

WIRRAL COUNCIL

AUDIT AND RISK MANAGEMENT COMMITTEE

1 FEBRUARY 2012

SUBJECT	INSURANCE FUND BUDGET 2012/13
WARD/S AFFECTED	ALL
REPORT OF	DIRECTOR OF FINANCE
RESPONSIBLE PORTFOLIO HOLDER	COUNCILLOR STEVE FOULKES
KEY DECISION	YES

1.0 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 2012/13. The Insurance Fund Budget is one element of the Council Budget setting process and was agreed by the Cabinet on 24 November 2011.

2.0 RECOMMENDATIONS

- 2.1 That the Insurance Fund Budget 2012/13 be noted.
- 2.2 That savings to schools (subject to Academy transfers) of £226,000 and increased costs to the General Fund of £20,000 for 2012/13 be noted.

3.0 REASON FOR RECOMMENDATIONS

- 3.1 The Insurance Fund Budget is to adequately fund insurable risk and ensure the equitable allocation of insurance costs.

4.0 BACKGROUND AND KEY ISSUES

- 4.1. 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.
- 4.2 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.

- 4.3. Wirral Council 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.
- 4.4. 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.

Risk Management

- 4.5 To achieve overall best value in funding insurable losses a mixture of external and self-insurance is needed.
- 4.6 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.
- 4.7 External insurance premia are met by the Insurance Fund and are recharged to departments together with self-insurance premia.

Self Funded Risks

- 4.8 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. These sums are unchanged from last year. It should be noted that expenditure in respect of such losses will be spread over several subsequent years.

4.9. 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

Premia

- 4.10. The premia charged in recent years in respect of the three principal risks covered by the Insurance Fund are as follows:-

a. **COMBINED LIABILITY**

This policy was the subject of a tender ahead of the expiry of the previous contract on 31 March 2010. The tender resulted in reductions in both the premium and claims handling costs and a decrease in the level of the self-insured retention. This enabled the Insurance Fund contribution to be reduced from £2.1 million in 2010/11 to £1.5 million in 2011/12. However with growth in claims numbers and costs being experienced an increase of £50,000 in contributions has been included for 2012/13.

Year	Premium	
	External Insurance**	Insurance Fund
	£000	£000
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
2012/13	155	1,550

** 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 until June 2013 and the premium rates are expected to continue at the existing level until then. The ongoing removal of buildings through schools converting to academies and the asset rationalisation programme is countering increases in the sum insured through inflation in building costs. The external premium is forecast to reduce for 2012/13. Insurance Fund contributions are reviewed annually and have fallen in recent years despite taking on an increased exposure through the extensions of cover. There are no claims handling charges as the Risk & Insurance Team handles claims for these policies.

Year	Premium	
	External Insurance	Insurance Fund
	£000	£000
2007/08	328	340
2008/09	382	340
2009/10	384	330
2010/11	333	300
2011/12	329	300
2012/13	312	300

c. **COMPREHENSIVE MOTOR**

This policy was placed with Zurich Municipal on 1 April 2009, following a competitive tender. The initial Long Term Agreement is due to expire on 31 March 2012. The Council has an option to extend that agreement for a further two years provided that there is no deterioration in the cover or premium rates. Given that insurers have agreed to reduce their charges from renewal the extension will be taken up. Whilst the Insurance Fund contribution is reviewed annually no change is suggested for 2012/13.

Year	Premium	
	External Insurance **	Insurance Fund
	£000	£000
2007/08	55	81
2008/09	49	81
2009/10	50	90
2010/11	44	65
2011/12	35	70
2012/13	26	70

** Exclusive of claims handling charges.

Other

- 4.11 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. Improved management of equipment claims led to claims costs falling from over £100,000 in 2004/05 to less than £20,000 in 2010/11.
- 4.12 In relation to Engineering Insurance and Inspection it was intended to restrict the contract to only those categories of plant for which inspection is a legal requirement. For non-statutory plant information from maintenance and service visits would have been used to identify and act on potential defects. Subsequent investigations indicated that in some areas the management regime around maintenance and servicing needs to be enhanced in order for these to be the sole source of information on possible defects. All items will remain on the contract until management arrangements have been revised.

Reserves and Provisions

- 4.13 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. The rate of submission of historic claims has increased sharply over recent account years.

- 4.14 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.
- 4.15 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 almost £16 million to be returned to the General Fund balances since 2005/06 to support the delivery of Council services.
- 4.16 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 needed to be invested to meet the costs of current claims. In the intervening years a self-evaluation is undertaken as was the case for liabilities incurred as at 31 March 2011. This evaluation was reported to Cabinet on 23 June 2011 and indicated that continued improvements in the ability to defend claims had been sustained. As a result there was a surplus of £947,000 within the Insurance Fund which was released to balances.
- 4.17 Cabinet on 24 November 2011 agreed to release the Budget Surplus Reserve to mitigate the impact of the increase in Insurance Fund contributions for 2012/13.

Category of Reserve / Provision	Actual 31/03/11 £	Forecast 31/03/12 £
Combined Liability	7,878,337*	7,878,337
Property	2,422,402	2,422,402
Motor	250,000	250,000
Civil Contingency (funds improvements in resilience to service disruption)	1,500,000	1,500,000
Risk Management (supports individual risk improvement initiatives)	354,162	354,162
Uninsured Liability (funds historic claims where insurer cannot be traced or is insolvent)	2,416,784	2,416,784
Budget Surplus	136,030	0
Wholly self-insured claims (such as plate glass and equipment)	309,456	309,456
Total	£15,267,171	£15,131,141

Management Account

- 4.18 In addition to promoting the effective management of risk the Risk and Insurance Team places and administers all external insurance policies, manages the Insurance Fund and oversees the handling of all claims. The balance of work has altered in recent years with greater emphasis now being placed on risk management activity.

