

WIRRAL COUNCIL

CABINET

26 NOVEMBER 2009

REPORT OF THE DIRECTOR OF FINANCE

INSURANCE FUND BUDGET 2010/11

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 2010/11. The headline from the Budget 2010/11 report is a reduction in estimated insurance costs for 2010/11 of £0.8 million which is partly as a result of extensive work undertaken with schools.

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 local 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 overall 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 premiums are met by the Insurance Fund and are recharged to departments together with self-insurance premiums.

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	£3,600,000
Material Damage & Business Interruption (Fire)	£ 500,000
Material Damage & Business Interruption (Storm/Flood/Burst Pipes)	£1,000,000
Comprehensive Motor	£ 200,000
Fidelity Guarantee	£ 25,000
Loss/Damage to Equipment	Unlimited
Glazing (Schools)	Unlimited

5. **CLAIMS AND PREMIUMS**

5.1. A comparison of the premiums charged and claims incurred in recent years in respect of the three principal risks covered by the Insurance Fund follows. The premiums and claims for the years in question are highlighted.

a. **COMBINED LIABILITY**

This policy was placed with Zurich Municipal on 1 April 2005, following a competitive tender. At present the contract is subject to a Long Term Agreement which expires on 31 March 2010 and a tendering process is underway. Whilst this means that external premiums for 2010/11 onwards are uncertain the expectation is that they will continue at a similar level. Insurance Fund contributions are reviewed annually and have fallen sharply in recent years because of sustained and significant improvements in the claims experience brought about by more effective management of liability risk and a robust attitude to claims management. This has enabled the level of self-insurance to be negotiated down from a peak of £7.1 million in 2005/06 to the current level of £3.6 million.

Year	Premium		Expected final costs (90% level of certainty)
	External Insurance**	Insurance Fund	
	£000	£000	£000
2004/05	360	6,000	893
2005/06	286	4,000	1,100
2006/07	314	3,250	1,586
2007/08	236	3,300	2,860
2008/09	261	3,200	3,200
2009/10	270	2,800	N/K
2010/11	285	2,100	N/K

** Exclusive of claims handling charges.

b. MATERIAL DAMAGE & BUSINESS INTERRUPTION

The material damage policy was tendered in 2008 with the result being an extension of cover to include damage from storm flood and burst pipes and business interruption losses. The contract is subject to a Long Term Agreement which lasts until June 2013. The expectation is that premium rates will continue at the existing level. Insurance Fund contributions are reviewed annually and rose before 2006/07 to recover a shortfall caused by large losses sustained in the 2003/04 insurance period. Contributions fell significantly in 2007/08 and despite the Insurance Fund taking on an increased exposure through the extensions of cover the level of contribution is being reduced further in 2010/11.

Year	Premiums		Expected final costs	
	External Insurance	Insurance Fund	External Insurer	Insurance Fund
	£000	£000	£000	£000
2005/06	338	570	0	80
2006/07	318	570	0	32
2007/08	328	340	0	42
2008/09	382	340	68	159
2009/10	384	330	N/K	N/K
2010/11	371	300	N/K	N/K

c. **COMPREHENSIVE MOTOR**

This policy was placed with Zurich Municipal on 1 April 2009, following a competitive tender. The contract is subject to a Long Term Agreement that lasts until 31 March 2012. As such no significant change in the external premium is anticipated for 2010/11. Departments contribute a minimum of £500 for damage incurred to their own vehicles and any third party claims, the excess level varying according to the risk profile of the driver. The Insurance Fund contribution is reviewed annually and is also being reduced for 2010/11.

Year	Premium		Expected final costs		
	External Insurance	Insurance Fund	Department	Insurance Fund	Insurer
	£000	£000	£000	£000	£000
2005/06	49	81	43	90	0
2006/07	52	81	35	103	0
2007/08	55	81	32	58	0
2008/09	49	81	30	79	0
2009/10	50	90	N/K	N/K	N/K
2010/11	44	65	N/K	N/K	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 loss or damage to 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 premiums 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. After rising between 2001/02 and 2004/05 they have fallen significantly each year since 2005/06.

- 7.4. A funding study is now being undertaken by professional actuaries every two years to evaluate whether the sum held to meet liability losses is sufficient and also the sum needs to be invested to meet the costs of current claims.
- 7.5. In the intervening year this study is undertaken by officers, and the 2009 internal evaluation considered the adequacy of the sums held to meet liability losses. A professional judgement was also made for the other classes of insurance. In addition to considering the adequacy of provisions for losses in previous years the evaluation addressed the issue of the sum needing to be invested in the Insurance Fund to meet the cost of claims for the current year.
- 7.6. The 2009 evaluation showed that the continued improvements in our ability to defend claims, which released £2.975 million to Council balances during 2008/09, had been sustained. The Insurance Fund Annual Report to Cabinet on 25 June 2009 stated that there was a significant surplus in the provisions held for Property insurance losses and Cabinet agreed to transfer to General Fund balances the surplus in the provisions at 31 March 2009 of £2,106,000.

