

WIRRAL COUNCIL

CABINET - 27 NOVEMBER 2008

REPORT OF THE DIRECTOR OF FINANCE

## **INSURANCE FUND BUDGET 2009/10**

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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 2009/10.

### **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 & Business Interruption (Fire)	£ 500,000
Material Damage & Business Interruption (Storm/Flood/Burst Pipes)	£1,000,000
Comprehensive Motor	£ 280,000
Fidelity Guarantee	£ 25,000
Loss/Damage to Equipment	Unlimited
Glazing (Schools)	Unlimited

4.3. Cover against damage by storm, flood and burst pipes and for business interruption was introduced from 30 June 2008. The deductible in respect of Fire was reduced from £1,000,000 to £500,000 from the same date.

#### 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 follows. The premia and claims for the years in question are highlighted.

##### 5.1. COMBINED LIABILITY

5.1.1 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 2010. 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. Improvements in the claims experience from 2005/06 onwards have enabled the level of self-insurance to be negotiated down from a peak of £7.1 million to a maximum of £4.25 million.

Year	Premium £000		Expected final costs (actuarial) £000
	External Insurance**	Insurance Fund	
2004/05	360	<b>6,000</b>	<b>1,265</b>
2005/06	286	<b>4,000</b>	<b>987</b>
2006/07	314	<b>3,250</b>	<b>1,019</b>
2007/08	236	<b>3,300</b>	<b>1,602</b>
2008/09	261	<b>3,200</b>	<b>1,453</b>
2009/10	270	<b>2,800</b>	<b>N/K</b>

\*\* Exclusive of claims handling charges.

5.1.2 The figures in the column of the right 'expected final costs actuarial' are taken from the latest actuarial report prepared in June 2008. These figures are much more positive than those contained in the 2007 actuarial report. For example, in the 2007 report, the actuary was indicating that the expected final costs for 2007/08 were likely to be £2.949m. By the time of the 2008 report, they had revised their forecast for 2007/08 down to £1.602m.

5.1.3 It is fair to say that actuarial models have struggled in recent years to cope with the huge and unprecedented increase in claims numbers and then the very sharp decrease. When claims numbers were increasing between 2001 and 2004, I had to moderate the figures that the actuaries were indicating would need to be set aside to pay for claims. Had this not been done the Authority would have ended up putting even more money into the Insurance Fund than was ultimately needed to meet losses for those years.

## 5.2. MATERIAL DAMAGE & BUSINESS INTERRUPTION

5.2.1. 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 that expires in June 2013. The expectation is that premium rates will continue at the existing level. Insurance Fund contributions are reviewed annually and rose until 2006 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 I am not increasing the level of contribution in 2009/10.

Year	Premiums £000		Expected final costs £000	
	External Insurance	Insurance Fund	External Insurer	Insurance Fund
2004/05	365	<b>570</b>	0	<b>75</b>
2005/06	338	<b>570</b>	0	<b>80</b>
2006/07	318	<b>570</b>	0	<b>30</b>
2007/08	328	<b>340</b>	0	<b>42</b>
2008/09	382	<b>340</b>	N/K	<b>N/K</b>
2009/10	384	<b>330</b>	N/K	<b>N/K</b>

5.2.2. The material damage policy was tendered in 2008. The result was 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 expires in June 2013. The expectation is that external premium rates will continue at the existing level. Insurance Fund contributions are reviewed annually. They rose between 2004 and 2006 to recover a shortfall of over £400,000 which arose in the 2003/04 insurance period when the Council suffered losses of almost £3m. Claims in subsequent years have been modest and contributions have also fallen sharply since 2006/07. The surpluses generated since 2004/05 have enabled the Fund to accept the additional exposure of £500,000 each year for losses from storm flood burst pipes and business interruption without any increase in the annual contribution.

### 5.3. **COMPREHENSIVE MOTOR**

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 expires on 31 March 2009. The contract will need to be remarketed before that date and no significant change in the external premium is anticipated. 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 the reduction in 2005/06 reflected the transfer of a significant part of the fleet to Wirral Partnership Homes.

Year	Premium £000		Costs £000		
	External Insurance	Insurance Fund	Department	Ins. Fund	Insurer
2004/05	55	<b>180</b>	49	<b>143</b>	0
2005/06	49	<b>81</b>	44	<b>86</b>	0
2006/07	52	<b>81</b>	36	<b>84</b>	0
2007/08	55	<b>81</b>	35	<b>60</b>	0
2008/09	49	<b>81</b>	N/K	<b>N/K</b>	N/K.
2009/10	50	<b>90</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. After rising between 2001/02 and 2004/05 they have fallen significantly each year since 2005/06.
- 7.4. A funding study has been undertaken by professional actuaries each year to evaluate whether the sum held to meet Liability losses is sufficient. In addition to commenting on the adequacy of provisions for losses in previous years the funding study recommend the sum which needs to be invested in the Insurance Fund to meet the cost of claims for the current year.
- 7.5. On 9 July 2008 the Insurance Fund Actuarial Review was reported to Cabinet. This highlighted the continued improvement in the ability to defend insurance claims and that the annual external assessment of the amount needed to fund anticipated liabilities for current and future years showed a reduction. The 2008 study showed that the improvements, which released £1.4 million to Council balances in 2007/08, had been sustained.

