

# **WIRRAL COUNCIL**

## **CABINET**

**25 JUNE 2009**

### **REPORT OF THE DIRECTOR OF FINANCE**

#### **INSURANCE FUND ANNUAL REPORT**

##### **1. EXECUTIVE SUMMARY**

1.1 This report provides a review of the Risk and Insurance activity during 2008/09 and the plans for 2009/10. It also details the current status of the liability, fire and motor claims fund and the impact of measures taken to improve the management of risk.

##### **2. BACKGROUND**

2.1 Since 1988 the Authority has self-insured a significant proportion of its legal liability both to members of the public and to other organisations for injury or damage to property that it may cause in carrying out its business. It also self-insures damage to Council buildings and damage to, and third party liability for, Council vehicles.

2.2 Self-funding is part of the overall Risk Management Strategy as it provides a greater incentive to deal with risk more effectively given that any reduction in claims directly benefits the Authority. The level of self insurance is set with reference to both the availability of a stable long term Insurance Fund and with regard to the appetite for risk.

2.3 Claims are met from the Insurance Fund with the Fund being maintained through annual contributions from all departments.

##### **3. REVIEW OF LIABILITIES**

3.1 The sums required to meet the cost of Fire and Motor claims can be readily estimated. However, the position in relation to liability claims is considerably more complex. In recent years the Authority has commissioned an annual actuarial study to assess the amount needed to fund anticipated liabilities for previous policy years. Given the cost and the fact that claims volumes remain historically low and costs stable, and having researched the approach of peer authorities, it was considered that a formal study every other year with a self-evaluation in each intervening year would be a more appropriate approach. A formal study was therefore not commissioned for 2008/09.

- 3.2 The self-evaluation considered the funding required for claims relating to financial years 1988/89 to 2008/09 based upon claims data as at the end of March 2009. To place the funding requirement in context Members may wish to note that for these years the liability fund has paid a total of £29.7 million to date. The evaluation used the 2007/08 actuarial report as its base but took account of payments made during the year, changes to the extent of known liabilities and an element for 2008/09 losses not included in the earlier formal actuarial report.
- 3.3 Based on a 90% degree of actuarial certainty as used in the last external actuarial report the self-evaluation suggests that the sum of £11.62 million was required at 31 March 2009 to meet outstanding liabilities for the years in question.
- 3.4 The table below compares the actual amounts held at 31 March 2009 in respect of all three classes of business with the proposed figures based upon the self-evaluation:-

| <b>Class</b>       | <b>Actual Provision<br/>31/03/09</b> | <b>Proposed Provision<br/>31/03/09</b> | <b>Difference</b> |
|--------------------|--------------------------------------|--|-------------------|
|                    | £                                    | £                                      | £                 |
| Combined Liability | 11,620,700                           | 11,620,700                             | 0                 |
| Property           | 4,106,400                            | 2,000,000                              | 2,106,000         |
| Motor              | 274,900                              | 274,900                                | 0                 |
| Total              | 16,002,000                           | 13,895,600                             | 2,106,000         |

- 3.5 The surplus in respect of the Property class resulted principally from the settlement of the claim for the major fire at Rock Ferry High School. This settlement has previously been reported to Members and I propose to return this sum to the General Fund balance.

#### **4. INSURANCE AND RISK MANAGEMENT 2008/09**

- 4.1 Throughout the year regular progress reports on work in the area of Risk and Insurance Management were presented to the Audit & Risk Management Committee and the Finance & Best Value Overview & Scrutiny Committee.
- 4.2 Improvements previously reported have been sustained through continuing efforts by departments to manage their liability risk more effectively. Allied to this is the 'firm but fair' stance on liability, a more active involvement in claims handling and the implementation of the counter claims fraud strategy. The number of new claims continues to reduce with around 85% of all claims and 90% of highways claims being successfully defended. The claims handling and legal services contracts are also helping to reduce both claims numbers and the overall cost to the Council of this area of risk.

