

**Cabinet Member Delegated Decision 5 March 2018**

**Report title:** Leasehold Building Insurance Contract

**Wards:** All

**Portfolio:** Councillor Imogen Walker, Deputy Leader of the Council (Finance and Resources)

**Report Authorised by:** Jackie Belton: Strategic Director for Corporate Resources

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**Report summary**

The purpose of the report is to award a contract to insure and that appropriate insurance arrangements are in place to protect the Council's assets (people property and financial exposure) and provide protection against potential liabilities. The existing arrangement expires on 31<sup>st</sup> March 2018. The council maintains appropriate insurance policies thorough the commercial insurance market to ensure that this necessary protection is in place. Since 2009 the Council has procured its corporate property and liability insurance contracts through procurement exercises led by the Insurance London Consortium (ILC) on behalf of its nine members.

Following the success of the previous procurement exercises, the consortium continues to look to secure competitive terms and conditions for all participating authorities, improved risk management and synergies across its membership. It is a good example of London Authorities working collectively to secure the best outcomes for their corporate insurance requirements.

This insurance procurement exercise was led by ILC for a consortium of local authorities with respect to the renewal of the Leasehold Building Insurance policy. Haringey Council and Harrow Council did not participate in this tender.

**Finance summary**

The cost of this contract for the Leasehold building insurance policy will be fixed at an annual premium of £2.674m for the first 2 years (payable each April) making a total premium of £5.348m for the period of 1<sup>st</sup> April 2018 to 31<sup>st</sup> March 2020.

The total value of this contract over the five year period will be dependent on the claims history from 1st April 2018 onwards as we have incorporated a multi-year agreement within this contract. There are factors that will affect the premiums which can be subject to change making it difficult to quantify. The factors are inflation, building sums insured index linking, our claims ratio, and insurance premium tax (IPT) which is currently at 12% but is projected to increase to between 15% and 20% over the next few years.

In a worst case scenario if the five year contract (1<sup>st</sup> April 2018 to 31<sup>st</sup> March 2023) ran within a loss ratio of greater than 90% the total contract cost would be in the region of £13.991m

There will be no VAT payable on the premiums, only Insurance Premium Tax (currently) at 12% (which is non-recoverable). Although the premiums are subject to inflation (index linking of property valuations and claims experience) over the 5 year contract period all costs are fully recovered from leaseholders via their service charge.

### **Recommendations**

1. To award the Leasehold Building insurance contract to AJG/NIG at an annual premium of £2,674,040 from the period 1st April 2018 to 31st March 2023 (total estimated premium of £13,370,201 over five years).

### **Reasons for Exemption from disclosure**

The accompanying part II report is exempt from disclosure by virtue of the following Paragraphs of schedule 12A to the Local Government Act 1972

3. Information relating to the financial or business affairs of a particular person (including the authority holding that information).

## 1. Context

- 1.1 The Insurance London Consortium (ILC) is a formal body set up under an S101 Agreement with Croydon as the Accountable Body. Croydon Council carried out a procurement exercise on behalf of all consortium members with the exception of Haringey Council and Harrow Council. The leasehold Building Insurance policy coverage was sought for a five year period. To ensure that there was no cross sharing of risk each member was priced according to their individual insurance requirements and claims experience. Colleagues in Croydon led on the procurement process including the development of the evaluation methodology with the full agreement of Lambeth and the Gateway 2 procurement strategy approved by the Procurement Board on 4 July 2017. The Consortium Members have entered into this Agreement pursuant to their powers under section 101(5) of the Local Government Act 1972 (read together with section 9DA(3)(c) of the Local Government Act 2000 and Regulation 9 of the Local Authorities (Arrangements for the Discharge of Functions) (England) Regulations 2012), and section 2 of the Local Government Act 2000.. The participating members of the ILC are:

London Borough of Lambeth  
London Borough of Croydon  
London Borough of Camden  
London Borough of Haringey  
London Borough of Harrow  
London Borough of Islington  
London Borough of Sutton  
London Borough of Tower Hamlets

- 1.2 The recommended options have provided appropriate levels of insurance cover in line with our corporate insurance strategy, whilst ensuring that the required levels of service, policy improvements and a competitive price are achieved.
- 1.3 Through the combined and focused purchasing power of ILC has enabled the Council to secure demonstrable value for money and savings through collaborative working.
- 1.4 This is a procurement Gateway 3 report.

