



**NOTTINGHAMSHIRE**  
**Fire & Rescue Service**  
*Creating Safer Communities*

Nottinghamshire and City of Nottingham  
Fire and Rescue Authority  
Finance and Resources Committee

# INSURANCE FUND

Report of the Chief Fire Officer

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**Agenda Item No:**

**Date:** 12 October 2012

**Purpose of Report:**

To request Members to approve in principle the creation of an insurance fund, subject to a valid business case which will be presented to a future Finance and Resources Committee.

## CONTACT OFFICER

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## 1. BACKGROUND

- 1.1 The Authority purchases insurance to cover a variety of risks. In the current financial year, the total cost of the insurance premium is £408k in respect of the various policies.
- 1.2 The motor insurance element of the premium is £196k. Members of this Committee may recall that last year it was reported that the Authority's insurers had broken the terms of our long term agreement due to the Authority's worsened motor claims history. This resulted in an increase in premium of £26k this year (an increase of 15%).
- 1.3 There are currently only two insurers in the market who are prepared to indemnify the Authority's motor risk, and this lack of competition exposes the Authority to the additional risk of increasing market prices.
- 1.4 The Service's internal Road Risk Group will be starting to look at how the number of motor accidents might be reduced in the future. Alongside this, it is proposed that the potential to partially self-insure motor risk using an insurance fund is explored, with a view to reducing revenue costs in the medium and longer term.

## 2. REPORT

- 2.1 The principle of a motor insurance fund is not a new concept and has previously been discussed by the Fire Authority as a way of potentially reducing revenue expenditure. Effectively, a sum of money is earmarked as an insurance fund, and is used to cover the cost of all motor claims in the year. This sum would come from the Authority's General Reserve, which is currently higher than the minimum level indicated by the risk assessment of reserves. Instead of paying an annual insurance premium to insurers, an annual charge is made against the revenue budget to top up the insurance fund. There are additional administrative costs e.g. for periodic actuarial valuations.
- 2.2 There is a risk that claims in any given year may exceed the value of the fund, and this risk is managed by purchasing "top-up" insurance to cover claims above a set value. In effect this is partial self-insurance and the potential benefits are that exposure to market risk is reduced and, if the business case is proven, that net savings are realised in terms of the annual cost of motor insurance. The insurance fund balance would be invested in the money market and earn interest income which could be used to top up the fund, although Members will be aware that investment interest rates are historically low at the moment.
- 2.3 A business case would need to be developed to demonstrate that an insurance fund would achieve increased value for money when compared to the Authority's current arrangements for motor insurance. The business case would also recommend an appropriate value for an insurance fund. The Business Risk Manager would prepare the business case, and seek expert advice on the subject to assist with this process.

- 2.4 The Authority would not be able to collaborate with another Authority to create a joint insurance fund because it would be outside of the Authority's powers to take on the risks of another organisation. However it is noted that Nottinghamshire County Council operates an insurance fund.

### **3. FINANCIAL IMPLICATIONS**

- 3.1 The financial implications of this proposal will not be clear until the business case has been prepared. These will be reported to Finance and Resources Committee when the business case is reported.
- 3.2 An estimated fee of £2k will be incurred for advice from insurance brokers to inform the preparation of the business case. This can be met from the existing consultancy fees budget.

### **4. HUMAN RESOURCES AND LEARNING AND DEVELOPMENT IMPLICATIONS**

There are no human resource or learning and development implications arising directly from this report.

### **5. EQUALITIES IMPLICATIONS**

An Equality Impact Assessment has not been undertaken because this report is seeking approval in principle, subject to a valid business case. Equalities implications will be assessed for the next report.

### **6. CRIME AND DISORDER IMPLICATIONS**

There are no crime and disorder implications arising directly from this report.

### **7. LEGAL IMPLICATIONS**

The Authority has the legal power to earmark a sum of money to be used as an insurance reserve.

### **8. RISK MANAGEMENT IMPLICATIONS**

The motor loss history is such that it now represents the largest insurable risk that the Authority faces. Combined with a lack of competition in a hardening insurance market, there is a risk that the Authority may not achieve best value by maintaining the level of risk that it currently transfers to insurers.

**9. RECOMMENDATIONS**

That Members approve in principle the creation of an insurance fund, subject to a valid business case which will be presented to a future Finance and Resources Committee.

**10. BACKGROUND PAPERS FOR INSPECTION (OTHER THAN PUBLISHED DOCUMENTS)**

None.

Frank Swann  
**CHIEF FIRE OFFICER**