

# STAGNESIA APPENDIX OF GOVERNMENT ADVERTISEMENTS

## CONTRACT TENDER NOTICE – OPEN ROUTE

<b>CATEGORY</b>	<i>Insurances – Multi-policy</i>
<b>CONTACT</b>	<i>Mr Lee Gallon-General Head of Legal (DLR) Cannery Wharf Gilt Town GL1 9NT 020 9999 1212</i>
<b>CONTRACT WITH</b>	<i>Government Department for Local Resourcing (DLR)</i>
<b>CONTRACT PERIOD</b>	<i>1 April 2005 - 31 March 2008 (plus two- year roll-over option)</i>
<b>CONTRACT DETAILS</b>	<i>Liability, Property &amp; Motor including a number of specialist risks. Details of the policies, policy base statistics and three-year claims histories are set out in the supplementary papers. Some minor specialist policies within Liability should be included in the rates quoted, but could be the subject of subsequent negotiation. Proposals should be framed on the basis of the policy excesses stated in the supplementary papers, with a stop-loss provision of £1.5 million across all policies, and on the basis that all claims handling on these will be DLR-managed. The DLR is committed to implementing a full risk management approach.</i>
<b>CONTRACT SPLITTING</b>	<i>No. One contract is required for all insurance policies</i>
<b>MAIN DOCUMENTATION</b>	<i>Companies submitting proposals should complete the prescribed "External Insurance Proposal" form and give brief details of their companies in an accompanying letter.</i>
<b>SUPPLEMENTARY</b>	<i>(i) Access to company systems/software (ii) Risk management assistance/training (iii) Discounts on the main terms proposed (iv) Willingness to negotiate on detailed terms</i>
<b>SUBMISSIONS BY</b>	<i>12 noon on 18 November 2004</i>
<b>SUBMISSIONS TO</b>	<i>Contact named above, in a plain sealed envelope clearly marked "Insurance Contract"</i>
<b>AWARD BASIS</b>	<i>(i) Price (ii) Company strength, quality and experience</i>
<b>AWARD DATE</b>	<i>Within six weeks of final submission date</i>
<b>NOTICE ISSUE DATE</b>	<i>27 September 2004</i>



# **Riskless, Prophet & Prosper**

## **Insurance Consultants**

The Under-Secretary (Central Support)  
Department for Local Resourcing  
Cannery Wharf  
Gilt Town  
GL1 9NT

29 October 2004

Dear Mr Worths,

Further to your brief and the copy e-mail from DFS dated 24 September 2004, I set out below an initial summary of our findings and advice, as I know that you are eager to make early progress. A fuller version of the report will be sent to you in due course.

### Claims Excesses & Claims Handling

We have already agreed with you the various levels of claims excesses subsequently used by DFS in its splitting of the 2004/05 quantum and, as you know, we firmly support your handling of these claims in-house. This provides you with £1.3 million at 2004/05 price levels (£0.9 million on excesses and £0.4 million on claims handling) to finance the Internal Insurance Fund (IIF). We are also pleased that you accepted our verbal advice and have agreed to include a £1.5 million per annum stop-loss in the tender.

### Risk Management (RM)

We strongly support the establishment of an IIF, as this should create cost savings if used in conjunction with an effective RM approach. We are more than willing to offer advice and guidance on the implementation of a RM culture based upon our experience with other Government Departments throughout Stagnesia, but this is outside the current brief. You do, however, need to earmark some RM monies within the IIF to fund initial profile-raising initiatives and to fund (or at least prime) programmes of risk improvements.

### Internal Insurance Fund

We set out as Table 1 the IIF structure used by the Government Departments with whom we have dealt together with, in Table 2, our thoughts and guidance on how the various income and expenditure items in the IIF should be handled and estimated in your particular circumstances. As the IIF is being newly created from 1 April 2005, we suggest that a three-year view should be taken initially for budget/planning purposes, and Table 1 reflects this.

### Inflation

We confirm that the inflation factors suggested by DFS in terms of updating the current 2004/05 basis to a 2005/06 price base are very much in line with current market norms. For budgeting purposes, we would suggest an overall increase of 15% on 2004/05 levels.

