

<b>Item No.</b>	<b>Classification:</b> Open	<b>Date:</b> 16 July 2015	<b>Meeting Name:</b> Strategic Director of Finance and Corporate Services
<b>Report title:</b>		Gateway 3 Leasehold and Ancillary Properties Buildings Insurance	
<b>Ward(s) or groups affected:</b>		Leaseholders of former council properties; a small number of freeholders	
<b>From:</b>		Head of Specialist Housing Services	

## RECOMMENDATION

1. That the strategic director of finance and corporate services approves the contract extension of the Leasehold and Ancillary Properties Buildings Insurance contract to Zurich Municipal for a period of 2 years from 1 April 2016 to 31 March 2018 at an estimated cost of £6.8m.

## BACKGROUND INFORMATION

2. A Gateway 2 report was approved on 14 January 2013 to award the Leasehold and Ancillary Properties Buildings Insurance contract to Zurich Municipal for a period of 3 years from 1 April 2013 to 31 March 2016 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 2013. The forecasted annual value was estimated to be approximately £2,700,000 (Year 1), £2,800,000 (Year 2) and £2,900,000 (Year 3) which was subject to the RICS housing rebuilding cost index, making a total estimated forecast contract value of approximately £8,400,000. All figures were net of IPT (Insurance Premium Tax).
5. The current contract allows for two 12 month extensions after the initial period has elapsed.

## KEY ISSUES FOR CONSIDERATION

### Key Aspects of Proposed Variation

6. The nature of the proposed variation is to exercise the option to extend the contract with Zurich Municipal for a period of 2 years. The revised completion date will therefore be 31 March 2018.
7. The value of the extension to the contract as a percentage is estimated to be 74%.
8. 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.

9. Zurich Municipal have confirmed that bedroom rates over the two years will be increased by the then current index linking uplift only, in line with the current contract. They have reserved the right to vary the policy terms if loss ratios exceed 70%. This is considered acceptable by the council.

**Reasons for Variation**

10. 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.
11. 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 2 years 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.
12. The current contract was procured in 2012/2013 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 in view of the increase in Insurance Premium Tax from 6% to 9.5% from November 2016. It is therefore considered appropriate, at this stage, to utilise the 2 year extension provision to ensure that leaseholders receive a guaranteed 'flat' insurance premium for another 2 years.

**Future Proposals for this Service**

13. 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 2018.
14. 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 2017
DCRB/CCRB Review: Gateway 1	Jan 2017
Notification of forthcoming decision – cabinet	Feb 2017
Approval of Gateway 1: Procurement Strategy Report	Feb 2017
Scrutiny call-in period and notification of implementation of Gateway 1 decision	Feb 2017
Issue Notice of Intention	Feb 2017
Invitation to tender	April 2017

Activity	Completed by/Complete by
Closing date for return of tenders	May 2017
Completion of evaluation of tenders	June 2017
Issue Notice of Proposal	July 2017
Forward Plan for Gateway 2 decision	April 2017
DCRB/CCRB Review: Gateway 2	July 2017
Notification of forthcoming decision – despatch of Cabinet agenda papers	July 2017
Approval of Gateway 2: Contract Award Report	July 2017
End of scrutiny Call-in period and notification of implementation of Gateway 2 decision	Aug 2017
Standstill Period (end date)	Jan 2018
Contract award	Jan 2018
Add to Contract Register	Jan 2018
TUPE Consultation period	Mar 2018
Publication of award notice in Official Journal of European (OJEU) and Contracts Finder	Jan 2018
Contract start	1 April 2018
Contract completion date	31 Mar 2021
Contract completion date – if extension(s) exercised	31 Mar 2023

### Alternative Options Considered

15. 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 2 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

16. 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

### Policy implications

17. 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

18. Currently day to day monitoring of the contract is carried out by a specialist housing services' buildings insurance officer, supported by the pre-assignment manager and revenue and income 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, acts 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. These arrangements have proved satisfactory in operation.
19. Monitoring meetings continue to be held at least quarterly, with more formal progress meetings held yearly.

### Community Impact Statement

20. 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

21. 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**

22. 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**

23. 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, reducing their carbon footprint per employee by 25% between 2007 and 2013, and becoming carbon neutral by the end of 2014. They have pledged to further reduce emissions by 50% by 2020.

### **Financial Implications**

24. 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.
25. 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.
26. The cost to the council of administering the contract has been met from existing budgeted staff resources.

### **Investment Implications**

27. There are no investment implications identified.

### **Legal Implications**

28. 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.
29. Please see the comments from the director of legal services.

