

WIRRAL COUNCIL

CABINET

29 NOVEMBER 2012

SUBJECT	INSURANCE FUND BUDGET 2013/14
WARDS AFFECTED	ALL
REPORT OF	INTERIM DIRECTOR OF FINANCE
RESPONSIBLE PORTFOLIO HOLDER	COUNCILLOR PHIL DAVIES
KEY DECISION	YES

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 2013/14 as the Insurance Fund is one element of the Council budget setting process.
- 1.2. There is a net increase in costs of £44,000 in 2013/14. However, as the 2012/13 increase was offset by the use of the Budget Surplus Reserve the increase is £180,000 (£141,000 for General Fund services and £39,000 for Schools). There is also the return of £529,396 of Fund balances back to Council General Fund balances.

2. BACKGROUND AND KEY ISSUES

INTRODUCTION

- 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 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.
- 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.

RISK MANAGEMENT

- 2.5 To achieve overall best value in funding insurable losses a mixture of external and self-insurance is needed.
- 2.6 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.
- 2.7 External insurance premiums are met by the Insurance Fund and are recharged to departments together with self-insurance premiums.

SELF FUNDED RISKS

- 2.8 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.

2.9. 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

INSURANCE CONTRACTS

- 2.10. The premiums charged in recent years in respect of the three principal risks covered by the Insurance Fund are:-

a. COMBINED LIABILITY

This policy was last tendered in 2010. The contract was awarded for 3 years with an option to extend for a further 2 years. The tender resulted in sharp 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 in 2011/12 before increasing by £50,000 in 2012/13 to reflect growth in claims numbers and handling costs. It will remain unchanged, at £1.55 million, in 2013/14. However, growth in the number of claims means that handling charges are expected to increase by £22,000.

Zurich Municipal has also advised that because of increasing reinsurance costs if the contract were to be extended the Public and Employers Liability element of the premium would need to increase by approximately £25,000. Despite this the premium would still be substantially lower than under the previous contract and the Council's claims record is now much less favourable than it was in 2010 because of a cluster of Employers' Liability claims and one specific catastrophic personal injury case. In my opinion if the Council took the decision to re-market the Liability Insurance contract at this point because of the proposed increase in premium it would actually result in a higher cost than accepting that increase. I have therefore given my officers authority to confirm to insurers that the Council will accept the increase.

Year	Premium	
	External Insurance*	Insurance Fund
	£000	£000
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
2013/14	175	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 Long Term Agreement for this contract expires on 29 June 2013 requiring an OJEU compliant tender process to be conducted. Whilst this creates greater uncertainty for the estimates it is expected that premium rates will remain broadly in line with the current contract. The ongoing removal of buildings through the conversion of schools to Academies and the asset rationalisation programme together with a moderation in forecast rebuilding costs is containing any increase in the sum insured. The tender does provide an opportunity to explore the potential for reducing premiums by increasing the level of self-insurance and/or removing the additional cover introduced in 2008. Any such proposals would be put to Cabinet for a final decision. The Estimate 2013/14 assumes no change in the level of self-insurance or the extent of cover so no change in the Insurance Fund contribution is forecast. There are no claims handling charges for these classes of insurance. The Risk & Insurance Team handles claims for these policies within existing resources.

Year	Premium	
	External Insurance	Insurance Fund
	£000	£000
2008/09	382	340
2009/10	384	330
2010/11	333	300
2011/12	329	300
2012/13	312	300
2013/14	311	300

c. **COMPREHENSIVE MOTOR**

This policy was placed with Zurich Municipal on 1 April 2009, following a competitive tender. An option to extend the Long Term Agreement on existing rates through to 31 March 2014 was taken up earlier this year. A small reduction in the size of the fleet means that estimated premiums for next year are lower than that estimated for 2012/13. The Insurance Fund contribution is reviewed annually and as the claims experience remains stable no change is proposed for 2013/14.

Year	Premium	
	External Insurance **	Insurance Fund
	£000	£000
2008/09	49	81
2009/10	50	90
2010/11	44	65
2011/12	35	70
2012/13	33	70
2013/14	30	70

** Exclusive of claims handling charges.

OTHER

- 2.11 In addition to the three main classes of insurance the Authority also procures external insurance for a number of smaller risks. The Long Term Agreements for four of these - Money, Fidelity Guarantee, Museums, All Risks and Personal Accident/Business Travel also expire on 29 June 2013. The tender exercise for these risks will explore potential opportunities for reducing costs by increasing the level of self-insurance and/or restricting cover. However, the budget has been prepared on the assumption that no such changes will be made.

- 2.12 A range of other risks including loss of equipment and damage to glazing are fully self-insured. These generate modest losses and internal premia are relatively small. 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. The cost for 2011/12 rose to around £44,000 mostly due to a single large claim.
- 2.13 In relation to Engineering Insurance and Inspection I have previously investigated the possibility of restricting 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 was not robust enough to be relied upon as the sole source of information on possible defects. Without improvement there was a risk that hazardous defects would not be identified and rectified. In view of this all items remain on the contract at present and I estimate that the cost of inspecting plant for which there is not a formal legal requirement is approximately £33,000. There would be costs associated with implementing any alternative regime for identifying potential defects.

