

27 January, 2016

**To the Chair and Members of the  
AUDIT COMMITTEE**

**THE INSURANCE FUND**

**EXECUTIVE SUMMARY**

1. This report provides information regarding the Insurance Fund and details the underwriting arrangements and recent loss histories for the principal areas of insured risk. The provisions and reserves within the Insurance Fund at the end of 2014/15 are also confirmed.

**EXEMPT REPORT**

2. The report is not exempt

**RECOMMENDATIONS**

3. It is recommended that Members note the contents of the report regarding the current position of the Insurance Fund

**WHAT DOES THIS MEAN FOR THE CITIZENS OF DONCASTER?**

4. The Insurance Fund is available to:
  - cover the estimated value of outstanding claims for which the Council has a potential legal liability
  - provide an adequate level of self-insurance, and
  - protect the Council against unexpected liability claims.

**BACKGROUND**

**5.0 Current Approach to risk financing**

The Council utilises a combination of self-insurance and external insurance to address the financial consequences of risk. Those risks which have the potential to generate substantial losses are self-insured to a high level. Since 2010 the Council's liability has been capped on these risks, above which costs are met by insurers. Such risks include our legal liability to employees, members of the public and to other organisations for injury or damage to property, motor accidents involving Council vehicles and damage to Council buildings. Other more minor, expected, losses such as damage to equipment and vandalism to schools are wholly self-insured.

- 5.1 This balance of internal and external insurance aims to provide a cost effective solution to ensure that risks are covered internally where it is financially prudent to do so, thereby only incurring external insurance costs where cover is required by statute and to cover catastrophic events.

5.2 The self-funding of losses (claims) directly benefits the Authority not only in reduced premium costs but also reduced expenditure on settling claims spend has an immediate impact on Council expenditure. Self-funding also minimises the Council's liability for Insurance Premium Tax (increased from 6% to 9.5% in November 2015) and contributions to insurers' administrative costs and profits. The level of self-insurance is influenced by the need to maintain the stability of the Insurance Fund over the long term and by the Council's overall appetite for financial risk.

### 5.3 Principal Areas of Insured Risks

#### Property Insurance

The Council insures property against the risk of damage through fire, lightning, explosion, terrorism and storm flood. Details of the excesses and premiums are indicated in the following table:

Property Insurance	Premium 2015 (£)	Excess (£)
Housing units	106,013	500,000
General properties	83,315	1,000,000
Education/Schools	330,868	500,000
Terrorism	75,790	Nil

With regards to general properties and schools, cover is also provided for additional expenses incurred in the event of fire where the value of the loss is greater than the policy excess.

