

Your Ref:

Our Ref: HOS/INSURANCE/DECEMBER2017

29 December 2017

PROPERTY ADDRESS:

Dear / **THE CURRENT LEASEHOLDER(S)**

Re: Renewal of Leaseholders' Buildings Insurance Contract

**Notice of Proposal to enter into a long-term agreement subject to public notice
Section 20 of the Landlord & Tenant Act 1985 (as amended by section 151 of the
Commonhold & Leasehold Reform Act 2002) and Schedule 2 (Regulation 5(2) of the
Service Charges (Consultation Requirements) Regulations 2003)**

I am writing to tell you about the estimated costs in relation to the Notice of Intention dated 29 June 2017 to enter into a long term agreement for buildings insurance with a reputable insurer.

In accordance with Section 20 of the Landlord and Tenant Act 1985 as amended by the Commonhold and Leasehold Reform Act 2002, landlords are required to give notice to leaseholders and recognised tenants associations of the Landlord's proposal to enter into agreements described in the Act as 'qualifying long term agreements'. These are agreements entered into by or on behalf of a Landlord for a term of more than twelve months. This definition would cover the agreements that the London Borough of Lambeth ("**the Landlord**") proposes to enter into, which are described below.

This notice is the second part of that consultation process and relates to the service charges which Lambeth Council may recover from leaseholders in respect of the cost of the **Buildings insurance**. A summary of the observations received in relation to the notice sent to you on 29 June 2017 is provided in Appendix A.

The Council is responsible for arranging building insurance for your property and the premium is billed in your annual service charge. The current cover with NIG will come to an end on 31 March 2018 and the Council has invited competitive quotes through the Official Journal of the European Union for new insurance cover.

Please note that this consultation **does not** include cover for contents insurance which remains the responsibility of the leaseholder and not Lambeth Council.

Before accepting the tender Lambeth Council must consult with leaseholders on the tenders received and on the premium that would be payable in the service charge. The remainder of this Notice gives you these details and invites you to make observations. This Notice has been served on all Lambeth Council leaseholders.

Cost of the Service

In order to ensure that it secures competitive prices, Lambeth Council has tendered the contract and a number of bidders submitted tenders which were assessed for quality and price. It is not possible to name the bidders as under OJEU tendering procedures, Lambeth Council cannot formally announce the recommended bidder until it has been approved by the Procurement Board. Listed below are the bidders and their tender price inclusive of Insurance Premium Tax (IPT).

Name	Estimate
Bidder A	£2,674,040.32
Bidder B	£2,900,825.76
Bidder C	£5,038,400.64

Reduction in the cost of the policy / your individual premium

The council is pleased to announce that the cost of the 2018 policy will reflect a reduction in the total premium and therefore you will see a reduction in the sum recharged to you by way of your estimated service charge for the insurance element of charge.

Description of Service

As landlord, Lambeth Council is responsible for arranging buildings insurance. The building insurance contract is due for renewal on 1 April 2018 and Lambeth Council has to renew the provision for buildings insurance cover for all of our leasehold properties in accordance with the lease agreement. This insurance policy will cover a leaseholder's individual property for loss or damage caused by an insured peril.

Current perils insured are:

- | | | |
|------------------|---------------------|--|
| 1. Fire | 7. Riot | 13. Malicious Damage |
| 2. Lightning | 8. Leakage of Oil | 14. Fixed Glass & Sanitary ware |
| 3. Explosion | 9. Subsidence | 15. Storm or Flood |
| 4. Aircraft | 10. Theft | 16. Escape of Water |
| 5. Earthquake | 11. Impact | 17. Breakage or collapse of Aerials |
| 6. Falling Trees | 12. Civil Commotion | 18. Accidental Damage (Excluded if sublet) |
| | | 19. Terrorism |

Please note that this policy **does not** include contents insurance cover which remains your responsibility and is not the responsibility of Lambeth Council.

Evaluation Process

Lambeth Council is committed to attracting and selecting the best insurer for your property. Whilst recognising that price was very important to you, we understand that cover and service levels were also of concern. For this reason Lambeth Council decided to use a weighting of 70:30, price to quality. The table below provides a summary of the quality and price scores achieved by each tenderer.

Score Summary			
Supplier	A	B	C
Score for Price	70	64.5	37.2
Score for Quality	26.1	21.6	20.9
Total Score	96.1	86.1	58.1

The evaluation was points based with bidders able to win a maximum of 100 points. 70 for price and 30 for quality, such as offering long term agreements or enhanced terms.

