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**Decision Maker:** Resources Portfolio Holder

**Date:** For pre-decision scrutiny by Executive and Resources PDS Committee on 12th October 2016

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

**Title:** INSURANCE FUND - ANNUAL REPORT 2015/16

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**Chief Officer:** Director of Finance

**Ward:** All

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**1. Reason for report**

- 1.1 Following the conclusion of the 2015/16 Audit of Accounts, this report advises Members of the position of the Insurance Fund as at 31<sup>st</sup> March 2016 and presents statistics relating to insurance claims for the last two years. In 2015/16, the total Fund value increased slightly from £2.9m to £3.1m. A mid-year review of the Fund has also been carried out and, at this stage, it is estimated that the final Fund value as at 31<sup>st</sup> March 2017 is likely to increase further to around £3.4m. The position will continue to be monitored throughout the year.

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**2. 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: £3,099k (Fund balance as at 31/03/2016)
  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): N/A
  2. If from existing staff resources, number of staff hours: Insurance claims are handled under a shared services arrangement with the Royal Borough of Greenwich
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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): Approx. 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? N/A.
2. Summary of Ward Councillors comments: N/A - Council wide

### **3. COMMENTARY**

#### **3.1 Background**

- 3.1.1 The Council's Insurance Fund is an earmarked reserve which provides for the self-insurance of all losses up to a maximum in any year of £500k for material damage claims and £1,965k for Employers and Public Liability claims. External insurers are used to provide for losses in excess of these sums.
- 3.1.2 With the exception of 2015/16, the trend in recent years has been a gradual reduction in the Insurance Fund balance, as is illustrated in the table in paragraph 4.1, and the balance (to cover new claims notified after 31<sup>st</sup> March 2016) stood at £3.1m at 31<sup>st</sup> March 2016. 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 proportion of claims received that will be settled. As at 31<sup>st</sup> March 2016, the provision stands at £1.6m.
- 3.1.3 In the Insurance Annual Report for 2014/15 to the Executive and Resources PDS Committee in October 2015, Members were informed that, at that stage, it was estimated that the Fund balance would remain at around £2.9m for 2015/16. However, as a result of the reduction in claim settlement payments, the call on the Fund in 2015/16 was lower than estimated and the balance increased by £0.2m to £3.1m.
- 3.1.4 Claims settled during the year were slightly lower 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. As at 31<sup>st</sup> March 2016, there were 314 open claims.
- 3.1.5 The position of the Fund has been reviewed as at 30<sup>th</sup> September 2016 and, based on the estimated value of claims received to that date, it is anticipated that the Fund balance will increase to around £3.4m at the end of 2016/17. As at 30<sup>th</sup> September 2016, there were 302 open claims. The position will continue to be monitored throughout the year.

#### **3.2 Insurance Arrangements**

- 3.2.1 Since January 2014, the Council's insurance function has been performed under a shared service arrangement with the Royal Borough of Greenwich. Initially for an interim arrangement from 1<sup>st</sup> January 2014 until 31<sup>st</sup> March 2015, on 4<sup>th</sup> February 2015, following a review of the shared service arrangement after its first year, the Executive and Resources PDS Committee considered and supported an extension to the arrangement for a period of 5 years, from 1<sup>st</sup> April 2015 to 31<sup>st</sup> 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.
- 3.2.2 The client function at Bromley is undertaken by the Principal Accountant, 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.
- 3.2.3 Regular client monitoring meetings are held between the Chief Accountant, the Principal Accountant and Greenwich's Insurance Manager. As evidenced by the Internal Audit review (see paragraph 3.4.4), claims handling has improved now that the service has settled in, and

although there were some recommendations raised, these have either been addressed or are in progress.

### 3.2.4 The Council's insurance is categorised across the following 'business classes':-

- Employer's Liability – all employers are required to insure their staff during the course of their employment, both for their actions and against injury.
- Public Liability – This covers a wide range of risks for injury and damage that the public may be exposed to as a result of Council actions or omissions.
- Motor Vehicle – this includes the Council's vehicles and minibuses, and staff leased cars.
- Property – this is for the property issues for Council assets such as subsidence, fire, storm and floods. Where an incident occurs such as leaks these are met by the internal insurance fund and the cost of repair falls below the Council excess while the insurer will meet any amount above the excess for a major incident.
- Terrorism – this covers physical loss or damage to property, loss of rental income and increased cost of working (business interruption) on a first loss basis, for any act of terrorism or sabotage. This is a new policy from 1<sup>st</sup> August 2016 as agreed by the Resources Portfolio Holder on 8<sup>th</sup> June 2016.
- Other – these are minor policies such as school journey insurance.

