

REPORT TO: Corporate Policy and Performance Board

DATE: 26 January 2021

REPORTING OFFICER: Strategic Director – Enterprise, Community & Resources

SUBJECT: Council Insurance Arrangements Update

PORTFOLIO: Resources

WARD(S): Borough-wide

1.0 PURPOSE OF REPORT

The Council is currently in the process of retendering a number of its major insurance policies. This report provides the Board with details of that process and a wider update on the Council's insurance and risk financing arrangements.

2.0 RECOMMENDATION: That the report be noted.

3.0 SUPPORTING INFORMATION

Background

3.1 In delivering its functions and statutory duties the Council faces many and varied risks. Examples include:

- Personal injury or vehicle damage claims arising from defects in the public highway;
- Personal injury, disease or losses affecting employees that arise in the course of their duties;
- Motor vehicle incidents involving the Council's fleet of vehicles;
- Injuries to, or losses sustained by, members of the public whilst on Council premises or land;
- Injury to individuals or damage to private property caused by trees for which the Council is responsible;
- Damage to, or loss of, Council owned buildings and assets;
- Liabilities arising from errors made by employees or elected members that result in financial loss to a third party;
- Financial loss arising from the theft of money, property, forgery or fraud by an employee or third party.

3.2 With the wide variety of risks faced by the Council, the cost of managing and financing risk is therefore significant. As such, it is important that the Council can demonstrate that it seeks to obtain value for money from this expenditure.

- 3.3 The Council does not have the financial resources to self-insure against all of the risks it faces. Externally procured insurance is therefore one of the ways in which the Council mitigates the cost of risk.
- 3.4 It is however important to note that, in addition to insurance, there are also other factors to consider when quantifying the total cost of risk to the Council. Other direct costs include:
- Retained losses, in the form of deductibles (excesses) and uninsured losses
 - Brokerage fees
 - Claims handling and insurance administration costs
 - Legal defence costs
- 3.5 The total cost of managing risk also includes indirect costs relating to the cost of risk mitigation activities. These can be harder to quantify but include activities such as:
- The Health & Safety function
 - The risk management framework
 - Business continuity management
 - Inspection and maintenance regimes
 - Maintenance of a robust control environment

Self-insurance

- 3.6 Developments in the public sector insurance market in recent years have resulted in insurers seeking significant increases in premium from local authority clients. This consequently incentivises local authorities to accept greater levels of self-insurance in order to avoid increased costs and further pressure on revenue budgets.
- 3.7 Over the past decade the Council has consequently increased its level of self-insurance significantly and therefore self-funds most of its settled claims.
- 3.8 The insurance policies procured by the Council provide cover for claims that exceed the 'deductible' for each policy (the 'deductible' is the equivalent of the 'excess' on a personal insurance policy). The Council's policies also include 'Aggregate Stop Loss' insurance, which puts a cap on total spending on claims that fall within the deductible in a particular year.
- 3.9 Appendix A illustrates the increases in the level of self-insurance across the Council's main insurance policies over the period 2010/11 to 2019/20. It also shows the Aggregate Stop Loss Limits for those policies where such limits are applicable.

Direct Cost of Insurance and Risk Financing

- 3.10 Numerous measures have been introduced in recent years to reduce the direct cost of insurance and risk financing to the Council. These measures include:

- Annual review of the Council's insurance programme to achieve an optimum balance between self-insurance and externally procured insurance
- Frequent re-tendering of insurance covers
- The adoption of in-house claims handling in 2013/14 (for claims up to £50k)
- Increasing the levels of self-insurance across most policy areas
- Regular meetings with the Highways Division to improve the defence of highways claims
- Regular meetings with the Council's external legal advisors to discuss the strategy for each litigated claim

3.11 Appendix B provides a high level summary of the direct costs relating to insurance and risk financing over the period 2010/11 to 2019/20. Whilst there are obviously variations in the cost of claims settled each year, there is a clear downward trend in terms of the overall cost to the Council. In 2010/11, the total direct cost of insurance and risk financing was £2.4m. By 2019/20 this cost had reduced to £838k, a reduction of over £1.5m.

