

REPORT TO: Corporate Policy & Performance Board
DATE: 23 February 2016
REPORTING OFFICER: Operational Director - Finance
PORTFOLIO: Resources
SUBJECT: Insurance and Risk Financing
WARD(S): Borough-wide

1.0 PURPOSE OF REPORT

This report describes the Council's insurance and risk financing arrangements. The purpose of the report is to provide assurance to the Board over the adequacy of those arrangements.

2.0 RECOMMENDATION: That the report be noted

3.0 SUPPORTING INFORMATION

Background

- 3.1 The Council is a large and complex organisation and is involved in a wide range of activities that present risks. Whilst it would not be cost effective to insure against all the risks faced by the Council, a well-structured insurance programme provides financial protection for the Council against large losses.
- 3.2 Local authorities present a range of unique risks for insurers. The most significant risk relates to the responsibility for maintaining the highways network. Public liability claims for vehicle damage and personal injuries arising from highways defects make up the vast majority of claims received by the Council.
- 3.3 There are also other specific risks faced by local authorities. These include potential claims arising from issues such as child sexual exploitation, historic child abuse and deprivation of liberties.
- 3.4 As a large organisation the Council also faces a range of more generic risks:
- As a major employer there is a risk of potential employer's liability claims from current and former employees. This is a growth area, particularly in regard to disease claims.
 - The Council has an extensive and diverse property portfolio which requires insuring against perils such as fire, lightning, explosion, earthquake, storm and flood.
 - The Council operates a large fleet of vehicles in order to deliver its services. The accident involving a refuse collection vehicle in Glasgow provides a tragic example of the type of potential risks to which local authorities are exposed.

- 3.5 As a consequence of the unique risk profile of local authorities it is perhaps unsurprising that there are only a handful of insurers who provide cover in this market.

Roles & Responsibilities

- 3.6 The Council's Constitution delegates responsibility for arranging all insurance cover to the Operational Director – Finance. This responsibility is discharged through the role of the Divisional Manager – Audit & Operational Finance who is responsible for the management of the Council's Insurance Team.
- 3.7 The Insurance Team comprises 2.9 FTE officers and is responsible for the placement of insurance cover, claims investigation and handling, and provision of advice to officers and schools.
- 3.8 The Council has appointed an insurance broker, Aon, who acts as an intermediary for the Insurance Team in dealing with the Council's insurers. The broker also provides advice on cover and policy interpretation and plays a major role in the procurement of insurance.
- 3.9 External legal support in the defence of complex or litigated claims is provided by Weightmans solicitors. This arrangement provides the Council with access to a wide range of legal professionals with particular specialisms.
- 3.10 All Council services have a role and responsibility for the management of risk. This is done through various means, including risk assessments, systems of inspection, employee training, maintenance of records and ensuring sound systems of financial control.

Insurance Cover

- 3.11 From 1998 to 2011 the Council held all of its major insurance policies with a single insurer. The level of deductible (excess) on the policies was low and this protected the Council from any large unexpected losses. However, this level of financial security placed most of the risk with the insurer. As such this was reflected through the insurance premiums paid by the Council. In 2010/11, the total cost of the Council's insurance premiums was £1,543,690.
- 3.12 Since 2010/11 a number of measures have been introduced to provide the Council with better value from its insurance arrangements:
- The insurance programme has been broken up and tendered as separate lots for the different types of cover. This has resulted in greater competition and the Council now has a range of insurers providing cover under different policies.
 - A Risk Financing & Insurance Strategy was developed (see Appendix 1). The aim of the strategy is to ensure that the structure of the Council's insurance programme achieves an optimum balance between self-insurance and externally procured insurance. This has led to the Council taking on greater risk by having a significantly higher level of deductible across all

policy types. As a result, this makes the Council more attractive to insurers and more likely to benefit from lower premiums.

- The entire insurance programme has been subject to a thorough review. This has led to a significant number of lower value assets being removed from cover and self-insured.

3.13 In setting appropriate levels of self-insurance, consideration has been given to the Council's risk bearing capacity. The Council maintains an Insurance Reserve of approximately £3m. This reserve would be used to fund any exceptional uninsured losses which cannot be funded from revenue.

