

Review of Insurance Reserve and Insurance Risk Management Programme

Report by the Executive Head of Financial Services

1. SUMMARY

- 1.1 This report reviews the operation of the Insurance Reserve for the year 2010/2011 and the Council's Insurance Risk Management programme relating to insurance coverage and operational risks and updates the Cabinet Member on the 2011/12 tender exercise.
- 1.2 Subject to the proposals in this report being agreed the Insurance Reserve will have increased from £245,734 to £270,769 during 2010/2011. A summary of these changes is set out in paragraph 4.3, with an itemised breakdown of movements in Appendix 1 to this report.
- 1.3 Several of the planned preventative operational risk initiatives for 2010/11 that were highlighted in the report to the Cabinet Member for Resources 10th July 2010 were achieved. These are also itemised in Appendix 1 and show that £22,557 of the planned expenditure of £29,730 were realised. It was not necessary to spend an extra £7,200 on some Alarm system updates and security measures at the Commerce Way Depot as this amount was funded from departmental budgets. One unplanned, risk management project benefited to the sum of £2,455 as it was necessary to revalue the Mayoral Regalia within the five year cycle.
- 1.4 Appendix 2 sets out the planned expenditure for 2011/12 on programmed initiatives to be financed from the Insurance Reserve, and includes a contingency of £5,000 that is set aside to fund unforeseen security improvement measures.

2. BACKGROUND

- 2.1 The Council's insurance premiums comprise Public and Employers Liability, Motor and Property Buildings cover, including Engineering Plant. The insurances were established from 1st June 2003, following a full tender process for a minimum period of three years with an option to extend for a further 2 years to 31st May 2008. Discussions were held with the Council's Insurers Zurich Municipal during the renewal process at 31st May, 2006 in order to secure improved terms and conditions, whilst identifying premium savings, and Cabinet Member of Resources agreed to extend the Long Term Agreement (LTA) to 31st May, 2011, due to the improved renewal terms and premium rates offered at 1st June, 2007. These premium rates were maintained by Zurich for annual renewal of insurances at 1st June, 2009 and 2010 (see also 3.1).

2. **BACKGROUND** (continued)

- 2.2 Members will note that in the report to the Executive Member for Resources dated 24th October, 2002, it was proposed that the Council increase the excess levels for Property and Public Liability insured risks to £50,000 and £25,000 respectively. Also in the report to the Executive Member for Resources dated 10th July, 2007, it was proposed and agreed that the Third Party accidental damage costs in respect of the Council's Motor fleet, be increased to a £5,000 excess each and every claim.
- 2.3 It is pleasing to report that during 2010/11 (the eighth year of insurance coverage carrying the increased excess levels within the LTA), Zurich Municipal were not subjected to meeting any claims costs in respect of Property, or Motor Risks, and only subjected to meeting approximately £10,000 for Plaintiff solicitors costs as a result of one large liability injury claim breaching the £25,000 policy excess.

Class of Insurance	Budget	Spend	Over/ (Underspend)
	£	£	£
Property	35,000	5,408	(19,592)
Public Liability	30,000	35,000	5,000
Motor Risks	20,000	25,000	(5,000)
TOTAL	£85,000	£65,408	£19,592

The Public Liability figure represents the amount of claim reserves placed on claims by the Insurance Company and, fortunately, many claims throughout 2010/11 have been successfully defended and repudiated. Claim reserves currently stand at £60,000 approximately. In most cases it will be the Plaintiff solicitor's success fee costs which could prove costly and inflate the reserve figure in addition to any third party settlement amount should any current active claims be settled. Thereafter, potential Liability reserve claim costs would reduce and not be a drain on self-funded costs next year.

- 2.4 The budgets for Property and Public Liability self insurance in 2011/12 are £35,000 and £30,000 respectively and as there are no large claims this year to date, it is possible that there will be savings on these budgets, subject to Liability reserves being realised. Any annual savings on these budgets are placed into the reserves at the year end to help fund future losses and risk management programmes.
- 2.5 Members are reminded that the following classes of insurance remained as self-insured risks in 2010/2011:

Theft	General contents excluding Leisure Centre
All Risks	General contents
Engineering Plant	Mechanical breakdown (Inspection cover only)
Marine	Marker buoys & chains
Money	Selected money risks

All other Property, Public Liability and Motor costs arising from insurance claims are met from the Insurance Reserve Fund.