#### 5.4 Liability Insurance

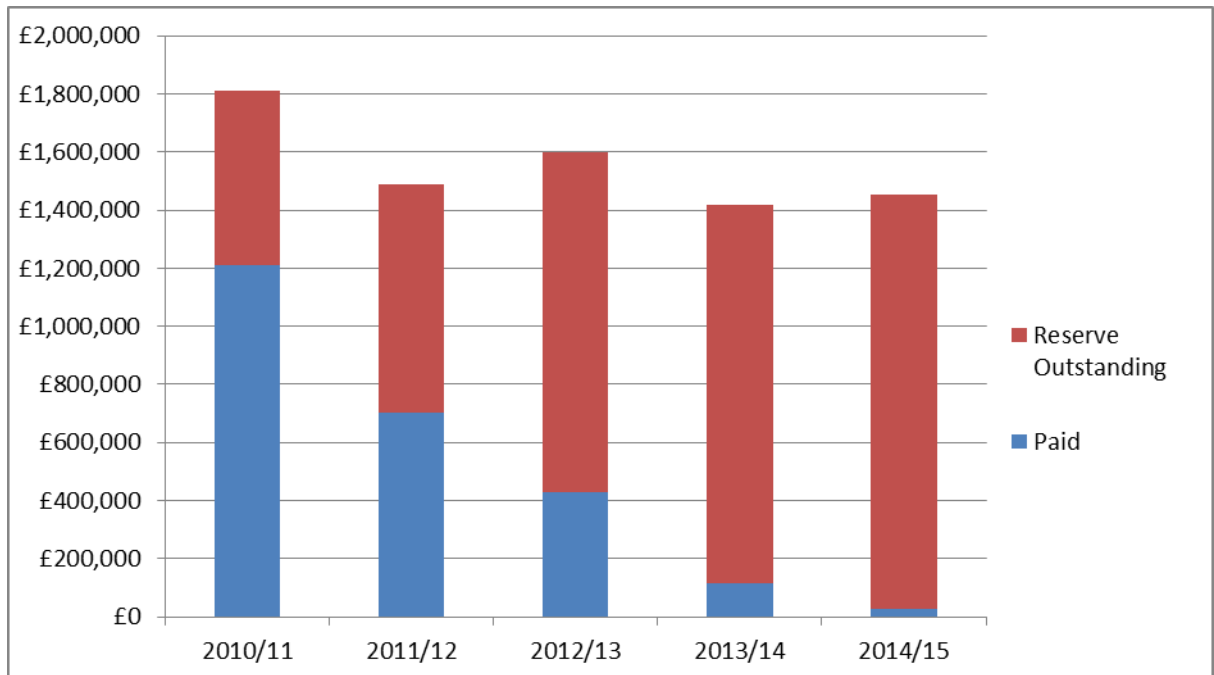
The Council's maximum liability for any single insured claim is currently limited to £250,000. In addition, an aggregate stop loss is in place for liability risks limiting the Council's loss to a maximum aggregate of £5.2m for all claims occurring in any one policy year. This level of aggregate varies year to year depending on market conditions and loss history; prior to 2010 the Council did not have an aggregate stop loss in place.

The following table provides an indication of the premiums for each class of liability insurance:

	Premium 2015 (£)	Excess (£)
Public Liability	244,963	250,000
Employers Liability	75,496	250,000

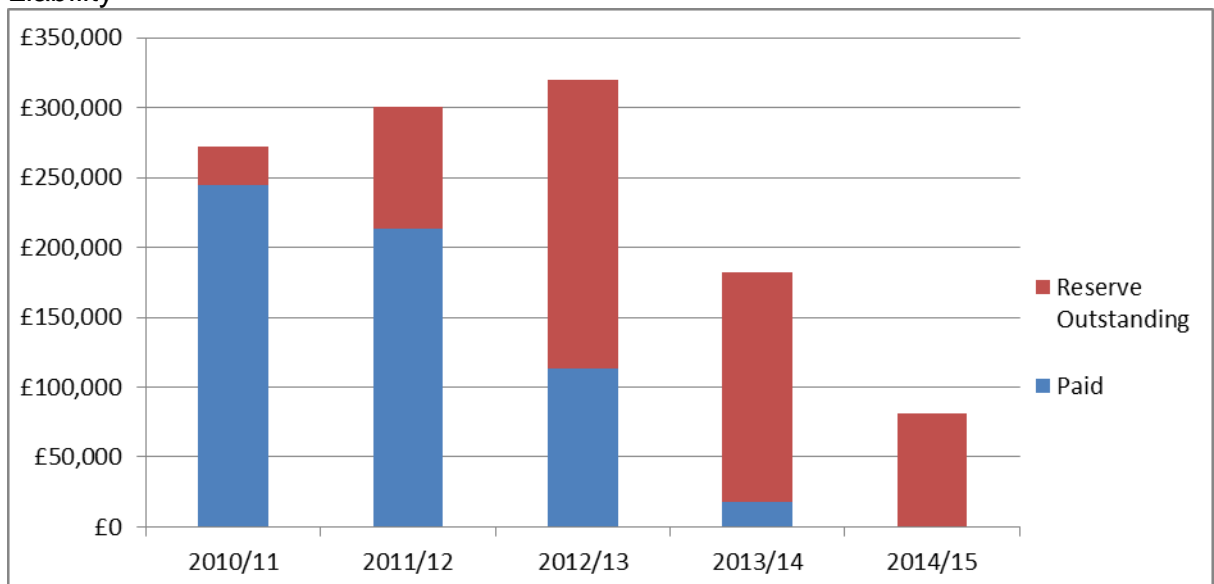
5.5 The chart below indicates the expected final costs of known public liability claims occurring over a 5 year period. The yearly totals are split between amounts paid and reserves for claims outstanding. The chart does not incorporate any element of the necessary funding for claims incurred but not yet received.

