
Annual Insurance Report 2023

Governance & Audit Committee

Date of meeting: 22nd November 2023

Lead director: Director of Finance

Useful information

- Ward(s) affected: All
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- Report version number: 1

1. Summary

This report:

- presents an overview of the Council's internal and external insurance arrangements;
- provides information on the claims received in recent years, and the results of the claims handling process.

2. Recommended actions/decision

The Committee is recommended to note the contents of the report, and the Council's approach to ensuring it is managing the financial risk associated with insurance claims.

3. Background

This report updates the information presented to the Audit & Risk Committee in September 2022.

4. Report

4.1 Risk Financing

4.1.1 Risk Financing may be defined as the process by which the Council ensures sufficient funds are available to pay for financial losses, using the most cost-effective sources of finance. For insurable risks (it should be noted that not all risks are insurable) this requires a balance between the amount of risk the Council is prepared to take, and the premium payable. The overall approach to risk financing is set out in the Risk Management Policy.

4.1.2 The most significant decision which affects this cost-risk balance is the level of "deductible" (excess) that the Council meets from its own resources. As with household policies, we can save money by taking a higher excess. High deductibles, however, also expose the Council to greater risk. The deductible is generally on a "per claim" basis, although the risk can be reduced further by including an aggregate limit which caps the total annual amount of the Council's exposure. The Council accepts very high deductibles, bearing the full cost of most claims itself, through the insurance fund (see below). This is because the Council is big enough to accept a

lot more risk than individual householders and sees its external insurance primarily as cover for catastrophes.

4.1.3 Robust risk management across the organisation reduces both the amounts payable in self-insured amounts and the external premium charged. However, it is neither possible nor desirable to eliminate all risks from service delivery. An effective strategy for financing these residual risks is therefore required.

4.2 Financial Position – Annual Budgets

4.2.1 Since 2020/21, the annual costs of insurance are held as a corporate revenue budget, outside departmental budgets. This budget funds the costs of external premiums, deductible payments on claims, and claims handling costs.

4.2.2 The 2023 budget stands at £2.5m per year, which covers both external insurance premiums and the cost of claims within the deductible.

4.2.3 Since October 2023, the Council no longer directly insures maintained schools. Instead, schools have access to a government-backed scheme (the Risk Protection Arrangement, or RPA) which is an alternative to insurance for schools.

4.3 Financial Position – Insurance Fund

4.3.1 As claims received can show considerable variations between years, the Council also holds a corporate insurance fund to smooth out the impact of actual costs on the annual corporate revenue budget from year to year, and to ensure that funds are available to meet claims when they occur.

4.3.2 The Council's policy is to maintain sufficient funding to meet all claims on a "claims occurring" basis. This includes legal and other costs associated with defending the claim, as well as any compensation due to the claimant. As a minimum, therefore, the fund will hold:

- Amounts required for claims received but not yet settled;
- Amounts required for claims relating to events that have occurred, but no claim has yet been notified to the Council (e.g. a person who is injured has 3 years to bring a claim against the Council in most cases).

4.3.3 The amount required in the fund at any time can only ever be an estimate, and depends on a number of assumptions about liability and settlement amounts. The balance on the fund is reviewed at least annually, informed by officers' assessments of specific large claims and historical data. Further assurance is provided by an external actuary's report. A report was produced in autumn 2022, which showed a surplus on the fund balance against expected liabilities. £5.5m was released from the fund to support future capital expenditure.

4.3.4 As at 31st March 2023, the balance on the insurance fund was £9.8m. For accounting purposes, this is split between a provision (for “known” claims) and an earmarked reserve for other costs, but in practice it is managed as a single fund.

4.4 External insurance

4.4.1 In financial terms, the most significant classes of insurance are Property, Motor and Combined Liability (Employers’ and Public Liability).

4.4.2 The insurance market remains difficult, with cost pressures arising across the market. The key drivers of this are outside the control of any single organisation:

- For property insurance, the increasing risk of adverse weather events (e.g. flooding and storms). These events can have huge costs for insurers, resulting in multiple large claims from a single event;
- For liability and motor insurance, the ongoing trend of increasing costs in the most serious injury cases.
- It is not yet clear what impact the current issues around RAAC concrete will have on premiums nationally, as insurers react to the property and liability risks.

4.4.3 A summary of the current package of insurance is attached at Appendix One. The main insurance contracts come to an end on 30th September 2024, and a retendering exercise is underway.

4.4.4 One of our insurance providers (covering buildings insurance for leasehold properties) withdrew at short notice from providing these policies from the new financial year. As a result, a one-year policy has been put in place to ensure continuity of cover; a new tender process will be required for cover from 1st April 2024. This remains a difficult market, with a limited number of providers prepared to offer cover.

4.5 Claims information

4.5.1 The greatest numbers of claims arise from activities connected to Highways Maintenance; motor claims; and Housing services. This is because of the nature of these service areas and does not imply poor performance.

4.5.2 The following tables provide a summary of the claims received in significant categories, and the results of the claims investigations, from the past 3 years.

