

Crawley Borough Council

Report to Cabinet 21 March 2018

To Approve Options for the Council's Insurance

Report of the Head of Finance, Revenues, and Benefits – **FIN/441**

1. Purpose

- 1.1 This report seeks formal approval for Crawley Borough Council to become a founding member of a local government mutual insurance scheme.

2. Recommendations

- 2.1 The Cabinet is recommended to:

- a) Approve the Council's participation as a Founding Member of the new Local Government Mutual.
- b) Nominate the Leader of the Council to be appointed as a Founding Member committee member and to oversee and make strategic decisions in respect of the Mutual's build phase activity pending trading.
- c) Delegate authority to the Head of Finance, Revenues and Benefits in consultation with the Leader of the Council to approve and execute any documentation necessary to give effect to recommendation 2.1 (a) above. (*Generic Delegation 8 will be used to enact this recommendation*).
- d) To note that a further report with a business case for utilising the mutual would come back to Cabinet when the Council's current long term agreement for insurance cover comes to an end.

3. Reasons for the Recommendations

- 3.1 Local Government Mutual aims to offer the prospect of affordable, high quality risk transfer and risk management through a mutual structure for the benefit of the local government sector. It may make a valuable contribution to sector-wide efficiencies and financial stability. Participation in the manner described above allows the Council to contribute to the establishment of the new Mutual without exposing itself to any financial or operational risk.
- 3.2 To confirm there is no commitment to using the services of the Mutual at this stage or in the future, unless there is a justifiable business case.

4. Background

- 4.1 Councils currently spend hundreds of millions of pounds on insurance nationally. The Local Government Association (LGA) has been exploring options to develop a cost effective alternative to the conventional insurance market products and services available to local authorities.

- 4.2 A phase of research has been undertaken with a broad range of local authorities including interviews with LGA members, analysis of the current insurance models and talking to key providers in the market. A viable potential alternative identified is pooling the risk of LGA members to form a discretionary mutual, where all surpluses are retained in the mutual.
- 4.3 The LGA wants to work with a small number of leading authorities with a view to developing a new mutual for local government which will aim to offer comparable cover to LGA members at a competitive rate.
- 4.4 The LGA is confident that a local government mutual can deliver better cover and service at a reduced cost. By way of example, The Fire & Rescue Indemnity Company – set up in 2015 by nine fire authorities – achieved a surplus of £471,428 in its first year of trading – 12.5 per cent of their contributions, and has been nominated for industry awards.
- 4.5 Mutuals have an inherent interest in sharing best practice and supporting their members to manage risks more effectively, thereby helping to reduce risk related incidents over time.
- 4.6 The LGA is not asking founding members to change their insurance arrangements – the Mutual's board will operate a methodical admissions process.
- 4.7 Founding members would need to provide an elected member to join the Mutual's Board and help establish its governance and management arrangements and oversee its launch.

5. Proposal

- 5.1 There is an opportunity for Crawley Borough Council to join the Local Government Mutual as a founding member.
- 5.2 There is no obligation on Crawley Borough Council to utilise the Mutual subsequently. The existing contracts for insurance are due to be replaced on 1st April 2019 and a further Cabinet report would be come forward when the Council's agreement for insurance cover expires.
- 5.3 The Mutual would be owned and controlled by its members and professionally managed by Financial Conduct Authority authorised industry experts.
- 5.4 Founding Member Tasks

A company such as the Local Government Mutual acts through two bodies of people – its members and its board of directors.

The tasks of the Founding Members will in the ordinary course of events be limited to:

- a) subscribing to the memorandum of association of the Local Government Mutual in order to incorporate the company; and
- b) adopting the Mutual's Rules and new Articles of Association which will convert the new Mutual to mutual trading status and allow it to accept risks.

The tasks of new company's board of directors will be, inter alia, to:

- a) procure the Mutual management services;
- b) procure supporting insurance arrangements;
- c) adopt a business plan, prospectus and member admissions process; and

d) have general oversight of the build activity

6. Financial Implications

6.1 The Local Government Mutual will be a company limited by guarantee, and the guarantee will be set at £100 per member. This means that the legal liability borne by the Founding Members, once they join the mutual, will be limited to £100.

7. Other Implications

7.1 There are a few possible scenarios under which Founding Members could become liable for greater amounts than the legal liability borne limit of £100. These have a low probability and in each case steps can be taken to ensure the risk is controlled and limited.

8. Background Papers

8.1 None.

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