

## TRAFFORD COUNCIL

**Report to:** Accounts & Audit Committee  
**Date:** 30 October 2019  
**Report of:** Corporate Director of Finance and Systems

### Insurance Performance Report 2018/19

#### Summary

This report provides a summary of insurance performance for 2018/19:

- Gross cost of the insurance activity was £1.319m; comprising £592k of premium costs, £706k provision for liability claims and £21k for other costs.
- The provision for outstanding liability claims was £3.030m as at 31 March 2019, compared to £2.958m as at 31 March 2018, a nominal increase of £72k.
- Claim numbers increased with 520 new claims compared to 431 in 2017/18.
- Repudiation rates for liability claims is 73%, currently defending 3 out of every 4 claims the Council receives.

#### Recommendations

That the report be noted.

Contact person for access to background papers and further information:

Name: Graeme Bentley  
Extension: 4336  
Background Papers: None

## 1. Introduction

1.1 This report updates the Committee on the Council's insurance activities for 2018/19 and the report focuses on:

- **Section 2** - Cost of Insurance
- **Section 3** - Claims
- **Section 4** - Achievements / Outlook

## 2. Cost of Insurance

2.1 The Council's insurance programme covers a wide range of insurable risks and a summary of the policies and providers is shown in **Annex 1**.

2.2 Premium and claims costs make up the main items of expenditure for the insurance budget with an annual provision made to cover the estimated cost of claims.

2.3 The gross cost of the insurance activity for 2018/19 was £1.319m; comprising £592k of premium costs, £706k provision for liability claims and £21k for other costs. The Council's insurance provision is subject to review by an external actuary on a biennial basis, taking into account the likely cost of both claims received and an estimate of those still to be received, based on past experience. The in-year contribution to the provision was £93k lower than originally estimated due to a lower claims cost. This saving was offset by a small rise in premium costs of £24k due to payment of some historic premiums and additional costs of £21k relating to uninsured losses and other small items to give an overall reduction of £48k in the gross cost. The majority of this has been absorbed through a loss of income mainly as a result of schools transferring to academy status.

<b>Table 1 – Insurance Expenditure</b>	<b>Budget £000</b>	<b>Actual £000</b>	<b>(Under)/ Over Spend £000</b>
<b>Premiums</b>	568	592	24
<b>Provisions</b>	799	706	(93)
<b>Other Costs</b>		21	21
<b>Gross Cost</b>	<b>1,367</b>	<b>1,319</b>	<b>(48)</b>
<b>Income</b>	<b>(745)</b>	<b>(704)</b>	41
<b>Contribution to/(from) reserves</b>	181	188	7
<b>Net Cost</b>	<b>803</b>	<b>803</b>	<b>0</b>

2.4 The Insurance Risk Reserve is maintained in the event of a catastrophe whereby the Council is required to cover the first £250k of any property loss. It is also used to balance any fluctuation in the overall provision level and additional costs associated with historic Municipal Mutual Insurance claims. A review of all reserves is undertaken as part of our annual processes and as a result, the Insurance Risk Reserve was reduced in 2018/19 by £1.0m to reflect our experience in the settlement of past claims.

- 2.5 The balance on the Insurance Provision and the Insurance Risk Reserve is as follows:-

<b>Table 2 – Provision and Reserve Balances</b>			
<b>Provision</b>	<b>£000:</b>	<b>Insurance Risk Reserve</b>	<b>£000:</b>
<b>Balance as at 01/04/2018</b>	<b>(2,958)</b>	<b>Balance as at 01/04/2018</b>	<b>(2,683)</b>
Less Claims Paid	634	Contribution from revenue	(188)
Reassessed Provision	(706)	Contribution to General Reserve	1,000
<b>Balance as at 31/03/2019</b>	<b>(3,030)</b>	<b>Balance as at 31/03/2019</b>	<b>(1,871)</b>