Yours sincerely

*Ellen Gee*

Senior Consultant

**TABLE 1**

	2005/06 £	2006/07 £	2007/08 £
<u>Income</u>			
Premiums (Internal Charges)	<input type="text"/>	<input type="text"/>	<input type="text"/>
SLA Charges			
Risk Management	<input type="text"/>	<input type="text"/>	<input type="text"/>
Claims Handling	<input type="text"/>	<input type="text"/>	<input type="text"/>
Total	<input type="text"/>	<input type="text"/>	<input type="text"/>
<u>Expenditure</u>			
Internal Claims (Excesses)	<input type="text"/>	<input type="text"/>	<input type="text"/>
Cost of Insurance/RM Section	<input type="text"/>	<input type="text"/>	<input type="text"/>
Legal Costs	<input type="text"/>	<input type="text"/>	<input type="text"/>
RM Improvement Schemes	<input type="text"/>	<input type="text"/>	<input type="text"/>
Total	<input type="text"/>	<input type="text"/>	<input type="text"/>
<u>Net – Surplus (Deficit)</u>	<input type="text"/>	<input type="text"/>	<input type="text"/>

**TABLE 2****Income**

In future Ministries will pay reduced premiums to external insurers plus IIF premiums to cover internal insurance claims (excesses) and SLA charges for RM administration and claims handling. On the basis of 2004/05 budgets and the split provided by DFS, this provides base income of £1.3 million at 2004/05 price levels. It is suggested that this is allocated to Ministries as follows, using 15% inflation to update to 2005/06 prices.

➤ Premiums (Internal Charges)

This estimate should reflect the £0.9 million saving on premiums as a result of financing insurance policy excesses in-house (£1.035 million at 2005/06 prices). To focus attention on RM and encourage risk avoidance, charges (premiums) to Ministries should be made on the basis of claims history<sup>1</sup> rather than insurance bases as now.

➤ SLA Charges❑ Risk Management Administration

As discussed, a flat rate charge of £15,000 (2005/06 price base) for each of the four Ministries out of the £0.4 million saving (£0.46 million at 2005/06 prices) on claims handling

❑ Claims Handling Charges

A charge per claim calculated by dividing the balance of the £0.46 million saving on claims handling at 2005/06 prices by the average number of claims<sup>1</sup>. The number of claims varies considerably between years and it would be prudent to carry out some sensitivity analysis on this when fixing the charge.

**Expenditure**

The main item is clearly the cost of claims on the IIF (excesses), but the costs of in-house claims handling (administration and legal) and RM will also need to be met.

➤ Internal Claims (Excesses)

An estimate of the cost of claims<sup>1</sup> (updated to a 2005/06 price base using 15% again). Some reduction in year 2 and 3 costs to reflect RM initiatives would be reasonable.

➤ Insurance & Risk Management Section

This should cover both claims handling and RM. Discussion with your Head of Resources has produced the following agreed structure.

❑ Insurance and Risk Manager	1	Grade M3
❑ Insurance Officer	1	Grade SO2
❑ Risk Management Officer	1	Grade SO2
❑ Administrative Assistants	Variable <sup>2</sup>	Grade Scale 3
❑ Clerical/Filing Assistants	Variable <sup>3</sup>	Grade Scale 1

➤ Legal Costs

Not all claims handled will require legal input, but an average cost per claim for this needs to be calculated.

➤ RM Improvement Schemes

A sum in the suggested range £50,000-£100,000

**NOTES**

<sup>1</sup> The average annual number and cost of relevant claims (over 3 years) should be used

<sup>2</sup> Staff numbers - 4 staff for up to 1,400 claims, 5 staff for 1,401-1,700 claims and 6 staff for 1,701-2,000 claims

<sup>3</sup> Staff numbers - 1 staff for up to 1,700 claims and 1.5 staff for 1,701-2,000 claims

## DEPARTMENT FOR LOCAL RESOURCING

### *Minutes ~ Insurance Common Issues (ICI) Group ~ 5 November 2004*

#### ICI Group Representatives present

<i>Education &amp; Welfare (E &amp; W)</i>	<i>1 out of 5</i>
<i>Environmental Services (ES)</i>	<i>4 out of 6</i>
<i>Housing &amp; Property (H &amp; P)</i>	<i>2 out of 5</i>
<i>Central Support (CS)</i>	<i>4 out of 4</i>

#### 1. Introduction

*It was agreed that Beattie Groop (CS - Legal) would act as chair. Representatives put forward a number of issues and these formed the agenda for the meeting.*

#### 2. Minutes of the meeting 19 March 2004

*Tabled – Beattie Groop reported that the DLR Executive Board had shown little interest in the offer of a report from the ICI Group and had rejected the proposal.*

#### 3. Attendance

*The Chair expressed her disappointment yet again at the attendance level, particularly in view of the recent BAE report and the resulting comment from the Treasury. Mat Alan (E & W) commented that his colleagues had more pressing priorities and saw attendance as a chore, particularly when senior management showed only limited interest.*

