

Innovation in procurement

Collaborative Procurement

Hampshire Insurance Forum: The Power of 11

The story of how 11 authorities, with all their differences but a common goal, joined forces to save the taxpayers of Hampshire over £2million.

The summary

It's a common enough story in local government for one, two or three councils to come together to procure a service and deliver savings **but** 11 district councils coming together to deliver savings in the deeply complex and volatile insurance world is a very special story of collaboration. This is the achievement of the Hampshire Insurance Forum.

Collaboration in itself or procuring from a framework agreement may not obviously smack of innovation until the scale, commitment and determination of this procurement are considered and then an impressive achievement emerges.

The Hampshire Insurance Forum has demonstrated how three years of working together to manage risk and align and standardise the insurance programmes of all 11 district and boroughs in the County has reaped significant benefits for the taxpayers of Hampshire.

The innovation is not in the use of the Crown Commercial Service (CCS) Insurance Services Framework (CCS framework) but lies in the ambition, collaboration and commitment to presenting the most attractive and competitive proposition to the market resulting in savings of £2.1 million over the next 3 years.

The introduction

Within two tier Hampshire there are 11 districts and boroughs all very much different in make-up. In the north of the county along the M3 corridor are the urban economically progressive Basingstoke and Deane and Rushmoor, then as you go south through Hart the countryside develops. At the centre is the historic town of Winchester with the South Downs National Park stretching through East Hampshire

towards the coastal authorities of Havant, Fareham, Gosport and Eastleigh, edging the solent cities, until finally in the south of the county you reach the picturesque Test Valley and New Forest within another National Park. These are very diverse councils and they provide services to 1.32 million residents across an area of over 1,420 square miles.

The Hampshire Insurance Forum (HIF) consists of all 11 district and borough councils who spend in the region of £4 million a year on insurance premiums covering a number of risk areas including: employers and public liability, property damage, motor, professional negligence and personal accident.

The benefits of collaboration were proven when, on behalf of the HIF, Fareham Borough Council established a framework agreement in March 2009 which allowed all 11 district and boroughs to call off insurance contracts with Zurich Municipal. This resulted in significant cashable savings for the early adopters of the framework.

As this agreement neared its end, consideration was given to future procurement opportunities. The HIF established a sub group to explore these opportunities and coordinate the procurement of a new insurance programme. The sub group consisted of representatives from Basingstoke and Deane Borough Council, Fareham Borough Council, New Forest District Council and Winchester City Council. Test Valley Borough Council was also represented in the early stages of the project.

Fareham Borough Council's Finance Strategy and Development Manager, Caroline Hancock undertook the role of Project Manager with Gary Jarvis, Fareham's Procurement Manager leading and advising on the procurement.

The players

The Hampshire Insurance Forum (HIF) consists of:

Basingstoke and Deane Borough Council
East Hampshire Borough Council
Eastleigh Borough Council
Fareham Borough Council
Gosport Borough Council
Hart Borough Council
Havant Borough Council
New Forest District Council
Rushmoor Borough Council
Test Valley Borough Council
Winchester City Council

The HIF was supported by JLT Public Sector Risk Practice in exploring the opportunities available and by Aon Risk Solutions in taking the proposition to market.

The process

Stage 1: Exploring the opportunities

The HIF sub group quickly concluded that it couldn't progress without fully understanding the opportunities available. Accepting its knowledge limitations it appointed JLT Public Sector Risk Practice to undertake an options appraisal. The appraisal concluded that the best option open to the HIF, given the appetite to collaborate but not to share risk, was to approach the market as a single collaboration of 11 authorities via the CCS framework.

Individual procurement, procurement as a consortium and the establishment of a mutual or Protected Cell Captive were also explored. Consideration was given to the various 'route to market' options including the establishment of a new Hampshire Framework, approaching the market directly or the use of another existing framework agreement.

Under the collaborative arrangement the authorities were able to procure as a group with each member authority maintaining an insurance portfolio most suited to their individual needs and this was the option pursued.

Stage 2: Preparation and standardisation

In spite of the borough and districts having many areas of insurance in common there are also some significant differences in that:

- Four of the eleven authorities have housing stock;
- Some authorities have primarily in-house services with a large vehicle fleet, others have outsourced activities such as waste collection;
- There is a mix of rural and urban areas and in some cases coastal responsibilities.

The collaborative approach allowed for these different arrangements but more fundamentally the authorities had varying approaches to risk management with different risk appetites, reflected in the numerous levels of deductibles.

To achieve the best possible market response it was paramount that there was an element of standardisation in these differing insurance portfolios.

Since 2009, the HIF has worked together with Zurich Municipal to set and reach a set of minimum risk control and management standards for operational risks relating to housing and general properties, liability and motor. This has involved sharing best practice across the HIF and shared learning in areas such as inspection and maintenance regimes and fraud prevention.

Preparation for the tender exercise provided further opportunity to review the existing insurance arrangements of each authority, confirm their fitness for purpose and consider alternative programme design options to improve cost efficiency and provide greater risk mitigation. This resulted in standardising excesses and indemnity limits across the HIF.