2. **BACKGROUND** (continued)

- 2.6 The Council's investment in Insurance and Operational Risk Management over many years has, and will continue to have, some influence over premium rates offered by Zurich Municipal and also the Reinsurance Market, which the Public Sector generally relies on. The Council's level of self-insurance supported by the Insurance Reserve Fund will also ensure that the rates for which the Council pay insurance premiums are kept competitive within the scope of the Long Term Agreement.
- 2.7 A review of claim statistics during 2010/11 reveals that overall the number of Liability claims being dealt with by the Council maintained a downward trend, and there was also a marked improvement in the number of motor related claims, this as a result of Refuse and Recycling drivers becoming more familiar with the handling of the new Dennis Elite (rear steer) vehicles and the completion of the Driver Awareness training. Whilst there were a few minor third party vehicle damage costs settled direct by the Council, they did not impact upon the self-insurance element of costs within the £5,000 motor excess other than the necessary defence on one third party injury claim which remains outstanding for full settlement (see 2.3).
- 2.8 The successful defence of Public Liability claims and, in part, the reduction of costs achieved, are as a result of the Safety Inspection regimes and Risk Assessment processes in place. Claim "reserve" costs seem to have levelled out of an acceptable level with little fluctuation, and it is these factors that assist to influence the level of insurance premiums. Claim "reserve" costs represent the amount that the Insurance Company place against claims in the event that injury claim costs are realised and plaintiff solicitor costs are settled. The reduced levels of Public Liability "reserves" made by the insurance companies will ensure that the Council's Insurance Contingency Reserve Fund is not subjected to meeting unnecessary claim costs within the policy excess level of £25,000 each and every claim, although the continual litigious climate accompanied with spiralling solicitors costs remains a challenge for the Council and Insurance Company alike.

3. **CURRENT AND FUTURE POSITION**

Merged Council Insurances post 2008

- 3.1 Members are reminded that the decision was made by the Executive Head of Financial Services and Section 151 Officer during 2008 to recommend to Adur Cabinet to harmonise insurance arrangements and three years of the successful harmonisation have been completed between Worthing Borough Council and Adur District Council.

Of the five significant points of harmonisation in insurance services {see Report to Cabinet Member of Resources 10th July, 2009, 3.1 (e)}, the preparation to jointly procure an Insurance Tender at 31st May, 2011 was the remaining point to be addressed.

3. **CURRENT AND FUTURE POSITION** (continued)

2011/2012 Insurance Cover (continued)

- 3.2 Zurich Municipal have insured both Councils for many years and, more lately, have been involved with the Adur Worthing Joint Services operations from conception of the merging of the refuse and recycling service. Zurich have provided insurance cover for risks associated with the merging of services, at no additional premium cost and Underwriters have supported the Councils during the transfer of staff, and the wider aspects of the partnership working as it has developed.
- 3.3 The Council's Insurances have now concluded within the final contractual year of the Long Term Agreement (LTA) with Zurich Municipal expiring 31st May, 2011. There remains in the general insurance market little competition between Zurich and other Insurance companies with the exception of St. Pauls (Travelers Chartis) and Risk Management Partners (RMP) who may be able to improve upon the premium rates and risk management support as offered by Zurich Municipal. Certainly, Borough and District Councils are able to secure value for money insurance cover, and also able to extend and alter policy conditions during the period of current change and development of partnership and shared services working.
- 3.4 It was intended by completing a jointly procured insurance tender (see 3.1) that any future Insurer would be able to offer the same level of bespoke cover enjoyed by Worthing Borough Council and Adur District Council. At the same time it was anticipated that by acknowledging both Council's approach to risk management, premium savings could be achieved.