3.14 The following table provides summary details of the Council's insurance policies that will be in place from 1 April 2016:

Table 1: 2016/17 Policy Summary

Policy Type	Excess (£)	Provider	Estimated Premium (£)
Property & Business Interruption	250,000	Swiss Re	92,000
Contract works	250	Swiss Re	2,700
ICT Infrastructure cover	5,000	Zurich Municipal	1,500
Fidelity Guarantee cover	100,000	Maven	18,500
Motor vehicle cover	25,000	Zurich Municipal	37,000
Employer's Liability	250,000	QBE	237,150
Public Liability	250,000		
Professional Indemnity	25,000		
Officials' Indemnity	25,000		
Personal Accident	Nil	AIG	19,100
Engineering	100	HSB	500
Total Premium Cost			408,450
Insurance Premium Tax @ 9%			36,761
Total			445,211

Claims

3.15 Since April 2013 the Council has handled all pre-litigation Public Liability (PL) & Employers' Liability (EL) claims in-house up to the value of £25,000. This arrangement has delivered a substantial saving on external claims handling costs and assists the defence of claims through the team's knowledge of the Council and the local area.

3.16 The Council's in-house claims handling arrangements are subject to annual audit by the Council's insurers. The most recent audit carried out by Gallagher Basset on behalf of QBE was undertaken in November 2015. The Council received a score of 99%, which places its claims handling arrangements in the 'exemplary' category.

- 3.17 A robust approach is taken in defending claims. The Insurance Team works closely with the Bridge & Highway Maintenance Division and regular meetings are held to agree the strategy for dealing with each highways claim received.
- 3.18 A zero-tolerance approach is taken in regard to fraudulent or exaggerated claims and opportunities to publicise the successful defence of such claims are pursued. This was evidenced in April 2015 when the Council successfully prosecuted an attempted fraud valued at £75k. This resulted in the fraudster receiving a custodial sentence and the Council attracted significant publicity in the regional and national media.
- 3.19 The Council has an excellent record in defending claims and successfully repudiates between 75% and 80% of PL and EL claims. However, the annual cost of settling successful claims remains a significant expense for the Council.
- 3.20 The cost of self-funded claims inevitably varies year on year. However, there is a downward trend in the overall cost of claims since 2010/11 despite the Council significantly increasing the excess on its policies.
- 3.21 There is often a significant time delay between a claim being received and a claim being settled. It is not unusual for complex or litigated claims to span a number of years. As such, the payments made in any particular financial year will inevitably include the settlement of claims from earlier financial years.
- 3.22 The overall cost to the Council of financing risk includes both the cost of self-funded claims and the cost of premiums. The following table provides an analysis comparing overall costs from 2010/11 against 2014/15 (full year claims data for 2015/16 is not yet available).

Table 2: Total Cost of Risk Financing

Policy Type	2010/11 (£)	2014/15 (£)
Self-funded liability claims (EL & PL)	783,121	536,819
Self-funded motor claims	16,750	83,282
Premiums	1,543,690	702,480
Total	2,343,561	1,322,581

NB – the cost of self-funded motor claims was significantly lower in 2010/11 than in 2014/15. This is because the excess on the policy was just £250 but the annual premium was £299,000. The excess on the motor policy was increased to £25,000 in April 2013, which resulted in a premium saving of approximately £225,000.

4.0 POLICY, FINANCIAL AND OTHER IMPLICATIONS

- 4.1 The Council’s approach to insurance is described in detail in the Risk Financing and Insurance Strategy, which is attached to this report. The aim is to ensure that the structure of the Council’s insurance programme achieves an optimum balance between self-insurance and externally procured insurance.

5.0 IMPLICATIONS FOR THE COUNCIL'S PRIORITIES

5.1 Children and Young People in Halton

Significant revenue savings have been generated by following the approach set out in the Risk Financing and Insurance Strategy. This has facilitated the redirecting of financial resources towards the delivery of all the Council's priorities.

5.2 Employment, Learning and Skills in Halton

See 5.1

5.3 A Healthy Halton

See 5.1

5.4 A Safer Halton

See 5.1

5.5 Halton's Urban Renewal

See 5.1

6.0 RISK ANALYSIS

6.1 There are no risks arising directly from this report.

7.0 EQUALITY AND DIVERSITY ISSUES

None

8.0 LIST OF BACKGROUND PAPERS UNDER SECTION 100D OF THE LOCAL GOVERNMENT ACT 1972

None under the meaning of the Act