

London Borough of Sutton**Audit Committee – 28th April 2011****Report of the Head of Exchequer Services****INSURANCE REVIEW 2011****Ward Location:** Not Applicable**Author(s) and Contact Phone Number(s):**

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Area Served: Whole borough**Executive Member: Cllr John Drage****Report for Information only****Summary**

This is the third annual report informing and update the Committee about the strategy behind self insurance and the performance of the Council's insurance team. This report was moved from December to better report strategy for the forthcoming five year insurance tender due to commence summer 2011 for 1st April 2012.

The full insurance report is attached in the background papers and has been updated but retains the previous background providing insight into the current insurance arrangements and how they operate, both in the event of a single large claim or a series of smaller claims; including an examination of the principals behind self insurance and why it has served as a prudent and cost effective method over the last five years. This strategy will remain in place for the next insurance tender although the optimum interface point between external insurance and self insurance will be independently assessed.

The report highlights the following: -

Sutton's liability claims performance remains ranked at number 1 over an average of the CIPFA benchmarking matrices. The significance being that this remains the case after nearly 2 years of in house liability claims handling, which the reports confirms has exceeded the projected net efficiency target of £75,000 per annum.

The document provides further update on both the financial performance and customer service delivery of the insurance section over 2010/11. 95% of school responders rated the insurance guide useful and easy to understand.

Efficiency savings of £2.3 million have now been realised over the period 2006 – 2011 with inflation adjusted projections estimating that medium term savings exceed £3 million.

The report also reflects on an internal audit report concluding there was substantial assurance in the service operation.

It is proposed that the insurance service joins the Insurance London Consortium (ILC) to realise procurement process benefits and mutual focus on operational risk management. The consortium includes the neighbouring boroughs of RB Kingston and LB Croydon supporting the strategic direction of travel for closer working with neighbouring boroughs.

Recommendations

I recommend the Committee endorses the report.

1. Background

- 1.1 The total annual insurance budget including direct recharges and support costs is approx £2.7 million.
- 1.2 The insurance section received 668 insurance claims over the last 12 months, compared with 612 in the previous year.
- 1.3 The insurance team comprises of the following establishment: - Claims Manager; Claims Investigator; two admin Claims Assistants and a Technical Insurance Advisor.

The section is lead by the Head of Exchequer Services who retains the function of Insurance Manager whilst providing strategic leadership to the Payments and Income Management teams.

2. Issues arising from the Insurance Review 2011 report

- 2.1 To insure against expected losses; the insurance premium charged is based upon those expected losses plus additional insurance company overheads and shareholder profits.
- 2.2 The most cost effective procurement strategy is therefore: -
 - To self fund expected insurance losses, saving on insurance company overheads and shareholder profit elements. Secondly, to only purchase external insurance against large and infrequent losses that would prove financially difficult to self fund and if incurred would skew annual budgets.
 - The self insurance fund is further protected against an unexpected accumulation of self funded expenditure, by capping the maximum self insurance claims spend possible in any one year.
- 2.3 Greater self insurance has resulted in greater claims ownership, which in turn has delivered improved claims performance. The performance, as measured via the 2011 CIPFA benchmarking report is: -
 - Sutton making decisions on liability claims on average after 38 days in comparison with the London responder average of 70 days.
 - Sutton remains ranked number 1 performer over an average of liability claims indices.
- 2.4 Internal audit report concludes substantial assurance with only one low priority recommendation.
- 2.5 Joining the Insurance London Consortium (ILC) for the 2012 tender process offers the prospect of realising some financial efficiency in the short term with the primary benefit of longer term savings through shared operational risk management. The consortium includes the neighbouring boroughs of RB Kingston and LB Croydon supporting the strategic direction of travel for closer working with neighbouring boroughs.

3. Financial Implications

- 3.1 The tendering exercise combined with the self insurance strategy has delivered considerable savings in insurance costs. Compounded savings measured against the 2006 – 2007 premiums exceed £2.3 million. Inflation adjusted figures would place those savings around £3 million. Insurance re-charges have increased for 2011/12 reflecting that holding back inflationary factors since 2007 by service efficiencies can not be maintained indefinitely. Pre-efficiency projections for this financial year end were £150k deficit against an actual delivered result of break even.
- 3.2 Additional savings are generated by reducing non-exemptible insurance premium tax liability of 6% of the insurance premium.
- 3.3 Insurance premiums are paid in advance; insurance claims are frequently paid months or years later. The council retains investment income on self insurance funds.
- 3.4 Decreased reliance upon external insurance providers reduces the impact of typical insurance business cycles. This has proven useful given the impact on insurance rates for full cover after the credit crunch impact on investment returns for insurers.
- 3.5 Reduced premium investment in a potentially financially vulnerable market place – insurance companies can and do go into administration.

4. Influence of the Council's Core Values

- 4.1 Seeking innovative approaches to provide a better more cost-effective service.
- 4.2 Service delivery development prompted by customer surveys demonstrating that we have made our service open and accessible so every one is listened to and treated with respect.
- 4.3 Empowering both internal teams and insurance staff to greater ownership and determination of operational risk management through engagement with claims and causes of claims.

5. Equality Impact Assessment

- 5.1 Whilst ability to access insurance services is adapted for equality issues. The insurance service once accessed relies upon the principal that legal liability is assessed upon the facts of the individual claim circumstances in comparison with English law, not the individual's circumstances. The strategy in itself therefore does not require an equality impact assessment.

6. Background Papers

Insurance review 2011

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