

Decision Maker: Resources Portfolio Holder

Date: For pre-decision scrutiny by Executive and Resources PDS Committee on 11th October 2017

Decision Type: Non-Urgent Executive Non-Key

Title: **INSURANCE FUND - ANNUAL REPORT 2016/17**

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Chief Officer: Director of Finance

Ward: All

1. Reason for report

- 1.1 Following the conclusion of the 2016/17 Audit of Accounts, this report advises Members of the position of the Insurance Fund as at 31st March 2017 and presents statistics relating to insurance claims for the last two years. In 2016/17, the total Fund value increased slightly from £3.1m to £3.4m. 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 31st March 2018 is likely to increase further to around £3.6m. The position will continue to be monitored throughout the year.
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2. RECOMMENDATION(S)

- 2.1 The Resources Portfolio Holder is requested 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: £3,373k (Fund balance as at 31/03/2017)
 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 and 2016/17, the trend in recent years has been a gradual reduction in the Insurance Fund balance, as illustrated in the table in paragraph 4.1, and the balance (to cover new claims notified after 31st March 2017) stood at £3.4m at 31st March 2017. 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 31st March 2017, the provision stands at £1.7m.

3.1.3 In the Insurance Annual Report for 2015/16 to the Executive and Resources PDS Committee in October 2016, Members were informed that, at that stage, it was estimated that the Fund balance would increase to around £3.4m for 2016/17. The level and value of claims for the rest of the year matched the projections fairly closely, and the remaining balance at year end was in line with the estimate. The increase in fund value was mainly due to claims settled during the year being 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 31st March 2017, there were 319 open claims.

3.1.4 The position of the Fund has been reviewed as at 25th September 2017 and, based on the estimated value of claims received to that date, it is anticipated that the Fund balance will increase to around £3.6m at the end of 2017/18. As at 25th September 2017, there were 251 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 1st January 2014 until 31st March 2015, on 4th 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 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.

3.2.2 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 this year's audit reviews (see section 3.4), claims handling has improved now that the service has settled in.

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 was a new policy from 1st August 2016 as agreed by the Resources Portfolio Holder on 8th 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 2016/17 were as follows:-

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

Since 1994/95, the excess has been exceeded three times; the fire at Magpie Youth Centre in December 2001, which was settled in 2004/05, subsidence/tree root damage to St. Luke's Scout Group HQ in 2011/12, and a serious injury as a result of trip from a hole in the pavement, both of which are in the process of being settled. The total estimated costs of these claims are £320k, £275k and £283k, and the applicable excess amounts i.e. costs to the Council are £250k, £125k and £125k respectively.

3.2.6 Since 2012/13 the difference between the estimated total cost of casualty claims versus the stop loss has increased reflecting the general downward trend in the number of claims received, and the number of those that are settled, as illustrated in the table in para 3.3.5. As this difference increases, the likelihood that the stop loss will be breached in any year becomes more remote, which should reflect favourably when the policies are due to be renewed.

Insurer	Policy Year	Start Date	Stop loss	Total Payments	Outstanding Estimate	Total Claims	Under Stop Loss
			£'000	£'000	£'000	£'000	£'000
Travelers	2009/10	01/05/2009	1,250	725	107	832	418
Travelers	2010/11	01/05/2010	1,275	884	6	890	385
Travelers	2011/12	01/05/2011	1,275	932	13	945	330
Travelers	2012/13	01/05/2012	1,326	599	2	601	725
Travelers	2013/14	01/05/2013	1,353	423	213	636	717
Travelers	2014	01/05/14-17/06/14	1,531	43	77	120	1,411
Zurich Municipal	2014/15	17/06/14-01/05/15	1,965	341	162	503	1,462
Zurich Municipal	2015/16	01/05/2015	1,965	90	135	225	1,740
Zurich Municipal	2016/17	01/05/2016	1,965	46	571	617	1,348

3.2.7 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.

3.2.8 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 1st August 2016 to 30th April 2018 with the option to extend for a further year. Approval for this extension is currently in being requested, which will make all Council policies conterminous on 30th April 2019. Officers will be exploring the possibility of a joint procurement with Royal Borough of Greenwich, whose policies expire at the same time.

3.3 Insurance Claims

3.3.1 The estimated claims statistics for the main categories of insurance cover for 2015/16, 2016/17 and 2017/18 to date are detailed in the following table. These show claims submitted up to 25th September 2017 in respect of incidents/accidents taking place, but not necessarily reaching settlement, in these financial years. The table also shows the total number of outstanding claims for all years and the estimated value.

