

## WIRRAL COUNCIL

### AUDIT AND RISK MANAGEMENT COMMITTEE

28 SEPTEMBER 2011

<b>SUBJECT:</b>	<b>INSURANCE FUND ANNUAL REPORT</b>
<b>WARD/S AFFECTED:</b>	<b>ALL</b>
<b>REPORT OF:</b>	<b>DIRECTOR OF FINANCE</b>
<b>RESPONSIBLE PORTFOLIO HOLDER:</b>	<b>COUNCILLOR STEVE FOULKES</b>
<b>KEY DECISION?</b>	<b>NO</b>

#### 1.0 EXECUTIVE SUMMARY

1.1 This report provides a review of the Risk and Insurance activity during 2010/11 and the plans for 2011/12. It also details the current status of the liability, fire and motor claims Insurance Fund and the impact of measures taken to improve the management of risk. The report was presented to the Cabinet on 23 June 2011.

#### 2.0 RECOMMENDATION

2.1 That the transfer of £946,654 from the Insurance Fund to General Fund balances at 31 March 2011 be noted.

#### 3.0 REASON FOR RECOMMENDATION

3.1 Officers assessment is that the sum represents the excess over that needed to meet losses and its release will not present a risk to the stability of the Insurance Fund.

#### 4.0 BACKGROUND AND KEY ISSUES

##### Approach to Risk Financing

4.1 Since 1988 the Council has self-insured a significant proportion of 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. The Council also self-insures damage to Council buildings, motor accidents involving Council vehicles, damage to equipment, and a range of minor risks.

4.2 Self-funding losses to a certain level 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. The level of self insurance is set with reference to both the availability of a stable long term Insurance Fund and with regard to the appetite for risk.

- 4.3 Claims are met from the Insurance Fund with the Fund being maintained through annual contributions from all departments.

#### **Review of Liability Reserves and Provisions**

- 4.4 To help ensure that the Fund is sufficient to meet the cost of liability claims every two years a review is undertaken by an external actuary who assesses the amount needed to fund anticipated liabilities for previous years.
- 4.5 The outcome of the formal study carried out in 2010 was reported to Cabinet on 2 September 2010. With the actions taken to prevent claims arising, progress in mitigating / resolving claims and the consequent reduction in potential liabilities Cabinet agreed to the release of the £3.4 million surplus from the Insurance Fund to General Fund balances.
- 4.6 In the intervening years a self-evaluation is undertaken as was the case for liabilities incurred as at 31 March 2011. The figure required was calculated by taking the sum recommended by the actuary for losses as at 31 March 2010 adjusted for the premium received and losses met by the Fund in 2010/11.
- 4.7 The self-evaluation indicated that a sum of £7,278,000 was required as at 31 March 2011 to meet outstanding liabilities:-

<b>Class</b>	<b>Actual Provision 31/03/11</b>	<b>Revised Provision 31/03/11</b>	<b>Difference</b>
	£	£	£
Combined Liability	7,878,337	7,278,337	600,000

- 4.8 The surplus of £600,000 can be returned to the General Fund Balance.

#### **Review of Other Reserves and Provisions**

- 4.9 The Insurance Fund underwrites a number of other classes of business and holds sums in respect of uninsured risks and to pay for risk improvement measures. These figures are also reviewed each financial year.
- 4.10 The 2011 review identified that these elements of the Fund contained £346,654 above that which was needed to fund claims. Again as a consequence of actions taken to reduce the potential for losses and the continuing improvements in claims management, the cost of claims had reduced faster and to a greater degree than forecast.
- 4.11 The surplus of £346,654 in respect of the other sections of the Insurance Fund can also be returned to the General Balance.

## **Insurance and Risk Management 2010/11**

- 4.12 Throughout 2010/11 regular progress reports on Risk and Insurance Management were presented to the Audit & Risk Management Committee.
- 4.13 Improvements reported in claims management in previous years have been sustained through the continuing efforts of departments to manage their liability risk. Allied to this are the 'firm but fair' stance on liability; the continuing active involvement in claims handling; and the counter-claims fraud strategy. The claims handling and legal services contracts continue to assist in reducing both claims numbers and the overall cost to the Council of this area of risk.
- 4.14 Severe winter weather in 2009/10 and 2010/11 resulted in a sharp increase in the number of liability and property claims and a large cluster of Employers Liability claims also created a significant workload.
- 4.15 In association with Zurich Municipal risk ranking surveys were conducted on all primary schools, special schools and Early Years Centres. This programme has been of great benefit with each school given an individual report on good practice and areas where improvements could be made.
- 4.16 Consequent to involvement in the Lord Justice Jackson Review during 2010, one of my officers was invited by the Ministry of Justice to meet with the Justice Minister to represent the views of local authorities in connection with the consultation process on proposed reforms to civil litigation funding and costs. The issues under consideration have the potential for a negative impact on the performance of the liability element of the Insurance Fund. Wirral Council maintained a prominent role throughout the consultation process with further meetings and discussions taking place and, with the consultation process now closed, the outcome is awaited from the Ministry of Justice.
- 4.17 The Insurance Fund Budget 2011/12 was approved by Cabinet on 25 November 2010. Cabinet noted the savings to the General Fund of £588,000 and to Schools of £285,000. The latter is a consequence of more effective procurement by the team and sustained improvements in the claims experience.
- 4.18 The contract for Insurance Broking and Advice was reported to the Audit & Risk Management Committee on 17 January 2011. The annual cost is approximately £7,000 lower than for 2009/10. Liverpool City Council has expressed interest in joining this contract which was issued on a collaborative basis.
- 4.19 In relation to partnerships enhanced risk management arrangements were introduced to support the Local Strategic Partnership (LSP). Improved processes for producing and managing risk registers for individual thematic partnerships and for the LSP as a whole were introduced.
- 4.20 Following the refresh of the Corporate Plan work began with Chief Officers to review the Corporate Risk Register. This work continues and a draft version of the updated register will be the subject of a report to Cabinet.

