

WEST DUNBARTONSHIRE COUNCIL**Report by the Chief Officer - Resources****Corporate Services Committee: 23 February 2022**

Subject: Block Buildings Insurance**1. Purpose**

- 1.1** The Council presently procures and administers the 'Right to Buy' Block Buildings Insurance Scheme which provides building insurance cover to owners of ex-council houses purchased under the terms of former 'Right to Buy' legislation.
- 1.2** A Motion at the Corporate Services Committee on 24 November 2021 regarding the tendering of the 'Right to Buy' Block Buildings Insurance Scheme added a requirement asking officers, in parallel with the tendering process, to investigate options for the Council to set a standard of required cover for owners and to allow owners to arrange their own cover which meets this standard.
- 1.3** This report is to provide Members with an update on the position following the options appraisal regarding the 'Right to Buy' Block Buildings Insurance Scheme, in particular whether to continue with the Scheme as per the status quo or whether to abolish the status quo and set a new standard of cover required for owners and to permit owners to arrange their own cover which meets this standard.

2. Recommendations

- 2.1** It is recommended that the Committee:
- I. Agrees that the Council continues to procure and administer the 'Right to Buy' Block Buildings Insurance Scheme for privately owned ex-council properties;
 - II. Approves the recommended approach i.e. retaining the status quo for this service provision as detailed in this report going forward;
 - III. Notes that a report will be brought to a future Tendering Committee seeking approval for the Chief Officer - Regulatory and Regeneration to conclude the award of a new contract to come into effect from 1 April 2022, if the value is £50,000 or more, following evaluation of tender submissions received;
 - IV. Agrees that in the tender process the Chief Officer - Resources has the power to vary the scheme's terms as may be required in terms of excess levels and/or insurance coverage; and
 - V. Notes that scheme members will be provided with details on the outcome of the tender exercise on completion of this process.

3. Background

- 3.1** Historically the Council has arranged and administered the procurement of a block buildings insurance policy for privately owned ex-council properties purchased in terms of former 'Right to Buy' legislation. The main purpose of this is to ensure that appropriate insurance cover is in place for privately owned ex-council properties in blocks where the Council retains an ownership interest. In addition to providing competitively priced insurance for homeowners in terms of cover, excess levels etc., this approach also minimises the potential for serious financial risk of uninsured losses to the Council or other owners in the event of loss or damage to premises.
- 3.2** Currently any participant can request to opt out of the Scheme. Following such a request, the Council will consider the potential for a total loss or an uninsured loss which could leave the Council at possible risk from a financial, insurance or common property liability before agreeing any request to leave the Scheme. As narrated in Paragraph 3.3 where the Council retains an interest in the block such request will be refused. In the circumstances where the Council no longer retains an interest in a common block then either individual owners or all owners within the block can choose to opt out of the Scheme and insure separately.
- 3.3** Alternatively, if the Council still retains an interest within the block, the property will require to be insured under the terms of the Scheme.

4. Main Issues

- 4.1** The Block Building Insurance Scheme is normally tendered on the basis of an initial 3 year contract period with the option to extend for up to a further two 12 month periods. This is a single policy incorporating approximately 4,600 properties with an annual renewal date and policy terms and conditions applying to all Scheme Members.
- 4.2** As part of this options appraisal, Officers have considered the alternative to this by way of the possible introduction of a new standard of required cover for owners and where it can be demonstrated that owners can meet this standard, they can be permitted to arrange their own insurance cover.
- 4.3** Officers also considered whether there was an option to no longer provide this insurance provision and to discontinue with the Block Building Insurance Scheme in its entirety. The insurance responsibility would therefore transfer to all current Scheme Members with no further involvement from the Council.
- 4.4.1** The introduction of a new standard is an area of new business which would have to be implemented, managed, and monitored by the Council. This would involve officers having to review and assess a significant number of different insurance policies throughout the year to ensure they are 'fit for purpose' and provide adequate and appropriate insurance cover to ensure no

potential financial loss for the Council or other owners, particularly in multi-tenure properties, and to allow for follow-up feedback to individual policy holders.

