

<b>Item No.</b>	<b>Classification:</b> Open	<b>Date:</b> 21 October 2021	<b>Meeting Name:</b> Strategic Director of Finance and Governance
<b>Report title:</b>		<b>Gateway 3 – Variation Decision</b> Gateway 3 Leasehold and Ancillary Buildings Insurance Contract	
<b>Ward(s) or groups affected:</b>		All leaseholders and a number of freeholders	
<b>From:</b>		Louise Turff, Head of Homeownership Services	

## 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 Limited for a period of one year from 1 April 2022 to 31 March 2023 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 three years from 1 April 2018 to 31 March 2021 with the option to extend for two 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 three 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 £4,600,000 (Year 3) which was subject to the RICS housing rebuilding cost index, making a total estimated forecast contract value of approximately £13,000,000. All figures included IPT (Insurance Premium Tax).
5. In September 2020 the council opted to extend the contract for the first of the two twelve month periods outlined above. This extension commenced on 1 April 2021 at an estimated cost of £5.1m (including IPT).
6. Although the council could have relied solely upon the second twelve month extension as cover for the leasehold buildings insurance there were concerns over a potential increase in the base premium payable as was indicated by Zurich in the previous year. While Zurich prepared their terms for a 2022-23

renewal, the council set about taking steps to procure a new leasehold buildings insurance contract commencing 1 April 2022. The gateway 1 approved by Cabinet in March 2021 was part of this new procurement process. Shortly after the gateway 1 was approved, Zurich responded to the council with their terms for 2022-23. The council took these terms as well as the gateway 1 to a task and finish group comprised of leaseholder representatives with the option to either accept Zurich's terms for another twelve months or to go out to procurement. The outcome of the task and finish group was to accept the new terms, and any reservations cited by the group the council has since responded to.

7. 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:

<b>Periods since last report</b>	<b>Forecast</b>	<b>Actual</b>
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	£4,562,954.19
Total	£13,000,000.00	£13,151,734.30
1.4.2021 – 31.3.2022	£5,100,000.00	<i>Actuals yet to be finalised</i>

8. The total estimated value of the 12 month extension is £5.1m which includes 12% IPT at £547,663.21.

## **KEY ISSUES FOR CONSIDERATION**

### **Key Aspects of Proposed Variation**

9. The nature of the proposed variation is to exercise the option to extend the contract with Zurich Municipal for a period of one year. The revised completion date will therefore be 31 March 2023.
10. The estimated value of the initial three year contract was £13,000,000 which, plus this first extension of £5,100,000 and the proposed second extension of £5,100,000, makes a total estimated value of the contract of £23.2m.
11. The value of the extension to the contract as a percentage is estimated to be 28%.
12. 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.

## 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 one 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 2017-18 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. Reinforcing this were the findings of a benchmarking exercise carried out in February 2021 where some local authorities had seen a 22% increase in premiums. It is therefore considered appropriate, at this stage, to utilise the extension provision so as to ensure that leaseholders receive a guaranteed 'flat' insurance premium for another year. Obtaining a 'flat' premium also provides an element of stability.

## 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 2023.
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 2022
DCRB Review: Gateway 1	17 Mar 2022
CCRB Review: Gateway 1	24 Mar 2022
Notification of forthcoming decision – cabinet	14 June 2022
Approval of Gateway 1: Procurement Strategy Report	22 June 2022
Scrutiny call-in period and notification of implementation of Gateway 1 decision	30 June 2022
Issue Notice of Intention	31 May 2022
Invitation to tender	01 July 2022

Activity	Completed by/Complete by:
Closing date for return of tenders	01 Aug 2022
Completion of evaluation of tenders	01 Sep 2022
Issue Notice of Proposal	31 Sep 2022
Forward Plan for Gateway 2 decision	Oct 2022
DCRB Review: Gateway 2	13 Oct 2022
CCRB Review: Gateway 2	20 Oct 2022
Notification of forthcoming decision – despatch of Cabinet agenda papers	01 Nov 2022
Approval of Gateway 2: Contract Award Report	30 Nov 2022
End of scrutiny Call-in period and notification of implementation of Gateway 2 decision	14 Dec 2022
Standstill Period (end date)	31 Dec 2022
Contract award	28 Feb 2023
Add to Contract Register	28 Feb 2023
TUPE Consultation period	31 Mar 2023
Publication of award notice in Find a Tender Service (FTS) and Contracts Finder	28 Feb 2023
Contract start	1 April 2023
Contract completion date	31 Mar 2026
Contract completion date – if extension(s) exercised	31 Mar 2028

## Alternative Options Considered

18. The following alternative options were considered but not implemented:

- 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 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 Variation

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 low, medium and high.

