



Audit and Risk Management Committee
Monday, 28 January 2019

REPORT TITLE:	INSURANCE FUND BUDGET 2019/20
REPORT OF:	Director of Finance and Investment

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 2019/20.

The overall Budget for 2019/20 is £10,000 more than the agreed Budget for 2018/19. The cost to General Fund services is £194,000 (10%) higher than for 2018/19.

The Insurance Fund Budget affects all Wards within the Borough.

RECOMMENDATION

1. That the Insurance Fund Budget 2019/20 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) which the Council might have to pay for losses in any given financial year. The contract for Comprehensive Motor insurance is the subject of a current procurement exercise which could lead to a change in the aggregate deductible for this class of business.

Type of Insurance	Aggregate Deductible 2018/19	Aggregate Deductible 2019/20
Casualty	£3,200,000	£3,200,000
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	£ 209,000	To be confirmed
Crime	£ 25,000	£ 25,000
Money	Unlimited	Unlimited
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 subject to Insurance Premium Tax (IPT) which is currently levied at 12%.

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 a subsequent change in the discount rate caused all insurers to increase premiums to their customers. In 2018/19 I was able to offset part of the higher cost from a predicted surplus in the Insurance Fund. I indicated in last year's report that the charges to Council directorates and schools for future years might need to rise if the discount rate remained at the current level and higher premiums were sustained. The higher premiums will continue for 2019/20. However once again I will be able to offset part of the cost from the Insurance Fund so that the cost to schools and General Fund services will be the same as in 2018/19.

Members may recall that the last actuarial review of the cost of self-insured Liability claims suggested that future claims costs could be greater than the Council has experienced in recent years and that the annual contribution to the Insurance Fund should increase to accommodate this. The increase was to be staggered over a number of

years. The contribution rose by £50,000 in 2018/19 and I am allowing for a further £50,000 increase in 2019/20.

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

Year	Premium	
	External Insurance*	Insurance Fund
	£000	£000
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
2019/20	252	1,500

* Exclusive of claims handling charges.

b. MATERIAL DAMAGE AND BUSINESS INTERRUPTION

This policy was the subject of a competitive procurement exercise in 2018 which resulted in a reduced premium. As the contract is subject to a Long Term Agreement I am confident that the lower premium rates will be sustained in 2019/20.

The overall premium is a product of the premium rates and the value of properties to be insured. Although that value has risen because of acquisitions and an increase in rebuilding costs the lower premium rates mean that the external insurance premium for 2019/20 will be substantially lower than in 2018/19. 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
2014/15	259	300
2015/16	271	300
2016/17	266	250
2017/18	269	250
2018/19	284	250
2019/20	252	250

c. COMPREHENSIVE MOTOR

As indicated in paragraph 3.8 this contract is the subject of a current procurement exercise. Whilst this creates uncertainty as to the premium rates to apply in 2019/20 there is significant competition for this class of insurance.

In view of this for the purpose of the budget I have assumed no change in rates for the new contract. However a modest rise in vehicle numbers has increased my forecast of the overall premium. I have also assumed rise in external claims handling charges under the new contract. No change to the level of the Insurance Fund contribution is forecast.

Year	Premium	
	External Insurance**	Insurance Fund
	£000	£000
2013/14	30	70
2014/15	35	70
2015/16	35	80
2016/17	40	80
2017/18	41	80
2018/19	50	80
2019/20	52	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 2017/18 of the 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 2018/19	Budget 2019/20
	£	
<u>Spend</u>		
Staffing & overhead recharges	218,000	225,000
Insurance Brokers	5,000	5,000
Other professional fees	11,000	1,000
Claims database	8,000	20,000
Total	242,000	251,000
<u>Income</u>		
Consultancy – schools	89,000	67,000
Consultancy - Academy schools	40,000	46,000
General Fund	113,000	138,000
Total	242,000	251,000

Insurance Fund Budget 2019/20

- 3.15 The Insurance Fund Budget is shown in the Appendix. The table below compares the Budget for 2019/20 with the Budget for 2018/19.

	Budget 2018/19	Budget 2019/20
	£	£
Schools	972,000	782,000
General Fund	1,923,000	2,117,000
Academies	40,000	46,000
Total	2,935,000	2,945,000

4.0 FINANCIAL IMPLICATIONS

- 4.1 The 2019/20 Insurance Fund Budget of £2,945,000 is an increase of £10,000 (0.3%) on the Budget for 2018/19. The cost to General Fund services is £194,000 (10%) higher than for 2018/19. This is because they are generating a greater percentage of Liability claims compared with schools than in recent years and because major assets acquired are generating additional Property insurance premiums.

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 Motor insurance does create a degree of uncertainty around the actual costs which will be incurred for 2019/20.
- 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.

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*
Senior Risk & Insurance Officer
telephone: (0151) 666 3413
email: mikelane@wirral.gov.uk

APPENDICES

Comparison of Insurance Budgets for 2018/19 and 2019/20

BACKGROUND PAPERS

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 2016/17	17 February 2016
Audit & Risk Management – Insurance Fund Budget 2017/18	30 January 2017
Audit & Risk Management – Insurance Fund Budget 2018/19	29 January 2018