Joint Procurement of Insurance Contract

- 3.5 The Long Term insurance contracts for both Worthing Borough Council and Adur District Council expired with Zurich Municipal 31st May, 2011 (see 3.1). A full tender process commenced from December 2010. Specifics of the procurement process were considered by Joint Overview and Scrutiny Committee on 16th September, 2010 and Joint Strategic Committee on 28th September, 2010.
- 3.6 Using the OJEU procurement route, a full insurance tender process commenced and the results were explained to and agreed by the Leader of each Council 1st May 2011.
- 3.7 Four quotations were received from Insurance Companies, all of which provided premium rates for Worthing Borough Council risks. However, only two Insurance Companies provided premium quotations for all classes of business as per the Tender invitation and advert insurance notice.
- 3.8 A full evaluation of the Insurance Tender quotations, using the most economic and advantageous tender process with appropriate scoring mechanism, was completed by the Head of Finance (Section 151 Officer), the Insurance and Administration Manager, and Procurement Manager.

3. **CURRENT AND FUTURE POSITION** (continued)

Joint Procurement of Insurance Contract (continued)

- 3.9 Zurich Municipal have clearly demonstrated with their premium quotations not only the most competitive insurance prices, but also supplied evidence as to the most efficient claims handling service, risk management support and general underwriting expertise. Overall, they were some 30% cheaper than their closest competitor.
- 3.10 Whilst recent practice has been to renew insurance contracts for a five year period, i.e. three year with option to extend for a further two years, Zurich offered an additional premium saving of £4,000 per annum by extending a Long Term Agreement to a seven year period i.e. five year with option to extend for a further two years. In addition to saving a further £28,000 in insurance premiums over the duration of the contract, the tender process has identified a lack of serious challenge to Zurich Municipal as a Local Authority Insurer. Unless a substantial change takes effect within the General insurance market, and its attitudes towards Local Authority risks, little would be achieved by re-tendering the insurance services again in four or five years.

Insurance Reserve

- 3.11 The balance on the Insurance Reserve at 31st March, 2011 is £270,769. This being so, the Insurance Reserve will have increased by approximately £25,000. This is in chief due to the improved defence and repudiation of Liability related claims (see 2.3).
- 3.12 This level of Reserve is considered to be prudent and sufficiently buoyant to safeguard the Council in the event that it had to endure in the future a sustained period of poor claims experience. This is because under the Council's property insurances it is liable to meet the first £50,000 of any claim, up to a maximum of three claims per year. Should the Council incur more than three claims per year the insurance company would provide cover. This means that the Insurance Reserve and contingency claim costs for property risks will be subject to a maximum loss of £150,000 Aggregate Stop Loss per year.
- 3.13 There is always a requirement for the Council to review operational risk management issues and assist with improving loss control measures. Seven new projects for 2011/2012 have been identified and the Insurance Reserve Fund exists to fund such projects and reduce potential losses.

Self Insurance

- 3.14 The decision was made at the meeting of the Executive Member for Resources on 24th October, 2002 to implement new increases of self insurance. The result of this change and success of the last seven insurance years of operating with the revised Property and Liability excess deductible levels is more specifically explained within this report under Section 2.2 and 2.3 along with the more recent change to the motor excess deductible.

3. **CURRENT AND FUTURE POSITION** (continued)

2011/2012 Onwards

- 3.15 It is proposed that the Council will maintain the same levels of insurance and larger deductibles against Property, Public Liability and Motor risks at least until the end 31st May 2012. Thereafter there will be a need to ensure that the excess levels and Insurance Reserve Fund amounts are adequate and it is expected that premium rates offered by Zurich Municipal will generally remain competitive and certainly throughout the remainder of the period of the (LTA) ending 31st May 2016.
- 3.16 To ensure that the Insurance Reserve is sufficiently buoyant to meet any claims costs or contingencies falling within the Aggregate Stop Loss an annual actuarial review is undertaken. The review is carried out jointly by the Council's Insurance Manager and S. Rodway Associates, an independent Broker who specialises in insuring Local Authority risks.
- 3.17 A synopsis of the annual actuarial review carried out by the independent Brokers in respect of Property, Public Liability and Motor losses is as follows:-

Property – Taking this year's claim costs and incidence levels and set this against our previous report, we can see no reason to alter the current arrangements on funding levels.