Bidders had to meet a specified minimum standard with regards to service levels and cover to qualify to tender. The tenders were then evaluated by the Insurance London Consortium (ILC) to give a total score.

As a result of this exercise, the most competitive bid in terms of both price and quality was established as Bidder A.

Preferred tenderer

From the tenders received Lambeth Council proposes to accept the tender from Bidder A but before we can do that we will have regard to any observations received. A summary breakdown of what this means for you is shown below. For example if you have a 2 bedroom property, your estimated premium in the first year will be £286.33. This figure includes Insurance Premium Tax (currently at 12%) and administrative costs from the Risk and Insurance Team (frozen at £15).

No of Bedroom	Premium
0	£150.62
1	£150.67
2	£286.33
3	£421.97
4	£557.66
5	£693.33
6	£828.99
7	£964.66
8	£1,100.32

Policy Enhancements

Full cover for unoccupied properties for up to 35 days.	Increased by five days
Cover for locks and keys increased from the requested £1,000 to £1,500	Increased policy cover in the event of lost keys
Trace and access limit increased from the requested limit of £5,000 to £6,000	Increased limit for trace and access incidents
Legal fees following occupation by squatters up to £12,000	Increased from £10,000
Emergency Access £2,000	Damage caused by emergency services previously not covered whilst gaining access
Theft or Attempted Theft whilst the property is let or sublet	Previously excluded for leaseholders who sublet

How to make observations about this proposed long-term agreement

We invite you to make observations in relation to the proposed agreement within the relevant period. Any observations must be made in writing and delivered to the address below by the **4 February 2018**, which is **37** days from the date of this notice when the consultation period ends.

You can submit your observations via the following methods:

- Online via our E-Form: <https://housingmanagement.lambeth.gov.uk/written-obs---sec-20>
- Email the Section 20 Consultation Team at: HMhomeownership@lambeth.gov.uk
- Post Observations to the below address:

Section 20 Consultation Team
Housing Services
Lambeth Town Hall
London
SW2 1RW

How to view the documents

If you want to see the documents in relation to this consultation, please call 020 7926 6700 or email HMhomeownership@lambeth.gov.uk to make an appointment. Our office hours are Monday to Friday 9.00am to 5.00pm excluding bank holidays.

Selling Your Home

You should keep these documents in a safe place, and if you sell your home they should be passed on to your solicitor. In cases where the ownership of the property changes hands during the consultation period, it is important that this statutory notice is disclosed to the purchaser. It is reasonable for Lambeth Council to expect that the new leaseholder have received copies of this documentation from the vendor. It is not necessary for Home ownership Services on behalf of the London Borough of Lambeth to re-start the consultation process.

Yours sincerely,

K. Kellaway

Karen Kellaway

Leasehold Manager

London Borough of Lambeth

Lambeth Town Hall

Brixton Hill

London

SW2 1RW

Tel: 020 7926 6521

HMhomeownership@lambeth.gov.uk

Appendix A

Observations Summary in response to the Notice of Intention dated the 29 June 2017. 68 observations were received and below is an outline of the observations received and the replies given.

- **I attach an estimate of the rebuild value of my property. The current rebuild cost of my flat according to The Building Cost Information Service of RICS is £129,000. I hope this will help to inform your decision about the cost of a new buildings insurance.** Please be advised that it would be unfeasible to determine individual sum insured costs due to the diverse array of Lambeth Council properties and the wide variation of perils which may be experienced. Individual sum insured amounts could also result in properties being under insured. The sum insured (of the current policy) is 'up to' £382,454 for all leasehold properties. Should a block experience a peril which required the whole range of 0/1/2/3/4/5/6/7 & 8 bedroom properties to be rebuilt, all leasehold properties are fully covered for full reinstatement. The reinstatement cost of a 0 bedroom property would clearly be less than the reinstatement cost of an 8 bedroom property. In the event that the amount to reinstate (an individual leasehold property of any bedroom size) exceeds the 'up to' sum insured, the additional cost(s) would be borne by the council.
- **What advice has Lambeth had as regards what insurance is appropriate and what is not. Does Lambeth have an insurance broker?** The leaseholder insurance policy is one of seven policies that will be procured through the Insurance London Consortium (ILC) and the ILC has a broker who advises on all tenders.
- **We note that you intend that the insurance be "procured by bedroom size". Do you mean "bedroom size"? Do you not in fact mean on the basis of the number of bedrooms in a dwelling which was your earlier position? And, whichever of these you mean, the terms of all the leases of which we are aware require the insurance costs to be apportioned on the basis of rateable value.** The leasehold insurance will be procured on the basis on the number of bedrooms otherwise referred to as bedroom size. You are correct in saying 'the terms of all the leases of which we are aware require the insurance costs to be apportioned on the basis of rateable value', however rateable value has no direct relevance as to how leaseholder insurance is procured, nor does it provide a block cost to enable us to calculate the apportionment. Rateable value has no direct relevance as to how leaseholder insurance is procured as industry-wide insurance is procured by either bedroom size or sum insured. Lambeth considers that given the way in which the insurance industry lets contracts of this nature, there is no true 'building' or block cost which can be calculated fairly, and so invoicing and recharging the insurance premium by the bedroom size is a reasonable method.

