

TRAFFORD COUNCIL

Report to: Accounts & Audit Committee
Date: 21st November 2024
Report of: Director of Finance and Systems

Insurance Performance Report 2023/24

Summary

This report provides a summary of insurance performance for 2023/24:

- The insurance budget overspent by £727k largely as a result of setting aside additional provision for several high value claims. A contribution of £440k was made from the Insurance Risk Reserve following a review of the amount of levy provision set aside relating to historical claims previous administered by Municipal Mutual Insurance, resulting in a net overspend of £287k at year end.
- The provision for outstanding liability claims was £4.059m at 31 March 2024, compared to £3.316m at 31 March 2023, an increase of £743k.
- Claim numbers increased in 2023/24, 312 new claims across all policy years compared to 246 in 2022/23.
- There was an increase in claims repudiation rates at 80% in 2023/24 compared to 75% in 2022/23.

Recommendations

That the report be noted.

Contact for access to background papers and further information:

Name: Dave Muggeridge
Extension: 4534
Background Papers: None

1. Introduction

1.1 This report updates the Committee on the Council's insurance activities for 2023/24, focusing on:

- **Section 2** – Cost of Insurance
- **Section 3** – Claims Performance
- **Section 4** – Market Update/Outlook

2. Cost of Insurance

2.1 The insurance programme covers a wide range of insurable risks; a summary of policies together with appointed insurers are detailed **Annex 1**.

2.2 Premium and claims costs are the main items of expenditure for the insurance budget with an annual provision to cover the estimated cost of claims. The Insurance Risk Reserve is used to absorb and smooth out any significant claims pressures during years where claims costs may exceed the net revenue budget.

2.3 The insurance budget is held within Council Wide and is reported in detail at year end due to the evolving nature of the way claims histories develop. **Table 1** shows details of the budget and actuals, the 2023/24 net budget of £880k consisted of insurance premiums at £600k, provision for claims of £670k, provision for self-insured loss claims of £95k (largely property related) and income from recharges to schools and trading functions at £485k.

2.4 The Insurance budget for 2023/24 resulted in an overspend of £287k, due to financial pressure stemming from several high value claims. As a result, the council's appointed Actuary advised an increase within the insurance provision of £740K. A review of the MMI levy, allowed the release of £440k from the Insurance Risk Reserve to help offset this increase. Small underspends due to reduced premiums and property claims costs helped to reduce the overspend to £287k.

Table 1 – Insurance Expenditure for 2023/2024	Budget £000	Actual £000	(Under)/ Over Spend £000
Premiums	600	588	(12)
Provision for Claims	670	1,418	748
Self-insured Loss Claims	95	89	(6)
Income	(485)	(488)	(3)
Sub-Total	880	1,607	727
Contribution to/(from) reserves	0	(440)	(440)
Net Cost	880	1,167	287

- 2.5 **Insurance Provision** - The Council's Insurance Provision is the amount the Council sets aside to meet claims costs which fall within the Council's elected policy excesses (detailed in **Annex 1**) and is reviewed by an independent Actuary on a biennial basis. The level of the provision was £4.1m as at 31st March 2024. The review assesses the likely growth of the cost of current claims alongside forecasting potential claims costs; those claims which have happened (incurred) but are yet to be reported (IBNR).
- 2.6 **Insurance Risk Reserve** - The Council also maintains an earmarked Insurance Risk Reserve in the event of a catastrophic insurance loss or if we receive many high value claims. This reserve is used to balance any fluctuation in the overall provision level and additional costs associated with historical Municipal Mutual Insurance claims (MMI).
- 2.7 The level of reserve is reviewed on an annual basis and provides sufficient funding to cover the Council's excess of £275k/£250k in relation to three large claims: £750k and £260k to cover new and emerging claims. The balance brought forward also included £500k relating to MMI claims, and as a result of falling values of these historic claims and advice from the Actuary an amount of £440k was released to support the overspend in the revenue budget. A review at year end allowed a further £200k to be transferred to the budget support reserve to help address the Council's wider budget pressures. The above movements resulted in a net reduction of £640k in the reserve.
- 2.8 Insurance Provision and the Insurance Risk Reserve balances at the end of 2023/24 are:-

Table 2 – Provision and Reserve Balances			
Provision	£000:	Insurance Risk Reserve	£000:
Balance as at 01/04/2023	(3,316)	Balance as at 01/04/2023	(1,700)
Less Claims Paid	675		
Reassessed Provision	(1,418)	Transfers and Contribution from Reserve	640
Balance as at 31/03/2024	(4,059)	Balance as at 31/03/2024	(1,060)

3. Claims

3.1 Activity

Financial Year	Amount Paid in Claims Across All Policy Years (01/04/1992 to 31/03/2024) £000	Number of New Claims Received and Processed in Year
2023/2024	675	312
2022/2023	556	246
2021/2022	582	209

