

**Decision Maker:** RESOURCES, COMMISSIONING & CONTRACTS  
MANAGEMENT PORTFOLIO HOLDER

**Date:** For pre-decision scrutiny by the Executive, Resources & Contracts PDS  
Committee on 11th October 2018

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

**Title:** INSURANCE FUND - ANNUAL REPORT 2017/18

**Contact Officer:** James Mullender, Principal Accountant  
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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 2017/18 Audit of Accounts, this report advises Members of the position of the Insurance Fund as at 31<sup>st</sup> March 2018 and presents statistics relating to insurance claims for the last two years. In 2017/18, the total Fund value increased slightly from £3.4m to £3.7m. 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 2019 will remain approximately the same. The position will continue to be monitored throughout the year.
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**2. RECOMMENDATION**

- 2.1 The Resources, Commissioning and Contracts Management 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: £3,717k (Fund balance as at 31/03/2018)
  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 Like most organisations, ensuring adequate insurance cover is in place is one of the ways that the Council manages risk. It is the responsibility of the Council to determine the best balance between the level of premiums paid to external insurers and internal self-insurance arrangements paid from the Insurance Fund earmarked reserve.
- 3.1.2 The Council has a number of separate insurance policies, and these policies are subject to excess and stop-loss arrangements so that 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 exceeds the relevant stop-loss. The aggregate stop-loss is designed so that the Insurance Fund is protected in the event of a significant claim or a large number of successful claims.
- 3.1.3 Until 2015/16 when the Fund balance began to increase slightly, the trend in recent years has been a gradual reduction in the Fund, as illustrated in the table in paragraph 4.1. The balance (to cover new claims notified after 31<sup>st</sup> March 2018) stood at £3.7m at 31<sup>st</sup> March 2018.
- 3.1.4 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 2018, the provision stands at £1.3m.
- 3.1.5 In the Insurance Annual Report for 2016/17, Members were informed that, at that stage, it was estimated that the Fund balance would increase to around £3.6m for 2017/18. 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 £3.7m. 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 31<sup>st</sup> March 2018, there were 297 open claims.
- 3.1.6 The position of the Fund has been reviewed as at 28<sup>th</sup> September 2018 and, based on the estimated value of claims received to that date, it is anticipated that the Fund balance will remain at around £3.7m at the end of 2018/19. As at 28<sup>th</sup> September 2018, there were 331 open claims. The position will continue to be monitored throughout the year.

#### **3.2 Insurance Arrangements**

- 3.2.1 The Council has historically handled self-insured claims in-house (with the exception of own fault or disputed motor claims involving a third-party), as well as managing more serious/complex claims in liaison with the insurer. This service has been performed by the Royal Borough of Greenwich (RBG) under a shared service arrangement since January 2014 which is currently due to expire on 31<sup>st</sup> March 2020. This arrangement is 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. Regular client monitoring meetings are held between the Chief Accountant, the Principal Accountant and Greenwich's Insurance Manager.

### 3.2.3 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.
- 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 1<sup>st</sup> August 2016.
- Other – these are minor policies such as school journey insurance.

### 3.2.4 The policy excess and stop-loss figures for 2017/18 were as follows:-

Policy	Excess	Aggregate
	£'000	Stop-Loss £'000
All Risks - General	100	500
- Education	250	
- Storm or Flood	50	
Casualty - Public Liability, Employer's Liability & Officials Indemnity	125	2,500

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 in 2014/15, both of which are in the process of being settled. The total costs of these claims are estimated at £320k, £390k and £215k, and the applicable excess amounts i.e. costs to the Council are £250k, £125k and £125k respectively.

