



Committee and Date

Audit Committee

18th September 2014

RISK & INSURANCE ANNUAL REPORT 2014

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1. Summary

- 1.1 This report sets out the challenges and achievements accomplished by the Risk Management Team during 2013/2014 which has again seen an intense and varied workload and a restructure of the team following the loss of three staff through voluntary redundancy.
- 1.2 The team continues to strive to ensure that Shropshire Council embeds opportunity risk management practices throughout all service areas and this is recognised by the reputation held by Shropshire Council within the risk and insurance market.

2. Recommendations

- 2.1 Members are asked to accept the position as set out in the report.

REPORT

3. Risk Management and Opportunities Appraisal

- 3.1 The management of risk is a key process which underpins the successful achievement of our priorities and outcomes. It forms part of the Annual Governance Statement and the Risk Management Team ensures that processes and protocols are established and embedded which support effective decision making.
- 3.2 Insurance is an effective method of risk transfer and a balance of self insurance and third party insurance is undertaken at the council based on our risk appetite.

4. Financial Implications

- 4.1 Failure to effectively manage the risks associated with meeting the on-going and additional austerity measures will potentially leave the Council exposed to external challenge and financial ramifications.
- 4.2 Through the purchase of an insurance policy the large financial risks are transferred.

5. Background

- 5.1 This year saw the Audit Team undertake an audit of risk management and we are pleased to confirm that the final report identified the assurance level as “**Good**” and there were no recommendations.

5.2 The Opportunity Risk Management Strategy, which supports our rapidly changing environment, has now been fully embedded by the Risk Management Team. As a council we need to ensure that we are taking advantage of every opportunity possible and the strategy is therefore outcome based and focuses on the achievement of our key priorities, objectives and benefits realisation.

5.3 This year also saw the end of our five year insurance contract and an OJEU procurement was undertaken to enable a new insurance contract to be awarded.

6. Additional Information – Risk Management

6.1 Business Planning

6.1.1 Throughout September 2013 we supported the business planning workshops. Each Directorate identified key areas for improvement, focus and priority for delivery of savings targets and spent one week intensively looking at end to end processes in these priority areas to see where duplication and wastage was occurring. Members of the Risk Management Team sat in on each of the four weeks intense workshops to identify key strategic opportunities and high level risks.

6.1.2 At the end of each week, the Risk Management Team provided a list of the overarching opportunities for change which were displayed. As each new opportunity was identified, the associated risks were also being captured and recorded. By the end of the four weeks a briefing note was provided to the Senior Management Team identifying the key opportunities and the associated risks, initially RAG rated for ease.

6.1.3 Each Directorate drafted a business plan following the workshops which were forwarded to the Risk Management Team. We cross referenced each business activity to the identified opportunities to ensure they had been considered consistently and ensured that all risks associated with these had mitigating controls applied.

6.1.4 We also went one step further and linked all outcomes within the business plan Summary Plan of Action to the mitigation of our strategic risks. This ensured that our strategic risk exposure was not being compromised and also that the business plans supported the mitigation of these. Furthermore, all our strategic risks are linked (where applicable) to the Annual Governance Statement Action Plan Points. By linking all three processes together in this way we have developed a holistic and joined up risk universe.

6.2 Business Continuity Management

6.2.1 The Business Continuity Management arrangements have been reviewed following the impact of Voluntary Redundancy on response team members. In order to test the review, Exercise Birdwatch was undertaken jointly with the Emergency Planning Unit.

6.2.2 The scenario was an avian influenza pandemic and because of the nature of the scenario, we took the opportunity to test mobile and remote working

practices. An immediate hot debrief took place following the exercise and an action plan has been developed to take forward required amendments to arrangements.

6.2.3 This year has also seen us, jointly with the Emergency Planning Unit; engage with the Primary and Secondary Headteacher Central Policy Group (CPG) to develop a comprehensive procedure for taking business continuity arrangements forward in schools. This work is in its infancy but we will be supporting a CPG task and finish group in finalising our templates and for the rolling out to schools with an appropriate training package.

6.3 Opportunity Risk Management Strategy

6.3.1 Apart from supporting continued use of the strategy internally, this year has seen the strategy shared nationally and we were asked to present it again at the Alarm Learning & Development National Forum and also at Alarm regional forums.

