

Report

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Report to:	Finance and Information Technology Resources Committee
Date of Meeting:	7 July 2009
Report by:	Executive Director (Finance and Information Technology Resources)

Subject:	Liability Claims 2008/2009 and Impact on Self Insurance Fund
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1. Purpose of Report

1.1. The purpose of the report is to:-

- ◆ Highlight the rising trends in liability claims against the Council and the impact this is having on the insurance fund.

2. Recommendation(s)

2.1. The Committee is asked to approve the following recommendation(s):-

- (1) that the rising trend and associated mitigations are noted
- (2) that the projections for the insurance fund are noted.

3. Background

- 3.1. Insurance policies are in place to protect the Council from the financial impact of claims in four main areas; property, employer, motor and public liability. Claims are processed under each of these headings both internally and by Gallagher Basset on behalf of the Council.
- 3.2. The claims experience is monitored and reported to the Corporate Management Team each quarter. To encourage management of insured risks, insurance statistics report the total cost of loss whether paid by the Council or the insurer. Policies carry high excesses so the Council generally meets most of the cost of loss from its own reserves.
- 3.3. Resource Risk Groups identify and address insured hotspots throughout the year and occasionally a corporate initiative is put in place to try to prevent particular type of claims from arising. Examples include property security and motor accident prevention.
- 3.4. The Council operates a self insurance fund to pay insurance premiums and the Council's share of insured losses below the negotiated policy excess levels.

4. 2008/09 Claims Experience

- 4.1. The total number of claims for 2008/09 was 1745 and the associated cost was £2.834M. Although the number of claims has fallen since last year, the cost of claims is the highest for five years. A full analysis of claims numbers and values is attached at Appendix One.
- 4.2. The main reasons for the increase in cost are two major fires in schools, slips, trips and falls on allegedly defective or icy pathways and motor collisions.
- 4.3. Wilful fire raising at St. Anne's primary school and Kirktonholme nursery account for £955,000. There continues to also be a significant concern regarding fires in Council houses amounting to £210,000.
- 4.4. To mitigate property risks, the Council operates a property security group which has managed to restore more than half of all Council properties to a full police response when alarms are activated. The top 20 high risk properties have been identified and surveyed. The central risk management team are now working with Resources to implement additional protection such as fencing, window and door security and CCTV.
- 4.5. Public liability claims are generally on the increase across all sectors with insurers indicating an increase of 17%. This is common during periods of recession and South Lanarkshire Council is no different. There were 18 additional slipping claims on pathways due to alleged defects and ice during the winter. Together these claims are estimated to cost £180,000.
- 4.6. The structured roads investment programme helps to mitigate against public liability claims and investment can be targeted at identified hotspot areas. The launch of "Fraudline" in April 2009 will also help to deter those inclined to make claims during periods of recession.
- 4.7. The pattern of employer liability claims is fairly steady with no significant concerns. Most also relate to slips, trips and falls but one asbestos claim from 1946 has recently been intimated and there is little prospect of the original Hamilton area insurer picking up this claim. A sound health and safety regime is the most effective mitigation for claims by employees as payments will only be made where the Council can be proven to have been negligent.
- 4.8. Motor claims are at the worst level for five years and collisions alone are costing the Council in excess of £250,000 with total costs almost £0.5M per annum. A motor group has been working on an occupational road risk policy which will include driver assessments and training as well as a points system and structured management escalation process. This is being negotiated currently with trades unions and, in the meantime, a procedure of post incident interview continues.
- 4.9. The Committee is asked to note the above claims experience and the steps that officers are taking to try to mitigate the risk of future losses.

5. Impact on the Self Insurance Fund

- 5.1. An annual contribution of £3.5M is made to the insurance fund by Resources. There is also usually a transfer in from reserves at the end of the financial year and this year it is expected to be around £1M. Funds are invested and accrue interest. The fund pays for the operation of the risk management section, a pump priming fund to help with risk initiatives, insurance premiums and self insured losses.
- 5.2. The higher losses for 2008/09 will impact significantly on the health of the fund. Projections have been undertaken which include above losses, payments which are still due for previous years' claims and the projections for the next three years. These show that the insurance fund should avoid falling into a deficit position until the start of 2011/12. Nevertheless, given wider financial pressures it is essential that risk management activities continue to try to reduce the cost of loss associated with liability claims. It should be noted, however, that some risks are outwith the Council's control.
- 5.3. Table One below shows the latest in-house projections and the Committee is asked to note the projections. Quotations are currently being sought for an independent actuarial review of the fund. This should confirm in-house assumptions and provide some comfort that the fund is being well managed.

Table One In house insurance fund projections in £000's

£000's	2009/10	2010/11	2011/12
Opening Balance	3324	2968	1267
Less Payments			
Old years' claims	1129	756	440
Future years' claims (inc 2009/10)	1519	2407	2990
Premiums	1800	1642	1734
Other	471	459	448
Net balance	(595)	(2296)	(4345)
Add addn. funding			
Resources	3463	3463	3463
Reserves inc interest	1100	100	100
Closing balance – Surplus (Deficit)	2968	1267	(782)

6. Employee Implications

- 6.1. Officers in the central risk management team serve on most groups which attempt to mitigate risks. In addition, a central risk officer facilitates a risk management group of officers in every Resource.

7. Financial Implications

- 7.1. The balance on the insurance fund at the start of 2009/10 is £3.3M. Without a transfer in from reserves and contributions from Resources, this would be insufficient to meet all costs expected to be incurred during the year. With continued annual Resource contributions the fund should not go into a deficit position until the end of 2010/11.
- 7.2. To validate the above in-house projections and provide further assurance of the health of the fund, quotations are being sought for a full actuarial review to be completed by December 2009.

8. Other Implications

- 8.1. Although work over the last five years has restrained the level of claims and secured a reduced insurance premium, the Council is entering a period where claims are expected to continue to rise. This is an added financial pressure and should be taken account of when decisions are taken in relation to reserves.
- 8.2. Although it has been normal practice to top up the fund at the close of each financial year, there is a risk, going forward that this will not always be possible. Contributions from Resources may then need to be re-visited or the level of self insured excess could be re-negotiated. The best mitigation is, however, is to try to restrain the number and costs of claims through pro-active risk management practices.

9. Equality Impact Assessment and Consultation Arrangements

- 9.1. Claims handling processes were subject to an equalities impact assessment last year and there were no issues associated with their operation.

Linda Hardie

Executive Director (Finance and Information Technology Resources)

4 June 2009

Link(s) to Council Values and Objectives

- ♦ Risk Management

Previous References

- ♦ Finance and IT Committee report 3 March 2009

List of Background Papers

- ♦ Report to CMT on insurance claims experience 4 June 2009

Contact for Further Information

If you would like to inspect the background papers or want further information, please contact:-

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Summary of historical claims experience as at end 2008/09

Claims numbers as at 31 March 2009

Liability nos.	2004/05	2005/06	2006/07	2007/08	2008/09
Employers	40	48	43	27	17
Public	1505	1229	1209	1285	976
Motor	716	637	680	538	605
Property	156	159	175	136	147
Total	2417	2073	2107	1986	1745

Claims values as at 31 March 2009 (£M's)

Liability £M's	2004/05	2005/06	2006/07	2007/08	2008/09
Employers	0.314	0.652	0.373	0.308	0.138
Public	0.801	0.621	0.607	0.647	0.918
Motor	0.429	0.413	0.386	0.312	0.407
Property	1.191	0.517	1.116	1.098	1.372
Total	2.735	2.203	2.482	2.365	2.835