

WIRRAL COUNCIL

CABINET

25 NOVEMBER 2010

REPORT OF THE DIRECTOR OF FINANCE

INSURANCE FUND BUDGET 2011/12

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 2011/12. The headline from the Budget is a reduction in estimated insurance costs for 2011/12 of almost £0.9 million (22%) which is partly due to the better terms arising from a major procurement exercise and continuing improvements in the claims experience.

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 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.
- 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 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 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 such losses will be spread over several subsequent years.

4.2. TYPE OF INSURANCE	ANNUAL AGGREGATE DEDUCTIBLE
Combined Liability	£2,500,000
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. PREMIA

5.1. The premia charged in recent years in respect of the three principal risks covered by the Insurance Fund are detailed below.

a. COMBINED LIABILITY

This policy was the subject of a tender ahead of the expiry on 31 March 2010 of the previous contract. Aggressive marketing generated significant competition for this contract and resulted not only in a marked reduction in the premium (£146,000) and claims handling cost (£56,000) but also a decrease in the level of the self-insured retention from £3.6 million to £2.5 million. This also enabled the level of Insurance Fund contribution to be reduced from £2.1 million in 2010/11 to £1.5 million in 2011/12.

Year	Premium	
	External Insurance**	Insurance Fund
	£000	£000
2006/07	314	3,250
2007/08	236	3,300
2008/09	261	3,200
2009/10	270	2,800
2010/11	285	2,100
2011/12	149	1,500

** Exclusive of claims handling charges.

b. **MATERIAL DAMAGE & BUSINESS INTERRUPTION**

The material damage policy was tendered in 2008 resulting in an extension of cover to include damage from storm, flood, burst pipes and business interruption losses. The contract is subject to a Long Term Agreement which lasts until June 2013. As such the expectation is that premium rates will continue at the existing level until then. However, a major revaluation exercise and the removal of a number of buildings have reduced the sum insured leading to a fall in the overall premium. Insurance Fund contributions are reviewed annually and have fallen steadily in recent years despite the Fund taking on an increased exposure through the extensions of cover. The level of contribution is being maintained for 2011/12.

Year	Premium	
	External Insurance	Insurance Fund
	£000	£000
2006/07	318	570
2007/08	328	340
2008/09	382	340
2009/10	384	330
2010/11	371	300
2011/12	329	300

c. **COMPREHENSIVE MOTOR**

This policy was placed 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 rate is anticipated for 2011/12. 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 being increased slightly for 2011/12.

Year	Premium	
	External Insurance	Insurance Fund
	£000	£000
2006/07	52	81
2007/08	55	81
2008/09	49	81
2009/10	50	90
2010/11	44	65
2011/12	42	70

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. For most of these risks losses are modest and premia remain fairly stable. However improved management of equipment claims has led to claims costs falling from over £100,000 in 2004/05 to around £35,000 in 2009/10.
- 6.2. Specific mention needs to be made of the Engineering Insurance and Inspection contract. The majority of the cost in relation to this contract pays for regular inspections of boilers and lifting plant. For certain categories of plant, inspection is a legal requirement whilst being discretionary for others. Investigations are underway to determine whether inspections for the non-statutory plant replicate information already available from maintenance and service visits. If this is the case inspections of such items would cease with effect from the end of the current financial year. This has the potential to make further reductions in the Fund costs and the contributions charged.

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 every year since 2005/06. This has been regularly reported to Cabinet and has enabled several million pounds to be returned to the General Fund to support the delivery of Council services.
- 7.4. An actuarial funding study is 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. Ahead of the 2010 study an internal analysis was undertaken by officers in connection with the 2009/10 closedown process. This analysis was reported to Cabinet on 24 June 2010 and indicated that continued improvements in our ability to defend claims had been sustained. As a result there was a surplus of £2.47 million within the Insurance Fund and Cabinet agreed to release this sum to balances in 2009/10. The table compares actual to revised provisions.