## 2. Proposal and Reasons

- 2.1 An OJEU compliant procurement exercise was carried out using the Open Procedure procurement route. In addition, officers have fully complied with the Council's Contract Standing Orders. Six bids were received from six insurance service providers. An Open Day was held on 24 July 2017 to engage with potential service providers. The Open Day included discussions on the leasehold building insurance tender. The Open Day assisted in market engagement and generate interest amongst bidders.
- 2.2 Bids were received via the council e –tendering portal on the 6<sup>th</sup> November 2017 at Croydon.
- 2.3 In line with the previous, successful ILC tenders, and in accordance with the approved procurement strategy, the basis of the contract award was the most economically advantageous in terms of price. The tender process combined both Price and Quality/Value Added Services to establish the most competitive bid and therefore the best bid on a borough by borough basis.
- 2.4 It is important to note that bidders tendered for each ILC member which was priced according to their individual insurance requirements and claims experience and therefore there is no cross

sharing of risk. Each insurer is required to quote on the insurance cover specified and the number of claims and costs of claims they do not take into account other authorities claims experience or policy requirements.

2.5 In accordance with the published evaluation methodology, all bids were first checked for compliance the tender response document and all other accompanying documentation was submitted using the Croydon council's e-tendering system and the content of said document complied with the ITT requirements. Of the 6 bids received, 4 were deemed compliant and therefore evaluation by representatives from all ILC member Councils. The evaluation panel assessed bids using the following value for money criteria:

Price

- Excess

Quality/value Added Services considered:

- Cover
- Policy enhancements
- Claims handling
- Sub-Contracting
- Complaints Handling Procedure
- Added Value
- Loss Ratio Adjustment

2.6 The value for money and quality scores were combine and the provider recommended for contract award determined on a borough by borough basis. The providers recommended for contract award in this report are those providers with the highest combined Price and Quality scores.

2.7 The maximum points available were 100 which were split between price at 70 and quality at 30

2.8 The price weighting is made up of one component, the quality weighting is made up of the following components Cover – 2 points Policy enhancements - 2 points Claims handling – 8 points Sub-Contracting – 5 points Complaints Handling Procedure - 2 points Added Value – 2 points Loss Ratio Adjustment – 9 points

2.9 The quality components for all packages were evaluated independently for each Member in accordance with the Quality part of the Scoring Mechanism.

2.10 The winning bid, who is our current supplier, was better on price and enhanced our current policy cover.

A summary of the evaluation process

Evaluation and scoring of the Price section was undertaken on a per Package basis.

Evaluation and scoring of the Quality section was undertaken on a per Package basis.

The score for Price was added to the points scored for the Quality component scores and was totalled to give a final score for each tenderer at each evaluation stage.

The tenderer with the highest final score for a Package won the bid for that Package (after applying Multi-Package Discount where applicable).

The multiyear agreement has the following mechanism to assist us in relation to our claims occurring In the third year after our fixed rate premium expires, if insurers have a loss ratio of claims Incurred of 0% to 60% we will earn a 6% premium rating reduction.

Greater than 60% to 90% we will have a zero % rating premium increase.

Greater than 90% we will have a 2% premium rating increase.

Part two of this report will have the full related scoring outcomes.

- 2.11 The result of this procurement exercise were excellent because savings were made compared to last year’s premium and cover provided has been enhanced. Please see Table 1 below which sets out the scores for the tender response:

<b>Bidders</b>	<b>Price Score</b>	<b>Quality Score</b>	<b>Total Score</b>
<b>AJG/NIG</b>	<b>70</b>	<b>26.1</b>	<b>96.1</b>
<b>Bidder 1</b>	<b>64.5</b>	<b>21.6</b>	<b>86.1</b>
<b>Bidder 2</b>	<b>37.2</b>	<b>20.9</b>	<b>58.1</b>
<b>Bidder 3</b>	<b>0</b>	<b>0</b>	<b>0</b>

Table 1

- 2.12 There were six bids in total two bids were non-compliant and were disqualified. One bidder did not agree to our loss ratio mechanism so were found to be non-compliant. The other bidder were assessed as non-compliant around failure to submit a compliant bid around Terrorism cover provided. One bid declined to quote. The other bidders were not successful due to their variations in price.

- 2.13 In addition to the savings achieved there has been no reduction in cover, cover has been enhanced.

### **3. Finance**

- 3.1 The annual cost of this proposal for Leasehold Building Insurance policy with NIG for the period 1st April 2018 to 31st March 2023 is estimated at £2.674m per annum. The 5 year contract value is estimated to be no more than £13.991m using an assumed inflator of 15% which has been applied for the last four years. Premium costs can rise due to claims experience and property index linking percentage increases insurance premium tax (IPT) and market conditions.

- 3.2 It should be noted that if the contract runs within a loss ratio of 0% to 60% the contract period cost will be £12.707m. Similarly if the contract runs with a loss ratio greater than 90% the contract period cost will be £13.991m.