#### 4. Claims Analysis

*The Chair asked again whether representatives would be interested in an analysis of claims for their operations. Mat Alan (E & W) felt that claims were a matter for the DLR's insurers or possibly its internal auditors, rather than staff with more pressing responsibilities.*

#### 5. Policy Areas (Standing Agenda Item)

*The Chair suggested that this item was dealt with under the three main risk areas -*

##### *o Liability*

*Di Ageo (ES) expressed concern about the current litigation culture and the resulting increase in the number of small claims. She noted that discussions with the Department's Health & Safety Officer had identified a number of positive actions and expressed surprise that other Ministries were not utilising this source. The Chair also noted that DLR's Occupational Health Officer had recently identified work-place stress and lifting injuries as increasing problem areas.*

##### *o Property*

*Mat Alan (E & W) commented upon the increasing levels of vandalism in schools, but said that there was little that could be done about this as much of it happened outside school hours. Maurice Sons (H & P) also commented upon vandalism, but noted that accidents in DLR-owned houses rented to the public were the main concern.*

##### *o Motor.*

*The Fleet Manager had produced no report for the Group on this occasion.*

#### 6. DFS Input

*The Chair noted that DFS had again offered assistance and training on insurance matters, particularly risk avoidance. She noted that the use of independent consultants was another option. Despite some support from ES and CS representatives, the offer was rejected.*

#### 7. Any Other Business

*The idea of a risk management newsletter was rejected.*

*[end]*



# DLR MEMORANDUM

FROM ~ Under-Secretary (Central Support) – Will Worths  
 TO ~ Head of Finance – Una Lever  
 DATE ~ 10 November 2004

## Executive Board Report – Insurance Tenders

Thank you for your call reminding me that the tender period closes next week and that Taylor Woodrow, your Projects Officer, will be starting the evaluation work. As you know, that evaluation involves not just consideration of price, but also the companies themselves in terms of “strength, quality and experience”. Key to this latter evaluation is a financial appraisal of the companies and, with this in mind, I have called an old investment contact of mine from my days in the Treasury, and he has agreed to provide some core financial data and ratio analysis on the various companies, once we know their identities. Clearly the ideal outcome would be the retention of DFS, as a change of insurer would almost certainly generate additional work and hence extra costs, in the short-term at least.

The relevant Executive Board is scheduled for early December, but I will need the draft report by 25 November 2004 covering the following points.

- ❑ Brief background on the decision to go to tender, the tender period, the process followed, the criteria set and the submissions received;
- ❑ Calculation of the cost of the bids received over the formal 3-year contract period and the extended 5-year (with roll-over) period, including the impact of any discounts offered;
- ❑ Calculation of the present value of the net bids using a 4% discount rate to assess the impact of the differential cash flows between the bids on these costs;
- ❑ Evaluation of financial ratios as well as investment ratios (EPS and P/E ratios) and other data on the tendering companies (for Executive Board members, you need to explain clearly the significance of each of the ratios used);
- ❑ A critical appraisal of the results achieved together with a note, if required, of what further information would be useful in evaluating the overall strength of the companies;
- ❑ An overall appraisal of the tenders received in terms of price and company strength, as well as any relevant non-financial factors;
- ❑ Identification of bids with the best potential for post-tender negotiations and a comment on the scope for negotiation including a comparison of the tendered rates (base this on 2005/06 rates initially) with the 2004/05 insurance quantum updated to 2005/06 rates;
- ❑ Overall conclusions and recommendations.

For all estimate purposes, you should accept the split of the 2004/05 insurance quantum produced by DFS and assume that all discounts offered are realised. In terms of inflation for 2005/06, I have agreed with the Permanent Secretary that a rate of 15% should be used, in line with the recommendation from Riskless, Prophet and Prosper. This will apply to both the quantum for external premiums (currently £1.7 million) and that for Internal Insurance Fund contributions (£1.3 million). In evaluating the insurance tender bids, use a 2005/06 price base throughout (ignore the ARM inflation increases in 2006/07 and future years).

Finally, on a related matter, there is now formal approval for the structure and grading of the new Insurance and RM Section, as detailed out in the Riskless, Prophet and Prosper report.

*Will Worths*

Under-Secretary

Copy – Projects Officer

**DEPARTMENT FOR LOCAL RESOURCING**  
**internal e-mail**



**From:** Under-Secretary (Environmental Services) – Della Rue  
**To:** Under-Secretary (Central Support) – Will Worths  
**Date:** 12 November 2004 14.27  
**Subject:** Insurance & Risk Management (RM)

Will

First of all, please accept my apologies that two of my representatives were unable to attend the last ICI Group meeting. Both were on sick leave and I was unable to find replacements when the meeting was called at such short notice.