3.12 It should also be noted that there are a number of other factors concerning the Council's business that have an impact on the cost of insurance. Some of these factors can increase costs and some may lead to a reduction in costs. Significant changes over the time period covered include:

- Responsibility for public health transferring to the Council in 2013
- The leisure centres being brought back in house in 2016
- The acquisition of a number of care homes from 2017
- The sale of the Council's industrial units in 2016/17
- The reduction in the number of schools due to academy conversions
- The withdrawal of the former lease car scheme for employees

3.13 Additionally, there are other factors that affect the cost of insurance and risk financing that are outside the Council's control. These include:

- The insurance market – there are relatively few insurers willing to insure public sector risks
- The Municipal Mutual Insurance (MMI) scheme of arrangement - MMI were local authority insurers until 1992 when MMI ceased trading. The Council is now required to fund 25 per cent of the cost of any historic claims where MMI were the insurer at the time.
- Legacy claims - the Council must also fund any claims relating to the former Cheshire County Council that fall within the Borough of Halton.
- The Judicial Studies Board (JSB) guidelines - these are used to value claims and are reviewed on a regular basis. This generally puts an upward pressure on the cost of settling meritorious claims.

Claims

- 3.14 The vast majority of insurance claims received by the Council relate to public liability, and approximately 70 per cent of those claims relate to Highways. This proportion has remained fairly consistent over a long period and is in keeping with the claims experience of other Highways Authorities.
- 3.15 Appendix C provides a summary of public liability claims received over the period 2010/11 to 2019/20. Key points to note are:
- There has been a significant reduction in the number of claims received over the past decade. In-house claims handling and the adoption of a robust approach to defending claims is likely to have had an impact. Similarly, an effective system of highways inspections and maintenance is also likely to be a contributory factor.
 - There have also been improvements in the defence rate of claims. The successful defence rate for closed claims stands at over 75 per cent for each of the last four financial years.
 - Where claims are ultimately paid, a summary of each claim and the reason why it could not be defended is shared with management to identify learning points and any risk management improvements that can be implemented.
- 3.16 Appendix D provides a summary of employer's liability claims received over the period 2010/11 to 2019/20. Key points to note are:
- Employer's liability claims are much fewer in number than public liability claims, which makes trend analysis less reliable. However, as with public liability claims, there is a notable reduction in the number of claims now being received when compared to 2010/11.
 - In recent years, the numbers of paid claims have been very few and do not indicate any particular areas where the management of risk needs to be improved. However, as with the paid public liability claims, a summary of each claim is shared with management to consider opportunities to improve the management of risk
- 3.17 Appendix E provides a summary of motor vehicle claims received over the period 2010/11 to 2019/20. Key points to note are:
- There has been a huge reduction in the number of motor vehicle claims received over the period; from 119 claims in 2010/11 to just 19 claims in 2019/20.
 - Another important factor is the improvements made in risk management in terms of the fleet vehicles. The installation of on-board cameras in the refuse collection vehicles has had a significant impact and also assists the investigation of claims.
 - Defence rates for motor vehicle claims are generally much lower than for public liability and employer's liability claims. This is principally because liability for any incidents is usually more straightforward to establish. However, it is also due to claims for 'own driver damage' where a third party isn't involved so there isn't anything to defend and similarly, we also fund

repairs / vehicle replacement where vehicles are damaged or stolen by unidentified third parties in which cases there is nothing to defend.

Tenders

- 3.18 Retendering of the Council's range of insurance covers is staggered and is undertaken at two separate intervals. The following policies are approaching the end of a five-year term and are currently in the process of retendered:
- Property
 - Motor
 - Computer
- 3.19 A competitive tender process is currently underway being managed through the YPO Insurance Placement Framework. The process is being supported by the Council's Procurement Team and Aon, the Council's insurance broker. The new policies will be in place for the start of the 2021/22 financial year.
- 3.20 Recent tender exercises have been very successful in delivering premium savings for the Council. However, the Council's broker has advised that the insurance market is hardening and experiencing upward volatility. Market capacity is also declining with insurers being more prudent about which risks to insure. As such, an increase in premiums is now extremely likely, despite the Council's excellent claims history.
- 3.21 The difficult market is being driven by a variety of factors, which include global losses incurred by insurers, the impact of Covid-19, the economic downturn and low interest rates. Many insurers are currently operating at a deficit, with premium income being insufficient to cover claims and operating expenses.
- 3.22 In terms of property cover, rates have been reduced aggressively over the past ten years and would have been likely to increase even without the current pandemic. Additionally, global losses from weather events have been steadily increasing, with 2017 being the costliest year on record. Insurers have also seen an increase in the number of catastrophic claims. This situation has led to Aon forecasting that property premiums may increase by between 30% and 35% this year.
- 3.23 The nervousness amongst insurers is evidenced by the fact that the Council's current property insurer is withdrawing from the local authority market and has confirmed that they will not be submitting a bid. This is despite the Council making no claims to date on its property policy during the five-year period of cover.
- 3.24 A similar difficult position exists in terms of motor insurance. Whilst the number of motorists has reduced over the past year, and the number of claims nationally has been falling for successive years, the increase in the number of cyclists and e-scooter users has resulted in insurers receiving an increase in large claims. Aon are therefore forecasting that motor premiums will increase by between 10% and 20%.

