

## **Report to Cabinet**

**Subject:** Local Government Association Insurance Mutual

**Date:** 28 June 2018

**Author:** Deputy Chief Executive & Director of Finance

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### **Wards Affected**

Borough-wide.

### **Purpose**

To propose that the Council applies to the Local Government Association (“LGA”) to become a founding member of a new “Local Government Mutual” company that is being set up to provide insurance services to local authorities.

### **Key Decision**

This is not a Key Decision.

### **Background**

- 1.1 Councils currently spend hundreds of millions of pounds on insurance nationally. The LGA has been exploring options to develop a cost effective alternative to the conventional insurance market products and services available to local authorities.
- 1.2 A phase of research was undertaken by the LGA with a broad range of local authorities which analysed the current insurance models in operation. This research identified a viable potential alternative to the traditional insurance model, where LGA members pool the risk to form a discretionary mutual, where all surpluses are retained in the Mutual or distributed to local authority members.
- 1.3 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. The Mutual would be owned and controlled by its members, and professionally managed by FCA authorised industry experts.
- 1.4 Over the last 12 months the LGA has been inviting local authorities, including Gedling Borough Council, to become Founding Members of “Local Government Mutual”. The LGA will also be a founding member and will help develop the new Mutual. The role of a founding member is to help

establish the mutual and oversee the initial work to develop an offer which can be considered as a viable alternative option to a conventional insurance model for local authorities.

- 1.5 Phase one will be the initial work associated with setting up a new company, and will include agreeing a constitution, undertaking a procurement exercise for professional services, establishing an admission process and overseeing initial marketing (subject to regulatory requirements).
- 1.6 During this phase, the founding members will be invited to share their insurance data to inform further modelling work and enable fully priced quotes for cover to each local authority and the LGA. This report relates to phase one of the process seeking approvals for the Council to become a founder member of the Mutual.
- 1.7 Phase two will begin once the Mutual is ready to offer cover to members. At this point founding members can decide whether to apply for full membership and take out cover with the Mutual (having undertaken the relevant best value consultation and business case) or to cease their membership.
- 1.8 The Mutual will set member contributions transparently in order to raise sufficient funds to meet expected claims (based on each council's claims history), and to procure stop-loss and aggregate claims insurances from its panel of insurers. By adopting this methodology, it is expected that sustainable price reductions will be delivered, and any surpluses would belong to the local authority members, which can be either distributed or utilised to provide further reductions in premium. Naturally this would only occur in accordance with the scale and duration of contribution to the Mutual's funds.
- 1.9 Local authorities do have the power to participate in a company for a commercial purpose under sections 1 and 4 of the Localism Act 2011 or for trading under s.95 of the Local Government Act 2003 which would require the preparation of a business case, should the Council become full members of the Mutual once it is established.
- 1.10 The new Mutual company was incorporated by the LGA on 1 May 2018 as LGAM Limited. This is because government approval is required for the use of the word "government" and FCA consent is required to use "mutual" in the company name. Relevant approvals are being sought to enable a change of name to "Local Government Mutual".

## **Proposal**

- 2.1 The new 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. The advantages of becoming a founding member are that Gedling could help to shape the operation of the Mutual from its inception and would be involved in the selection of insurance providers and underwriters. Another factor is that the Mutual needs to get to a certain level of 'critical mass' in order to commence trading.

2.2 Participation in the manner described below allows the Council to contribute to the establishment of the new mutual without exposing itself to any financial or operational risk:

- It is proposed that the Council becomes a Founding Member (i.e. subscribes to the memorandum of association) of a new company limited by guarantee (“Local Government Mutual”). The intention being that the “Local Government Mutual” develops into the new Mutual whose establishment is being facilitated by the Local Government Association;
- It is proposed that the Council’s Deputy Leader be appointed as a Founding Member committee member to oversee and make strategic decisions in respect of its initial phase of activity pending trading as a Mutual;
- It is proposed that the Council’s Chief Financial Officer shares its relevant risk transfer and protection data (.e. details of its insurance cover, premiums paid, and its insurance claim history) with the LGA officers working on the project on a strictly confidential basis;
- It is proposed that officers of the Council consider the business case for utilising the Mutual at the appropriate time, and report accordingly to Cabinet with a recommendation.

