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<b>Report To:</b>	<b>Policy &amp; Resources Committee</b>	<b>Date:</b>	<b>15 November 2016</b>
<b>Report By:</b>	<b>Chief Financial Officer</b>	<b>Report No:</b>	<b>FIN/111/16/AP/KJ</b>
<b>Contact Officer:</b>	<b>Alan Puckrin</b>	<b>Contact No:</b>	<b>01475 712223</b>
<b>Subject:</b>	<b>Insurance Fund Position as at 30 September 2016</b>		

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## 1.0 PURPOSE

- 1.1 The purpose of this report is to advise the Committee of the position of the Council's Insurance Fund as at 30 September 2016 and to highlight any relevant issues.

## 2.0 SUMMARY

- 2.1 The number of insurance claims received for 2015/16 was lower than for 2014/15 largely due to a lower number of public liability claims (although these claims can arise after the year in which the incident occurred). The number of claims has fallen year-on-year over the last 5 years.
- 2.2 As at 30 September 2016 the Insurance Fund had a balance of £4.223 million which is £83,700 lower than the previous year. The movement is due to charges to the Fund for insurance claims and actuarial review/property revaluation costs exceeding contributions to the Insurance Fund.
- 2.3 Estimated liabilities on claims outstanding at 30 September 2016 are £1.5 million with a provision for clawback on Municipal Mutual Insurance (MMI) claims having been made of £392,557.
- 2.4 An Actuarial Review was undertaken this year which concluded that, whilst the Council currently has slightly more in the Fund than the Actuary considers to be prudent, not enough is being put into the Fund on an ongoing annual basis. The issue of Fund contributions is being partially addressed as part of the General Fund Revenue Budget 2016/17 but it may be that further increases are required in future years.
- 2.5 The Insurance Fund may be affected by changes to the law such as the Scottish Government's proposed bill to remove the 3 year time bar on claims for child abuse whilst in local authority care (taking the period for such claims back to 1964).

## 3.0 RECOMMENDATION

- 3.1 It is recommended that the Committee note the contents of this report and the Insurance Fund position as at 30 September 2016.

Alan Puckrin  
Chief Financial Officer

## **4.0 BACKGROUND**

- 4.1 The Council's insurance strategy involves purchasing insurance for some types/levels of risks but also self-insuring for other risks by setting aside monies in an Insurance Fund.

The strategy was approved at the September 2003 meeting of the Corporate Business Committee following a review of available options by the officers of the Council and also on advice from the Council's Insurance Brokers.

- 4.2 This approach has delivered significant savings in both external premiums and internal recharges.

## **5.0 2015/16 PERFORMANCE**

- 5.1 The overall insurance picture for 2015/16 has, so far, seen a decrease in the number of claims received compared to 2014/15. As can be seen in Appendix A, the Council has so far received 186 claims for the 12 month period which is a 17.7% decrease on claims received to date for insurance year 2014/15. It should, however, be noted that claims relating to a year can be made in future years.

- 5.2 Last year the report showed 1,561 claims for the previous 5 insurance years (2010/11-2014/15) whereas Appendix A shows 1,467 claims when the position is moved forward a year (for 2011/12-2015/16), showing a reduction of 94 claims or 6% on the 5 year rolling basis.

- 5.3 The Fund balance decreased by £83,700 during the year to 30 September 2016 due to charges for insurance claims and actuarial review/property revaluation costs exceeding contributions to the Insurance Fund. The estimated liabilities have reduced from £1.76m last year to £1.49m this year.

- 5.4 In addition, part of the Fund has been set aside as a provision for the potential future clawback of claims relating to MMI. Further background to this issue is given in paragraph 6.3. When the estimated liabilities and the provision for the MMI clawback are taken into consideration, there is a balance of £2.3 million in the Fund for future claims as at 30 September 2016.

- 5.5 The Fund is the subject of an actuarial review every 3 years with the latest review having been undertaken this year. The review concluded that, whilst the Council currently has slightly more in the Fund than the Actuary considers to be prudent (around £600k), not enough is being put into the Fund on an ongoing annual basis (contributions being around £300k short per year). The issue of Fund contributions is being partially addressed as part of the General Fund Revenue Budget 2016/17 but it may be that further increases are required in future years.

