

Item No.	Classification: Open	Date: 6 November 2020	Meeting Name: Strategic Director of Finance and Governance
Report title:		Gateway 3 Leasehold and Ancillary Buildings Insurance Contract	
Ward(s) or groups affected:		All leaseholders and a number of freeholders	
From:		Homeownership Services Manager	

RECOMMENDATION

1. That the strategic director of finance and governance approves the contract extension of the Leasehold and Ancillary Properties Buildings Insurance contract to Zurich Municipal for a period of 1 year from 1 April 2021 to 31 March 2022 at an estimated cost of £5.1m.

BACKGROUND INFORMATION

2. A Gateway 2 report was approved on 19 February 2018 to award the Leasehold and Ancillary Properties Buildings Insurance contract to Zurich Municipal for a period of 3 years from 1 April 2018 to 31 March 2021 with the option to extend for 2 twelve month extensions at the council's sole discretion.
3. The current contract relates to buildings insurance for flats and maisonettes sold under long lease terms by the council. The terms of its current leases require the council, as freeholder, to insure the property against a range of standard risks to the full insurance value. The most advantageous approach was to place a contract with a single insurer who both funds the cost of claims and provides a claim handling and management service.
4. The contract was for an initial period of 3 years from 1 April 2018. The forecasted annual value was estimated to be approximately £4,200,000 (Year 1), £4,200,000 (Year 2) and £4,200,000 (Year 3) which was subject to the RICS housing rebuilding cost index, making a total estimated forecast contract value of approximately £13,200,000. All figures were net of IPT (Insurance Premium Tax).
5. The forecast and actual expenditure for the periods since the contract began are given below. The increase in actual over forecast value can be attributed to changes in the RICS housing rebuilding cost index and sales carried out during the year: note that most costs are posted in April, with an adjustment for part year sales at year end:

Periods since last report	Forecast	Actual
1-4-2018 – 31.3.2019	£4,200,000.00	£4,210,143.61
1-4.2019 – 31.3.2020	£4,200,000.00	£4,378,636.54

1-4-2020 – 31.3.2021	£4,600,000.00	Actuals yet to be finalised
Total (not including 2020/21)	£8,400,000.00	£8,588,780.15

6. The total estimated value of the 12 month extension is £5,113,658.97 which includes 12% IPT at £547,892.03.
7. The current contract allows for two 12 month extensions after the initial period has elapsed.

KEY ISSUES FOR CONSIDERATION

Key Aspects of Proposed Variation

8. The nature of the proposed variation is to exercise the option to extend the contract with Zurich Municipal for a period of 1 year. The revised completion date will therefore be 31 March 2022.
9. The estimated value of the initial three year contract is £13,200,000 which plus this proposed extension of £5,100,000 makes a total estimated value of the contract of £18,300,000.
10. The value of the extension to the contract as a percentage is estimated to be 28%.
11. Zurich Municipal reserved the right to vary the terms and pricing of the contract according to market conditions. The council contacted Zurich Municipal in this regard to confirm that the current terms and pricing would remain unchanged, should the contract be extended.
12. Zurich Municipal have confirmed the terms of the extension as below:
 - a. RICs indexation increase of 4%
 - b. maintain agreed service fee at 15%
Any other changes are noted in the closed version of this report.

Reasons for Variation

13. The main outcome of this contract is to ensure that appropriate insurance cover is in place for the council's flats and maisonettes sold under Right to Buy. This will enable the council to meet its obligations as a freeholder, otherwise the council would be in breach of its lease terms.
14. Zurich Municipal's performance has been excellent from the beginning of the contract and it has maintained a consistent service to leaseholders. An extension for 1 year of the current contract would ensure that this service continues to be offered without interruption and eliminates the risks inherent in handover between providers. Leaseholders would see the benefit both of an uninterrupted service and premiums fixed at the current level.

