

CABINET

7 April 2010

INSURANCE RESERVE REVIEW

REPORT OF HEAD OF FINANCE

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RECENT REFERENCES:

[CAB1009: Insurance Fund Review, 2 March 2005](#)

[CAB1233: Insurance Reserve Review, 13 April 2006](#)

[CAB1836: Insurance Reserve Review, 20 April 2009](#)

EXECUTIVE SUMMARY:

Following an actuarial review of the Council's Insurance Provisions and Reserves, this report presents proposals for the level of insurance provisions and earmarked insurance reserves to be held for both the General Fund (GF) and the Housing Revenue Account (HRA) at 31 March 2010.

The proposals are:

1. to reduce the amounts of "provisions" by £8,735 for the General Fund and by £3,835 for the Housing Revenue Account, and
2. to reduce the level of earmarked insurance reserves held by £277 for the General Fund and by £2,318 for the Housing Revenue Account,

making overall net savings on both accounts.

RECOMMENDATIONS:

- 1 That the General Fund provision of £185,000 relating to the Municipal Mutual Insurance scheme of arrangement is retained.
- 2 That the Council reduces “other provisions” by £12,570, comprising £8,735 for the General Fund and £3,835 for the Housing Revenue Account.
- 3 That the levels of earmarked insurance reserves be reduced to the following levels at 31st March 2010:
 - (i) General Fund - £38,490
 - (ii) Housing Revenue Account - £46,900

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1 Introduction

- 1.1 The Council maintains earmarked insurance reserves for both the General Fund and the Housing Revenue Account. The balances held in these reserves at 31 March 2009 (per the Statutory Accounts) were as follows:

General Fund – £29,691

Housing Revenue Account - £45,279

- 1.2 Reserves are maintained to cover potential liabilities for the excess that would be borne by the Council in relation to items covered by the Council's insurance policies and not recoverable.
- 1.3 The Council also has made an accounting "provision" amounting to £325,098 in relation to specific liabilities.
- 1.4 In order to assess the appropriate amounts that the Council should both make provision for and hold in reserves a full actuarial review was commissioned from Hollandbury Limited. The full report has now been discussed with them and has been used as the basis for the recommendations in this report.

2 Provisions

- 2.1 An accounting "provision" is a charge to the Expenditure account relating to "a *liability of uncertain timing or amount*." The key aspect of this definition is that a provision is a liability existing at the Balance Sheet date, although there may be uncertainty about when it will be payable and the precise amount. Accounting guidance requires a provision to be made when:

- an entity has a present obligation (legal or constructive) as a result of a past event;
- it is probable that a transfer of economic benefits will be required to settle the obligation;
- a reliable estimate can be made of the obligation.

- 2.2 The Actuary's Report has identified £140,000 falling within this category (last year £152,570) and it is proposed to release £12,570 for this in 2009-10;

comprising £8,735 in relation to the General Fund and £3,835 in respect of the HRA.

- 2.3 The Council has previously made a provision in respect of the Municipal Mutual Insurance scheme of arrangement, for which £185,000 is being carried as a provision in the Accounts.
- 2.4 The Council was a member of the Municipal Mutual Insurance Ltd (MMI) which ceased issuing policies on 30 September 1992. The Council's maximum exposure in connection with the 'run off' liability of Insurer is stated within a six monthly statement issued by MMI. The provision of £185,000 reflects a 100% cover for the Council's liability.
- 2.5 Progress towards closure of liability is dependant on an appeal to a ruling by Mr Justice Burton issued on the 14th November 2008. The appeal was heard in November 2009 but the ruling has yet to be delivered.
- 2.6 The treatment of this potential MMI liability varies between councils with some holding reserves and others not. Given that the Council has previously made a full provision and that the appeal ruling is awaited, we are not proposing any changes to this amount at this time. The position will be kept under review.

3 Reserves

- 3.1 Reserve balances increase annually by contributions from Services and reduce by releases made to fund the actual costs of claims.

