

WIRRAL COUNCIL

CABINET - 14 NOVEMBER 2007

REPORT OF THE DIRECTOR OF FINANCE

### **INSURANCE FUND BUDGET 2008/09**

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#### **1. EXECUTIVE SUMMARY**

- 1.1. This report sets out the elements which make up the Insurance Fund, the cost of running the Risk & Insurance Section and the budget for 2008/09.

#### **2. BACKGROUND**

- 2.1. 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.
- 2.2. 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 premium irrespective of the profits generated by a policy.
- 2.3. Wirral has operated an insurance fund since its foundation and was one of the first authorities to adopt a high degree of self-insurance when large excesses on liability and material damage insurance were negotiated in the 1980s.
- 2.4. Self-funding is a fundamental element of the risk management strategy. It provides a greater incentive to deal with risk more effectively since any reduction in claims directly benefits the Authority.

#### **3. RISK MANAGEMENT**

- 3.1. To achieve best value in funding insurable losses a mixture of external and self-insurance is needed.
- 3.2. The Authority wholly self-insures those risks that have the capacity to generate 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.
- 3.3. External insurance premia are met by the Insurance Fund and are recharged to departments together with self-insurance premia.

#### 4. SELF FUNDED RISKS

4.1. Detailed below are the principal risks for which the Council currently self-insures together with the maximum sum the Council might have to pay for losses in any given financial year. It should be noted that expenditure in respect of claims for a given year will be spread over several subsequent years.

#### 4.2. TYPE OF INSURANCE ANNUAL AGGREGATE DEDUCTIBLE

Combined Liability	£4,250,000
Material Damage (Fire)	£1,000,000
Comprehensive Motor	£ 280,000
Fidelity Guarantee	£ 25,000
Loss/Damage to Equipment	Unlimited
Glazing (Schools)	Unlimited

4.3. For Combined Liability insurance the annual aggregate deductible has been reduced from £6m in 2006-07.

#### 5. CLAIMS AND PREMIA

A comparison of the premia charged and claims incurred in recent years in respect of the three principal risks covered by the Insurance Fund is given below. The Insurance Fund premia and claims for the years in question are highlighted.

#### 5.1. COMBINED LIABILITY

This policy was placed with Zurich Municipal on 1 April 2005, following a competitive tender. The contract is subject to a Long Term Agreement that lasts until 31 March 2008. I have taken up the option of a further 2-year extension in return for reductions in premium claims handling costs and the self-insured limit. Insurance Fund contributions are reviewed annually and between 2001/02 and 2004/05 the level of contribution rose sharply as a result of claims increasing in both number and estimated cost. This forced insurers to demand that the Council adopt a greater degree of self-insurance (to a peak of £7.1 million in 2005/06). Improvements in the claims experience in the past two years have enabled the level of self-insurance to be negotiated down to £4.25 million.

Year	Premium £000		Expected final costs (actuarial) £000
	External Insurance*	Insurance Fund	
2002/03	257	3,863	2,120
2003/04	274	5,154	1,797
2004/05	360	6,000	1,532
2005/06	286	4,000	902
2006/07	314	3,250	2,744
2007/08	236	3,300	2,949
2008/09	260	2,730	N/K

\*\* Exclusive of claims handling charges.

## 5.2. MATERIAL DAMAGE (FIRE)

This policy was tendered in 2003 and is subject to a Long Term Agreement that expires in June 2008. The policy is to be remarketed and the assumption is that the premium will continue at the existing level with potentially a better level of coverage. Insurance Fund contributions are reviewed annually. For many years the level of contribution had remained stable. However the Council was required to adopt a higher level of self-insurance in 2003 shortly before it suffered its largest loss to date (a fire at Rock Ferry High School). Increases in the contribution made between 2004/05 and 2006/07 returned this element of the Fund to stability. As a result I was able to reduce the contributions required for 2007/08.

Year	Premiums £000		Expected final costs £000	
	External Insurance	Insurance Fund	External Insurer	Insurance Fund
2003/04	275	<b>700</b>	1,810*	<b>1,100</b>
2004/05	365	<b>570</b>	0	<b>90</b>
2005/06	338	<b>570</b>	0	<b>84</b>
2006/07	318	<b>570</b>	0	<b>42</b>
2007/08	328	<b>340</b>	N/K	<b>N/K</b>
2008/09	376	<b>340</b>	N/K	<b>N/K</b>

\* Current claim database figures indicate that £1.81 million will be recoverable from insurers for claims for 2003/04. It is estimated that circa £560,000 of the Rock Ferry High School fire loss will be considered by the insurers to be 'betterment' and therefore not recoverable. The Children & Young People's Department has already made a payment of £368,000 towards betterment.