15. The current contract was procured in 2017/2018 and provides its leaseholders with a 'flat' insurance premium. The council's corporate risk team has indicated that the insurance market continues to move towards a harder market with increased premiums for all types of insurance. Obtaining a 'flat' premium also provides an element of stability. It is therefore considered appropriate, at this stage, to utilise the extension provision to ensure that leaseholders receive a guaranteed 'flat' insurance premium for another year.

Future Proposals for this Service

16. The revenue and income team have produced an outline procurement plan as a new contract will need to be procured for commencement on 1 April 2022.
17. An outline procurement plan is provided below based on the assumption that a three year contract, with a further two year extension facility, is procured:

Activity	Completed by/Complete by:
Forward Plan for Gateway 1 decision	Jan 2021
DCRB/CCRB Review: Gateway 1	Jan 2021
Notification of forthcoming decision – cabinet	Feb 2021
Approval of Gateway 1: Procurement Strategy Report	Feb 2021
Scrutiny call-in period and notification of implementation of Gateway 1 decision	Feb 2021
Issue Notice of Intention	Feb 2021
Invitation to tender	April 2021
Closing date for return of tenders	May 2021
Completion of evaluation of tenders	June 2021
Issue Notice of Proposal	July 2021
Forward Plan for Gateway 2 decision	April 2021
DCRB/CCRB Review: Gateway 2	July 2021
Notification of forthcoming decision – despatch of Cabinet agenda papers	July 2021
Approval of Gateway 2: Contract Award Report	July 2021
End of scrutiny Call-in period and notification of implementation of Gateway 2 decision	Aug 2021
Standstill Period (end date)	Jan 2022
Contract award	Jan 2022
Add to Contract Register	Jan 2022

Activity	Completed by/Complete by:
TUPE Consultation period	Mar 2022
Publication of award notice in Official Journal of European (OJEU) and Contracts Finder	Jan 2022
Contract start	1 April 2022
Contract completion date	31 Mar 2025
Contract completion date – if extension(s) exercised	31 Mar 2027

Alternative Options Considered

18. The following alternative options were considered:

- Do nothing – the council must have appropriate insurance cover in place for the council’s flats and maisonettes that are sold to enable the council to meet its obligations as a freeholder otherwise the council would be in breach of its lease terms.
- Procure a new contract – at present, if a new procurement commenced, there is no indication from the insurance market that premiums would be reduced or stay the same. In fact, it looks more likely that premiums would be increased and therefore it is considered appropriate to continue with the contract for a year period.
- Self insure and set up a reserve pool - unfortunately this is not considered as a feasible option because extra staff would need to be recruited, a procurement for a loss adjuster would need to be commenced and a loss adjuster appointed. This would pose a high risk to the council should the cost of claims exceed the service charges received from leaseholders.
- Call-off from a framework - there were no suitable framework agreements for this service.

Identified risks for the extension

19. The table below identifies the risks associated with this extension, the likelihood of occurrence and the control in place to mitigate the risks, likelihood being rated 1 (least likely) to 5 (most).

R/N	Risk Identification	Likelihood	Risk Control
R1	Extension results in unexpected increase in premiums	1	Zurich Municipal has confirmed that index linking uplift will remain in place.

R2	Zurich Municipal goes out of business	1	Financial stability of Zurich Municipal was established as part of original procurement process. Zurich's Standard and Poor's rating continues to be AA-/positive
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Policy implications

20. Due to the size of the contract, the council was obliged to issue a Notice of Intention and Notice of Proposal to leaseholders as part of the original procurement.

Contract management and monitoring

21. Currently day to day monitoring of the contract is carried out by a Homeownership Services' (HOS) buildings insurance officer, supported by the HOS manager and business systems manager. The contract is administered in the first instance by council staff. They send out claim forms, receive them back together with quotes from leaseholders' nominated contractors and scan the documents to Zurich Municipal. Staff from the council's assignments team, including the buildings insurance officer, act as the point of contact for leaseholders in the first instance and act as a link between the leaseholder and Zurich Municipal to resolve any queries. Although no formal KPIs have been set, the council has access to monitoring information from Zurich Municipal. An annual performance review will also be carried in line with contract standing orders.
22. Monitoring meetings continue to be held at least quarterly, with more formal progress meetings held yearly.
23. In response to the coronavirus pandemic Zurich have changed the process by which site visits are carried out.

