

CABINET - 13 APRIL 2006

PRINCIPAL SCRUTINY COMMITTEE - 13 APRIL 2006

INSURANCE RESERVE REVIEW

REPORT OF DIRECTOR OF FINANCE

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RECENT REFERENCES:

CAB869	Insurance Fund Review	5 May 2004
CAB1009	Insurance Fund Review	2 March 2005

EXECUTIVE SUMMARY:

The balance of the Insurance Reserves (General Fund and HRA) at 31st March 2005 was £745,272 and the Insurance Provision was £185,000. The Reserves meet 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, a total minimum balance of £475,000 has been recommended. However, it is not considered prudent to release the full amount at this stage and annual reviews are recommended.

The Council's 'Total Cost of Insured Risk' is now kept under continuous review, including the total cost of insured incidents. As part of this review the total balance on the Insurance Reserve is recalculated annually in consultation with the appointed actuary.

Based on the advice provided to date it is recommended that £125,000 be released from the Insurance Reserves for the current year. 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 ten years over which the surplus was 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 Reserves, 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 Reserves is undertaken on an annual basis.

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- 1.1 Reports reviewing the Insurance Reserves have been considered by Cabinet and by Principal Scrutiny Committee in 2004 and 2005.
- 1.2 It had been highlighted in previous budget reports that the balance on the Reserves should be reviewed. The skills to undertake this are not available in-house and therefore a firm of actuaries, Heath Lambert Public Sector Risks, were engaged to carry out the initial and subsequent annual reviews.
- 1.3 The balance of the Insurance Reserves (General Fund and HRA) at 31st March 2004 was £745,272 and the Insurance Provision was £185,000.
- 1.4 The Reserves meet 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 had been steadily increasing in recent years, mainly due to the low volume of claims being made against the fund and interest earned, but it had proved 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 Reviews

- 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 took the necessary action to remedy the problem from that date. Reports were brought to Cabinet in May 2004 and March 2005.
- 2.2 The underlying message from the reviews was that the Reserve balance should reflect prudence and, until a few more 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 Reserve should also be carried out using the data as it becomes available.
- 2.3 Heath Lambert's latest recommended figure for insurance balances, based on the current level of retained risk, is £475,000: this includes the £185,000 MMI contingency and £100,000 specifically for HRA property subsidence in 2002/03 and prior. The Reserve balances are significantly in excess of this and if Heath Lambert's recommended retention level is accepted a further sum of up to £270,000 could be

released for 2005/06. The review of the current cost of retained risk along with the total cost of insured losses currently under way has indicated that we should retain some provision for incurred but not reported claims.

3 Recommended Actions

- 3.1 In a straight comparison of the current combined balances that total £745,000, against the recommended balances of £475,000, there is a surplus of £270,000. However, Heath Lambert indicated within their earlier report that the lack of data available for previous years should result in a prudent approach to the release of funds.
- 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. MMI are still in the runoff period and are currently reviewing their liabilities so it is felt prudent to retain the existing provision as advised by Heath Lambert.
- 3.3 It was recommended in report CAB1009 that £125,000 be released from the Insurance Reserves for that year and this was agreed by Cabinet. It is recommended that a similar amount should be released now.
- 3.4 In the report to Cabinet in March 2005 the split between the General Fund and Housing Revenue Account was agreed at 60:40. 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 Further consultation with the actuary will take place at the end of the financial year 2006/07 to agree a prudent balance for the Insurance Reserve and the exposure to financial loss. A further report will be brought to Cabinet and Principal Scrutiny Committee before the end of June 2007 with recommendations for dispersal of the final surplus on the insurance reserves.

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 January 2006 and files held in the Finance Directorate.

APPENDICES:

None