

Report to the Finance and Performance Management Cabinet Committee



**Epping Forest
District Council**

**Report reference: FCC-017-2009/10.
Date of meeting: 14 December 2009.**

Portfolio: Finance and Economic Development.

Subject: Insurance Update.

Responsible Officer: Edward Higgins (01992 564606).

Democratic Services: Gary Woodhall (01992 564470).

Recommendations/Decisions Required:

- (1) To note the insurance trends and the savings so far achieved from the increase in the public liability excess;**
- (2) To note that the insurance long term agreement expires on 29 June 2010 and that a collaborative procurement exercise is underway to establish a new contract; and**
- (3) To endorse the joint working pilot with Uttlesford District Council on handling insurance claims for an initial three month period.**

Executive Summary:

This report sets out the savings achieved through the decision Members took in 2005 to increase the Council's level of excess on public liability insurance.

Reasons for Proposed Decisions:

The Committee's Terms of Reference include: "To advise and make recommendations to the Cabinet on risk management and insurance issues."

This report is intended to update Members and to confirm the level of risk Members wish to take on insurance excesses going forward.

Other Options for Action:

None.

Report:

1. At Cabinet on 6 June 2005, it was agreed to enter into a five year agreement with Zurich Municipal for our insurance cover and that the excess level on the Public Liability policy be increased from £500 to £5,000 in order to make a saving on our insurance premiums of £69,030 per year.
2. The saving was achieved as the Council was increasing its share of the risk and thereby reducing the insurers risk, in that we would be paying the first £5,000 of any claim before the insurers would incur any costs. If the Council decides at any future date that it wishes to either reduce or increase any excesses, then the premium would increase or decrease to take account of the risk being incurred by the Council.

3. Internal Audit have previously recommended that yearly reports should go to members to review the trends in claims and to review whether the decision taken by the Council to increase the public liability excess in exchange for a reduction in premiums is still resulting in savings to the Council.

Claim Trends

4. Claims trends are monitored regularly by the Senior Finance Officer and reported to the Director of Finance & ICT on a quarterly basis. The insurance year is from 30 June to 29 June the following year. A summary of the claims trend can be seen below.

Policy	Pre 2004/05	Insurance Year 2005/06		Insurance Year 2006/07		Insurance Year 2007/08		Insurance Year 2008/09	
	Open	Open	Closed	Open	Closed	Open	Closed	Open	Closed
Motor	0	0	36	0	47	1	50	17	24
Property	0	0	27	1	42	10	42	8	14
Casualty	3	2	37	6	33	9	31	21	16
Total	3	2	100	7	122	21	123	46	54

5. The majority of motor claims only relate to damage to our own vehicle and therefore most claims are settled within two to three months. Property claims can be anything from an escape of water where redecoration is required, to a fire at the property resulting in major works being undertaken to re-instate the property. The claims can take anything from three / four months up to two to three years to settle.

6. Casualty claims consist of Public and Employers Liability, Fidelity Guarantee, and Official Indemnity claims. These claims will normally take anywhere from seven / eight months to two / three years. On average over 50% of all public liability claims will be successfully repudiated. A table below shows the split of closed casualty claims between paid out and repudiated.

	Insurance Year 2005/06		Insurance Year 2006/07		Insurance Year 2007/08		Insurance Year 2008/09	
	Paid	Repudiated	Paid	Repudiated	Paid	Repudiated	Paid	Repudiated
Casualty Claims	14	23	8	25	10	21	4	12

7. It is also important to keep a review of the ratio between how much the Council pays out in premiums to our insurer, against the amount the insurer pays out in claims. The table below shows the premium to cost ratio for the different policies.

Policy		2005-06	2006-07	2007-08	2008-09
Motor	Premium	£71,500	£77,952	£83,954	£85,171
	Costs paid	£23,616	£58,991	£48,590	£29,856
	Ratio	33.03%	75.68%	57.88%	35.05%
Property	Premium	£278,645	£300,612	£317,056	£340,253
	Costs paid	£102,991	£201,908	£293,293	£293,113
	Ratio	36.96%	67.17%	92.50%	86.15%
Casualty	Premium	£176,889	£164,429	£170,021	£173,110
	Costs paid	£89,562	£210,104	£83,682	£73,421
	Ratio	50.63%	127.78%	49.22%	42.41%

8. Although the Council is in a five year long term agreement with our insurers, within this agreement they are entitled to increase the rate they charge each year for the motor policy. The property premium increase is generated by the inflationary increase in re-building costs. On average the sums insured goes up by 4 to 5% each year. The casualty premiums

are linked to the Council's salary costs. The reduction in premiums for 2006/07 was as the result of the staff at four leisure centres transferring to SLM.

9. The costs paid include reserve figures for claims that are yet to be settled, therefore, this can be seen as a worst-case scenario. The table shows that the insurers profit ratio on the different policies fluctuates over time. Caution needs to be exercised as claims can continue to come in for previous year claims and therefore these figures could substantial change if a large claim was to be made.

Public Liability

10. Following the introduction of the increase in the public liability excess, management has constantly kept the impact under review. The table below shows that currently the Council has made a saving year on year. However, it should be noted that claims for a previous year can still be made in the future years, which would have an impact on these savings.

	2005-06	2006-07	2007-08	2008-09
Excess paid / potentially to be paid	20,143	42,179	54,316	66,503
Excess paid if still on old value	5,770	4,767	8,798	9,259
Increase in excess	14,373	37,412	45,518	57,244
Savings in premiums	-69,030	-£69,030	-£69,030	-69,030
Net savings per year	-54,657	-31,618	-23,512	-11,786
Accumulated Savings	-54,657	-86,275	-109,787	-121,573

11. The table shows that for the first four years the Council has made a saving of £121,573.

Insurances 2010 onwards

12. The long term agreement with current insurers, Zurich Municipal, is due to end on 29 June 2010. The Council is involved in a collaborative insurance tender exercise with eleven other authorities. The Risk Factor has been appointed by Improvement East as independent consultants to oversee the exercise.

13. From 4 January 2010 the Council is to perform insurance claims handling for Uttlesford District Council. The service will initially be offered for a trial period of 3 months. If both parties wish to extend the arrangement beyond 1 April 2010 a detailed Service Level Agreement will be produced.

Resource Implications:

The Council has so far achieved a net saving of £121,573 over the first four years. It is difficult to predict future savings, as this is dependent on claims. However, based on the first four years, and the Council being more proactive in risk management, savings are likely to continue from keeping the current policy in place.

It is anticipated that savings will be generated from the collaborative procurement exercise and these will be reported back to Members when a new contract is let.

An initial fee of £1,000 per month has been agreed with Uttlesford DC for claims handling but this is one of the aspects that will be reviewed at the end of the trail period, when a detailed analysis of officer time and any overheads can be considered.

Legal and Governance Implications:

None.

Safer, Cleaner, Greener Implications:

None.

Consultation Undertaken:

None.

Background Papers:

None.

Impact Assessments:

Risk Management

The Council has successfully managed its financial risk by reducing the overall cost of insurance. It is recommended that the level of excess, and hence the level of risk, is not changed at this time.

Equality and Diversity:

Did the initial assessment of the proposals contained in this report for relevance to the Council's general equality duties, reveal any potentially adverse equality implications? No

Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken?

What equality implications were identified through the Equality Impact Assessment process?
N/A

How have the equality implications identified through the Equality Impact Assessment been addressed in this report in order to avoid discrimination against any particular group?
N/A