



Committee and Date

Audit Committee – 17th
September 2015

Item

RISK & INSURANCE ANNUAL REPORT 2015

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1. Summary

- 1.1 This report sets out the challenges and achievements accomplished by the Risk Management Team during 2014/2015 which has again seen an intense and varied workload.
- 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 used 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 the final report identified the assurance level as “**Reasonable**” with two recommendations, one significant and the other best practice. The significant recommendation was in respect of the monitoring of operational risks and this is discussed later in this report. The best practice recommendation related to

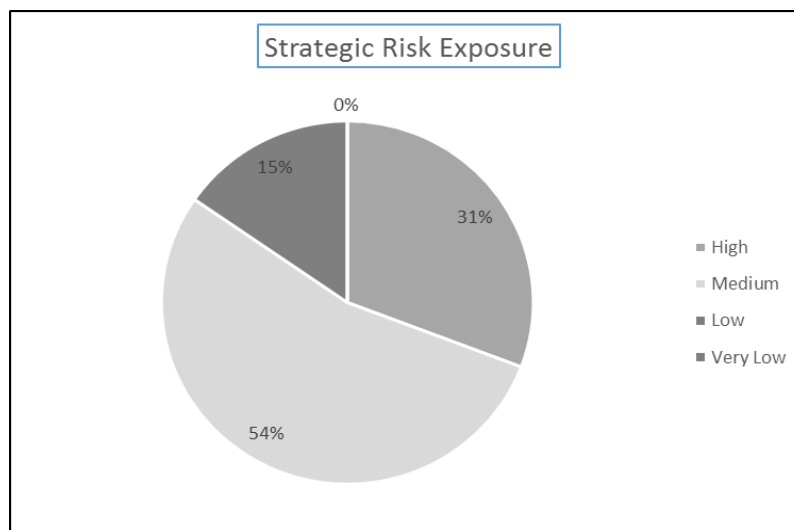
the consideration of a bespoke Risk Management software package. However, this will not take place in the foreseeable future due to cost and also the lack of any appropriate and robust software package being available.

- 5.2 The Opportunity Risk Management Strategy, which supports our rapidly changing environment, has now been fully embedded by the Risk Management Team throughout the 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 broker contract and a tender exercise was undertaken to enable a new broker contract to be awarded.

6. Additional Information – Risk Management

6.1 Strategic Risk Management

- 6.1.1 Throughout 2014/2015 our strategic risks were reviewed on a monthly basis ensuring that the level of risk exposure was monitored closely in our rapidly changing environment.
- 6.1.2 Each key officer, senior manager and director was met with monthly to review and update their strategic risk exposure, including the Chief Executive. The final update was then shared with both the Chief Executive and the portfolio holder for Resources & Support before being reported to Director's and Informal Cabinet.
- 6.1.3 We are currently in an ever changing landscape and we are constantly striving to ensure that risk management adapts to best support Members and Officers. A new strategic risk register template has therefore been drafted which supports the direction of travel developed by directors and this will be implemented throughout 2015/2016.
- 6.1.4 As a result of the focus on ICT resilience as one of our highest strategic risks, a large amount of work has been undertaken with the formation of a project group to move the agenda forward in order to provide assurances to the Council of increased levels of resilience. The Risk Management Officer is part of the project group and this work will continue throughout 2015/2016.
- 6.1.5 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.
- 6.1.6 The following diagrams demonstrate our current overall strategic risk exposure:-



6.2 Operational Risks

6.2.1 Operational risks were historically maintained in the PerformancePlus system and modified directly into the system by risk owners. It became clear that the reporting functionality was not fit for purpose and as a result there was slippage in the risk owners regular updates. This resulted in the 'significant' recommendation within the Audit Report as mentioned earlier.

6.2.2 As a result of our concerns and ratified by the Audit Recommendation "*The Risk Management Team should introduce the new operational risk monitoring process as soon as possible to address the issue of operational risks not being reviewed in a timely manner and to ensure that appropriate reporting processes are in place for Heads of Service/Directors*", a new process for the management of operational risk and robust reporting has been implemented.

6.2.3 Operational risks are kept within one spreadsheet for each Head of Service. All risk owners update this on a quarterly basis (April, July, October, January). The data held within this is then analysed. 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. Therefore we focus on risks above these tolerance levels in the report that is provided to Heads of Service and Directors. Following the provision of these reports a final summary report is presented by the Section 151 Officer to Directors.

6.2.4 This change has raised awareness at Head of Service and Director level of current operational risk exposure and any emerging themes that need to be addressed at this level. It has enabled pro-active operational risk dialogue and challenge between Directors, Heads of Service and Service Managers.

6.2.5 To support the implementation of the new process all operational risk owners have been invited to facilitated risk workshops which briefs them on the background to the Opportunity Risk Management Strategy and the methodology to enable them to robustly manage their operational risks. The workshop also enables all risk owners to update their operational risks with support on hand.

6.3 Business Continuity Management

6.3.1 With the many changes occurring within the council, Business Continuity Management arrangements are constantly reviewed to ensure that we have relevant skilled personnel on the emergency response teams and that these people are trained appropriately.

6.3.2 During the latter part of 2014 and early part of 2015 an extensive piece of work was undertaken by the Risk Management team to support services in the review and redevelopment of their Service Recovery Plans. This was in the form of desktop scenario exercises with every Head of Service and their management teams to highlight issues should we have ICT failure during, or out of, office hours. This resulted in robust Service Recovery Plans being developed for every service area across the Council.