Chart 1 – Public Liability



5.6 The chart below indicates the expected final costs of known employer's liability claims occurring over a 5 year period. The yearly totals are split between amounts paid and reserves for claims outstanding. The chart does not incorporate any element of the necessary funding for claims incurred but not yet received.

Chart 2 – Employers Liability



**5.7 Liability Claim Numbers**

The following table details the number of liability and motor claims received within each year. It should be noted that in 2010 and 2011 the number of Public Liability claims were high due to the poor weather over the winter period and the increase in claims associated with highways related incidents.

It should also be noted that the Council is receiving a higher proportion of significantly more complex claims than in the past, involving abuse, defamation, industrial disease, tree related subsidence, nuisance and social services matters for both failure to remove and / or inappropriate removal.

	<b>Number of Liability claims received within year</b>				
	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>
Public Liability	963	775	644	556	500
Employers Liability	68	44	65	40	43
<b>Total Number Received</b>	<b>1031</b>	<b>819</b>	<b>709</b>	<b>596</b>	<b>543</b>

Liability claims can take many years to settle, therefore the following repudiation and settlement rates are based on claims that are concluded.

	<b>Split of settled Liability claims by policy year</b>				
	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>
Number & % Repudiated	652 69%	468 68%	399 65%	290 68%	215 76%
Number & % Settled	297 31%	227 32%	211 35%	138 32%	67 24%
<b>Total closed claims</b>	<b>949</b>	<b>695</b>	<b>610</b>	<b>428</b>	<b>282</b>

#### 5.8 Motor Insurance

The Council's maximum exposure for any single motor incident is currently limited to £50,000 for own damage and £50,000 for third party damage and injuries. The current premium for motor insurance is £90,000 per annum.

#### 5.9 Payment of Claims and Premiums

External premiums and claims are met centrally from the Insurance Fund. The Fund is maintained through proportionate recharges to all directorates, St Leger Homes and schools. Recharges cover a proportion of the commercial insurance together with a charge to fund all potential losses that the insurance fund is responsible for meeting.

5.10 Claims relating to property insurance are settled within a number of months of the loss occurring, with the exception of major/large losses. Liability claims can take a number of years to settle, depending on the nature of loss or injury. For example, the Council is receiving claims back to the 1970s for exposure to industrial deafness, hand/arm vibration, asbestosis and mesothelioma as well as claims for failure to protect/abuse back to the 1980s.

Charges are made on the following basis:

Property: Pro rata premium based on the value of buildings and contents

Casualty: Pro rata premium based on the salary budget for each service

Motor: Charge is based on the number of vehicles

5.11 The following table details the flow of funds in and out of the insurance fund over the last 4 years.

	2011/12	2012/13	2013/14	2014/15
Fund balance at 1 April	£6,760,000	£8,351,758	£8,592,116	£7,607,705
Insurance charges to Services, Schools, St Leger	£7,850,951	£7,006,979	£6,460,977	£6,212,356
Payment of Insurer Premiums	(£2,638,740)	(£2,137,224)	(£1,335,827)	(£1,502,559)
Payment of claims	(£3,620,453)	(£4,629,397)	(£3,109,561)	(£3,229,247)
Contribution to General Reserves			(£3,000,000)	
Fund balance at 31 March	£8,351,758	£8,592,116	£7,607,705	£9,088,255

It should be noted that the insurance charges to services have reduced over the 4 year period. This is due to the ongoing review of the Council's insurance requirements and overall appetite to risk. Increasing the level of self-insurance and retaining a higher excess on commercial policies has generated savings in both commercial insurance premiums and Insurance Premium Tax, which has enabled us to reduce charges that are passed on to services.