6.3.2 As a result of these presentations and an article in the Public Risk Management Magazine (**Appendix A**) we have taken enquiries from many different public sectors bodies including:

Southend County Council	Worcestershire County Council
Castle Point Borough Council	Mendip Borough Council
South Essex Homes	Nottingham City Council
Wirral County Council	Cumbria County Council
Nuneaton & Bedford Borough Council	Lincolnshire County Council
Jephson Housing Association Group	CIPFA

6.4 Strategic Risks

6.4.1 Our strategic risks are reviewed on a monthly basis ensuring that the level of risk exposure is monitored closely in our rapidly changing environment.

6.4.2 Each key officer, senior manager and director is met with monthly to review and update the strategic risk exposure. A meeting is also held with the chief executive who reviews his own risks as well as all of the other strategic risks and finally the review and update is shared with the portfolio holder for Resources & Support.

6.4.3 All additional controls have implementation dates and assigned officers to implement these controls. Follow ups take place with these officers as part of the monthly review.

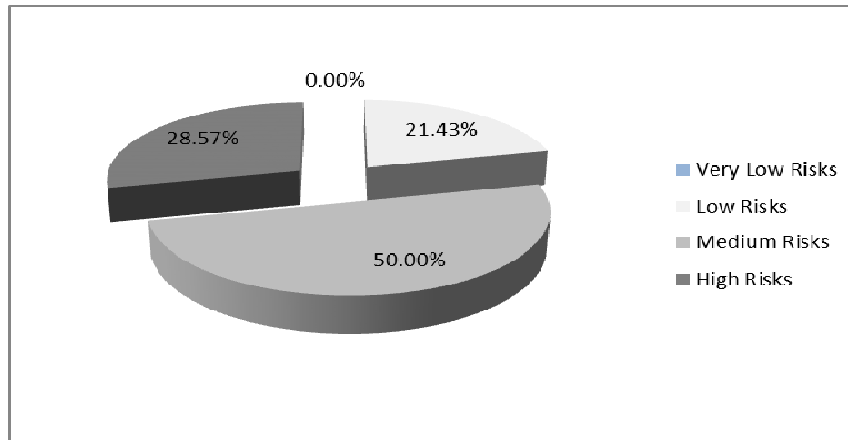
6.4.4 Following the review a report is submitted to the informal Directors and Cabinet meeting for discussion. Attendance at these meetings is also undertaken by the Risk Management team to discuss specific risk exposures.

6.4.5 Furthermore, all relevant strategic risks have been linked to the Annual Governance Statement Action Plan points. This demonstrates that we are managing these Action Points at a strategic level.

6.4.6 All medium and high risks are considered above our tolerance levels. This does not mean to say that they are unacceptable but that the monitoring of

risks at this level will be closely carried out to ensure that the council is not exposed.

6.4.7 The following diagrams demonstrate our current overall strategic risk exposure:-



6.5 Operational Risks

6.5.1 Operational risks continue to be maintained and managed within the PerformancePlus system and are modified directly into the system by risk owners. All risk owners attended training to review and update their risks directly.

6.5.2 Historically operational risks were updated on an annual basis or when any significant change took place. When we first utilised the PerformancePlus system we changed this to a monthly basis in line with other risk management practices. However, as there is less change to operational risks, this has now been changed to a review on a quarterly basis, or when any significant change takes place.

6.6 Board to Board

6.6.1 A joint risk register has been developed collaboratively with the Clinical Commissioning Group (CCG) to support the collaborative working and collective approach to the pressures and challenges facing both the NHS and local authority. The risk register is reviewed and updated by Shropshire Council officers during the strategic risk review and is then forwarded to the CCG for review and update.

6.7 STEP/ Commissioning

6.7.1 During the year the risk team have been involved in the STEP transition projects for services moving into ip&e. Working closely with the Programme Management team (now part of ip&e Ltd) ensuring that all change activity takes correct account of all risks and opportunities, following the Council's agreed Opportunity Risk Management Strategy in accordance with the Strategic Contract.

6.7.2 As part of this work we have been involved in supporting the development of the future commissioning process with the Director of Commissioning.

6.8 Audit Team Collaborative Working

6.8.1 We continue to work closely and collaboratively with Audit Team colleagues, supporting the undertaking of the risk based audit plan meetings on an annual basis with the Audit Services Manager. This ensures that the process is cross referenced with our strategic and business plan objectives and risk exposure.

7. **Additional Information – Insurance**

7.0.1 We received 418 claims against 2013/2014 policy year, a reduction of 24% compared to the previous year. This is mainly due to the reduction in the number of Public Liability claims notified (down from 431 to 322) as a result of a much milder winter and a reduction in Motor claims notified (down from 84 to 52) as a result of the outsourcing of various services and the Highways contract that now sees our Contractor insure the vehicles.

