

PART 1 - PUBLIC

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**Decision Maker:** Resources Portfolio Holder

**Date:** For pre-decision scrutiny by the Executive & Resources PDS Committee on 18<sup>th</sup> October 2012

**Decision Type:** Non-Urgent Executive Non-Key

**Title:** INSURANCE FUND - ANNUAL REPORT 2011/12

**Contact Officer:** Martin Reeves, Principal Accountant (Technical & Control)  
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**Chief Officer:** Director of Resources

**Ward:** All

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1. Reason for report

- 1.1 This report advises Members of the position of the Insurance Fund as at 31st March 2012 and presents statistics relating to insurance claims for the last two years. In 2011/12, in spite of a one-off top-up of £0.5m approved by the Executive in April, the total Fund value reduced from £3.2m to £3.0m, as the value of claims paid and estimated outstanding claims again exceeded the value of contributions to the Fund. A mid-year review of the Fund has been carried out and the report gives an early warning of a potential need for a further top-up of £1.0m in 2012/13 to enable the Fund balance to remain at a prudent level (see paragraph 3.3). The position will continue to be monitored throughout the year and a request will be made to the Executive to consider the requirement for a further top-up should the position remain as forecast.

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**RECOMMENDATION(S)**

**2.1 The PDS Committee and the Resources Portfolio Holder are asked to:**

**(a) note the contents of the report; and**

**(b) consider the early warning of a potential need for a top-up of the Insurance Fund in 2012/13 as detailed in paragraph 3.3.**

### Corporate Policy

1. Policy Status: Existing policy.
  2. BBB Priority: Excellent Council.
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### Financial

1. Cost of proposal: N/A
  2. Ongoing costs: N/A.
  3. Budget head/performance centre: Insurance Fund
  4. Total current budget for this head: £2,965k (Fund balance at 31/3/12)
  5. Source of funding: Insurance Fund - contributions from revenue, interest earned on balance
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### Staff

1. Number of staff (current and additional): 3 (2.05 fte)
  2. If from existing staff resources, number of staff hours: 74 hours per week
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### Legal

1. Legal Requirement: No statutory requirement or Government guidance.
  2. Call-in: Call-in is not applicable.
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### Customer Impact

1. Estimated number of users/beneficiaries (current and projected): n/a
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### Ward Councillor Views

1. Have Ward Councillors been asked for comments? No.
2. Summary of Ward Councillors comments: n/a

### **3. COMMENTARY**

#### **General**

- 3.1 In recent years, the Insurance Fund balance has been gradually reducing and, in 2007/08, suffered its biggest reduction for many years as a result of a number of large claims coming to settlement, mainly comprising public liability claims, theft of lead claims and tree root claims. Consequently, a one-off contribution of £500,000 in 2008/09 was approved by the Executive to top up the Fund, this being met from the underspend on the Council's 2008/09 revenue budget. This brought the Fund balance back up to just below £3.5m, which gave some headroom over and above the industry standard sustainable level (at least £3m; i.e. 2.5 times the stop loss figure at that time of £1.2m).
- 3.2 In the Insurance Annual Report for 2010/11 to the E&R PDS Committee in July 2011, Members were informed that a one-off review of the estimated liability in respect of all unsettled claims had been carried out during 2010/11, which had resulted in a reduction in the Fund balance from £3.5m as at 1<sup>st</sup> April 2010 to £3.2m as at 31<sup>st</sup> March 2011. The PDS Committee was informed that the Fund position would be reviewed at the end of 2011/12 with a view to determining the need for a top-up. In the Budget Monitoring report to the Executive on 11<sup>th</sup> April 2012, Members were informed that it was again likely that the value of claims paid and outstanding would exceed the value of contributions to the Fund and a further one-off top-up of £0.5m was approved.
- 3.3 The table in paragraph 3.9 shows the final position of the Insurance Fund as at 31<sup>st</sup> March 2012 and Members will note that, even after taking account of the additional top-up of £0.5m, there was a reduction of around £0.2m in the Fund balance during the financial year 2011/12. Broadly, claims settled during the year were around £0.6m higher than the total of interest accrued to the fund and the normal annual contribution of £0.5m from the revenue budget. In addition, the provision for the estimated liability relating to unsettled claims increased by a further £0.1m. The position of the Fund has been reviewed as at 30<sup>th</sup> September 2012 and, based on the estimated value of claims received to that date, it is projected that the Fund balance may fall to around £2.6m by the end of 2012/13. It is estimated that a further top-up of £1.0m would enable the Fund balance to increase to around £3.6m at the end of 2012/13, providing a degree of headroom of around £0.3m over and above the sustainable level (2.5 times the current stoploss figure of £1.33m). The position will continue to be monitored throughout the year and, should the position remain as currently forecast, a request will be made to the Executive to consider the requirement for a further top-up to the Fund in 2012/13.

