

WIRRAL COUNCIL

AUDIT & RISK MANAGEMENT COMMITTEE

27 JANUARY 2015

SUBJECT	INSURANCE FUND BUDGET 2015/16
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 2015/16.
- 1.2. The Budget for 2015/16 is £10,000 more than the agreed Budget for 2014/15. Within this the budget for Schools has increased by £98,000 and the budget for General Fund services has reduced by £88,000.

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 proportion of premium irrespective of the profits generated by a policy.
- 2.3. Wirral Borough 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 carefully considered mixture of external and self-insurance is needed.
- 2.6. The Authority wholly self-insures those risks that have the capacity to generate relatively 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 insurer 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 relative 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.

Type of Insurance	Aggregate Deductible 2014/15	Aggregate Deductible 2015/16
Combined Liability	£2,500,000	£3,500,000
Material Damage & Business Interruption (Fire)	£ 500,000	£ 500,000
Material Damage & Business Interruption (Storm/Flood/Burst Pipes)	£1,000,000	£1,000,000
Comprehensive Motor	£ 200,000	£ 200,000
Fidelity Guarantee	£ 25,000	£ 25,000
Loss/Damage to Equipment	Unlimited	Unlimited
Glazing (Schools)	Unlimited	Unlimited

Insurance Contracts

- 2.9. The premiums charged in recent years in respect of the three principal risks covered by the Insurance Fund are detailed below.

a. COMBINED LIABILITY

The terms of this contract gave the Council an option to extend for 2 years from 1 April 2015. As reported to this committee on 25 November 2014 agreement was reached with insurers on a premium increase of £25,000 (14%) for 2015/16 and an increase in the annual aggregate deductible. The market for local government insurance risks has experienced a period of rate correction and other authorities have faced increases of more than 100%. Given the risk that a procurement exercise at this point could potentially result in an even greater premium and / or a reduction in cover I reported that in my opinion the terms were most likely the best available. As such the contract has been extended

However stabilisation in claims costs together with changes in the civil justice system has enabled me to reduce the Insurance Fund contribution

from £1,615,000 to £1,575,000 for 2015/16. This means that overall the budget for Liability will be slightly lower than in 2014/15.

Claims handling costs are also expected to rise slightly as the contract allows for an annual Average Earnings Index increase in respect of this element.

The table below shows how costs have changed in recent years.

Year	Premium	
	External Insurance*	Insurance Fund
	£000	£000
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
2015/16	229	1,575

* Exclusive of claims handling charges.

b. **MATERIAL DAMAGE AND BUSINESS INTERRUPTION**

The Material Damage policy was tendered in 2013/14 at which point cover was removed for damage arising from storm flood and burst pipes for all properties other than schools. It was also agreed to change the cover for damage from terrorism risks to a 'first loss' basis. These reductions in cover explain the fall in External Insurance premiums from 2014/15 onwards shown in the table below.

The Long Term Agreement means that the lower premium rates will continue for 2015/16. However a predicted rise in rebuilding costs is expected to place some upward pressure on external premiums. This will be partially offset by property disposals and the Community Asset Transfer programme. No change in the Insurance Fund contribution is anticipated. There are no claims handling charges for these classes of insurance as they are managed within existing resources.

Year	Premium	
	External Insurance	Insurance Fund
	£000	£000
2010/11	333	300
2011/12	329	300
2012/13	312	300
2013/14	311	300
2014/15	259	300
2015/16	271	300

c. **COMPREHENSIVE MOTOR**

A competitive tender was held prior to expiry of the existing Long Term Agreement for this policy on 31 March 2014. The tender was won by the existing insurer Zurich Municipal on very similar terms to the previous contract. However an increase in the size of the fleet (relating to gritting vehicles and vehicles supporting highway verge maintenance) has led to an increase in the Insurance Fund contribution to meet potential additional claims. It is expected that there will be pressure on Motor premiums in future years following a recent European Court judgment which extends the definition of the categories of vehicles that require compulsory third party Motor insurance. This will increase the size of the Council's insured fleet.

Year	Premium	
	External Insurance**	Insurance Fund
	£000	£000
2010/11	44	65
2011/12	35	70
2012/13	33	70
2013/14	30	70
2014/15	35	70
2015/16	35	80

** Exclusive of claims handling charges.

Other

2.10 In addition to the three main classes of insurance the Authority also procures external insurance for a number of smaller risks. One of these – Engineering Inspection and Insurance was also subject to competitive tender in 2014. The tender was won by the existing insurer Zurich Municipal on very similar terms to the previous contract. An annual Average Earnings Index increase forms part of the terms for the Inspection contract and this has been incorporated into the estimate for 2015/16.

2.11 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.

Administration

2.12 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 provides an internal and external consultancy service 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 individual Liability insurance claims remains a significant element.

2.13 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 2015/16 the consultancy fees for schools have increased because schools premiums will be greater than in 2014/15 and also as a result of a small increase in the percentage overhead.

