

# Executive

## Value for Money Review of Insurance

5 October 2009

### Report of Strategic Director for Customer Service and Resources and Head of Improvement

#### PURPOSE OF REPORT

To consider the findings of the Value for Money (VFM) Review report and the recommendations arising from the report.

This report is public

#### Recommendations

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The Executive is recommended to:

- (1) Note the overall conclusion of the review that the function is relatively high cost with average performance levels but is high quality in terms of the qualifications of staff employed and low level of claims payments made.
- (2) Agree the Council will move away from the current policy of transferring the majority of council risk to an insurer, to one of self insuring a larger proportion of risk given the very low of claims currently experienced. This will be achieved by:
  - a. Discontinuing unnecessary insurance policies and increase excesses on the remaining policies. This will deliver savings of £65,813 in 2010/11.
  - b. Determining claims in-house rather than pass to insurers to settle. Injury claims should continue to be handled by insurers given the complexity, potential high cost and the expertise needed in determining settlement figures;
  - c. Transferring the £500,000 reserve fund for the Spiceball reconstruction, following the completion of that project, to the Self Insurance Reserve which currently has a balance of £300,000.
- (3) Agree to achieve a net saving of £15,000 in the management of insurance and risk by:
  - a. Deleting the post of Risk Management and Insurance Officer in its current form with a gross saving of up to £46,244.
  - b. Transferring the corporate responsibility for the management of insurance to The Head of Finance, with the operational administration of claims delegated to Heads of Service and operational administrative teams;

- c. Market testing for an external provider to deliver the corporate management of risk (but not the routine performance management of risk).
  - d. Using the balance from a. to fund the costs of b. and c.
- (4) Agree that in advance of letting the new insurance contract from 2011/12 officers will explore the opportunities for achieving further financial savings through consortia purchasing and sharing support and expertise with other local authorities.

## **Executive Summary**

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### **Introduction**

- 1.1 This review forms part of the Value for Money programme of reviews, which aims to cover all services within the council and improve the value of services offered to residents of Cherwell.
- 1.2 Insurance was selected as part of this programme as part of a shift in focus to examine the support costs of the council and identify areas for savings.
- 1.3 The overall conclusion of the review work is that the insurance function is currently high cost, has average performance in terms of its productivity, but is high quality in terms of the qualifications of staff employed and low level of payments made.
- 1.4 The Council employs a Risk Management and Insurance Officer to provide the corporate lead on these areas. Because of the links between risk and insurance this review provided the opportunity to consider the most cost effective way of managing these functions. At the same time as this review we commenced a project to transfer the routine monitoring of risk to the council's corporate Performance Management Framework. This will be fully integrated from 1/4/10 thus relieving the Risk Management and Insurance Officer from this responsibility. This approach is supported by a recommendation in an internal audit report on risk management that proposed the role of the Risk Management and Insurance Officer should move away from routine monitoring of risk to a more strategic one of identifying emerging risks, sharing best practice, and working with managers to mitigate risks. This in turn links to the outcome of this review that will reduce the overall administration of insurance and place a greater emphasis on managers to managing having a greater responsibility

### **Proposals**

- 1.5 To adopt the recommendations of the Review in full.

### **Conclusion**

- 1.6 Improvements identified from the review will reduce the council's cost base and place a greater emphasis on improving the Council's management of risk rather than relying on insurance cover.

## Background Information

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### Overview of the Area

- 2.1 The Council purchases all its insurance cover from Zurich Municipal through a 5 year contract which terminates at the end of 2010/11. The current annual cost of insurance is £280,151 with additional costs relating to engineering inspection (£3,100), hirers' liability (£1,000) and tenanted property insurance (£25,000); the latter two areas being recharged to end users.
- 2.2 The insurance and risk function is managed by the Risk Management & Insurance Officer at a cost of £46,244, with a 40%/60% split of time spent on insurance and risk activity.
- 2.2 Cherwell has seen its number of insurance claims reduce by 81.7% between 2003/04 and 2008/09 (202 claims to just 37). This can be attributed to reductions in its risk exposure from losing key functions (council housing, leisure centres) having fewer staff and vehicles, and through improved risk management. This improvement has continued into 2009/10 with just 16 claims in the period April – September.
- 2.3 In contrast insurance premiums have reduced by just 32.8% over the same period (£464,095 to £311,835). The cost of premiums for 2009/10 reduced by a further 10.1% from 2008/09 (a cumulative reduction of 39.6%).
- 2.4 Although claims are reducing overall, motor vehicle claims still attract relatively high levels of claim and cost. They constitute 34% of total premiums and 86% of total claim payments. Of the 37 claims made in 2008/09 18 related to the Council's commercial fleet and 11 to the leased car fleet (with the latter scheme being withdrawn).

