

**Wards Affected:**

All Wards

**ITEM 3****CABINET PROCUREMENT COMMITTEE****7 MAY 2013****INVITATION TO TENDER: LEASEHOLDER / SHARED OWNERSHIP INSURANCE  
(REF: CU2347)**

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**Executive Summary:**

This report is seeking approval to commence the tender process for Leaseholder / Share Ownership Insurance in accordance with the Council's Contract Procedure Rules and Financial Regulations. Tenders will be invited using the Council's E-Tendering system.

**1 Recommendation(s)**

1.1 That the commencement of tender processes for the procurement of Leaseholder / Share Ownership Insurance be approved.

**2 Background**

2.1 This report requests approval to obtain tenders for the provision of Leaseholder / Share Ownership Insurance. The funding for the requirement will be met from the HRA budget allocated within 2013/2014 years and is recharged to Leaseholders and Shared Owners. This applies to 1599 leasehold properties including 34 garages and 567 shared owners.

2.2 There is a need to strategically review this insurance provision however the current policy expires on 31<sup>st</sup> August 2013. Alternative options have been evaluated (as section 3) to this procurement however it is highlighted that the recommended option itself should be considered to be an 'interim' solution allowing a more thorough development of the market and procurement options within the next 24 months.

2.3 This will permit claims analysis and market development to be undertaken then allowing full consultation with leaseholders / shared owners in 2014/15.

**2.4 Consultation**

2.4.1 The draft specification is relatively standard buildings insurance provisions.

2.4.2 Leaseholders and Shared Owners have been consulted given the rising costs in this area.

2.4.3 Additionally the Cabinet Members for Finance and Housing have been consulted.

2.4.4 A review of the current / previous contract identified the following:

- The costs for this cover continue to increase. As with any block cover poor claims history in one area affects the total price requiring low claim areas to pay more than would be charged if insuring just that property.
- In the past 3 years premiums (including insurance premium tax) have been:
  - 2010/11 : £254,281
  - 2011/12 : £294,294 (+16%)
  - 2012/13 : £387,221 (+32%)

Insurance providers base the level of premium on the previous claims history and the difference between claims and premium (minus their profit) normally sits at a loss ratio of 65%. The high value of claims that our leaseholders have incurred has meant the loss ratio has ranged from 73% to 95% over the same period. This effectively means that the current provider is making a loss from the cover they provide unless they increase the level of the premium.

## 2.5 Specification

2.5.1 The procurement seeks to deliver the following service objectives:

- Ensure that Council Leaseholder and Shared Ownership properties are properly insured
- That costs are minimised (within acceptable cover)

2.5.2 The new contract will be structured to minimise additional costs but premium costs could increase over current prices.

## 2.6 Evaluation Criteria & Panel

2.6.1 The MEAT evaluation of tenders will be as follows:

(a) Price @ 100%

2.6.2 There is no quality evaluation criterion because the insurance cover will represent the minimum quality specification.

2.6.3 Tenders submitted will be evaluated by a panel comprising of Ad Audit & Risk, Head of Risk and Insurance, AD Housing (or nominated representatives). Colleagues within Finance and Legal and Corporate Procurement will be engaged to support the tender process.

## 2.7 Contract Terms and Conditions

- 2.7.1 Tenders will be sought under the Yorkshire Purchasing Organisation (YPO) framework recently let. Eligible contractors from the framework will be invited to submit bids in respect of the MKC Leaseholder and Shared Ownership property portfolio.
- 2.7.2 Tenders will be sought for a contract period starting on 1<sup>st</sup> Sept 2013 and ending on 31<sup>st</sup> August 2016 ie 3 years.
- 2.7.3 The contract will provide for a break clause annually ie 31<sup>st</sup> Aug 2014 and 2015.
- 2.7.4 The Council's standard Terms and Conditions for Insurance. Upon approval of this report we will liaise with the legal department to have the Terms and Conditions issued as a formal contract which will then be sealed and stored in the deeds room.
- 2.7.5 The Council's Constitution further requires that all contracts in excess of £100,000 are sealed as deeds with the legal department agreeing contract terms with the client department and making the arrangements for sending out final Terms & Conditions to Contractors and sealing and storage of the final contract in the deeds room.

