

DEPARTMENT FOR LOCAL RESOURCING

Minutes ~ Executive Board Meeting ~ 9 September 2004

Apologies - None

1. Introduction

The Permanent Secretary noted that the meeting had been specifically arranged to deal with the Department's insurance arrangements in the light of the recent BAE report and the subsequent letter from the Treasury.

2. Minutes of the meeting 22 July 2004

Agreed : No matters arising other than those on the agenda.

3. Insurance Contract

The Under-Secretary (Central Support) noted that the current three-year contract with the Department's external insurers, Dax Financial Services (DFS), was due to terminate on 31 March 2005 and that normal practice would be either to –

- ❖ roll-over the current contract on negotiated terms for a further year (initial enquiries were being made about the terms for this with DFS), or
- ❖ go through formal tendering with the intention of agreeing a new contract for the same policies, effective from 1 April 2005.

The Permanent Secretary commented that the recent circular letter from the Treasury had raised the profile of insurance arrangements considerably and that the DLR would be the first Department facing contract renewal after publication of the BAE report. The Secretary of State noted that the DLR would, therefore, be very much in the insurance spotlight and, in these circumstances, rolling over the contract for a year hardly seemed appropriate.

Agreed : That the DLR's insurance arrangements from 1 April 2005 should be advertised.

4. Tender Basis

The Secretary of State noted that the DLR really needed to adopt a proactive approach to the issues raised by the Treasury letter, and the Permanent Secretary proposed as a minimum –

- ❖ the introduction of reasonable excesses on insurance policies from 1 April 2005;
- ❖ the establishment of an Internal Insurance Fund (IIF) to finance these;
- ❖ the handling in-house of all claims relating to these excesses.

The Under-Secretary (Central Support) said that, to comply with FSA Regulations, the formal open route tender arrangements should commence by late September 2004 to allow a closure date of mid-November 2004. This would then leave adequate time to complete the legal paperwork and any transitional arrangements in the case of a change of provider. The levels of excesses to be taken in-house on the various policies were then discussed and agreed.

Agreed : That the above proposals be accepted, including the levels of excesses discussed.

5. Insurance Quantum

The Under-Secretary (Central Support) commented that, whilst the changes agreed would reduce external premiums, the IIF would be necessary both to finance the insurance policy excesses agreed and the cost of the in-house operation to manage these, and to introduce a proactive risk management (RM) approach. He went on to suggest that in the short term, therefore, there were unlikely to be any financial savings and that the amount spent overall on insurances (the quantum) was likely to remain about the same. A number of Ministers expressed disappointment, but most accepted that there would be benefits in the longer term.

Agreed : That the verbal report be received.

[continued]

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6. Risk Management (RM)

It was noted that insurance was the only area currently where any thought at all was given to RM. There were mixed views on the introduction of a formal RM approach. The Minister of Environmental Services strongly supported such an approach, particularly to try to reduce insurance claims, whilst the Minister of Education and Welfare saw this as another administrative burden, potentially deflecting attention from his Ministry's primary frontline role of curing for people. The Minister of Housing and Property, whilst supportive, expressed some concern, noting that civil servants seemed to be increasingly spending more time on paperwork than service delivery. The Secretary of State, however, drew attention back to the Treasury letter and the need to lead rather than follow. He asked all Ministers, through their Under-Secretaries, to give RM some thought and to come forward with proposals for RM initiatives. The Permanent Secretary strongly supported this approach and encouraged his colleagues to seize this as an opportunity for improvement. He further suggested that some resources should be earmarked in the IIF to fund specific RM improvement projects, subject to satisfactory criteria being established. It was agreed that the Under-Secretary (Central Support) should coordinate all this work.

Agreed : *That the Treasury guidance on RM be accepted and that Ministries produce proposals for its implementation and for specific RM initiatives.*

7. Resourcing

The Under-Secretary (Central Support) noted that these changes would require appropriate insurance and RM staffing levels to be agreed as part of any action plan. He stated that currently one of his administrative officers in Legal, Beattie Groop, acted as the main contact with DFS and had become known as the DLR's "Insurance Officer". He noted that Beattie Groop had also formed an Insurance Common Issues (ICI) Group, with nominated officers in each Section of the respective DLR Ministries, and periodically organized meetings of these administration rank officers. He commented that additional staffing to cope with insurance administration, claims handling and RM would now be necessary. There were again comments from some Ministers about monies being deflected from frontline services, and the Secretary of State made it clear that all the new arrangements must be met within the existing 2004/05 insurance quantum, plus an appropriate 2005/06 inflation increase.

