



Leicester
City Council

WARDS AFFECTED: ALL

Audit and Risk Committee

24th July 2019

ANNUAL INSURANCE REPORT 2019

Report of the Director of Finance

1. Summary

1.1 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. Recommendations

- 2.1 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 claims.

3. Risk Financing

- 3.1 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.

- 3.2 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.

- 3.3 Robust risk management across the organisation will reduce 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. Insurance Fund

- 4.1 A recharge is made to all Council departments to fund the costs of external premiums, deductible payments on claims, claims handling and other costs associated with the insurance function. Schools also pay for relevant insurances from their delegated budgets.
- 4.2 The Council holds an insurance fund to smooth out the impact on departmental budgets, and to ensure that funds are available to meet claims when they occur. The fund is managed corporately, and falls outside departmental budgets.
- 4.3 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).
- 4.4 The amount required in the fund at any time cannot be accurately calculated, and depends on a number of assumptions about liability and settlement amounts. The balance on the fund will be 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, normally every 2 years.
- 4.5 As at 31st March 2019, the balance on the insurance fund was some £15.5m. 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. The most recent actuarial report (April 2018) implied that there may be a surplus currently held. A further report is being commissioned in 2019; if this confirms the required balance, the surplus on the fund can be made available for other purposes.

External insurance

- 5.1 In financial terms, the most significant classes of insurance are Property, Motor and Combined Liability (Employers' and Public Liability). The Council's main insurance policies were retendered in the course of 2018, and new policies are in place from the 31st December 2018. The specification, including the deductible levels for the new policies, was determined in consultation with the Council's insurance brokers Arthur J Gallagher. Further increases to the deductible levels were considered, but the overall risk to the Council would be considerably increased at a time when our own resources to cover this risk are under severe pressure from general funding cuts, and therefore this option was not taken forward.
- 5.2 The tender process resulted in a 17% saving on previous years' external premium costs (and a significant saving over the rates available from renewing cover with our previous insurer), for similar levels of cover. The total cost is now £1.56m per year, contrasted to £1.9m under the old contracts. This cost is met each year from the fund.
- 5.3 A summary of the new package of insurance is attached at Appendix One.

5.4 The new contract is in place until 30th September 2021, with an option to extend for a further 2 years. This provides some stability in costs, but it should be noted that the rates could still change under some circumstances – for example, if the Council’s claims record is significantly worse than expected, or to reflect changes in Insurance Premium Tax (IPT).

5.5 In the longer term, insurance rates will be affected by developments in the wider market. Some of the current issues include:

- The Government is currently reviewing the “discount rate” used to calculate lump-sum settlements in personal injury cases. This is the interest rate that the recipient can expect to receive by investing the lump sum, based on the lowest risk investments. In cases of serious, long-term injury, a small change in the discount rate can result in a large change in the amount due to the claimant. The current review is expected to conclude in August this year, and is widely expected to increase the discount rate (which would *decrease* the cost of settling claims), although the amount is unknown.
- Ongoing reforms to the statutory framework around personal injury cases, with a particular focus on reducing “whiplash” claims from motor accidents. If successful, these should reduce the cost to the insurance fund in the longer term.
- Liability claims relating to social care (both Children’s and Adults’), which have increased nationally in recent years. Case law in this area is still evolving, and many claims received date back several years and could not have been known about at the time – it is difficult to estimate the scale of the overall cost to local authorities and their insurers.
- Changes to Insurance Premium Tax (IPT), which has increased from 6% in 2015 to 12% currently, with ongoing expectations that it will increase further in future. Unlike VAT, IPT cannot be reclaimed and is a real cost to the Council.

6. Claims information

6.1 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 should not necessarily be taken to suggest poor performance.

6.2 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. Key points from these tables include:

6.3 For Highways-related claims, repudiation rates (i.e. the proportion of claims where liability is successfully denied) are generally over 80%. 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
2016 - 2017	5	77
	6.10%	93.90%
2017 - 2018	11	48
	18.64%	81.36%
2018 - 2019	11	44
	20.00%	80.00%

Public Liability - Highways - Pothole / Property Damage

Financial Year	LCC at fault	No Fault
2016 - 2017	2	25
	7.41%	92.59%
2017 - 2018*	32	37
	46.38%	53.62%
2018 - 2019	8	40
	16.67%	83.33%

* The 2017-18 year included a period of severe winter weather (the “Beast from the East”) which caused damage to road surfaces and consequently affected the claims position.

MOTOR				
Financial Year	LCC at fault	Third Party at fault	50/50	Criminal Act
2016 - 2017	126	92	1	4
	56.50%	41.26%	0.45%	1.79%
2017 - 2018	107	89	4	19
	48.86%	40.64%	1.83%	8.68%
2018 - 2019	65	95	3	8
	38.01%	55.56%	1.75%	4.68%

The 2018-19 figures include all claims notified to May 2019. This figure may increase if incidents occurred in 2018-19 but the claim has not yet been received.

Public Liability – Housing (only claims over £250 included)				
Financial Year	LCC at fault	No Fault	Criminal Act	Contractor
2016 - 2017	10	39	1	0
	20.00%	78.00%	2.00%	0.00%
2017 - 2018	20	59	0	0
	25.32%	74.68%	0.00%	0.00%
2018 - 2019	1	62	0	1
	1.56%	96.88%	0.00%	1.56%

6.3 Complex claims will often not be finalised until some years after the incident. As a result, the cost of claims arising in 2018/19 will not be finally known for some years. The amount actually *paid* from the insurance fund in each 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	2016-17 £000's	2017-18 £000's	2018-19 £000's	3-year total £000's
General Property	56.9	38.4	118.5	213.8
Commercial Property	1.6	35.7	23.2	60.6
Employer's Liability	244.9	202.1	298.9	745.9
Public Liability	823.1	503.1	1,102.4	2,428.5
Officials / Professional	7.9	54.2	36.7	98.8

Indemnity				
Motor	534.2	464.0	601.9	1,600.1

Amounts paid in an individual year are variable (for example, a number of larger public liability claims were settled in 2018/19, having been outstanding for some time). However, the general pattern is that public liability and motor claims consistently have the greatest costs to the Council. Employers' 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.

7. Financial, Legal Implications

7.1 Financial Implications

The report is concerned throughout with financial implications.

7.2 Legal Implications (Emma Jackman, Head of Law)

There are no legal implications arising from this report.

8. Report Author / Officer to contact:

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Financial Strategy

26th June 2019

Summary of External Insurance Cover – from January 2019

	Main features of cover	Insurer	Deductible (per claim)
General Property	Buildings & contents insurance (including schools); 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 and school governors). 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	£200,000 £200,000 £200,000
General Motor Fleet	Comprehensive motor policy for Council vehicles. Motor insurance is a legal requirement.	QBE	£200,000
Personal Accident / Travel and School Activities	Personal accident cover for employees on Council business; travel insurance for employees on Council business and for school trips	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.