

**FALKIRK COUNCIL**

**Subject: ACTUARIAL VALUATION OF THE INSURANCE FUND AND UPDATE  
ON MUNICIPAL MUTUAL INSURANCE (MMI)**  
**Meeting: EXECUTIVE**  
**Date: 18 June 2013**  
**Author: CHIEF FINANCE OFFICER**

**1. INTRODUCTION**

- 1.1 In a report to Policy & Resources Committee on 4 September 2012, it was noted that a report would be prepared following the actuarial review of the Insurance Fund. A commitment was also made at that meeting to update Members on the position with MMI liabilities as information became available.
- 1.2 The purpose of this report is to update Members on the actuarial valuation of the Insurance Fund and the current position in respect of MMI.

**2. ACTUARIAL VALUATION OF THE INSURANCE FUND**

- 2.1 Every three years an actuarial valuation of the Insurance Fund is completed to ensure the fund is sufficient to meet the Council's claims liabilities.
- 2.2 In March 2013 a report was prepared by HJC Actuarial Consulting Limited. This report concluded that a fund surplus of £0.8m exists and that the fund is currently broadly healthy. However, caution must be exercised given the uncertainty over the final costs that will fall due as a result of the MMI liability.
- 2.3 The actuarial valuation has set the required contribution rate at £1.25m per annum. The current contribution by services is £1.15m, giving an increase in contribution of £0.1m per annum.
- 2.4 Given the surplus in the fund, per paragraph 2.2, it is proposed to absorb the increase in contributions from the fund.

**3. MMI**

- 3.1 In 1992 MMI stopped underwriting operations after encountering financial difficulties. Prior to this, MMI was the predominant insurer of public sector bodies.
- 3.2 Prior to local government re-organisation in 1996, the extant Councils, Central Regional Council and Falkirk District Council, entered into a 'solvent run-off' arrangement with MMI, with the aim of having sufficient assets to meet outstanding insurance claims. This essentially means that liabilities, as they arise, can be met from available resources.

- 3.3 This arrangement has been effective since its inception however several high profile insurance claims in the last few years (for example Asbestosis) have resulted in MMI now falling into Administration following a decision to do so at a meeting of the MMI Board of Directors on 13 November 2012. Control of MMI has now passed to Ernst and Young who have been appointed as Administrators.

#### **4. IMPLICATIONS FOR FALKIRK COUNCIL**

- 4.1 We have now received correspondence from Ernst and Young which confirms that the initial rate of the levy will be 15% of total claims paid since 1993. This equates to c£0.18m for Falkirk Council. The rate of levy must be reviewed at least once every 12 months.
- 4.2 A further consequence of the scheme is that MMI will henceforth cease paying claims in full as they fall to be settled, and will instead pay only 85% of the agreed sum.
- 4.3 There is an additional risk from future, unknown claims, for example asbestos claims. Some actuaries are estimating a substantially higher MMI levy and that this could equate to a liability of circa £1.0m.

#### **5. INSURANCE FUND**

- 5.1 As noted above, there are a number of pressures on the Insurance Fund – increased contributions required from Services, payment of the initial MMI levy and a further provision for future levies.
- 5.2 In order to meet the pressures on the fund a general fund contribution of £0.55m is proposed. It is also proposed HRA make a contribution of £0.25m to the Insurance Fund paid for out of a large insurance receipt for property damage related to the storms of January 2012.

#### **6. CONCLUSION**

- 6.1 At this stage it is too early to tell what the full implications of the administration of MMI will be and this will evolve over time. The position will be monitored and Members will be kept informed of all significant developments.

#### **7. RECOMMENDATIONS**

**It is recommended that:**

- 7.1 **The Committee note the contents of this report**
- 7.2 **Approve the transfers to the Insurance Fund per para 5.2**

**Chief Finance Officer**

**Date: 5 June 2013**

**Contact Officer: Amanda Templeman**

#### **LIST OF BACKGROUND PAPERS**

NIL