Class	Provisions		Transferred to the General Fund Balances
	Actual 31/03/10	Revised 31/03/10	
Combined Liability	£13,353,110	£10,882,145	£2,470,965
Property	£2,251,970	£2,251,970	£0
Motor	£260,830	£260,830	£0
Total	£15,865,910	£13,394,945	£2,470,965

- 7.6. The outcome of the formal study carried out by HJC Actuarial Consulting was reported to Cabinet on 2 September 2010. This stated that even with the transfer of funds earlier in the year there remained a significant surplus in the provisions held for Liability losses. Cabinet agreed to transfer to General Fund balances a further £3.4 million surplus identified in the provisions. The table compares the revised provision above to the current provision.

Class	Revised Provision 31/03/10	Current Provision (Minimum Recommended) Updated on 31/03/10
Combined Liability	£10.9 million	£7.5 million

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 existing insurance broking contract with Griffiths & Armour expires in December 2010. A procurement exercise is currently being conducted to determine the provider for 2011 onwards and a level of fee has been assumed within the Budget. There will be no actuarial funding study undertaken in 2011.
- 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 2011/12 the relevant percentage will be approximately 10%. This administration element is higher than for 2010/11 as a consequence of the reduction in premia which have been achieved through the work of the section, and others, in maintaining the reduction in the number of claims submitted, in increasing the repudiation rates for those claims that are submitted and the improved terms for policies that have been remarketed this year.

8.4. Below is a breakdown of the estimated costs of the section for 2011/12.

Staffing & overheads	£286,000
Insurance Brokers	£ 10,000
Total	£296,000

9. **INSURANCE FUND BUDGET 2011/12**

9.1. The Insurance Fund Budget is shown in the Appendix and the table compares the Budget for 2010/11 with the Budget for 2011/12.

	2010/11 Base £000	2011/12 Base £000
Schools	1,210	925
General Fund	2,752	2,164
Total	3,962	3,089

9.2. An increase in Insurance Premium Tax from 5% to 6% which comes into effect from 4 January 2011 has been taken into account in preparing the figures.

9.3. The 2011/12 budget equates to an overall decrease of approximately 22% and since 2009/10 costs have reduced by almost 40%. This reduction reflects the continuing improvements in claims experience and the effectiveness of the approach to procurement.

9.4. With contracts now subject to Long Term Agreements this acts 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 insurers' investment returns remain low or reinsurance costs rise. However, at present insurers appear to be maintaining prices in order to retain or build market share.

10. **FINANCIAL IMPLICATIONS**

10.1. In terms of the annual insurance costs the 2011/12 Budget shows a reduction of almost £0.9 million from the 2010/11 cost. This reflects the sustained improvements in claims management highlighted in section 8.3 and also the extensive work with schools to enable the risks to be more accurately assessed.

11. **STAFFING IMPLICATIONS**

11.1. There are no direct staffing implications.

12. EQUAL OPPORTUNITIES IMPLICATIONS

12.1. There are no direct equal opportunities implications.

13. COMMUNITY SAFETY IMPLICATIONS

13.1. There are no direct community safety implications.

14. PLANNING IMPLICATIONS

14.1. There are none arising out of this report.

15. LOCAL MEMBER SUPPORT IMPLICATIONS

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

16. BACKGROUND PAPERS

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

17. RECOMMENDATIONS

17.1. That the Insurance Fund Budget 2011/12 be agreed.

17.2. That savings of £588,000 to the General Fund and £285,000 to Schools in 2011/12 be agreed.

IAN COLEMAN
DIRECTOR OF FINANCE

APPENDIX

WIRRAL COUNCIL
INSURANCE FUND BUDGET

	<u>Base Budget 2010/11</u>			<u>Base Budget 2011/12</u>		
Expenditure						
Class of Insurance	External Premia	Insurance Fund Contributions	Total	External Premia	Insurance Fund Contributions	Total
	£	£	£	£	£	£
Liabilities	435,000	2,100,000	2,535,000	243,000	1,500,000	1,743,000
Fire	371,000	300,000	671,000	329,000	300,000	629,000
Motor	44,000	65,000	109,000	42,000	70,000	112,000
Other	207,000	137,000	344,000	211,000	98,000	309,000
Management Account			303,000			296,000
Total Expenditure			<u>3,962,000</u>			<u>3,089,000</u>
Income						
Schools			(1,210,000)			(925,000)
General Fund			(2,752,000)			(2,164,000)
Total Income			<u>(3,962,000)</u>			<u>(3,089,000)</u>