

CABINET

18 September 2012

Title: Award of Contract for Leasehold Property Insurance Cover	
Report of the Cabinet Member for Housing	
Open Report	For Decision
Wards Affected: All	Key Decision: Yes
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Accountable Divisional Director: Ken Jones, Divisional Director Housing Strategy	
Accountable Director: Darren Henaghan, Corporate Director of Housing & Environment	
Summary: In readiness for the expiry of the current contract for the provision of Leasehold Buildings Insurance Cover on 29 September 2012, officers have tendered the contract using the “Open Procedure” in accordance with European Procurement Directives, as agreed by Cabinet on 20 March 2012. There is a limited market for the provision of Leasehold Buildings Insurance Cover for Local Authorities and an independent Insurance Broker had been engaged to ensure the widest possible selection of insurance companies were available to quote. Following placement of advertisement in the Official Journal of European Union three insurers requested copies of the tender documents but only one of these companies, Zurich Municipal submitted a bid. Zurich Municipal is the current provider of buildings insurance cover. Following evaluation of the bid submitted, we propose to award the tender to Zurich Municipal commencing 29 September 2012 for 3 years with the option to extend the contract for a further two years. The insurance policy now includes ‘extended accidental damage cover’ at a premium rate of 5p per £1,000 less than previously charged by ZM for Standard Cover.	
Recommendation(s) The Cabinet is recommended to : (i) Approve the award of the contract for the provision of Leasehold Buildings Insurance Cover in respect of the Council’s leasehold property to Zurich Municipal; and (ii) Delegate authority to the Corporate Director of Finance and Resources, in consultation with the Corporate Director for Housing and Environment and following procurement and legal advice, to exercise any “extension of period” options that are deemed to be in the best interest of the Council and leaseholders.	

Reason(s)

To enable the Council to provide insurance on the best terms available in the current market for Leaseholders and ensure continuity of insurance cover in respect of Council Leasehold property, assisting the Council in being a well run organisation, working towards raising Household Incomes under the theme of Better Homes.

1. Introduction and Background

- 1.1 The existing contract for the Council's Leasehold Property insurance programme is with Zurich Municipal (ZM) and expires on 29 September 2012. ZM were appointed as the Council's insurers after a tender process in line with the European procurement directives in 2007.
- 1.2 The current contract was for 3 years with an option for a further 2 years. This option was exercised as it was felt to be in the best interests of the Council and Leaseholders at that time, given the state of the insurance market rates, to ensure value for money. However we had to tender as the Council is coming to the end of the extension option.
- 1.3 To ensure that the widest possible selection of insurance companies from the very limited Insurance Market were available to quote, an insurance broker had been engaged, as it is a specialist area and some Insurers will only deal with an Insurance Broker intermediary. The Specialist Insurance Broker had been contracted to procure both the Council's main insurance contract and this contract.

2. Tender Process

- 2.1 The contract, which will be reviewable annually, is estimated to be valued at approximately £1.8million over a 3 year term.
- 2.2 It is confirmed that the relevant provisions of the "Contracts Guidance Notes", "Contracts Rules", "Contracts Codes of Practice" and the "Financial Rules" of the Council's Constitution and the EU Procurement Rules were fully adhered to.
- 2.3 Insurance is a Part A Service and must be awarded in accordance with the provisions of EU Regulations and are subject to the full regime (Directive 92/50/EEC for Service Contracts).
- 2.4 Due to the limited market and the anticipated low response, the 'Open procedure' was used which means that tendering procedures were preceded by the placing of a notice advertising the contract with all those expressing an interest being invited to submit a tender.
- 2.5 Following placement of advertisement in the Official Journal of European Union three insurers requested copies of the tender documents
 - Zurich Insurance PLC – The Zurich Centre 3000 Parkway Whiteley Fareham Hampshire PO15 7JZ
 - Ocaso Insurance Co – 110 Middlesex Street 3rd Floor London E1 7HY
 - Aspen Insurance Co – Plantation Place 30 Fenchurch Street London EC3M 3BD

2.6 Only one of these companies, Zurich Municipal submitted a bid. Zurich Municipal is the current provider of the Leasehold Buildings Insurance Cover.

3 Tender Evaluation

3.1 If permission to award the contract is given it will be awarded on the basis of the best value for money offer to the contracting authority of the bidder being able to meet or exceed the service specification and cover requirements in the following breakdown:

Price	60%
Quality	40%

3.2 Quality of product was weighted against price using the following criteria:

○ Extent of Cover and Service Requirements	10%
○ Technical Ability and experience	10%
○ Financial Standing	10%
○ Eligibility	5%
○ Added value	5%

(Appendix 1 – Full Evaluation Criteria Breakdown)

3.3 The single bidder still had to demonstrate how they met the criteria in their tender documentation. They were also credit checked with a specialist Credit Agency, Standard & Poors, who deal with Insurance companies worldwide.

3.4 The evaluation panel consisted of representatives from Insurance, the appointed Insurance Broker and Home Ownership Service within Housing & Environment Department.