### **Consultation**

30. 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**

31. None identified.

## **SUPPLEMENTARY ADVICE FROM OTHER OFFICERS**

### **Head of Procurement**

32. This report is seeking approval to extend the leasehold and ancillary properties building insurance contract from 1 April 2016 for a period of two years.
33. The report advises that the council are required by the terms of its current leases, to insure the property against a range of standard risks to the full insurance value. The existing contract has the provision to extend for two periods of 12 months and it is being recommended that the full available extension of 24 months is exercised.
34. The contract allows for the provider to vary its terms and pricing according to market conditions. The report confirms that following discussions with the provider the agreed terms for the extension period are in line with the current terms, with 2 exceptions which relate to increase of rates. These exceptions are deemed as acceptable due to the low risk of the circumstances arising that would lead to the increases applying.
35. The report confirms that provider's performance to date has been excellent and has a consistent service to leaseholders. It would appear that there is no reason why the council should not continue with these arrangements for the recommended extension period.

### **Director of Legal Services**

36. This report seeks the approval of the strategic director of finance and corporate services for an extension to the Leasehold and Ancillary Properties Buildings Insurance contract which is being performed by Zurich Municipal. This report sets out the extent of the extension and the reasons why the extension is necessary.
37. The report confirms at paragraphs 13 to 16 why an extension of 2 years is required and what will happen at the end of this extension period.
38. The nature of this variation is such that it is subject to the new Public Contracts Regulations 2015 (PCR 2015). Regulation 72(1)(a) of the PCR 2015 allows the council to extend the current contract as this option was provided for in the initial procurement documents and does not alter the overall nature of the contract.
39. As the decision to approve this extension falls within contract standing order (CSO) 4.6.2a), the decision may be taken by the strategic director of finance and corporate services, after consideration by the corporate contracts review board (CCRB). The report has been considered by CCRB.
40. CSO 2.3 requires that a variation decision may only be made if the expenditure involved has been approved. Paragraphs 27 and 29 of this report confirm the financial implications of this variation.

**Strategic Director of Finance and Corporate Services (Ref: HCS15/008)**

- 41. The strategic director of finance and corporate services notes the recommendation in this report for the use of the contract extension provision in the Leasehold and Ancillary Properties Buildings Insurance contract. The extension affects two financial years: 2016/17 and 2017/18.
- 42. The financial implications note that the cost of the contract is recharged in full to the leaseholders as a part of their annual service charges, and therefore will form part of the HRA budget to be agreed by cabinet in January 2016 and January 2017.

**Head of Specialist Housing Services**

- 43. The council is required under the terms of the lease to make arrangements to insure the building against the normal range of perils. This has been achieved by placing a contract with a recognised insurer.
- 44. The current contract ends on 31 March 2016. There is an option to extend the contract for two additional one year periods. The council wishes to pursue this option for the reasons set out in this report.
- 45. The cost of the contract will be recovered in full through the service charge levied on leaseholders of flats, so there is a beneficial effect on the HRA.

**FOR DELEGATED APPROVAL**

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.

Signature  ..... Date 24/7/15  
**Duncan Whitfield, Strategic Director of Finance and Corporate Services**

**BACKGROUND PAPERS**

Background Papers	Held At	Contact
Gateway 2 'open' report - Leasehold and Ancillary Properties Buildings Insurance	Specialist Housing Services, 160 Tooley Street	Georgina Brown ext 54367

**APPENDICES**

No	Title
Appendix 1	Zurich Municipal: Renewal 2016 and 2017, policy 10/006460/05500376