Community Impact Statement

24. This decision will have a small impact on leaseholders and a limited population of freeholders only, who will continue to have the benefit of a 'flat' premium under the current contract.

Economic considerations

25. The contract has brought additional economic benefit locally: when making a claim against the policy, leaseholders have been able to obtain quotes from local contractors of their choice for carrying out internal repairs. The proposed extension to the current contract would allow this benefit to continue.

Social considerations

26. As Zurich Municipal services are delivered outside of the Greater London area, London Living Wage does not apply. Zurich Municipal continues to adhere to the policies stipulated in the tender documentation regarding equal opportunities, equality and diversity and is a member of the Employers Network for Equality and Inclusion and the Business Disability Forum.

Environmental considerations

27. Exchanges of information over the life of the contract have been via email, conforming to the council's Paper-Lite policy. Zurich Municipal remains committed to reducing their carbon footprint and becoming carbon neutral. Although not considered as part of the assessment process, the Zurich have pledged to identify ways of allowing customers to make green choices.

Financial Implications

28. The cost of the contract is recharged in full to the leaseholders as a part of their annual service charges. The contract price includes a commission payable to the council to cover the cost of the administering the contract, paying the insurer in full at the beginning of the financial year and taking the financial responsibility for bad debts on the service charges. There are therefore no budgetary consequences as a result of this proposed contract extension as there is a neutral effect on the Housing Revenue Account.
29. The figures given may vary due to changes in the house rebuilding cost index and our stock levels. Index linking is a standard requirement for most mortgage lenders.
30. The cost to the council of administering the contract has been met from existing budgeted staff resources.

Investment Implications

31. There are no investment implications identified.

Legal Implications

32. The Landlord & Tenant Act 1987 allows leaseholders to request a summary of insurance cover. The council has to provide a summary to the leaseholder who includes the insured amount, name of the insurer and the risks covered. Leaseholders can then apply in writing to the landlord to afford reasonable facilities to inspect the policy, see evidence of payment of premiums for that and previous periods and take copies or extracts.
33. Please see the comments from the director of law and democracy.

Consultation

34. Statutory consultation with leaseholders was carried out during the original tendering process. Leaseholder representatives, nominated by the Homeowners Council, have been involved in the decision to exercise the option to extend.

Other implications or issues

35. None identified.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Head of Procurement

36. This report seeks the approval of the Strategic Director of Finance and Governance for the contract extension of the Leasehold and Ancillary Properties Buildings Insurance contract. This is with Zurich Municipal for a period of 1 year, from 1 April 2021 to 31 March 2022 at an estimated cost of £5.1m.
37. The report also notes that there is a separate but linked agreement for services between Zurich and the council in relation to claims handling services which will continue for the period of the extension as further detailed in paragraphs 13 and 29 of the report.
38. Paragraph 26 confirms that London Living Wage does not apply as the contract is performed outside London. The arrangements for the management and monitoring of the Contract are detailed in paragraphs 21-23 of the report.

Director of Law and Democracy

39. This report seeks the approval of the Strategic Director of Finance and Governance to the extension of the Leasehold and Ancillary Properties Buildings Insurance contract with Zurich for a period of 1 year from 1 April 2021 as further detailed in paragraph 1. As the extension falls within the circumstances noted at contract standing order 6.6.3(d)(i) the decision may be taken by the Strategic Director of Finance and Governance.
40. The original appointment of Zurich was subject to, and awarded in accordance with the Public Contract Regulations 2015 (PCR15), and it is therefore necessary to ensure that any variation to the contract is permitted within those Regulations. Regulation 72 of the PCR15 permits modifications to be made to contracts during their term in certain circumstances. This includes at Regulation 72(1)(a) where the modification has been provided for in the initial procurement documents in clear, precise and unequivocal review clauses. As noted in paragraph 2, the contract for these services

was let on the basis of an option to extend the contract by 2 additional years and therefore the requirements of Regulation 72 are met.