3.5 Following a full evaluation of the single bid submitted, on the criteria set out above, we propose to award the tender to Zurich Municipal commencing 29 September 2012 for 3 years with the option to extend the contract for a further two years.

3.6 The insurance policy offered includes 'extended accidental damage cover' at a premium rate of 5p per £1,000 less than previously charged for Standard Cover

3.7 The table below shows the expected premium for each property type from 29 September 2012. The sum insured is based on the aggregate value of the properties based on the number of bedrooms.

No. Bedrooms	Sum Insured*	Premium (£1.19 per £1,000)
One Bed	£127,061.00	£151.20
Two Bed	£152,918.00	£181.97
Three Bed	£172,219.00	£204.94
Four Bed	£208,958.00	£248.66

* Please note the above figures are for the period 29 September 2012 – 28 September 2013 with the sum insured index linked by 6% per annum thereafter.

- 3.8 Entering into a three year Long Term Agreement will guarantee the premium rate £1.19 per £1,000 for the term of the first three years.
- 3.9 By entering into a 3 year long term agreement, the Council will save Leaseholders possible increases in premium costs that would come from an annual renewal tender, an increase in cover by having 'Accidental Damage' included, and also guaranteed efficiency savings for the Council by not incurring officer time and associated costs.

4. Options Appraisal

- 4.1 The Council does have the option not to pursue this contract but this would be to the considerable detriment of leaseholders and is not therefore recommended.
- 4.2 The council does have the option to retender the contract again however the very limited market at this time does mean that a very similar outcome, of only one insurer bidding, is very likely.

5. Leaseholder Consultation

- 5.1 In line with Housing regulations and legislation, consultation with leaseholders was undertaken by letter.
- 5.2 The first stage statutory consultation letter invited leaseholders to express any opinions they have with regards to the provider and service.
- 5.3 The second phase of the statutory consultation, which expired on 31st August 2012, invited leaseholders to comment on the chosen provider and raise any concerns. The consultation was straightforward and factual with leaseholder rights clearly explained. The letter was made available in other formats, such as large print, if requested. (Appendix 2: Example of Second Stage Consultation Letter sent to all Leaseholders.)

6. Financial Implications

Implications completed by: Jo Moore, Finance Group Manager

- 6.1 There are no direct financial implications to the Council arising from this proposal. All leasehold insurance premiums obtained are passed directly to Leaseholders.
- 6.2 Elevate has agreed that for this contract there will be no liability for gain share.

7. Legal Implications

Implications completed by: Evonne Obasuyi, Senior Lawyer.

- 7.1 This report is seeking Cabinet's approval to award the provision of insurance services in respect of the Council's leasehold property, in anticipation of the expiry of the existing contract in September 2012.
- 7.2 Under the Public Contracts Regulations, 2006 ("the EU Regulations") insurance services are classified as Part A services and are therefore subject to the full rigour of the EU public procurement regime. As the value of the contract is above the EU

threshold for services (currently £173,934), a full EU competitive tendering process was required to be undertaken.

- 7.3 This report confirms that the contract was advertised in the Official Journal of the European Union (OJEU), and that the Open Procedure – a procedure whereby all organisations that submit an expression of interest in relation to the contract are invited to tender for the contract – was followed.
- 7.4 It is anticipated that the cost to the Council of providing insurance cover in relation to leasehold property under the proposed contract, will be recovered from leaseholders via Service Charges payable by leaseholders.
- 7.5 Under Section 20 of the Landlord and Tenant Act, 1985, a notice of the intention to re-tender the contract must be given to leaseholders and consultation must be carried out with leaseholders in accordance with the Landlord and Tenant Act 1985 prior to award of the contract. This is imperative; otherwise the full cost of provision of the insurance cover will not be legally recoverable from leaseholders. This report confirms that the statutory leaseholder notices have been issued and that consultation with leaseholders has been undertaken in respect of this contract.
- 7.6 The Legal Practice confirms that there are no legal reasons preventing Cabinet from approving the recommendations of this report.

8. Other Implications

8.1 Risk Management

The Leaseholders' Insurance Programme provides buildings and third party insurance cover for leaseholders in previously Council-owned properties. If buildings cover is not provided the Council will not be complying with its Landlord's obligations and will have to bear the risk of what otherwise would be covered by insurance.

8.2 Customer Impact

Although it is a condition of the leases for all properties sold under the Right to Buy that the Council as landlord is responsible for insuring the building in which the property is situated, the Council is still providing a valuable contribution to social inclusion, enabling access to markets and savings that a lone leaseholder may not have while at the same time ensuring that appropriate insurance cover is in place on leasehold properties.

Background Papers Used in the Preparation of the Report:

- **Cabinet Report and Minute, 20 March 2012** - Retendering of the Contract for Leasehold Property Insurance

List of Appendices:

- Appendix 1: Full Evaluation Criteria Breakdown
Appendix 2: Copy of a Second Stage Consultation Letter sent to all Leaseholders