2.3 A company such as the “Local Government Mutual” acts through two bodies of people – its members and its Board of Directors. The LGA has now appointed two directors to the company in the first instance, and the current founding members approved those appointments.

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

- Subscribing to the memorandum of association of the “Local Government Mutual” in order to incorporate the company;
- Adopting the Mutual’s Rules and new Articles of Association which will convert the “Local Government Mutual” to formal mutual trading status and allow it to accept risks.

2.5 The tasks of the board of directors will be, inter alia, to:

- Procure the Mutual management services;
- Procure supporting insurance arrangements;
- Adopt a business plan, prospectus and member admissions process;
- Have a general oversight of the activity required to build the business of the Mutual.

- 2.6 No contribution to the new Mutual's set-up costs is sought from this Council.
- 2.7 There is no obligation on this Council to utilise the Mutual subsequently, but our founding membership would cease at that point.
- 2.8 In order to become a founder member there is an application form. It is proposed that authority is given to the Deputy Chief Executive and Director of Finance to complete and submit the application form.

### **Alternative Options**

- 3.1 The Cabinet could consider not becoming a Founding Member of the "Local Government Mutual". However the options for membership at a later date have not been established, and deferring membership would mean the Council has no opportunity to become involved in the set-up of the company and the rules relating to its operation.

### **Financial Implications**

- 4.1 No contributions to the "Local Government Mutual" set-up costs are being sought from the Council, and there is no obligation on the Council to use the Mutual once established. Liability to the Council as a Founding Member is limited by guarantee to the sum of £100.
- 4.2 As there is no definitive structure for the Mutual at this stage, the potential cost savings and/or benefits are unknown.
- 4.3 In respect of current insurance arrangements, the Council currently has a contract with an external provider which is due to expire on 31 March 2019 and cannot be extended. The procurement process for this will need to commence in summer 2018 and therefore due consideration will take place in establishing the most appropriate route to follow that does not place additional risk on the Council. This may mean that any decision to move insurance cover to the Mutual could be delayed beyond April 2019.

### **Appendices**

- 5.1 Appendix 1 – A paper of Frequently Asked Questions

### **Background Papers**

- 6.1 None.

### **Recommendations**

#### **THAT CABINET:**

- a) Approves the Council's participation as a Founding Member of the "Local Government Mutual", which is a new company limited by guarantee, from which to develop an insurance Mutual.
- b) Nominates the Deputy Leader to be appointed as a Founding Member

committee member of the “Local Government Mutual” to oversee and make strategic decisions in respect of its initial phase of activity pending trading.

- c) Delegates authority to the Deputy Chief Executive and Director of Finance to submit the Application for Membership of the “Local Government Mutual” as a Founding Member.
- d) Authorises the Deputy Chief Executive and Director of Finance to share the Council’s relevant risk transfer and protection data with the LGA officers working on the project on a strictly confidential basis.
- e) Notes that once the new Mutual is established, a report on options and recommendations for the Council to utilise the Mutual will be presented to Cabinet at the appropriate time.

### **Reasons for Recommendations**

A Mutual does not make profits for shareholders and any financial gains would belong to each local authority member. It is envisaged that the existence of another competitor in the restricted insurance market can not only improve the quality of insurance offered, but also drive down the cost of premiums to a more acceptable level. In order to do this the Mutual has to reach its critical mass which will allow it to operate and compete in this market. By being a founding member, the Council can hold influence over the set up and operation of the initial phase of its activity.

A Mutual is an alternative option for the transfer of insurable risks, and being a member as part of phase two (if agreed in a future Cabinet report), gives the opportunity to share in any surpluses that may be generated as business and participation grows in the longer term.