3.2.5 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 a result of this downward trend, the stop-loss was increased in 2017/18 to help balance the increase in insurance premiums, which was mainly due to the significant reduction to the Ogden discount rate for personal injury settlements. 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 £'000	Total Payments £'000	Outstanding Estimate £'000	Total Claims £'000	Under Stop Loss £'000
Travelers	2009/10	01/05/2009	1,250	802	85	887	363
Travelers	2010/11	01/05/2010	1,275	884	0	884	391
Travelers	2011/12	01/05/2011	1,275	932	13	945	330
Travelers	2012/13	01/05/2012	1,326	590	3	593	733
Travelers	2013/14	01/05/2013	1,353	500	71	571	782
Travelers	2014	01/05/14-17/06/14	1,531	95	9	104	1,427
Zurich Municipal	2014/15	17/06/14-01/05/15	1,965	410	151	561	1,404
Zurich Municipal	2015/16	01/05/2015	1,965	156	120	276	1,689
Zurich Municipal	2016/17	01/05/2016	1,965	90	368	458	1,507
Zurich Municipal	2017/18	01/05/2017	2,500	43	619	662	1,838

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.

### 3.3 Insurance Claims

3.3.1 Claims statistics for the main categories of insurance cover for 2016/17, 2017/18 and 2018/19 to date are detailed in the following table. These show claims submitted up to 28<sup>th</sup> September 2018 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.

	2016/17		2017/18		2018/19 to date		Total Outstanding	
	No	£'000	No	£'000	No	£'000	No	£'000
<b>Policies subject to excess / stoploss</b>								
Commercial all risks - Fire & Perils	-	-	1	1	-	-	4	2
- All risks	10	34	7	16	3	50	9	65
Public Liability	271	368	315	608	87	248	257	1,465
Employers Liability	1	25	3	10	-	-	3	59
	<b>282</b>	<b>427</b>	<b>326</b>	<b>635</b>	<b>90</b>	<b>298</b>	<b>273</b>	<b>1,591</b>
Less: Recoveries from insurers		-		-		-		-
Charged to Insurance Fund		<b>427</b>		<b>635</b>		<b>298</b>		<b>1,591</b>
<b>Vehicle policies</b>								
Motor Fleet	7	2	-	-	-	-	5	5
Leased Cars	56	75	35	121	13	28	53	208
Total for vehicles	<b>63</b>	<b>77</b>	<b>35</b>	<b>121</b>	<b>13</b>	<b>28</b>	<b>58</b>	<b>213</b>

3.3.2 Although the number of claims relating to 2016/17 have increased when compared with the figures 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 remained at a similar level as claims have been repudiated or settled at a lower value than initially estimated.

3.3.3 The figures above reflect claims received up to 28<sup>th</sup> September 2018 and will likely increase as further claims are made. The 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. Over the last 10 years, 96% of claims were brought within 1 year of the incident, and 99% within 2 years.

3.3.4 It should be noted that although the total value of outstanding claims is just over £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.

3.3.5 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.

Incident Year	No. of claims	In Progress	Referred to Contractor	Repudiated / Closed	Settled
2009	498	0.6%	3.6%	37.6%	58.2%
2010	539	0.0%	5.8%	35.3%	59.0%
2011	470	0.2%	5.7%	37.4%	56.6%
2012	422	0.5%	5.0%	32.9%	61.6%
2013	457	0.4%	4.8%	45.5%	49.2%
2014	470	2.3%	4.5%	57.9%	35.3%
2015	337	4.5%	2.7%	68.0%	24.9%
2016	368	9.2%	3.3%	60.9%	26.6%
2017	303	27.7%	1.7%	53.1%	17.5%
2018 (to date)	264	66.7%	1.5%	13.3%	18.6%

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). In particular the 2018 figures to date are higher than in recent years, so this downward trend may not continue.

3.3.7 The Charts in Appendix 1 show the number and total value of claims by the year the incident occurred. As indicated in paragraph 3.3.4, and highlighted by the repudiation rate in the table above, a significant proportion of the claims currently shown as outstanding will ultimately not be paid.

3.3.8 Of the claims received, around 60% of the total number numbers, or 70% of the total value relate to Public Liability claims, which are included in the charts in Appendix 2. In particular, the number of claims received and having to be settled relating to poor road conditions (mainly potholes) during 2018 has increased significantly, with part year numbers already at the same level as the previous three years.