### 5.12 Insurance Fund

The balance held within the Insurance Fund covers the estimated value of settling outstanding claims for which the Council has a potential legal liability. In addition an amount is also held for potential liability claims yet to be made against the Council and emerging claims exposure.

The chart below identifies the value of outstanding claims over the last four years, the provision held to cover these claims and the reserve held for potential future claims.

Year	Outstanding Claims	Provision held for outstanding claims	Reserve for potential future claims	Total Insurance Fund/Provision
2014/15	£8,170,586	£5,616,694	*£3,368,078	£8,984,772**
2013/14	£9,038,899	£6,184,838	£1,422,867	£7,607,705
2012/13	£9,627,664	£6,483,749	£2,108,366	£8,592,116
2011/12	£9,353,615	£6,057,243	£1,478,537	£7,535,780

\*Due to the increase in failure to remove/abuse claims received, an increased reserve was made for this type of claim; this was after seeking clarity from other Council's on their approach within this area.

\*\*Year-end provision required in 2014/15 was £8,984,772. However actual fund balance was £9,088,255 no adjustment was made to reduce the fund balance.

### 5.13 Claims Handling

In April 2015 the Claims Handling function was brought in-house and the Insurance Team now handle all claims made against the council since this date. The decision to do this will a saving of £365k over the next 5 years compared to the cost of external contractors providing the service.

The internal claims handling service is providing a streamlined service to claimants and their legal representatives as claims are dealt with at the single point of contact without referring to an external handler and removing the time delays associated with the referral. This streamlined service enables the

claims handler to investigate the claim thoroughly within the strict legal protocol timescales and provide a robust decision on liability efficiently and thereby improving customer service standards.

## OPTIONS CONSIDERED

6. Not relevant to this report

## IMPACT ON THE COUNCIL'S KEY OUTCOMES

7.

	<b>Outcomes</b>	<b>Implications</b>
	<p>All people in Doncaster benefit from a thriving and resilient economy.</p> <ul style="list-style-type: none"> <li>• <i>Mayoral Priority: Creating Jobs and Housing</i></li> <li>• <i>Mayoral Priority: Be a strong voice for our veterans</i></li> <li>• <i>Mayoral Priority: Protecting Doncaster's vital services</i></li> </ul>	
	<p>People live safe, healthy, active and independent lives.</p> <ul style="list-style-type: none"> <li>• <i>Mayoral Priority: Safeguarding our Communities</i></li> <li>• <i>Mayoral Priority: Bringing down the cost of living</i></li> </ul>	
	<p>People in Doncaster benefit from a high quality built and natural environment.</p> <ul style="list-style-type: none"> <li>• <i>Mayoral Priority: Creating Jobs and Housing</i></li> <li>• <i>Mayoral Priority: Safeguarding our Communities</i></li> <li>• <i>Mayoral Priority: Bringing down the cost of living</i></li> </ul>	
	<p>All families thrive.</p> <ul style="list-style-type: none"> <li>• <i>Mayoral Priority: Protecting Doncaster's vital services</i></li> </ul>	
	<p>Council services are modern and value for money.</p>	<p>Ensuring that sufficient funds are available to cover both self-insured items and any potential insurance liabilities means that the Council is demonstrating good governance and</p>

		minimising any one-off pressures on the budget.
	Working with our partners we will provide strong leadership and governance.	

## **RISKS AND ASSUMPTIONS**

8. Failure to maintain an adequate balance in the fund could expose the Council to an unexpected budget pressure. It is essential that the assumptions when calculating the required fund balance are robust and relevant.

## **LEGAL IMPLICATIONS**

9. In accordance with S111 Local Government Act 1972 “a local authority shall have power to do anything (whether or not involving the expenditure, borrowing or lending of money or the acquisition or disposal of any property or rights) which is calculated to facilitate, or is conducive or incidental to, the discharge of any of their functions.

Furthermore, S151 of the Act provides that “...every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs.”

## **FINANCIAL IMPLICATIONS**

10. Financial Implications are contained within the report

## **HUMAN RESOURCES IMPLICATIONS**

11. None

## **TECHNOLOGY IMPLICATIONS**

12. None

## **BACKGROUND PAPERS**

13. None

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