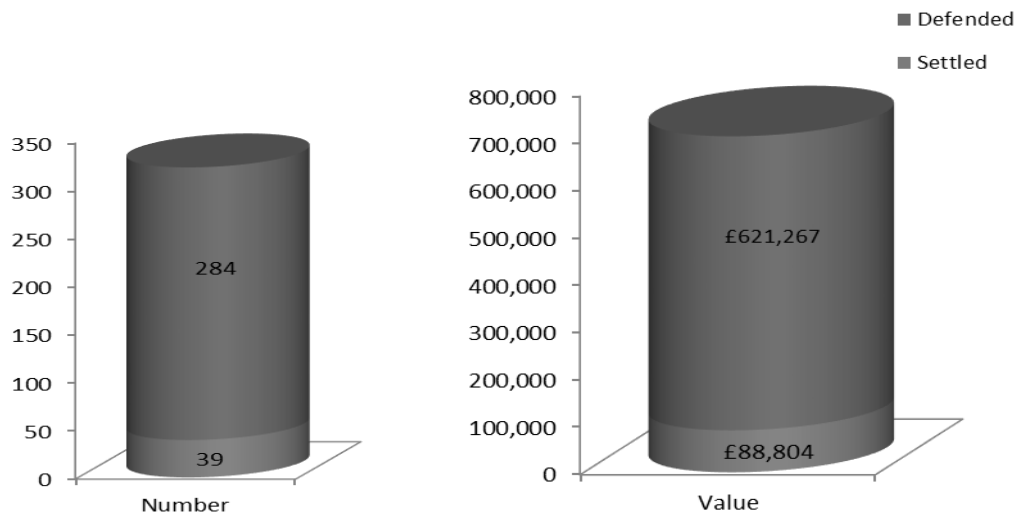
7.0.2 It is pleasing to note that our repudiation rate for liability claims remains very good, and at 87.9% this is well above the industry average of 79.7%, whilst for Highways (which is the area we see the majority of our claims) our repudiation rate is 90.9% - again this is above the industry average of 84.2%. The average payment for Highways related Public Liability claims is just £1,241 compared to an industry average of £5,208.

7.0.3 The good work carried out by Shropshire Council staff is again proven by the cost we could have incurred if repudiated claims had been paid. In 2013/2014 savings of £621,267 were achieved against defended Liability claims. Over the last three year period, these savings amount to almost £4.2m.

7.1 Liability Claims

7.1.1 Of the 334 liability claims received, a liability decision has been reached on 323 claims. Of these 323 claims, 284 have been repudiated (87.9%). By having a defence against these claims, we are expecting to save approximately £621k based on the estimated value of these cases.

