

WIRRAL COUNCIL**AUDIT & RISK MANAGEMENT COMMITTEE****28 JANUARY 2014**

SUBJECT	INSURANCE FUND BUDGET 2014/15
WARD/S AFFECTED	ALL
REPORT OF	DIRECTOR OF RESOURCES
KEY DECISION	NO

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 2014/15. Previous reports on the Insurance Fund Budget have been presented to Cabinet. However as this Committee is the body responsible for the oversight of risk and insurance management reports will now be put before this Committee.
- 1.2. The Budget 2014/15 is £7,000 more than the agreed Budget for 2013/14. Within this the charges to Schools have increased by £174,000 and the charges to the General Fund reduced by £207,000.

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 Council's approach to managing risk. It provides a greater incentive to deal with risk more effectively as the Council benefits directly from any reduction in claims.

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 subject to contract terms and solvency.

- 2.7 External insurance premiums are met by the Insurance Fund and are recharged to Schools and General Fund services together with self-insurance premiums according to formulae which take into account their risk exposure and their share of the claims experience.

Self Funded Risks

- 2.8 Detailed below are the principal risks which the Council currently self-insures together with the probable 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 detailed below.

a. COMBINED LIABILITY

This policy was last tendered in 2010 and is subject to a Long Term Agreement which expires on 31 March 2015. In line with the recommendations of the Actuarial Study commissioned to examine the adequacy of funding for liability claims the Insurance Fund contribution will rise by £65,000 to £1,615,000 in 2014/15.

The holding insurer Zurich Municipal (ZM) has indicated that it requires an increase in premium of approximately £22,000. This is partly to cover the Council's additional liabilities for Public Health but is also driven by increasing claims numbers across its entire liability account, rising claims inflation and low investment returns. The market for local authority liability insurance remains weak and despite the increase the 2014/15 premium would still be less than the prices quoted by ZM's competitors in 2010. Consequently the proposed increase is regarded as a better option than re-marketing at this stage. A full competitive tender for this contract will be conducted during 2014/15.

The professional indemnity insurance premium is also expected to rise with the expansion of services provided by the Council to Academy Schools and other external organisations.

Claims handling costs are expected to be broadly similar although the contract allows for an annual Average Earnings Index increase in respect of this element.

Year	Premium	
	External Insurance*	Insurance Fund
	£000	£000
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
2014/15	204	1,615

* Exclusive of claims handling charges.

b. MATERIAL DAMAGE AND BUSINESS INTERRUPTION

The Material Damage policy was tendered in the first quarter of 2013/14. The exercise provided an opportunity to explore the potential for reducing external premiums and the Leader of the Council was presented with a range of options. The decision was taken to remove cover for damage arising from storm, flood and burst pipes from all properties other than schools. It was also agreed to change the cover for damage from terrorism to a 'first loss' basis. These changes resulted in a premium saving of more than £50,000 against the sum estimated for 2013/14 shown in the table below.

The new Long Term Agreement means that the lower premium rates will continue for 2014/15. No change in the Insurance Fund contribution is forecast. There are no claims handling charges for these classes of insurance being handled within existing resources.

Year	Premium	
	External Insurance	Insurance Fund
	£000	£000
2009/10	384	330
2010/11	333	300
2011/12	329	300
2012/13	312	300
2013/14	311	300
2014/15	259	300

c. COMPREHENSIVE MOTOR

The existing Long Term Agreement for this policy expires on 31 March 2014. The contract will be the subject of a competitive tender prior to this date. The market for motor fleet insurance is broadly stable and no significant change to the premium rate is anticipated. However a small increase in the size of the fleet (relating to gritting vehicles and vehicles supporting highway verge maintenance) means that estimated premiums

for next year are higher than those estimated for 2013/14. The Insurance Fund contribution is reviewed annually. Given that the claims experience remains stable no change is proposed for 2014/15.

Year	Premium	
	External Insurance**	Insurance Fund
	£000	£000
2009/10	50	90
2010/11	44	65
2011/12	35	70
2012/13	33	70
2013/14	30	70
2014/15	35	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. Four of these - Money, Fidelity Guarantee, Museums All Risks and Personal Accident/Business Travel were also subject to competitive tender in 2013. The tender did not result in any major change to the Money, Fidelity Guarantee or Personal Accident/Business Travel insurance premiums. However there was a reduction of approximately £12,000 in the premium for the Museums All Risks policy which will continue at the 2014/15 renewal.
- 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.
- 2.13 The Long Term Agreement for the Engineering Insurance and Inspection contract also expires on 31 March 2014. This will also be subjected to competitive tender prior to this date. I have reported previously that the Council spends significantly more on such inspections than its peers. This is because the Council's contract covers many items for which inspection is not a legal requirement. Currently the management regime around the maintenance and servicing of these items is not robust enough to be safely relied upon as the sole source of information on possible defects. If they were not on the inspection contract there is a risk that hazardous defects would not be identified and rectified. I am proceeding with the tender on the basis that all items currently on the contract at present will continue to require inspection. However those tendering will be advised that the Council may remove large numbers of items from the current schedule during the lifetime of the next contract as the in house asset management capability improves.

Administration

- 2.14 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. The balance of work has altered with greater emphasis now being

placed on risk management activity and increased support for schools. The management of liability insurance claims remains a significant element.