### 3. Claims

- 3.1 **Claims Activity** - In 2018/19 the Council received 520 new liability claims compared to 431 in 2017/18, an increase of 21%. The increase in claims has been a trend in recent years with the rise predominantly due to highway property claims. This is despite significant levels of capital investment in the highway network in recent years and work continues, assisted by the insurance team, to ensure the focus of this investment has the biggest impact.
- 3.2 On a positive note, insurance claims payments remain lower than anticipated and this is due to the success in reducing the levels of higher valued injury claims. This has also been helped by the statutory limits on third party solicitor costs; the introduction of fixed costs for claimant solicitors has seen highway injury claims reduce by almost half over the last few years and payments reducing accordingly. Repudiation rates for highway injury claims remain high at 84%. Conversely, highway pothole vehicle damage claims have increased, however they are minor in cost when compared to injury claims.
- 3.3 Liability claims fall into one of four categories:-
- Public Liability - Highway Injury,
  - Public Liability - Highway Property,
  - Public Liability (Non-Highway) and
  - Employer's Liability.
- 3.4 Table 3 below details the activity in 2018/19 for each category of claim showing the current claims volume and insurance claim reserve position. The insurance claim reserve, not to be confused with the Insurance Risk Reserve, is the estimated claims cost we set aside for each case as advised by our insurers.

<b>Table 3 – Claims Summary</b>	<b>PL HW Injury</b>	<b>PL HW Prop</b>	<b>PL Non HW</b>	<b>EL</b>	<b>Total</b>
<b>Open Claims as at 1/04/2018</b>	<b>115</b>	<b>300</b>	<b>66</b>	<b>16</b>	<b>497</b>
<b>New Claims in 2018/19</b>	87	342	87	4	520
<b>Claims Closed in 2018/19</b>	(107)	(469)	(61)	(14)	(651)

<b>Open Claims as at 31/03/2019 (All years)</b>	<b>95</b>	<b>173</b>	<b>92</b>	<b>6</b>	<b>366</b>
<b>Net Change</b>	(20)	(127)	26	(10)	(131)
<b>O/S Claim Reserve £000</b>	652	47	1,140	123	1,962

3.5 Table 4 shows claims numbers and repudiation rates over the last five policy years for all liability claims.

<b>Table 4 Repudiation Rates 2014/15 to 2018/19</b>					
<b>Policy Year</b>	<b>No of Claims</b>	<b>Open</b>	<b>Closed</b>	<b>Repudiated</b>	<b>Rep Rate</b>
2014/2015	311	5	306	232	76%
2015/2016	302	10	292	207	71%
2016/2017	291	27	264	192	73%
2017/2018	458	74	384	285	74%
2018/2019	417	244	173	114	66%
<b>Total</b>	<b>1,779</b>	<b>360</b>	<b>1,419</b>	<b>1,030</b>	<b>73%</b>

3.6 Further detail is provided in **Annex 2** for each of the four liability areas and shows the total cost of claims across the last 5 policy years for each category of claim along with the current repudiation rate over that period. These charts detail claims paid within the appropriate policy year together with claims reserve levels held for outstanding claims. The year 2018/19 is still an immature year; the reserve level required decreases with time, as we successfully defend claims. The key trends from the claim statistics are :-

- **Average Repudiation rates 73%** (Highway Injury 84%, Highway Property 72%, Non Highway 62%, Employer's Liability 81%)
- **The cost of all liability claims over the period is an average of approximately £530k per year.** It is acknowledged that the more recent claims years are not yet mature but including an allowance for this would still indicate that the level of claims provision (Estimated at £799k in 2018/19-Table 1) is very prudent. This will be discussed with the actuary when the provision is next assessed in March 2020.
- **Increasing overall cost of property damage claims** but relatively low in value. This is something that the Insurance Team and highway colleagues have been focussing on during the first half of 2019/20.