### VFM Review Findings - Insurance

- 2.5 Appendix 1 contains the Executive Summary of the VFM review. Key findings from the review can be summarised as follows;
  - Cherwell has excessive insurance cover, holding 20 different policies with premiums ranging from £86,000 to just £52. The level of cover these provide ranges from £1m to £53.7m (terrorism). These are set out in Annex 2 of Appendix 1.
  - At the same time it has exceptionally low (or no) excess values on its insurance policies other than professional indemnity and fidelity guarantee. For example, the benchmark average excess for motor policies (all vehicles) is £38,200; Cherwell's highest motor excess is £500 (commercial vehicles). For 55% of policies it does not operate any excess
  - Claims handling is expensive. The average benchmark cost for 2007/08 was £307.70 per claim. Cherwell's cost per claim for 2008/09 was £566.68 due to the low number of claims it deals with. For example, public liability claims were 0.7 per 1,000 of population compared to the benchmark average of 2.9.
  - Cherwell has a very low level of claim payments. For the five years from 2002/03 to 2007/08 claims settled represented 39.1% of the amount spent on premiums. In 2008/09 this reduced further to 23.5%
  - Cherwell currently does not settle any claims directly. Amongst benchmark authorities self funding of claims is more common practice, with 46.7% of benchmark authorities dealing directly with public liability claims over £5,000, and 33% with property claims.
  - Cherwell has less staff directly employed on insurance (0.4FTE) and its FTE per 1,000 employees is lower than the benchmark average (0.7FTE compared to 1.7 FTE). It is the

council is the only council in Oxfordshire with a risk manager holding professional qualifications.

- The increased exposure to risk will need to be covered by an increase to the Self Insure reserve fund.

### **Future Management of Risk Management and Insurance**

- 2.6 This review and work on risk management that has been underway in parallel presents an opportunity to consider the most cost effective way of managing these functions in the future. This is particularly important given the Council's need to achieve significant financial savings to deliver the Medium Term Financial Strategy.
- 2.7 As reported above there was a dramatic decrease in the number of insurance claims made in 2008/09 (which has continued into 2009/10). The majority of the claims relate to commercial and leased vehicles. The phasing out of the car leasing scheme will reduce claims further and the Head of Environmental Services is committed to reducing the number of commercial vehicle claims. This continued decrease in claims has reduced the management burden in the Council. However with the proposed reduction in the level of insurance cover there is a greater responsibility on managers to manage the risk associated with this. Because of this it is proposed that the operational administration of claims is delegated to Heads of Service and operational administrative teams. There will still be a need for some, reduced, capacity to co-ordinate the negotiation of the insurance contract , provide advice on technical matters, ensure there are consistent procedures in place across the Council, and monitor performance. It is proposed to transfer the corporate responsibility for the management of insurance to The Head of Finance who will arrange for this support to be provided.
- 2.8 As from 1 April 2010 the routine performance management of risk will be integrated into the Corporate Performance Management Framework and the administrative aspects of risk management undertaken by the corporate Performance Officer. This will enable a clearer focus on the strategic management of risk (identifying the risks we face and supporting managers in mitigating them). It is proposed this can be achieved effectively and with a cost saving by using an external provider with risk management expertise to provide this strategic support.
- 2.9 Because 2010/11 is the final year of the current insurance contract this report has concentrated on achieving savings for the next financial year. With a new contract to be negotiated there is the opportunity to consider achieving further savings. As well as seeking further reductions in premiums on an individual contract these could also be delivered through joining with other local authorities to form a purchasing consortium and thereby achieve economies of scale or to share in house expertise and support.

### **Implications**

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#### **Financial:**

The review has demonstrated that Insurance is a high cost service. Savings of £65,813 have been identified on the premiums payable for 2010/11. There is also a proposed net saving of £15,000 from the deletion of the post of Risk Management and Insurance Officer in its current form. The gross amount is £46,244 though this is offset by the costs of continuing arrangements to support the management of risk and insurance in the Council.

Comments checked by Karen Curtin, Chief Accountant 01295 221551

**Legal:** Some elements of insurance cover are a statutory requirement (e.g. motor insurance) and so must be retained.

Comments checked by Liz Howlett, Head of Legal and Democratic Services 01295 221686

**Human Resources** The member of staff affected by these changes will be covered by the Council's Redeployment policy.

**Risk Management:** It is proposed that to secure greater cost effectiveness the council shifts its emphasis from transferring the majority of its risk to an insurer, to self insuring a larger proportion of its risk given the very low of claims it currently experiences. This will require the council to increase its risk 'appetite' to be commensurate with this claims experience through lower levels of insurance cover and higher excesses. An assessment of the risks in reducing cover/increasing excesses has been provided in Annex 3 of the VFM report

Comments checked by Rosemary Watts, Risk Management and Insurance Officer 01295 221566

**Data Quality** Base data for comparison has been obtained through 2007/08 CIPFA Benchmarking with 29 other district authorities. Other benchmarking data was obtained through questionnaires and discussions with comparator authorities. Data checks were carried out on any anomalous data to verify or correct.

Comments checked by Neil Lawrence, Project Manager, Improvement 01295 221801

## **Wards Affected**

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All

## **Corporate Plan Themes**

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An Accessible, Value for Money Cherwell

## **Executive Portfolio**

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**Councillor JJ Macnamara**  
**Portfolio Holder for Resources and Organisational Development**

## **Document Information**

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<b>Appendix No</b>	<b>Title</b>
Appendix 1	Value for Money Review of Insurance: Executive Summary
<b>Background Papers</b>	
None	
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