

PRINCIPAL SCRUTINY COMMITTEE

14 February 2005

CABINET

2 March 2005

INSURANCE FUND REVIEW

Report of Director of Finance

Contact Officer: Fred Lyon Tel No: 01962 848224, E-mail: flyon@winchester.gov.uk

RECENT REFERENCES:

CAB869 Insurance Fund Review 5 May 2004

EXECUTIVE SUMMARY:

The balance of the Insurance Reserve at 31st March 2004 was £760,595 and the Insurance Provision was £185,000. The Reserve meets liabilities that are covered by the terms of the Council's insurance policies but are not recoverable from the Insurer solely due to the excess. The Provision is to meet any liabilities arising from the previous insurer, Municipal Mutual Insurance (MMI), which entered 'run-off' in 1992. The balances have been reviewed and, based on the information available and the extent of current risk retained, the total balance of £570,000 has been recommended.

A review is currently under way of the Council's 'Total Cost of Insured Risk', including the total cost of insured incidents. When this review is completed the total balance on the Insurance Reserve will be recalculated in consultation with the appointed actuary.

Based on the advice provided to date it is recommended that £125,000 be released from the Insurance Reserve for the current year, and that the position be subject to annual review thereafter. It is proposed that £75,000 be returned to the General Fund and £50,000 to the HRA. This split being based on the historical profile of insurance premiums incurred on the two accounts over the last ten years, the period over which the surplus has accumulated.

RECOMMENDATIONS:

- 1 That the Provision of £185,000 in respect of MMI is retained until further information is made available about outstanding MMI liabilities.
- 2 That, subject to the matter not being called-in by Principal Scrutiny Committee, £125,000 is released from the Insurance Reserve, of which £75,000 is released to the Major Investment Reserve and £50,000 to the Housing Revenue Account.
- 3 That a review of the Insurance Reserve is undertaken on an annual basis.

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1 Introduction

- 1.1 A report reviewing the Insurance Fund was considered by Cabinet on 5 May 2004 and by Principal Scrutiny Committee on 6 July 2004.
- 1.2 It had been highlighted in previous budget reports that the balance on the Reserve should be reviewed. The skills to undertake such a task were not available in-house and therefore a firm of actuaries, Heath Lambert Public Sector Risks, were engaged to carry out a review.
- 1.3 The balance of the Insurance Reserve at 31st March 2004 was £760,595 and the Insurance Provision was £185,000.
- 1.4 The Reserve meets liabilities that are covered by the terms of the Council's insurance policies but are not recoverable from the Insurer solely due to the excess. The Provision is to meet any liabilities arising from the previous insurer, Municipal Mutual Insurance (MMI), which ceased trading in 1992.
- 1.5 The Reserve balance has been steadily increasing in recent years, mainly due to the low volume of claims being made against the fund and interest earned, but it has been difficult to ascertain whether or not the balance was sufficient to meet liabilities that may arise for previous years. Claims can be made for a retrospective period of up to six years in most instances, although in certain areas it could be ten years. The Courts may agree liability for periods beyond these if they so wish.

2 Actuarial Review

- 2.1 The initial Review was carried out with significantly less adequate information than was desirable. This stemmed from the necessary detailed, recorded information, relating to either claims or instances that could have led to a claim, not being easily available prior to January 2003. The Risk and Insurance Officer appointed in January 2003 identified this weakness early on and has taken the necessary action to remedy the problem from that date. It had been hoped that a follow up report would be brought to Cabinet in the autumn of 2004, however, the gathering of information has taken more time and effort than originally envisaged and resources were concentrated on completing the Risk Register. Hence the further review commissioned from the actuary will not be completed until the end of the current financial year.
- 2.2 The underlying message from the review was that the Reserve balance should reflect prudence and, until two or three years of more comprehensive data is available, caution should still be maintained when determining the level of the Reserve. An

annual review of the Insurance Fund should also be carried out using the data as it becomes available.

- 2.3 Heath Lambert's recommended figure for insurance balances, based on the current level of retained risk, was £570,000: this included the £185,000 MMI contingency and £100,000 specifically for HRA property subsidence in 2002/03 and prior. The Fund balances are significantly in excess of this but Heath Lambert recommended that not all of the surplus should be released until more information about the Council's loss experience was provided. A review of the current cost of retained risk along with the total cost of insured losses is currently under way.

3 Recommended Actions

- 3.1 In a straight comparison of the current combined balances that total £945,000, against the recommended balances of £570,000, there is a surplus of £375,000. However, Heath Lambert clearly indicated within their report that the lack of data available for previous years should result in a prudent approach to the release of any funds for at least two to three years.
- 3.2 Heath Lambert recommended that the Provision of £185,000 in respect of MMI was retained until further information is made available about outstanding MMI liabilities. Principal Scrutiny Committee posed the question of whether it would be cheaper to cover any risk by reinsurance instead. As MMI are still in the runoff period and are currently reviewing their liabilities it is felt prudent to wait until this further information is available and then decide on the most cost effective way to manage this risk.
- 3.3 It was recommended in report CAB869 that £125,000 be released from the Insurance Reserve for the current year. Bearing in mind the large excess of the current balance on the reserve over the balances recommended by the actuary, but also keeping to the prudent approach adopted by the Council, the recommendation to release £125,000 still stands. The remaining 'excess' balance of £250,000 will be covered in a further report in 2005/06. This may result in a recommendation for further release of balances or retention to cover more self insured risk, depending on the recommendations arising from the actuary's report and the ongoing risk and insurance review.
- 3.4 In the report to Cabinet in May 2004 a split of 4:1 between General Fund and Housing Revenue Account was recommended, with the £100,000 General Fund contribution being earmarked to the ICT reserve. However, further investigation has shown that on the basis of the premiums paid in recent years the split between the General Fund and Housing Revenue Account should be 60:40 with £75,000 being returned to the General Fund and £50,000 to the HRA. In view of comments made by Members at the time it is also recommended that the release to the General Fund should not be earmarked for any particular purpose but should be returned to the Major Investment Reserve where it will be available for whatever priorities are determined under the normal budgetary process.
- 3.5 The review of the current cost of retained risk, along with the total cost of insured losses, is being progressed. Consultation with the actuary will take place at the end of the financial year to agree a prudent balance for the Insurance Fund and the Fund's exposure to financial loss. Thereafter, it is proposed that a regular review of the Insurance Reserve be carried out on an annual basis, normally at the end of each financial year.

OTHER CONSIDERATIONS:4 CORPORATE STRATEGY (RELEVANCE TO):

4.1 Risk management and insurance is a core service supporting all Council activities.

5 RESOURCE IMPLICATIONS:

5.1 As indicated in section 3 of the report.

BACKGROUND DOCUMENTS:

Heath Lambert report dated April 2004 and files held in the Finance Department.

APPENDICES:

None

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