

PART 1 - PUBLIC

Decision Maker: Resources Portfolio Holder

Date: For pre-decision scrutiny by the Executive & Resources PDS Committee on 8th October 2015

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

Title: **INSURANCE FUND - ANNUAL REPORT 2014/15**

Contact Officer: Martin Reeves, Principal Accountant (Technical & Control)
Tel: 020 8313 4291 E-mail: martin.reeves@bromley.gov.uk

Chief Officer: Director of Finance

Ward: All

1. Reason for report

- 1.1 This report advises Members of the position of the Insurance Fund as at 31st March 2015 and presents statistics relating to insurance claims for the last two years. In 2014/15, the total Fund value reduced slightly from £2,981k to £2,888k. 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 31st March 2016 is likely to remain at around £2.9m. 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. To maintain appropriate levels of insurance cover to ensure adequate cover for Council properties, assets and services.
 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: £2,888k (Fund balance at 31/3/15)
 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 applicable
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Customer Impact

1. Estimated number of users/beneficiaries (current and projected): Between 400 and 450 claims are received each year across all insurance covers.
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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 3.10, and the balance (to cover new claims intimated after 31st March 2015) as at 31st March 2015 stood at £2.9m. Very little guidance is given on a prudent level of reserves for insurance claims, but the Financial Conduct Authority generally supports the principal that it should be based on a realistic assessment of the value of known unsettled claims. Accordingly, in addition to the Fund balance, the Council carries a provision on its Balance Sheet for the estimated value of claims received but not settled as at 31st March 2015 (£1.7m).
- 3.2 In the Insurance Annual Report for 2013/14 to the E&R PDS Committee in November 2014, Members were informed that, at that stage, it was estimated that the Fund balance could reduce during 2014/15 from £3.0m to £2.5m. However, as a result of a review of the estimated liability in respect of all unsettled claims, the call on the Fund balance in 2014/15 was lower than estimated and it only fell by £0.1m to £2.9m.
- 3.3 The table in paragraph 3.15 shows the final position of the Insurance Fund as at 31st March 2015 and Members will note that the Fund balance reduced by £93k during the year from £2,981k to £2,888k. Claims settled during the year were slightly higher than 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 24th September 2015 and, based on the estimated value of claims received to that date, it is anticipated that the Fund balance will remain at around £2.9m at the end of 2015/16. The position will continue to be monitored throughout the rest of the year.

Insurance Claims

- 3.4 Until January 2014, the Council's insurance function was undertaken by an in-house insurance team. On 27th March 2014, however, the Executive and Resources PDS Committee considered and supported proposals for a shared service arrangement with the Royal Borough of Greenwich for the provision of insurance services. This was subsequently approved by the Resources Portfolio Holder. This followed an interim arrangement effective from 1st January 2014 and would last until 31st March 2015 during which time consideration would be given to the future delivery of the service. On 4th February 2015, following a review of the shared service arrangement after its first year, the E&R PDS Committee considered and supported an extension to the arrangement for a period of 5 years, from 1st April 2015 to 31st March 2020, and this was subsequently approved by the Resources Portfolio Holder. This would be subject to an annual review by officers from both authorities with a 3 month notice period being required from either party should they wish to terminate the agreement.
- 3.5 The client function at Bromley is undertaken by the Principal Accountant, Technical and Control, who is responsible for the management of the overall service including the authorisation of higher value claims, annual reviews of insurance cover and performance monitoring in line with the terms of the service specification that has been drawn up and agreed by both parties. This post also retains responsibility for the quarterly reconciliation of the insurance fund and all accounting requirements.
- 3.6 Regular client monitoring meetings are held between the Chief Accountant, the Principal Accountant and Greenwich's Insurance Manager. These have demonstrated that, while the arrangement is working well in terms of day-to-day claims handling, the service needs to be developed going forward, in particular the wider insurance function including improved management reporting (now in place), shared advice on areas such as risk management and

procurement and ensuring the service remains fit for purpose as the Council moves forward with its transformation agenda.

- 3.7 The initial focus of the Greenwich team was to clear the outstanding backlog of claims, review the position of existing open claims and undertake a data cleansing exercise on the LACHS (insurance database) system as cases were reviewed whilst, at the same time, dealing with new claims as they arose. The data cleansing exercise was completed during 2014. Since the start of the shared service arrangement (1st January 2014), 742 new claims have been made, 493 (66.4%) of which have been closed (settled or repudiated), leaving 249 (33.6%) currently open. The overall repudiation rate for claims intimated since 1st January 2014 is 54%, with a further 18% remaining to be resolved.
- 3.8 Our main insurers audit the claims position and the way in which claims are handled each year and, in April 2015, Travelers (our casualty/liability insurance provider until June 2014) carried out an audit. Their report stated “I am pleased to report an improvement in performance..... reflecting “good” standards. I think the insurance shared service team has made great strides since last year’s audit and should be congratulated.” An audit by the current main insurance provider (casualty/liability, all risks and motor), Zurich Municipal, started on September 28th 2015.
- 3.9 The estimated claims statistics for the main categories of insurance cover for 2013/14 and 2014/15 are detailed in the following table. These show claims submitted up to 24th September 2015 in respect of incidents/accidents taking place, but not necessarily reaching settlement, in the two financial years.