#### **Claims statistics**

- 3.4 The estimated claims statistics for the main categories of insurance cover for 2010/11 and 2011/12 are detailed in the following table. These show claims submitted in respect of incidents/accidents taking place, but not necessarily reaching settlement, in the two financial years.

	2010/11		2011/12	
	No	£000	No	£000
<b>Policies subject to excess / stoploss</b>				
Commercial all risks - Fire and perils	28	137	22	71
- Theft	10	17	8	19
- All risks	3	1	1	1
Public Liability	336	388	220	162
Employers Liability	3	-	3	2
Officials Indemnity	-	-	-	-
	<u>380</u>	<u>543</u>	<u>254</u>	<u>255</u>
Less: Recoveries from insurers		-		-
Charged to Insurance Fund		<u>543</u>		<u>255</u>
<b>Vehicle policies</b>				
Motor Fleet	19	41	30	15
Leased Cars	64	136	66	61
Total for vehicles	<u>83</u>	<u>177</u>	<u>96</u>	<u>76</u>

NB. The 2010/11 figures above have increased significantly compared with the estimates included in last year's annual report. This reflects the fact that claims are often intimated some time after the occurrence of an accident. Similarly, the 2011/12 figures above only reflect claims intimated as at 31<sup>st</sup> March 2012 and will increase as further claims are made.

3.5 The table below shows movements in and out of the Insurance Fund in recent years and gives an indication of the volatility and unpredictability of the value of claims settled and outstanding each year. It is also noticeable that the value of interest earned on the Fund balance has reduced as a result of falling interest rates by around £0.2m in the last 5 years. This has contributed towards the ongoing reduction in the Fund balance.

	2007/08	2008/09	2009/10	2010/11	2011/12
	£000	£000	£000	£000	£000
Fund balance b/f	3,692	2,855	3,500	3,498	3,159
Revenue contribution to Fund	500	500	500	500	500
Interest	261	246	148	77	72
Top-up to Fund	-	500	-	-	500
Claims (actual and estimated)	-1,598	-601	-650	-916	-1,266
Fund balance c/f	<u>2,855</u>	<u>3,500</u>	<u>3,498</u>	<u>3,159</u>	<u>2,965</u>

3.6 In 2007/08, a number of large claims reached settlement, as a result of which the Fund balance suffered its largest in-year reduction for many years (claims valued at £1.6m and a total net reduction of £0.8m). The 2007/08 claims figure included a large public liability claim (£155k), lead theft claims (£168k) and tree root damage claims (£313k). As a result, a one-off contribution to the Fund of £500,000 was made from the revenue budget in 2008/09 to restore the Fund balance to a prudent level (£3.5m). The Fund balance remained at around £3.5m during 2009/10, before a one-off review of the estimated liability in respect of all unsettled claims was carried out during 2010/11, which resulted in a reduction to £3.2m as at 31<sup>st</sup> March 2011.

3.7 The total value of claims in 2011/12 (actual settlements and outstanding) was significantly higher than in recent years (£1.3m in total) and, even with the further top-up of £0.5m outlined above, the Fund balance still reduced overall from £3.2m to below £3.0m during 2011/12. This was generally due to a high volume of claims, particularly in the last few months of the year, and included one very large tree root claim (£145k). As is outlined in paragraph 3.3 above, this report provides an early warning of a potential need for a further top-up of £1m in 2012/13.

