

Meeting: Cabinet **Date:** 21 November 2023

Wards affected: All

Report Title: Contract Award in respect of Insurance for Investment Properties

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Director Contact Details: Alan Denby, Director of Pride in Place, alan.denby@torbay.gov.uk

1. Purpose of Report

- 1.1 The insurance for the Council's Investment Properties expires on 1 December 2023. The Council following competitive tender needs to negotiate and agree terms and conditions to insure the Council's Investment Properties.
- 1.2 The report seeks delegated approval to award the contract for the purchase of insurance premiums to provide the most appropriate, cost effective sustainable insurance cover to protect the Council's financial risk exposure (material damage and legal liability) for the Investment Property Portfolio.

2. Reason for Proposal and its benefits

- 2.1 The reasons for the decision are mainly financial. Insuring the Council's Investment Properties ensures that the Council is protected from material damage to the properties, loss of rental income, Landlord's Legal Liability and to ensure the money borrowed to purchase such properties is not adversely affected by an insurable event should something happen that could result in loss of property/income to cover the borrowing. Accessing the specialist insurance markets and the bespoke policy wording necessary to provide the breadth of insurance cover to support the Council's responsibilities as Landlord and provide financial cover for insurable risks to property damage and rental income via a Broker led exercise will ensure access to Insurers best placed to partner with the Authority.

3. Recommendation(s) / Proposed Decision

1. That the Director of Pride in Place be given delegated authority to enter into a contract with the preferred bidder that provides the most suitable terms and conditions of insurance.

Appendices

None

Background Documents

None

1. Introduction

- 1.1 The UK insurance market has experienced a severe rate correction over the last few years after a long period of overly competitive pricing, which eventually became unsustainable. As a response to the lack of profitability, many insurers withdrew from the market entirely, consolidated their exposures or merged to reduce their cost base. Those that remained responded sharply by reducing capacity, narrowing their risk appetite and limiting their exposure. This has created very hard market conditions, as competition almost disappeared for some insurance products and trade sectors. This position is beginning to change with signs of stabilisation in the Insurance market and competition between Insurers prepared to consider well managed and well performing property portfolio risks.

- 1.2 The usual Public Sector procurement process has limitations when it comes to the placement of cover for investment property portfolios and generally has not driven positive results compared to Broker led exercises. It has been reported that a large neighbouring County Authority failed to secure insurance for their Property Investment Portfolio when following a Public Procurement tender, resulting in no bids received for the risk. The County Authority had to revert to a more commercial exercise through a Broker led exercise to access the necessary specialist Property Insurance markets in order to gain the insurance required. The Investment Properties require a specialist Insurance Market to ensure the breadth of cover is provided to reflect the Council's obligations as Landlord and to obtain competitive and sustainable premiums that can be justified and defended when recharging tenants under the terms of their lease. This requires the technical input of the Authority's specialist real estate insurance brokers who have assisted with a previously successful competitive tendering process (in 2019) in conjunction with the Council's Insurance team. They will undertake a thorough and transparent market review, engage with highly rated specialist Insurers, provide evaluation against an agreed criteria of Price, Coverage and Technical/Quality. Upon completion of the exercise, a recommendation will be put to the Authority together with evidence of the evaluations for each quotation.

- 1.3 The terms of the insurance premium are still being negotiated hence the request for Cabinet to delegate authority to the Director of Corporate Services to award the contract to the preferred insurance supplier.

2. Options under consideration

- 2.1 Option 1 - Award to the preferred supplier – recognising that market conditions are very challenging.
- 2.2 Option 2 – Not to award to the preferred supplier. The Council would have a significant investment property portfolio uninsured which would fiscally be very damaging.

3. Financial Opportunities and Implications

- 3.1 To gain access to Specialist Insurance markets with an appetite for Investment Property Portfolios at competitive and sustainable premiums as the Public Procurement route has not driven positive results. As a basis the current annual premium spend is £221,000 and met by tenant recharges on the properties. There are a number of variables that sit behind the forecasting of annual premiums. The annual premium changes to reflect property uplifts in accordance with the Royal Institute of Chartered Surveyors (RICS) and Insurer recommendations for building reinstatement costs, as well as changes to rental income figures and acquisitions/disposals. The other variant is if the Insurer increases rates, although officer do tie into an extended agreement (3 years) to try and stabilise rates which works unless the Authority has a poor claims exposure during that time.

4. Legal Implications

- 4.1 None

5. Engagement and Consultation

- 5.1 Colleagues across the Council have been consulted in terms of the requirements of insurance cover.

6. Purchasing or Hiring of Goods and/or Services

- 6.1 Social Value is not included in this proposal because this procurement is significantly competitive in a very challenging market.

7. Tackling Climate Change

- 7.1 N/A.

8. Associated Risks

8.1 Financial Risk. The Council cannot afford to have any Investment Property uninsured or risk not securing appropriate, affordable and sustainable insurance cover aligned to the requirements of an Investment Property Portfolio.

9. Equality Impacts - Identify the potential positive and negative impacts on specific groups

	Positive Impact	Negative Impact & Mitigating Actions	Neutral Impact
Older or younger people			There is no differential impact
People with caring Responsibilities			There is no differential impact
People with a disability			There is no differential impact
Women or men			There is no differential impact
People who are black or from a minority ethnic background (BME) (Please note Gypsies / Roma are within this community)			There is no differential impact
Religion or belief (including lack of belief)			There is no differential impact
People who are lesbian, gay or bisexual			There is no differential impact
People who are transgendered			There is no differential impact
People who are in a marriage or civil partnership			There is no differential impact
Women who are pregnant / on maternity leave			There is no differential impact
Socio-economic impacts (Including impact on child poverty issues and deprivation)			There is no differential impact
Public Health impacts (How will your proposal impact on the general health of the population of Torbay)			There is no differential impact

10. Cumulative Council Impact

10.1 None

11. Cumulative Community Impacts

11.1 None