- 3.3 All costs relating to this contract for Lambeth will initially be met by Risk and Insurance budgets within the Finance Division of Corporate Services and then recharged to Housing Management who will fully recover the cost of the this premium through their recharges via leasehold service charges.

- 3.4 There will be no VAT payable on the premium

- 3.5 There are no capital implications as a direct result of this proposal

### **4. Legal and Democracy**

- 4.1 The Council has delegated the authority to enact this report's recommendations to the Deputy Leader of the Council (Finance and Resources). Before exercising that authority, the approval of the Procurement Board should be obtained.
- 4.2 As the report author acknowledges, where the estimated value of a public contract exceeds the threshold set out in the Public Contracts Regulations 2015, there was a requirement to publish a notice in Official Journal of the European Union and this sets out how Insurance London Consortium met this requirement.
- 4.3 As the report states, Croydon have played the key role in ensuring compliance with procurement law but it is worth noting that the consortium should as soon as possible after making the decision to award the contract, provide a written notice to the unsuccessful bidders, naming the winning bidder and describing the characteristics and relative advantages of the successful tender. The notice also has to state when the 'standstill period' is expected to expire and the date before which the consortium will not enter into the contract.
- 4.4 This proposed key decision was entered in the Forward Plan on 12th June 2017 and the necessary 28 clear days' notice has been given. In addition, the Council's Constitution requires the report to be published on the website for five clear days before the proposed decision is approved by the Cabinet Member. Any representations received during this period must be considered by the decision-maker before the decision is taken. A further period of five clear days - the call-in period – must then elapse before the decision is enacted. If the decision is called-in during this period, it cannot be enacted until the call-in has been considered and resolved.

## **5. Consultation and co-production**

- 5.1 Consultation was undertaken with the counterparts at the other London Boroughs involved in the ILC in order to ensure that all requirements were met. The members of ILC are outlined in the report summary of this report. The tender documents have been developed year on year, ILC have listened to the bidders from the feedback obtained in respect of our tender packages.

Market engagement was undertaken in the form of an open day which enable ILC to be better informed which allowed us to adopt the best approach when tendering and securing the provisions of service most suitable for our needs and requirements.

- 5.2 Consultation with leaseholders has been conducted in line with The Service Charges Consultation Requirements. In accordance with Section 20 of the Landlord & Tenant Act 1985 (as amended by section 151 of the Commonhold & Leasehold Reform Act 2002) and Schedule 2 (Regulation 5(2) of the Service Charges (Consultation Requirements) Regulations 2003)

Prior to release of the tender, letters were sent to all Leaseholders explaining how the Council proposed tendering, and allowing them the requisite 30 days to respond. Post tender, further correspondence detailing the result, and explaining that the supplier with the top overall score will be recommended for the contract, was sent on 28<sup>th</sup> December to all Leaseholders, again allowing them 37 days to comment on the result.

- 5.3 A meeting took place with Lambeth Homeowner Association (LHA) in relation to the current and future policy wording it was recommended by LHA that some peril exclusions should be considered for removal from the new supplier it was agreed that this would be agreed where possible without the risk of reducing cover to any of our leaseholders. This will be discussed further with AJG/NIG the proposed new supplier.

5.4 Councillor Imogen Walker, Deputy Leader of the Council (Finance) was consulted on the Business Case and the Gateway 2 Procurement Strategy. Cllr. Walker has also been consulted on the Gateway 3 report and had no comments to add.

## 6. Risk management

6.1 Officers responsible for the procurement have developed a risk register. Details of the main risk associated with the procurement and service are set out below in Table 2.

Item	Risk	Likelihood	Impact	Score	Control Measures	Score
1	Deterioration in Leasehold claims experience leading to insurers increasing rates in third year	Unlikely (2)	Major (8)	High	<p>1. Housing Management to undertake repairs and continue with housing maintenance programmes to reduce claims received.</p> <p>2. Promoting good risk management practices when considering changes to service delivery models and ensuring that risks are captured and mitigating measures implemented by housing management where practicable.</p> <p>3. Multiyear stability agreement rates fixed for the first two years</p> <p>4. If claims loss ratio is greater than 90% in the 3<sup>rd</sup> year the premium rate will increase by a maximum of 2%</p>	Low
2	Reduction in credit rating of insurer / insurer going into liquidation	Very Unlikely (1)	Significant (2)	Low	<p>1. Maintain a good working relationship with insurance brokers to enable 'emergency insurance' cover to be put in place if required</p> <p>2. Regular full reviews of standard and poor ratings of insurer carried out current required ratings are a minimum of an 'A' rating for insurers</p>	Low

**Table 2**

Key

<b>Likelihood</b>	Very Likely	4	Likely	3	Unlikely	2	Very Unlikely	1
<b>Impact</b>	Major	8	Serious	4	Significant	2	Minor	1

**7. Equalities impact assessment**

7.1 The completed justification for not completing a full EIA for this contract has been completed and signed off on 9th June 2017 by equalities section form attached.