RESERVES AND PROVISIONS

- 2.14 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 increased rate of submission of historic claims in recent years has been sustained.
- 2.14 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.
- 2.15 The provisions are based on claims data held by the Risk & Insurance Team 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 around £16 million to be returned to the General Fund balances since 2005/06 to support the delivery of Council services.
- 2.16 An actuarial funding study is usually 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.

- 2.17 An external review would have been commissioned to examine the liabilities incurred as at 31 March 2012 but the relative stability of the account did not warrant the £6,500 cost. A further self-evaluation was undertaken and reported to Cabinet on 21 June 2012. As a result of improvements in the loss history for Property and Motor Insurance there was a surplus of £166,000 within the Insurance Fund which was released to balances in 2012/13.
- 2.18 Another review of reserves and provisions has recently been undertaken and I am recommending a further release of funds. Continuing improvements in the claims experience for Motor and self-insured risks mean that the Motor and Wholly self-insured claims sums can be reduced. The sum set aside for the cost of handling uninsured liability claims can also be lowered. Under Risk Management there is the release of resources set aside for improving pathways and hard surfaces around cultural services facilities as this can no longer be justified for retention within the Insurance Fund.

Category	Reserves and Provisions		
	Position 31/03/12	Proposed Revision	Proposed for Release
	£	£	£
Combined Liability	8,286,243	8,286,243	0
Property (including fire)	2,500,000	2,500,000	0
Motor	250,000	200,000	50,000
Civil Contingency (funds improvements in resilience to service disruption)	1,500,000	1,500,000	0
Risk Management (supports individual risk improvement initiatives)	348,000	150,000	198,000
Uninsured Liability (funds historic claims where the insurer cannot be traced or is insolvent)	2,417,514	2,239,450	178,064
Wholly self-insured claims (such as plate glass and equipment)	277,830	174,498	103,332
Total	15,579,587	15,050,191	529,396

ADMINISTRATION AND MANAGEMENT

- 2.19 In addition to promoting the effective management of risk within the Authority 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 with greater emphasis now being placed on risk management activity and increased support for schools.
- 2.20 The costs of the Risk & Insurance Team are charged to the Insurance Fund and are recharged in the form of a percentage overhead on insurance costs. For 2013/14 the relevant percentage will be approximately 8.6% which is similar to the percentage for 2012/13. The income from the service offered to Academies, which cannot be covered under the Council policy, continues to help off-set the Team's costs.

2.21 Administration and Management costs for 2013/14 compared with 2012/13:-.

Item	2012/13	2013/14
	£	£
Staffing & overheads	265,500	259,000
Insurance Brokers	12,500	12,500
Actuarial study	* 6,500	6,500
Income from Academy schools	-42,500	-35,000
Total	242,000	243,000

*It had been expected that an external actuarial study would be undertaken in 2012. As indicated in 2.17 this has been rescheduled for 2013.

INSURANCE FUND BUDGET 2013/14

2.22 The Insurance Fund Budget is shown in the Appendix and the table compares the Budget for 2012/13 with the Budget for 2013/14.

	2012/13	2013/14
	£000	£000
Schools	699	738
General Fund	2,184	2,325
Contribution from Insurance Fund surplus	136	-
Total	3,019	3,063

2.23 The increase in charges for 2012/13 was contained by the use of £136,000 in the Insurance Fund Budget Surplus Reserve so the increase in costs in 2013/14 is actually £180,000 (£141,000 to Council General Fund services and £39,000 to Schools). However, in 2012/13 the careful management of costs should realise a surplus of £50,000 in the Insurance Fund and it is proposed that any surplus be transferred to General Fund balances at the end of the financial year rather than used to reduce the charges for 2013/14.

2.24 Although the 2013/14 budget does represent an increase in costs insurance costs have fallen very substantially in recent years and for next year will still be less than they were in 2001/02 for wider cover. This reflects a general improvement the Council's loss history over this period, improved claims management and the effectiveness of the Council's approach to insurance procurement.

2.25 The charge for schools excludes 3 secondary schools which are not yet Academies but which are expected to convert between now and the end of the forthcoming financial year. Should conversion be delayed then there would be both additional costs and additional income to the Fund.