### 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 2017/18 under the delegated claims handling arrangements.

3.4.2 The Council's previous insurer Travelers undertook its audit and issued a report in March 2018, which had a TSP (Technical Service Proficiency) score of 83%, a reduction compared to the score of 95% in 2017. For comparison, the TSPs in previous years were: 93% in 2016, 96% in 2015, and 82% in 2014. In relation to the reduction, Travelers acknowledged that given the period since their cover ended, it was to be expected that the remaining claims would be harder to resolve and could result in lower TSP scores achieved.

3.4.3 In August 2017, the Council's current main insurer, Zurich Municipal (ZM) undertook its second audit. The provisional results were included in the 2016/17 annual report, and the final report concluded:

"...a good result during this review with an overall score of 95.23%, scoring very highly in the majority of their claims handling practices. They scored 100.00% for Coverage, Fraud, Litigation, Recovery and Bordereaux, 99.40% for Contact, 99.36% for Evaluation, 98.81% for Notification and Investigation and 94.90% for Negotiation. The two lower scores were File Management with 93.65% and Reserving with 70.35%. No leakage was identified during this review."

3.4.4 Although this was a significant increase over the 89.2% score in the first audit in 2015, the overall rating given was "Needs Improvement", noting that "The number and severity of issues relative to the size and scope of the operation, entity, or process being audited indicate some minor areas of weakness". Officers are hopeful that despite some differences around reserving

policy, the next audit will result in an increase to an Effective rating (the highest ZM rating).

### 3.5 Insurance Policy Procurement

3.5.1 Following the Resources Portfolio Holder's approval in October 2017, the optional extension for the Council's policies (excluding casualty) was exercised, making all policies coterminous on 30<sup>th</sup> April 2019.

3.5.2 As agreed by the Executive on 21<sup>st</sup> May 2018, officers are in the process of undertaking an OJEU tender process for all policies from May 2019, which are expected to be awarded in April 2019. To help inform the tender, and ensure appropriate levels of cover are maintained, an actuarial review of the fund is being undertaken, as well as insurance valuations of the 50 highest value/risk properties insured by the Council. The results of the actuarial review and valuation work may be summarised in the policy award report, with further details provided in the 2018/19 annual report.

3.5.3 As a result of changes to the service profile of the Council, as well as external changes, it may now be appropriate to take out cover for additional risks, such as medical malpractice and cyber, and officers are exploring options for these. It should be noted that some risks, such as fines as a result of a data protection breach are not currently insurable. Details will be reported in the award report that will be presented to the Executive in March 2019.

## 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 2018/19 is also included in the table.

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19 (est.)
	£'000	£'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	3,717
Revenue contribution to Fund	500	1,000	605	1,300	800	800	800	800	800
Interest	77	72	57	35	65	73	81	75	80
Claims (actual and estimated)	-916	-1,266	-605	-1,376	-958	-662	-607	-531	-850
Fund balance c/f	<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>3,373</b>	<b>3,717</b>	<b>3,747</b>

4.2 In 2011/12 the total value of claims (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. 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).

4.3 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 further top-up of £0.5m at the end of 2013/14.

4.4 The Fund balance remained broadly stable at £2.9m in 2014/15, and has since increased to £3.1m, £3.4m and £3.7m over the three years to 2017/18. This is mainly due a reduction in the level of claims paid during these years and amounts outstanding at the year ends.

4.5 Although the Fund balance is projected to increase slightly during 2018/19, 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.

4.6 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.

