


<p>Cabinet</p> <p>20 March 2018</p>	
<p>Report of: Zena Cooke – Corporate Director of Resources</p>	<p>Classification: Part Exempt (Appendices)</p>
<p>Renewal of Leaseholders Building Insurance Renewal of Insurance for Motor fleet, Commercial Property, Crime & Fidelity Guarantee, Engineering Inspection, Business Travel & Personal Accident, School Journeys</p>	

Lead Member	Councillor David Edgar, Cabinet Member for Resources
Originating Officer(s)	Sid Exley, Insurance Manager
Wards affected	All Wards
Key Decision?	Yes
Community Plan Theme	One Tower Hamlets

Executive Summary

This report contains two **Restricted Appendices**. This is because the Appendices contain the tendering information submitted by the bidders under all the insurance lots. The information is commercially sensitive and should therefore be considered Exempt Information for the purposes of the Council's Constitution. Its release could mean that the Council becomes liable for damages to the bidders. Therefore, the public interest in maintaining the exemption outweighs the public interest in releasing the information into the public domain.

The Council's Procurement Procedures require a report to be submitted to Cabinet, laying down a forward plan of supply and service contracts over £250,000 in value. This report sets out the outcome of the procurement process to re-let a number of insurance contracts.

Background

Tower Hamlets is a member of the Insurance London Consortium (ILC), comprising of nine London boroughs including, Croydon, Lambeth, Harrow, Kingston, Islington, Sutton, Camden and Haringey. The ILC was set up with the joint aim of improving financial risk management across for all its members and for securing better value insurance and related services. Tower Hamlets has participated in other joint tenders for insurances via the ILC, which have resulted in an improvement in both premium rates and extent of cover for the Council.

The above contracts were tendered in association with ILC and Cabinet approval is sought to let the contracts for a period of five years.

Recommendation

The Mayor in Cabinet is recommended to:

1. Authorise the Corporate Director of Resources to award the leaseholders building insurance, insurance for motor fleet, commercial property, crime & fidelity guarantee, engineering inspection, business travel & personal accident and school journeys contracts in line with this report.

1. REASONS FOR THE DECISIONS

- 1.1 The Council's Procurement Procedures require submission of a report for contracts for Cabinet consideration, and it is a requirement of the Constitution that "The contracting strategy and/or award of any contract for goods or services with an estimated value exceeding £250,000, and any contract for capital works with an estimated value exceeding £5,000,000, shall be approved by the Cabinet in accordance with the Procurement Procedures". This report fulfils these requirements for contracts to be commenced on 1st April 2018.

2. ALTERNATIVE OPTIONS

- 2.1 Bringing a consolidated report on contracting activity is considered the most efficient way of meeting the requirement in the Constitution, whilst providing full visibility of contracting activity; therefore no alternative proposals are being made.

3. DETAILS OF REPORT

- 3.1 The Council is responsible for providing buildings insurance cover for its leasehold stock, by way of covenants in all active lease agreements (GLC lease and LBTH lease). The applicable insurance premium and a £10 admin fee (for the cost of administering the policy) are then recharged to leaseholders via an annual service charge. The insurance policy is a 'block policy' i.e. it covers all leasehold properties required and, due to the total value of the contract, is subject to OJEU procurement regulations.
- 3.2 The current Long-Term Agreement (LTA) was entered into in 2015, when a two-year arrangement (with the option to extend for an additional year) was agreed, following a full tendering exercise. This agreement will cease on 31st March 2018.
- 3.3 As a member of the Insurance London Consortium (ILC) the Council participated with the ILC in a joint tender for leasehold buildings insurance. The contract is to run for a period of 5 years considering that an insurance contract of this length usually achieves more favourable insurance terms. To facilitate the procurement AON Ltd were appointed as the Council's broker and to act as the ILC's insurance and procurement advisors. AON have conducted extensive market research to ascertain the best route to market

and have advised to re-tender via an OJEU compliant Open Tendering process, which was accepted.