- 3.2 At the end of 2009/10 , if no action were taken the levels would stand at:

General Fund – £38,767

Housing Revenue Account - £49,218

- 3.3 This compares to an assessed requirement based on the Actuary's report of:

General Fund - £17,750

Housing Revenue Account - £30,250

- 3.4 The actuary has highlighted a shortfall in budgeted contributions for 2010-11. It is proposed to retain reserves to cover the predicted shortfall:

General Fund – £20,740

Housing Revenue Account - £16,650

- 3.5 It is therefore proposed to release the following amounts from the respective reserves at the year end:

General Fund – £277

Housing Revenue Account - £2,318

- 3.6 More detail is provided in the Appendix to this report.

OTHER CONSIDERATIONS:

4 SUSTAINABLE COMMUNITY STRATEGY AND CORPORATE BUSINESS PLAN (RELEVANCE TO):

- 4.1 Risk management and insurance supports the effective delivery of all of the Council's services in the delivery of the Sustainable Community Strategy and Corporate Business Plan.

5 RESOURCE IMPLICATIONS:

- 5.1 As indicated in the body of the report.

6 RISK MANAGEMENT ISSUES:

- 6.1 These are considered by the actuarial review and this report proposes the changes to reserves & provisions as recommended by the review.

BACKGROUND DOCUMENTS:

Winchester City Council Statement of Accounts 2008/09

Actuarial Review of Self-Insurance Fund – Hollandbury Ltd March 2010

Other background documents held in Financial Services Division

APPENDICES:

Appendix 1 - Summary of Proposed Insurance Reserves and Provisions at 31 March 2010

Appendix 1

**Winchester City Council
Insurance Reserves for 2009/2010**

	<u>General Fund</u>	<u>HRA</u>	<u>Total</u>	<u>HRA %</u>
Provisions				
At 31 March 2009	259,983	77,685	337,668	
Proposed write back	(8,735)	(3,835)	(12,570)	
At 31 March 2010	<u>251,248</u>	<u>73,850</u>	<u>325,098</u>	
Analysed as:				
MMI	185,098	0	185,098	
Liability	35,050	35,050	70,100	50%
Property	31,100	38,800	69,900	56%
Provisions required at 31 March 2010	<u>251,248</u>	<u>73,850</u>	<u>325,098</u>	
Reserves				
At 31 March 2009	29,691	45,279	74,970	
<u>less</u> 2009/10 Actual Costs Funded from Reserves	(18,284)	(45,711)	(63,995)	
<u>plus</u> 2009/10 Contributions from Services to Reserves	27,360	49,650	77,010	
Required Transfer in year	(21,017)	(18,968)	(39,985)	
Requirement At 31 March 2010 for 2009/10	<u>17,750</u>	<u>30,250</u>	<u>48,000</u>	
Analysed as:				
Housing stock	-	25,000	25,000	100%
Public Liability	2,500	-	2,500	-
Latent defects & miscellaneous	10,000	-	10,000	-
Emerging claims buffer	5,250	5,250	10,500	50%
At 31 March 2010	<u>17,750</u>	<u>30,250</u>	<u>48,000</u>	
Budgeted Contribution to Reserves 2010-11	27,360	49,650	77,010	64%
<i>Less</i> Actuaries Recommendation for 2010-11	48,100	66,300	114,400	58%
Proposed retained reserves from 2009-10	<u>20,740</u>	<u>16,650</u>	<u>37,390</u>	45%
Total Reserves Proposed at 31 March 2010	38,490	46,900	85,390	55%
Net Releases				
2009-10 Net Release of Reserves	(277)	(2,318)	(2,595)	89%
2009-10 write back of Provisions	(8,735)	(3,835)	(12,570)	31%
2009-10 Net Credit	<u>(9,012)</u>	<u>(6,153)</u>	<u>(15,165)</u>	41%