Our recommendation is, therefore, to maintain annual funding at £35,000 and the policy excess at £50,000.

As an aside, the Stop Loss of £150,000 is unlikely ever to be exposed and insurers will be unlikely to be liable to pay claims under this section of cover. In this soft market consideration should be given to persuading insurers to accept a decreased level of £125,000, i.e. two and a half maximum losses, with a starting point at twice the maximum level, at no additional premium given that the council has agreed to extend the LTA for a further five years.

It is quite apparent that Worthing's property risk management programme steered by the Insurance and Administration Manager, has reaped dividends as a result of truly managing the council's risk exposures.

Liability (Ex Motor) – Taking this year's updated claims costs and incidence levels set against our previous report, we can see no reason to alter the current arrangements for this year, however, we will need to review the Insurance Reserve's performance against liability exposures after 6-9 months time, to gauge whether the Insurance Reserve should receive a change in the funding level commencing year June 2012/2013.

Our recommendation is, therefore, for this policy year to maintain annual funding at the current level of £30,000 and the policy excess at £25,000.

3. **CURRENT AND FUTURE POSITION** (continued)

2011/2012 Onwards

Motor – Taking this year’s updated claims costs and incidence levels, we can see no reason to alter the current arrangements for this year, however, we will need to review the Insurance Reserve’s performance against Motor TP liability exposures after 6-9 months time, to gauge whether the Insurance Reserve should receive a change in the funding level commencing year June 2012/13.

Our recommendation is, therefore, for this policy year to maintain its annual funding at the current level of £20,000 and the policy excess at £5,000.

However, our recommendation is also tempered by the need to stem the tide of careless Own Driver damage caused needlessly to TP vehicles and property by a suggested defensive driver training initiative which should be funded jointly by the Insurance Reserve and the departments concerned.

4. **REVIEW OF OPERATION OF THE INSURANCE RESERVE**

4.1 The Insurance Reserve exists principally for meeting the self-insured risks identified under Paragraph 2.5 and to meet Property, Public Liability and Motor claim costs falling within the excess deductible levels.

4.2 Contributions to the Insurance Reserve are made on the basis of 50% of the premium savings achieved by ceasing insurance cover in respect of retained risks. The remaining half of the premium savings is shared among individual service budgets.

4.3 Assuming the proposals contained in this report are accepted the movement on the Insurance reserve for 2010/2011 is summarised as follows. A detailed breakdown of the movements is contained at Appendix 1.

Opening balance at 1 st April, 2010	£	£
Plus: Net contributions in year		245,734
		28,000
		273,734
<u>Expenditure in year</u>		
Less: Risk Management Initiatives	(22,557)	
Plus: Liability Claim costs (above budget – reserves)	(5,000)	
Property Claim costs (below budget)	29,592	
Other movement in vehicle insurance costs	(5,000)	(2,965)
BALANCE AT 31ST MARCH, 2011		270,769

4.4 Anticipated expenditure to be met from the fund in 2011/12 is addressed in paragraph 6.2 below and Appendix 2.

5. INSURANCE RISK MANAGEMENT PROGRAMME 2011/2012 ONWARDS

5.1 Proactive Insurance Risk Management measures continue in order to address the Council's perceived operational risks and to minimise the cost of losses, which could affect Insurance cover and premium expenditure. The majority of initiatives are identified internally by the Council's Insurance and Administration Manager, and other risks areas, which may have financial implications, are mentioned below. In addition, the completion of the Corporate Risk Register will highlight further specific areas and strategic risk issues where the Authority may be at risk. The key objectives of the programme for 2010/2011 onwards represent areas of risk exposure, which have been identified over many years and are necessary for monitoring purposes and continual improvement.

