

# Report

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| Report to:       | <b>Risk and Audit Scrutiny Forum</b>                        |
| Date of Meeting: | <b>13 June 2018</b>   |
| Report by:       | <b>Executive Director (Finance and Corporate Resources)</b> |

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| Subject: | <b>Actuarial Review of the Council's Self Insurance Fund</b> |
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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 a full actuarial review.

## 2. Recommendation(s)

2.1. The Risk and Audit Scrutiny Forum is asked to approve the following recommendation(s):-

- (1) note the conclusions of the actuarial report and that further funding requirements will be considered as part of future revenue budgets
- (2) note that the position for pre 1996 liabilities will be monitored and managed as required
- (3) note that a contingent liability for historic abuse claims will be included in the Council's Annual Accounts 2018

## 3. Background

3.1. South Lanarkshire Council operates a self-insurance fund to pay for purchased insurance cover, the settlement of excesses for liability, motor and property claims against the Council, other self-insured losses 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 full actuarial review of the council's insurance fund took place in 2013, with an interim review completed in 2015.

3.3. Following the interim review, the fund was in a neutral position assuming wind up at 31 March 2015, that is, the balance of the fund was sufficient to meet known liabilities, and no further action to increase the balance of the insurance fund was required.

#### **4. Actuarial Review of Insurance Fund**

- 4.1. The main aims of the full actuarial review of the Council's self-insurance fund were to estimate future insurance claim settlement costs of known and yet to be intimated claims from past insurance policy years against the fund balance as at 31 March 2017 and to estimate annual contribution rates required for the overall fund, to ensure that the balance of the fund does not fall into deficit.
- 4.2. Following a Quick Quote exercise, HJC Actuarial Consulting Limited were appointed to undertake the full actuarial review.
- 4.3. The full review is only concerned with claims payments from the insurance fund, those that are already known as well as those incidents that have been incurred but have not yet been reported to the Council. All amounts used in the review take into account any potential recoveries from the Council's insurer.
- 4.4. Following completion of the full actuarial review, it was decided that, in light of recent changes to legislation and case law, a review of the council's pre-fund liabilities, that is, claims prior to 1 April 1996 against predecessor authorities, was also required.
- 4.5. The report will, therefore, focus on two distinct areas, namely post 1996 liabilities and pre 1996 liabilities.

#### **5. Conclusions from Actuarial Review – Post 1996 Liabilities**

- 5.1. The actuary's overall conclusions and recommendations as at 31 March 2017 were:-
  - that the level of estimated future claim payments since 2005 has remained broadly stable at each review carried out, with this amount being in the region of £3m to £4m
  - that the estimated value of future claim payments has reduced from £4.4m to £3.2m from the last review. This was due to a lower number of outstanding claims and an improving claims experience at this review
  - 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
  - that, for future years, the proposed annual contribution required from Resources to meet claims costs below the deductible should be increased slightly from £2.25m to £2.35m. This increase is as a result of the Council increasing the self-insured excess level on employer's and public liability claims from £100,000 to £250,000 and the potential increased level of self-insured payments on significant injury claims, due as a result of the change to the Ogden discount rates

#### **6. Pre 1996 Liabilities**

- 6.1. There has been no new movement in terms of further levies, in respect of Municipal Mutual Insurance (MMI), since the position reported in the Annual Insured Risks report on 8 November 2016. As detailed previously, a provision of £0.8m currently exists within the Council's balance sheet to meet the cost of any future levies.
- 6.2. It is anticipated that the Council will receive a number of claims for historic childhood abuse, for children who have been abused whilst under the care of the Council's predecessor authorities. The increased likelihood of claims being intimated now is as a result of recent changes to legislation, developments in case law and raised public awareness as a result of the Scottish Child Abuse Inquiry.

- 6.3. The financial impact on the Council for potential abuse claims will depend upon insurer's interpretation of policy wording. Insurers have advised that they are broadly in agreement that cover will be provided for abuse claims, but that each case will be dealt with on its own merits and subject to the terms and conditions of the policy.
- 6.4. For the periods where the Council remains unable to prove that insurance cover existed, the Council will continue to self-fund these claims.
- 6.5. Due to the unknown financial impact, a contingent liability for historic abuse claims will be included within the council's Annual Accounts 2018.
- 6.6. The actuary has given consideration to the recent changes to legislation, case law and levels of insurance cover available within the pre-1996 liabilities.