| | 2013/14 | | 2014/15 | |
|--|------------|------------|------------|------------|
| | No | £000 | No | £000 |
| Policies subject to excess / stoploss | | | | |
| Commercial all risks - Fire and perils | 15 | 56 | 7 | 9 |
| - Theft | 1 | 2 | 1 | 8 |
| - All risks | 1 | 51 | 11 | 21 |
| Public Liability | 340 | 746 | 286 | 769 |
| Employers Liability | 5 | 20 | 3 | 10 |
| Officials Indemnity | - | - | - | - |
| | <u>362</u> | <u>875</u> | <u>308</u> | <u>817</u> |
| Less: Recoveries from insurers | | - | | - |
| Charged to Insurance Fund | | <u>875</u> | | <u>817</u> |
| Vehicle policies | | | | |
| Motor Fleet | 22 | 9 | 17 | 19 |
| Leased Cars | 40 | 49 | 49 | 48 |
| Total for vehicles | <u>62</u> | <u>58</u> | <u>66</u> | <u>67</u> |

NB. The 2013/14 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 2014/15 figures above reflect claims intimated up to 24th September 2015 and will probably increase as further claims are made.

- 3.10 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 generally reduced in recent years as a result of falling interest rates. This has contributed towards the reducing trend in the Fund balance.

| | 2009/10 | 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2014/15 |
|-------------------------------|---------|---------|---------|---------|---------|---------|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Fund balance b/f | 3,500 | 3,498 | 3,159 | 2,965 | 3,022 | 2,981 |
| Revenue contribution to Fund | 500 | 500 | 1,000 | 605 | 1,300 | 800 |
| Interest | 148 | 77 | 72 | 57 | 35 | 65 |
| Claims (actual and estimated) | -650 | -916 | -1,266 | -605 | -1,376 | -958 |
| Fund balance c/f | 3,498 | 3,159 | 2,965 | 3,022 | 2,981 | 2,888 |

3.11 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 31st March 2011.

3.12 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). In 2014/15, the Fund balance remained broadly stable at £2.9m and, at the time of writing this report, it is estimated that it will still be at that level at the end of 2015/16.

3.13 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 2014/15 were as follows:-

| Policy | Excess | Aggregate Stop-Loss |
|--|------------|---------------------|
| All Risks - General | £100,000) | £500,000 |
| - Education | £250,000) | |
| - Storm or Flood | £50,000) | |
| Casualty – Public Liability, Employer’s Liability & Officials’ Indemnity | £125,000 | £1,400,000 |

3.14 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 total stop loss limit of £1,800,000 for 2005/06. These claims were less severe than first thought and, as a result, the insurers reduced the total stop loss to £1,700,000 in 2006/07 and it then increased through index-linking to the overall 2013/14 level of £1,863,000 (£500k for all risks and £1,363k for casualty). In 2014/15, the all risks stop loss remained at £500k, but, as a result of the contract awarded for casualty in 2014, the casualty stop loss increased to £1,400k.

Insurance Fund

3.15 Internal recharges are made to the revenue budget for both the insurance premiums 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 | 2014/15 | | 2015/16 |
|--|------------------|----------------|------------------|
| | Estimate £000 | Actual £000 | Estimate £000 |
| Balance brought forward | 2,981 | 2,981 | 2,888 |
| Contribution from revenue budget | 800 | 800 | 800 |
| Interest | 40 | 65 | 70 |
| | <hr/> | <hr/> | <hr/> |
| | 3,821 | 3,846 | 3,758 |
| Claims for the year | -500 | -545 | -450 |
| Adjustments/new claims re previous years | -818 | -413 | -408 |
| Risk Management/Computer system | -3 | - | - |
| Balance carried forward | <hr/> | <hr/> | <hr/> |
| | 2,500 | 2,888 | 2,900 |
| Maximum exposure (total stop-loss) | 1,900 | 1,900 | 1,900 |

4. POLICY IMPLICATIONS

4.1 To maintain appropriate levels of insurance cover to ensure adequate cover for Council properties, assets and services.

5. PERSONNEL IMPLICATIONS

5.1 An insurance claims handling service is provided by staff from the Royal Borough of Greenwich under a shared services arrangement.

6. FINANCIAL IMPLICATIONS

6.1 These are contained in the body of the report. The Fund balance reduced from £2,981k to £2,888k in 2014/15. The position has been reviewed mid-way through 2015/16 and, at this stage, it is estimated that the Fund balance will remain at around £2.9m at the end of 2015/16. A report elsewhere on the agenda proposes a procurement strategy for insurance renewals (most of which expire on 30th April 2016) and current premium levels are shown in that report.

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| Non-Applicable Sections: | Legal Implications |
| Background Documents: (Access via Contact Officer) | Insurance Fund Annual Report 2013/14 – to E&R PDS Committee 19/11/14. Insurance claims statistics from Lachs database system. Insurance shared service report to E&R PDS 04/02/15. |