R/N	Risk Identification	Likelihood	Risk Control
R1	Extension results in unexpected increase in premiums	Low	Zurich Municipal has confirmed that index linking uplift will remain in place.
R2	Zurich Municipal goes out of business	Low	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
R3	Challenge to the extension from other potential insurers	Low	The extension that this GW3 relates to is an allowed for extension built into the original contract
R4	Covid-19 impacts on Zurich's ability to carry out routine site visits	Low	Zurich have amended their own internal processes regarding the way site visits are carried out

### Policy framework 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. The council's contract register publishes the details of all contracts over £5,000 in value to meet the obligations of the Local Government Transparency Code. The Report Author must ensure that all appropriate details of this procurement are added to the contract register via the eProcurement System.

22. 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.

23. Monitoring meetings continue to be held at least quarterly, with more formal progress meetings held yearly.

24. In response to the coronavirus pandemic Zurich have changed the process by which site visits are carried out.

## **Community, equalities (including socio-economic) and health impacts**

### **Community impact statement**

25. 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.

### **Equalities (including socio-economic) impact statement**

26. By putting into practice Southwark's Fairer Future commitments, which includes the pledge to embed equality into all aspects of council operations, the extension outlined in this report will be managed so as to make certain that all homeowners are treated equally. Zurich have their own diversity and inclusion strategy, which takes into consideration the culture, ethnicity, age, sexual orientation, gender identity, individual ability and many other characteristics of both its employees and customers. The economic and social impact of this extension are detailed in paragraphs 30 and 31.

### **Health impact statement**

27. The council recognises the findings of the *Build Back Fairer: COVID-19 Marmot Review* (2020) by the UCL institute of Health Equity and the Health Foundation. Although the extension outlined in this gateway 3 is not believed to have a direct impact on homeowners' health, through close monitoring of the contract the council will nevertheless work to ensure that it does not contribute to or exacerbate any existing health inequalities.

### **Climate change implications**

28. Both Zurich and the council demonstrate a commitment to tackling the climate emergency. While the council has set out its own strategy to become carbon neutral by 2030, Zurich have been carbon neutral since 2014, and are on track to becoming a net-zero emissions business by 2050. The climate impact of the contract extension outlined in this report is deemed to be low-level. However strategies will be put in place to help mitigate against any further

climate impact, including Southwark's continued efforts to decarbonise operational council buildings and Zurich's move towards making all communications with customers fully digital (although customers can opt-in to paper-based communications).

### **Social Value considerations**

29. The Public Services (Social Value) Act 2012 requires that the council considers, before commencing a procurement process, how wider social, economic and environmental benefits that may improve the wellbeing of the local area can be secured. The social value considerations included in the tender (as outlined in the Gateway 1 report) are set out in the following paragraphs in relation to the tender responses, evaluation and commitments to be delivered under the proposed contract.

### **Economic considerations**

30. 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**

31. Zurich Municipal meet the Real UK Living Wage (RUKLW) requirements. As their services are delivered outside of the Greater London area the London Living Wage (LLW) 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/Sustainability considerations**

32. 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 its carbon footprint and becoming carbon neutral. Although not considered as part of the assessment process, Zurich has pledged to identify ways of allowing customers to make green choices.

### **Financial Implications**

33. 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 service fee payable to the council to cover the cost of 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. This is subject to a separate agreement between the parties. 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.

34. The cost to the council of administering the contract has been met from existing budgeted staff resources.

### **Investment Implications (Housing Contracts only)**

35. There are no investment implications identified.

### **Legal Implications**

36. 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.

37. Please see the comments from the Director of Law and Governance.

### **Consultation**

38. Statutory consultation with leaseholder representatives, nominated by the Homeowners Council, was carried out during the original tendering process. A task and finish group set up specifically to look into the leasehold buildings insurance contract have been involved in the decision to exercise the option to extend.

