

CABINET

DATE OF MEETING: 2 JANUARY 2020

TITLE OF REPORT: **INSURANCE: OFFER FROM THE LOCAL GOVERNMENT MUTUAL**

Report of: **Head of Corporate Services**

Cabinet Member: **Councillor James Radley, Deputy Leader and Finance**

I PURPOSE OF REPORT

1.1 To consider the purchase of insurance from the Local Government Mutual. This report has been considered at the December Overview and Scrutiny Committee meeting.

2 OFFICER RECOMMENDATIONS

- 2.1 That insurance from the Local Government Mutual be procured, subject to a satisfactory offer being received as set out in Appendix I.
- 2.2 That delegated authority be given to the Head of Corporate Services, in consultation with the Deputy Leader and Finance Portfolio Holder, to enter into all necessary legal agreements and applications necessary to give effect to this decision.

3 BACKGROUND

- 3.1 Since the Council last reviewed its insurance arrangements, the Local Government Mutual (LGM) has been established. The LGM aims to provide a cost-effective alternative to traditional insurance and was established by fourteen local authorities, including Hart, working with the Local Government Association (LGA) in April 2019.
- 3.2 Cabinet approved the Council becoming a founding member of the LGM in April 2018.
- 3.3 The LGM is governed and controlled by its member local authorities. There are no shareholders seeking a financial return.
- 3.4 A local authority can join the LGM at any time through a simple application process, and members can give notice to leave the mutual and insure with third-party insurers whenever they choose.
- 3.5 At the meeting of the Overview and Scrutiny Committee on 17 December 2019 there was a substantial debate and significant answers provided, which assured the Committee and led to Overview and Scrutiny endorsing this approach to Cabinet for approval.

4 THE LOCAL GOVERNMENT MUTUAL

Purpose and rationale

- 4.1 LGM was established to bring down local government’s “Total Cost of Risk” by reducing external insurance premiums, centralising self-retained losses and introducing coordinated risk management and control.
- 4.2 Local government currently self-insures to an unusually high extent compared to other sectors, paying almost all its claims itself. Local authorities procure insurance for risks exceeding their own ‘retention’ (like the ‘excess’ in consumer insurance) and most also buy ‘stop-loss’ insurance, which caps their spending on claims *within* their own retention. Whilst some authorities, including Hart, have developed procurement collaborations, most councils procure insurance on their own through an OJEU process.
- 4.3 Central government through the Cabinet Office and Treasury since 2002 have encouraged public sector entities to evaluate more nuanced approaches to financing the costs of risk. Indemnity mutuals are a widely used approach both in the UK and internationally. They enable organisations which have similar risk exposures to obtain better value by pooling the costs of routine, expected claims and combining their purchasing power to procure insurance for high cost claims and for stop-loss cover to protect the pooled fund.
- 4.4 The LGM also aims to increase transparency for its members over the costs of cover, including the wraparound insurance, benchmarking of data between members, and the financial flows including the accumulation of surplus over time.

History

- 4.5 The LGM opened for business from April 2019. It was incorporated following a development project led by the LGA under the auspices of its Commercial Advisory Board. The LGM’s objectives, structure, constitution, Directors and management arrangements were agreed and implemented by a group of fourteen local authorities, including Hart. The LGA joined as a risk-placing member in July 2019.

Legal Background

- 4.6 The LGM is not a third-party insurance supplier to local authorities and is exempt from the Public Contracts Regulations 2015 (under the “Teckal” exemption). Legal advice procured by the LGA on behalf of its member councils is shared with all local authorities contemplating LGM membership.

5 PROTECTION

- 5.1 The LGM is a hybrid discretionary mutual, which means there are two levels of protection:
- The Mutual pools its financial resources through contributions from its members, to cover the cost of expected losses

- Insurance cover is procured to protect each member against large, unexpected losses, and the mutual insures against an accumulation of losses affecting its retained funds

5.2 The LGM procures its wraparound insurance through an OJEU compliant process.

5.3 The LGM's own insurance arrangements and constitution mean it will not need to seek additional funding from members during any financial year, so individual local authorities will not be asked to provide additional funding (the mutual procures stop-loss insurance to ensure this). Members are also covered against claims that may arise in the future relating to their period of membership in the usual way, through a mixture of reserves retained by the mutual to cover possible claims falling within its retention and insurance contracts covering potential higher value claims.

