

TITLE	Residential Leasehold Building Insurance Renewal
FOR CONSIDERATION BY	The Executive on Thursday, 28 September 2023
WARD	(All Wards);
LEAD OFFICER	Director, Place and Growth - Giorgio Framallicco
LEAD MEMBER	Executive Member for Finance - Imogen Shepherd-DuBey

PURPOSE OF REPORT (INC STRATEGIC OUTCOMES)

The purpose of this report is to seek Executive approval to procure a new buildings insurance policy for leasehold 'Right to Buy' and shared ownership properties.

RECOMMENDATION

That the Executive approves this request to conduct a competitive procurement exercise to enable the Council to obtain the best value buildings insurance policy to provide adequate cover for buildings insurance for council leaseholders and shared ownership properties.

EXECUTIVE SUMMARY

The Council is acutely aware of the current cost of living challenges faced by many people in the Borough, and it is working as hard as possible to ensure that leaseholders are kept informed, and that the approach to securing the new insurance delivers the least possible financial impact on leaseholders.

This buildings insurance cover was last procured to commence in April 2020 on a 3-year term with the option to extend for 2 years. However, at very short notice the Council's insurance provider (Avid) pulled out of the leaseholder insurance market with effect from March 2023.

The premium paid in 2022-'23 was £70,300. Following the withdrawal of the council's insurers from the market, 'emergency' renewal quotations were sourced by the council's brokers from the only insurers prepared to provide the cover. One of these was 300% more expensive than Avid. The second was 80% more expensive and was only available on a 3-year deal. This was not acceptable under procurement regulations and would not have been recoverable from leaseholders because there was insufficient time to carry out the two statutory 30-day consultations with them. A third quote at a 60% increase on the previous year's premium was obtained from the council's main property insurers. They will not normally cover council residential leasehold premises agreed to do so for the year because of the exceptional circumstances, but this cover is subject to a high excess.

WBC could try to extend the current year's arrangements, but this is not the recommended approach. The current cover is not as comprehensive as policies specifically designed for leaseholder risks, the excess is very high, and we have had to separately enter in to a second supporting contract with loss adjusters to provide the claims-handling service.

The next tender was due to take place in 2024-'25 for a commencement date of April 2025, but now needs to be undertaken a year earlier for the new insurance to commence April 2024.

The Council is required under the terms of the leases to procure this buildings insurance cover. Because leaseholders will be required to pay for the cover, and it will cost over £250 per year, two statutory 30-day consultations with leaseholders are required and are built into the procurement timetable.

The leasehold insurance market is extremely limited. Two of the main insurers in this sector have recently withdrawn and a third has pulled back and is not responding to tenders. The leasehold property market is currently in a very challenging position because of the current demands of insuring typical social rented property types. Based on market intelligence from the Council's broker, the market is now very small, selective, and expensive. Based on current market conditions, it is therefore not unreasonable to expect an increase of at least 10% in the annual premium compared to the Council's current 23/24 annual premium of £113k, and there is a risk that it could be higher.

Working in partnership with the Council's broker, WBC intend to go out to tender using an open tender procurement process. This process will achieve the best value for leaseholders in a very limited insurance market. The process will be supported by WBC's broker who will provide professional guidance on the specifications, and the evaluation of tender returns. They will also help provide information for the insurance provider to use.

BACKGROUND

The Council is required under the terms of the leases to procure this buildings insurance cover. This insurance was last procured to commence in April 2020 on a 3-year term with the option to extend for 2 years. At very short notice the Council's insurance provider pulled out of the market with effect from March 2023.

Via the Council's broker 'emergency' cover was secured and put in place for the twelve-month period until 31st March 2024. A procurement exercise must be completed to put in place a new insurance to commence on 1st April 2024.

The cost of the insurance will be passed on to leaseholders. It is a requirement that leaseholders have building insurance, and in common with most landlords we provide this under the lease. This arrangement benefits the landlord and the leaseholders because it protects the building (and other residents) and landlords can achieve better prices across a portfolio across a longer period than leaseholders can hope to achieve annually.

If the landlord is procuring a service that will be charged to leaseholders and it will cost more than £250 a year, the landlord has to consult them.

The actual cost of insurance is not known because so many insurers have withdrawn from insuring local authority housing, and the ones still in the market are charging higher prices to cover the perceived risks. This affects us and our leaseholders because we are insuring council housing.

