

AUDIT & RISK MANAGEMENT COMMITTEE**17TH FEBRUARY 2016**

REPORT TITLE	INSURANCE FUND BUDGET 2016/17
REPORT OF	ACTING S151 OFFICER

REPORT SUMMARY

This report sets out the elements which make up the Insurance Fund, the cost of running the Risk & Insurance Section and the Budget for 2016/17. It also outlines proposed changes to the corporate insurance programme.

The Budget for 2016/17 is £95,000 less than the agreed Budget for 2015/16.

The Insurance Fund Budget affects all Wards within the Borough.

RECOMMENDATION/S

1. That the Insurance Fund Budget 2016/17 be agreed.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION/S

- 1.1 The setting of the Insurance Fund Budget is necessary to adequately fund insurable risk and ensure the equitable allocation of insurance costs.

2.0 OTHER OPTIONS CONSIDERED

- 2.1 No other options were considered

3.0 BACKGROUND INFORMATION

Introduction

- 3.1. Under the provisions of the Local Government and Housing Act 1989 Local Authorities are allowed to set aside financial provisions to cover self-insured losses.
- 3.2 By self-insuring an Authority avoids paying insurers' administration profit margins and Insurance Premium Tax on predictable levels of claims. Furthermore only rarely do external insurers return any proportion of premium irrespective of the profits generated by a policy.
- 3.3. Wirral Borough Council has operated an Insurance Fund since its formation and was one of the first local authorities to adopt a high degree of self-insurance when large excesses on liability and material damage insurance were negotiated in the 1980s.
- 3.4. Self-funding is a fundamental element of the Council's approach to managing risk. It provides a greater incentive to deal with risk more effectively as the Council benefits directly from any reduction in claims.

Risk Management

- 3.5 To achieve overall best value in funding insurable losses a carefully considered mixture of external and self-insurance is needed.
- 3.6 The Authority wholly self-insures those risks that have the capacity to generate relatively low value losses. In respect of risks that have the potential to produce catastrophic losses, the Council undertakes to meet the cost of all claims in any given year up to an agreed figure. Insurers meet all costs above this sum subject to contract terms and insurer solvency.
- 3.7 External insurance premiums are met by the Insurance Fund and are recharged to Schools and General Fund services together with self-insurance premiums according to formulae which take into account their relative risk exposure and their share of the claims experience.

Self-Funded Risks

- 3.8 Detailed below are the principal risks which the Council currently self-insures together with the probable maximum sum (subject to contractual indemnity) the Council might have to pay for losses in any given financial year. The sums relating to Combined Liability and Fidelity Guarantee are expected to change in 2016/17. The liability deductible will rise by an agreed inflationary factor whereas the Fidelity Guarantee policy is likely to be replaced entirely with a wider Crime contract that would be subject to an increased deductible.

Type of Insurance	Aggregate Deductible 2015/16	Aggregate Deductible 2016/17
Combined Liability	£3,500,000	£3,598,000
Material Damage & Business Interruption (Fire)	£ 500,000	£ 500,000
Material Damage & Business Interruption (Storm/Flood/Burst Pipes)	£1,000,000	£1,000,000
Comprehensive Motor	£ 200,000	£ 200,000
Fidelity Guarantee (Crime)	£ 25,000	£ 50,000 (est.)
Loss/Damage to Equipment	Unlimited	Unlimited
Glazing (Schools)	Unlimited	Unlimited

Insurance Contracts

- 3.9. The premiums charged in recent years in respect of the three principal risks covered by the Insurance Fund are detailed below. Premiums for all external insurance contracts will be affected by the rise in Insurance Premium Tax from 6% to 9.5% which came into effect on 1 November 2015. The overall impact of this increase has been mitigated by the extent of the self-insurance programme and the decision to underwrite further classes of risk entirely in house.

a. COMBINED LIABILITY

The Council took up an optional 2 year extension to this contract from 1 April 2015. For 2016/17 (the final year of the extension) my officers negotiated with insurers a modest increase in their premium that reflects the general current pressures within the industry.

Continued sound management of the liability account has enabled me to further reduce the Insurance Fund contribution by £100,000 from £1,575,000 to £1,475,000 for 2016/17. This means that despite the external contract increase overall the budget for Liability will be slightly lower than in 2015/16. This contribution is now at its lowest level for 20 years and down from a peak (2005/06) of £6m per annum.

Claims handling costs will rise by just under 3% as the contract allows for an annual Average Earnings Index increase in respect of this element. A move towards increased in house claims handling, enabled by recent government announcements in respect of further civil litigation reform, will reduce such external contractor costs in future years.

The table below shows how costs have changed in recent years.