### **Other implications or issues**

39. There are no other implications or issues identified.

## **SUPPLEMENTARY ADVICE FROM OTHER OFFICERS**

### **Strategic Director of Finance and Governance (H&M 21/085)**

40. 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 2022 to 31 March 2023 in accordance with the contract provisions, at an estimated cost of £5.1m.

41. 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 2022-23.

### **Head of Procurement**

42. 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 to Zurich Municipal Limited. The



extension period is for a period of one year from 1 April 2022 to 31 March 2023 at an estimated cost of £5.1m.


- 43. The report details under paragraph 18 the options considered in relation to the extension and the risks in the table under paragraph 19.
- 44. Plans for the management and monitoring of the contract in paragraphs 21-24 and that real UK Living Wage are set out in paragraph 31.
- 45. The details of the Community Impact, Equalities, Health and Climate Change Impact statements are in paragraphs 25-30.

### **Director of Law and Governance**

- 46. 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 one year from 1 April 2022. As permitted by Contract Standing Order (CSO) 6.6.3(d)(i) this decision may be made by the Strategic Director of Finance and Governance as it relates to insurance.
- 47. 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, 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. This contract was procured on the basis of an initial period of 3 years with the ability to extend for a further period or periods of up to 2 years. The requirements of clause 72(1)(a) are therefore met.
- 48. CSO 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 33-34 confirm the financial implications of this variation.

### **PART A – TO BE COMPLETED FOR ALL DELEGATED DECISIONS**

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

Signature  ..... Date 10 November 2021  
Strategic Director of Finance and Governance  
Designation .....

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

- 1) All key decisions taken by officers
- 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 'FOR DELEGATED DECISIONS' section of the guidance).

<b>1. DECISION(S)</b>
As set out in the recommendations of the report.

<b>2. REASONS FOR DECISION</b>
As set out in the report.

<b>3. ALTERNATIVE OPTIONS CONSIDERED AND REJECTED BY THE OFFICER WHEN MAKING THE DECISION</b>
N/A

<b>4. ANY CONFLICT OF INTEREST DECLARED BY ANY CABINET MEMBER WHO IS CONSULTED BY THE OFFICER WHICH RELATES TO THIS DECISION *</b>
None

\* Contract standing order 6.6.1 states that for contract Variations with an Estimated Contract Value of £100,000 or more, the lead contract officer (LCO) must consult with the relevant cabinet member before the decision is implemented.

<b>5. NOTE OF ANY DISPENSATION GRANTED BY THE MONITORING OFFICER, IN RESPECT OF ANY DECLARED CONFLICT OF INTEREST</b>
<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>
None

<b>6. DECLARATION ON CONFLICTS OF INTERESTS</b>
---

**I declare that I was informed of no conflicts of interests.\***

**or**

**~~I declare that I was informed of the conflicts of interests set out in Part B4.\*~~**

(\* - Please delete as appropriate)

## BACKGROUND PAPERS

Background Papers	Held At	Contact
Gateway 2 'open' report - Leasehold and Ancillary Properties Buildings Insurance	Specialist Housing Services, 160 Tooley Street SE1	Tabitha Cox, Homeownership Manager (PAQ) 020 7525 4357
Link: <a href="http://moderngov.southwark.gov.uk/documents/s74237/Report%20Gateway%202%20-%20Contract%20Award%20Approval%20Leasehold%20and%20Ancillary%20Properties%20Building%20Insurance.pdf">http://moderngov.southwark.gov.uk/documents/s74237/Report%20Gateway%202%20-%20Contract%20Award%20Approval%20Leasehold%20and%20Ancillary%20Properties%20Building%20Insurance.pdf</a>		

## APPENDICES

No	Title
N/A	N/A

## AUDIT TRAIL

Lead Officer	Louise Turff, Head of Homeownership Services		
Report Author	Tabitha Cox, Homeownership Manager (PAQ)		
Version	1		
Dated	21 October 2021		
Key Decision?	Yes		
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER			
Officer Title	Comments Sought	Comments included	

Strategic Director of Finance and Governance	Yes	Yes
Head of Procurement	Yes	Yes
Director of Law and Governance	Yes	Yes
Cabinet Member	No	No
<b>Contract Review Boards</b>		
Departmental Contract Review Board	Yes	Yes
Corporate Contract Review Board	Yes	Yes
<b>Cabinet Member</b>	No	No
<b>Date final report sent to Constitutional Team</b>		21 October 2021