- 4.3 The progress made over recent years has continued to receive external recognition. The Risk & Insurance Team submission relating to the innovative risk based approach to managing Highway liabilities which was an entry for the 2008 Local Government Chronicle awards was highly commended in its category. The Department of Adult Social Services Load Management Training Programme was highly commended at the 2008 ALARM (Association of Local Authority Risk Managers) awards.
- 4.4 During September / October 2008 three matters were heard by the Appeal Court. All were successful and the decisions made in the separate cases all set positive case law that was widely reported at the time and will be relied upon in future by other defendants.
- 4.5 The Insurance Fund budget for 2009/10 was presented to Cabinet on 27 November 2008. In agreeing the budget Cabinet noted the continuing improvement in the position of the Insurance Fund.
- 4.6 The Property Insurance tender was reported to Cabinet on 22 May 2008. Whilst savings were achieved Cabinet then agreed to extend the scope of the cover for essentially the same overall cost as in previous years. Significant time was spent preparing for the tendering of the Engineering and Motor Insurance contracts reported to Cabinet on 19 March 2009. This exercise also resulted in savings as the Council benefitted from a buoyant insurance market, a position which is expected to change before the forthcoming tender exercise for Liability insurance and claims handling.
- 4.7 The Risk Management Strategy was reviewed and presented to Cabinet on 23 July 2008. Following the refresh of the Corporate Plan an exercise was undertaken with Chief Officers to review the Corporate Risk Register and a draft document was submitted to Cabinet on 10 December 2008.
- 4.8 In relation to partnerships enhanced risk management arrangements were introduced to support the Local Strategic Partnership and baseline risk registers were produced for all Local Area Agreement (LAA) priorities and a risk based approach was adopted in carrying out the Sustainability Appraisal of the LAA. Guidance on managing risk was also incorporated into the new Partnership Toolkit.
- 4.9 The progress made by the Council in improving risk management arrangements was formally recognised by the Audit Commission in the 2008 Use of Resources assessment with the score for this area of work rising from 2 to 3.
- 4.10 The Risk & Insurance Team has continued to support departments with identifying and managing risks associated with projects forming part of the Strategic Change Programme. In increasing awareness of risk an overview of risk management was introduced to the Corporate Induction programme from January 2009.

## 5. INSURANCE AND RISK MANAGEMENT 2009/10

- 5.1 For 2009/10 regular reports on the progress of Insurance and Risk Management will continue to be presented to the Audit and Risk Management Committee. There will also include a regular update on significant risks as part of the quarterly Financial and Performance Monitoring reports presented to Cabinet.
- 5.2 In terms of individual tasks to be undertaken during the year the table below shows the principal areas and the target dates for completion.

| Tasks   | Target date             |
|---|-------------------------|
| Review of funding for insured liabilities                                       | May 2009<br>(completed) |
| Negotiate renewal of Property insurance contracts                               | June 2009               |
| Review of Corporate Risk Register   | June 2009               |
| Review of Corporate Risk Management Strategy                                    | July 2009               |
| Audit of external liability claims handlers' performance                        | August 2009             |
| Support Chief Officers reviewing the Corporate Risks                            | Autumn 2009             |
| Production of 2010/11 Insurance Fund budget                                     | November 2009           |
| Review of key departmental risks for 2010/11                                    | February 2010           |
| Procurement exercise for Liability insurance claims handling and legal defence  | March 2010              |
| Support the Corporate Improvement Group in managing the Corporate Risk Register | Ongoing                 |
| Embed a defined approach to managing risk in Council partnerships               | Ongoing                 |

## 6. FINANCIAL IMPLICATIONS

- 6.1 The more effective and pro-active approach to risk management has been reflected in the actuarial assessment / self evaluation of the amounts required in the Insurance Fund to meet current and future claims.
- 6.2 The surplus in the Insurance Fund at 31 March 2009 was £2.106 million. This can be transferred to the General Fund balance.
- 6.3 The Insurance Fund budget for 2010/11 is to be presented to the Cabinet in November 2009. The major area of uncertainty will be the cost of Liability insurance and claims handling as the contracts are subject to tender. The level of self-insurance negotiated with insurers will also determine the level of contribution to the Fund. These negotiations will take into account the ability to pay for self insured losses and the appetite for doing so based on the available benefits.

## 7. STAFFING IMPLICATIONS

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

**8. EQUAL OPPORTUNITIES IMPLICATIONS**

8.1 There are no direct equal opportunities implications arising out of this report.

**9. ENVIRONMENTAL IMPACT STATEMENT**

9.1 There are no direct environmental implications arising out of this report.

**10. LOCAL MEMBER SUPOPORT IMPLICATIONS**

10.1 The risk management initiatives apply to all wards.

**11. BACKGROUND PAPERS**

11.1 Risk & Insurance Section claims Database.

11.2 2008 Actuarial funding study and papers for the 2009 self-evaluation.

**12. PLANNING IMPLICATIONS**

12.1 There are no direct planning implications arising out of this report.

**13. RECOMMENDATIONS**

13.1 That the transfer of £2,106,000 to the General Fund balance be agreed.

13.2 That regular updates on the progress in Insurance and Risk Management be presented to the Audit & Risk Management Committee.

13.3 That the Insurance Fund budget for 2010/11 be presented to Cabinet in November 2009.

IAN COLEMAN  
DIRECTOR OF FINANCE