Illustration 1 - Comparison of those claims accepted and those defended

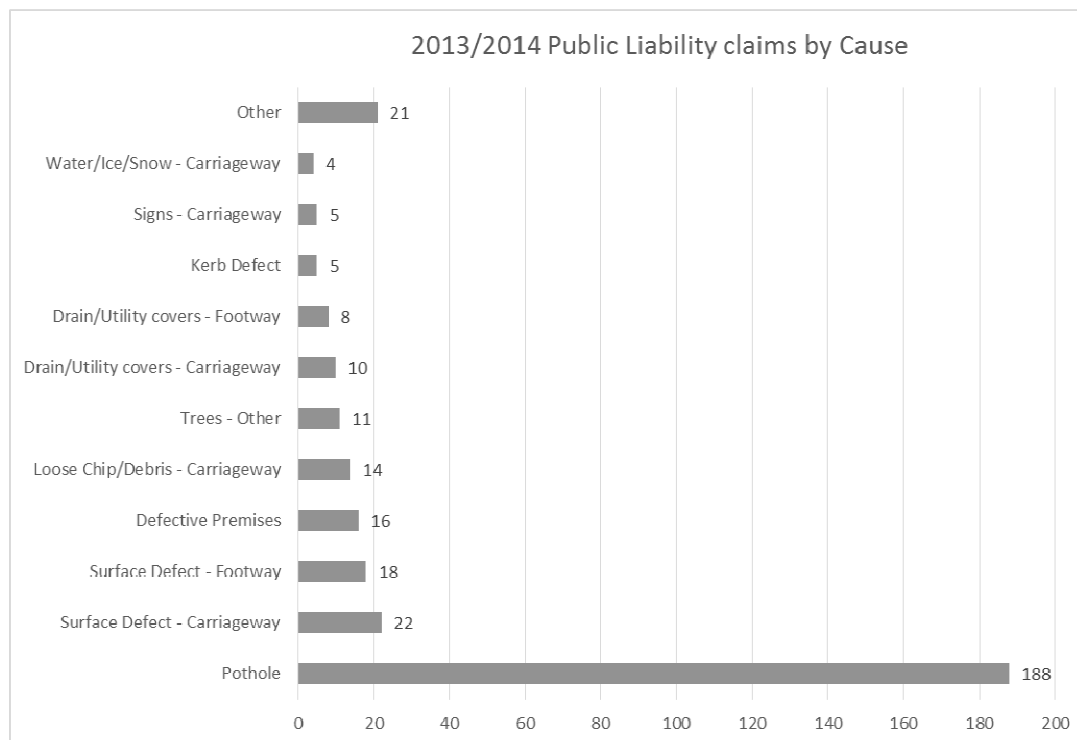


7.2 Public Liability claims

7.2.1 Of the 2013/2014 PL claims, 87.3% arose through Highways Maintenance incidents and the majority of these claims (188) were as a result of potholes on the carriageway.

7.2.2 The current repudiation rate for Highways Maintenance claims is 90.9% and we have achieved savings of almost £0.5m in defending these claims. The main reason that we are able to successfully defend claims is because we have a Section 58 defence under the Highways Act - we can demonstrate that we have an adequate system of inspection in place, or we had no knowledge of the defect prior to the incident (but took action as soon as we were put on notice). 25 of the Highways claims against the 2013/2014 policy year have been settled, with total payments being made of £31k.

Illustration 2 – Public Liability claims - by Cause



7.3 Employers Liability claims

7.3.1 We continue to receive a low number of Employers' Liability claims, down from 15 to 5 claims for the year and compared to the industry average of 7.9 per 1000 FTE, we receive less than this at 5.3 per 1000 FTE. However it should be noted that EL claims often take a number of years to be received and there is the potential for an increase on the claims against 2013/2014 in the future.

7.3.2 Of the 2013/2014 EL claims, two relate to schools, one to each of Safeguarding, Shire Services and Business Growth & Prosperity. Three of the claims relate to manual handling, whilst one is for a fall and the final one for an alleged assault at a school.

7.4 Other Liability claims

7.4.1 During 2013/2014 we registered the first Professional Indemnity claim since becoming a unitary authority although a formal letter of claim is still awaited from the claimant.

7.4.2 We have received six Officials Indemnity (OI) claims, one of which is currently under investigation whilst the other five have been repudiated. Whilst the number of OI claims has increased slightly, it is worth noting that we have not paid out on a single OI claim in the past three policy years.

7.5 Motor claims

7.5.1 During 2013/2014 we received a total of 52 motor claims, a significant reduction on the two previous years. The main reason for this is the outsourcing of various Services such as West Mercia Supplies and Street Scene.

7.5.2 The majority of motor claims handled involve our own vehicle only (no Third Party involvement). These claims make up 71% of all motor claims received in 2013/2014. Fortunately, of the 15 claims involving a Third Party none involved any injury and have therefore been of a relatively low value. The main reason for motor claims (accounting for 38.5% of those received in 2013/2014) relate to misjudgement/manoeuvring with the number of this type of claim remaining stable despite the overall reduction in claim numbers and fleet size.

7.6 Property claims

7.6.1 During 2013/2014 we received a total of 32 Property claims, more than double the amount received in the previous two years. The main reason for this is due to the storm conditions that hit Shropshire in February 2014. This resulted in extensive damage across the county – with numerous trees down and roofs blown off.

7.6.2 The total cost of the storm claims is expected to be £63k. As our property policy is based on a per occurrence basis, although the storms happened over a few days the insurance company have classified this as one event and only one policy excess will be applied.

7.7 Current exposure

7.7.1 We currently have 458 open claims with reserves of £5.4m attached. Whilst this report so far has focused on claims against the 2013/2014 policy year, it is important to remember that claims can continue to be received against old policy years – we have had a number of claims going back as far as the early 1970's. These normally relate to Employers Liability claims as shown below. We currently have open 36 Employers Liability claims, of which ten are disease related claims with reserves of £124k. Seven are for noise related injuries and three for vibration white finger.

