

## report

meeting	<b>NOTTINGHAMSHIRE AND CITY OF NOTTINGHAM FIRE AND RESCUE AUTHORITY</b>	
	<b>FINANCE AND RESOURCES COMMITTEE</b>	
date	<b>12 October 2007</b>	agenda item number

### REPORT OF THE CHIEF FIRE OFFICER

#### PARTICIPATION IN THE FIRE AND RESCUE SERVICES MUTUAL INSURANCE COMPANY

##### 1. PURPOSE OF REPORT

To advise Members of the latest position as to the Fire & Rescue Authority's membership of the Fire and Rescue Services Mutual Insurance Company (FRAML) and the actions taken by the Head of Finance and Resources.

##### 2. BACKGROUND

Members may recall that on 13 April 2007 a report was presented to this Committee recommending that the Authority should become an early member of the above mutual company. This report was then forwarded to the full Authority meeting on 1 June 2007 with a recommendation that the Authority joined the mutual.

##### 3. REPORT

- 3.1 As the point of joining the mutual came closer it became clear that the terms under which the Authority could join were somewhat different to those that had been presented to Members at the two meetings referred to above.
- 3.2 The initial contribution to the capitalisation of the mutual company was set at about £9,000 with a written guarantee of some £99,000 that would be exercised only where FRAML experienced a worse than expected loss.
- 3.3 When Nottinghamshire recently confirmed their commitment to FRAML, revised figures indicated a requirement to contribute c£105,000 towards capitalisation, plus £20,000 in set-up fees, giving a total of c£125,000. Although part of the £125,000 would still be by way of a guarantee it would actually have to be paid over to FRAML by the Fire Authority.
- 3.4 The initial capitalisation requirement as advised by Charles Taylor Consulting (CTC) was £3m, to be provided by way of a combination of cash (approx 8%) and written guarantee (approx 92%).
- 3.5 As the development of FRAML moved forward, CTC discussed the capitalisation requirements with the Financial Services Authority (FSA), who advised that £1.663m was required for capitalisation purposes and that this was to be provided wholly as cash.

- 3.6 Although the capitalisation requirements have nearly halved, Nottinghamshire's expected contributions have remained around the initial advised levels (c £105,000) by virtue of the withdrawal from the project of a number of Fire & Rescue Authorities (FRAs) originally engaged in the data collection and analysis phase.
- 3.7 At the board meeting of 2 August 2007 CTC advised that (with current participants) FRAML already have 'significant' over capitalisation, to the extent that additional business may be underwritten without breaching the capitalisation requirements.
- 3.8 The effect of this is that any contribution to capitalisation made by Nottinghamshire at this stage will only serve to hasten the return of an element of contributions already made by participating members. A contribution by Nottinghamshire will not make the difference between FRAML operating or not.
- 3.9 Since the original contribution projections were made, an additional cost has arisen – the contribution to set-up costs (£20k). Between the data collection/analysis phase and receipt of the finalised contribution figures, neither the Head of Finance and Resources nor the Risk Manager have been party to any correspondence arising from the steering group or emanating from FiReBuy and are therefore unable to comment on basis for this charge. It can be reported with certainty however that this charge does not relate to the annual management fees of CTC, as these are covered by the capitalisation payments already secured and will in future years be funded through the capitalisation and/or investment income.
- 3.10 Contrary to earlier indications, future members will be admitted to FRAML on the same (and not more onerous) terms as existing members. This will include a composite capitalisation request based on the same calculating method and an additional element equal to the start-up contribution.
- 3.11 There were also issues around voting rights in the new company with only those authorities "on risk" being able to vote. This was considered unreasonable in that FRAML would have held Nottinghamshire's guarantee and capital contributions but not allow voting rights.
- 3.12 For the reasons outlined above and in consultation with the Chief Fire Officer and the Risk Manager, the Head of Finance and Resources did not consider that the conditions under which the Authority was being asked to join the mutual were in accordance with those agreed by Members of this Committee or at the Authority meeting on 1 June 2007. Consequently the offer of membership has been declined.

#### **4. RISK MANAGEMENT IMPLICATIONS**

- 4.1 The Risk Manager does not consider that there is significant risk arising from this decision. The Authority remains insured with Risk Management Partners until 2011 after which the position of FRAML will be more stable.
- 4.2 There would have been some risks associated with membership of FRAML which will no longer apply, however the very existence of FRAML may cause some of the benefits of lower premiums to flow to the Authority anyway.

**5. FINANCIAL IMPLICATIONS**

The only financial implication arising from this report relate to the saving of £9,000 which would have been used to capitalise FRAML.

**6. PERSONNEL IMPLICATIONS**

There are no specific personnel implications arising from this report.

**7. EQUALITY IMPACT ASSESSMENT**

Whilst a full Equality Impact Assessment has not been carried out it is considered that there will be no implications or impacts on equalities.

**8. RECOMMENDATIONS**

That Members note the contents of this report and approve the actions of Officers in this matter.

**9. BACKGROUND PAPERS FOR INSPECTION (OTHER THAN PUBLISHED DOCUMENTS)**

None.

Frank Swann  
**CHIEF FIRE OFFICER**

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