- 3.25 The premium for the Council's computer insurance is approximately £3,000 per year. Again an increase in premium is anticipated but any increase will not be material to the Council's finances.
- 3.26 The Council's remaining insurance covers are two years into long-term agreements. Significantly, the Council's liability insurer is intimating a possible increase of between 20% and 25% in premium for some local authority clients. At the time of writing, renewal terms for 2021/22 are yet to be received. However, should such an increase in premium be required by the insurer it would constitute a breach of the long-term agreement. Options available to the Council would be to:
- Accept the premium increase
 - Re-tender
 - Increase the level of deductible further to maintain the current rates of premium

4.0 POLICY, FINANCIAL AND OTHER IMPLICATIONS

- 4.1 The Council's approach to insurance is undertaken in accordance with the Risk Financing and Insurance Strategy, which was previously presented to the Board. The Strategy aims to ensure that the structure of the Council's insurance programme achieves an optimum balance between self-insurance and externally procured insurance.
- 4.2 There are no direct financial implications arising from this report. However, any increase in the Council's insurance premiums from the current tender exercise or from renewals for 2021/22 will add additional pressure on the Council's revenue budget.

5.0 IMPLICATIONS FOR THE COUNCIL'S PRIORITIES

5.1 Children and Young People in Halton

Significant revenue savings have been generated by the adoption of a more strategic approach to the Council's insurance and risk financing arrangements over the past decade. This has facilitated the redirection of financial resources towards the delivery of all the Council's priorities.

5.2 Employment, Learning and Skills in Halton

See 5.1 above

5.3 A Healthy Halton

See 5.1 above

5.4 A Safer Halton

See 5.1 above

5.5 Halton's Urban Renewal

See 5.1 above

6.0 RISK ANALYSIS

6.1 There are no risks arising directly from this report.

7.0 EQUALITY AND DIVERSITY ISSUES

7.1 None identified

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

None under the meaning of the Act

Levels of Self-Insurance – 2010/11 to 2020/21

Year	Deductible					Aggregate Stop Loss	
	Property Insurance		Motor Insurance	Employer's Liability Insurance	Public Liability Insurance	Employer's Liability Insurance	Public Liability Insurance
	Corporate £	Schools £	£	£	£	£	£
2010/11	250	100,000	250	25,000	125,000	200,000	3,000,000
2011/12	250	100,000	250	25,000	250,000	3,000,000	3,000,000
2012/13	250	100,000	250	25,000	250,000	3,000,000	3,000,000
2013/14	250	100,000	25,000	25,000	250,000	3,000,000	3,000,000
2014/15	250	100,000	25,000	25,000	250,000	2,400,000	2,400,000
2015/16	250,000	250,000	25,000	250,000	250,000	2,400,000	2,400,000
2016/17	250,000	250,000	25,000	250,000	250,000	2,500,000	2,500,000
2017/18	250,000	250,000	25,000	500,000	500,000	3,000,000	3,000,000
2018/19	250,000	250,000	25,000	775,000	775,000	3,000,000	3,000,000
2019/20	250,000	250,000	25,000	500,000	500,000	3,250,000	3,250,000
2020/21	250,000	250,000	25,000	600,000	600,000	3,250,000	3,250,000

Note

Deductible – This relates to the threshold up to which the Council is required to self-fund the cost of each and every claim in a financial year.

Aggregate Stop Loss - This limits the Council's financial exposure from cumulative losses to a specific amount. It only applies to the Council's public liability and employer's liability cover.