## 5.3. COMPREHENSIVE MOTOR

This policy was placed with Zurich Municipal on 1 April 2005, following a competitive tender. The new contract is subject to a Long Term Agreement that will be in force until 31 March 2008. I have taken up the option of a one year extension. Departments contribute a minimum of £500 for damage incurred to both their own vehicles and any third party damage, the excess level varying according to the risk profile of the driver. The Insurance Fund contribution is reviewed annually and the reduction in 2005/06 reflected the transfer of vehicles to Wirral Partnership Homes.

Year	Premium £000		Costs £000		
	External Insurance	Insurance Fund	Department	Ins. Fund	Insurer
2003/04	72	<b>130</b>	57	<b>97</b>	0
2004/05	55	<b>180</b>	48	<b>146</b>	0
2005/06	49	<b>81</b>	42	<b>91</b>	0
2006/07	52	<b>81</b>	37	<b>86</b>	0
2007/08	55	<b>81</b>	N/K	<b>N/K</b>	N/K
2008/09	49	<b>81</b>	N/k	<b>N/k</b>	N/K.



## 6. OTHER

- 6.1. In addition to the three main classes of insurance the Authority also procures external insurance for smaller risks such as loss of money, fidelity guarantee and ICT equipment and self-insures other risks including loss of equipment and damage to glazing. These risks generate a modest level of losses and the premia remain fairly stable over a period of years.

## 7. PROVISIONS

- 7.1 Many claims are not settled within the financial year in which they arise. In the case of legal liabilities, claims may not even be reported in the year in which an incident occurs. Thus the total cost of all claims relating to a given year will be spread over several subsequent financial years.
- 7.2. Provisions have to be made in respect of losses previously incurred but which will be settled in future financial years. Without such provisions the Council would not have the funds available to meet these future claims costs.
- 7.3. The provisions are based on claims data held by the Risk & Insurance Section taken at the end of each financial year. Since peaking in 2004/05 as a consequence of the growth in legal liability claims they have fallen significantly in 2005/06 and 2006/07.
- 7.4. As at 31 March 2007 the following sums were held by the Insurance Fund to meet known future liabilities:

<b>Liabilities</b>	£13,850,000
<b>Fire</b>	£ 2,000,000
<b>Motor</b>	£ 250,000
<b>Total</b>	<b>£16,100,000</b>

- 7.5. Annual funding studies undertaken by professional actuaries indicate whether these sums are sufficient. In addition to commenting on the adequacy of provisions for losses in previous years the studies recommend the sums which need to be invested in the Insurance Fund to meet the cost of claims for the current year.
- 7.6. The 2007 study showed that the improvements, which released £1.85 million to Council balances in 2006/07, had been sustained.

Class	Provisions		Surplus / Deficit	Contributions		Surplus / Deficit
	Actual 31/03/07	Suggested 31/03/07		Actual 2007/08	Suggested 2007/08	
Combined Liability	£13,850,000	£12,200,000	£-1,650,000	£3,300,000	£2,950,000	<b>£-350,000</b>
Fire	£2,000,000	£2,000,000	£0	£340,000	£340,000	<b>£0</b>
Motor	£250,000	£250,000	£0	£81,000	£81,000	<b>£0</b>
Total	£16,100,000	£14,450,000	£-1,650,000	£3,721,000	£3,371,000	<b>£-350,000</b>

- 7.7. On 16 August 2007 the Insurance Fund Actuarial Review was reported to Cabinet. This highlighted continued improvement in our ability to defend insurance claims and the annual external assessment of the amount needed to fund anticipated liabilities for current and future years showed a reduction.
- 7.8. Of the provisions which existed at 31 March 2007 Cabinet agreed to use £250,000 of the surplus to create a reserve to meet liabilities relating to periods where the Council is uninsured. This reduced the surplus to £1.4 million.
- 7.9. The report also confirmed that negotiations with insurers had led to a further reduction of £100,000 in liability insurance premiums and claims handling costs increasing the total revenue saving to £450,000. Cabinet agreed to use up to £50,000 of the saving to establish an additional post within the Risk & Insurance team to implement further risk improvements and to meet 50% of the cost of a new public relations post. This reduced the on-going revenue saving to approximately £400,000. This has been transferred to the Insurance Fund provisions in 2007/08 but reflected in reduced departmental contributions for 2008/09. The saving was subsequently agreed by Cabinet on 6 September 2007.
- 7.10. Consideration of the remaining surplus was deferred for consideration as part of the budget. It is now proposed to return the £1.4 million (see section 7.8) to General Fund balances in 2007/08.