### 3.2.5 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 2015/16 were as follows:-

<b>Policy</b>	<b>Excess</b>		<b>Aggregate Stop-Loss</b>
	<b>£'000</b>		<b>£'000</b>
All Risks - General	100	)	
- Education	250	)	500
- Storm or Flood	50	)	
Casualty – Public Liability, Employer's Liability & Officials' Indemnity	125		1,965

N.B. Since 1994/95, the excess 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.

### 3.2.6 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 recharge basis takes account of claims records and premium charges for individual service areas. The cost of claims is met directly from the Fund until the stop-loss is reached.

### 3.2.7 As agreed by the Resources Portfolio Holder following scrutiny by the Executive and Resources PDS Committee in June 2016, contracts for the Council's insurance cover, with the exception of casualty (employers and public liability and officials indemnity), were awarded for the period 1<sup>st</sup> August 2016 to 30<sup>th</sup> April 2018 with the option to extend for a further year.

## 3.3 Insurance Claims

### 3.3.1 The estimated claims statistics for the main categories of insurance cover for 2014/15 and 2015/16 are detailed in the following table. These show claims submitted up to 30<sup>th</sup> September 2016 in respect of incidents/accidents taking place, but not necessarily reaching settlement, in the two financial years. The table also shows the total number of outstanding claims for all years and the estimated value.

	2014/15		2015/16		Total Outstanding	
	No	£'000	No	£'000	No	£'000
<b>Policies subject to excess / stoploss</b>						
Commercial all risks - Fire and perils	7	7	12	36	7	22
- Theft	1	8	-	-	-	-
- All risks	11	8	3	8	4	5
Public Liability	302	619	240	423	248	1,918
Employers Liability	4	19	6	38	12	92
Officials Indemnity	-	-	-	-	-	-
	<b>325</b>	<b>661</b>	<b>261</b>	<b>505</b>	<b>271</b>	<b>2,037</b>
Less: Recoveries from insurers		-		-		-
Charged to Insurance Fund		<b>661</b>		<b>505</b>		<b>2,037</b>
<b>Vehicle policies</b>						
Motor Fleet	23	30	15	2	-	-
Leased Cars	55	54	60	75	31	67
Total for vehicles	<b>78</b>	<b>84</b>	<b>75</b>	<b>77</b>	<b>31</b>	<b>67</b>

- 3.3.2 Although the number of claims relating to 2014/15 have increased when compared with the estimates included in last year's annual report, reflecting the fact that claims are often received some time after the occurrence of an incident, the total amount outstanding has reduced as claims have been repudiated or settled at a lower value than initially estimated. Deadlines for submitting claims are as follows: injuries can be notified up to 3 years after the incident occurred (or up to the age of 21 for minors at the time), property claims up to 6 years, and without limit for historic mesothelioma, abuse, noise related or repetitive injury claims. Courts can also waive limitation periods e.g. when the claimant has mental health issues. The 2015/16 figures above reflect claims received up to 30<sup>th</sup> September 2016 and will likely increase as further claims are made.
- 3.3.3 It should be noted that although the total value of outstanding claims is just over £2m, this is unlikely to be the actual cost to the Council of these claims. The Council will settle the claim if it believes that it is liable or it does not have a defence in law, otherwise the claim will be repudiated. There will be some uncertainty following the Council's decision to repudiate as this may be challenged through the legal process.
- 3.3.4 As can be seen in the table in paragraph 4.1, the total value of claims in 2011/12 (actual settlements and outstanding) was higher than in previous years (£1.3m in total) and, even with a further top-up of £0.5m, the Fund balance reduced from £3.2m to just 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 increased slightly to £3.1m in 2015/16 due a reduction in the level of claims paid during the year and outstanding at year end. At the time of writing this report, it is estimated that it will increase to around £3.4m at the end of 2016/17.
- 3.3.5 The table below provides a summary of the claims received by year showing those that are still in progress, referred to a contractor, repudiated or settled.