Stage 3: Approaching the market

At the outset it was imperative to the success of the project that it had clear and robust leadership. This was sought from the Hampshire & Isle of Wight Chief Finance Officers (CFO) Group who agreed to sponsor the project. In doing so the CFO's committed to:

- Collaborate as a single group of the 11 Borough and Districts.
- Align renewal dates to 1 April 2015 to facilitate joint working and fully approach the market as a collective.
- Adopt similar insurance programmes balanced between insured and self-insured risks.
- Procure insurance cover from 1st April 2015 via the CCS framework (Lot 1).
- Appoint a broker to support insurance programme design and placement via CCS Framework (Lot 2).
- Place, for all 11 authorities, insurance contracts for each Lot or Lots with the same insurer(s).

Consequently the HIF used the CCS framework to firstly procure a broker (This was awarded to Aon Risk Solutions under a separate mini-competition in January 2014) and then tender the insurance arrangements of its 11 members.

The CCS framework has a total of 29 insurers in Lot 1 but of those a large number are specialist in areas such as marine, nuclear risks and Health Trusts, so the relevant numbers reduce to around 8 or 9.

This number includes the major public sector insurers such as Zurich Municipal, QBE and AIG via Risk Management Partners, and Travellers insurance. Other insurers who joined the Framework in 2011 have only had occasional involvement and often decide that their appetite for risk does not stretch as far as districts and boroughs. However this particular tender was of greater interest to some of these insurers because of the size of the premium opportunity and the fact that all eleven authorities are working together to raise risk management standards.

Aon and HIF organised an Insurer Day to explain how the procurement would work and to emphasise the improvements in the management of risk that have already been seen and the commitment to continue this work. As a result there was an increase in the number of interested insurers and competition was opened up. It is fair to say that one or two who expressed an initial interest later decided that their appetite would not stretch to 11 authorities in one procurement exercise; equally there were still some insurers involved who had not been bidding for the main lines of business on a regular basis.

One such insurer has been successful with its bid for the property insurance lots. This development is good for the public sector insurance market in general as it has identified another major competitor for property insurance. The competition in premium terms has always been very good, now the number of large insurers involved has increased as well. This reflects well on the approach and on the use of the CCS framework.

The market presentation included profiles for each authority, along with their separate insurance programme requirements, with the tender package split, ironically, in to 11 lots covering different lines of business.

Stage 4: Results

Seven valid tenders were received for the provision of insurance services to Hampshire borough and district councils for a three year long term agreement with the option to extend for a further two years. The CFO's maintained their commitment to place insurance contracts for each Lot or Lots with the same insurer and accepted the most economically advantageous tender for the group, with one exception.

The increased competition and the provision of good and standardised data resulted in an annual saving of £700,000 compared to the previous year's premiums for the taxpayers of Hampshire.

The benefits

The obvious and overriding benefit is the substantial financial saving. The contract is for three years with an optional two year extension. The value of the contract over these periods is £10m (3 years) £16.8m (5 years) with savings against outgoing premiums of £2.1m (3 years) and £3.5m (5 years).

The scale of the procurement and strong commitment to improved risk management resulted in a more attractive proposition than would have been the case individually, and consequently introduced new insurers to the local government market.

Aon's Public Sector Director, Bill Sullman confirms that whilst some savings may have been possible in some areas, the extent of the savings achieved is as the result of the collaborative approach and the fact that the authorities are working together to improve insurable risk, a sign that claims experiences might improve even further in the future.

The success criteria

- Clear objectives;
- Strong leadership;
- Regular communication;
- Forging and maintaining good relationships within the HIF;
- Good project management; and
- Support and understanding of the objectives by Aon.

The honest truth

It wasn't easy. There will always be winners and losers in collaborative procurement, at the very least winners and those that don't fare quite so well. Factor that by 11 authorities and there's a lot of diplomacy to wade through. A classic prisoner's dilemma game, with the temptation to revert to the parochial state of self-interest against the best collective outcome.

There's no denying that this happened and each authority's resolve was no doubt tested when it came to the crunch. In this regard credit has to go to the CFO's whose determination and strategic nature

navigated through some of the more challenging conversations.

One authority did decide to opt out of 2 lots in favour of approaching the market as a single entity and although this necessitated confirmation that insurers would hold their quotes it only really amounted to a minor hiccup.

It was clear from the outset that this was not about sharing or pooling risk, that each authority would be judged and rated alone, a single procurement with 11 individual arrangements. With this as the backdrop it's difficult to see how it could have been approached differently but in hindsight some of the trip hazards could have been avoided by agreeing up front how savings and losses could have been more evenly apportioned or inconsistencies ironed out. This in itself gives rise to a number of other issues of fairness and equality.

Whilst some authorities fared relatively better than others, the overall result is excellent and is a testament to collaboration in the greater good.

The advice to others

- Be clear on what it is you want to achieve as a group;
- Get senior level buy in and sponsorship;
- Get commitment to common outcomes;
- Empower those involved from each authority to make decisions as to content and direction;
- Formalise and have clarity over the decision making structure;
- Have a clear project timeline working back from commencement date and sound project management;
- Be flexible enough for people to pull out; and
- Be prepared for it to be a bit bumpy.

The bottom line

We couldn't have done it alone but together we achieved £2.1m saving on a £10m contract and plans are in place to improve on the result next time around!