3.7 Below is a summary of the reasons highway claims were settled in 2018/19 when compared to 2017/18.

<b>Table 5</b>		
<b>Reason for Settlement</b>	<b>2018/19</b>	<b>2017/18</b>
<b>Defect not picked up in carriageway</b>	10	0
<b>Defect not picked up in footway</b>	4	3
<b>Failure to repair carriageway</b>	94	12

<b>Failure to repair footway</b>	1	2
<b>No inspection carriageway</b>	15	9
<b>No inspection footway</b>	1	3
<b>Total</b>	<b>125</b>	<b>29</b>

3.8 During 2018/19 there was a significant increase in the overall number of claims settled increasing from 29 in 2017/18 to 125 in 2018/19. The reasons for this are varied but mainly relate to an increase in defects and claims following the bad winter in 2018; this had an adverse impact on the condition of the highway and put pressure on achieving the repair timescales in the Code of Practice. The insurance team and highways client team have been working together to review the monitoring arrangements going forward and failure to repair statistics for the first part of 2019/20 have returned to normal levels.

#### **4. Achievements / Outlook**

##### **4.1 Insurance Tender 2019**

The insurance programme underwent a full tender process this year and, despite a continuing hard market, the Team successfully achieved substantial premium savings in the sum of £50k. Furthermore, as cover was placed on a 5 year long term agreement, these savings are guaranteed over the life of the contract (subject to a consistent claims experience).

This result is in contrast to the current market conditions whereby global insurance rates are increasing due in large to catastrophic natural disasters, such as the hurricanes in the USA and Japan and the devastating global wild fires. The reduction to the discount rates used to value insurance claims will also influence future premium levels as this will have the impact of increasing claim costs on large loss claims.

##### **4.2 New Code of Practice - Well-Managed Highway Infrastructure**

The new code was ratified by Committee in July 2019 and will be used to substantiate the Council's defence in all future claims.

As mentioned in last year's report, the Team formed part of a working group with Highway colleagues at Amey LG and with the wider support of our peers within AGMA to ensure that Trafford are compliant with the new Highway Code of Practice. The Well-Managed Highway Infrastructure supersedes all previous codes.

The new code moves from reliance on specific guidance and recommendations to a risk-based approach determined by each Highway Authority. The new code incorporates a focus based on local needs, priorities and affordability and has involved substantial analysis and development.

##### **4.3 Cyber and Data Risks**

Whilst the Council does not currently have a separate specialist cyber policy, we do have elements of cover with our current Insurer. Our Insurer has recently advised that they are reviewing their proposition with a view to expanding cover in the future.

Widely reported data breaches and cyber-attacks together with the introduction of the new General Data Protection Rules have resulted in a hardening market in which to obtain cyber insurance cover. The past twelve months has seen some Insurers withdrawing from the market and those who continue to offer cover are substantially increasing premium rates.

We continue to work closely with our colleagues in IT and Information Governance to assess the true extent of insurable risk to the Council, whilst also working with our wider colleagues within the North West Insurance Officers Group and with our appointed Brokers to stay abreast of developments in this area.

#### 4.4 **LGA Mutual**

Trafford Council, along with thirteen other councils, and the Local Government Association (LGA), have joined together to establish the new Local Government Mutual (LGM). It is drawing on best practice from other mutuals and aims to offer a cost-effective alternative to traditional insurance. It will use local government capabilities and resources more effectively to manage and, where possible, reduce the cost of risk whilst continuing to work with the insurance market to procure protection against large losses.

As a Founding Member, we have met with the LGA representatives and actively support and assist them in their development of a hybrid insurance mutual.