- 5.6 As advised above, Committee should note that some insurance claims may appear several years after the period to which they relate and that the claims paid in a year do not relate solely to the claims arising in that year but also cover some claims arising for previous years. The current balance on the Fund ensures that the self-insurance position remains encouraging.

5.7 Appendix B shows that payments made by the Council's External Insurers continue to be significantly less than the premium paid although there are estimated outstanding liabilities to be borne by the Insurers of over £280,000 relating to ongoing claims.

Factors affecting the premiums charged and the claims payments by Insurers include:

- (a) For Property Insurance the Insurers are effectively providing disaster cover and it is hoped by both parties that the Insurer will never be asked to pay out against this policy.
- (b) For Liability Insurance the Insurers deal with the longer-tailed claims such as Employer's Liability and these claims take longer to be generated and finalised.

5.8 High volume, low value claims for public liability continue to be dealt with in-house, whilst the Insurers deal with all other claims.

5.9 One area of particular interest relates to claims arising from road or pathway defects. The claim statistics for the last 3 insurance years are as follows:

Insurance Year	No. of Claims	% of Total Claims For Year	Claims Rejected/ Dropped	Claims Paid		Claims Outstanding	
				No. of Claims	Actual Cost of Claims	No. of Claims	Amounts Claimed **
					£000		£000
2013/14	165	54.8%	116	40	79	9	68
2014/15	102	45.1%	71	15	20	16	310
2015/16	57	30.6%	18	7	1	32	218

\*\* These amounts are subject to review as claims progress through the insurance process but are likely to reduce.

It should be noted that, whilst some claims can be resolved relatively quickly, the legal processes for dealing with claims can result in some claims taking some time to resolve.

## 6.0 OTHER ISSUES

6.1 There are ongoing issues on 3 areas affecting the Council's insurance position:

- a. Pleural Plaques
- b. Municipal Mutual Insurance (MMI)
- c. Legal Changes.

### 6.2 Pleural Plaques

The Damages (Asbestos-related Conditions) (Scotland) Act 2009 provides that asbestos-related and certain other asymptomatic asbestos-related conditions are compensable in Scotland if it can be established that the conditions were caused by negligent asbestos exposure. The insurance industry challenged the legal validity of the Act but failed at the Supreme Court in October 2011. As advised in previous years, it is expected that the Act will result in additional claims and costs to be borne by insurers although the impact is unknown.

### 6.3 MMI

MMI is a former insurer which provided insurance primarily to local authorities. As a result of financial difficulties, MMI ceased to write new insurance business in September 1992 and "went into run-off" i.e. it continues but only to pay any claims that were outstanding or any claims that have arisen/may arise.

This/

This “run-off” involved the establishment of a “Scheme of Arrangement” under which each local authority involved essentially assumed an element of mutual ownership of the company to manage the transition. When the Scheme was established it was believed that the company had sufficient resources to meet all existing liabilities and potentially provide a final distribution to participating local authorities of any residual surplus.

MMI do not have sufficient funds to meet the cost of any new claims so, from 1 January 2014, they are only paying a percentage of the cost of claims and any claims paid prior to that date under the Scheme of Arrangement are subject to clawback (there being no underwriting or reinsurance to cover this situation). The balance of the cost of claims and the amount of the clawback is impacting on Inverclyde and on a large number of other local authorities throughout the UK who are part of the Scheme of Arrangement.

The percentage of claims being paid by MMI was set at 85% (with 15% payable by the Council). From 1 April 2016 MMI are now paying 75% meaning that the percentage payable by the Council has increased to 25%. The Council has included an allowance for these claims and any clawback and continues to monitor and revise that allowance using the latest information from MMI, whilst taking a prudent approach.

#### 6.4 Legal Changes

If there are changes to the law (e.g. to extend the period for making claims or change how claims are dealt with) then these can affect the amounts required for the Council's Insurance Fund or the premiums charged by the Insurers.

The Scottish Government has produced a draft bill to be put to the Scottish Parliament to remove the 3 year time bar on claims for child abuse (taking the period for such claims back to 1964).

## 7.0 THE YEAR AHEAD

- 7.1 Officers within Finance Services will continue to monitor the performance of the insurance strategy closely and will continue to present reports to Committee no less frequently than annually.
- 7.2 The Council's contract with its Insurance Broker ends on 31 March 2017. The services provided assist the Council in dealing with complex insurance matters and so Officers will undertake a tendering exercise to procure continuing insurance broking services for the 3 years to 31 March 2020. The costs of these services are borne by the Council through its Insurance budget.

