

<b>Item No.</b> 8	<b>Classification:</b> Open	<b>Date:</b> 14/02/06	<b>Meeting Name:</b> Executive
<b>Report title:</b>		Contract award for the Buildings Insurance Contract - Delegation of Approval to the Director of Finance	
<b>Ward(s) or groups affected:</b>		All Wards	
<b>From:</b>		Duncan Whitfield, Finance Director	

## RECOMMENDATION

1. That the Executive approves to delegate approval for contract award for the Building's Insurance contract for flats sold on long leases and Ancillary Properties to the Finance Director.

## BACKGROUND INFORMATION

2. Under the terms of lease, the Council must insure the flats acquired by Right to Buy purchasers against the normal range of insurance perils. Without this covenant, Right to Buy purchasers and their assignees would find it impossible to obtain mortgages.
3. The number of leaseholders at the commencement of the new contract is approximately 12,700. The contract for building insurance in respect of flats sold on long leases will be in place on 1<sup>st</sup> April 2006 to satisfy the requirements of those leases.
4. The current insurers are Aspen Insurance UK Ltd, (formerly Wellington Underwriting at Lloyds). The current contract has been in place for the last five years. A formal tendering process has been undertaken with full participation from the leaseholders. During the tender process bids were invited from a number of insurance companies. After appropriate consideration by the Insurers, tenders were submitted by Zurich Municipal and Aspen.
5. As detailed in the community impact statement, the leaseholders were heavily involved prior to tendering the contract. Their recommendations were then included in the final tender document.
6. Following a full evaluation of the tenders including input from a leaseholder representative, a preferred supplier has been identified on the basis of selecting the economically most advantageous tender. Leaseholders are currently being consulted on this outcome. As part of the evaluation, the premiums quoted within the tenders have been analysed.
7. Delegation to the Finance Director is now required as the timetable will not allow sufficient time to report back to Executive after the Notice of Proposal period has expired and still be able to enter into contract on 1st April 2006. The notice of proposal is part of the statutory consultation process with leaseholders and is a necessary prerequisite of being able to recover costs through service charges.

## KEY ISSUES FOR CONSIDERATION

### Policy implications

8. The Commonhold and Leasehold Reform Act, 2002, amended the 1985 Act. The effect of this is that all existing leaseholders have to be consulted at both the planning and tender stage. The Home Ownership Unit has completed this task successfully.
9. The Notice of Proposal to award the tender to the preferred supplier has been issued and responses are awaited as outlined in the appendix. The recommendation has been based upon the most economically advantageous tender as evaluated by a panel of officers from the Home Ownership Unit and supported by the Councils Insurance officer. Further advice has been obtained from the Borough Solicitor and from the Head of Procurement.

### **Community Impact Statement**

10. Leaseholders and therefore those incurring service charges now constitute over 25% of the Council's stock in management. It is anticipated that this volume may rise to 30% during the course of the new contract.
11. Statutory consultation pursuant to section 20 of the Landlord and Tenant Act 1985 has been undertaken. This contract applies to all leaseholders of flats in the borough and new leaseholders that purchase their flats under the Right to Buy scheme. The Council has no data on the make up of the leasehold population in relation to equality issues.
12. The cost of the buildings insurance is entirely paid for by leaseholders in their insurance premiums. In recognition of this, it was considered appropriate to form a sub group of the Leaseholder Council to consider improvements in the way the buildings insurance was delivered.
13. Leaseholder representatives on the working party asked for the specification to provide that, on claiming from the policy, they will be allowed to select their own contractor to undertake approved remedial work. The current insurers employ their own contractors. By responding to this request leaseholders are afforded greater choice and it is anticipated smaller local repair contractors will be used.
14. The working party representatives also asked that the handling of claims (currently undertaken by the insurer's helpline) be undertaken by the council within the Home Ownership Unit (HOU) as the insurers' party. It is expected that this will improve contact and responsiveness with leaseholders and has been agreed by the Finance Director.
15. Detailed protocols are being prepared jointly by the Finance Director and the Strategic Director for Housing in order to consolidate the revised working arrangements and to ensure that the ongoing interests of both the Council and leaseholders are protected.
16. All written information regarding the Building Insurance will be available in a booklet to be prepared by the HOU in conjunction with the successful tenderer. This document will be available in different languages. This will be indicated by a short sentence in the booklet advising the leaseholders what information the policy document contains and how to access translation.