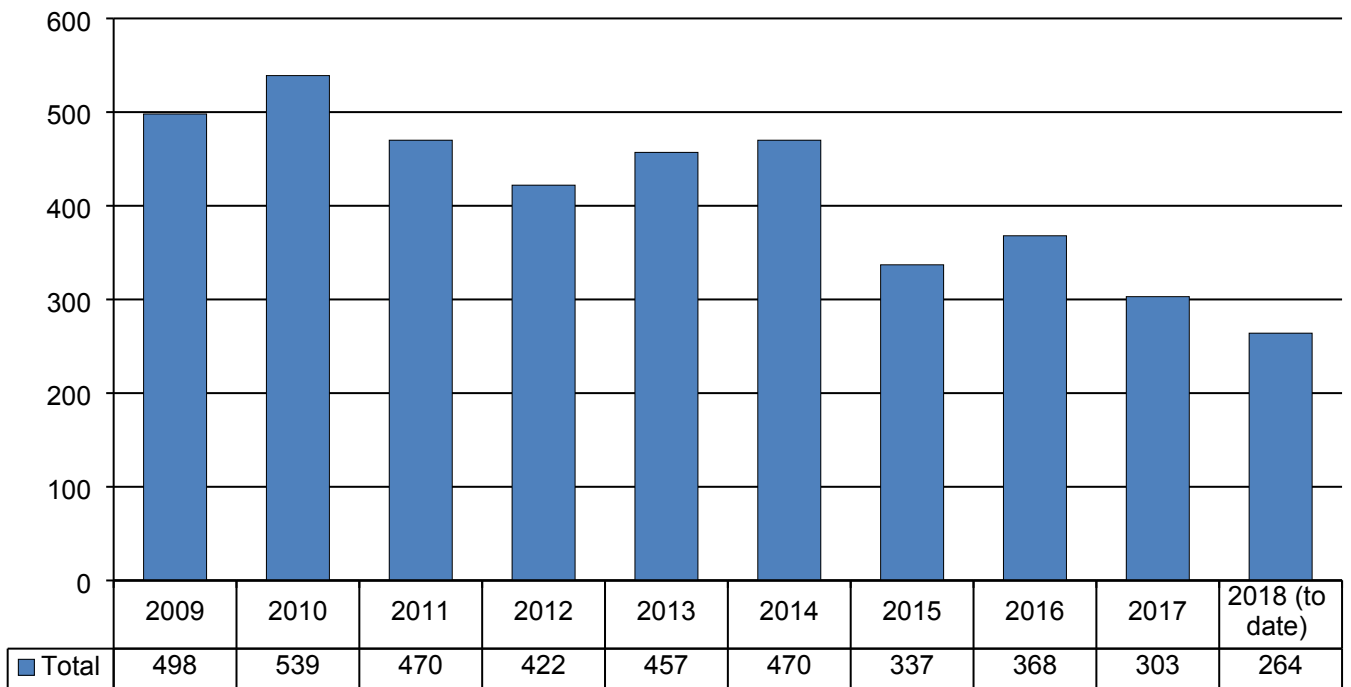
**6. PERSONNEL IMPLICATIONS**

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

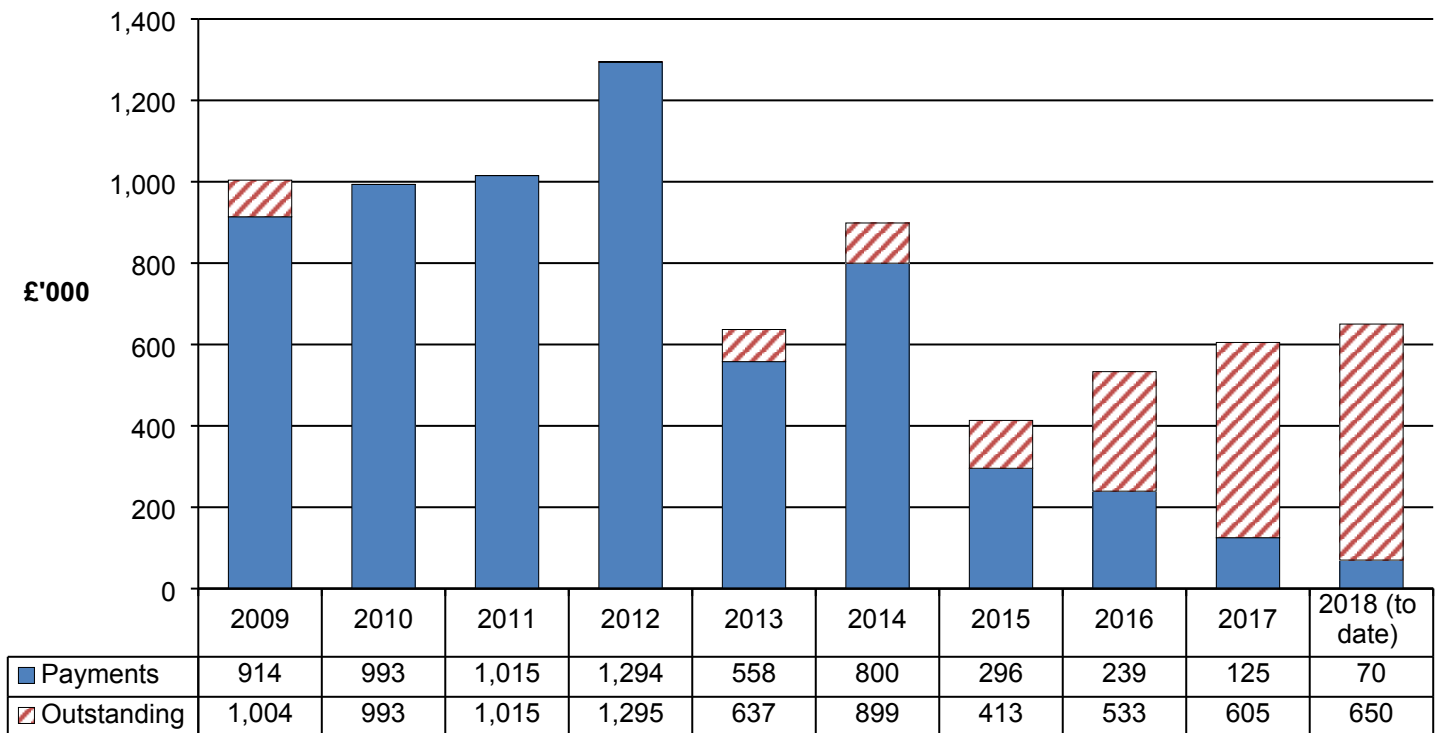
<b>Non-Applicable Sections:</b>	Legal Implications
Background Documents: (Access via Contact Officer)	Formal Consultation on the Procurement Strategy for Insurance Policies – Executive, 21 <sup>st</sup> May 2018 Insurance Fund – Annual Report 2016/17, Executive and Resources PDS Committee, 10 <sup>th</sup> October 2017 Provision of Insurance Service – Royal Borough of Greenwich, Executive and Resources PDS Committee, 4 <sup>th</sup> February 2015