## 8.0 IMPLICATIONS

- 8.1 Legal  
None.

- 8.2 Financial  
The Fund balance as at 30 September 2016 was £4.223m which is £83,700 lower than the previous year.

It is proposed to partially address the issue of Fund contributions by a £150,000 contribution from the 2016/17 Inflation Contingency to increase Fund contributions (as raised by the Actuary in the Actuarial Review) and cover the increase in insurance costs for 2016/17 from increases in insurance premiums and Insurance Premium Tax.

One off Costs:

<b>Cost Centre</b>	<b>Budget Heading</b>	<b>Budget Years</b>	<b>Proposed Spend this Report £000</b>	<b>Virement from</b>	<b>Other Comments</b>
None					

Annually Recurring Costs/(Savings):

<b>Cost Centre</b>	<b>Budget Heading</b>	<b>Budget Years</b>	<b>Proposed Spend this Report £000</b>	<b>Virement from</b>	<b>Other Comments</b>
Insurance	Insurance	2016/17	150	Contribution from Inflation Contingency	

8.3 Human Resources

None.

8.4 Equalities

None.

**9.0 CONSULTATIONS**

9.1 None.

**10.0 LIST OF BACKGROUND PAPERS**

10.1 None.

## Appendix A

### Insurance Fund Financial Summary - Insurance Years 2014/15 - 2015/16

	Insurance Years		
	2014/2015 (1 Oct 2014 - 30 Sept 2015) £	2015/2016 (1 Oct 2015 - 30 Sept 2016) £	
<b>Fund Income in Year</b>			
Total Contributed to the Fund	50,000.00	450,000.00	
Internal Resources Interest	17,046.91	12,283.74	
	67,046.91	462,283.74	A
<b>Fund Expenditure in Year</b>			
Risk Management	5,000.00	5,000.00	
Actuarial/Property Revaluation Costs	0.00	41,875.00	
	5,000.00	46,875.00	
Incurred Charges to the Fund in Year	391,882.86	499,093.21	
	396,882.86	545,968.21	B
Net Surplus/(Deficit) on Fund in Year	(329,835.95)	(83,684.47)	C=A-B
<hr/>			
<b>Fund Balance</b>			
Balance As At Start of Year	4,637,011.27	4,307,175.32	D
Add:			
Net Surplus/(Deficit) on Fund in Year	(329,835.95)	(83,684.47)	C
Actual Fund Balance At End of Year	4,307,175.32	4,223,490.85	E=D+C
Less:			
Estimated Outstanding Charges on Fund	1,761,658.44	1,488,627.94	F
Provision for Clawback for MMI Claims	378,554.00	392,557.00	G
Balance for Future Years Claims At End of Year	2,166,962.88	2,342,305.91	H=E-F-G

#### Claims Information For Last 5 Insurance Years

(This information is for the number of claims received analysed by the year to which the claim relates)

	No. of Claims Received For Year	No. of Claims Settled/Resolved	No. of Claims Outstanding	Estimated Outstanding Charges On Insurance Fund £
2011/12	405	404	1	5,395.00
2012/13	349	334	15	184,215.01
2013/14	301	283	18	131,843.40
2014/15	226	184	42	552,006.44
2015/16	186	103	83	458,676.89
	1,467	1,308	159	1,332,136.74
Claims Pre-2011/12			15	156,491.20
TOTALS			174	1,488,627.94

Of the claims outstanding 19 relate to Motor Vehicle claims, none of which are payable by the Insurance Fund.