3. RELEVANT RISKS

- 3.1 The Long Term Agreements (LTAs) which generally apply to insurance contracts act to reduce the likelihood of any significant changes to the extent of cover or to external premiums. The procurement exercises necessitated by the expiry of several LTAs in 2013 could result in higher external premiums. However it is expected that premium rates should remain broadly stable and although the process introduces some uncertainty it also presents an opportunity to explore options for reducing external premiums.
- 3.2 Insurance Fund contributions form the largest element of the total. As these are directly related to claims costs they could rise in the event of a series of major losses. The impact of that risk is effectively managed by maintaining a prudent level of reserves. Even if there were a series of losses greater than the reserves the cost would fall over several financial years giving the Council time to add to reserves.
- 3.3 If Primary Schools decided to convert to Academy status this could create a shortfall in income for the Insurance Fund. By way of mitigation the Risk & Insurance Team take steps to gain early notice of any potential conversions.
- 3.4 The Council's response to its financial difficulties could have implications for the future level of claims. Any reductions in maintenance budgets and staffing levels could impact on the frequency and severity of claims.
- 3.5 Radical revisions to the civil justice system, based on the Jackson Review, are still scheduled to come into effect from 1 April 2013. Despite this impending deadline many critical aspects have not yet been finalised and a number of consultations remain open. The impact of the new rules cannot yet be calculated as too many variables currently exist and prevent plausible financial modeling. Whilst it is expected that legal costs per settled case will reduce the volume of claims may well increase and the Council will no longer have the capability of recovering our own costs when successful. Wirral has maintained an active involvement in this reform process and the Council will have the earliest knowledge of developments in order to mitigate effects. This will have implications for liability funding requirements.
- 3.6 In 2015 the Casualty (Combined Liability) policy will come to the end of its current Long Term Agreement. As indicated in 2.10 the claims experience has deteriorated since the last tender was conducted. Premiums under any new contract will very likely be substantially higher than at present more so if the claims experience were to deteriorate further this has the potential to increase costs.

4. OTHER OPTIONS CONSIDERED

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

5. CONSULTATION

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

6. IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

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

7. RESOURCE IMPLICATIONS

- 7.1. In terms of the annual insurance costs the 2013/14 Budget shows an increase of £180,000 being £141,000 for Council General Fund services and £39,000 for Schools. It should be noted that the use of £136,000 from the Insurance Fund Budget Surplus Reserve offset the increase in 2012/13.
- 7.2 The review of the Insurance Fund reserves and provisions has identified that £529,396 can be returned to Council General Fund balances.
- 7.3. Whilst there are no direct staffing implications the work for Academy schools, the planned review of the Council's risk management framework and processes and the impending tendering for insurance contracts place pressure on the capacity of the Risk & Insurance Team.
- 7.4 There are no IT or assets implications arising directly from this report.

8. LEGAL IMPLICATIONS

- 8.1 There are no direct implications arising from this report

9. EQUALITIES IMPLICATIONS

- 9.1 There are no direct implications arising from this report. An Equality Impact Assessment has been completed.

10. CARBON REDUCTION IMPLICATIONS

- 10.1 There are no direct implications arising from this report.

11. PLANNING AND COMMUNITY SAFETY IMPLICATIONS

- 11.1 There are no direct implications arising from this report

12. RECOMMENDATIONS

- 12.1 That the Insurance Fund Budget 2013/14 be agreed.

- 12.2 That the release of £529,396 from the Insurance Fund to General Fund balances be agreed.
- 12.3 That, as part of the impending procurement of insurance contracts, options for reducing external premiums through greater self-insurance and/or restrictions in cover be explored and the options and risks / benefits of each be reported to Cabinet.

13. REASONS FOR RECOMMENDATIONS

- 13.1 The setting of the Insurance Fund Budget is needed to adequately fund insurable risk and ensure the equitable allocation of insurance costs.
- 13.2 The release of resources identified as no longer being deemed as required for the Insurance Fund to the General Fund helps support front-line services.
- 13.3 As part of the Council's response to a reduction in resources it is appropriate that options to reduce expenditure on insurance be considered.

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APPENDIX

Comparison of Insurance Fund Budgets 2012/13 and 2013/14

REFERENCE MATERIAL

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

SUBJECT HISTORY

Council Meeting	Date
Cabinet – Insurance Fund Budget 2010/11	14 January 2009
Cabinet – Insurance Fund Budget 2011/12	25 November 2010
Cabinet – Insurance Fund Budget 2012/13	24 November 2011

APPENDIX

WIRRAL COUNCIL

INSURANCE FUND BUDGET

	<u>Base Budget 2012/13</u>			<u>Base Budget 2013/14</u>		
	£	£	£	£	£	£
Expenditure						
Class of Insurance	External Premia	Insurance Fund Contributions	Total	External Premia	Insurance Fund Contributions	Total
Liabilities	230,000	1,550,000	1,780,000	273,000	1,550,000	1,823,000
Fire	319,000	300,000	619,000	319,000	300,000	619,000
Motor	26,000	70,000	96,000	34,000	58,000	92,000
Other	204,000	78,000	282,000	205,000	81,000	286,000
Management Account			242,000			243,000
Total Expenditure			<u>3,019,000</u>			<u>3,063,000</u>
Income						
Schools			(699,000)			(738,000)
General Fund			(2,184,000)			(2,325,000)
Contribution from Budget Surplus Reserve			(136,000)			(0)
Total Income			<u>(3,019,000)</u>			<u>(3,063,000)</u>