5.4 The LGM offers cover for all the risks for which local authorities currently obtain insurance in the market, and its protection includes cover against 'long-tail' claims which might arise in years to come, even in the event of a local authority having ceased to be a member in between.

Pricing

5.5 The LGM's pricing is based on the data presented by local authorities setting out the activities they are responsible for and the assets they use and own. The price offered will set out an actuarially obtained estimate of an authority's typical expenditure on expected claims, plus an element for operating costs, and the costs of the authority's segment of the mutual's 'wrap-around' insurance. Pricing doesn't need to add a margin for profit, and no undisclosed broker commissions or payments are included in the costs.

Governance and management

5.6 The LGM is a company limited by guarantee and each of its members participates in its governance and in the oversight of its business operations. The LGA and the Founding Members developed its launch constitution, and its Board currently includes three local authority Leaders or portfolio holders and two expert independent directors provided through CIPFA and the Government Actuary's Department. The Board also has the benefit of regular reports provided by an independent subject matter expert, the Chief Executive of the Association of Financial Mutuals.

5.7 The LGM's constitution ensures that its members control and direct its operations. The Board is elected by the membership through arrangements that reflect the LGA's own voting system and is accountable to its local authority members. Working committees drawn from officers representing its member councils will consider, review and propose policies and practices for the Board's consideration.

5.8 The LGM is an appointed representative of Regis Mutual Management Limited, which is authorised and regulated by the Financial Conduct Authority and its Directors are required to be Approved Persons by the FCA.

5.9 The LGM is managed by Local Government Mutual Management Services Ltd (LGMMSL), which is also an appointed representative and therefore permitted to carry on activities regulated by the FCA. LGMMSL is a joint venture between Regis Mutual Management Ltd and LGA Commercial Services Ltd.

Membership

5.10 Joining the LGM requires a formal Admissions process which relies on essentially the same data set as local authorities use in tendering for insurance. However, instead of a narrow focus on premium, which ignores the bulk of the costs of risk, the LGM admissions process seeks to quantify authorities' Total Cost of Risk (including losses from claims paid by the authority) so that a more rounded quantifiable appraisal can be made of its proposition.

Benefits

5.11 The most commonly understood benefits of mutuals are as follows:

- Control – the mutual is governed and controlled by its member local authorities
- Collaboration – member authorities will be supported to share and adopt best practice that reliably reduces losses from claims by improving risk management
- Cover – the mutual's protection policies for its retained risks are determined solely by its members for their benefit
- Costs – are limited to expected claims, operating costs and insurance – no undisclosed payments to third parties
- Transparency – every pound of income and expenditure is reported to the Board and the membership
- Scale economies and efficiencies – just as larger councils obtain keener deals in the insurance market, the collective spend of many local authorities combined in the mutual drives a stronger bargain. A single OJEU procurement enables the mutual to source the insurance requirements of all its members. Finally, collectively-based 'stop loss' cover for a group of councils is cheaper than a group of individual stop loss policies, and the stop loss insurance requirement is reduced, saving premium.
- Surpluses – will ultimately be returned to members, not shareholders. Individual local authorities' share of this surplus is quantified according to clear and transparent rules, and any local authority that leaves having contributed to the surplus will be entitled to receive a contribution back upon a distribution being made.

5.12 The LGM is able to learn from the recent experience of another indemnity mutual within the local government family, the Fire and Rescue Indemnity Company (FRIC). FRIC uses the same business model as LGM and is in its fourth year of operation, and its members have already benefited from reduced claims and risk transfer costs. It is building a surplus that belongs to its members.

6 FINANCIAL IMPLICATIONS

- 6.1 The exempt report at **Appendix I** sets out the financial implications of a decision to seek admission to the LGM. The application process also requires work by officers to ensure all necessary information is provided to the LGM to enable it to make a properly priced offer.

7 MONITORING OFFICER OBSERVATIONS

- 7.1 The LGA has obtained legal advice on behalf of its members which is attached as **Appendix 2**.

8 CONCLUSION

- 8.1 That subject to a satisfactory financial offer, the Council should procure its insurance from the Local Government Mutual.

Contact Details: Andrew Vallance, email: Andrew.Vallance@Hart.gov.uk

CONFIDENTIAL APPENDICES

Confidential Appendix 1 – exempt information

Confidential Appendix 2 – legal advice