Agreed : *That, on the basis of the revised insurance arrangements, appropriate staffing within the Central Support Division should be established, subject to the financial constraints set by the Secretary of State.*

8. Service Level Agreements (SLAs)

In order to make the new IIF arrangements transparent and to overcome some of the concerns expressed by some Ministers, the Permanent Secretary proposed that SLAs should be introduced to cover the IIF charges levied in respect of RM and claims handling administration. He also suggested that there was a need for the premiums in respect of excesses to reflect claims history rather than the external premium calculation, as now.

Agreed : *That these proposals be accepted.*

9. Consultancy

The Permanent Secretary suggested that, in view of the complexity of the changes proposed, their high profile nature and the tight timescales involved, some initial external assistance might be appropriate. The Under-Secretary (Central Support) strongly supported this and agreed to finance the cost of this from savings in his 2004/05 budget. After some debate, the Permanent Secretary's proposal was accepted.

Agreed : *That the Permanent Secretary and the Under-Secretary (Central Support) jointly agree a brief and seek an appropriate consultant.*

[end]

DLR MEMORANDUM

FROM ~ Head of Legal – Lee Gallon-General
 TO ~ Under-Secretary (Central Support) – Will Worths
 DATE ~ 13 September 2004

Current Insurance Arrangements

Further to your telephone call, I can confirm that the Projects Team within your Financial Services Section carried out the last insurance tendering exercise and I set out below notes on some of your other points.

Insurance Quantum

In the year to 31 March 2005, the DLR is contracted to pay £3,000,000 in premiums to Dax Financial Services (DFS) for ground-up cover on all policies. There are currently no risks or excesses covered in-house, nor any administration costs charged to the insurance head. Hence the total cost of insurance or quantum is currently £3,000,000. I asked my Administrative Officer who covers insurance to provide a breakdown of the 2004/05 premiums payable to DFS and this is attached for information.

Insurance Bases

In terms of tendering for the period from 1 April 2005, my Administrative Officer has already spoken to staff in Finance about the insurance bases to be quoted and the conclusion is that the current base figures remain valid.

- Payroll Recent staffing rationalization has tended to offset the impact of pay inflation and the figure of £200 million remains appropriate.
- Property Values Increased property values have been offset by disposals
- Vehicle Numbers Unchanged

Percentage Charge (Basis Points)

Over the last three years, the number of insurance claims made by the DLR has fluctuated considerably, but the value of claims has increased. Doubtless, therefore, some increase in the percentage (Basis Point) charges should be expected and DFS has already indicated, in terms of the possible one-year roll-over, that this increase is likely to be significant. In order to provide a basis for comparison, I have asked Jacques Vert of DFS to let me have details of the increases proposed on the current policies.

Revised Approach

I appreciate that, in light of the BAE report and the action plan suggested by the Treasury, some changes in insurance arrangements for the Department are likely and that the two main changes appear to be –

- The introduction of claims excesses funded through an Internal Insurance Fund;
- The handling of these claims in-house, rather than through the external insurers.

Both, of course, have resourcing implications for the Department, but there will also be savings on external premiums and I will endeavour to find out from DFS the likely reduction in the percentage charges if these changes were to be pursued.

Lee Gallon-General

Head of Legal

DLR - INSURANCE ANALYSIS

ANALYSIS OF PREMIUMS 2004/05

Policy	Insurance Base		Rate basis	2004/05	
				BPs ¹	£
Liability					
Public Liability	Payroll	£200 million	% of value	31.0	620,000
Employers' Liability	Payroll	£200 million	% of value	26.0	520,000
Other ²	Payroll	£200 million	% of value	3.5	70,000
					1,210,000
Property					
Housing & General	Property values	£1,500 million	% of value	4.5	675,000
Education	Property values	£440 million	% of value	10.0	440,000
Consequential Loss	Gross Revenue	£10 million	% of value	9.0	9,000
Money	Payroll	£200 million	% of value	0.3	6,000
					1,130,000
				£	
Motor					
Fleet	Vehicle Numbers	1,200	Per vehicle	550	660,000
					3,000,000

ALLOCATION

Total premiums are currently allocated as both budget and expenditure using Ministry and Divisional breakdowns of relevant insurance bases multiplied by DFS's % charge (basis points) for the relevant policy.

NOTES

- ¹ BPs Basis Points (0.01% = 1 Basis Point).
- ² Other Includes a number of small specialist policies (e.g. lifts), the details of which are negotiated with insurers, plus smaller liability policies such as professional indemnity, slander etc.

DLR MEMORANDUM

FROM ~ Audit & Projects Manager – Summer Field
TO ~ Projects Officer – Taylor Woodrow
DATE ~ 22 September 2004

Project - Insurance & Risk Management (RM)

Further to my meeting with the Head of Finance, Una Lever, I recently passed on to you a number of papers relating to the DLR's insurance arrangements and the most recent guidance on this area from the Treasury.

