

WIRRAL COUNCIL

CABINET - 16 AUGUST 2007

REPORT OF THE DIRECTOR OF FINANCE

INSURANCE FUND ACTUARIAL REVIEW

1. EXECUTIVE SUMMARY

- 1.1 This report sets out the impact of measures taken to improve the management of risk and the current status of the liability fire and motor claims fund. Approval is sought for the use of the savings generated including the funding of an additional post within the Financial Services Division to enable continued improvement in risk management.

2. BACKGROUND

- 2.1 Since 1988 the Authority has self-insured its legal liability both to members of the public and to other organisations for injury or damage to property that it may cause in carrying out its business. It also self-insures fire damage to Council buildings and damage to and third party liability for Council vehicles.
- 2.2 Self-funding is part of the overall risk management strategy as it provides a greater incentive to deal with risk more effectively given that any reduction in claims directly benefits the Authority.
- 2.3 Claims are met from the Insurance Fund with the Fund being maintained through annual contributions from all departments.

3. ACTUARIAL STUDY

- 3.1 The sums required to meet the cost of Fire and Motor claims can be readily calculated. However the position with liability claims is more complex and each financial year the Authority commissions an actuarial study to assess the amount needed to fund anticipated liabilities for previous years. The study also provides an indication as to the scale of the contributions needed to fund liabilities expected for the forthcoming financial year.
- 3.2 The latest study was undertaken by Marsh (one of the largest risk and insurance consultancy groups). Following the agreement of Members this was based upon the financial year with data supplied to the end of March 2007 and the report has recently been received. The report confirms that improvements in the ability to defend claims are being sustained and that the number of new claims made continues to run at historically low levels.
- 3.3 The Marsh Actuary report suggests a 'best case' figure of £6.2 million and recommends the inclusion of an additional capital sum to cope with some potential claims deterioration or adverse claims development or changes in insurers' reserving patterns. Actuarial practice indicates that a figure equivalent to the

annual aggregate deductible should be added to the minimum funding position increasing the suggested provision to £12.2 million. As a result there could be a surplus of £1.65 million within the Fund for the financial years up to and including 2006/07. This is shown in the table below.

Class	Actual Provision 31/03/07	Suggested Provision 31/03/07	Difference
Combined Liability	£13,850,000	£12,200,000	£1,650,000
Fire	£2,000,000	£2,000,000	£0
Motor	£250,000	£250,000	£0
Total	£16,100,000	£14,450,000	£1,650,000

- 3.4 I have identified several periods for which the Council is uninsured either because the insurer on cover at the time has since gone into liquidation or because the period is so long ago that there is no proof as to which company was on cover at the time. The Council will have to meet its own losses in respect of these years and I am recommending that £250,000 of the current surplus be set aside to meet any payments. This would reduce the potential surplus to £1.4 million.
- 3.5 In terms of fire claims a payment from Zurich Municipal in reimbursement of costs in relation to the fire at Rock Ferry High School in September 2003 is expected this financial year. This issue has been regularly reported to Members, having involved lengthy correspondence.
- 3.6 Marsh estimate that the amount required to fund potential claims for 2007/08 can be reduced from an initial estimate of £3.3 million to £2.95 million. There have also been additional savings from a renegotiation of the claims handling and external premium costs.
- 3.7 A comparison between the original budget and the revised budget is shown in the table below.

Expenditure	Original Budget 2007/08	Revised Budget 2007/08	Variation 2007/08
	£	£	£
Insurance Fund	3,300,000	2,950,000	-350,000
External Insurance	314,000	263,000	-51,000
Claims Handling	177,000	128,000	-49,000
Total	3,791,000	3,341,000	-450,000

4. RISK MANAGEMENT – 2006/07

- 4.1 Throughout the year regular progress reports on work in the area of Risk and Insurance Management were presented to the Audit & Risk Management Committee and the Finance & Best Value Overview & Scrutiny Committee.

- 4.2 Further improvements have resulted from the continuing efforts by departments (particularly Technical Services Highways Team) to manage their liability risk more effectively. Allied to this is the 'firm but fair' stance on liability, a more active involvement in claims handling and the implementation of the counter claims fraud strategy. The claims handling and legal services contracts that began in April 2005 are also helping to reduce both claims numbers and the overall cost to the Council of this area of risk.
- 4.3 Individual risk improvement projects are also contributing to the improvement. In 2005 Cabinet agreed to make available part of the existing surplus for such projects. These funds have enabled the Director of Technical Services to undertake a condition survey of footpaths on housing estates for which the Council remains responsible and to complete works to bring them up to adoptable standard. To date around £90,000 has been spent on this initiative.
- 4.4 The Corporate Risk Management Forum administers a risk management fund to which departments can apply for support for risk improvement initiatives. During 2006/07 this fund has supported the corporate stress survey a corporate programme of fire risk assessment training and a 'schools tracker device' project to reduce burglaries in schools.