41. Contract standing order 2.3 requires that no steps are taken to vary a contract unless the expenditure involved has been included in approved estimates, or is otherwise approved by the council. Paragraphs 28-30 confirm the financial implications of this variation.

Strategic Director of Finance and Governance (Ref: H&M 20/068)

42. The Strategic Director of Finance and Governance notes the proposed one year extension of the Leasehold and Ancillary Properties Buildings Insurance contract for the period 1 April 2021 to 31 March 2022 in accordance with the contract provisions, at an estimated cost of £5.1m.

43. The report sets out the reasons for the extension and confirms that the cost of the contract is fully recharged to homeowners as part of their annual service charge in accordance with the terms of their lease. The additional cost and recovery associated with this extension will be addressed as part of the annual HRA budget setting for 2021-22.

PART A – TO BE COMPLETED FOR ALL DELEGATED DECISIONS

Under the powers delegated to me in accordance with the council's constitution, I authorise action in accordance with the recommendation(s) contained in the above report (and as otherwise recorded in Part B below).

Signature



Date 18 November 2020

Designation Strategic Director of Finance and Governance

PART B – TO BE COMPLETED BY THE DECISION TAKER FOR:

- 1) All key decisions taken by officers (including contract reports)
- 2) Any non-key decisions that are sufficiently important and/or sensitive that a reasonable member of the public would reasonably expect it to be publicly available (see paragraph 41 of the guidance).

1. DECISION(S)

As set out in the recommendations to the Report

2. REASONS FOR DECISION

2. REASONS FOR DECISION
As set out in the Report

3. ALTERNATIVE OPTIONS CONSIDERED AND REJECTED BY THE OFFICER WHEN MAKING THE DECISION
As set out in the Report.

4. ANY CONFLICT OF INTEREST DECLARED BY ANY CABINET MEMBER WHO IS CONSULTED BY THE OFFICER WHICH RELATES TO THIS DECISION (IF APPLICABLE)*
None

5. NOTE OF ANY DISPENSATION GRANTED BY THE MONITORING OFFICER, IN RESPECT OF ANY DECLARED CONFLICT OF INTEREST
<i>If a decision taker or cabinet member is unsure as to whether there is a conflict of interest, they should contact the legal governance team for advice.</i>

6. DECLARATION ON CONFLICTS OF INTERESTS
<p>I declare that I was informed of no conflicts of interests.*</p> <p>or</p> <p>I declare that I was informed of the conflicts of interests set out in Part B4.*</p> <p>(* - Please delete as appropriate)</p>

BACKGROUND PAPERS

Background Papers	Held At	Contact
Gateway 2 'open' report - Leasehold and Ancillary Properties Buildings Insurance	Specialist Housing Services, 160 Tooley Street SE1	Georgina Brown, Business Systems Manager 020 7525 4357
Link: http://moderngov.southwark.gov.uk/documents/s74237/Report%20Gateway%202%20-%20Contract%20Award%20Approval%20Leasehold%20and%20Ancillary%20Properties%20Building%20Insurance.pdf		

APPENDICES

No	Title
None	

AUDIT TRAIL

Lead Officer	Louise Turff, Homeownership Services Manager	
Report Author	Georgina Brown, Business Systems Manager	
Version	Final	
Dated	6 November 2020	
Key Decision?	Yes	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments included
Head of Procurement	Yes	Yes
Director of Law and Democracy	Yes	Yes
Strategic Director of Finance and Governance	Yes	Yes
Head of Specialist Housing Services	Yes	Yes
Cabinet Member	No	No
Date final report sent to Constitutional Team	9 November 2020	