

Report

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Report to:	Finance and Information Technology Resources Committee
Date of Meeting:	22 November 2011
Report by:	Executive Director (Finance and Corporate Resources)

Subject:	Actuarial Review of the Council's Self Insurance Fund
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1. Purpose of Report

1.1. The purpose of the report is to:-

- ◆ provide an update on the financial health of South Lanarkshire Council's self insurance fund, following an interim actuarial review.

2. Recommendation(s)

2.1. The Committee is asked to approve the following recommendation(s):-

- (1) that the conclusions of the interim actuarial report are noted
- (2) that the actions listed in Table 1 are approved
- (3) that it be noted that no further action is required at present to increase the balance of the self insurance fund

3. Background

- 3.1. South Lanarkshire Council (SLC) operates a self insurance fund to pay for purchased insurance cover, the settlement of excesses for liability and property claims against the Council and the cost of administering an in-house risk management section.
- 3.2. The Local Authority (Scotland) Accounts Advisory Committee (LASAAC) advises that regular actuarial reviews should be undertaken on insurance funds. The last review of the SLC fund took place in 2009. At this point, the fund had a surplus of £100,000 assuming wind up at 31 March 2009.
- 3.3. Following the review in 2009, it was recommended by the actuary to increase the balance of the insurance fund to protect the Council against uninsured disease claims and to ensure that the fund remained in a position capable of meeting future projected claims settlements and insurance premium costs. Since 2009/2010 the insurance fund has been topped up by £5.675million from reserves.
- 3.4. Part of this top up included a contingent liability of £902,000 which was included in the Council's Annual Report and Accounts in respect of potential payments to a mutual insurance company who provided cover to predecessor authorities from 1975 to 1993. The company's financial situation is currently weak. The company has in place a "scheme of arrangement", which allows its Board to declare the company insolvent when it is unable to fund losses and to call in a final contribution from insured members. This is known as "claw back" and is currently estimated at

£902,000, as noted earlier. The top ups made to the fund have also taken this amount into consideration.

- 3.5. A further recommendation was to undertake an interim review of the Council's self insurance fund every 24 months. This is the subject of this report.

4. Interim Actuarial Review of Insurance Fund

- 4.1. An interim review is more limited in scope than a full actuarial review, with the purpose being to compare, at a high level, the results of the 2009 review against more recently available information to see if the conclusions would be materially different.
- 4.2. Following receipt of quotes from three companies, HJC Actuarial Consulting Limited was appointed to undertake the interim review.
- 4.3. The scope of the review did not include pre-fund liabilities, that is claims prior to 1 April 1996 against predecessor authorities. Therefore, figures from the 2009 report for pre-fund liabilities are assumed to be unchanged and have been used by the actuary.
- 4.4. The review is only concerned with claims payments from the insurance fund, those that are already known as well those claims that have incurred but have not yet been reported. All amounts used in the review take into account any potential recoveries from the Council's insurer.

5. Conclusions and recommendations

- 5.1. The actuary's overall conclusions were:
- That the level of estimated future claims payments have remained stable at each review carried out, with this amount being in the region of between £3.5m and £4.0m. A slight reduction in this amount was seen at this review due to a lower number of outstanding property claims.
 - That the claims experience was broadly as expected at the last review.
 - That the contribution required each year from Resources to meet claims costs remains unchanged from 2009 at £2.1m.
 - That the fund is currently in a neutral position, that is the balance of the insurance fund is currently sufficient to meet all estimated liabilities. No further action is required at present to increase the balance of the fund.
- 5.2. Committee is asked to note the conclusions made by the actuary following his review.
- 5.3. The report contained three recommendations for the Council. These are noted in Table 1 below, along with the proposed actions to be taken.

Table 1 – Actions to be taken by SLC in respect of actuaries recommendations

Actuarial recommendation	Action to be taken by SLC	Responsibility	Date due
Fund claims – Next full review in 24 months (as at 31 March 2013)	Undertake full actuarial review of the Insurance Fund.	Risk Management Officer, Finance and Corporate Resources	30 September 2013
Pre-fund claims – Next mini-review in 12 months (as at 31 March	In-house review of pre-fund claims paid to be undertaken to decide	Risk Management Officer, Finance and Corporate	30 September 2012

2012)	whether further review necessary	Resources	
Optimise insurance programme design given stability of valuation results, giving confidence to take higher deductibles	No further action to be taken. A full review of the Council's insurance portfolio was undertaken prior to renewing the 2011/2012 policies. At this time, insurers indicated that there were only minimal savings to be gained by increasing deductible levels.	N/A	N/A

5.4. Committee is asked to approve the proposed actions in response to the Actuary's recommendations.

6. Employee Implications

6.1. There are no employee implications associated with this report.

7. Financial Implications

7.1. The Insurance Fund's estimated financial position is:

	£m
Fund Balance as at 31 March 2011	8.5
<u>Less</u> estimated future claims payments	<u>(3.6)</u>
Estimated fund surplus/(deficit)	4.9
<u>Less</u> estimated MMI/pre fund claims	<u>(5.0)</u>
Estimated fund surplus/(deficit)	<u>(0.1)</u>

7.2. The self insurance fund is currently in a neutral position which adequately reflects known current and future pressures and, as such, no further action is required.

8. Other Implications

8.1. There is the risk that in future years there may not be an adequate balance within the insurance fund to meet all known liabilities. As Council funds are facing various pressures due to the current economic climate, there may not be money available to top up the insurance fund if this is required. It is therefore necessary that the Council takes steps to protect the current funds and to restrain any future insurance premium increases by aiming to reduce the number and cost of claims intimated against the Council.

8.2. There are no implications for sustainability in terms of the information contained in this report

9. Equality Impact Assessment and Consultation Arrangements

9.1. There are no equalities issues related to the proposals in this report.

9.2. There was no requirement to undertake any consultation other than with the actuary (HJC Actuarial Consulting Limited) in terms of the information contained within this report.

Paul Manning

Executive Director (Finance and Corporate Resources)

24 October 2011

Link(s) to Council Values/Improvement Themes/Objectives

- ◆ Value: Accountable, effective and efficient

Previous References

Report to Finance and IT Committee – 16 March 2010

List of Background Papers

None

Contact for Further Information

If you would like to inspect the background papers or want further information, please contact:-

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