<b>Financial Year</b>	<b>In Progress</b>	<b>Referred to Contractor</b>	<b>Repudiated / Closed</b>	<b>Settled</b>
2009/10	0.00%	5.70%	52.85%	41.45%
2010/11	0.28%	7.52%	52.09%	40.11%
2011/12	2.00%	8.33%	47.00%	42.67%
2012/13	3.10%	8.67%	42.72%	45.51%
2013/14	6.87%	3.30%	62.09%	27.74%
2014/15	12.34%	5.84%	72.08%	9.74%
2015/16	40.34%	2.10%	52.94%	4.62%
2016/17	94.81%	1.30%	2.59%	1.30%
<b>Grand Total</b>	<b>10.57%</b>	<b>5.86%</b>	<b>52.91%</b>	<b>30.66%</b>

3.3.6 Although the figures are encouraging and suggest a downward trend in the proportion of claims that are settled, it should be noted that these figures are still likely to change as claims in progress are concluded and new claims are submitted relating to previous years (as detailed in paragraph 3.3.2).

### 3.4 Reviews of the Insurance Service

3.4.1 The Insurance Section was subject to two audit reviews by the Council's insurers during 2015/16 under the delegated claims handling arrangements, as well as an Internal Audit review.

3.4.2 The Council's previous insurer Travelers undertook its audit and issued a report in April 2016, and concluded that "A TSP (Technical Service Proficiency) of 93% was achieved on this occasion ... This reflects modest deterioration when compared to last year audit, albeit this is now a mature run-off caseload." The 2015 audit recorded a 96% TSP, suggesting "excellent" quality overall and the 2014 audit recorded a score of 82%.

3.4.3 In September 2015 the Council's current main insurer, Zurich Municipal (ZM) undertook its first audit. Discussions are ongoing regarding some of the issues raised in the draft report and a follow up meeting has been arranged before the report is finalised. The report identifies areas that "need improvement", primarily relating to reserving as demonstrated in the overall scoring and this will be explored further with ZM as part of finalising the audit. The conclusion set out in the draft report provided the following: "The overall quality score for this review is 89.23%. The highest scores were Fraud (100%), Recovery (100%), Evaluation (99.31%), Coverage (98.68%), Investigation (97.37%) and Notification (96.49%). All other phases apart from Reserving (50.46%) scored between 83% and 89%."

3.4.4 The Council's Internal Audit Service review in May 2016 reported that "Overall, the conclusion of this audit was that substantial assurance can be placed on the effectiveness of the overall controls. ... Controls were in place and working well in the area of claim handling, as outlined in the service specification between the London Borough of Bromley and the Royal Borough of Greenwich (RBG)."

## 4. FINANCIAL IMPLICATIONS

4.1 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 which has contributed towards the reducing trend in the Fund balance. An estimate of the position for 2016/17 is also included in the table.

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17 (est.)
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fund balance b/f	3,500	3,498	3,159	2,965	3,022	2,981	2,888	3,099
Revenue contribution to Fund	500	500	1,000	605	1,300	800	800	800
Interest	148	77	72	57	35	65	73	70
Claims (actual and estimated)	-650	-916	-1,266	-605	-1,376	-958	-662	-531
Fund balance c/f	<b>3,498</b>	<b>3,159</b>	<b>2,965</b>	<b>3,022</b>	<b>2,981</b>	<b>2,888</b>	<b>3,099</b>	<b>3,438</b>

- 4.2 Although the Fund balance is projected to increase in 2016/17, due to the unpredictability of insurance claims, officers are not recommending any change to the level of revenue contribution to the Fund at this point. The position will be kept under review, and any proposals to change the contribution will be reported to Members as part of the annual budget process.

## 5. POLICY IMPLICATIONS

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

## 6. PERSONNEL IMPLICATIONS

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

<b>Non-Applicable Sections:</b>	Legal Implications
Background Documents: (Access via Contact Officer)	Insurance Renewals 2016/17 – Award of Contracts, Executive and Resources PDS Committee, 8 <sup>th</sup> June 2016 Insurance Fund – Annual Report 2014/15, Executive and Resources PDS Committee, 8 <sup>th</sup> October 2015 Provision of Insurance Service – Royal Borough of Greenwich, Executive and Resources PDS Committee, 4 <sup>th</sup> February 2015