

Report to the Finance and Performance Management Cabinet Committee



**Epping Forest
District Council**

Report Reference: FPM-018-2010/11.

Date of meeting: 22 November 2010.

Portfolio: Performance Management.

Subject: Insurance Performance Monitoring.

Responsible Officer: Edward Higgins (01992 564606).

Democratic Services: Gary Woodhall (01992 564470).

Recommendations/Decisions Required:

- (1) To note the insurance trends and the savings achieved from the increase in the public liability excess;**
- (2) To note that the Council has entered into a new long term agreement from 30 June 2010; and**
- (3) To note that Epping Forest District Council continue to handle insurance claims for Uttlesford District Council.**

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. An internal audit report 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 | Ins. Year 2005/06 | | Ins. Year 2006/07 | | Ins. Year 2007/08 | | Ins. Year 2008/09 | | Ins. Year 2009/10 | |
|--------------|-------------------|------------|-------------------|------------|-------------------|------------|-------------------|-----------|-------------------|-----------|
| | Open | Closed | Open | Closed | Open | Closed | Open | Closed | Open | Closed |
| Motor | 0 | 36 | 0 | 47 | 0 | 50 | 9 | 33 | 10 | 27 |
| Property | 0 | 27 | 1 | 42 | 2 | 50 | 2 | 23 | 11 | 8 |
| Casualty | 0 | 39 | 3 | 36 | 4 | 39 | 11 | 26 | 22 | 4 |
| Total | 0 | 102 | 4 | 122 | 6 | 139 | 22 | 82 | 43 | 39 |

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 consists 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 (repud.):

| | Insurance Year 2005/06 | | Insurance Year 2006/07 | | Insurance Year 2007/08 | | Insurance Year 2008/09 | | Insurance Year 2009/10 | |
|-----------------|------------------------|--------|------------------------|--------|------------------------|--------|------------------------|--------|------------------------|--------|
| | Paid | Repud. | Paid | Repud. | Paid | Repud. | Paid | Repud. | Paid | Repud. |
| Casualty Claims | 25 | 14 | 25 | 11 | 24 | 15 | 17 | 9 | 1 | 3 |

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 | 2009-10 |
|---------------|--------------|----------------|----------------|----------------|----------------|----------------|
| Motor | Premium | 71,500 | 77,952 | 83,954 | 85,172 | 90,037 |
| | Costs paid | 23,616 | 57,961 | 52,297 | 58,183 | 48,230 |
| | Ratio | 33.03% | 74.36% | 62.29% | 68.31% | 53.79% |
| Property | Premium | 278,645 | 300,612 | 317,056 | 340,253 | 357,333 |
| | Costs paid | 112,470 | 192,735 | 195,675 | 266,947 | 44,109 |
| | Ratio | 40.36% | 64.11% | 61.72% | 78.46% | 12.96% |
| Casualty | Premium | 176,889 | 164,429 | 170,021 | 173,110 | 176,422 |
| | Costs paid | 129,999 | 236,709 | 82,526 | 38,646 | 88,122 |
| | Ratio | 73.49% | 143.96% | 48.54% | 22.32% | 49.95% |

8. Although the Council is in a 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 2 to 5% each year. The casualty premiums is 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 motor claims has reduced since 2005/06. The ratio for property claims also reduced from 2005/2006 until an unusually low cost year in 2009/10. The casualty ratio has fluctuated from year to year and is very hard to predict. Casualty claims include both Public Liability and Employers Liability and can be received years after the incident date. The later submission of claims can continue to cause substantial change to the casualty costs paid.

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 £ | 2009-10 £ |
|--------------------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| Excess paid / potentially to be paid | 14,770 | 35,684 | 34,383 | 52,473 | 74,286 |
| Excess paid if still on old value | 5,770 | 4,267 | 6,849 | 7,909 | 11,584 |
| Increase in excess | 9,000 | 31,417 | 27,534 | 44,564 | 62,702 |
| Savings in premiums | -69,030 | -69,030 | -69,030 | -69,030 | -69,030 |
| Net savings per year | -60,030 | -37,613 | -41,496 | -24,466 | -6,328 |
| Accumulated Savings | -60,030 | -97,643 | -139,139 | -163,605 | -169,933 |

11. The table shows that the Council has made a saving of £169,933.

Insurances 2010 Onwards

12. At the Cabinet meeting on 19 April 2010, Members noted the outcome of the collaborative procurement exercise for insurance services. The Council entered into a three year long term agreement with Zurich Municipal (ZM) which started on 30 June 2010. The contract was entered into on the basis of the current levels of excess. There is an option to extend the agreement for a further two years at the end of the initial period.

13. Following satisfactory performance during the initial 3 month trial period, the Council continues to perform an insurance claim handling service for Uttlesford District Council. ZM provides insurance cover for both Councils which helped ensure a smooth transition.

Resource Implications:

The Council achieved a net saving of £169,933 over the five year long term agreement. The decision to increase the excess on Public Liability claims from £500 to £5,000 has provided a significant saving to the Council.

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? N/A

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