## 7. Future Financial Pressures

- 7.1. As stated at 4.1, the actuarial review only covers the cost of insurance claim settlements and does not give consideration to the cost of insurance premiums or other miscellaneous charges to the self-insurance fund.
- 7.2. Aside from the cost of self-insured insurance claim settlements, insurance premiums is the most significant other expenditure to the self-insurance fund. For 2018/19, insurance premiums and other insurance related fees will total £1.7m.
- 7.3. Further financial pressures on the insurance fund may arise from increases in insurance premiums. Premium levels can be influenced by market conditions, the Council's claims experience, increases in Insurance Premium Tax (IPT) and other Government policy decisions such as fluctuations in the Ogden Discount rate which may result in insurers applying a levy to premiums to counteract the increased settlement costs of significant injury claims.
- 7.4. A tender exercise will be undertaken for the Council's main insurance policies during 2018/19, with a view to seeking best possible terms and placing new covers with effect from 1 April 2019.
- 7.5. On 1 April 2018, the excess on the Council's motor insurance policy was increased from £100,000 to £150,000. This was subsequent to the period covered by the actuarial review and may impact upon future motor self-insured losses.

## 8. Employee Implications

- 8.1. There are no employee implications associated with this report.

## 9. Financial Implications

- 9.1. Table One below shows a summary of the insurance fund's estimated financial position as at 31 March 2017.

Table One - Insurance Fund Summary (1 April 1996 – 31 March 2017)

| <b>Fund Claims</b>                           | <b>£m</b>    |
|--|--------------|
| Fund Balance as at 31 March 2017             | 3.3          |
| <u>Less</u> estimated future claims payments | <u>(3.2)</u> |
| Estimated fund surplus/(deficit)             | 0.1          |

Position outlined in table one, assumes wind up of the insurance fund as at 31 March 2017

- 9.2. On an annual basis, Resource contributions to the insurance fund are currently £2.7m per annum and with average expenditure per annum to the insurance fund over the last five years at £4.2m. Therefore, the balance of the insurance fund is currently reducing by around £1.5m per annum.
- 9.3. Despite the actuary recommending an increase to the contribution rate to the insurance fund per bullet 4 at 5.1, this will not be necessary as an additional contribution of £1.7m will be made to the insurance fund from an underspend in the Revenue Account at the end of 2017/18. In light of the decreasing fund balance, it is envisaged that the fund will be in deficit by 2020/21, and that this will be considered in future revenue budgets.
- 9.4. As noted at 4.4 above, a further review into pre 1996 liabilities was also undertaken. This covered the council's liabilities resulting from its predecessor authorities for asbestos and abuse claims where insurance cover does not exist, and for any future MMI levies.
- 9.5. Table Two below shows a summary of the council's pre 1996 liabilities resulting from predecessor authorities as at 31 March 2017.

Table Two – Pre 1996 liabilities

| <b>Pre-fund liabilities (predecessor authorities)</b> | <b>£m</b>    |
|---|--------------|
| MMI provision (to cover levies)                       | 0.8          |
| Estimated MMI/Pre 1996 claims                         | (2.8)        |
| Estimated Historic abuse claims                       | (2.0)        |
| <b>Overall pre 1996 liabilities surplus/(deficit)</b> | <b>(4.0)</b> |

Figures noted in respect of pre 1996 liabilities and historic abuse are broad outlined estimates based upon research and findings of the review

- 9.6. It is envisaged that the majority of any potential historic abuse claims will be intimated over the next 10 years, with other long term liabilities taking up to 40 years to diminish. Further funds may be required during this period to meet these potential claims or the liabilities may turn out to be materially lower, given the uncertainty arising from projecting over such long time periods, for incidents (exposures to asbestos, child abuse) occurring before the valuation date of 31 March 2017.
- 9.7. The position with pre 1996 liabilities and the overall balance of the self-insurance fund will be closely monitored and any additional funding requirements will be managed as required.
- 10. Other Implications**
- 10.1. There is the risk that, in future years, there may not be an adequate balance within the insurance fund to meet liabilities. As Council funds are facing various pressures due to the current 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.
- 10.2. There are no implications for sustainability in terms of the information contained in this report

## **11. Equality Impact Assessment and Consultation Arrangements**

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

11.2.. 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)**

16 May 2018

### **Link(s) to Council Values/Ambitions/Objectives**

◆ Value: Accountable, effective, efficient and transparent

### **Previous References**

◆ Report to RASF – 8 November 2016 - 2015/16 Year End Insured Risks Report

### **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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