4.21 Guidance for officers on the inclusion of information on risks and opportunities in reports to Members was revised. Regular quality checks on reports presented to Cabinet have been undertaken and feedback provided to departments to help ensure continuous improvement.

### **Insurance and Risk Management 2011/12**

4.22 Regular reports on the progress of Insurance and Risk Management will continue to be presented to the Audit and Risk Management Committee. There will also be regular updates on significant risks as part of the quarterly Performance and Financial Review reports presented to Cabinet.

4.23 A significant area of work will be improvements to the Risk Management Strategy and framework. Some of the tasks listed below relate directly to this initiative and the table outlines the principal areas and the target dates for completion.

Task	Target Date
Conduct market-testing exercise for Academy Schools insurance	May 2011
Support Chief Officers in reviewing Corporate Risks	May / June 2011
Review of funding for insured liabilities	May 2011
Discuss priorities for future risk management with Executive Team	June 2011
Negotiate annual renewal of Property, Money, Fidelity Guarantee & Personal Accident insurance contracts	June 2011
Develop risk management training for Members	July/August 2011
Audit of external liability claims handlers' performance	August 2011
Negotiate annual renewal of Marine Insurance contract	September 2011
Present the Insurance Fund Budget 2012/13	November 2011
Review of key departmental risks for 2012/13.	March 2012
Negotiate annual renewal of Liabilities insurance contract	March 2012
Review Motor, Computer and Engineering insurance contracts Option to extend each contract for a further 2 years. Officers will take a view prior to expiry as to whether extensions would represent good value.	March 2012

## **5.0 RELEVANT RISKS**

5.1 The release of money from the Insurance Fund could potentially leave it exposed in the event of a series of major losses. However, liability is limited by aggregate excesses and for some policies the Fund reflects the maximum liability for that risk in any one year. In respect of other risks the amount within the Fund is influenced by the Risk & Insurance Team understanding of claims patterns and costs. Expenditure on major losses would be incurred over several years allowing time to supplement funding should it be necessary.

5.2 Insurance charges (including those for schools) are calculated six months before the start of each financial year. Schools converting to Academy status can no longer be covered by the Council insurance arrangements. Uncertainty over which schools will convert and the date of conversion presents a risk that the Insurance Fund will not recover sufficient premiums to meet claims from schools. This is mitigated by ensuring that developments are known as early as possible and by using the Fund to help off-set some of the potential shortfall.

5.3 The growing number of Academies does present a potential opportunity for the service. The Team has created an insurance facility for Academy schools through which insurance would be provided by the insurance market and the Team would run procurement exercises, provide support on renewals and claims, and give general insurance advice. This enables schools to continue to contract with a service they value whilst providing a modest source of income for the Authority.

## **6.0 OTHER OPTIONS CONSIDERED**

6.1. The balance in the Insurance Fund over that needed to meet claims could have been retained.

## **7.0 CONSULTATION**

7.1 Secondary Schools have been closely involved in the development of the insurance facility for Academy Schools.

## **8.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS**

8.1 There are no direct implications arising from this report.

## **9.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS**

9.1 The continuing effective and pro-active approach to managing insured risk is reflected in the assessment of the amounts required in the Insurance Fund to meet current and future claims.

9.2 During 2010/11 Cabinet agreed to the release of £3.4 million from the Insurance Fund to the General Fund balance following the Actuarial Review. The Insurance Fund Budget 2011/12 resulted in a reduction in contributions from departments and schools of £0.9 million. This Review now seeks Cabinet agreement to the transfer of a further £0.9 million from the Fund at the end of the 2010/11 financial year.

## **10.0 LEGAL IMPLICATIONS**

10.1 There are no direct implications arising from this report.

## **11.0 EQUALITIES IMPLICATIONS**

11.1 There are no direct equalities implications arising from this report.

## 12.0 CARBON REDUCTION IMPLICATIONS

12.1 There are no carbon usage implications arising from this report.

## 13.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

13.1 There are no planning implications. Actions taken as a result of the Risk Ranking Surveys will assist with the safety of staff pupils and visitors in schools.

FNCE/163/11

**REPORT AUTHOR:** Mike Lane  
Designation Risk and Insurance Officer  
Telephone (0151) 666 3413  
Email mikelane@wirral.gov.uk

### SUBJECT HISTORY (last 3 years)

<b>Council Meeting</b>	<b>Date</b>
Insurance Fund Annual Report - Cabinet	23 June 2011
Insurance Fund Budget 2011/12 - Cabinet	25 November 2010
Insurance Fund Actuarial Review - Cabinet	2 September 2010
Insurance Fund Annual Report - Cabinet	24 June 2010
Insurance fund Budget 2010/11 - Cabinet	14 January 2010
Insurance Fund Annual Report - Cabinet	25 June 2009
Insurance Fund Budget 2009/10 - Cabinet	27 November 2008
Insurance Fund Annual Report - Cabinet	9 July 2008