### **Resource implications**

17. The insurance premiums together with associated management and administrative costs will be recovered from the leaseholders through service charges. This results in a neutral effect on the HRA.

18. Subject to the outcome of the leaseholder consultation, the annual cost of the contract will amount to approximately £2.2m per annum for the duration of the three year contract. This includes Insurance Premium Tax. The annual premium will be varied over the life of the contract in line with future sales and will be linked to building costs inflation. The contract sum will be recovered from leaseholders through their service charges.

### **Consultation**

19. Meetings were held with the insurance working party on 18<sup>th</sup> April and 12<sup>th</sup> July 2005, resulted in ten recommendations on various issues and these were subsequently included in the tender documentation. As part of this process, all leaseholders were invited to nominate insurance companies. Whilst not being a strict statutory requirement for this type of procurement, the approach constitutes part of the Council's desire to develop close relationships with leaseholders.
20. The Council served Notices of Intention to all leaseholders on 19<sup>th</sup> October 2005 asking for the nominations. On the 15<sup>th</sup> December 2005 a leaseholder representative was present at the tender interviews with the two companies that tendered. The representative had an opportunity to ask the prospective insurers questions from a leaseholder perspective.
21. On 8<sup>th</sup> February the Notices of Proposal were served that will ask for comments and observations from leaseholders by 10th March.

### **Finance Director**

22. New arrangements have been put in place to enable fuller consultation with leaseholders during the tendering process. Despite the small number of tenderers, competitive bids have been received and these have been properly assessed to select the most economically advantageous tender. All costs of annual premiums will be recovered from leaseholders.
23. This report requests agreement from the Executive for the Finance Director to take responsibility for delegated approval for contract award, once the consultation period is complete.

### **Borough Solicitor**

24. This report seeks the Executive's approval to delegate the award of the Buildings insurance contract to the Finance Director. Contract Standing Order 8.4(d) allows an award of a contract which is a Strategic Procurement (and which would otherwise need to be approved by the Executive) to be delegated to another party, for example an Officer.
25. Paragraph 6 of this report confirms that there is insufficient time following the end of the Statutory Consultation process to enable an award report to be presented to the Executive and still meet the contract start date of 1 April 2006. If the contract does not commence on this date the Council will be in breach of its leases with leaseholders, which require the Council to effect insurance cover. The period needed to award this contract has been increased during the tender period due to the implications of the recent European 'Alcatel' case. This now requires the Council to include an additional 10 day 'standstill' period between bidders being notified of the award decision and when

the contract can come into existence. For this reason it is imperative that the award decision can be made as soon as possible after the end of the consultation period

## Head of Procurement

26. The purpose of this report is to seek approval to delegate the decision to award this contract to the Finance Director so as to meet the award timetable. As confirmed by Legal, the delegation of award decisions is allowed for under the Council's CSOs and so in order to ensure that both the due procurement process is followed and that the Council does not breach its obligations, it is hereby recommended that the Executive approve this decision.

## BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
Tender Information	Home Ownership Unit 113 Lorrimore Road SE17 3NA	Ms Lynne Nicholls 020 7708 6451

## APPENDICES

No.	Title
Appendix 1	Gateway 2 – to follow

## AUDIT TRAIL

*This section must be included in all reports.*

<b>Lead Officer</b>	Duncan Whitfield	
<b>Report Author</b>	Ms Lynne Nicholls	
<b>Version</b>	V4	
<b>Dated</b>	23/01/06	
<b>Key Decision?</b>	No	
<b>CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / EXECUTIVE MEMBER</b>		
<b>Officer Title</b>	<b>Comments Sought</b>	<b>Comments included</b>
Borough Solicitor	Yes	No
Procurement Officer	Yes	No
List other officers here		
<b>Executive Member</b>	Yes/No	Yes/No
<b>Date final report sent to Constitutional/Community Council/Scrutiny Team</b>	Mm/dd/yy	