- (a) **Liability** - Auditing of Risk Assessment and Safety Inspection regimes for purposes of providing a defence of Public Liability injury claims.
- (b) **Money Security** – review of cash handling arrangements at all Council locations and replacement/re-siting of safes as necessary for security purposes.
- (c) **Vehicle** – Driver safety awareness training for new staff, and refresher courses for existing driving staff. Monitoring of driver performance, claim settlement costs and accident reporting within the Adur Worthing Contract Services (AWCS) joint operation at Commerce Way Depot. Monitoring of new self-insured practices and claims handling.
- (d) **Property Security** – expansion of CCTV equipment and computer equipment anti-theft alarm systems installation programme, to include high value server systems. Installation of security cables to PCs in the Town Hall and Portland House. Completion of Loss Control improvements as identified by Zurich Municipal following Survey Reports.
- (e) **Claim Statistics** – monitoring of settlement and reserve costs to evaluate self-insurance funding and future claim costs within the Aggregate Stop Loss.
- (f) **Health and Safety** - completion of audits with the H&S officer to review Departmental H&S programmes with a view to protection of staff and to alleviate Employers Liability matters.
- (g) **Security Surveys** – completion of Property Loss Control Surveys as prompted by the Insurance Company, and to provide for improvements as financed from the Insurance Reserve. Such recommendations to include Intruder/Fire alarm infra – red systems and CCTV equipment. Completion of revaluation of property Asset Register.
- (h) **Actuarial Reviews** – Monitoring and review of claims costs and reserves, and the protection of expenditure from the Insurance Reserve Fund.
- (i) **Risk Audit** – Assessment of Employee & Public related risks at all Council leisure locations, and review of all Health & Safety practices. Ensuring that all risks associated with the (AWCS) project are identified and measured.

5. **INSURANCE RISK MANAGEMENT PROGRAMME 2011/2012 ONWARDS**
(continued)

- (j) **Corporate Risk Management Group** – development of internal risk management controls to monitor and assess Insurable and Un-insured risks, and to review the Council’s requirements for self-insurance within the Insurance Reserve Fund. Completion of the Corporate Risk Register, and identification of strategic issues.
- (k) **Uninsured Losses** – recovery of claim costs falling below the policy excess for motor related incidents, and recovery of costs from members of the public relating to damage caused to Council owned property.
- (l) **Partnership Working** – measurement of insurance and operational risk management practices between Worthing Borough Council and Adur District Council.

6. **FINANCIAL IMPLICATIONS OF RISK MANAGEMENT INITIATIVES 2011/2012**

6.1 The overall premium for 2011/12 insurance year is £275,000 which compares favourably with that charged for 2010/11 due as a result of premium savings generated from the Insurance tender.

	PREMIUM 2010/11	PREMIUM 2011/12
TOTAL	£294,000	£275,000

6.2 In order to eliminate or reduce, by meeting the objectives contained in 5.1 above, the risk of potential claims and also to minimise future premium expenditure, at least £20,035 is required from the Insurance Reserve in 2011/2012 to finance Risk Management initiatives. These will be funded contributions to the Reserve from departments totalling £30,000. This chiefly comprises of planned and one off committed initiatives, details of which are summarised at Appendix 2.

7. **CONCLUSION**

7.1. The success of many years work on the control of Insurance claims, operational risk exposures and the pro-active risk management measures adopted by the Council have provided the bed-rock for securing favourable renewal premiums during the tender process.

7.2 Consequently the Council’s insurances have been renewed from the 1st June 2011 with Zurich Municipal. B accepting this proposal the Council will renew premiums whilst making a saving on the budgets for 2011/12 of £19,000.

8. RECOMMENDATIONS

8.1 The Cabinet Member for Resources is recommended to:

- (i) note the contents of the report;**
- (ii) to endorse the continuing pro-active approach to self-insurance and the management of risk, embodied in the initiatives outlined in paragraph 5.1 of the report;**
- (iii) approve the planned expenditure on risk management initiatives contained in Appendix 2**
- (iv) to note the annual renewal and result of the Insurance Tender and Insurance cover within the new Long Term Agreement for Insurance cover to 31st May, 2016 and option to extend until 31st May 2018; and**
- (v) to note the expenditure from the Insurance Reserve Fund to meet uninsured loss contained in Appendix 1.**

SARAH GOBEY

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Background Papers:

- Report to Ex. Member for Resources 26.06.02
- Insurance Tender May 2003
- Report to Ex. Member for Resources 30.06.03
- Report to Leader 06.07.04
- Report to Leader 20.06.05
- Report to Leader 12.06.06
- Report to Cabinet Member of Resources 10.07.07
- Report to Cabinet Member of Resources 10.07.08
- Report to Cabinet Member of Resources 10.07.09
- Report to Cabinet Member of Resources 10.07.10

SCHEDULE OF OTHER MATTERS

1. **COUNCIL PRIORITY**
 - 1.1 Matter considered and no issues identified.

2. **SPECIFIC ACTION PLANS**
 - 2.1 Matter considered and no issues identified.

3. **SUSTAINABILITY ISSUES**
 - 3.1 Matter considered and no issues identified.

4. **EQUALITY ISSUES**
 - 4.1 Matter considered and no issues identified.

5. **COMMUNITY SAFETY ISSUES (SECTION 17)**
 - 5.1 Matter considered and no issues identified.

6. **HUMAN RIGHTS ISSUES**
 - 6.1 Matter considered and no issues identified.

7. **REPUTATION**
 - 7.1 Matter considered and no issues identified.

8. **CONSULTATIONS**
 - 8.1 Matter considered and no issues identified.

9. **RISK ASSESSMENT**
 - 9.1 Matter considered and no issues identified.

10. **HEALTH and SAFETY ISSUES**
 - 10.1 Matter considered and no issues identified.

11. **PROCUREMENT STRATEGY**
 - 11.1 Matter considered and no issues identified

12. **PARTNERSHIP WORKING**
 - 12.1 Matter considered and no issues identified.

MOVEMENTS ON INSURANCE RESERVE IN 2010/11				
	Budget		Planned Expenditure	
	£	£	£	£
Opening Balance at 1 st April, 2010				(245,734)
Transfer to Reserve in lieu of: Contributions from departments for self-insured items				(28,000)
TOTAL FUNDS 2010/11				(273,734)
Less:				
Risk Management Initiative Expenditure 2010/11				
(a) Planned Risk Management Initiatives				
Commerce Way Storage shelving			473	
Car Park Safety Barrier			4,128	
Durrington Cemetery			988	
Security Fencing			340	
Legal Staff Accommodation Changes			7,970	
Field Place Safe			430	
Beach House Park			5,773	
				20,102
(b) Un-planned Risk Management under Contingent Provision				
Mayoral Regalia Revaluation			2,455	
				2,455
(c) Other Items				
(Subject to Recommendation 3) <u>Self-funded claim costs below excess</u>				
Liability claim costs more than budget (estimated claim Reserves)	30,000			5,000
Property claim costs less than budget	35,000			(29,592)
Vehicle claim costs more than budget	20,000			5,000
BALANCE AS AT 31ST MARCH, 2011				(270,769)

**PLANNED EXPENDITURE FOR 2011/12
TO BE FINANCED FROM THE INSURANCE RESERVE**

	Planned	
	£	£
Resources:		
Proposed Balance brought forward at 1 st April, 2011		(270,769)
Contribution from Departments for self-insured items		(30,000)
Total available for Risk Management Initiatives 2011/12		(300,769)
Less:		
(i) <u>Programmed Initiatives</u>		
Commerce Way (AWS) – Security issues	2,000	
Commerce Way (AWS) – Driver awareness training	3,000	
Ritz and Connaught – Fire system update	2,035	
Pier Pavilion - Alarm system update	2,500	
Town Hall - Safe new installation	1,500	
Town Hall - Alarm system Mayoral	500	
Town Hall – Computer pc cables	1,000	
Partnership- Consultancy fees and actuarial	7,500	
	20,035	
(ii) <u>Other Items</u>		
Contingency amount for unplanned Risk Management and Security Initiatives	5,000	
Total required expenditure from Insurance Reserve		25,035
EXPECTED BALANCE AS AT 31ST MARCH, 2012		£275,734
The Planned Initiatives for 2011/12 will be incorporated within the revised budget for 2011/12		