We have approximately 220 leaseholders in total, including shared owners. Previously, before the provider pulled out last year, the cost was approximately £70k per annum, or £320 per leaseholder on average. Current premiums range from £300 to £650 per leaseholder. The current interim contract costs £113k per annum, but it carries a high excess. The estimated range of prices for the new contract starts at about 10% higher, £125k per annum and runs to over £250k, with a potentially high excess at the lower end, depending on who decides to bid.

It is essential that our whole buildings are covered, so all our leaseholders must have buildings insurance. We are confident that with our robust procurement approach and with the support of a specialist broker that understands this challenging sector of the insurance market, with our buying power, we will secure better prices than homeowners would be able to achieve individually, and this will ensure that individual insurance premiums will be the most competitive that can be achieved in the current market conditions, minimising the financial impact on leaseholders.

Local authority associations, landlord bodies and the insurance market are in constant discussions with the Government to improve the situation, but the main emphasis has been on high-rise buildings. Some recent media reports suggest these are effectively becoming uninsurable. We hope these discussions will benefit the whole market, but there has been little progress for some time.

BUSINESS CASE

The Council is required under the terms of the leases to procure this buildings insurance cover. The Council intends to procure the new insurance using a competitive tender process in order to identify a suitable provider and attempt to achieve best value for money. The tender process will meet WBC's own internal governance for procurements,

and it will also comply with current public sector procurement rules. This approach will ensure that the Council achieves the best possible value for the leaseholders in a difficult market.

The existing insurance expires on 31st March 2024, so the tender process will need to be concluded in timescales to ensure the new insurance is in place in advance of the expiration of the current insurance. If bids received are unsuitable, or there are no bids, the Council may have no other option but to 'self-insure'.

FINANCIAL IMPLICATIONS OF THE RECOMMENDATION

The Council faces unprecedented financial pressures as a result of; the longer term impact of the COVID-19 crisis, Brexit, the war in Ukraine and the general economic climate of rising prices and the increasing cost of debt. It is therefore imperative that Council resources are optimised and are focused on the vulnerable and on its highest priorities.

	How much will it Cost	Is there sufficient funding – if not quantify the Shortfall	Revenue or Capital?
Next Financial Year Estimate (Year 1)	The Councils' current 23/24 annual premium is £113k. Based on current market conditions the annual premium from Year 1 of the new insurance agreement may increase by 10% or more.	Yes.	WBC pay the premium up front for the year; this is then recovered from the leaseholders and those shared owners insured under the council's arrangements.
Following Financial Year Estimate (Year 2)	£113k (plus % increase following tender)	Yes.	As Year 1 above.
Following Financial Year Estimate (Year 3)	£113k (plus % increase following tender)	Yes.	As Year 1 above.

Other Financial Information

Although the council pays the insurance premium up front, the cost is recharged to the leaseholders that are included in scope of this insurance agreement, and therefore the costs are recoverable, reducing the potential financial exposure to the authority. The amount the leaseholders would pay annually would increase in line with any annual increase incurred in the value of the annual insurance premium.

The current insurance market has a very limited appetite for these services and for insurers in this sector, Wokingham may present a higher-than-average risk due the number and cost of claims that have been generated over the previous 7–8-year period.

There is a possibility in the future that the Council may be left with no option but to 'self-insure' and any issues with properties will be paid directly out of Council funds.

Legal Implications arising from the Recommendation(s)
The Council is required under the terms of the leases to procure this buildings insurance cover. The recommendation is within the power of the Executive under 1.4.4 and 5.1.9 of the Council's constitution.

Stakeholder Considerations and Consultation
Two statutory 30-day consultations with leaseholders are required and are built into the procurement timetable. During the process to identify suitable insurance, leaseholders will be kept advised with assurances about the tender process that will be conducted by the council to achieve the best outcome for leaseholders in the current market conditions, and as soon as is practicable, leaseholders will be informed about any potential increased cost implications that may impact on annual insurance premiums.

Public Sector Equality Duty
The Council complies with the government's agenda to achieve efficiencies through the adoption of good practice in their procurement processes, including compliance with the Equality Act 2010 where it applies.

Climate Emergency – <i>This Council has declared a climate emergency and is committed to playing as full a role as possible – leading by example as well as by exhortation – in achieving a carbon neutral Wokingham Borough by 2030</i>
Not applicable to this procurement.

Reasons for considering the report in Closed Session
Not applicable.

List of Background Papers
No additional background papers.

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