The council accepts that the manner in which the insurance element of your day to day service charge is calculated is not strictly in accordance with the terms of your lease. This is not in dispute. What needs to be clarified is the reason why we do not take the 'building' cost and apportion it by the aggregate of the rateable value of all the flats in the building and then multiply the resultant amount by the rateable value individual of the Flat(s).

There is no building (or block) cost to enable Lambeth to “relate to the rateable value of the flat in relation to the block’s rateable value”. The rateable value ‘building’ cost would have to be an amalgamation of the (1) leasehold policy, (2) the freehold policy (3) the self-insured provision which Lambeth undertakes and (4) any associated costs for the claims handling function and loss adjusters required from third parties. Further to this, it would be unreasonable to calculate the block cost as

- a. We would be using a combination of costs for a commercial insurance policy and a domestic insurance policy.
- b. Each type of policy comes with a distinctly different set of covers and a different level of services.
- c. All elements are procured on different terms.

Lambeth Council considers that given the way in which the insurance industry lets contracts of this nature, there is no true ‘building’ or block cost which can be calculated fairly, and so invoicing and recharging the insurance premium by the number of bedrooms is a reasonable method.

Lambeth Council has not taken the decision to deviate from the terms of the lease (in respect of the calculation of the insurance element of the day to day service charge), rather we are constrained in the manner in which the insurance industry lets such ‘leasehold’ policies and we are charging the costs in the most reasonable manner. We have specifically made reference to this in the Notice ‘It is proposed to appoint the contract on a five year long-term agreement, procured by bedroom size on a like-for-like cover basis, continuing the insured risks the current policy covers’.

- **We note that when a dwelling is sublet much of the insurance falls away under the existing NIG policy. We are concerned that, by doing this Lambeth is in breach of its obligations to insure under the leases which permit subletting.** Accidental Damage is not included in the policy if the property is lent, let or sublet (in whole or part). A leaseholder who rents out their property privately is not covered if their tenant causes damage to the inside of the property by means of the peril accidental damage. It would not be reasonable for leaseholders to pay an increased premium to support those who chose not to live in the property.
- **We need to understand how the NIG policy and the policy described as the Protector policy intermesh. Our concern is that where the claim is under the Protector policy it will almost always be below the excess of £500,000 and so not covered with the result that the relevant expense will be a cost that is paid for by the leaseholders as part of their service charges. It seems to us that this is hardly insurance at all and is not in compliance with the leases.** In response to your query of the current leasehold policy (NIG) and freehold policy (Protector); the two insurance schemes are designed to provide cover for very different legal and insurable interests. Lambeth has procured freehold Insurance to protect its interest as the freeholder of its residential properties. Lambeth’s freehold insurance covers the building including common parts and Lambeth’s council properties occupied by tenants. The leasehold insurance protects the interests of leaseholders primarily for the internal area of their property. Each policy is in place due to different interests in line with the tenure of the blocks. Lambeth cannot claim for a tenant’s property damage under the NIG policy and leaseholders cannot make a claim on the Protector policy for damage to their

property. As the freeholder, Lambeth is responsible for the common parts, but there is a clause within the NIG policy that Lambeth as the freeholder, could call upon for the leasehold proportion of an affected block. Lambeth Council is pragmatic about using this clause as it has an impact on the claims history of the leasehold insurance policy which may lead to increased premiums. This clause is usually triggered when there has been a catastrophic claim. Each insurance claim submitted to Lambeth is examined on a case by case basis and we would 1. not pressure claimants into contacting NIG if Lambeth was at fault and 2. NIG would not pay out a claim if Lambeth had been negligent. Claims paid out by Lambeth are not rechargeable to leaseholders and have no bearing on the leasehold insurance premium.

