

CABINET

20 April 2009

PRINCIPAL SCRUTINY COMMITTEE

21 April 2009

INSURANCE RESERVE REVIEW

REPORT OF HEAD OF FINANCE

Contact Officer: Alexis Garlick Tel No: 01962 848224 Email:
agarlick@winchester.gov.uk

RECENT REFERENCES:

CAB869: Insurance Fund Review, 5 May 2004

CAB1009: Insurance Fund Review, 2 March 2005

CAB1233: Insurance Reserve Review, 13 April 2006

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 held for both the General Fund (GF) and the Housing Revenue Account (HRA) at 31 March 2009.

The proposals are to increase the amounts of "provisions" by £74,885 GF and £77,685 HRA, and to reduce the level of earmarked insurance reserves held by £344,573 for the GF and £305,572 for the HRA, making overall net savings on both accounts.

RECOMMENDATIONS to Cabinet and Council:

- 1 That the General Fund provision of £185,000 relating to the Municipal Mutual Insurance scheme of arrangement is retained.
- 2 That the Council makes further provisions totalling £152,570, comprising £74,885 for the General Fund and £77,685 for the HRA.
- 3 That the levels of earmarked insurance reserves be reduced to the following levels at 31 March 2009:
 - (i) General Fund - £29,691
 - (ii) Housing Revenue Account - £45,279

RECOMMENDATION to Principal Scrutiny Committee

That the Committee considers whether to call-in the proposals or to make any recommendations to Council which will consider the report at its meeting on 22 April 2009.

CABINET20 April 2009PRINCIPAL SCRUTINY COMMITTEE21 April 2009INSURANCE RESERVE REVIEWREPORT OF HEAD OF FINANCE1 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 2008 (per the Statutory Accounts) were as follows:

General Fund – £382,000

Housing Revenue Account - £302,000

- 1.2 The Insurance Reserves were last reviewed in 2006 when £125,000 was released. In the intervening period the insurance has been tendered and it was thought prudent to await the conclusion of this process before making proposals for any significant changes to the reserves.
- 1.3 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.
- 1.4 The Council also has made an accounting "provision" amounting to £185,000 for a specific liability.
- 1.5 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 the Heath Lambert group. The full report has now been discussed with them and has been used as the basis for the recommendations in this report. The full report was only received on 15 April and the issues raised need to be considered by Council at its meeting on 22 April, so that the decisions made can be taken into account for the 2008/09 Statement of Accounts. For this reason, the Chairmen of the relevant meetings are being asked to consider the report as a late item requiring urgent consideration. Notice of the report was given in the April Forward Plan.

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 £152k falling within this category and it is proposed to make full provision for this at 31 March 2009.
- 2.3 The Council has previously made a provision in respect of the Municipal Mutual Insurance scheme of arrangement, for which £185k is being carried 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 £185k reflects a 100% funding of the Council’s liability.
- 2.5 Progress towards closure of liability is dependent upon the outcome of a notice of appeal to the House of Lords issued by MMI (and others) on 5 January 2009. The hearing window has been set between 2 June 2009 and 2 October 2009.
- 2.6 Although some councils are not making a full (100%) provision in respect of MMI, we are not proposing any reduction 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 2008/09 , if no action were taken the levels would stand at:
- General Fund – £374k
- Housing Revenue Account - £351k
- 3.3 This compares to an assessed requirement based on the Actuary’s report of:

General Fund – £30k

Housing Revenue Account - £45k

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

General Fund – £344,573

Housing Revenue Account - £305,572

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

OTHER CONSIDERATIONS:

4 CORPORATE STRATEGY (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.
- 5.2 The Revised Estimate for 2008/09 assumed a release of £185,000 in the General Fund. This proposal will result in a net movement (underspend) of £269,688 for the General Fund and £227,887 for the Housing Revenue Account.

BACKGROUND DOCUMENTS:

Actuarial Review of Self-Insurance Provisions – Heath Lambert April 2009

Winchester City Council Statement of Accounts 2007/08

Other background documents held in Financial Services Division

APPENDICES:

Summary of Proposed Insurance Reserves and Provisions at 31 March 2009

Appendix

**Winchester City Council
Insurance Reserves for 2008/2009**

| | <u>General Fund</u> | <u>HRA</u> | <u>Total</u> | <u>HRA %</u> |
|---|-------------------------|---------------|-----------------------|------------------|
| Provisions | | | | |
| At 31 March 2008 | 185,000 | - | 185,000 | |
| Transfer in year | 74,885 | 77,685 | 152,570 | |
| At 31 March 2009 | <u>259,885</u> | <u>77,685</u> | <u>337,570</u> | |
| Analysed as: | | | | |
| MMI | 185,000 | - | 185,000 | |
| Liability | 72,785 | 72,785 | 145,570 | 50% |
| Property | 2,100 | 4,900 | 7,000 | 70% |
| Provisions required at 31 March 2009 | <u>259,885</u> | <u>77,685</u> | <u>337,570</u> | |
| | | | | |
| Reserves | | | | |
| At 31 March 2008 | 382,000 | 302,000 | 684,000 | |
| <i>less</i> 2008/09 Actual Costs from Reserves to Services | (29,522) | (3,663) | (33,185) | |
| <i>plus</i> 2008/09 Contributions from Services to Reserves | 21,786 | 52,514 | 74,300 | |
| Transfer in year | (344,573) | (305,572) | (650,145) | |
| At 31 March 2009 | <u>29,691</u> | <u>45,279</u> | <u>74,970</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 | 10,900 | 10,900 | 21,800 | 50% |
| Actuary's fees | 2,500 | 2,500 | 5,000 | 50% |
| Shortfall in budgeted contribution levels for 2009/10 | 3,791 | 6,879 | 10,670 | 64% |
| Reserves required at 31 March 2009 | <u>29,691</u> | <u>45,279</u> | <u>74,970</u> | |