

# WIRRAL COUNCIL

## AUDIT & RISK MANAGEMENT COMMITTEE

28 JANUARY 2014

<b>SUBJECT</b>	<b>INSURANCE FUND LIABILITY CLAIMS FUNDING STUDY</b>
<b>WARDS AFFECTED</b>	<b>ALL</b>
<b>REPORT OF</b>	<b>DIRECTOR OF RESOURCES</b>
<b>KEY DECISION</b>	<b>NO</b>

### 1. EXECUTIVE SUMMARY

- 1.1 As part of the Management of Insurance and Corporate Risk report this Committee have previously been advised that a formal Study had been commissioned to examine the adequacy of existing sums set aside to meet self-insured liability claims and to make recommendations as to the level of future contributions to the Insurance Fund. It was agreed that the results of this Study be reported to a future meeting of the Committee.
- 1.2. The Study has been received and this report summarises its conclusions. It confirms that the self-evaluation of liabilities undertaken by the Risk & Insurance Team since 2010 have been accurate. The Study also indicates the level of contribution required for 2014/15 which has been incorporated into the Insurance Fund Budget 2014/15.

### 2. BACKGROUND AND KEY ISSUES

- 2.1 As part of its approach to managing risk the Council self insures its exposure to legal liability and has done so since the late 1980s. Annual contributions are made to the Council's Insurance Fund by directorates and by schools to ensure that funds are available to pay claims when they become due.
- 2.2 Because the law allows claims to be instigated many years after an event the Insurance Fund needs to retain sums not only for claims relating to the current financial year but also for previous years.
- 2.3 Until 2009 it had been Council policy to commission an independent review of the adequacy of the funds set aside to meet claims every year. However given the stabilisation of claims volumes and costs in preceding years and to align the Council's approach with peer authorities formal studies were to be commissioned every two to three years. In the intervening years self-evaluations are undertaken by the Risk & Insurance Team. The most recent formal study had been carried out in 2010.
- 2.4 The provision of funding studies is part of the specification for the Council's current insurance broking contract and a cost was established through the procurement exercise for that service. The Council's Insurance Brokers (JLT Speciality Limited) were commissioned to provide a report based on claims data at 31 March 2013.

### 3. THE FUNDING STUDY

- 3.1 The study was undertaken by John Loscombe from JLT. Although not an actuary Mr Loscombe has almost 20 years experience of conducting fund reviews and has completed over 200 to date. His work is subject to regular peer review by a firm of actuaries.
- 3.2 The report uses a widely recognised Chain Ladder (link ratio) method for forecasting the ultimate cost of claims for a given year.

#### Reserves

- 3.3 The Study indicates that the Council should have had funds of £9,275,200 available to meet losses for periods up to and including 31 March 2013. The actual sum in hand at this date was £9,895,000 as indicated in the Insurance Fund Annual Report presented to this Committee on 18 September 2013. Thus the sum arising from the self-evaluation undertaken by officers differed from the Study by less than 7%.
- 3.4 The report recommends that funding of £9,166,800 should be in place at 31 March 2014 to cover losses incurred up to and including that date. I estimate that the Fund will in fact have a balance of approximately £10m at 31 March 2014. This would represent a surplus of approximately £800,000.
- 3.5 Currently resources are held in the Community Fund operated by the Council and Magenta Housing to cover environmental warranties arising from the transfer of the Council's housing stock in 2005. I propose that the projected surplus is kept within the Insurance Fund to give the Council the option of using it to cover these warranties. If such action were taken it would enable the release of resources from the Community Fund. It is expected that the position of the Community Fund will become clearer in the forthcoming financial year. Any proposal to use the surplus within the Insurance Fund for this purpose would be put to Members for consideration.

#### Insurance Fund Premia

- 3.6 The report also makes projections as regards the ultimate cost of claims for the current and future financial years. These are divided into Optimistic Best View and Pessimistic bands. The table in the report is replicated below.

Year	Optimistic	Best View	Pessimistic
2013/14	£1,538,300	£1,728,000	£2,500,000
2014/15	£1,615,200	£1,814,400	£2,625,000
2015/16	£1,696,000	£1,905,100	£2,756,300
2016/17	£1,780,000	£2,000,400	£2,894,100

- 3.7 I believe that the Optimistic band should be used to set the level of contributions to the Insurance Fund. Members may recall from previous reports that major reforms to the civil justice system (the 'Jackson' reforms) were introduced in 2013. One of the intended consequences of the reforms is a

reduction in legal costs which have in recent years been a very significant element of total claims costs. As the actuarial model is based upon historic trends it is unable to reflect this change and I consider it appropriate to base contributions on the Optimistic scenario.

- 3.8 The 2013/14 Insurance Fund contribution was set at £1,550,000. As this is very close to the figure in the table I do not intend to change it. Liability insurance estimates for 2014/15 have been based on a contribution of £1,615,000 as per the table.

#### **4. RELEVANT RISKS**

- 4.1 The ultimate cost of liability claims could be greater than the figure contained within the report. Similarly the annual contributions to the Insurance Fund might also be less than the cost of claims for this and forthcoming years. However given that the sums result from a formal funding I consider this to be unlikely.

#### **5. OTHER OPTIONS CONSIDERED**

- 5.1 It would have been possible to conduct a further self-evaluation rather than procuring an independent study. However it is considered prudent to procure an independent study at least once every three years.

#### **6. CONSULTATION**

- 6.1 No consultation was required in relation to this report.

#### **7. IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS**

- 7.1 There are no implications for voluntary, community and faith groups arising directly from this report.

#### **8. RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS**

- 8.1 JLTs fee for undertaking the actuarial study and producing the report is £4,500 plus VAT.
- 8.2 The Liability element of the Insurance Fund is forecast to have an estimated surplus £800,000 above the projected funding requirement at 31 March 2014.
- 8.3 The contribution to the Insurance Fund for 2014/2015 will be set at £1,615,000.

#### **6. LEGAL IMPLICATIONS**

- 6.1 There are no direct legal implications arising out of this report.

#### **7. EQUALITIES IMPLICATIONS**

- 7.1 There are no direct equalities implications arising out of this report.

#### **8. CARBON REDUCTION IMPLICATIONS**

- 8.1 There are no direct carbon reduction implications arising out of this report.

## **9. PLANNING AND COMMUNITY SAFETY IMPLICATIONS**

9.1 There are no direct planning or community safety implications arising out of this report.

## **10. RECOMMENDATIONS**

10.1 That contribution to the Liability section of the Insurance Fund is set at £1,615,000 for 2014/15

10.2 That the projected surplus in the balance of the Insurance Fund at 31 March 2014 is retained.

## **11. REASONS FOR RECOMMENDATIONS**

11.1 A funding level of £1,615,000 is based on the recommendations of the funding study.

11.2 Retention of the projected surplus in the Insurance Fund will provide the Council with the option to use it to cover continuing environmental liabilities arising from the transfer of the Council's housing stock.

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## **REFERENCE MATERIAL / APPENDIX**

Risk & Insurance Section claims Database.  
Funding study from JLT Speciality Limited (Executive Summary appended)

## **SUBJECT HISTORY**

<b>Council Meeting</b>	<b>Date</b>
Audit & Risk Management Committee – Insurance Fund Annual Report	18 September 2013
Cabinet – Insurance Fund Annual Report	21 June 2012
Cabinet – Insurance Fund Annual Report	23 June 2011