- **The policy provides no protection whilst building works are undertaken, whether the leaseholder is a resident or not.** In response to your query of policy exceptions within the current contract; the following is not covered, 'loss or damage caused by or as a result of buildings being under construction, demolished, altered, or repaired'. This is a standard clause in all building insurance policies and relates to construction works on a building. The affected party would make a claim from the third party insurers i.e. those responsible. Independent contractors have their own insurance in place if they were at fault the whole claim would be their responsibility.
- **Why can't I arrange my own building insurance cover?** Your lease states that the Council must arrange insurance cover for the building and this cost can be recovered through the service charges. The most cost effective way for the Council to do this is for us to arrange cover for all leasehold properties with a single insurer. As the freeholder of your property, we have to take out building insurance on your behalf, in accordance with your lease. The insurance means that the structure of the building can be repaired if it is damaged. It also means that you can make a claim if problems with the building cause damage to your home. You are charged a proportion of the total cost of our insurance contract. Industry-wide insurance is procured by either bedroom size or sum insured. In Lambeth's case, we procured the contract based on the bedroom size of our leasehold stock and therefore the premium is based upon a contract procured on a bedroom size rated policy. Please be advised that as a leaseholder you cannot opt out from your buildings insurance being provided via Lambeth and obtain cover elsewhere. Doing so would constitute a breach of your lease agreement. I have inserted an extract from your lease stipulating that we, as the freeholder, must insure your property on your behalf and pass on the associated premium costs to you which you are liable to pay.
- **Why is there a maximum re-build value of £382,454?** This is the cost ('up to') of re-building your home if it was destroyed by something listed as an insured risk on the policy. It is sufficient for **all** properties insured under the policy. In the unlikely event that it was not sufficient, the council would have to bear any re-instatement costs above this amount as per the terms of your lease.

In response to your query of the sum insured within the current contract, the sum insured is 'up to' £382,454 per property. Should a block experience a peril which required the whole range of 0/1/2/3/4/5/6/7 & 8 bedroom properties to be rebuilt, all leasehold properties are fully covered for full reinstatement. In the event that the amount to reinstate (an individual leasehold property of any bedroom size) exceed the 'up to' sum insured, the additional cost(s) would be borne by the council. It would be unfeasible to determine individual sum insured costs due to the diverse array of Lambeth properties and the wide variation of perils which may be experienced.

- **Will the new policy provide value for money?** Please be advised that the tender will allow the council to approach the insurance market and test it, to ensure the best terms are obtained for all leaseholders. By being part of the Insurance London Consortium it is proposed that a joint tender with the other eight boroughs is used for the benefit of leaseholders. Subsequent to the receipt of the tenders, we will send you a further notice of the Council's detailed proposal in accordance with the Regulations which will inform you of the proposed contractor and provide you with a further opportunity to be consulted about the proposed agreement.
- **Can I nominate my own contractor?** Unfortunately with buildings insurance consultation, leaseholders cannot nominate potential providers. Having said that, the council will not be themselves cherry picking a provider, we will advertise the contract and await for bidders. If it so happens that Zurich place a bid for the contract and offer the best value for money together with the most comprehensive cover, we would consider and possibly appoint them as the new buildings insurance providers.
- **Why are so many changes taking place at the same time for leaseholders e.g. building work charges at the same time as this? Why can't they be spaced out over different years?** The reason you are being notified about tendering for new Buildings Insurance providers now is because the current policy expires in March 2018. Tendering and appointing new service providers takes a long time and as such we had to start the process early. Please rest assured that this will not be an additional cost to you such as major works. We are simply notifying you that we are looking for new buildings insurance providers. You contribute to your buildings insurance via your day to day service charge, this will not change and you will continue paying for this service via your service charge.
- **What is the sum insured based on?** The reinstatement cost to rebuild the largest bedroom property within the portfolio. The rebuilding sum insured for each property by bedroom is shown below. This information is used to obtain the premium for 2018 which was provided to insurers to allow them to quote this is the basis of the premium charged. Insurers then provide cover up to a maximum of £425k for the proposed new contract (which is an increase from the current contract cover which is up to a maximum of £382,454).

Bedroom	Sum Insured
Bedsit	178,562.07
1 Bed Property	227,260.81
2 Bed Property	292,192.47
3 Bed Property	308,425.39

4 Bed Property	340,891.22
5 Bed Property	357,124.13
6 Bed Property	373,357.05
7 Bed Property	389,589.96
8 Bed Property	405,822.88

Frequently Asked Questions

Why does Lambeth Council provide Building's Insurance?