Year	Premium	
	External Insurance*	Insurance Fund
	£000	£000
2011/12	149	1,500
2012/13	155	1,550
2013/14	175	1,550
2014/15	204	1,615
2015/16	229	1,575
2016/17	247	1,475

* Exclusive of claims handling charges.

b. **MATERIAL DAMAGE AND BUSINESS INTERRUPTION**

The Material Damage policy was tendered in 2013/14 at which point cover was removed for damage arising from storm flood and burst pipes for all properties other than schools and leased premises. It was also agreed to change the cover for damage from terrorism risks to a 'first loss' basis. These reductions in cover explain the fall in External Insurance premiums from 2014/15 onwards shown in the table below.

The Long Term Agreement means that the lower premium rates will continue for 2016/17. A forecast rise in rebuilding costs is expected to place some upward pressure on external premiums. This will be more than offset by property disposals and by the Roman Catholic Diocese of Shrewsbury taking responsibility for the insurance of its Voluntary Aided schools in the borough. As these changes reduce the Insurance Fund's exposure I am reducing the contribution to the Fund by £50,000. There are no claims handling charges for these classes of insurance as they are managed within existing team resources. Overall material damage costs for 2016/17 are expected to be around £55,000 below 2015/16 levels.

Year	Premium	
	External Insurance	Insurance Fund
	£000	£000
2011/12	329	300
2012/13	312	300
2013/14	311	300
2014/15	259	300
2015/16	271	300
2016/17	266	250

c. **COMPREHENSIVE MOTOR**

This contract is subject to a Long Term Agreement until 31 March 2017. As such no change in premium per vehicle is anticipated. However changes in the size of the fleet and the rise in Insurance Premium Tax have led to an increase in the external insurance premium. No change to the level of the Insurance Fund contribution is forecast.

Year	Premium	
	External Insurance**	Insurance Fund
	£000	£000
2011/12	35	70
2012/13	33	70
2013/14	30	70
2014/15	35	70
2015/16	35	80
2016/17	40	80

** Exclusive of claims handling charges.

Other Risks

3.10 In addition to the three main classes of insurance the Authority also procures external insurance for a number of smaller risks. As part of efforts to maximise the value from the Council's expenditure on its insurance programme my officers have considered the range of risks to be insured and whether it is appropriate to self-insure more of these. The following changes are proposed and have been incorporated into the insurance budget for 2016/17:

- Loss of or damage to Marine craft will now be fully self-insured. Only cover for Marine liability will be purchased from an external insurer.
- Cover for loss or theft of Money will now also be entirely self-insured.
- Cover for Personal Accident will be reduced to assaults on Council staff and Members. (Incidents for which the Council has a liability will continue to be covered by the Employers Liability insurance policy).

- The existing Fidelity Guarantee policy will be replaced with a Crime policy. In addition to the employee dishonesty risk covered by Fidelity Guarantee insurance a Crime policy would cover third party computer and funds transfer fraud, invoice fraud and cheque or credit card forgery albeit with an increased deductible.

As previously noted, the above changes will reduce the Council's exposure to Insurance Premium Tax.

- 3.11 A range of other risks including loss of equipment and damage to glazing are already fully self-insured. These generate modest losses and as a result the associated internal premium is also relatively small.

Administration

- 3.12 In addition to promoting the effective management of risk within the Authority the Risk and Insurance Section places and administers all external insurance policies manages the Insurance Fund provides an internal and external consultancy service and oversees the handling of all claims. The balance of work has altered with greater emphasis now being placed on risk management activity and increased support for schools. The management of individual liability insurance claims remains a significant element.
- 3.13 The costs of the Risk & Insurance Section are charged to the Insurance Fund and recharged in the form of a percentage overhead on insurance premiums.
- 3.14 Below is a breakdown of the estimated administration expenditure and income:-

	Budget 2015/16	Budget 2016/17
	£	£
<u>Spend</u>		
Staffing & overhead recharges	214,000	248,000
Insurance Brokers	10,000	10,000
Other professional fees	5,000	11,000
Figtree claims database	10,000	10,000
Total	239,000	279,000
<u>Income</u>		
Consultancy – schools	112,000	108,000
Consultancy - Academy schools	40,000	17,000
General Fund	87,000	154,000
Total	239,000	279,000

The increase in expenditure results principally from a rise in fixed superannuation and overhead costs to be charged to the service.

Insurance Fund Budget 2016/17

- 3.15 The Insurance Fund Budget is shown in the Appendix. The table below compares the Budget for 2016/17 with the Budget for 2015/16.

	Budget 2015/16	Budget 2016/17
	£	£
Schools	1,010,000	970,000
General Fund	2,030,000	1,998,000
Academies	40,000	17,000
Total	3,080,000	2,985,000

- 3.16 The 2016/17 Budget of £2,985,000 represents a reduction of £95,000 (3%) compared with the Budget for 2015/16. The forecast of reduced income from Academies reflects the possibility that these schools might seek cover against losses under the Risk Protection Arrangement offered by the Department for Education when their existing Long Term Agreements expire.