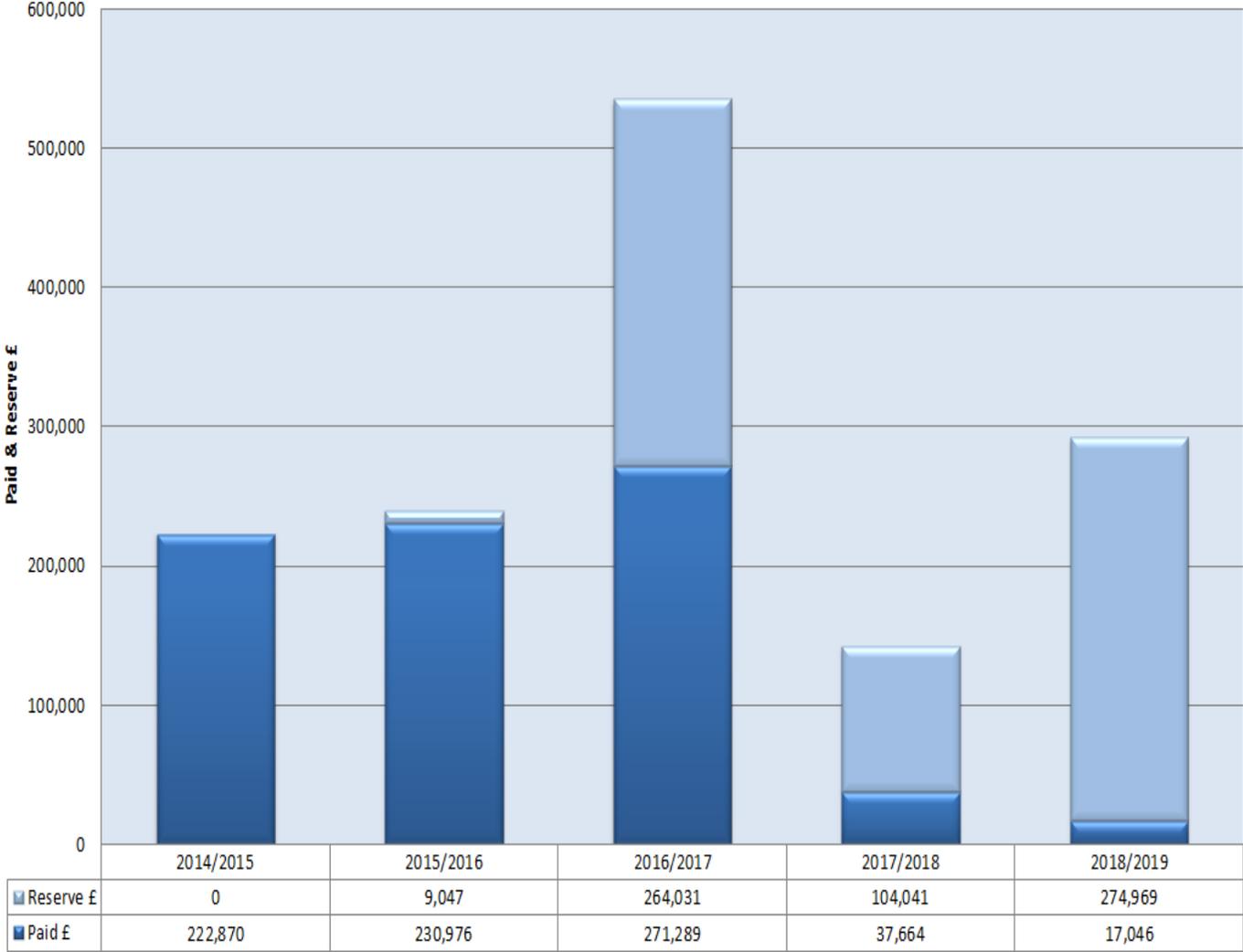
However, as the mutual was not operational at the time of our own insurance tender, they were unable to provide us with a quotation. We will of course, continue in our supporting role and monitor their progress with interest.