If you have purchased your property under a lease agreement with Lambeth, the lease states we will provide adequate building's insurance for your property.

What about contents insurance, am I covered?

No, you are not covered for contents insurance in this policy. Lambeth Council is not required under the terms of your lease to arrange cover for your contents insurance. Lambeth Council is required to provide you with building insurance only. Lambeth Council strongly advises you to take out your own contents insurance.

How did Lambeth Council tender the insurance contract?

Our insurance policies are procured via the Official Journal of the European Union (OJEU – formally known as OJEC) through the Insurance London Consortium (ILC). The ILC consists of 9 London Boroughs who agreed to work together for the benefit of its members in order to reduce the total cost of risk and thereby reducing the costs of the individual policies.

Why couldn't I nominate an insurance company?

European legislation states that contracts over a certain amount must be tendered through OJEU and so leaseholders were not able to submit a nomination. To view the OJEU documentation please refer to the link <https://www.ojec.com/> and search by 'Tender Reference GB003ZM232460

Further Search Options

→ [By Tender Reference](#)

→ [By Authority Name](#)

→ [Advanced Search](#)

Where can I obtain a copy of my current building insurance cover?

You can request a copy of your building insurance schedule from Lambeth's Risk and Insurance website: <https://www.lambeth.gov.uk/forms/leasehold-insurance-enquiry-form>

What will be the sum insured amount for my property?

The sum insured amount for all leasehold properties in the new contract will be up to a maximum of £425,000.

This figure can be increased if a request is made in writing along with relevant documentation outlining your reasons. This sum is not related to the market value of your property.

How has the premium cost per property been calculated?

The following information was provided at tender stage:

- The re-instatement rebuilding cost per property by bedroom.
- The number of leasehold properties
- The total number of bedrooms
- 5 years claims history of the leasehold stock which included the number of claims and their related costs.

Using this information Bidder A has provided Lambeth Council with a premium per number of bedrooms. The method of calculation is confidential to each bidder and Lambeth Council nor the ILC is privy to this information. A £15 administrative fee from the Risk and Insurance Team has been added to each premium and the total amount payable is shown below. Please refer to the table on page 3.

What is the length of this contract?

The contract is for 5 years and will run from the 1 April 2018 to the 31 March 2023.

My mortgage lender has advised that I should insure the building through them, is this possible?

In your lease agreement it states that the building's insurance is automatically provided by the Lambeth Council. You cannot have another provider for your buildings insurance.

What do I do if I want to sublet my property?

You must notify Lambeth Council and complete a sublet form;

<https://www.lambeth.gov.uk/housing-and-regeneration/lambeth-housing-homeowners/tell-us-youre-subletting-your-home>

You must also contact the Risk and Insurance section at Lambeth;

<https://www.lambeth.gov.uk/forms/leasehold-insurance-enquiry-form>

If you sublet your property, you are responsible for ensuring that the let conforms to the Lambeth Council lease agreement.

We sublet our property and want accidental damage cover

Lambeth Council invited suppliers to quote for accidental damage cover for leaseholders who sublet their properties but no bids were received. Due to this accidental damage cover remains excluded from the policy whilst the property is lent, let or sublet (in whole or part) to someone other than the owner.

Will my premium change if I let my property?

No. Subletting your leasehold property will not affect your premium.

What is the excess if I make a claim?

You will have to pay the first £50 of each and every claim for accidental damage (not applicable to sublet properties). Subsidence claims have an excess of £1000 per property and £2,500 per block. If there are more than 2 leaseholders in a block then the £2,500.00 excess will be split between them providing it is the same incident.

Who am I insured with now?

The current provider is NIG Insurance and this contract remains in place until the 31 March 2018. If you need to make a claim you can call the Claims Team on 0800 051 0233 and quote the current policy number of 5884011 and your full address.

What will affect the premium payable in future years?

The premium is linked to the following:

- annual changes to house re-building costs which is fixed by the Royal Institute of Chartered Surveyors
- Insurance Premium Tax, currently set at 12% is paid to the government. This tax has already been factored into the premium.
- The number and costs of claims each year on the policy.

What happens next and when will I find out who Bidder A is?

Once the Observation period is closed and all observations have been responded to with due regard, details of the proposed successful contractor will be presented to the Procurement Board for approval. Taking account of the OJEU Standstill Period and the Contract Award Notice. The name of the successful Contractor will be published upon conclusion of the standstill period required under regulation 87 of the Public Contract Regulations 2015.