

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 2012/2013 and the Council's Insurance Risk Management programme relating to insurance coverage and operational.
- 1.2 The Insurance Reserve will have decreased from £530,307 to £491,858 during 2012/2013. A summary of these changes is set out in paragraph 4.3, with an itemised breakdown of movements in Appendix 1 to this report. Included in this reserve is the Property Indemnity sum accepted in respect of the Bowl Inn fire claim of £230,000, as reported in respect to 2011/2012 insurance movements
- 1.3 Several of the planned preventative operational risk initiatives for 2012/13 that were highlighted in the report to the Cabinet Member for Resources August, 2012 were achieved. These are also itemised in Appendix 1 and show that £18,501 of the expected expenditure of £40,830 were realised, the remaining £19,948 accounting for self insured claim costs.
- 1.4 Appendix 2 sets out the planned expenditure for 2013/14 on programmed initiatives to be financed from the Insurance Reserve

2. BACKGROUND

- 2.1 The contract for insurance was renewed with Zurich Municipal from 1st June, 2011 on the following basis:
 - (a) that all classes of insurance business including terrorism cover be placed with Zurich Municipal with effect from 1st June, 2011 for a three year period ending 31st May 2014 with an option to extend for a further two years to 31st May 2016.
 - (b) that we agreed a revised Long Term Agreement to 31st May 2016 with an option to extend for a further two years to 31st May 2018 and thereby secured an additional premium reduction.

2. BACKGROUND

- 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 2012/13 (the tenth 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. A synopsis and detailed breakdown of Property Public Liability and Motor losses is set out at paragraph 3.10.
- 2.4 The budgets for Property and Public Liability self insurance in 2013/14 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 2012/2013:

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.

- 2.6 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 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 four years of the successful harmonisation have been completed between Worthing Borough Council and Adur District Council.

Since that time, the insurance team has been expended and now provides an insurance risk management and claims handling service to two other Councils, Mid Sussex and Horsham.

2013/2014 Insurance Cover

- 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 to the advent of the New Ways of Working (NWoW).
- 3.3 The Council's Insurances continue within the final contractual year of the Long Term Agreement (LTA) with Zurich Municipal expiring 31st May, 2016. 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.

Insurance Reserve

- 3.4 The balance on the Insurance Reserve at 31st March, 2013 is £491,858. This being so, the Insurance Reserve will have decreased by approximately £38,449. This is in chief due to the improved defence and repudiation of Liability related claims and self-insured claims costs (see 2.3). The Indemnity amount of £230,000 per Bowl Inn is also included in the Insurance Reserve balance.
- 3.5 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. CURRENT AND FUTURE POSITION

Insurance Reserve

- 3.6 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 2013/2014 have been identified and the Insurance Reserve Fund exists to fund such projects and reduce potential losses.

2013/2014 Onwards

- 3.8 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 2014. 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.
- 3.9 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..
- 3.10 A synopsis of the annual actuarial review in respect of Property, Public Liability and Motor losses is as follows:-

Property:

- Total number of losses over the last 10 years = 45
- Total value of all losses over this reporting period = £172,231
- Average loss value over the last 10 years = £3,827
- Average value of losses (44) excluding water damage loss = £3,286
- Average total of all losses by year = £17,223 (£18,556 – 2011/2012)
- Current Annual Reserve Funding Level - £30,000
- Current Funding Reserve at 31st March, 2012 - £300,000 at the time of this report
- Current policy excess - £50,000
- Stop Loss – at £150,000 in the aggregate

3. CURRENT AND FUTURE POSITION

Property – Excess £50,000

The recommendation is therefore:-

Annual Reserve Funding Level- to maintain at £30,000

Policy Excess – to remain at £50,000 in respect of each and every claim

Stop Loss – to maintain the current aggregate protection at £150,000 for the time but seek a reduction to at least £125,000 or lower with insurance premiums to remain at the current levels.