Direct Cost of Insurance & Risk Financing – 2010/11 to 2019/20

Year	Property Insurance	Motor Insurance	Liability Insurance	Other Policies	Claims Handling	Brokerage	Claims funded by HBC	Salary costs	Total
	£	£	£	£	£	£	£	£	£
2010/11	812,634	300,588	251,908	58,047	71,472	19,500	783,121	95,249	2,392,518
2011/12	383,869	294,987	193,605	83,588	48,280	19,500	813,098	56,957	1,893,884
2012/13	401,387	278,522	210,736	84,900	41,440	19,500	884,980	71,030	1,992,495
2013/14	354,865	68,310	202,514	77,315	21,478	19,500	1,111,159	76,984	1,932,125
2014/15	315,946	53,977	251,379	72,798	36,924	12,945	620,101	64,390	1,428,460
2015/16	214,203	48,840	251,379	77,155	23,060	12,945	679,412	71,202	1,378,195
2016/17	103,686	43,345	276,050	80,044	7,789	12,945	755,273	60,497	1,339,628
2017/18	101,052	41,548	246,510	82,203	3,250	12,950	783,735	83,984	1,355,231
2018/19	116,480	43,699	255,539	87,448	1,546	12,950	650,744	99,576	1,267,981
2019/20	117,040	35,488	186,300	89,546	0	12,950	292,444	104,698	838,467

Note

Liability insurance includes: Employers Liability, Public Liability, Professional Indemnity and Officials' Indemnity

Other policies include: Fidelity Guarantee (Crime), Personal Accident, Engineering & Inspection and Computer

Salary costs relate to the Insurance Team that currently comprises 2.92 FTE employees

Public Liability Claims – 2010/11 to 2019/20

Year	Received	Repudiated	Paid	Outstanding	Reserve for o/s claims	Defence rate
2010/11	212	144	68	0	0	67.92%
2011/12	181	122	59	0	0	67.40%
2012/13	212	155	57	0	0	73.11%
2013/14	167	124	42	1	£12,000	74.70%
2014/15	115	77	37	1	£176,200	67.54%
2015/16	102	63	37	2	£92,400	63.00%
2016/17	86	64	20	2	£216,400	76.19%
2017/18	96	71	19	6	£266,300	78.89%
2018/19	72	57	9	6	£82,900	86.36%
2019/20	62	35	6	21	£260,000	85.37%
Total Reserve					£1,106,200	

Note

- The 'reserve' is the estimated value of the claims outstanding if they were to be paid.
- The defence rate for the years 2013/14 to 2019/20 will alter over time dependent upon the outcome of the outstanding claims.
- Claims paid may also include occasional 'goodwill' gestures where liability is not admitted but a small payment is made to the claimant.

Employer's Liability Claims – 2010/11 to 2019/20

Year	Received	Repudiated	Paid	Outstanding	Reserve for o/s claims	Defence rate
2010/11	16	13	3	0	0	81.25%
2011/12	9	5	4	0	0	55.56%
2012/13	9	2	7	0	0	22.22%
2013/14	12	6	6	0	0	50.00%
2014/15	9	6	3	0	0	66.67%
2015/16	11	6	4	1	£44,200	60.00%
2016/17	4	4	0	0	0	100.00%
2017/18	4	1	1	2	£7,100	50.00%
2018/19	7	5	2	1	£15,500	71.43%
2019/20	2	1	0	1	£8,000	100.00%
Total Reserve					£74,800	

Note

- The 'reserve' is the estimated value of the claims outstanding if they were to be paid.
- The defence rate for the years 2015/16 and 2017/18 - 2019/20 will alter over time dependent upon the outcome of the outstanding claims.

Motor Vehicle Claims – 2010/11 to 2019/20

Year	Received	Repudiated	Paid	Outstanding	Reserve for o/s claims	Defence rate
2010/11	119	42	77	0	0	35.29%
2011/12	64	33	31	0	0	51.56%
2012/13	70	31	39	0	0	44.29%
2013/14	63	43	20	0	0	68.25%
2014/15	57	24	33	0	0	42.11%
2015/16	40	12	28	0	0	30.00%
2016/17	28	11	17	0	0	39.29%
2017/18	27	11	15	1	£7,050	42.31%
2018/19	19	6	13	1	£137	31.58%
2019/20	19	5	9	5	£25,650	35.71%
Total Reserve					£32,837	

Note

- The 'reserve' is the estimated value of the claims outstanding if they were to be paid.
- The defence rate for the 2017/18 - 2019/20 will alter over time dependent upon the outcome of the outstanding claims.