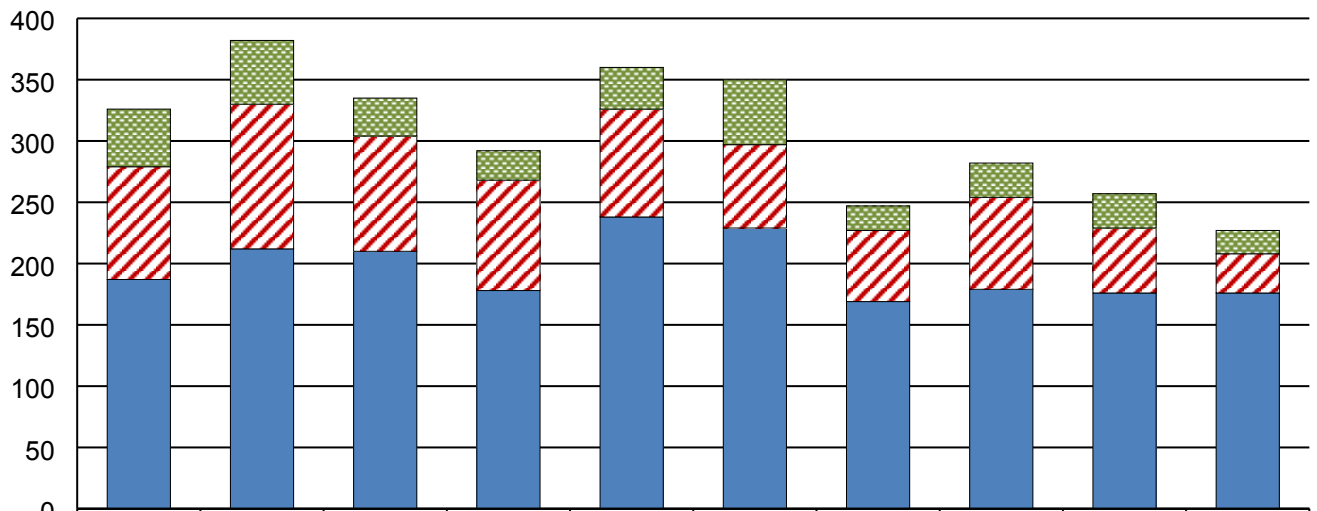
### Number of Insurance Claims



### Cost of Insurance Claims

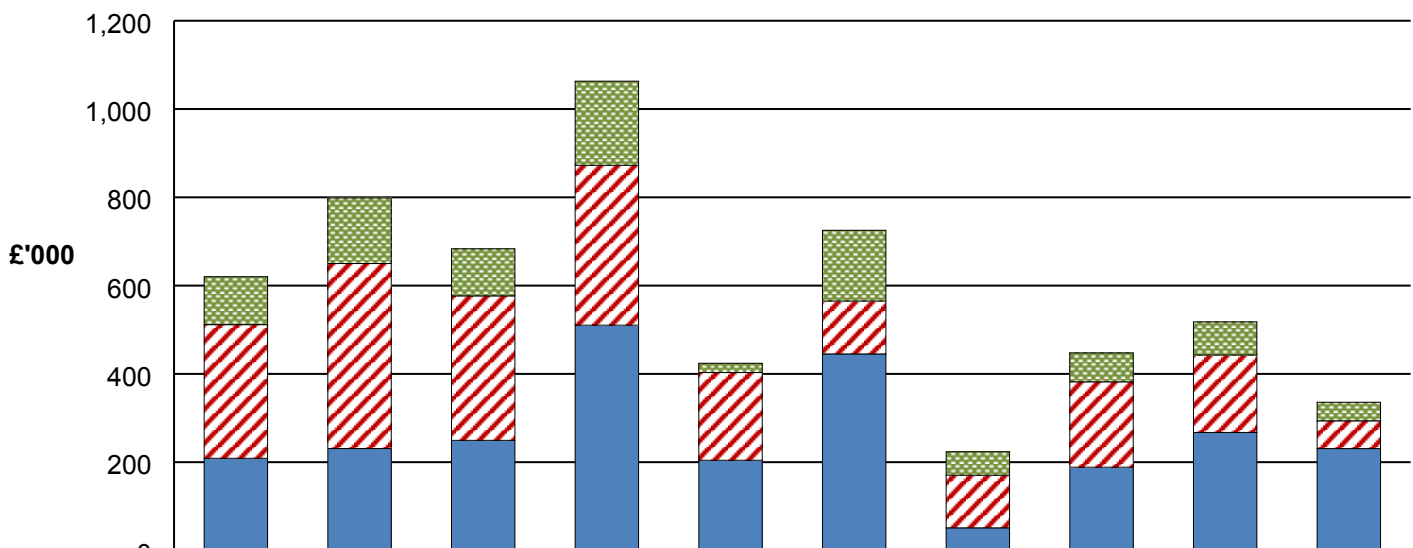


### Public Liability Claim Numbers



	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018 (to date)
Highways	187	212	210	178	238	229	169	179	176	176
Trees	279	330	304	268	326	297	227	254	229	208
Other PL	326	382	335	292	360	350	247	282	257	227

### Public Liability Claim Costs



	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018 (to date)
Highways	209	231	249	510	204	445	51	189	267	231
Trees	512	650	577	872	403	565	170	382	443	294
Other PL	620	799	683	1,063	424	725	223	448	518	336