

PART 1 - PUBLIC

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**Decision Maker:** Resources Portfolio Holder

**Date:** For pre-decision scrutiny by the Executive & Resources PDS Committee on 19<sup>th</sup> November 2014

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

**Title:** **INSURANCE FUND - ANNUAL REPORT 2013/14**

**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 2014 and presents statistics relating to insurance claims for the last two years. In 2013/14, the total Fund value reduced slightly from £3,022k to £2,981k. 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 2015 could reduce to around £2.5m. 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: £2,981k (Fund balance at 31/3/14)
  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): Claims handling service provided by Royal Borough of Greenwich staff through a shared service agreement
  2. If from existing staff resources, number of staff hours: n/a
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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 3.5, and the balance as at 31<sup>st</sup> March 2014 (just below £3.0m) remains around £400k below the industry standard sustainable level (at least £3.4m; i.e. 2.5 times the stop loss figure at that time of around £1.36m).
- 3.2 In the Insurance Annual Report for 2012/13 to the E&R PDS Committee in October 2013, Members were informed that, at that stage, it was estimated that the Fund balance would increase during 2013/14 from £3.0m to £3.2m. However, partly as a result of a detailed data cleansing exercise and partly of a review of the estimated liability in respect of all unsettled claims, the call on the Fund balance in 2013/14 was higher than estimated. A top-up to the Fund of £0.5m was approved by the Executive in June and this allowed the Fund balance to remain at £3.0m at the end of 2013/14.
- 3.3 The table in paragraph 3.9 shows the final position of the Insurance Fund as at 31<sup>st</sup> March 2014 and Members will note that the Fund balance reduced by £41k during the year from £3,022k to £2,981k. After the top-up referred to above, claims settled during the year were broadly 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 31<sup>st</sup> October 2014 and, based on the estimated value of claims received to that date, it is estimated that the Fund balance could reduce to around £2.5m by the end of 2014/15. 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 2012/13 and 2013/14 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.

	2012/13		2013/14	
	No	£000	No	£000
<b>Policies subject to excess / stoploss</b>				
Commercial all risks - Fire and perils	11	60	15	32
- Theft	5	16	1	1
- All risks	-	-	1	26
Public Liability	333	546	329	625
Employers Liability	5	10	5	15
Officials Indemnity	-	-	-	-
	<u>354</u>	<u>632</u>	<u>351</u>	<u>699</u>
Less: Recoveries from insurers		-		-
Charged to Insurance Fund		<u>632</u>		<u>699</u>
<b>Vehicle policies</b>				
Motor Fleet	20	11	22	5
Leased Cars	64	29	40	28
Total for vehicles	<u>84</u>	<u>40</u>	<u>62</u>	<u>33</u>

NB. The 2012/13 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. The 2013/14 figures above reflect claims intimated up to 6<sup>th</sup> November 2014 and will probably 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	2013/14
	£000	£000	£000	£000	£000	£000
Fund balance b/f	2,855	3,500	3,498	3,159	2,965	3,022
Revenue contribution to Fund	1,000	500	500	1,000	605	1,300
Interest	246	148	77	72	57	35
Claims (actual and estimated)	-601	-650	-916	-1,266	-605	-1,376
Fund balance c/f	3,500	3,498	3,159	2,965	3,022	2,981

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 further 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 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 normal (£1.3m in total) and, even with a further top-up of £0.5m, 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, but, in 2013/14, following a detailed data cleansing exercise and a complete review of all outstanding claims, the estimated value of outstanding claims increased significantly again (to £1.4m), which resulted in a request for a further top-up of £0.5m at the end of 2013/14 (approved by the Executive in June 2014). At the time of writing this report, it is estimated that the Fund balance will be £2.5m at the end of 2014/15.

3.7 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 2013/14 were as follows:-

Policy	Excess	Aggregate Stop-Loss
All Risks - General	£100,000 )	£1,363,000
- Education	£250,000 )	
- Storm or Flood	£50,000 )	
Liability – Public, Employer’s & Officials’	£125,000 )	

3.8 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 2013/14 level of £1,363,000.

## Insurance Fund

3.9 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.

Insurance Fund	2013/14		2014/15
	Estimate £000	Actual £000	Estimate £000
Balance brought forward	3,022	3,022	2,981
Contribution from revenue budget	800	1,300	800
Interest	50	35	40
	<hr/>	<hr/>	<hr/>
	3,872	4,357	3,821
Claims for the year	-250	-242	-250
Adjustments/new claims re previous years	-400	-1,131	-1,068
Risk Management/Computer system	-2	-3	-3
Balance carried forward	<hr/>	<hr/>	<hr/>
	3,220	2,981	2,500
Maximum exposure (total stop-loss)	1,363	1,363	1,400

## 4. POLICY IMPLICATIONS

4.1 None.

## 5. FINANCIAL IMPLICATIONS

5.1 These are contained in the body of the report. The Fund balance reduced from £3,022k to £2,981k in 2013/14. The position has been reviewed mid-way through 2014/15 and, at this stage, it is estimated that the Fund balance could reduce to around £2.5m by the end of 2014/15. Appendix 1 shows the actual premium levels for 2013/14 and 2014/15.

<b>Non-Applicable Sections:</b>	Legal and Personnel Implications
Background Documents: (Access via Contact Officer)	Insurance Fund Annual Report 2012/13 – to E&R PDS Committee 10/10/13

**Insurance Premiums 2013/14 & 2014/15 (including Insurance Premium Tax @ 6%)**

Policy	Actual Premium 2013/14 £	Renewal Premium 2014/15 £
Main policies -		
Material damage	107,200	107,500
Leased car & motor fleet (inc claims handling fee)	37,300	45,800
Combined liability	114,000	246,000
Other policies -		
Personal accident	9,400	9,400
Fidelity guarantee	34,800	29,500
Engineering	9,000	10,600
School journeys	11,900	11,300
Leasehold property / shops blanket	30,800	41,500
Professional / officials' indemnity	17,900	17,900
Mortgaged properties	1,400	1,400
Minibuses (rechargeable)	17,400	17,600
<b>TOTAL</b>	<b>391,100</b>	<b>538,500</b>