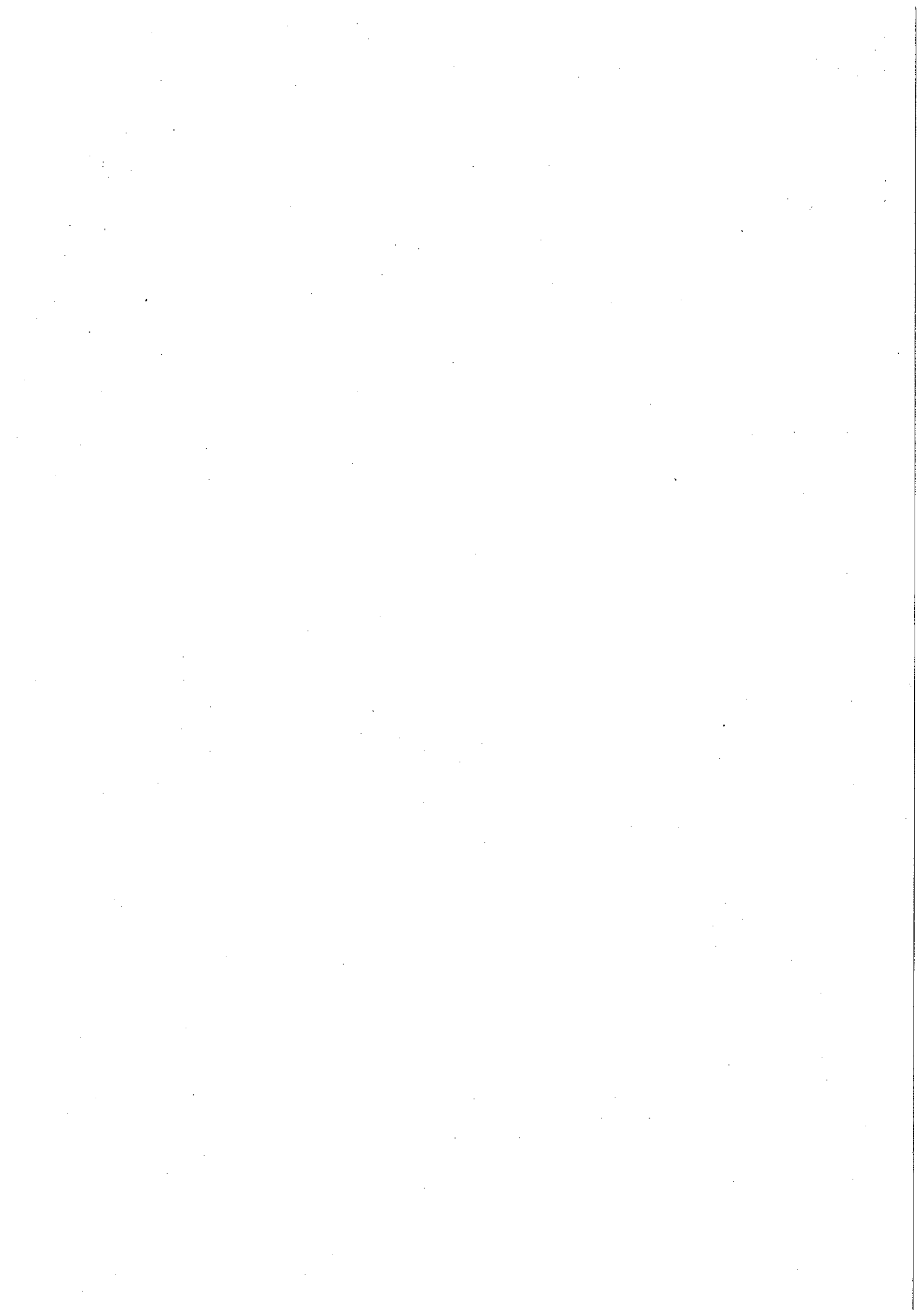
**AUDIT TRAIL**

<b>Lead Officer</b>	Martin Green, Head of Specialist Housing Services
<b>Report Author</b>	Leon Boardman, Project Officer

<b>Version</b>	Final	
<b>Dated</b>	16 July 2015	
<b>Key Decision?</b>	Yes	
<b>CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER</b>		
<b>Officer Title</b>	<b>Comments Sought</b>	<b>Comments included</b>
Head of Procurement	Yes	Yes
Director of Legal Services	Yes	Yes
Strategic Director of Finance and Corporate Services	Yes	Yes
Head of Specialist Housing Services	Yes	Yes
<b>Cabinet Member</b>	N/a	N/a
<b>Date final report sent to Constitutional Team</b>		









# ZURICH MUNICIPAL

## Southwark London Borough Council

### **Leasehold and Mortgaged Properties Policy**

**5 Year Long Term Agreement with a break clause at renewal 2016, 1<sup>st</sup> April.**

**Renewal 2016 and 2017**

**Leasehold & Mortgaged Properties Policy: 10/006460/05500376**

- Renewal 2016: bedroom rates to be increased by the then current index linking uplift only
- Renewal 2017: bedroom rates to be increased by the then current index linking uplift only
- Mortgaged Properties: rates per thousand held for both renewal 2016 and 2017 with sums insured subject to index linking by the then current index linking uplift only

### **Additional Terms**

#### **1) Claims Performance**

We reserve the right to review and amend the terms, conditions and/or price subject to the claims performance as detailed in the Long Term Agreement Performance Appendix. This will not constitute a breach in the existing agreement.

#### **2) Reinsurance**

We reserve the right to review and amend the terms, conditions, price and/or capacity in the event of alterations to our reinsurance treaties, government levies or direct external changes that affect the cover or risk. This will not constitute a breach in the existing agreement.

These may include but not be limited to matters such as restricted market reinsurance capacity following a significant event or a change in Insurance Premium Tax.

### **3) Material Change**

We reserve the right to review and amend the terms, conditions and/or price subject to a material change in the proposed risk.

This will not constitute a breach of the agreement. This may include but not be limited to a significant alteration of the number or profile of risks covered by the contract.

Expected portfolio adjustments in line with previous years' account developments would not be regarded as material changes.

#### **Long Term Agreement (LTA) Performance Appendix**

If, as at the 1.1.2016, the loss ratios exceed 70% (including an allowance for IBNR claims based on average peer group performance), for either of the insurance periods commencing 1.4.2014 and 1.4.2015, then we reserve the right to increase rates and/or the policy excess but that will not constitute a breach of the LTA.

If, as at the 1.1.2017, the loss ratios exceed 70% (including an allowance for IBNR claims based on average peer group performance), for either of the insurance periods commencing 1.4.2015 and 1.4.2016, then we reserve the right to increase rates and/or the policy excess but that will not constitute a breach of the LTA.

ZM Fareham Underwriting Team

12/03/2015

**This is a draft agreement and there may be some minor wording amendments although there will be no substantial changes in terms.**