3.8 Under the policies subject to excess/stop-loss arrangements, claims are only chargeable to the insurers if the cost of an individual claim is greater than the excess and/or if the aggregate of all claims in a particular class exceeds the relevant stop-loss. The excess and stop-loss figures for 2011/12 were as follows:-

Policy	Excess	Aggregate Stop-Loss
All Risks - General	£100,000 )	
- Education	£250,000 )	
- Storm or Flood	£50,000 )	£1,300,000
Liability – Public, Employer’s & Officials’	£125,000 )	

3.9 Since 1994/95, the deductible has only been exceeded once (in 2001/02), as a result of the fire at Magpie Youth Centre in December 2001, which was settled in 2004/05. Owing to a number of large estimate liability claims notified during 2004/05, the insurers applied a stop loss limit of £1,300,000 for 2005/06. These claims were less severe than first thought and, as a result, the insurers reduced the stop loss to £1,200,000 in 2006/07 and it has increased by being index linked since then to the 2011/12 level of £1,300,000.

### Insurance Fund

3.10 Internal recharges are made to the revenue budget for both the insurance premium and the contribution to the Insurance Fund to cover the cost of claims met by the Council. The basis of recharge takes account of claims records in individual service areas. The cost of claims is met directly from the Fund until the stop-loss is reached. The current actual and future estimated position of the Insurance Fund is set out in the table below. If no further top-up was considered necessary, the estimated balance at the end of 2012/13 would be around £2.6m, which would be well below the industry standard of 2.5 times the total stoploss figure.

Insurance Fund	2011/12		2012/13
	Estimate £000	Actual £000	Estimate £000
Balance brought forward	3,159	3,159	2,965
Contributions - normal	500	500	500
- one-off top up	-	500	-
Interest	80	72	70
	<hr/> 3,739	<hr/> 4,231	<hr/> 3,535
Claims for the year	-650	-255	-400
Adjustments/new claims re previous years	-	-1,009	-500
Risk Management/Computer system	-10	-2	-10
Balance carried forward	<hr/> 3,079	<hr/> 2,965	<hr/> 2,625
Maximum exposure (total stop-loss)	1,300	1,300	1,327

## 4. POLICY IMPLICATIONS

4.1 None.

## 5. FINANCIAL IMPLICATIONS

5.1 These are contained in the body of the report. The Fund balance reduced in 2011/12 from £3.2m to £3.0m even after allowing for a one-off top up of £0.5m approved by the Executive in April. The position has been reviewed mid-way through 2012/13 and this report gives an early

warning of a potential need for a further top-up of £1.0m. Appendix 1 shows the actual premium levels for 2011/12 and 2012/13.

<b>Non-Applicable Sections:</b>	Legal and Personnel Implications
Background Documents: (Access via Contact Officer)	Insurance Fund Annual Report 2010/11 – to E&R PDS Committee 12/7/11 Budget monitoring report to Executive 11/4/12 (approval of one-off top up)

## Insurance Premiums 2011/12 &amp; 2012/13

Policy	Actual Premium 2011/12 £	Renewal Premium 2012/13 £
Main policies -		
Material damage #	183,700	112,900
Leased car & motor fleet	38,600	37,300
Combined liability	109,000	104,000
Other policies -		
Personal accident	9,100	9,200
Fidelity guarantee	46,600	34,800
Engineering	13,100	8,700
Legal expenses @	10,200	-
School journeys	11,100	12,800
Leasehold property / shops blanket	61,100	48,500
Professional / officials' indemnity	26,700	28,300
Mortgaged properties	1,400	800
Minibuses (rechargeable)	23,200	12,500
TOTAL	<u>533,800</u>	<u>409,800</u>

# Most of the premium reductions in 2012/13 have arisen from the deletion from our insurance schedules of schools that have adopted academy status.

@ The legal expenses insurance was not renewed in 2012/13.