	2015/16		2016/17		2017/18 to date		Total Outstanding	
	No	£'000	No	£'000	No	£'000	No	£'000
Policies subject to excess / stoploss								
Commercial all risks - Fire and perils	13	42	-	-	-	-	6	14
- All risks	4	9	10	44	-	-	4	32
Public Liability	247	181	264	610	57	180	177	1,334
Employers Liability	7	44	-	-	2	10	8	278
	271	276	274	654	59	190	195	1,658
Less: Recoveries from insurers		-		-		-		-
Charged to Insurance Fund		276		654		190		1,658
Vehicle policies								
Motor Fleet	15	10	7	20	-	-	-	-
Leased Cars	60	131	55	65	3	1	45	100
Total for vehicles	75	141	62	85	3	1	45	100

3.3.2 Although the number of claims relating to 2015/16 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 significantly 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 figures above reflect claims received up to 25th September 2017 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 under £1.8m, 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 and £3.4m in 2015/16 and 2016/17 respectively 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 £3.6m at the end of 2017/18.

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.

Financial Year	Number of claims	In progress	Referred to Contractor	Repudiated / Closed	Settled
2009/2010	550	0.4%	4.0%	38.0%	57.6%
2010/2011	508	0.4%	5.5%	38.0%	56.1%
2011/2012	444	0.5%	5.6%	32.4%	61.5%
2012/2013	439	0.9%	6.6%	34.6%	57.9%
2013/2014	466	1.7%	3.0%	52.8%	42.5%
2014/2015	421	5.0%	4.3%	58.9%	31.8%
2015/2016	343	11.4%	2.3%	65.3%	21.0%
2016/2017	331	27.8%	3.6%	51.4%	17.2%
2017/2018	83	90.6%	0.0%	3.5%	5.9%

3.3.6 Although the figures are encouraging and suggest a downward trend in the number of claims received, and the proportion of those 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 2016/17 under the delegated claims handling arrangements.

3.4.2 The Council's previous insurer Travelers undertook its audit and issued a report in March 2017, and concluded that "A TSP (Technical Service Proficiency) of 95% was achieved on this occasion ... This reflects improvement when compared to last year." The 2016 audit recorded a 93% TSP, the 2015 audit recorded a 96% TSP, and the 2014 audit recorded a score of 82%.

3.4.3 In August 2017, the Council's current main insurer, Zurich Municipal (ZM) undertook its second audit. Although the draft report has not yet been received for management review, the provisional scores have been provided; the overall score of 95.3%, shows good improvement from the 2015 overall score of 89.2%, and was broken down as follows: Notification 98.8%, Coverage 100%, Contact 99.4%, Investigation 98.8%, Evaluation 99.4%, Fraud 100%, Reserving 70.4%, Negotiation 94.9%, Litigation 100%, Recovery 100%, File management 94.3%, Bordereau 100%. It should be noted that these are initial scores only and subject to discussions between the Council and ZM, as well as their own management review.

4. FINANCIAL IMPLICATIONS

4.1 The table below shows movements into 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. An estimate of the position for 2017/18 is also included in the table.

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18 (est.)
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fund balance b/f	3,498	3,159	2,965	3,022	2,981	2,888	3,099	3,373
Revenue contribution to Fund	500	1,000	605	1,300	800	800	800	800
Interest	77	72	57	35	65	73	81	81
Claims (actual and estimated)	-916	-1,266	-605	-1,376	-958	-662	-607	-675
Fund balance c/f	3,159	2,965	3,022	2,981	2,888	3,099	3,373	3,579

4.2 Although the Fund balance is projected to increase in 2017/18, 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.

4.3 In addition, some authorities are concerned about the risk of potentially significant increases to their insurance premiums, and although this hasn't been reflected in the Council's most recent renewal premiums, this may become a pressure in future years.

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.

Non-Applicable Sections:	Legal Implications
Background Documents: (Access via Contact Officer)	Insurance Renewals 2016/17 – Award of Contracts, Executive and Resources PDS Committee, 8 th June 2016 Insurance Fund – Annual Report 2015/16, Executive and Resources PDS Committee, 12 th October 2016 Provision of Insurance Service – Royal Borough of Greenwich, Executive and Resources PDS Committee, 4 th February 2015