



Audit and Risk Management Committee
Monday, 30 January 2017

REPORT TITLE:	Insurance Fund Budget 2017-18
REPORT OF:	Assistant Director: Finance

REPORT SUMMARY

This report sets out the elements which make up the Insurance Fund, the cost of running the Risk & Insurance Section and the Budget for 2017/18.

The Budget for 2017/18 is £135,000 less than the agreed Budget for 2016/17.

The Insurance Fund Budget affects all Wards within the Borough.

RECOMMENDATION/S

1. That the Insurance Fund Budget 2017/18 be agreed.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION/S

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

2.0 OTHER OPTIONS CONSIDERED

- 2.1 No other options were considered.

3.0 BACKGROUND INFORMATION

Introduction

- 3.1. 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.
- 3.2 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.
- 3.3. 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.
- 3.4. 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

- 3.5 To achieve overall best value in funding insurable losses a carefully considered mixture of external and self-insurance is needed.
- 3.6 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.
- 3.7 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

- 3.8 Detailed below are the principal risks which the Council currently self-insures together with the probable maximum sum (subject to contractual indemnity) the Council might have to pay for losses in any given financial year. The sum relating to Casualty (Liability) will change in 2017/18. This contract is currently the subject of a tender exercise which will determine both the premium and the aggregate deductible.

Type of Insurance	Aggregate Deductible 2016/17	Aggregate Deductible 2017/18
Casualty	£3,598,000	To be confirmed
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
Crime	£ 25,000	£ 25,000
Loss/Damage to Equipment	Unlimited	Unlimited
Glazing (Schools)	Unlimited	Unlimited

Insurance Contracts

- 3.9. The premiums charged in recent years in respect of the three principal risks covered by the Insurance Fund are detailed below. Premiums for all external insurance contracts are being impacted by the rises in Insurance Premium Tax (IPT). An increase from 9.5% to 10% which came into effect on 1 October 2016 will be followed by a further increase to 12% in June this year. The overall impact of these increases has been mitigated by the extent of the self-insurance programme and the decision to underwrite further classes of risk entirely in house.

a. CASUALTY (LIABILITY)

As indicated above this policy is the subject of an ongoing tender exercise. However the tender has generated significant competition for the contract and I am confident that the actual cost of premiums and claims handling charges will be within the assumptions on which the estimates have been based.

I am also confident that the Council's maximum liability for claims generated in 2017/18 (the annual aggregate deductible) will be no greater than the current figure. This and the continued low volume and cost of claims being received enables me to reduce the Insurance Fund contribution to £1,400,000.

Whilst claims handling costs will also be determined by the outcome of the Casualty tender I expect that they too will be within the figure I assumed for the purpose of the budget. The introduction of self-handling of claims for low value property damage has reduced the number of

claims which insurers would be required to manage. This will be reflected in their quotations for claims handling for 2017/18 and beyond.

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

<i>Year</i>	Premium	
	External Insurance*	Insurance Fund
	£000	£000
2012/13	155	1,550
2013/14	175	1,550
2014/15	204	1,615
2015/16	229	1,575
2016/17	247	1,475
2017/18	217	1,400

* 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 and leased premises. 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 into 2017/18. A forecast rise in rebuilding costs and the increase in IPT is expected to place some upward pressure on external premiums. This will be broadly offset by property disposals and the conversion of some schools to Academies. There are no claims handling charges for these classes of insurance as they are managed within existing team resources. Overall material damage costs for 2017/18 are expected to be around £3,000 greater than those for 2016/17.

<i>Year</i>	Premium	
	External Insurance	Insurance Fund
	£000	£000
2012/13	312	300
2013/14	311	300
2014/15	259	300
2015/16	271	300
2016/17	266	250
2017/18	269	250

c. **COMPREHENSIVE MOTOR**

I have exercised an option to extend this contract for a further two years with effect from 1 April 2017. This was following insurers' confirmation that there would be no change in premium per vehicle in 2017/18. However the change in Insurance Premium Tax will lead to an increase in the external insurance premium. No change to the level of the Insurance Fund contribution is forecast.