Liability – Excess £25,000

Average Loss Calculation (data supplied by Zurich Municipal Insurance)

Years	No. of claims made	No. of claims paid	Amount Settled	Amount of Reserve	Total and Estimated Gross Cost of Claims	Total paid/ Estimated to be paid by Insurance Reserve
2003/04	4	2	£7,761	Nil	£7,761	£7,761
2004/05	5	2	£48,500	Nil	£48,500	£47,650
2005/06	5	2	£27,514	Nil	£27,514	£25,499
2006/07	1	1	£9,358	Nil	£9,358	£9,358
2007/08	11	3	£58,336	Nil	£58,336	£50,366
2008/09	6	1	£5,830	Nil	£5,830	£5,830
2009/10	9	5	£169,746	£25,000	£194,746	£93,800
2010/11	5	1	£15,200	Nil	£15,200	£15,200
2011/12	4	0	£0	£17,300	*£17,300	£17,300
2012/13	5	0	£0	£30,800	*£15,400	£15,400
TOTAL	55	17	£342,245	£48,100	£399,945	£288,164

3. CURRENT AND FUTURE POSITION

* Calculated at 50% of estimated reserve values provided by insurers on the accepted practice that only half of claims will be successful
* Gross Average Gross Annual Loss Value = £39,945 (30,648 previously)
* Average Annual Loss Value (AALV) due from Insurance Reserve = £28,816 (£26,667 previously)
* Stop Loss Policy – provides cut-off to claims costs after £100,000 aggregated costs incurred

Liability (Ex Motor)

The recommendations for this policy year are therefore:-

Funding to Insurance Reserve – maintain annual funding at the revised lower level of £25,000.

Policy Excess – maintain the level of £25,000, each and every loss

Stop Loss – maintain the level of £100,000, each and every loss

Motor – Excess £5,000

- The data below covers the four years only of the self-funding programme following the amalgamation of the two councils.
- The vehicle losses relate to both councils.
- All “Own Damage” is funded by internal departmental budgets
- The current annual level of funding for this class is £25,000.

Years	No. of claims made	No. of claims paid	Amount Settled	Insurer Reserve	Total Cost of Claims	Total paid/ Estimated to be paid by Insurance Reserve
2009/10	6	6	£13,352	Nil	£13,352	£13,352
2010/11	22	22	£51,716	Nil	£51,716	£33,354
2011/12	5	5	£9,032	£1,500	£10,532	£10,532
2012/13	14	9	£31,994	£10,037	£42,031	£31,880
TOTAL	47	42	£106,094	£11,537	£117,631	£89,118

Average Value of All Losses (excluding Own Damage costs) = £2,503 (£2,291 previously).

3. CURRENT AND FUTURE POSITION

Average Gross Annual Loss Value (before deduction of £5,000 Excess) = £29,408 (£25,200 previously)

Average Annual Loss Value (AALV) due from Insurance Reserve - £22,280 (£19,079 previously)

Annual Insurance Reserve funding level for Third Party costs only = £25,000

The recommendations are therefore:-

Funding to Insurance Reserve

- maintain annual funding at £25,000, pending 6 months review.

Policy Excess

- maintain the level of £5,000.

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 2012/2013 is summarised as follows. A detailed breakdown of the movements is contained at Appendix 1.

	£	£
Opening balance at 1 st April, 2012		269,257
Plus: Net contributions in year		31,050
Plus: Indemnity amount Bowl Inn fire		230,000
		530,307
<u>Expenditure in year</u>		
Less: Risk Management Initiatives	(18,501)	
Self-insured claim costs	(19,948)	(38,449)
BALANCE AT 31ST MARCH, 2013		491,858

- 4.4 Anticipated expenditure to be met from the fund in 2013/14 is addressed in paragraph 6.2 below and Appendix 2.

5. **INSURANCE RISK MANAGEMENT PROGRAMME 2012/2013 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.