## Trafford Council Current Insurance Programme

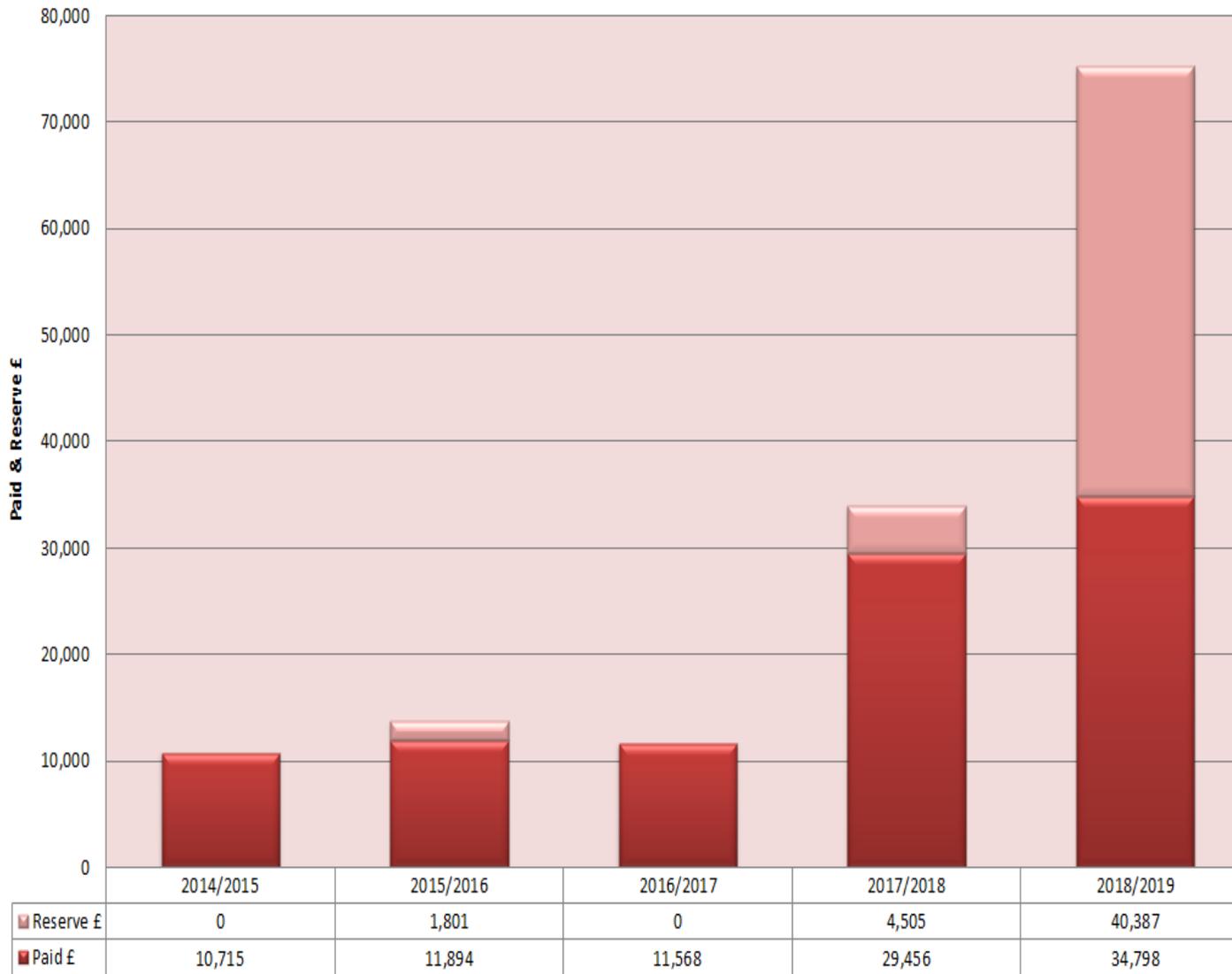
Policy	Property Damage / Business Interruption	Employers' Liability / Officials Indemnity	Public Liability	Motor	Personal Accident	Money	Crime	Professional Negligence	Commercial Investment Properties
Limit of Indemnity	Declared Value  Business Interruption Max Indemnity Period 36 months	£50m Employers Liability  £2m Officials Indemnity	£50m	Unlimited Third Party Injury £5m Third Party Damage	Accidental bodily injury, death, disablement or the incurring of Medical Expenses	Various  Physical loss of money	£5m  Financial loss sustained as a result of a criminal act	£5m	Declared Value
Insurer	Zurich Municipal	Zurich Municipal	Zurich Municipal	Zurich Municipal	Zurich Municipal	Zurich Municipal	Zurich Municipal	Zurich Municipal	Zurich Commercial via Marsh
Excess	£250,000	£275,000	£275,000	£1,000	Nil	£250	£10,000	£100,000	£250
Aggregate Stop Loss*	£1M	£2M	£2M						

Provides budget certainty - Trafford's claims exposure is capped per policy year. Once the ASL is reached, insurers pay all claims over and above the excess.

