arrangements expire 31<sup>st</sup> March 2016.
- 4.2. Prices were sought for cover based on:
  - Entering into a 3 or a 5 year<sup>1</sup> contract
  - Three different options for the level of cover, either (a) on the same basis as the current policy; an excess of nil with the exception of subsidence where the excess is £1,000, (b) an excess of £100 with the excess for subsidence remaining at £1,000 and (c) an excess of £100 with the excess for subsidence remaining at £1,000 with the addition of accidental damage cover
  - Separate prices for residential leaseholders and for leaseholders who sublet their home
  - Increasing the cover for alternative accommodation / rent loss to be more appropriate for this area of London to up to 25% of the building re-instatement value or a minimum of £40,000 per dwelling whichever the greater, the previous cover provided was a fixed 20% of the building re-instatement value .

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<sup>1</sup> 5 years with no extension possible

- 4.3. Up to date building re-instatement sums insured and property schedules were provided as part of the invitation to tender (ITT) issued via the procurement portal.
- 4.4. Procurement was undertaken via individual lots for Hammersmith and Fulham Council, City of Westminster and RB Kensington and Chelsea recognising the need to ensure the most economically advantageous terms on a sovereign Council basis for leaseholders. Bidders were however invited to specify a further discount that would apply to assist in securing other lots in order to demonstrate the economies of scale of the shared service arrangements for Insurance.

## **5. PROPOSAL AND ISSUES**

- 5.1. Based upon the options and analysis of options undertaken below delegated authority is requested to place insurance cover with the successful tenderer, subject to due regard and completion of the Stage 2 Leaseholder Consultation responses.
- 5.2. Should the leaseholders vote agree with the Council's recommendation that cover is placed upon the enhanced basis to include Accidental Damage to the properties but subject to a £100 excess for all claims other than subsidence for which a £1000 excess applies, then for a 5 year contract an average saving of 35%<sup>2</sup> will be achieved.
- 5.3. The annual premium charge to the Council which is recoverable from leaseholders for 2016/17, if they select the Council's preferred option, will be £748,437.89<sup>3</sup> plus a central government imposed Insurance Premium Tax at the new rate of 9.5% of the premium (an increase from the previous rate of 6%), giving a total cost of £819,572.33.
- 5.4. This compares to a cost for 2015/16 of £1,191,284.93 plus Insurance Premium Tax (at 6%) giving a total cost of £1,262,762.03. The exact charge to leaseholders for 2016/17 and their individual savings may of course be subject to small variations to reflect any recent changes in the sums insured requested by leaseholders.
- 5.5. The cost of the policy in future years will be subject to variation as a result of changes in the RICS house rebuilding cost index and any changes in residential leasehold property numbers and their sum insured.
- 5.6. As part of the Council's commitment to involving residents in decisions that directly impact on them the final decision on the basis of cover provided by the

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<sup>2</sup> This assumes that the other two Councils also sign up to the lowest price tender. If the other two Councils do not sign up a 31.7% saving will be achieved.

<sup>3</sup> This assumes that the other two Councils also sign up to the lowest price tender. If the other two Councils do not sign up the cost will be £787,829.36 plus Insurance Premium Tax at 9.5% giving a total of £862,673.14 this still represents a significant saving for leaseholders.

successful tenderer will be decided by the option the majority of leaseholders vote for as part of the Stage 2 consultation process.