Year	Premium	
	External Insurance**	Insurance Fund
	£000	£000
2012/13	33	70
2013/14	30	70
2014/15	35	70
2015/16	35	80
2016/17	40	80
2017/18	41	80

** Exclusive of claims handling charges.

Other Risks

- 3.10 In addition to the three main classes of insurance the Authority also procures external insurance for a number of smaller risks. There are now fewer externally insured risks following a decision in 2016 to introduce wider self-insurance. Although the basic premiums received by the Insurance Fund for underwriting these risks is broadly similar to those which were formerly paid to external insurers the Council does not pay Insurance Premium Tax on contributions to its Fund. This means that the overall cost is less.
- 3.11 A range of other risks including loss of equipment and damage to glazing are already fully self-insured. These generate modest losses and as a result the associated internal premium is also relatively small.

Administration

- 3.12 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.
- 3.13 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.
- 3.14 Below is a breakdown of the estimated administration expenditure and income:-

	Budget 2016/17	Budget 2017/18
	£	£
<u>Spend</u>		
Staffing & overhead recharges	248,000	233,000
Insurance Brokers	10,000	6,000
Other professional fees	11,000	11,000
Figtree claims database	10,000	10,000
Total	279,000	260,000
<u>Income</u>		
Consultancy – schools	108,000	99,000
Consultancy - Academy schools	17,000	34,000
General Fund	154,000	127,000
Total	279,000	260,000

Insurance Fund Budget 2017/18

- 3.15 The Insurance Fund Budget is shown in the Appendix. The table below compares the Budget for 2017/18 with the Budget for 2016/17.

	Budget 2016/17	Budget 2017/18
	£	£
Schools	970,000	893,000
General Fund	1,998,000	1923,000
Academies	17,000	34,000
Total	2,985,000	2, 850,000

- 3.16 The 2017/18 Budget of £2,850,000 represents a reduction of £135,000 (4.5%) compared with the Budget for 2016/17. The forecast of greater income from Academies reflects the fact that more Academies have chosen to retain the services of the Risk and Insurance team than had been anticipated when the 2016/17 budget was prepared.

4.0 FINANCIAL IMPLICATIONS

- 4.1 The 2017/18 Insurance Fund Budget of £2,850,000 is a reduction of £135,000 (4.5%) on the Budget for 2016/17.

5.0 LEGAL IMPLICATIONS

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

6.0 RESOURCE IMPLICATIONS: ICT, STAFFING AND ASSETS

- 6.1 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.

7.0 RELEVANT RISKS

- 7.1 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. However the tender for Casualty insurance which is currently taking place does create a degree of uncertainty around the actual costs will be incurred for 2017/18.
- 7.2 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.
- 7.3 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.
- 7.4 The reserve held for property risks means that the Fund could currently withstand two consecutive years containing individual large losses. However, given the scale of self-insurance in respect of this risk, it would be necessary to increase the Insurance Fund contribution for this exposure in this scenario.
- 7.5 The civil justice system remains unstable. Behavioural and claims volume changes which followed the Jackson process reforms indicated in previous reports continue. The government has recently announced further changes. Whilst these are generally expected to have a positive impact on claims funding requirements, unanticipated developments may still occur that could result in increased funding pressures. Claimant solicitors continue to move focus away from public liability claims and into more profitable areas such as employers liability disease work. Further similar developments could negatively impact on future budgets.

8.0 ENGAGEMENT/CONSULTATION

- 8.1 No specific consultation has been undertaken in relation to the Insurance Budget.

9.0 EQUALITY IMPLICATIONS

- 9.1 There are no equality implications arising directly from this report.

REPORT AUTHOR: *(Mike Lane)*
(Manager: Risk and Insurance)
telephone: (0151) 666 3413
email: mikelane@wirral.gov.uk

APPENDICES

Comparison of Insurance Budgets for 2016/17 and 2017/18

REFERENCE MATERIAL

Risk & Insurance Section Database

Zurich Municipal and Teceris Claims Management claims records.

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Cabinet - Insurance Fund Budget 2013/14	29 November 2012
Audit & Risk Management – Insurance Fund Budget 2014/15	28 January 2014
Audit & Risk Management – Insurance Fund Budget 2015/16	27 January 2015
Audit & Risk Management – Insurance Fund Budget 2016/17	17 February 2016