2.14 Below is a breakdown of the estimated administration expenditure and income:-

	Budget 2014/15	Budget 2015/16
	£	£
<u>Spend</u>		
Staffing & running costs	233,000	214,000
Insurance Brokers	10,000	10,000
Other professional fees	0	5,000
Figtree claims database	0	10,000
Total	243,000	239,000
<u>Income</u>		
Consultancy – schools	83,000	112,000
Consultancy - Academy schools	40,000	40,000
General Fund – administration	120,000	87,000
Total	243,000	239,000

Insurance Fund Budget 2015/16

2.15 The Insurance Fund Budget is shown in the Appendix. The table below compares the Budget for 2015/16 with the Budget for 2014/15.

	Budget 2014/15	Budget 2015/16
	£	£
Schools	912,000	1,010,000
General Fund	2,118,000	2,030,000
Academies	40,000	40,000
Total	3,070,000	3,080,000

2.16 The 2015/16 Budget of £3,080,000 represents an increase of £10,000 (0.3%) compared with the Budget for 2014/15. The increased budget for schools results partly from the inclusion of 3 schools excluded from the 2014/15 figures because they had been expected to convert to Academy status in 2014/15 but did not do so. However it also reflects a further rise in schools share of liability claim costs and the changed basis for allocating administration costs. Despite the increase, a benchmarking exercise conducted by the Risk & Insurance team showed that school insurance rates are considerably below commercial available premiums. These factors have resulted in a reduced 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. No insurance procurement exercises are scheduled to take place that will affect costs for 2015/16. This provides a greater degree of certainty that actual costs will be within those budgeted.
- 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 rebuild reserves.
- 3.3 If further 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. Service Level Agreements also make schools liable for all risk and insurance costs for a given financial year unless they indicate by the preceding September that services will not be required.
- 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 remains too early to calculate the impact of the new rules as patterns and market behaviours have not yet settled. It is expected that legal costs per settled case will reduce but 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 will have implications for liability funding requirements in the future. It is not yet clear whether overall the impact will be positive or negative.

4.0 OTHER OPTIONS CONSIDERED

- 4.1 No other options were considered.

5.0 CONSULTATION

- 5.1 The methodology for calculating insurance costs for schools has been shared with the Wirral Headteachers Board.

6.0 OUTSTANDING PREVIOUSLY AGREED ACTIONS

- 6.1 None

7.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

7.1 There are no direct implications for these groups

8.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

8.1. The 2015/16 Insurance Fund Budget of £3,080,000 is an increase of £10,000 (0.3%) on the Budget for 2014/15. Whilst the cost to Schools is to increase by £98,000 there will be a reduction of £88,000 to General Fund services. Income from work for Academies is expected to generate income of £40,000 in 2015/16. This is offset directly against costs to the General Fund.

8.2. 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.

9.0 LEGAL IMPLICATIONS

9.1 There are no direct implications arising from this report.

10.0 EQUALITIES IMPLICATIONS

10.1 There are no direct implications arising from this report.

11.0 CARBON REDUCTION AND ENVIRONMENTAL IMPLICATIONS

11.1 There are no direct implications arising from this report.

12.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

12.1 There are no direct implications arising from this report

13.0 RECOMMENDATION

13.1 That the Insurance Fund Budget 2015/16 be agreed.

14.0 REASONS FOR RECOMMENDATION

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

REPORT AUTHOR: Mike Lane
Risk & Insurance Officer - Financial Services Division
telephone: 0151 666 3413
email: mikelane@wirral.gov.uk

APPENDIX

Comparison of the Insurance Budgets for 2014/15 and 2015/16

REFERENCE MATERIAL

Risk & Insurance Section Database
Zurich Municipal and Teceris 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
Audit & Risk Management – Insurance Fund Budget 2014/15	28 January 2014

APPENDIX

WIRRAL COUNCIL

INSURANCE FUND BUDGET

Budget 2014/15Budget 2015/16

Expenditure

Class of Insurance	External Premia £	Insurance Fund Contributions £	Total £	External Premia £	Insurance Fund Contributions £	Total £
Liabilities	296,000	1,615,000	1,911,000	325,000	1,575,000	1,900,000
Fire	257,000	300,000	557,000	271,000	300,000	571,000
Motor	40,000	70,000	110,000	40,000	80,000	120,000
Other	194,000	55,000	249,000	197,000	53,000	250,000
Management Account			243,000			239,000
Total Expenditure			<u>3,070,000</u>			<u>3,080,000</u>
Income						
Academies – Consultancy			(40,000)			(40,000)
Schools - Consultancy			(83,000)			(112,000)
Schools - Premiums			(829,000)			(898,000)
General Fund – Premiums and Administration			(2,118,000)			(2,030,000)
Total Income			<u>(3,070,000)</u>			<u>(3,080,000)</u>