### Highway Injury Current Repudiation Rate 84%

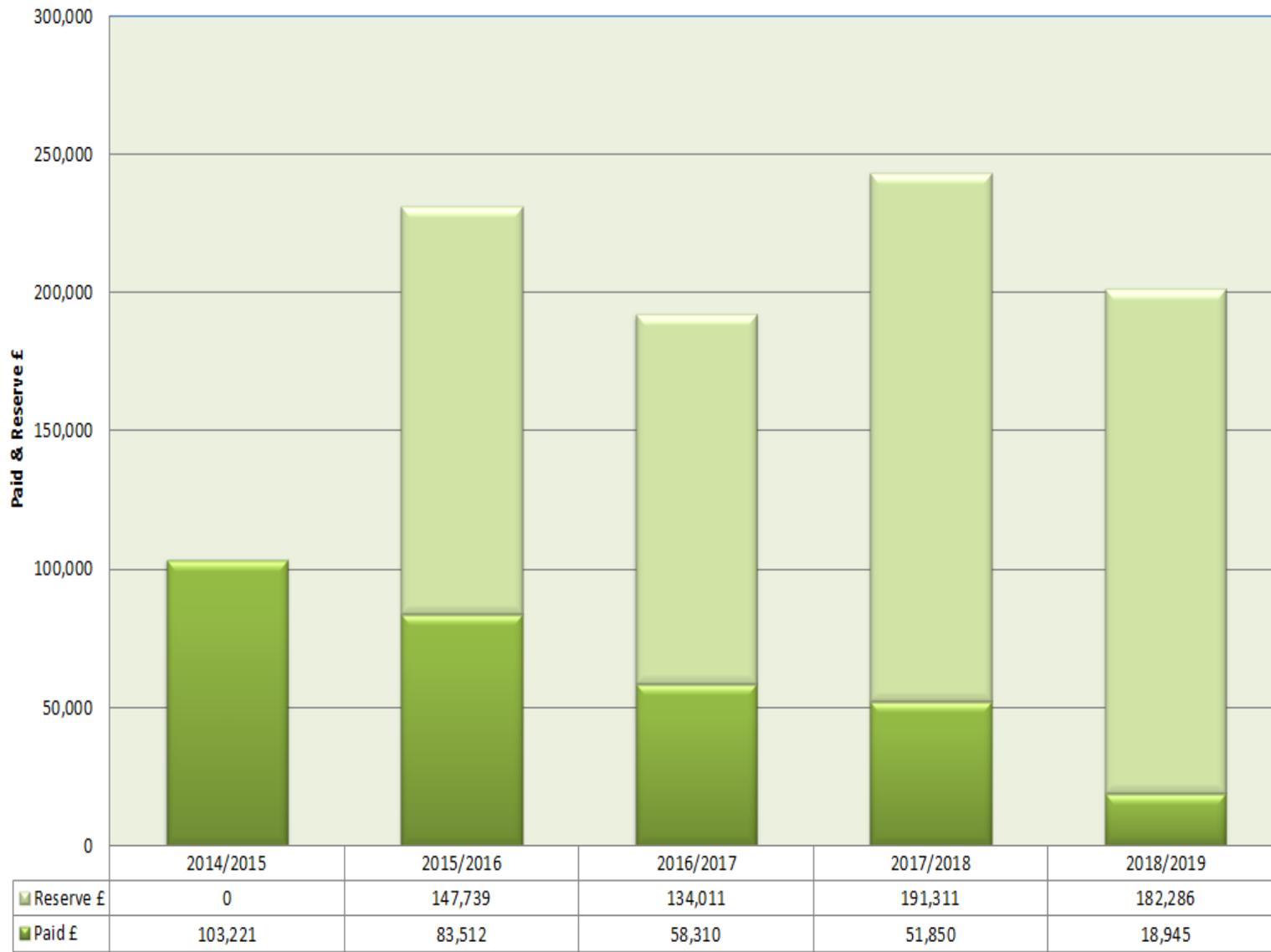


## Highway Property Current Repudiation Rate 72%



## Public Liability

### Current Repudiation Rate 62%



## Employer's Liability Current Repudiation Rate 81%

