

WE HAVE JUST SEEN the worst winter on record since the 1960s, with costs to the economy estimated, at one stage, to be running at £500m to £1bn per day. Inevitably, there has been a resulting increase in claim activity. For those who ventured out there were increased risks on the roads and the pavements. For those who stayed at home, estimated at one stage to be as high as 10%, there were consequences from loss of earnings to the losses of event organisers.

Even if the weather is now warming up, there is a harsh economic climate ahead for local authorities. There are pressures on income and on outgoings. Funding deals have suffered with fewer potential partners and greater costs. There is an increased need to demonstrate best value, efficiency and good governance in managing these items. And the propensity of the public to claim can be expected to increase in hard times. Against this background, the ability of local authorities to stabilise and to limit their costs by placing their risks in the insurance market has not eased. There are few major insurers active in this market and the local authorities' finances are vulnerable to a change in fortunes or sentiment of even one of these providers.

In addition to meeting the premium costs for insured risks, local authorities set up and maintain insurance funds to meet claims not covered by their insured arrangements. These provide for claims that have been notified and are being assessed. There is also an element of pipeline claims and incurred but not reported. There is also consideration of funding for catastrophe or severe events such as a one-in-50-year event like this winter's snow and flooding.

Lack of data

This assessment is made more difficult by lack of data. This is both data on claims history and future exposure. Even the best-kept database may have to be manipulated to reflect mergers of authorities and changes in risk management over time. For single authorities the situation may be further exacerbated if, due to budget or resource constraints, it takes a long time to identify, analyse and react to emerging trends. This cuts both ways, since both over and under-reserving can have adverse consequences. However, the merging or comparison of the experience of several authorities and more frequent reviews even on approximate bases can offer an improvement.

But there may be some good news on the horizon. The re-emergence of a new version of the Local Authorities Mutual and similar initiatives may offer some relief. LAM was set up in 2007 following an extensive study and much research by the London boroughs. The aim was the pooling of risks eventually over homogeneous groups of authorities for homogenous groups of risks. The problem was the status of LAM was open to challenge on matters such as its position in the procurement process and whether local authorities could effectively take on the insurance risks involved.

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Emerging into the sun?

After the harsh winter, John O'Neill takes a look at the challenges facing local authorities in terms of reserving for future events. Is the outlook still bleak or is the sun on the horizon?



The case went to the High Court and the decision went against the local authorities. They had no power to participate in LAM and, even if they had, no local authority could participate in such a mutual if its only purpose was to reduce its insurance costs.

This was seen as speculating on its success as an insurance company both in terms of the set up costs and through mutually effectively providing insurance to others. There were also possibly unresolved issues as to how it might be managed and as to how eventually, as happened, it might be wound up.

The good news is the amendments made in the *Local Democracy and Economic Development and Construction Act 2009*, which opens the door for local authorities to set up and participate in mutual insurance arrangements. The specific amendment was to allow any principal local authority to become a member of a body corporate and, among other things, to provide insurance to enter into arrangements under which such insurance is provided. These powers apply to "best value" authorities, which is an extensive list.

Parallel developments

There were parallel developments with Fire and Rescue Services where the Fire and Rescue Authorities Mutual suffered a similar fate to LAM. No doubt there will now be serious attempts to set up insurance mutuals to take advantage of the change in the law, of this further option in risk management and to follow developments elsewhere in the pooling of procurement activities. This is some respite for local authority finance directors in difficult times.

There are headline benefits for mutualisation including the streamlining of costs, greater spread of risks and greater purchasing power in insurance markets. As well as headline benefits, a move in this direction offers other possibilities. Harmonised standards of risk management across group members and common claims procedures should reinforce best practices and allow the construction of better benchmarking.

There has been an increasing trend to retain independent actuaries to review the appropriateness of Local Authority Insurance Funds. Such a review is likely to give added comfort to finance directors and auditors, and should in time lead to standardisation and improvement in claims records plus timelier reporting the emergence of surpluses and deficits in these funds.

Developments in financial reporting have resulted in some risks being reported on more frequently and in a systematic way. This includes the financial standard FRS17 for annual monitoring of pension liabilities. A similar development in the Local Authority Insurance Fund management combining the mutualisation and other pooling initiatives could be the way forward.

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