Class	Provisions		Surplus
	Actual 31/03/08	Suggested 31/03/08	
Combined Liability	£13,691,463	£ 9,243,000	£4,448,463
Fire	£ 2,277,000	£ 2,000,000	£ 277,000
Motor	£ 252,000	£ 252,000	£ 0
<b>Total</b>	<b>£16,220,463</b>	<b>£11,495,000</b>	<b>£4,725,463</b>

- 7.6. Cabinet agreed to use £1 million of the surplus to support resilience projects and £750,000 to increase the reserve to meet liabilities relating to periods where the Council is uninsured. This reduced the surplus to £2,975,000 and Cabinet agreed that the remaining surplus be transferred to General Fund balances.
- 7.7. Cabinet is advised that there is the possibility that fraudulent claims could increase if the economy contracts significantly as this was the experience of similar occurrences in the 1980's and 1990's.

## 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 Risk and Insurance Officer has negotiated an early expiry of the insurance broking and consultancy with Aon Limited to avoid having to tender for a broker at the same time as running two major insurance procurement

exercises. A new fixed price contract will be implemented shortly at an estimated cost of £20,000 per annum.

- 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 2009/10 the relevant percentage will be approximately 6.7% which is virtually unchanged from 2008/09.
- 8.4. Below is a breakdown of the estimated costs of the section for 2009/10.

Staffing & overheads	£281,000
Risk & Insurance Consultants	£ 20,000
<b>Total</b>	<b>£301,000</b>

## 9. **INSURANCE FUND BUDGET 2009/10**

- 9.1. The table below shows the estimated budget for 2009/10 compared with the base budget for 2008/09.

	<b>2008/09 Base £000</b>	<b>2009/10 Base £000</b>
<b>Schools</b>	1,160	1,154
<b>General Fund</b>	3,592	3,588
<b>Total</b>	4,752	4,742

- 9.2. The 2009/10 budget is essentially the same as 2008/09 as the increased cover is offset by the savings in Property Insurance as reported to Cabinet on 22 May 2008.
- 9.3. The Director of Children's Services is considering an alternative method of recharging insurance premiums for individual schools which could result in a transfer from the Departmental Budget to the Schools Budget of about £400,000.
- 9.4. In terms of the projections the Motor and Engineering contracts are to be tendered during 2009/10 but no significant increases are anticipated. All other contracts are subject to Long Term Agreements which act to contain the risk of any significant changes to premia. In the medium term there could be upward pressure on external premiums if recession in major economies causes insurers' investment returns to continue falling and reinsurance costs to rise.

9.5. During the course of the current financial year it is anticipated that fire settlements will be received for losses relating to the 2003/04 policy year. This includes for the fire at Rock Ferry High School. As the Insurance Fund has adequate provision in this area the sums received would be available for transfer to the General Fund.

9.6. The Insurance Fund revenue budget for 2009/10 is shown in the Appendix.

## **10. FINANCIAL IMPLICATIONS**

10.1. The Insurance Fund Budget for 2009/10 is shown in the appendix.

10.2. Cabinet on 9 July 2008 agreed to the transfer of £2,975,000 from the Insurance Fund to General Fund balances.

## **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. ENVIRONMENTAL IMPACT STATEMENT**

13.1. Not applicable.

## **14. LOCAL MEMBER SUPPORT IMPLICATIONS**

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

## **15. BACKGROUND PAPERS**

- 15.1. (i) Correspondence with Aon Risk Services.  
(ii) Risk & Insurance Section Database.  
(iii) Zurich Municipal and Teceris Claims Management claims records.  
(iv) IRMG actuarial report 2008.

## **16. PLANNING IMPLICATIONS**

16.1. There are none arising out of this report.

## **17. RECOMMENDATIONS**

That

- (1) the continuing improvement in the position of the Insurance Fund be noted; and
- (2) the Insurance Fund budget for 2009-10 be agreed;

APPENDIX

WIRRAL COUNCIL

INSURANCE FUND BUDGET

Base Budget 2008/09

Base Budget 2009/10

**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	393,000	2,730,000	3,123,000	408,000	2,800,000	3,208,000
Fire	376,000	340,000	716,000	384,000	330,000	714,000
Motor	49,000	81,000	130,000	50,000	71,000	121,000
Other	279,000	204,000	483,000	230,000	168,000	398,000
Management Account			300,000			301,000
<b>Total Expenditure</b>			<b><u>4,752,000</u></b>			<b><u>4,742,000</u></b>

**Income**

Schools	(1,160,000)	(1,154,000)
General Fund	(3,592,000)	(3,588,000)
<b>Total Income</b>	<b><u>(4,752,000)</u></b>	<b><u>(4,742,000)</u></b>