



EMT – 15 SEPTEMBER 2014
AUDIT COMMITTEE – 26 SEPTEMBER 2014

INSURANCE PROCUREMENT (Hampshire District & Borough Councils)

1. INTRODUCTION AND PURPOSE

- 1.1 Following the success of the Hampshire Insurance Framework Agreement in March 2009, the Hampshire Insurance Forum (HIF), sponsored by the Chief Finance Officers (CFOs) group endorsed the continuing collaborative procurement of Insurance when the existing arrangements come to an end in March 2015.
- 1.2 This report sets out the background to the procurement and updates EMT/the Audit Committee on its progress.

2. BACKGROUND

- 2.1 The Hampshire Insurance Forum (HIF) is made up of representatives from each of the 11 Borough and District Council's within Hampshire who work collaboratively to share best practice and achieve efficiencies. This collaboration saw the establishment of a Hampshire Insurance Framework Agreement in March 2009 allowing member authorities to call off insurance contracts with the winning supplier, Zurich Municipal.
- 2.2 Resulting from this initial success the HIF was keen to work collaboratively to explore options for future procurement and set up a procurement sub group, consisting of members from New Forest, Winchester, Fareham and Basingstoke Councils to represent the wider forum. The project is sponsored by the Hampshire CFO's who will be presented with a full report on progress and proposals in September 2014.
- 2.3 JLT Public Sector Risk Practice was commissioned by the HIF in 2013 to undertake an options appraisal to enable a more detailed review of the current procurement models in the market and available routes to procurement for the future.
- 2.4 The options appraisal concluded that procurement as a collaboration would be the best solution with the Government's CCS (Crown Commercial Service previously Government Procurement Service) Insurance Framework likely to provide the most cost effective route to market. Subsequently Aon were appointed to act as the Broker for the HIF and procure insurance services collaboratively for the authorities effective from 1 April 2015. To facilitate this, the HIF have negotiated with Zurich Municipal the alignment of end dates for each participating authority's Long Term Agreement (LTA).
- 2.5 The annual spend across the authorities is in the region of £4m, (£16m over a four year Long Term Agreement) and the objective remains that collaboratively services can be procured on more advantageous terms than authorities acting individually. There are inevitable savings in the procurement exercise alone and it presents a more attractive proposition to the market in terms of scale.

3. INSURANCE PROCUREMENT 2015

- 3.1 Compliance with the EU procurement regulations is achieved through the use of the Government's (CCS) insurance framework with Fareham Borough Council being the nominated lead authority for the procurement using this framework, although individual pricing will be sought and evaluated for each authority. Evaluation criteria will be tested to ensure the results are fair, resilient and compliant.
- 3.2 The insurance procurement is progressing well and in accordance with the agreed timetable summarised below:

KEY TASK / RESPONSIBILITY	TARGET DATE
Pre marketing contact with market or "insurer days"	22 September 2014
Market Presentation sent to participating insurers from Lot 1, questions received from market and responded to.	1 November 2014
Quotations returned	30 November 2014
Evaluation period including clarification with insurers	December 2014
Period for HIF consideration, clarification and instructions	2 to 15 January 2015
Ten day cooling off period	15 to 25 January 2015
Possible meetings with insurers successful and unsuccessful bidders	25 to 31 January 2015
Award of contract	1 March 2015

- 3.3 Since Aon were appointed in January their main focus has been on discussing programme design with each authority and where possible standardising limits and indemnities. To achieve the best market response it is recognised that there is a need to simplify the insurance programmes and minimise variations. Options to vary programmes to suit each Council's requirements, where consistency cannot be standardised, are being identified either to include in the tender or adapt after the award, within the procurement rules.
- 3.4 It is anticipated that this standardisation and confidence gained from the HIFs ongoing commitment to work together to reduce risk across the County's Districts and Boroughs will be received well by the market. The annual risk audits have provided a good benchmark between authorities with an improving position year on year, by the time of the procurement each authority will have reached, and often surpassed the minimum standards for operational risks.

4. NFDC'S INSURANCE PROGRAMME

- 4.1 Annually NFDC spends in excess of £660k (including 6% Insurance Premium Tax) on insurance policies for Property (housing and general), Casualty (including public and employers liability), and Motor. This spend also includes additional covers such as personal accident, computers and fidelity guarantees.
- 4.2 The work on programme design has identified some opportunities to explore the Council's risk appetite in terms of self-insurance and deductibles and to consider policies for areas previously not covered i.e. terrorism, cybercrime and environmental impact.

- 4.3 Generally the Council can demonstrate a good claims history against each of its insurance policies. Unfortunately, however, the potential hardening position of the insurance market means that any savings on premiums might be unlikely and in spite of the collaborative nature of the procurement there is a risk that insurance will be more costly in the near future because of market, and not local performance, factors.
- 4.4 Savings could be made by reducing the level of risk transferred to the insurer through the Council retaining a higher proportion of risk through self-funding. Arguably the greatest single opportunity for the Council in this regard is the arrangements for insuring the Housing stock. Given the currently low levels of deductibles (excess is £100 or £1,000 depending on peril), the good claims history over the past ten years (52 claims totalling £336k, against an average annual premium £88k) and the performance of the Housing Revenue Account, this is an area worthy of further exploration.
- 4.5 There are other considerations to this approach in that the Council would have to demonstrate that it could fund losses under these arrangements through the establishment of an insurance reserve and be conscious of possible additional resource pressures for internal claims handling and legal advice. Given the nature of the policy, in that it doesn't cover third party losses, it is not anticipated that the resource implications would be significant.
- 4.6 Additionally to sustain any savings through and continue to secure competitive premiums the Council will have to continue focussing its efforts on reducing loss frequency and costs through good risk management.

5. FINANCIAL IMPLICATIONS

- 5.1 No direct financial implications although resource will need to be diverted to meet some of the emerging requirements.

6. ENVIRONMENTAL MATTERS AND EQUALITY & DIVERSITY IMPLICATIONS

- 6.1 There are no direct environmental or equality and diversity implications arising from this report.

7. RECOMMENDATIONS

It is recommended that the Committee:

- 7.1 Note the progress on the collaborative insurance procurement and consider the opportunities to explore the Council's risk appetite.

For further information

Rebecca Drummond
Performance Improvement Manager
Tel: (023) 8028 5588
Email: rebecca.drummond@nfdc.gov.uk

Background Papers