

# **WIRRAL COUNCIL**

## **AUDIT AND RISK MANAGEMENT COMMITTEE**

**28 SEPTEMBER 2010**

### **REPORT OF THE DIRECTOR OF FINANCE**

#### **INSURANCE FUND ACTUARIAL REVIEW**

##### **1. EXECUTIVE SUMMARY**

1.1 This report summarises the conclusions of the recent study undertaken by HJC Actuarial Consulting into the sum required to fund liability claims within the limits of the self-insured liability. It highlights continued improvement in the Insurance Fund and indicates the potential for reductions in contributions and a further return of resources to the General Fund.

##### **2. BACKGROUND**

2.1 On 24 June 2010 I reported to Cabinet on the position of the Insurance Fund as at 31 March 2010.

2.2 The report contained a self-evaluation of the funding required to meet self-insured liability losses for the period 1993/94 to 2009/10. That self-evaluation was based on figures provided in the last formal actuarial study undertaken in 2008 by IRMG a division of Aon the previous insurance brokers.

2.3 The self-evaluation indicated that the Insurance Fund was in surplus by £2.47m. Cabinet agreed to transfer that sum from the Insurance Fund to General Fund Balances.

2.4 The report stated that ascertaining the sum required to meet the cost of such losses with greater precision was a complex technical exercise. In line with established policy a formal actuarial study had been commissioned from HJC Actuarial Consulting. Output from the review was to be reported to Cabinet as soon it was available. The actuarial report has recently been received and analysed by officers and was presented to the Cabinet on 2 September 2010.

##### **3. ACTUARIAL STUDY**

3.1 Although they adhere to standard professional guidelines individual actuarial practices differ in their technical approach to the conduct of studies and in the content of their reports. As such direct comparison with the last formal study is not possible

3.2 The HJC report confirms the previous assessment in relation to the stabilisation of claims numbers and a continuation of the high percentage of repudiations especially in relation to highway claims.

3.3 HJC has advised that the minimum sum required to cover estimated future payments on claims already received and those which have yet to be reported is £6.2m. However I consider that a more conservative minimum figure of £7.5m is justified. This is because the purely technical approach adopted by actuaries cannot take account of some important additional factors.

- The pattern of claims can change. For example the most recent data contains a significant number of claims for damage to vehicles by potholes related to the severe winter. These are of relatively low value and so skew the average cost of claims downwards. This pattern is unlikely to be repeated meaning that actual average costs are likely to be higher than the actuaries have allowed for.
- There is uncertainty as to whether the current level of repudiations can be maintained given the anticipated pressures on Council budgets.
- The Wirral liability account is statistically too small to apply complex modelling processes with any accuracy. A single large claim can have a significant impact on the amount of funding required. For example since the study was completed two existing claims have had their reserves increased by almost £500,000.
- The regulations governing the claims process are under review it is difficult to predict the impact of proposed changes to civil procedure rules and claim governance legislation.

3.4 The table below compares the actual amount currently held in respect of Liability claims with the figure contained in the report.

<b>Class</b>	<b>Current Provision</b>	<b>Revised Minimum Recommended Provision</b>
	£m	£m
Combined Liability	10.9	7.5

3.5 HJC advises that a surplus of this level is the minimum reasonable for the short term needs of the Insurance Fund. This is because future payments from the Fund could increase significantly from those estimated.

3.6 The actuaries also indicated that the level of contribution to the Insurance Fund to meet claims for 2010/11 could be reduced to £1.5m. I agree with this assessment and consider that on current trends this level of contribution is sustainable.

3.7 The table below compares the revised recommended annual contribution to the Insurance Fund with the figure used in preparing the Insurance Fund budget for 2010/11.

<b>Class</b>	<b>Current Contribution 2010-11</b>	<b>Revised Contribution 2011-12</b>	<b>Difference</b>
	£	£	£
Combined Liability	2,100,000	1,500,000	600,000

3.8 Members may recall that the contribution figure reached a peak of £5.67m in 2004/2005. The revised contribution figure represents a reduction of 74% from this figure. This is attributable to improved claims handling and better management of liability risk.

3.9 The contribution for 2011/2012 could be reduced by £600,000.

3.10 The revised contribution figure could be used in preparation of the 2011/12 insurance budget which will be reported to Cabinet in November. Approximately £240,000 of the reduction would go to schools and the remaining £360,000 to the General Fund.

#### **4. RISK ASSESSMENT**

4.1 The actual cost of liability claims could be greater than the revised minimum recommended contribution. Similarly the revised annual contribution might also be less than the cost of claims for this year and next. However given that the sums result from a formal actuarial study and also take account of the more conservative approach proposed by officers this may be considered unlikely.

#### **5. FINANCIAL IMPLICATIONS**

5.1 The HJC fee for undertaking the actuarial study and producing the report is £5,150 excluding VAT.

5.2 The Insurance Fund currently has an estimated surplus of £3.4m above the anticipated minimum required to meet claims.

5.3 The contribution to the Insurance Fund for 2011/2012 could be reduced by £600,000 to £1.5m.

#### **6. STAFFING IMPLICATIONS**

6.1 There are no direct staffing implications arising out of this report.

#### **7. EQUAL OPPORTUNITIES IMPLICATIONS**

7.1 There are no direct equal opportunities implications arising out of this report.

#### **8. ENVIRONMENTAL IMPACT STATEMENT**

8.1 There are no direct environmental implications arising out of this report.

**9. LOCAL MEMBER SUPPORT IMPLICATIONS**

9.1 The risk management initiatives apply to all wards.

**10. BACKGROUND PAPERS**

10.1 Risk & Insurance Section claims Database.

10.2 Actuarial review from HJC Actuarial Consulting.

**11. PLANNING IMPLICATIONS**

11.1 There are no direct planning implications arising out of this report.

**12. RECOMMENDATION**

12.1 To note that £3.4m of the current reserve in the Liability section of the Insurance Fund has been transferred to General Fund Balances

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