4.5.3 For Highways-related claims, repudiation rates (i.e. the proportion of claims where liability is successfully denied) are generally over 80% once claims are finalised. While reliable comparator data are not currently available, informal discussions with other authorities suggest that this is a significantly better result than the East Midlands average. Successful repudiation of Highways claims requires evidence of a robust inspection and repairs process, which provides a legal defence to these claims.

Public Liability – Highways – Personal Injury

Financial Year	LCC at fault	No fault
2020-21	13 (34%)	25 (66%)
2021-22	4 (8%)	44 (92%)
2022-23	2 (3%)	63 (97%)

Public Liability – Highways – Property Damage

Financial Year	LCC at fault	No fault
2020-21	18 (31%)	40 (69%)
2021-22	5 (11%)	41 (89%)
2022-23	3 (4%)	76 (96%)

Motor Policy claims

Financial Year	LCC at fault	Third Party at fault	50/50 fault or no fault identified	Theft / vandalism against LCC vehicles
2020-21	82 (64%)	30 (23%)	12 (9%)	5 (4%)
2021-22	117 (58%)	64 (32%)	16 (8%)	6 (3%)
2022 - 23	105 (56%)	43 (23%)	26 (14%)	13 (7%)

Public Liability – Council Housing

Financial Year	LCC at Fault	Contractor at Fault	No fault
2020-21	24 (28%)	1 (1%)	60 (71%)
2021-22	10 (16%)	1 (2%)	53 (83%)
2022 - 23	6 (7%)	2 (2%)	80 (91%)

4.5.4 Complex claims will often not be finalised until some years after the incident. As a result, the cost of claims arising in 2023 will not be finally known for some years. The amount actually *paid* from the insurance fund in each financial year (regardless of when the claim originated) on each of the major types of claim is shown below. (This does not include amounts met by insurers on large claims):

Policy Type	2020-21 £000's	2021-22 £000's	2022-23 £000's	3-year total £000's
General Property	92.7	206.5	46.3	345.5
Employer's Liability	388.6	365.4	337.0	1091.0
Public Liability	503.7	460.1	663.0	1626.8
Officials / Professional Indemnity	0	13.4	0	13.4
Motor	180.9	168.2	214.2	563.3
Total	1,165.9	1,213.6	1,260.5	3,640.0

4.5.5 Amounts paid in an individual year are variable; however, the greatest costs to the Council are from employer's liability, public liability and motor claims. [Within this, employer's liability claims tend to be higher value per claim but are fewer in number]. Other classes of insurance claim have a relatively small financial impact in most years. Whilst we get more claims in respect of highways and housing, these tend to be of lower value.

5. Financial, legal, equalities, climate emergency and other implications

5.1 Financial implications

The report is concerned throughout with financial implications.

5.2 Legal implications

The report deals with insurance and the risks associated with insurance claims. The clients are best placed to assess such risks and the appropriate level of cover to put into place to protect the Council, and as such legal officers have not been involved in this part of the process.

If any insurance arrangements are changing, then this may affect the levels of cover that the Council expects from suppliers going forward and this should be reflected in any terms and conditions put into place.

Legal Services have been involved in the direct award of the 12 month insurance policy after the previous provider terminated with very insufficient notice to carry out a full re-procurement. Given that this has occurred and that as noted in the report, the insurance market remains difficult, it is advised that all necessary efforts are put into place to ensure

that the new procurement runs to the set timetable and that Procurement and Legal are kept involved in the process.

Tracey Wakelam - Principal Lawyer (Commercial, Property and Planning)

5.3 Equalities implications

This report provides an overview of the Council's internal and external insurance arrangements, there are no direct equality implications arising from it. It is important that any claims process is accessible.

Surinder Singh - Equality Officer

5.4 Other implications

No other implications are noted as this is a briefing report and no policy changes are proposed.

6. Summary of appendices:

Appendix One – Summary of External Insurance Cover

7. Is this a private report?

No

8. Is this a “key decision”?

No

Summary of External Insurance Cover – as at October 2023

	Main features of cover	Insurer	Deductible (per claim)
General Property	Buildings & contents insurance; including works in progress, and increased cost of working following a claim	AIG	£100,000 (general) £1m for social housing stock
Industrial & Commercial Property	Buildings cover for properties owned by the Council and rented out to third parties (e.g. shops, industrial units).	AIG	£250
Casualty (Combined Liability)	a) Employer's Liability – legal liability for injury / illness to employees (plus others carrying out Council business, e.g. elected Members). Employer's Liability insurance is a legal requirement. b) Public Liability – claims for personal injury or property damage by external third parties c) Professional Indemnity – claims alleging that professional services or advice have not been carried out correctly.	QBE	£375,000 £375,000 £375,000
General Motor Fleet	Comprehensive motor policy for Council vehicles. Motor insurance is a legal requirement.	QBE	£200,000
Personal Accident / Travel	Personal accident cover for employees on Council business; travel insurance for employees on Council business	Chubb	N/A
Engineering & Inspection	Inspection contract to meet statutory requirements on equipment; and associated insurance cover	Aviva	N/A
Fine Arts	Specialist cover for museum & art gallery collections	Axa Art	Nil

Please note that the table above presents only a broad summary of the insurance arrangements, and not the full detail of cover or exclusions.