- 2.15 The costs of the Risk & Insurance Section are charged to the Insurance Fund and recharged in the form of a percentage overhead on insurance premiums. For 2014/15 the basis on which the overhead is calculated is being changed. Previously the contributions required from schools were reduced by the contributions paid by the rest of the Council so effectively the General Fund was subsidising schools. Under the new basis this subsidy is removed so that the schools contributions will be more in line with the percentage that would be paid to an insurance broker for placing and servicing an insurance programme.
- 2.16 Below is a breakdown of the estimated Administration spend and income:-

	Budget 2013/14	Budget 2014/15
	£	£
<u>Spend</u>		
Staffing & overheads	259,000	233,000
Insurance Brokers	12,500	10,000
Actuarial study	6,500	0
Total	278,000	243,000
<u>Income</u>		
Consultancy – schools	59,000	83,000
Consultancy - Academy schools	*35,000	40,000
General Fund – administration	184,000	120,000
Total	278,000	243,000

* credit shown as part of Management Account figure in the Appendix

Insurance Fund Budget 2014/15

- 2.17 The Insurance Fund Budget is shown in the Appendix. The table below compares the Budget for 2014/15 with the Budget for 2013/14. The 2014/15 figures show separately the £40,000 in fees paid by Academy Schools for insurance consultancy services.

	Budget 2013/14	Budget 2014/15
	£	£
Schools	738,000	912,000
General Fund	2,325,000	2,118,000
Academies	In above	40,000
Total	3,063,000	3,070,000

- 2.18 The 2014/15 Budget of £3,070,000 represents an increase of £7,000 (0.2%) compared with the Budget 2013/14. The increase to Schools reflects the increased share of liability claim costs and the changed basis for allocating Administration costs. This has resulted in a decreased cost to General Fund services.

3.0 RELEVANT RISKS

- 3.1 The Long Term Agreements (LTAs) which apply to all of the Council's major 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 the LTAs for Motor and Engineering in 2014 create an additional element of uncertainty for the forecast. However my expectation is that premium rates should remain broadly stable.
- 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 mitigated by maintaining a prudent level of reserves. Even if there were a series of losses greater than the reserves the cost would be incurred over several financial years. This would give 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 section takes steps to gain early notice of any potential conversions.
- 3.4 The Council's response to its budgetary challenges could have implications for the future level of claims. 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 came into effect during 2013. It is too early to calculate the impact of the new rules. Whilst it is expected that legal costs per settled case will reduce, the Council will no longer have the capability of recovering its own costs when it is successful. The volume of claims could also increase. All of these could have implications for liability funding requirements in the future.
- 3.6 In 2015 the Casualty (Combined Liability) policy will come to the end of its current Long Term Agreement. The claims experience is not as positive as it was prior to the last tender. This factor and a lack of competition in the market mean that premiums under any new contract could be substantially higher than at present. Even more so if the claims experience were to deteriorate further.
- 3.7 Insurance management is presently part of the proposals for Shared Services with Cheshire West & Chester Council which creates some uncertainty for the service and the future cost of running the section. Mitigating against this is the fact that service improvement and cost reduction are key drivers for Shared Services.

4.0 OTHER OPTIONS CONSIDERED

- 4.1 No other options were considered.

5.0 CONSULTATION

- 5.1 The changes in the Insurance costs for schools has been shared with the Schools Forum.

6.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

6.1 There are no direct implications for these groups

7.0 RESOURCE IMPLICATIONS

- 7.1. The 2014/15 Insurance Fund Budget of £3,070,000 is an increase of £7,000 (0.2%) on Budget for 2013/14. Whilst the cost to Schools is to increase by £174,000 there will be a reduction of £207,000 to General Fund services. Income from work with Academies is expected to generate income of £40,000 in 2014/15.
- 7.2. Whilst there are no direct staffing implications the work for Academy Schools and ongoing improvements to the Council's risk management framework and processes continue to place pressure on the capacity of the Risk & Insurance Section.

8.0 LEGAL IMPLICATIONS

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

9.0 EQUALITIES IMPLICATIONS

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

10.0 CARBON REDUCTION IMPLICATIONS

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

11.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

- 11.1 There are no direct implications arising from this report

12. RECOMMENDATION

- 12.1 That the Insurance Fund Budget 2014/15 be agreed.

13. REASONS FOR RECOMMENDATION

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

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APPENDIX

Comparison of the Insurance Budgets for 2013/14 and 2014/15.

REFERENCE MATERIAL

JLT Speciality Limited Funding Study.
Risk & Insurance Section Database.
Zurich Municipal and Terceris Claims Management claims records.

SUBJECT HISTORY

Council Meeting	Date
Cabinet - Insurance Fund Budget 2011/12	25 November 2010
Cabinet - Insurance Fund Budget 2012/13	24 November 2011
Cabinet - Insurance Fund Budget 2013/14	29 November 2012

APPENDIX

WIRRAL COUNCIL
INSURANCE FUND BUDGET

	<u>Budget 2013/14</u>			<u>Budget 2014/15</u>		
Expenditure	External Premia	Insurance Fund Contributions	Total	External Premia	Insurance Fund Contributions	Total
	£	£	£	£	£	£
Liabilities	273,000	1,550,000	1,823,000	296,000	1,615,000	1,911,000
Fire	319,000	300,000	619,000	257,000	300,000	557,000
Motor	34,000	58,000	92,000	40,000	70,000	110,000
Other	205,000	81,000	286,000	194,000	55,000	249,000
Management Account			243,000			243,000
Total Expenditure			<u>3,063,000</u>			<u>3,070,000</u>
Income						
Academies - Consultancy (not shown separately in 2013/14)						(40,000)
Schools - Consultancy			(59,000)			(83,000)
Schools - Premiums			(679,000)			(829,000)
General Fund – Premiums			(2,325,000)			(2,118,000)
Total Income			<u>(3,063,000)</u>			<u>(3,070,000)</u>