## Insurance Premiums/Payments By Insurers

Insurer	Policy Excess 2015/2016	Responsibility for Policy Excess	Insurance Year 2015/2016		Insurance Year 2014/2015		Insurance Year 2013/2014		Insurance Year 2012/2013											
			Payments Made By Insurer For Claims	Premium Paid To Insurer (Incl. IPT)	Payments Made By Insurer For Claims	Premium Paid To Insurer (Incl. IPT)	Payments Made By Insurer For Claims	Premium Paid To Insurer (Incl. IPT)	Payments Made By Insurer For Claims	Premium Paid To Insurer (Incl. IPT)										
			£	£	£	£	£	£	£	£										
<b>Property Policies</b>																				
General Properties	Zurich Municipal	£1m	Note 1	}	6,143.75	121,335.11	2,831.23	118,866.24	162,918.80	124,699.98	0.00	146,288.78								
Education Properties	Zurich Municipal	£1m	Note 1																	
Professional Fees (First Loss)	Zurich Municipal	£1m	Note 1																	
Removal of Debris (First Loss)	Zurich Municipal	£1m	Note 1																	
Money	Zurich Municipal	£500	Note 2																	
Business Interruption:-																				
- Gross Revenue	Zurich Municipal		Note 1																	
- Additional Expenditure	Zurich Municipal		Note 1																	
All Risks	Zurich Municipal	Various	Note 1																	
Industrial/Commercial Property	Zurich Municipal	£250/ £1,000 for subsidence	Note 2																	
Museum & Fine Art	Zurich Municipal	£1,000	Note 3	0.00	14,866.58	0.00	14,431.92	0.00	10,662.02	0.00	34,729.15									
<b>Casualty Policies (Incl Claims Handling)</b>																				
Public Liability	Zurich Municipal	£51,710	Note 3	}	7,554.90	230,490.10	117,249.49	214,469.20	9,507.65	190,526.41	0.00	185,975.94								
Employers Liability	Zurich Municipal	£51,710	Note 3																	
Officials Indemnity	Zurich Municipal	£51,710	Note 3																	
Libel & Slander	Zurich Municipal	---	Note 3																	
Professional Negligence	Zurich Municipal	Various	---																	
0.00		2,038.56		0.00	2,038.56	0.00	2,038.56	0.00	2,038.56	0.00	2,767.66									
0.00		7,173.55		0.00	7,173.55	0.00	6,545.50	0.00	6,545.50	0.00	848.00									
<b>Other Policies</b>																				
Motor (Incl Claims Handling)	RMP/QBE	£50,000	Note 4	}	39,556.32	91,356.00	6,892.99	84,849.60	18,588.63	101,038.80	8,844.98	69,232.84								
Fidelity Guarantee	RMP/QBE	£10,000	Note 3																	
Work In Progress (Cont. All Risks)	Zurich Municipal	£1m	Note 1																	
Contractors Plant	Zurich Municipal	£500	Note 2																	
Engineering Insurance	RMP/ HSB	---	---																	
Public Health Act	Zurich Municipal	---	---																	
Computer	RMP/HSB	£5,000	Note 5																	
Hirers Liability	Zurich Municipal	£100	Note 2																	
School Journey	Zurich Municipal	Various	Note 2																	
Business Travel/PA	Zurich Municipal	Various	Note 2																	
0.00		23,687.82											0.00	23,687.82	0.00	23,687.82	0.00	23,687.82	0.00	23,320.00
0.00		15,512.47											0.00	15,512.47	0.00	15,631.62	18,532.40	14,875.45	0.00	21,322.73
1,180.00		4,304.93											0.00	4,304.93	0.00	4,304.93	0.00	9,695.85	0.00	858.60
0.00		2,584.68											0.00	2,691.66	0.00	2,691.66	0.00	2,713.60	0.00	3,512.91
0.00		1,239.18											0.00	1,244.85	0.00	1,244.85	0.00	1,205.57	0.00	1,720.27
0.00		7,547.48		0.00	7,472.75	0.00	7,472.75	0.00	6,974.80	0.00	13,649.12									
0.00		251.75		0.00	251.75	0.00	251.75	0.00	251.75	0.00	997.19									
2,917.55		6,295.61		895.00	5,995.47	14,304.03	5,995.47	485.00	4,642.57	485.00	4,642.57									
0.00		5,742.56		0.00	5,417.51	0.00	5,417.51	0.00	5,532.88	0.00	6,865.62									
<b>57,352.52</b>		<b>534,426.38</b>			<b>127,868.71</b>		<b>507,899.38</b>		<b>223,851.51</b>		<b>506,444.46</b>		<b>9,329.98</b>		<b>516,731.38</b>					

Estimated Outstanding Insurers' Liabilities for Current Claims:  
**£ 280,231.00**

### Notes

- Note 1 - Insurance Fund (except for first £1,000 which is met by Service).  
 Note 2 - Excess is met direct by Service.  
 Note 3 - Insurance Fund.  
 Note 4 - Insurance Fund (except for first £2,500 which is met by Service).  
 Note 5 - Service pays excess of £1,000.