

Audit and Risk Management Committee
Monday, 29 January 2018

REPORT TITLE:	Insurance Fund Budget 2018/19
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 2018/19.

The Budget for 2018/19 is £85,000 (2.98%) more than the agreed Budget for 2017/18. The increased costs have fallen on schools due to changes in the claims experience and values at risk. There is no increase in the overall cost to the General Fund in 2018/19

The Insurance Fund Budget affects all Wards within the Borough.

RECOMMENDATION/S

1. That the Insurance Fund Budget 2018/19 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 contracts for Material Damage & Business Interruption and Crime will be the subject of a procurement exercise in the coming months which could lead to changes in the aggregate deductibles for these classes of business.

Type of Insurance	Aggregate Deductible 2017/18	Aggregate Deductible 2018/19
Casualty	£3,200,000	£3,200,000
Material Damage & Business Interruption (Fire)	£ 500,000	To be confirmed
Material Damage & Business Interruption (Storm/Flood/Burst Pipes)	£1,000,000	To be confirmed
Comprehensive Motor	£ 200,000	£ 200,000
Crime	£ 25,000	To be confirmed
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) which in June 2017 rose from 10% to 12%. The overall impact of this increase has been mitigated by the extent of the self-insurance programme.

a. CASUALTY (LIABILITY)

This policy was the subject of a competitive procurement exercise in 2016-17 which resulted in a higher limit of cover at a reduced premium. However after the contract was awarded The Lord Chancellor announced a change in the discount rate. This figure is used to help set compensation pay-outs when people suffer serious injuries. The rate was reduced from +2.5% to -0.75% with effect from 20 March 2017. The effect of this has been to massively increase the cost of more serious claims and insurers are having to pass on this cost in higher premiums to their customers. The Council's Liability insurers announced at the end of October that as a result of the change they would require a significant increase in the premium for 2018/19. This left insufficient time to conduct a competitive tender. Moreover the increased claims costs are affecting all Liability insurers so I do not believe that a tender would result in lower premiums. I am able to partly offset the higher cost from a predicted surplus in the Insurance Fund. However the charges to Council services and schools for future years may need to rise further if the discount rate remains at the current level and higher premiums are sustained.

Members may recall that I commissioned an actuarial review of the cost of self-insured Liability claims and the adequacy of existing reserves and provisions. That report also made recommendations as to the level of the annual contribution to the Insurance Fund. The actuary is suggesting that future claims costs could be greater than we have experienced in recent years and that the contribution should rise to accommodate this. So I am increasing the Insurance Fund contribution for 2018/19 by £50,000 to £1,450,000.

External claims handling costs under the current contract are lower than in previous years because the Council took on responsibility for the handling of claims for low value property damage from 1 April last year. I expect those lower costs which were introduced in 2017/18 to continue for 2018/19.

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

Year	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
2018/19	252	1,450

* Exclusive of claims handling charges.

b. **MATERIAL DAMAGE AND BUSINESS INTERRUPTION**

The existing Long Term Agreements for these policies expire on 29 June this year. As such a competitive procurement exercise will need to be conducted. This creates a degree of uncertainty in relation to the premiums for 2018/19 and beyond. However I am confident that there will be significant competition for these risks and have assumed that premium rates will be no greater than at present.

To prepare for the procurement exercise I commissioned professional valuations of a representative sample of the Council's property portfolio. This indicated that the existing sums insured for some properties were inadequate and should be increased. Those higher sums insured have been factored into the forecast for 2018/19. This has placed some upward pressure on external premium costs. This is offset to a degree by property disposals. There are no claims handling charges for these classes of insurance as they are managed within existing team resources.

Year	Premium	
	External Insurance	Insurance Fund
	£000	£000
2013/14	311	300
2014/15	259	300
2015/16	271	300
2016/17	266	250
2017/18	269	250
2018/19	284	250

c. **COMPREHENSIVE MOTOR**

This contract is subject to a Long Term Agreement until 31 March 2019. As such I would not ordinarily expect premium rates to change. However the cost of third party motor claims is also being severely impacted by the change in the discount rate referred to above. As such the Council's Motor insurers have also indicated that they require a significant percentage increase in the premium. However because the Motor insurance premium is much smaller than that for Casualty the financial impact is more modest. External claims handling charges will rise by the increase on the index of Average Earnings as allowed for in the contract. 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
2018/19	50	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 amount of the team's capacity devoted to managing liability insurance claims has also increased with the introduction in April 2017 of self-handling of low value claims for damage to third party property.
- 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 2017/18	Budget 2018/19
	£	
<u>Spend</u>		
Staffing & overhead recharges	233,000	218,000
Insurance Brokers	6,000	5,000
Other professional fees	11,000	11,000
Figtree claims database	10,000	8,000
Total	260,000	242,000
<u>Income</u>		
Consultancy – schools	99,000	89,000
Consultancy - Academy schools	34,000	40,000
General Fund	127,000	113,000
Total	260,000	242,000

Insurance Fund Budget 2018/19

- 3.15 The Insurance Fund Budget is shown in the Appendix. The table below compares the Budget for 2018/19 with the Budget for 2017/18.

	Budget 2017/18	Budget 2018/19
	£	£
Schools	893,000	972,000
General Fund	1,923,000	1,923,000
Academies	34,000	40,000
Total	2,850,000	2,935,000

4.0 FINANCIAL IMPLICATIONS

- 4.1 The 2018/19 Insurance Fund Budget of £2,935,000 is an increase of £85,000 (2.98%) on the Budget for 2017/18.

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 help to reduce the likelihood of any significant changes to the extent of cover or to external premiums. However the tender for Material Damage & Business Interruption, Terrorism, Museums All Risks and Crime insurance does create a degree of uncertainty around the actual costs which will be incurred for 2018/19.
- 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 There remains uncertainty in the civil justice system. On a positive note behavioural changes and the reduction in claims numbers which followed reforms enacted in recent years have continued. In addition the government had previously announced further changes which were generally expected to have a positive impact on claims funding requirements. However those which require primary legislation have been delayed. In addition unanticipated

developments may still occur which could result in increased claims costs. Claimant solicitors have continued to move away from Public Liability claims and into more profitable areas such as Employers Liability disease work. Further similar developments could negatively impact on overall claims costs. Both the insurance industry and the NHS have been badly affected by the change in the Discount Rate and the government is currently consulting on what the future rate should be and how often the rate should be reviewed. The results of that consultation are not expected before the middle of 2018. Even if this results in an improvement to the rate its impact will not be retrospective. Should it remain at the current level the increased premiums for Casualty and Motor insurance referred to in 3.9 will continue into future years.

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.

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APPENDICES

Comparison of Insurance Budgets for 2017/18 and 2018/19

REFERENCE MATERIAL

Risk & Insurance Section Database

Claims records for Protector Insurance, Zurich Municipal and Teceris Claims Management

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Audit & Risk Management – Insurance Fund Budget 2015/16	27 January 2015
Audit & Risk Management – Insurance Fund Budget 2016/17	17 February 2016
Audit & Risk Management – Insurance Fund Budget 2017/18	30 January 2017