- 3.4 Through the combined and focused purchasing power of the insurance London Consortium, the outcome of the procurement exercise and subsequent consideration of award of contract the council will meet the objective of improving value for money for its leaseholders and support the broader council priorities.
- 3.5 Leasehold properties in this context are those that have been sold to council tenants on a right to buy basis. Whilst these properties are therefore owned by 3rd parties, as the majority adjoin council owned properties (e.g. in a block of flats) they are sold on the basis that the council will arrange building insurance cover for the property (excluding contents – which can be purchased by leaseholders voluntarily). This ensures that the council is not exposed to un-insured risk, and includes common parts such as stairwells and hallways and alleviates any administrative issues around leaseholders arranging their own insurance.
- 3.6 Croydon, as the lead authority for the ILC conducted the tender and provided advice and support in the evaluation and award elements of the contract letting process. The contract will be managed by Croydon on behalf of the ILC in conjunction with AON. Tenders for the provision of the leasehold building insurance were requested through the Official Journal of the European Union (OJEU). The contract will be for a five year fixed-term period from 1 April 2018 to 31 March 2023. The approximate value of this contract is £14.8m (excluding IPT).
- 3.7 A review of our premium history and charges to leaseholders shows that for the last 10-years Tower Hamlets has benefitted from very low premiums. Until 2017 premiums have remained exceptionally steady, with a slight increase in premiums in two out of the ten years and in four years the premiums did not change at all. Against this backdrop premiums have now risen considerably from an increase in the value of the claims experience. The total premium paid in 2017/18 was £1.611M per annum (excluding Insurance Premium Tax) and this will increase to £2.960M per annum from 1 April 2018. The majority of the ILC Consortium members have experienced similar increases over the last 5-years and we are now comparable with other ILC members.
- 3.8 To protect our leaseholders from financial exposure arising from unforeseen incidents. The policy provides for total loss arising from fire, flood, explosion, terrorism, accidental damage, property owner's liability and alternative accommodation. The policy excess is £50 in the event of any one claim.

Consultation (to date)

- 3.9 The Notice of Intention, under Section 20, Landlord and Tenant Act 1985, sent to all leaseholders on 18th September 2017, made clear that our

intention was to obtain the best deal possible on behalf of leaseholders on a fair balance of cost, cover and service.

- 3.10 The consultation started from the date the notice was issued and asked that leaseholders provide any comments on our proposal within 30 days (by 21st October 2017). We received a total of 42 consultation responses from a total of 9,551 leaseholders who were consulted, however a number of these were not related to the proposed tender and were general leasehold queries, which have been duly passed to Tower Hamlets Homes where necessary.
- 3.11 The total number of relevant consultation responses was 13 and each of these received a response, at the minimum confirming we have noted their comments, but generally providing further information to allay any concerns raised.
- 3.12 The tender approach was not changed in light of any of the comments raised by leaseholders. The OJEU notice was posted on 4th September 2017. The second stage of the consultation is underway and will be completed by the 26th March 2018. To ensure the deadlines are met we plan to respond to leaseholders as enquiries are received and have made arrangements to consider the enquiries informing our decision to enter into contract.
- 3.13 The tender results and analysis are in the attached restricted appendix.

Multiple Insurance Tenders Renewal

- 3.14 This element of the procurement was structured into the following lots for all ILC members: -
- Lot 1 Motor Insurance
 - Lot 2 Commercial Property Insurance
 - Lot 3 Crime Insurance
 - Lot 4 Engineering/Inspection Insurance
 - Lot 5 Business Travel/PA Insurance
 - Lot 6 School Journey
- 3.15 The current insurance policies expire on 31st March 2018. The new contract will be for a five year fixed term from 1st April 2018 – 31st March 2023. The Council is responsible for paying the annual insurance premium to the insurer for Lot 2 and Lot 6. Commercial property owners and Schools are then re-charged for their own apportioned element of the premium. The cost of the remaining lots is borne by the Council.
- 3.16 All ILC members participated in the procurement exercise, although the insurance arrangements and prices are specific for each ILC member according to their own individual insurance requirements and claims experience. These arrangements mean there is no cross sharing of risk across ILC members.