Class	Provisions		Transferred to General Balances
	Actual 31/03/09	Revised 31/03/09	
Combined Liability	£11,620,700	£11,620,700	£0
Property	£4,106,400	£2,000,000	£2,106,000
Motor	£274,900	£274,900	£0
Total	£16,002,000	£13,895,600	£2,106,000

8. LIABILITY CLAIMS FUNDING

- 8.1. At present provisions for liability losses are based on a 90% chance that the actual outcome will be less than the worst reserves. At the time of the last formal actuarial study in 2008 there was concern that the unprecedented turbulence in claims patterns experienced by Wirral might have been skewing the results of the study towards unrealistically low sums. Also some uncertainty remained as to whether the low level of new claims reported would be sustained. It was concluded that the cautious approach to funding was therefore justified.
- 8.2. The results of the next formal actuarial study to be commissioned will be available in mid-2010 and will be based on claims data as at 31 March 2010.

9. ADMINISTRATION

- 9.1. 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.
- 9.2. A new insurance broking contract was awarded to Griffiths & Armour in November 2008 and this fixed price contract will run until 30 November 2010.
- 9.3. 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 2010/11 the relevant percentage will be approximately 8.3%. This is higher than for 2009/10 as a consequence of the reduction in estimated premia which has been achieved through the work of the section, and others, in reducing the number of claims submitted and also increasing the repudiation rates for those claims that are submitted.
- 9.4. Below is a breakdown of the estimated costs of the section for 2010/11.

Staffing & overheads	£282,500
Insurance Brokers & Actuaries	£ 20,000
Total	£302,500

- 9.5. The section comprises four full time and one part time employees. In an informal benchmarking exercise undertaken earlier this year both the size and cost of the Wirral team compared favourably with the other Merseyside authorities. Taken in context the significant results achieved in recent years, in terms of wider cover at lower cost and a vastly improved claims experience, have been delivered by a small team.

10. INSURANCE FUND BUDGET 2010/11

- 10.1. The table below shows the estimated budget for 2010/11 compared with the base budget for 2009/10.

	2009/10 Base £000	2010/11 Base £000
Schools	1,560	1,210
General Fund	3,184	2,752
Total	4,744	3,962

- 10.2 The 2010/11 budget equates to an overall decrease of approximately 17%. This reduction in costs reflects the continuing improvements in claims experience and the effectiveness of the Risk & Insurance Team approach to procurement.
- 10.3 The 2009/10 Estimate contained a saving of £400,000 to the Department of Children & Young People resulting from a more equitable method of calculating costs for schools. Whilst this increased costs to schools in 2009/10 work done since by the Risk & Insurance Team including the risk ranking survey programme for secondary schools has assisted with reducing the charges to schools by £350,000 for 2010/11.
- 10.4 The Liability and Computer insurance contracts have been tendered and the outcome is reported elsewhere on this agenda. All other contracts are subject to Long Term Agreements which act to reduce the likelihood of any significant changes to cover or to premia. In the medium term there could be upward pressure on external premia if the recession causes insurers' investment returns to continue falling and reinsurance costs to rise. However the current position is that insurers are generally maintaining prices in order to retain business.
- 10.5 The Insurance Fund Budget for 2010/11 is shown in the Appendix.

11. FINANCIAL IMPLICATIONS

- 11.1. In terms of the annual insurance premia the 2010/11 Budget shows a reduction of £0.8 million from the 2009/10 premia. This reflects the extensive work undertaken with schools during the year which has enabled the risks to be more accurately assessed and, more generally, the sustained improvements in claims management.

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. COMMUNITY SAFETY IMPLICATIONS

- 14.1. There are no direct community safety implications.

15. PLANNING IMPLICATIONS

- 15.1. There are none arising out of this report.

16. LOCAL MEMBER SUPPORT IMPLICATIONS

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

17. BACKGROUND PAPERS

- 17.1. (i) Correspondence with Griffiths & Armour
(ii) Risk & Insurance Section Database
(iii) Zurich Municipal and Teceris Claims Management claims records

18. RECOMMENDATIONS

18.1. That the Insurance Fund Budget 2010/11 be agreed.

18.2. That the savings of £430,000 to the General Fund and £350,000 to Schools in 2010/11 be agreed.

IAN COLEMAN
DIRECTOR OF FINANCE

FNCE/317/09

APPENDIX

WIRRAL COUNCIL

INSURANCE FUND BUDGET

	<u>Base Budget 2009/10</u>			<u>Base Budget 2010/11</u>		
Expenditure						
Class of Insurance	External Premia	Insurance Fund Contributions	Total	External Premia	Insurance Fund Contributions	Total
	£	£	£	£	£	£
Liabilities	408,000	2,800,000	3,208,000	435,000	2,100,000	2,535,000
Fire	384,000	330,000	714,000	371,000	300,000	671,000
Motor	50,000	90,000	140,000	44,000	65,000	109,000
Other	230,000	168,000	398,000	183,000	137,000	344,000
Management Account			284,000			303,000
Total Expenditure			<u>4,744,000</u>			<u>3,962,000</u>
Income						
Schools			(1,560,000)			(1,210,000)
General Fund			(3,184,000)			(2,752,000)
Total Income			<u>(4,744,000)</u>			<u>(3,962,000)</u>