## 2.8 Project Management

- 2.6.1 The Council's Project Manager for the procurement is AD Audit & Risk.
- 2.6.2 The Council's Senior Client Officer for the procurement is AD Housing and for the management of the contract is the Head of Assets and Strategy (Housing).

## 3 **Alternative Options**

3.1 The following options appraisal has been conducted:

- 1. Do Nothing – the Council must have insurance arrangement in place by 1<sup>st</sup> Sept 2013. Not recommended.
- 2. Renew current policy – The existing supplier has indicated they do not wish to extend and the current contract does not have provision to extend beyond 31<sup>st</sup> Aug 2013. Recent price increases by this provider also indicates this alternative is not desirable. Not recommended.
- 3. An alternative proposed by some leaseholders has been to allow self insurance. This creates 3 issues:

- The Lease Agreements specify MKC insurance will be recharged and the Council remains liable whether properties are insured or not
- Claims that arise where it was discovered no insurance had been purchased and the ability to recover such costs
- Costs of MKC verifying cover annually would have been considered uneconomic. With increasing premiums this needs to be revisited.

Not recommended at this time.

4. Externally let Framework (3-5 years) – given the time pressures to have a policy in place by 1<sup>st</sup> Sept 2013 it seems prudent to use an external framework that has already recently tested the market. A mini competition will ensure competitive prices.

However the need to re-examine the claims history and market development for this type of insurance makes it prudent to limit this to a 3 year contract including annual break clauses. Not Recommended

5. Externally Let Framework (1-3 years) – This option allows insurance cover to be procured quickly (ie by 1<sup>st</sup> Sept) and competitively but also to give flexibility to migrate to more suitable cover after sufficient analysis has been completed during 2013/14 and 2014/15. This **is recommended option** with aim to migrate to new procured insurance on 1<sup>st</sup> Sept 2015, but providing for delays to allow this contract to run until 31<sup>st</sup> Aug 2016 if needed.
6. Procure via open tenders – The consultation with Leaseholders / Shared Owners has identified several companies interested in bidding for this provision. Upon review of timescales it is not possible to undertake an open tender adhering to OJEU given the current policy expires on 31<sup>st</sup> Aug and the inability to extend existing arrangements. Although this option is not recommended at this time the contacts provided will be used to consult the market and assess this option as part of the need to renew this insurance in 2-3 years.

## 4 Implications

### 4.1 Policy

The procurement seeks to safeguard Council assets.

### 4.2 Resources and Risk

4.2.1 The costs of this contract are met from the Housing Service Budget (Revenue). The costs are recharged to Leaseholders and Shared Owners.

4.2.2 The Risk Assessment for this contract is available if requested or directly via Members access to GRACE. In summary:

- The key OPPORTUNITY secured by this contract is to seek insurance cover for less cost. It is assessed that the delivery of this contract provides a MEDIUM Likelihood that will secure the opportunity defined providing MKC with a MEDIUM positive Impact.
- The key THREATS for this contract have been assessed as:

Risk	Likelihood	Mitigation
Poor specification?	Low	Standard terms and use of framework gives good protection
Poor timing in market?	High	Use of framework should minimise additional costs.  Wider market analysis in 2014/15 should allow more effective procurement in 2016
Price increase / no reduction	Medium	Market testing of framework  If unsuccessful further comms to L/SO of further work in 2014
No bids received?	Low	Use of framework

The governance measures set out in 2.7 above provide a basis to conclude that these threats, properly managed represent a MEDIUM Likelihood with a HIGH Impact.

#### Resources & Risk Implications

N	Capital	Y	Revenue	N	Accommodation
N	IT	Y	Medium Term Plan	Y	Asset Management

#### 4.3 Carbon and Energy Management

None

#### 4.4 Legal

This recommendation complies with MKC rules, UK and European legislation.

4.5 Other Implications

N	Equalities/Diversity	Y	Sustainability	N	Human Rights
Y	E-Government	Y	Stakeholders	Y	Crime and Disorder
N	Carbon and Energy Policy				