## **8. ADMINISTRATION**

- 8.1. 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 and oversees the handling of all claims.
- 8.2. The contract with the Risk & Insurance Consultants (Aon) is subject to a Long Term Agreement. I have taken up an optional two year extension to May 2010 in return for the company assisting with three major remarketing exercises in addition to their standard service within their existing fee. The fee is index-linked giving a total cost including the actuarial element of £17,500 in 2008/09.
- 8.3. The costs of the Risk & Insurance Section are charged to the Insurance Fund and are recharged to departments in the form of a percentage overhead on insurance premia. For 2008/09 the relevant percentage will be approximately 6.4%. This is higher than in 2007/08 partly because the cost of premia has fallen significantly and partly because the Fund is meeting the cost of the new post within the team as well as 50% of the cost of the public relations officer.

8.4. Below is a breakdown of the estimated costs of the section for 2008/09.

Staffing & overheads	£282,300
Risk & Insurance Consultants	£ 17,500
<b>Total</b>	<b>£299,800</b>

## 10. **INSURANCE FUND BUDGET 2008/09**

10.1. The table below shows the estimated budget for 2008/09 compared with the base budget for 2007/08.

	<b>2007/08 Base £000</b>	<b>2008/09 Base £000</b>
<b>Schools</b>	1,024	1,160
<b>General Fund</b>	4,258	3,592
<b>Total</b>	5,282	4,752

10.2 The 2008/09 budget equates to an overall decrease of approximately 11%. The reduction in costs reflects the progress made in reducing liabilities, and exposure to liabilities, as detailed in section 5. Continuing progress during 2007/08 has resulted in a further reduction of £266,000, over and above the £400,000 previously identified. In respect of schools the increase reflects the claims experience over the preceding five years plus the additional responsibilities for insuring Voluntary Aided schools.

10.3. The figures are subject to a greater element of uncertainty than usual because a number of contracts are to be the subject of remarketing and tendering during 2008/09. The highest cost is associated with the Material Damage policy. The budget for this contract has been increased to allow for a rise in rebuilding costs. However I anticipate being able to secure much wider cover for this figure.

10.4. Particular uncertainty surrounds the premium for the contents of the Williamson Art Gallery. Existing values are known to be out of date and work is on-going to obtain more accurate figures for the purpose of the remarketing exercise. This may mean that the actual premium payable will be higher although this is not possible to quantify at this stage.

10.5. Work continues on securing the insurers' contribution for fire losses, particularly Rock Ferry High School, for the 2003/04 policy year. When resolved this will be the subject of a further report to Cabinet.

10.6. The Insurance Fund revenue budget for 2008/09 is shown in the Appendix.

**11. FINANCIAL IMPLICATIONS**

11.1. The Insurance Fund Budget for 2008-09 shows a reduction of £666,000 in General Fund contributions, together with a transfer of £1.4 million from the Insurance Fund Reserve to General Fund balances.

**12. STAFFING IMPLICATIONS**

12.1. There are no direct staffing implications.

**13. EQUAL OPPORTUNITIES IMPLICATIONS**

13.1. There are no direct equal opportunities implications.

**14. ENVIRONMENTAL IMPACT STATEMENT**

14.1. Not applicable.

**15. LOCAL MEMBER SUPPORT IMPLICATIONS**

15.1. There are no implications for any Members or wards.

**16. BACKGROUND PAPERS**

- 16.1. (i) Correspondence with Aon Risk Services  
(ii) Risk & Insurance Section Database  
(iii) Aon Claims Management claims records  
(iv) Marsh UK actuarial report 2007

**16. PLANNING IMPLICATIONS**

16.1. There are none arising out of this report.

**17. RECOMMENDATIONS**

17.1. That t

(1) the continuing improvement in the position of the Insurance Fund be noted;

(2) the identified surplus of £1.4 million be returned to General Fund balances;

(3) the revenue saving of £400,000 for 2008/09 agreed on 6 September 2007 be noted and the additional saving of £266,000 be agreed.

(4) the Council be recommended that the Insurance Fund budget be agreed.

IAN COLEMAN  
DIRECTOR OF FINANCE



APPENDIX

WIRRAL COUNCIL  
INSURANCE FUND BUDGET

Base Budget 2007/08

Base Budget 2008/09

**Expenditure**

<u>Class of Insurance</u>	<u>External Premiums</u>	<u>Insurance Fund Contributions</u>	<u>Total</u>	<u>External Premiums</u>	<u>Insurance Fund Contributions</u>	<u>Total</u>
Liabilities	490,000	3,300,000	3,790,000	393,000	2,730,000	3,123,000
Fire	328,000	340,000	668,000	376,000	340,000	716,000
Motor	55,000	81,000	136,000	49,000	81,000	130,000
Other	248,000	225,000	473,000	279,000	204,000	483,000
Management Account			215,000			300,000
<b>Total Expenditure</b>			<b><u>5,282,000</u></b>			<b><u>,4,752,000</u></b>

**Income**

Schools	(1,024,000)	(1,160,000)
General Fund	(4,258,000)	(3,592,000)
<b>Total Income</b>	<b><u>(5,282,000)</u></b>	<b><u>(4,752,000)</u></b>