## **6. OPTIONS AND ANALYSIS OF OPTIONS**

- 6.1. Appendix 1 contains the leasehold tender evaluation matrix demonstrating that 4 bidders responded to the tender: - Zurich Municipal, NIG via Arthur J Gallagher (insurance brokers), Ocaso S.A. and current insurers Aspen. The bidders have been assigned random numbers on the matrix to protect commercial confidentiality. The tender evaluation matrix demonstrates Ocaso S.A were the most economically advantageous across all tender options when evaluated against Price, Cover, Claims Service and Added Value.
- 6.2. The successful tenderer also offered the most economically advantageous terms for the other lots in respect of RB Kensington and Chelsea and City of Westminster which triggered a further 5% rate discount which has been allowed for in the costs quoted in paragraph 5.3.
- 6.3. Analysis of the tender responses demonstrated that if the Council enters into a five year contract rather than a three year contract there is a further 5% reduction in premium which has been allowed for in the costs quoted in paragraph 5.3.
- 6.4. Consideration was given to continuing with the current level of cover and not offering other options. However one area of dissatisfaction for leaseholders is currently buildings insurance does not include cover for accidental damage. Every year this results in a small number of claims being turned down by insurers as the damage caused did not occur from a specified peril such as storm. Commonly this can be a factor in water damage based claims for unknown leaks or inadvertent damage to interior walls.
- 6.5. This has to be set against the concern that inclusion of accidental damage cover at all can lead to an increase in claims and subsequently premium costs in future years if the claims experience deteriorates.
- 6.6. The Council has therefore recommended to leaseholders in the stage 2 consultation that cover is placed on the basis of the enhanced accidental damage basis for better cover of their building assets on a five year contract term.

## **7. CONSULTATION**

- 7.1. In accordance with Section 20 of the Landlord and Tenant Act 1985 a consultation process has been undertaken with leaseholders.
- 7.2. Stage 1 consultation was undertaken with Leaseholders regarding the proposed tender process and options to be sought. A copy of the Notice of Intention which was served on 4th September 2015. There were no responses requiring amendment to proposed basis of tender as set out in the notice other than to seek a price for increasing the cover to include accidental damage.

- 7.3. The Stage 2 consultation process is currently in progress and completes 24th February 2016. As part of this process Leaseholders have been asked to vote on their preferred level of cover, either (a) on the same basis as the current policy; an excess of nil with the exception of subsidence where the excess is £1,000, (b) an excess of £100 with the excess for subsidence remaining at £1,000 and (c) an excess of £100 with the excess for subsidence remaining at £1,000 with the addition of accidental damage cover.
- 7.4. The contract will not be awarded until any observations received from Leaseholders have been considered and the Council has had due regard.
- 7.5. The Council will insure based on the preferred level of cover chosen by the majority of leaseholders who respond, either (a) on the same basis as the current policy; an excess of nil with the exception of subsidence where the excess is £1,000, (b) an excess of £100 with the excess for subsidence remaining at £1,000 and (c) an excess of £100 with the excess for subsidence remaining at £1,000 with the addition of accidental damage cover. (i.e. individual leaseholders will not have the option to have different levels of cover).

## **8. EQUALITY IMPLICATIONS**

- 8.1. Premium rates are based on property sums insured and status as owner occupier or sub letter. There are no post code differentiations or other status differentiation.

## **9. LEGAL IMPLICATIONS**

- 9.1 As set out in the report it is a statutory requirement that Leaseholders are consulted on the award of the contract in accordance with the requirements of The Landlord and Tenant Act 1985 (as amended).
- 9.1. Implications verified/completed by: Janette Mullins, Principal Solicitor (Housing and Litigation) 020 8753 2744
- 9.2. The procurement of Leasehold Building Insurance is subject to the Public Contracts Regulations 2015 (the Regulations). It is understood that the procurement has been carried out in compliance with the Regulations and accordingly the Director of Law endorses the Recommendations.
- 9.3. Implications completed by: Kar-Yee Chan, Solicitor (Contracts), 020 8753 2772

## **10. FINANCIAL AND RESOURCES IMPLICATIONS**

- 10.1. This report recommends the awarding of a contract for the provision of buildings insurance for residential leaseholders to the successful tenderer.
- 10.2. The tenders were evaluated using a price-quality ratio of 60:40 and the results demonstrate that the successful tenderer offers the most economically advantageous terms on all three tender options. The table below sets out the full cost (the full cost includes Insurance Premium Tax) of each of the three possible options compared with the current cost of buildings insurance for leaseholders:

<b>Tendered Options for 2016/17</b>	<b>Premium including IPT £000s</b>
Standard Cover	796
Standard Cover with £100 excess	743
Enhanced (Accidental Damage) Cover with £100 excess	820
Current 2015/16 Cost - Standard Cover	1,263

- 10.3. It is expected that one of the above options will be agreed upon following consultation with leaseholders.
- 10.4. It should be noted that all leasehold insurance premiums obtained are passed directly to leaseholders. The cost of the insurance is recharged to leaseholders under the terms of their lease; therefore there is no net cost to the Council's Housing Revenue Account.
- 10.5. The financial standing of the successful tenderer has been examined during the evaluation stage. The financial checks carried out by Standard & Poor's indicates that the overall performance of the company is considered to be sound.
- 10.6. It is noted that as the successful tenderer also offered the most economically advantageous terms for the tenders for the Royal Borough of Kensington & Chelsea and the City of Westminster, this triggered a further 5% discount in the tendered prices for the Council. This discount is included in the prices in the above table at paragraph 10.2.
- 10.7. The contract is expected to commence on 1<sup>st</sup> April 2016. The term of the contract will be for 5 years. The cost of the policy in future years will be subject to variation as a result of changes in the RICS house rebuilding cost index and any changes in residential leasehold property numbers and their sum insured.
- 10.8. The Council recovers its administrative costs through a separate recharge to leaseholders.
- 10.9. Implications completed by: Danny Rochford, Head of Finance, 020 8753 4023.

## **11. IMPLICATIONS FOR BUSINESS**

- 11.1 Claimant's and claims handling agencies are likely to engage local business where appropriate to affect repairs or re-instatements.

## **12. RISK MANAGEMENT**

- 12.1 Premium savings contribute to the positive management of customer needs and expectations risk. Successful market testing is a strategic risk and opportunity noted on the Council's Strategic Risk Register, risk number 4, delivering the highest quality services at best possible cost to the local taxpayer. The service department maintains an active register of risks that are reviewed periodically by the senior management team, where risks are significant they are placed on the Shared Services risk register and discussed at Hammersmith and Fulham Business Board.

Implications verified by: Michael Sloniowski, Shared Services Risk Manager: telephone 020 8753 2587.

## **13. PROCUREMENT AND IT STRATEGY IMPLICATIONS**

- 13.1 It is noted that the tender was compliant with OJEU procedures.
- 13.2 The Council's Contract Standing Orders (CSO) requires that Cabinet approval is given for all tender acceptances where the value equals or exceeds £100,000.
- 13.3 This report asks members to note the outcome of the tender exercise to provide Leasehold Buildings Insurance and recommends that delegated authority is given to the Cabinet Member for Housing in conjunction with the Director for Finance and Resources to award the contract following the section 20 consultation process (including any necessary amendments in light of the Consultations)
- 13.4 Following award of the contract, a Contract Award notice needs to be posted on the OJEU website and the result of the tender lodged on the government's Contract Finder portal
- 13.5 Implications verified/completed by: (Robert Hillman, Procurement Consultant x 1538).

**LOCAL GOVERNMENT ACT 2000**  
**LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT**

<b>No.</b>	<b>Description of Background Papers</b>	<b>Name/Ext of holder of file/copy</b>	<b>Department/ Location</b>
1.	Stage one Leaseholder Consultation - Notice of Intention to enter in to a long term agreement for buildings insurance – leasehold (published)	Jana Du Preez Head of Leasehold Services Extn 4500	Finance & Resources 145 King Street
2.	Stage two Leaseholder Consultation - Notice of Proposal to enter in to a long term agreement for buildings insurance – leasehold (published)	Jana Du Preez Head of Leasehold Services Extn 4500	Finance & Resources 145 King Street

**LIST OF APPENDICES:**

Appendix 1 – LBHF tender evaluation