4.0 FINANCIAL IMPLICATIONS

- 4.1 The 2016/17 Insurance Fund Budget of £2,985,000 is a reduction of £95,000 (3%) on the Budget for 2015/16.

5.0 LEGAL IMPLICATIONS

- 5.1 There are no direct implications arising from this report.

6.0 RESOURCE IMPLICATIONS: ICT, STAFFING AND ASSETS

- 6.1 Whilst there are no direct staffing implications the work for Academy Schools and ongoing improvements to the Council's risk management framework and processes continue to place pressure on the capacity of the Risk & Insurance Section.

7.0 RELEVANT RISKS

- 7.1 The Long Term Agreements (LTAs) which apply to all of the Council's major insurance contracts act to reduce the likelihood of any significant changes to the extent of cover or to external premiums. No insurance procurement exercises are scheduled to take place that will affect costs for 2016/17. This provides a greater degree of certainty that actual costs will be within those budgeted.
- 7.2 Insurance Fund contributions form the largest element of the total. As these are directly related to claims costs they could rise in the event of a series of major losses. The impact of that risk is mitigated by maintaining a prudent level of reserves. Even if there were a series of losses greater than the reserves the cost would be incurred over several financial years. This would give the Council time to rebuild reserves.

- 7.3 If further schools decided to convert to Academy status this could create a shortfall in income for the Insurance Fund. By way of mitigation the Risk & Insurance section takes steps to gain early notice of any potential conversions. Service Level Agreements also make schools liable for all risk and insurance costs for a given financial year unless they indicate by the preceding September that services will not be required. This source of uncertainty also represents a potential opportunity in that it is possible that income may exceed the budgeted figures.
- 7.4 The Council's response to its budgetary challenges could have implications for the future level of claims. Reductions in maintenance budgets and staffing levels could impact on the frequency and severity of claims.
- 7.5 As indicated in paragraph 3.16 the existing Long Term Agreements which apply to the insurance programmes for Academies expire in August 2016. From this point the number of academies which take up the consultancy service provided by the Risk & Insurance team could reduce because of competition from the Department for Education's Risk Protection Arrangement. This could mean that the income from this service falls below that assumed in the budget.
- 7.6 The reserve held for property risks means that the Fund could currently withstand two consecutive years containing individual large losses. However, given the scale of self-insurance in respect of this risk, it would be necessary to increase the Insurance Fund contribution for this exposure in this scenario.
- 7.7 The civil justice system remains unstable. Behaviours and claims volume changes associated with the Jackson process reforms discussed in previous reports have still not matured however the government has recently announced further radical revisions. Whilst these changes are generally expected to have a positive impact on claims funding requirements, unanticipated developments may still occur that could result in increased funding pressures. Behaviour changes arising from the reforms can already be seen within the industry. Claimant solicitors have moved focus away from public liability and into more profitable areas such employers liability disease work. Further similar developments may negatively impact on future budgets.

8.0 ENGAGEMENT/CONSULTATION

- 8.1 No specific consultation has been undertaken in relation to the Insurance Budget.

9.0 EQUALITY IMPLICATIONS

- 9.1 There are no equality implications arising directly from this report.

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APPENDICES

Comparison of the Insurance Budgets for 2015/16 and 2016/17

REFERENCE MATERIAL

Risk & Insurance Section Database

Zurich Municipal and Teceris Claims Management claims records.

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Cabinet - Insurance Fund Budget 2012/13	24 November 2011
Cabinet - Insurance Fund Budget 2013/14	29 November 2012
Audit & Risk Management – Insurance Fund Budget 2014/15	28 January 2014
Audit & Risk Management – Insurance Fund Budget 2015/16	27 January 2015

WIRRAL COUNCIL
INSURANCE FUND BUDGET

Budget 2015/16

Budget 2016/17

Expenditure

Class of Insurance	External Premiums	Insurance Fund Contributions	Total	External Premiums	Insurance Fund Contributions	Total
	£	£	£	£	£	£
Liabilities	325,000	1,575,000	1,900,000	348,000	1,475,000	1,823,000
Fire	271,000	300,000	571,000	265,000	250,000	515,000
Motor	40,000	80,000	120,000	43,000	80,000	123,000
Other	197,000	53,000	250,000	186,000	59,000	245,000
Management Account			239,000			279,000
Total Expenditure			<u>3,080,000</u>			<u>2,985,000</u>

Income

Academies – Consultancy	(40,000)	(17,000)
Schools - Consultancy	(112,000)	(108,000)
Schools - Premiums	(898,000)	(862,000)
General Fund – Premiums and Administration	(2,030,000)	(1,998,000)
Total Income	<u>(3,080,000)</u>	<u>(2,985,000)</u>