

PART 1 - PUBLIC

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**Decision Maker:** Resources Portfolio Holder

**Date:** For pre-decision scrutiny by the Executive & Resources PDS Committee on 10<sup>th</sup> October 2013

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

**Title:** INSURANCE FUND - ANNUAL REPORT 2012/13

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

**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 2013 and presents statistics relating to insurance claims for the last two years. In 2012/13, the total Fund value increased from £2,965k to £3,022k, as the value of claims paid and estimated outstanding claims was broadly in line with the value of contributions to the Fund. A mid-year review of the Fund has been carried out and, at this stage, it is estimated that the final Fund value as at 31<sup>st</sup> March 2014 will increase to around £3.2m. The position will continue to be monitored throughout the year.
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**RECOMMENDATION(S)**

- 2.1 The PDS Committee and the Resources Portfolio Holder are asked to note the contents of the report.

### 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: £3,022k (Fund balance at 31/3/13)
  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, as is illustrated in the table in paragraph 3.9. This trend was halted in 2012/13, however, but the balance as at 31<sup>st</sup> March 2013 (slightly over £3.0m) remains around £300k below the industry standard sustainable level (at least £3.3m; i.e. 2.5 times the stop loss figure at that time of around £1.3m).
- 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. A further review at the end of 2011/12 resulted in a request for a further one-off top-up of £0.5m, which was approved by the Executive in April 2012.
- 3.3 The table in paragraph 3.9 shows the final position of the Insurance Fund as at 31<sup>st</sup> March 2013 and Members will note that the Fund balance increased by £57k during the year from £2,965k to £3,022k. Broadly, claims settled during the year were around the same level as the total of interest accrued to the fund, the annual contribution from the revenue budget and the movement in the estimated value of unsettled claims. The position of the Fund has been reviewed as at 30<sup>th</sup> September 2013 and, based on the estimated value of claims received to that date, it is projected that the Fund balance will increase to around £3.2m by the end of 2013/14. The position will continue to be monitored throughout the year.

#### Claims statistics

- 3.4 The estimated claims statistics for the main categories of insurance cover for 2011/12 and 2012/13 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.

	2011/12		2012/13	
	No	£000	No	£000
<b>Policies subject to excess / stoploss</b>				
Commercial all risks - Fire and perils	22	81	11	64
- Theft	8	11	5	28
- All risks	1	1	-	-
Public Liability	294	552	320	150
Employers Liability	5	39	3	-
Officials Indemnity	-	-	-	-
	<u>330</u>	<u>684</u>	<u>339</u>	<u>242</u>
Less: Recoveries from insurers		-		-
Charged to Insurance Fund		<u>684</u>		<u>242</u>
<b>Vehicle policies</b>				
Motor Fleet	30	9	19	3
Leased Cars	66	59	64	48
Total for vehicles	<u>96</u>	<u>68</u>	<u>83</u>	<u>51</u>

NB. The 2011/12 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 2012/13 figures above only reflect claims intimated on or before 31<sup>st</sup> March 2013 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 6 years. This has contributed towards the reducing trend in the Fund balance.

	2008/09	2009/10	2010/11	2011/12	2012/13
	£000	£000	£000	£000	£000
Fund balance b/f	2,855	3,500	3,498	3,159	2,965
Revenue contribution to Fund	1,000	500	500	1,000	605
Interest	246	148	77	72	57
Claims (actual and estimated)	-601	-650	-916	-1,266	-605
Fund balance c/f	3,500	3,498	3,159	2,965	3,022

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). During 2012/13, the Fund balance remained at around £3.0m and, at the time of writing this report, appears on target to continue at that level throughout 2013/14.

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 2012/13 were as follows:-

Policy	Excess	Aggregate Stop-Loss
All Risks - General	£100,000 )	£1,327,000
- Education	£250,000 )	
- Storm or Flood	£50,000 )	
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 2012/13 level of £1,327,000.

## 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.

<b>Insurance Fund</b>	<b>2012/13</b>		<b>2013/14</b>
	<b>Estimate</b>	<b>Actual</b>	<b>Estimate</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Balance brought forward	2,965	2,965	3,022
Contribution from revenue budget	500	605	800
Interest	70	57	50
	<b>3,535</b>	<b>3,627</b>	<b>3,872</b>
Claims for the year	-400	-242	-250
Adjustments/new claims re previous years	-500	-361	-400
Risk Management/Computer system	-10	-2	-2
Balance carried forward	<b>2,625</b>	<b>3,022</b>	<b>3,220</b>
Maximum exposure (total stop-loss)	1,327	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 increased from £2,965k to £3,022k in 2012/13. The position has been reviewed mid-way through 2013/14 and, at this stage, it is estimated that the Fund balance will increase to around £3.2m by the end of 2013/14. Appendix 1 shows the actual premium levels for 2012/13 and 2013/14.

<b>Non-Applicable Sections:</b>	Legal and Personnel Implications
Background Documents: (Access via Contact Officer)	Insurance Fund Annual Report 2011/12 – to E&R PDS Committee 18/10/12

## Insurance Premiums 2012/13 &amp; 2013/14

Policy	Actual Premium 2012/13 £	Renewal Premium 2013/14 £
Main policies -		
Material damage	112,900	107,200
Leased car & motor fleet (inc claims handling fee)	37,300	37,300
Combined liability	103,500	102,800
Other policies -		
Personal accident	9,400	9,400
Fidelity guarantee	34,800	34,800
Engineering	8,700	9,000
School journeys	12,800	12,800
Leasehold property / shops blanket	48,500	51,700
Professional / officials' indemnity	28,300	26,700
Mortgaged properties	800	1,400
Minibuses (rechargeable)	12,500	17,400
<b>TOTAL</b>	<b>409,800</b>	<b>410,500</b>