**8. Community safety**

8.1 There are no implications here.

**9. Organisational implications**

**9.1 Environmental**

There are no implications here.

**9.2 Staffing and accommodation**

There are no implications here.

**9.3 Procurement**

The procurement advertised in the Official Journal of the European Union and Contracts Finder. The OJEU Ref No is: DN296564. The procurement was carried out under the Open Procedure in accordance with the Public Contracts Regulations 2015.

In accordance with this tender was conducted electronically via the EU Supply e tendering system and all queries were raised online through EU Supply Croydon Council as accountable body and the lead authority for undertaking tendering exercises on behalf of the ILC. Croydon Council led the procurement exercise and took responsibility for undertaking the tender exercise.

All successful Service Providers have agreed to pay the Living Wage as accredited with the Living Wage Foundation.

The successful Service Provider are contractually committed to provide management information to assist the Council / ILC Members with monitoring the impact of the LLW.

The result of this tender has led to an annual saving of £407,817 which is a 14.6% decrease compared to the previous year's premium. This is a current annual premium based on a maximum 5 year contract. The result here is considered to be satisfactory with six bidders generating healthy competition.

As a whole, the consortium has not been able to make a saving on expiring terms however there is satisfaction in the number and quality of bids received.

**9.4 Health**

There are no implications here.

## 10. Timetable for implementation

10.1 The timetable below shows the deadlines for implementing the contracts.

#	Item Description	Date
1	OJEU Notice released via Croydon	24 <sup>th</sup> September 2017
2	Tender documents released on portal via Croydon	24 <sup>th</sup> September 2017
3	Deadline for Tender response	6 <sup>th</sup> November 2017
4	Tender evaluation commenced	20 <sup>th</sup> November 2017
5	Procurement Board	13 <sup>th</sup> February 2018
6	Decisions Online	23 <sup>rd</sup> February 2018
7	OJEU Standstill Period	8 <sup>th</sup> March 2018
8	Contract Award Notice	14 <sup>th</sup> March 2018
9	Contract start date	1 <sup>st</sup> April 2018
10	Gateway four report due date	1 <sup>st</sup> July 2018
11	First Contract Performance Review date	1 <sup>st</sup> April 2019

10.2 The contract will be reviewed on an annual basis in line with Councils procurement guidelines. We will have quarterly meetings with insurers/brokers. ILC meet on a quarterly basis whereby policies and service delivery are discussed. Insurers are invited to the meetings if there are any issues with a policy this would be addressed within this platform.

<b>Audit Trail</b>				
<b>Consultation</b>				
<b>Name/Position</b>	<b>Lambeth directorate / department or partner</b>	<b>Date Sent</b>	<b>Date Received</b>	<b>Comments in paragraph:</b>
Councillor Imogen Walker	Deputy Leader of the Council (Finance)	19.12.17	09.01.18	
Jackie Belton	Strategic Director for Finance	07.12.17	08.12.17	
Nisar Visram Finance	AD Finance Corporate Resources	04.12.17	06.12.17	3
Michael O'Hora Legal Services	Corporate Resources	04.12.17	05.12.17	4.4
Henry Langford Democratic Services	Corporate Resources	07.12.17	08.12.17	4.4

<b>Report History</b>	
<b>Original discussion with Cabinet Member</b>	14.06.17
<b>Date final report sent</b>	N/A
<b>Part II Exempt from Disclosure/confidential accompanying report?</b>	Yes
<b>Key decision report</b>	Yes
<b>Date first appeared on forward plan</b>	12.06.17
<b>Key decision reasons</b>	Expenditure, income or savings in excess of £500,000
<b>Background information</b>	Previous Insurance Policy wording
<b>Appendices</b>	NONE

**APPROVAL BY CABINET MEMBER OR OFFICER IN ACCORDANCE WITH SCHEME OF DELEGATION**

**I confirm I have consulted Finance, Legal, Democratic Services and the Procurement Board and taken account of their advice and comments in completing the report for approval:**

**Signature:** \_\_\_\_\_ **Date:** \_\_\_\_\_

**Post:** Maureen Dennie  
Insurance Manager

**I confirm I have consulted the relevant Cabinet Members, including the Leader of the Council (if required), and approve the above recommendations:**

**Signature:** \_\_\_\_\_ **Date:** \_\_\_\_\_

**Post:** Councillor Imogen Walker  
Deputy Leader of the Council (Finance and Resources)

**Any declarations of interest (or exemptions granted):** None

**Any conflicts of interest:** None

**Any dispensations:** None