Illustration 3 – Open claims by Policy Year

Employer's Liability	Number of Claims	Value £
1973/1974	5	63,000
1979/1980	2	21,940
1987/1988	1	23,000
2000/2001	1	3,000
2009/2010	2	76,150
2010/2011	6	251,713
2011/2012	5	123,280
2012/2013	8	668,895
2013/2014	5	46,834
1989/1990	1	13,000
	36	1,290,813

7.7.2 The majority of claims received are of a low value with 47% (215 claims) being valued at less than £1,000. This is because the majority of claims we receive relate to vehicle damage caused by the highway conditions. A further 45% (208 claims) are valued between £1,000 and £25,000. Whilst 47% of the number of claims are valued under £1,000, the combined value of these claims (£57k) represents just 1% of the overall reserve.

7.7.3 We have just seven claims that are valued above £100,000 – the combined reserves of these claims being £2.45m. Liability is denied against all seven claims. One of these claims, with a value of £375k was successful at Court and we are in the process of recovering our costs.

Illustration 4 - By detailed status

By Service Area	No.	Value (£)
Repudiated	328	4,154,547
Liability Accepted	99	847,882
Under Investigation	31	365,259
Grand Total	458	5,367,689

7.7.4 Of the 458 claims open, 71.6% have been repudiated (328 claims) and as such the £4.2m reserved against these claims is not likely to be paid. Of course there will be dispute over this which will result in legal action (and increased costs in some areas). 31 claims remain under investigation at present and 99 claims have been accepted and we are negotiating settlement. The value of the accepted claims is approximately £0.8m.

7.8 MMI Clawback

7.8.1 Following recent Court action which saw Municipal Mutual Insurance (our previous Insurer's) lose, it has meant that the company can no longer foresee a solvent run off and as such they have triggered the Scheme of Arrangement to which Shropshire Council is party (having taken over the liabilities of the former County, District and Borough Councils). This has resulted in a levy charge being applied to any payment MMI have made since the Scheme was put in place in 1993.

7.8.2 A levy of 15% was applied to creditors in early 2014 which meant Shropshire Council (as one of over 700 Scheme Creditors) had to arrange to make a payment to MMI based on claims that had been paid since the Scheme came into effect – the payment made by Shropshire Council was £834k.

7.8.3 In addition to this, going forward MMI will apply a 15% reduction against any claim payments made – the 15% will have to be funded from Council funds. Therefore if we see an increase in disease type claims, we can also expect to see an increase in the payments being made from the Internal Insurance Fund. Under the terms of the Scheme of Arrangement, a further levy may be applied going forward if necessary.

7.8.4 As the MMI years relate to the old Shropshire County days before the Telford & Wrekin split, the above payments are split between Shropshire Council and Telford & Wrekin.

7.9 Insurance Contract

7.9.1 March 2014 saw the end of the five year long term contract with RMP and therefore an OJEU procurement process was undertaken to award the next insurance contract.

7.9.2 The insurance team took this opportunity to carry out a detailed review of the insurance portfolio to establish the optimum levels of indemnity required and the appropriate policy deductibles. Following this review it was decided that we should increase the level of the liability deductible from £100,000 to £250,000 and the property deductible from £100,000 to £500,000. The liability limits of indemnity were also reduced from £50,000,000 to £30,000,000. This was based on an analysis of claims payments and premiums to achieve the optimum level.

7.9.2 There are a very limited number of insurance companies that quote for public sector business (only four main players) and on this occasion only two companies quoted for the majority of the insurance policies required. The change in the limits of indemnity and deductibles gave a reduction in the premium charged by the insurers, but the savings have been retained in the insurance fund to reflect the increased liability to the fund because of the increased deductibles.

7.9.3 The contract was awarded to RMP with the property insurance being underwritten by AIG and the liability insurance underwritten by QBE.

7.10 Other Policies

7.10.1 In addition to Shropshire Council, the insurance policy is also in the names of ip&e Ltd, ip&e Trading and STAR Housing. Therefore these companies are covered under the same policy and conditions as Shropshire Council.

7.10.2 The Insurance Team supports and advises the above companies.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

Annual Governance Statement

Risk Management Audit Report 2014

Insurance Audit Report 2014

Opportunity Risk Management Strategy

Business Continuity Management Policy

Business Continuity Plan

Insurance Annual Report 2014

Cabinet Member

Mike Owen, Portfolio Holder Resources & Support

Local Member

N/A

Appendices

Appendix A Public Risk Management Article