I understand that the last tendering exercise on insurance was undertaken and implemented by the Projects Team and both Una and I agree that you are the appropriate person within the Division to carry out the current exercise.

You will have seen from the papers that the current review of insurance arrangements is much wider-ranging than a mere tendering exercise and clearly a lot of work is likely to be required in this area over the coming months. The main task is clearly the placing of the tender on the revised basis and evaluation of the proposals received in relation to the criteria agreed, which, in accordance with Departmental guidelines will cover company strength, quality and experience as well as price.

Therefore, an early requirement is to draw up the formal open route tender notice for entry in the Stagnatia Appendix of Government Advertisements (SAGA), together with background information, statistics and a questionnaire. A formal report on the outcome of the tendering exercise will need to go to the DLR's Executive Board in due course and I will discuss the requirements for this with the Head of Finance and the Under-Secretary.

RM is another key area that will require some detailed attention. No formal structure for this currently exists and, despite the decision to follow the Treasury line in introducing RM, there remains some scepticism. Leadership from the top is clearly important if RM is to work effectively, but the whole approach needs to be built on a solid foundation.

You will also need to give some thought to the creation of the Internal Insurance Fund, its sources of funding and its expenditure, particularly the staffing implications of the new insurance and RM arrangements. As you know, everything has to be funded in 2005/06 within the existing 2004/05 insurance quantum plus inflation and Service Level Agreements (SLAs) are to be introduced to cover IIF charges for RM and claims handling.

To assist with all this in the initial stages, insurance consultants Riskless, Prophet and Prosper have been appointed on the basis of a brief agreed by the Head of Finance and the Under-Secretary, and I will let you have a copy of their report when it is available.

The Head of Finance has also confirmed with the Under-Secretary that the rest of 2004/05 will be used to put all the agreed changes in place and that the effective date for all new arrangements will be 1 April 2005.

Summer Field

Audit & Projects Manager



DAX FINANCIAL SERVICES

e-mail

From: Jacques Vert
To: Lee Gallon-General, DLR
Cc: Will Worths, DLR
Date: 24 September 2004 09.37
Subject: Insurance Contract

Dear Will

Your staff contacted us on two issues and we set out our responses below.

1. Excesses and Claims Handling

Large numbers of small claims are a nuisance for major insurance companies and probably better handled internally, so we are pleased that you are considering these changes. We indicate on the attached sheet the basis of our computation of the premiums for the current level of cover, broken down to show the three elements relevant under the changed arrangements, should you agree to go ahead. All figures are at the 2004/05 price-base, as you can see.

The residual cover premiums would be the only element payable to DFS under these arrangements, as we would discontinue the elements of the premiums relating to claims below the excess levels and the costs of claims handling on these.

We trust that the figures attached help you in your deliberations and encourage you to take a more active role in-house on insurance and risk management.

2. Contract Rollover (One Year)

Revised terms for 2005/06 would need to include significant increases on the 2004/05 premiums as follows to reflect current market conditions.

- Liability policies – increase all by 15%;
- Property policies – increase all by 12%;
- Motor policy – increase by 20%

Regards

Jacques

ANALYSIS OF PREMIUMS – 2004/05 PRICES

	External Residual Cover		In-House Excess		In-house Claims Handling		External Current Cover	
	BPs ¹	£000	BPs ¹	£000	BPs ¹	£000	BPs ¹	£000
Liability								
Public Liability	14.50	290.0	8.25	165.0	8.25	165.0	31.00	620.0
Employers' Liability	15.00	300.0	7.00	140.0	4.00	80.0	26.00	520.0
Other	2.95	59.0	0.40	8.0	0.15	3.0	3.50	70.0
		649.0		313.0		248.0		1,210.0
Property								
Housing & General	3.30	495.0	1.00	150.0	0.20	30.0	4.50	675.0
Education	6.50	286.0	3.00	132.0	0.50	22.0	10.00	440.0
Loss of Revenue	6.60	6.6	2.00	2.0	0.40	0.4	9.00	9.0
Money	0.18	3.6	0.09	1.8	0.03	0.6	0.30	6.0
		791.2		285.8		53.0		1,130.0
	Per vehicle		Per vehicle		Per vehicle		Per vehicle	
	£	£000	£	£000	£	£000	£	£000
Motor								
Fleet	216.50	259.8	251.00	301.20	82.50	99.0	550.00	660.0
		259.8		301.2		99.0		660.0
		1,700.0		900.0		400.0		3,000.0

¹ BPs = Basis Points (0.01% = 1 BP)