5. **INSURANCE RISK MANAGEMENT PROGRAMME 2012/2013 ONWARDS**

- (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.
- (j) **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.
- (k) **Partnership Working** – measurement of insurance and operational risk management practices between Worthing Borough Council and Adur District Council and provision of insurance service to both Horsham and Mid Sussex District Councils.

6. **FINANCIAL IMPLICATIONS OF RISK MANAGEMENT INITIATIVES 2013/2014**

- 6.1 The overall premium for 2013/14 insurance year is £324,660 reflecting rates within the Long Term Agreement. The premium increase of £22k chiefly reflects the additional sums insured amounts for Splashpoint swimming pool £20m and pier properties (£10.5k), the motor vehicle rate increase due to claims experience (£4.2k) and Wages and Salaries/Professional Negligence risks (£3.75k) and Museum Exhibits sums insured increase to £10m (£3.75k).

	PREMIUM 2012/13	PREMIUM 2013/14
TOTAL	£302,554	£324,600

- 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 £30,270 is required from the Insurance Reserve in 2013/2014 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 2013 with Zurich Municipal.

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 of insurance premiums; and**
- (v) to note the expenditure from the Insurance Reserve Fund to meet uninsured loss contained in Appendix 1.**

SARAH GOBEY

Executive Head of Financial Services

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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
- Report to Cabinet Member of Resources Aug. 2011
- Report to Cabinet Member of Resources Aug. 2012

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 2012/13				
	Budget		Planned Expenditure	
	£	£	£	£
Opening Balance at 1 st April, 2012				499,257
Transfer to Reserve in lieu of:				
Contributions from departments for self-insured items			26,250	
Claim Income – Mayoral Services Insurance			4,800	31,050
TOTAL FUNDS 2012/13 (A)				530,307
Less:				
Risk Management Initiative Expenditure 2012/13				
(a) Planned Risk Management Initiatives				
Actuarial – Risk Consultancy Fees & Initiatives			5,375	
Field Place - Security 201 Limited			5,511	
Leisure Centre – KD Engineering (UK) Limited			7,615	18,501
				18,501
(b) Un-planned Risk Management under Contingent Provision			0	
				0
(c) Other Items – Self Insured Claim costs				
Motor “write-off” shortfall		6,695		
Mayoral Car replacement				
Motor “write-off” shortfall		3,260		
Parks digger machine				
Field Place theft - Burger van gas install/coffee machine		3,063		
Liability loss of revenue – Mr. B. Evans		720		
Liability third party property – Lancing property man		960		
Property Colonnade House storm - Sussex Renovation		1,409		
Property Ritz Cinema flood - Linwood Strong Opticians		2,059		
Property Pier flood – Mr. K.N. Long		321		
Property Ritz Cinema fire – Bramber Construction Co. Limited		1,461		19,948
				19,948
TOTAL EXPENDITURE (B)				38,449
BALANCE AS AT 31ST MARCH 2013 (A-B)				(491,858)

PLANNED EXPENDITURE FOR 2013/14 TO BE FINANCED FROM THE INSURANCE RESERVE		
	Planned	
	£	£
Resources:		
Proposed Balance brought forward at 1 st April, 2013		491,858
Contribution from Departments for self-insured items	30,700	30,700
Total available for Risk Management Initiatives 2013/14		522,558
Less:		
(i) <u>Programmed Initiatives</u>		
Town Hall – IT security cables	1,500	
Town Hall – Cycle racks	1,930	
Commerce Way (AWS)- Driver awareness training	3,000	
Commerce Way (AWS) – New safe installed	1,790	
Engineers – Field Place railings	5,000	
Field Place – Security/Cash handling	2,050	
Field Place – Intruder Alarm installation	11,000	
Actuarial and Consultancy fees	4,000	
		30,270
(ii) <u>Other Items</u>		
Total expenditure required to be funded from Reserve		30,270
EXPECTED BALANCE AS AT 31ST MARCH, 2014		£492,288