4.19 The costs of the Risk & Insurance Section are charged to the Insurance Fund and are recharged in the form of a percentage overhead on insurance premia. For 2012/13 the percentage will be 8.7% which is lower than for 2010/11 principally due to the impact of the income from Academy schools. The Team has been very successful in developing a service to offer support to Academies seeking insurance, as they cannot be covered under the Council policy, and all schools which have converted this financial year have entered into Service Level Agreements.

4.20 The Management Account costs for 2011/12 compared with 2012/13:-

Item	2011/12	2012/13
	£	£
Staffing & overheads	262,500	265,500
Press & PR post	21,000	0
Insurance Brokers	12,500	12,500
Actuarial study	0	6,500
Income from Academy schools	0	- 42,500
Total	296,000	242,000

Insurance Fund Budget 2012/13

4.21 The Insurance Fund Budget is shown in the Appendix. The table compares the Budget for 2011/12 with the Budget for 2012/13.

	2011/12	2012/13
	£000	£000
Schools	925	*699
General Fund	2,164	2,184
Budget surplus contribution	-	136
Total	3,089	3,019

*Assumes Ridgeway, Woodchurch, Weatherhead, Mosslands, Hilbre and South Wirral schools all convert to Academy status prior to, or during 2012/13 otherwise this figure will be higher. The figure excludes three secondary schools which are expected to convert between now and the start of the new financial year. Should conversion be delayed then there would be both additional costs and additional income to the Fund.

4.22 The Budget 2012/13 equates to an overall decrease of approximately 2.3% and since 2009/10 costs have reduced by more than 36%. This reduction reflects the continuing improvements in claims experience and the effectiveness of the approach to procurement. The increase to the General Fund reflects the increased proportion of claims costs from non-schools areas which has been mitigated for 2012/13 by the use of the Budget Surplus Reserve in the Insurance Fund which was created to even out fluctuations in costs between financial years.

5.0 RELEVANT RISKS

- 5.1 The fact that contracts are subject to Long Term Agreements acts to reduce the likelihood of any significant changes to the extent of cover or to external premia. With the expiry of Long Term Agreements from 2015 onwards there could be upward pressure on external premia if insurers' investment returns remain low or reinsurance costs rise.
- 5.2 Insurance Fund contributions are the largest element of the total. As they are directly related to claims the contributions could rise in the event of a series of major losses. This is effectively managed by the maintaining a prudent level of reserves and provisions.
- 5.3 If primary schools decided to convert to academy status then this could create a shortfall in income to the Insurance Fund. The Risk & Insurance Section takes steps to gain early notice of any potential conversions.
- 5.4 The Government response to the Jackson review of civil litigation and expected changes to the Civil Procedure Rules could result in a large influx of new liability claims both before, and after, changes are implemented. There are indications that elements which could have benefited local government may not be implemented in order to deliver the wider package of reform.

6.0 OTHER OPTIONS CONSIDERED

- 6.1 No other options were considered in respect of this report.

7.0 CONSULTATION

- 7.1 The Risk & Insurance Team liaises with schools and Council departments to obtain information required to determine the Insurance Fund Budget.

8.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

- 8.1 There are no direct implications for these groups arising from this report.

9.0 RESOURCE IMPLICATIONS

- 9.1. The 2012/13 Budget includes a one-off contribution from the Insurance Fund Budget Surplus Reserve for 2012/13 which gives a reduction in insurance costs of £70,000 from 2011/12. This reflects the sustained improvements in claims management and also the extensive work with schools to enable insurable risks to be more accurately assessed and managed more effectively.
- 9.2. The work to provide support for Academy schools, which cannot be covered under the Council policy, and the Cabinet decision to seek to adopt the British Standard for risk management have placed, and will place, further pressure on the capacity of the Risk & Insurance Team.

9.3 There are no asset or IT implications arising directly from this report.

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 implications arising from this report

12.0 CARBON REDUCTION IMPLICATIONS

12.1 There are no direct implications arising from this report.

13.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

13.1 There are no direct implications arising from this report

FNCE/281/11

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APPENDIX

Comparison of Insurance Fund base budgets for 2011/12 and 2012/13.

REFERENCE MATERIAL

Correspondence with JLT Public Sector Risks .
Risk & Insurance Section Database.
Zurich Municipal and Teceris Claims Management claims records.

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Cabinet	24 November 2011
Cabinet	25 November 2010
Cabinet	14 January 2010
Cabinet	27 November 2008

APPENDIX

WIRRAL COUNCIL

INSURANCE FUND BUDGET

Base Budget 2011/12Base Budget 2012/13

Expenditure

Class of Insurance	External Premia £	Insurance Fund Contributions £	Total £	External Premia £	Insurance Fund Contributions £	Total £
Liabilities	243,000	1,500,000	1,743,000	230,000	1,550,000	1,780,000
Fire	329,000	300,000	629,000	319,000	300,000	619,000
Motor	42,000	70,000	112,000	26,000	70,000	96,000
Other	211,000	98,000	309,000	204,000	78,000	282,000
Management Account			296,000			242,000
Total Expenditure			<u>3,089,000</u>			<u>3,019,000</u>

Income

Schools	(925,000)	(699,000)
General Fund	(2,164,000)	(2,184,000)
Contribution from Budget Surplus Reserve	(0)	(136,000)
Total Income	<u>(3,089,000)</u>	<u>(3,019,000)</u>