- 3.17 The procurement process was for Croydon Council, as the lead authority, to conduct an OJEU 'Open' tender process on behalf of the ILC in accordance with the Public Contracts Regulations 2015. As with the leasehold tender, AON Ltd, who are the Council's broker and also act as the ILC's insurance and procurement advisors conducted extensive market research to ascertain the best route to market and have advised to re-tender via an OJEU compliant Open Tendering process.
- 3.18 The funding for insurance premiums sits within the insurance fund. Whilst there is a cost element involved in the project, for example running of the tender exercise, it is spread equally amongst all of the ILC members and is therefore minimal for the participants. The project has also fixed premiums going forward in order to reduce the risk of year on year increases, with five year long-term agreements reducing future procurement costs. The contract will be from 1 April 2018 to 31 March 2023. The contract sum for all lots is expected to be £1.6m (excluding IPT).
- 3.19 The tender results and analysis are in the attached restricted appendix

4. COMMENTS OF THE CHIEF FINANCE OFFICER

- 4.1 The current procurement contract for Insurance is due to expire in March 2018. This report sets out the outcomes from tender exercises undertaken through the current Insurance London Consortium (ILC) mechanism and covering the next 5 year period.
- 4.2 The Council adopted an approach to seek value for money by engaging with other Local Authorities to jointly procure insurance contracts. This report sets out the arrangements that have been put in place. The premiums associated for leasehold tender are fully recharged to leaseholders as part of their annual service charge and the commercial property insurance & school journey premiums are also recharged to businesses and schools respectively. For lots 1, 3, 4 and 5 as set out above at paragraph 3.9, the annual premium is £271,345 per annum. The cost of these policies is borne by the Council and budgetary provision exists to provide for this cost.

5. LEGAL COMMENTS

- 5.1 The procurement process as detailed in this report meets the requirements of the Council's Contract Procedure Rules, EU procurement requirements and the Council's duty to secure best value under the Local Government Act 1999.
- 5.2 The Council may be satisfied that the prices it has received are the best available in the market place at the current time as the tendering opportunity was presented Europe wide.
- 5.3 Six companies were invited to bid for the leaseholder insurance tender. However, two declined to bid. Of the remaining four, two companies submitted bids that were not compliant with the rules of the tender. Under

European and Domestic law the Council had to discount both non-compliant bids from being evaluated.

- 5.4 Of the remaining two bids, the highest scoring tender is recommended for award in accordance with the pre-published evaluation criteria and the Council is entitled to consider the market appropriately tested under the prevailing law.
- 5.5 Consultations have been, and will continue to be carried out with leaseholders and tenants associations in accordance with the Landlord and Tenant Act 1985 ('the 1985 Act'). Paragraphs 3.5 to 3.7 of the report refer to the consultation has been undertaken and this complies with section 20 of the 1985 Act and the requirements of schedule 2 of the Service Charges (Consultation Requirements) (England) Regulations 2003 in respect of the Notice of Intention.
- 5.6 The Consultation now underway is in respect of the notification of the landlord's proposal. This requires notice be given to each tenant; and where a recognised tenants' association represents some or all of the tenants, to the association. Where the Council receives observations to which it is required to have regard, it shall, within 21 days of their receipt, by notice in writing to the person by whom the observations were made, state the Council's response to the observations.

6. ONE TOWER HAMLETS CONSIDERATIONS

- 6.1 Equalities and diversity implications – and other One Tower Hamlets issues – are addressed through the tollgate process, and all contracting proposals are required to demonstrate that both financial and social considerations are adequately and proportionately addressed. The work of the Competition Board and the Procurement & Corporate Programme Service ensures a joined-up approach to procurement.

7. BEST VALUE (BV) IMPLICATIONS

- 7.1 It should be noted that the tender value for each ILC member was priced according to their individual insurance requirements and claims experience, and therefore there is no cross sharing of risk. Consultation was undertaken with the counterparts at the other London Boroughs involved in the ILC in order to ensure that all requirements were met.

8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

- 8.1 Not applicable.

9. RISK MANAGEMENT IMPLICATIONS

- 9.1 Risk management is addressed in each individual contracting project, and assessed through the tollgate process. By running this procurement exercise,

we have mitigated our risk of running out of these vital and absolutely necessary insurance policies.

10. CRIME AND DISORDER REDUCTION IMPLICATIONS

10.1 There are no specific crime and disorder reduction implications.

11. SAFEGUARDING IMPLICATIONS

11.1 Risk of delivery of services by the recommended providers has been assessed with the supplier's financial status and standing being ascertained through the assessment of the market security overview of our professional advisors and continually monitored throughout the term of the contract.

Linked Reports, Appendices and Background Documents

Linked Report

- None

Appendices

- Appendices 1 and 2 – Tollgate Information (Exempt from publication)

Background Documents – Local Authorities (Executive Arrangements)(Access to Information)(England) Regulations 2012

- NONE
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Officer contact details for documents:

N/A