

FALKIRK COUNCIL

Subject: ACTUARIAL VALUATION OF THE INSURANCE FUND AND STATUS OF MUNICIPAL MUTUAL INSURANCE (MMI)
Meeting: EXECUTIVE
Date: 15 March 2016
Author: DIRECTOR OF CORPORATE & HOUSING SERVICES

1. INTRODUCTION

- 1.1 The purpose of this report is to update Members on the triennial actuarial valuation of the Insurance Fund and the current position in respect of Municipal Mutual Insurance (MMI).

2. ACTUARIAL VALUATION OF THE INSURANCE FUND

- 2.1 Every three years an actuarial valuation of the Insurance Fund is completed to ensure that the fund is sufficient to meet our claims liabilities.
- 2.2 In January 2016 a report was prepared by Milliman LLP. This report concluded that a fund surplus of £0.6m exists and that the fund is broadly healthy. Importantly however, the report concludes that Milliman do not recommend the release of the funds despite the surplus indicated, due to the different levels of uncertainty that the Fund faces as outlined below.
- 2.3 The actuarial valuation has set the required Services contribution rate at £1.29m per annum. The current budgeted contribution by services is £1.21m, giving an increase in contribution of £0.08m per annum.
- 2.4 Given the pressures on the revenue budget and the surplus in the Fund, it is proposed that the current contribution by services of £1.21m is maintained with the shortfall provided by the Fund surplus.

3. MMI UPDATE

- 3.1 We have previously outlined to Executive the background to the MMI situation, in particular the 'solvent run off' arrangement that was agreed with a large number of public sector bodies.
- 3.2 As previously reported, MMI entered Administration on 13 November 2012 following a decision at a meeting of the MMI Board of Directors. As a result, control of MMI passed to Ernst and Young who were appointed as Administrators.
- 3.3 Ernst and Young initially established a levy payment of 15% on all costs paid to date on our behalf, by MMI. It was noted at this time that the 15% would not be sufficient to cover all liabilities and that a further levy would be likely in the future. Falkirk Council therefore set a provision of c30% (£0.36m) of liabilities at that time.

- 3.4 Falkirk Council made the 15% payment in January 2014. The net amount paid by Falkirk Council was £0.22m.
- 3.5 Over the last two years, numerous payments have been made to MMI for ongoing cases, including some substantial payments in 2015. The status of the current provision is therefore as follows:

	£'m
Opening Position	0.36
Payment of Initial Levy	(0.22)
Subsequent Payments for Ongoing Claims	(0.23)
Closing Position	(0.09)

- 3.6 In January 2016 the Council received a letter from MMI advising that the actuarial projections of future claims have been revised and the range of levy required is projected to be between 15% and 34%. The exact amount of second levy raised won't be known until into April 2016. However, it clearly has the potential to be a significant sum.
- 3.7 It is recommended that the £0.09m deficit in the provision is met from the existing Insurance Fund. The Council will shortly be in a position to know what the future MMI levy will be and this will have to be funded from Insurance Fund.

4. CONCLUSION

- 4.1 Whilst the actuary has recognised a surplus of c£0.6m, it is evident that the Insurance Fund is under some pressure and, as highlighted by Millimans, there is a significant amount of uncertainty over the Fund.
- 4.2 In order not to increase the Services revenue contributions to the Fund c£0.08m will need to be applied from the Fund.
- 4.3 In addition to this, the MMI provision will require an injection of at least £0.09m. This will require to be further supplemented once more details on the revised MMI levy are received.

5. RECOMMENDATIONS

5.1 It is recommended that the Executive:

- (a) Agree the use of the Insurance Fund surplus to fund the shortfall in revenue contributions of £0.08m;
- (b) Agree the use of the Insurance Fund surplus to fund the shortfall in the MMI provision of £0.09m; and
- (c) Note that the MMI provision will need to be increased and that this will be funded from the Insurance Fund.

Director of Corporate & Housing Services

Date: 15 February 2016

Ref:

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LIST OF BACKGROUND PAPERS

NIL