- 4.4.2** This is in contrast to a single policy with an annual renewal date and terms and conditions applying to all Scheme Members.
- 4.4.3** The implementation and administration of this new business is considered onerous and cannot be absorbed within existing teams in terms of human resources, competency skillset etc. or available financial resources. Existing systems/system interfacing would also have to be reviewed and tested to measure capacity and any potential adverse effect on existing service delivery. Additionally timescales for renewal would become hugely extended while policies were checked.
- 4.4.4** There is concern that an individual policy could be purchased and then either cancelled within the cooling off period or cancelled at any time during the policy year due to payment default etc. thus resulting in potential exposure for the Council and other owners. There is also the possibility that if insurance uptake among owners becomes piecemeal some owners may not follow correct procedures, which may result in double insurance and the voiding of both policies. Over the number of policies involved and the various tenure mixes of blocks it is considered certain that this situation would arise from time to time. The exact scale of the risk cannot be discerned from current data but it is known to be significant and routinely covered off both in private factored property and ex-council stock by standard block insurances. Accordingly, there is significant concern that such a change in Council procedures would result in an increase of either under or over insurance of properties, and the negative consequences of both for both the Council and private owners.
- 4.4.5** At the moment if an insurance event occurs, there is only one insurer to deal with. If there were multiple insurers and claims then that would slow down the process for the Council and the owners, as there may be disputes among insurers over liability and quantum
- 4.4.6** The new business activity would have to be disclosed to the Council's main Insurers, particularly as officers may be giving advice where specific areas of technical input is required where the experience or expertise is not available within the authority at this time.
- 4.4.7** Timescales are such that this new standard could not be implemented before the renewal date of 1 April 2022.
- 4.5** Since the original purpose of the Scheme being made part of the terms and conditions of ex-council house sales in terms of 'Right to Buy' legislation was to protect the Council's interest, and this remains a valid consideration, it is considered that the option to discontinue with the Scheme in its entirety should not be developed further at this time. The financial and reputational risk to the Council is considered too significant to recommend.

- 4.6** Taking all of the above into consideration, it is recommended that the tendering of the 'Right to Buy' Block Building Insurance Policy proceeds in its present format i.e. retaining the status quo with a report being brought to a future Tendering Committee seeking approval for the Chief Officer - Regulatory and Regeneration to conclude the award of a new contract, if the value is £50,000 or more, following evaluation of tender submissions received. This will ensure that the Council is able to mitigate any potential risk by ensuring that adequate insurance is in place, particularly in the case of multi-tenure properties without placing any further burden on the authority's human and/or financial resources.

The option to apply to opt out of the Scheme where the Council no longer has an interest coupled with the excess variants which are now available, allows a greater degree of flexibility for Scheme Members.

5. People Implications

- 5.1** The implementation of a new standard cannot be accommodated within existing teams and will put additional pressure on existing human resources. It is considered that a specific team would have to be set up to effectively manage, oversee and monitor this standard which would involve creating new job profiles, job evaluation process, recruitment and selection, training etc. as well as the financial implications associated with this.
- 5.2** There are no people implications if the status quo is retained.

6. Financial and Procurement Implications

- 6.1** If the new standard is implemented resulting in reduction or change during any given contract period, this may result in the insurance provision being less attractive to the market and or costing more for individual Scheme Members left on the scheme. A new funding stream in relation to set up costs, additional human resources, potential upgrading/interfaces of systems will require to be secured as there is no provision for this in terms of current budgets.
- 6.2** It is considered that if such a new standard was implemented the Council would inevitably encounter shortfalls in the funding of repairs from time to time and this would need to be met from the HRA or some fund established for that purpose.
- 6.3** There are no financial implications if the status quo is retained.
- 6.4** There are no additional procurement implications associated with this report.

7. Risk Analysis

- 7.1** The properties covered by the current Scheme were required to accept such a condition as part of the sale of Council houses in terms of former 'Right to Buy' legislation in order to minimise the risk to remaining Council housing and other owners. The recommended approach maintains this risk mitigation.

8. Equalities Impact Assessment (EIA)

- 8.1** No significant issues were identified in a screening for potential equality impact of this service.

9. Consultation

- 9.1** The report has been subject to consultation with Finance, Housing Asset & Investment and Legal Services.

10. Strategic Assessment

- 10.1** Having considered all the Council's strategic priorities, this report and continuing with the provision of the Block Building Insurance Policy will ensure successful delivery of the strategic priorities of the Council.

Laurence Slavin
Chief Officer - Resources
Date: 19 January 2022

Persons to Contact: Karen Shannon
Section Head – Financial, Administration & Control
16 Church Street, Dumbarton G82 1QL
Telephone: 01389 737842/Mobile: 07584 475469
Email: karen.shannon@west-dunbarton.gov.uk

Catherine Lawlor
Insurance Team Leader
16 Church Street, Dumbarton G82 1QL
Telephone: 01389 737265
Email: catherine.lawlor@west-dunbarton.gov.uk

Appendices: None

Background Papers: Corporate Services Committee, 24 November 2021:
Block Buildings Insurance
Equalities Impact Assessment - Screening

Wards Affected: All