At September's Executive Board we discussed RM and were asked to give "some urgent thought to its introduction and operation" and to come forward with bids for initiatives to be funded centrally. I appreciate that some of our colleagues on the Executive Board remain sceptical and this is something that needs resolution. If RM is going to work effectively, there needs to be a proper corporate philosophy adopted and a commitment to its implementation, through the adoption of a formal structure and approach. It needs to pervade all operations and all decision-making, and this means changing current attitudes and procedures in many areas.

However, you have my full support. I discussed RM with my Ministry Management Team in late September, with a view to generating ideas for RM improvements. All were extremely enthusiastic and agreed to raise RM at their Section Team meetings. Their brief from me was to try to identify RM initiatives and your Head of Legal provided them with a short analysis of recent claims as a starting point.

At the same time I adopted a broader approach and I have had very useful meetings with your Health & Safety Officer and Fleet Manager. Both support a corporate RM approach and seemed eager to be more involved. My Management Team met again to discuss the outcomes from these meetings last week and, whilst there were numerous ideas, the two key thoughts were as follows.

- Our largest area of insurance risk is clearly public liability in respect of slips, trips and falls (e.g. uneven pavements) and potholes in roads. I currently only have two inspectors and the appointment of two more would make a real difference in terms of inspection frequencies. I appreciate that initiatives with one-off costs are probably being sought rather than those with ongoing revenue commitments, but I would be willing to meet the ongoing cost if RM monies could meet 50% in year 1 and 25% in year 2. I have no doubt that such an initiative would reduce claims.
- Our motor claims largely relate to the lorries used by staff on highways maintenance and refuse collection, and often result from reversing errors. The installation of reversing cameras in a number of key vehicles and some driver retraining should both impact positively on claims.

Della Rue

## DLR MEMORANDUM

FROM ~ Budgets Officer – Rio Tinto  
 TO ~ Projects Officer – Taylor Woodrow  
 DATE ~ 15 November 2004

### Insurance & Risk Management Costing

Further to your call, I set out below the estimated 2005/06 top of grade salary costs for the grades concerned (including all pay oncosts).

Grade	Cost £
M3	40,000
SO2	31,000
Scale 3	18,500
Scale 1	13,500

The new Section will also incur office and central overheads and, for estimate purposes, you should calculate these costs on the basis of 60% of total pay costs.

You also asked about legal costs likely to be incurred in relation to advice on claims that may involve threatened or actual litigation. I spoke to Beattie Groop in Legal who has carried out some research on this and I set out her suggestions below (all costs are at estimated 2005/06 levels).

- ☐ Most claims are simple and are settled automatically without Legal reference.
- ☐ Only 10% of claims require any sort of legal input and these claims take an average of 10 hours each;
- ☐ About 75% of these hours are provided by internal staff at a cost of £30 per hour;
- ☐ The other 25% of these hours are provided by external counsel at a cost of £230 per hour.

Beattie suggests that there is little option but to assume that the incidence of claims requiring legal input is spread evenly over all claims. You will need, therefore, to treat it as a variable cost.

If I can be of any further assistance, please call me.

Rio Tinto

Budgets Officer





PERMANENT SECRETARY – BRADFORD N BINGLEY

Under-Secretary (Central Support) – Will Worths

17 November 2004

Dear Will

**Risk Management**

As part of the response to the BAE report on Government Insurance arrangements, the Permanent Secretary at the Treasury has invited all Permanent Secretaries to a Risk Management (RM) Workshop on Friday, 26 November 2004. As a means of sharing experiences and expertise, each Permanent Secretary in turn will be invited to address a number of fixed topic areas. Permanent Secretaries are asked to prepare a set of appropriate notes that -

1. Give a critique of their own Department in terms of RM and provide an honest assessment of the quality of the RM regime in their Department, including the identification of weaknesses in the current structure, approach and attitude to RM.
2. Put forward proposals for the development of an effective Departmental RM approach, together with a suggested structure to deliver this in terms of roles and responsibilities and awareness raising, as well as its integration and operation throughout the Department.
3. Suggest criteria for the development and funding of specific RM projects together with some ideas for worthwhile projects.

I know that the Projects Officer under your Head of Finance is currently heavily involved in insurance and RM matters, and I should be grateful if you would arrange for that officer to provide me with a draft set of appropriate notes covering the above for the DLR Department.

I want to be absolutely honest with colleagues when appraising our current approach to RM, including the ICI Group, which I know has its shortcomings, but the approach on the other topics should be positive and constructive, aimed at demonstrating the Department's firm commitment to RM and its practical plans for effective implementation.

I require the notes by close of play on 24 November 2004.

***Bradford N Bingley***

Permanent Secretary