- 3.2 Claim payments of £675k were made in 2023/24, an increase of 21% when compared to 2022/23. One large highway claim represented 32% of the £675k.
- 3.3 Our repudiation rate stands at 80% which is a 5% increase from last year (see table in paragraph **3.11 Defence Rates**). Repudiating an insurance claim means that we have been successful in denying liability and demonstrates the claims investigation work undertaken by the Insurance team. However, claims inflation acts as the primary influencer on rates and we are experiencing increasing costs of claims alongside an increase in the number of large loss claims received. We define a large loss as those valued over £50,000.
- 3.4 **Annex 2** provides a five-year overview of the claims profile by policy year (01/04/2019 – 31/03/2024) split by the following risks; Employer’s Liability, Highway Injury, Highway Property, Highway Trees and Public Liability.
- 3.5 **Employer’s Liability** claims numbers remain low with only 1 new claim received in 2023/24.
- 3.6 Although Employers Liability claims numbers are low, claims costs can be high and are driven by claims inflation such as the cost of living. At present, there are 3 outstanding claims with an estimated provision in excess of £600,000. We work closely with our specialist Solicitors to ensure Trafford is well represented and to ensure the best possible financial outcome for the Council.
- 3.7 **Highway Injury** - This risk remains the largest insurable financial risk to the Council. A new claim with a reserve of £5m was received in 2023/24, relating to a serious incident which occurred in 2021/22. Due to the serious nature of this claim, the Council appointed specialist Solicitors who, together with the Insurance team, are working in collaboration with Highway colleagues and One Trafford Partnership to best represent Trafford.
- 3.8 **Highway Property Damage** claims such as damage to vehicles due to potholes represent the highest volume of claims we receive. Typically, these claims are low in value, however, the insurance we adopt the same strict approach to defending them as we do with claims for personal injury. We work alongside our Highways Inspectors to ensure inspection regimes are risk assessed and repairs carried out within the specified timeframes, this work is reflected in our claims repudiation rate which has increased from 75% to 77%.

3.9 **Highway Trees** - 35 new claims were received in 2023/24, against a yearly average of 49 over the previous five-year period. A high-profile fatality claim was received in 2022 and extensive work was undertaken with our in-house Legal team, specialist Solicitors and the Council's Tree Unit to ensure that Trafford were best represented in a recent coroner's inquest. The coroner's finding was one of accidental death and no criticism of the Council was raised by the coroner or the Jury.

3.10 **Public Liability** insurance protects the Council against claims made by third parties (such as members of the public) in respect of injury, death, disease and damage arising from Council activities. Claims numbers are low; 15 claims received for 2023/24, across all departments including schools. These types of claims carry a large financial risk, the total claims reserve of £472k relates to 20 claims.

3.11 Defence Rates

Category of Claim	No of Closed Cases between 01/04/2019 and 31/03/2024	No of Closed Cases Defended between 01/04/2019 and 31/03/2024	Defence Rate
Employer's Liability	12	9	75%
Highway – Injury	230	206	90%
Highway – Property	580	446	77%
Highway - Tree	208	167	80%
Public Liability	68	46	68%
Total	1,098	874	80%

4 Achievements / update

4.5 Cyber

Underwriting cyber security risk continues to be difficult with many suppliers requiring focus on maintaining high data security controls as a condition of cover.

Trafford Council has undertaken a review of internal and outsourced IT security and cyber risk management, the details of which has allowed us to deliver a positive message to the insurance market, in turn creating a good understanding of the Council's exposure to risk.

Thanks to the help of the IT Security team, it has been possible to understand and articulate the current and future cyber security and IT infrastructure and risk management across services.

Whilst capacity within the market has improved, the benefits have largely been seen in smaller district Councils, who hold smaller amounts of data. The challenges remain for larger organisations such as Trafford, given the increased exposure they bring.

The cost of Cyber cover has increased significantly over recent years, however cover tends to be limited and low limits imposed within received quotations; further restricting cover. Insurers strict underwriting requirements: cyber security protocols such as multi-factor authentication are now mandatory.

Therefore, for now and as over the past 6 years, Cyber risk continues to be managed from the insurance risk reserve balance.

4.6 Insurance Tender 2024

A full programme tender was carried out this year, as the previous five-year agreement came to an end.

The insurance market has seen unprecedented volatility in recent years, factors such as rate increases, loss of insurer capacity, foreign wars, COVID 19, re-insurance costs, increased energy prices, inflation and natural disasters due to climate change have all contributed to changes in market conditions.

However, collaborative work with our Insurance Brokers and engagement with all Council services helped to best showcase Trafford's risks to the insurance industry and achieve positive responses from all Local Authority insurers, which resulted in our insurance programme coming in within budget, which is an excellent result.

The Insurance Team remain committed to working alongside the Estates Team to ensure Trafford's property risks are fully protected. This is achieved by ensuring the adequacy of sums insured; ensuring that valuations are up to date and that we hold detailed narrative on the risks we transfer to insurers, such as unoccupied buildings, RAAC and cladding issues, transparency is key.


Trafford Council Current Insurance Programme

Policy	Property Damage / Business Interruption	Employers' Liability / Officials Indemnity	Public Liability	Motor	Personal Accident / School Journey	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, Travel cancellation	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	Various	£250	£10,000	£100,000	£250
Aggregate Stop Loss*	£750,000 £1m for BI	£2M	£2M						

* Provides budget certainty – Trafford's claims exposure is capped per policy year. Once the ASL is breached, insurers pay all claims thereafter, no excess required.

Claims History by Policy Year as at 31/03/2024

Annex 2

Class of Business	2019/2020			2020/2021			2021/2022			2022/2023			2023/2024		
	No of Claims	Paid £000	Res £000	No of Claims	Paid £000	Res £000	No of Claims	Paid £000	Res £000	No of Claims	Paid £000	Res £000	No of Claims	Paid £000	Res £000
Employer's Liability 	4	19	193	5	24	99	6	22	324	2	0	7	1	0	5
Highway Injury 	68	163	64	56	93	234	49	104	5,016	62	7	223	58	11	367
Highway Property 	212	23	0	97	17	0	74	10	0	134	7	1	183	4	57
Highway Tree 	61	59	10	53	42	17	63	14	10	31	65	122	35	27	66
Public Liability 	26	503	4	10	15	96	16	11	58	21	41	271	15	6	43
Total	371	767	271	221	191	446	208	161	5,408	250	120	624	292	48	538