5. RISK MANAGEMENT – 2007/08

- 5.1 For 2007/08 regular reports on the progress of Insurance and Risk Management will continue to be presented to Committees.
- 5.2 A major programme of work funded by money released from the Insurance Fund in 2006/07 will take place at the Oval Sports Centre this year. It will improve the safety of footpaths and carriageways serving the centre and three schools. The cost of this has been agreed with the Director of Technical Services at £150,000.
- 5.3 The improvement in the Fund position in recent years is to a large degree the result of much greater involvement by officers in claims handling and increasing pro-activity in managing risk. This has resulted in £6 million being released from the Insurance Fund and a reduction of almost £3 million in annual insurance costs to benefit Council services. The approach to handling claims, high quality systems, excellent legal support and the tough stance on fraud was recently recognised by the profession. The Association of Local Authority Risk Managers (ALARM) presented Wirral with the award for Asset Risk at the 2007 conference in July.
- 5.4 Further improvement opportunities have been identified but cannot be implemented within the existing capacity of the Insurance and Risk Management Team. I recommend the use of up to £27,500 of the revenue saving identified in section 3.7 to create an additional post within the Team at Scale 4/5/6. The post-holder would have responsibility for accounting and support enabling existing officers to utilise specialist skills more effectively.
- 5.5. In addition, further development of the insurance and risk management strategies of the Authority would be enhanced by increased public relations support. The Finance Department does not currently have access to a dedicated PR officer. Following discussions with the Deputy Chief Executive I have agreed to identify

funding for such a post. The Pensions Committee on 2 July 2007 identified funding for 50% of this post from the Pension Fund. I recommend that the balance of 50%, a maximum of £16,800 could be found from the Insurance Fund.

6. FINANCIAL IMPLICATIONS

- 6.1 The more effective and pro-active approach to risk management has been reflected in the actuarial assessment of the amounts required in the Insurance Fund to meet current and future claims.
- 6.2 The surplus in the Insurance Fund at 31 March 2007 was £1.65 million. After the allocation of a sum to cover potential uninsured losses the balance remaining will be £1.4 million.
- 6.3 The settlement of the claim for the fire at Rock Ferry High School should increase the Insurance Fund.
- 6.4 The revenue saving in 2007/08 could be £0.4 million assuming the allocation of resources for the additional post.
- 6.5 The Insurance Fund budget for 2008-09 should be presented to the Cabinet in November 2007. As part of the preparation of the budget the level of balances on the Fund will be reviewed.

7. STAFFING IMPLICATIONS

- 7.1 The creation of an additional post within the Financial Services Division will be subject to the agreement of the Employment and Appointments Committee.
- 7.2 The creation of a Public Relations Officer post to be located in the Corporate Service Department will be subject to the agreement of the Employment and Appointments Committee.

8. EQUAL OPPORTUNITIES IMPLICATIONS

- 8.1 There are no direct equal opportunities implications.

9. ENVIRONMENTAL IMPACT STATEMENT

- 9.1 Improvements in the safety and appearance of footpaths in parks and around leisure centres and schools and other Council premises would arise from the inspection and repair programme.

10. LOCAL MEMBER SUPPORT IMPLICATIONS

- 10.1 The risk management initiatives apply to all wards.

11. BACKGROUND PAPERS

- 11.1 The Marsh actuarial report of June 2007 and the Risk & Insurance Section claims Database were used in preparing this report.

12. PLANNING IMPLICATIONS

12.1. There are none arising out of this report.

13. RECOMMENDATIONS

13.1 That, subject to Employment and Appointments Committee, the sum of £27,500 be allocated to create an additional post within the Financial Services Division.

13.2 That the level of Insurance Fund balances be reviewed as part of the preparation of the Insurance Fund budget for 2008-09.

13.3 That the Insurance Fund budget for 2007-08 be reviewed as part of the preparation of the estimates for 2008-09.

13.4 That subject to Employment and Appointments Committee, the sum of £16,800 be allocated to create a post of Public Relations Officer.

IAN COLEMAN
DIRECTOR OF FINANCE

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