6.3.3 This year has seen us working intensively with ICT colleagues to support the management of ICT Disaster Recovery and Business Continuity arrangements. This has resulted in project teams for key activities being formed and regular risk workshops being undertaken.

6.4 Emergency Response & Business Recovery Plan for Schools

6.4.1 This year saw the completion and provision of the Emergency Response & Business Recovery Plan template for schools to adapt and adopt. The plan was developed collaboratively with colleagues in the Emergency Planning Unit with input from a Task and Finish Group through the Central Policy Group, Head Teachers Forum and School Development Groups. The draft plan was tested for robustness through desktop exercises and the completed template provided to all schools during the Spring Term of 2015. Two versions of the plan were developed, one for maintained schools and one for academy schools. The plan has been provided to every school free of charge including academies.

6.4.2 To support schools in the completion of this plan every school was invited to attend a workshop which explained each section of the plan and enabled schools to complete their plan with support on hand to answer any particular queries they may have. 139 people attended the training representing 105 schools. There was a small charge made for academies to attend this training.

6.4.3 Additional workshops may be provided in the future to support schools' emergency response teams to test their plans and also to provide loggist training.

6.4.4 The feedback from this undertaking has been exceptionally positive with schools appreciative of a workable template developed by people with the right subject matter expertise to not only develop it but to deliver training which supports schools in the completion of the plan. This approach has ensured that every Shropshire School has access to a supported plan and that we have a consistent approach being adopted by all our schools.

6.4 Opportunity Risk Management Strategy

6.4.1 During 2014/2015 we have continued to share our strategy nationally and have again presented at the Alarm Learning & Development National Forum and also at Alarm regional forums.

6.4.2 We have again had an article published in the Public Risk Management Magazine resulting in further enquiries from different public sectors bodies this year including:

Leicester City Council
Mendip Borough Council
CIPFA
Lincolnshire County Council
Cumbria County Council
Dartford & Sevenoaks
Solihull Metropolitan Borough Council

6.5.3 This year has seen Jane Cooper, Risk Management Officer, successfully short listed as one of three finalists for Alarm Professional of the Year.

6.6 Project Risk Management

6.6.1 We have, and continue to support key projects that are currently underway. These include the transition of Fulcrum, Help2Change and Inspire to Learn to ip&e. Other key projects that we have or continue to support include; Quarry Swimming Pool Project, Implementation of the Care Act, University Centre Shrewsbury, ICT Disaster Recovery & Business Recovery Project, Key Systems hosting solutions and the Emstrey Inquiry Working Group.

6.6.2 Most of the projects commence with an opportunity risk workshop to develop a robust register. This enables these to be reviewed and updated at project team meetings with key officers taking responsibility to manage specific areas of risk. The direction of travel for projects is monitored to ensure that risks are well managed preventing delays to project plans or timescales.

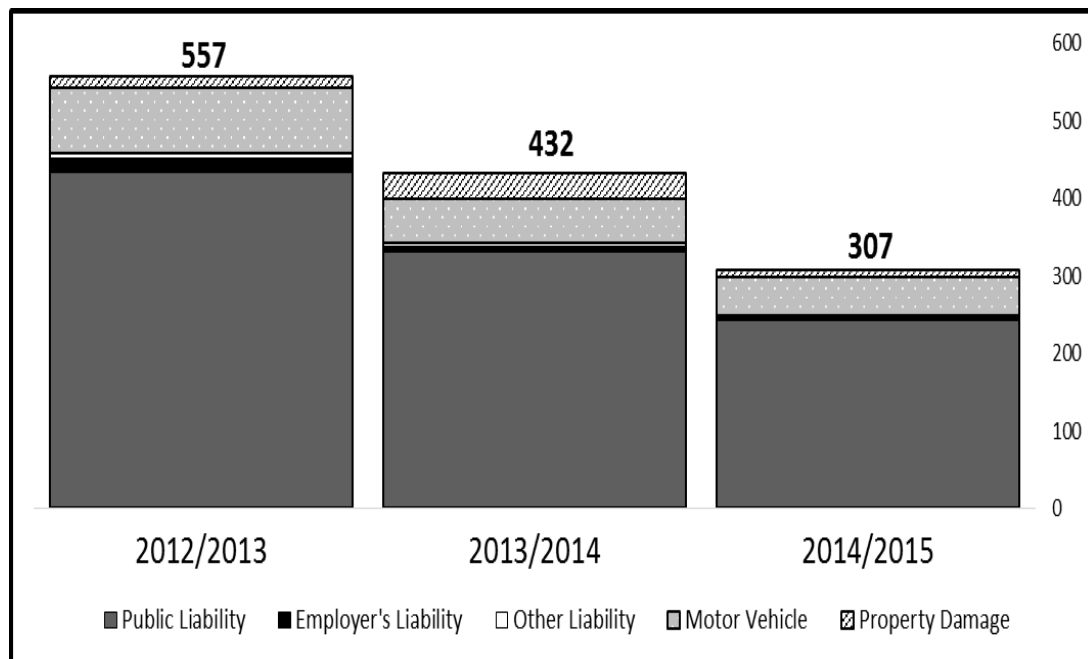
6.7 Audit Team Collaborative Working

6.7.1 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 307 claims against the 2014/2015 policy year, a reduction of 29% compared to the previous year. This is mainly due to the reduction in the number of Public Liability claims notified (down from 332 to 243) as a result of a much milder winter and additional funding being made available to maintain the highway. In addition we have seen a reduction in Property claims notified (down from 32 to 8) as storm weather conditions experienced in the early part of 2013/2014 were fortunately not repeated in 2014/2015.

Illustration 1 - Comparison of claims received year on year



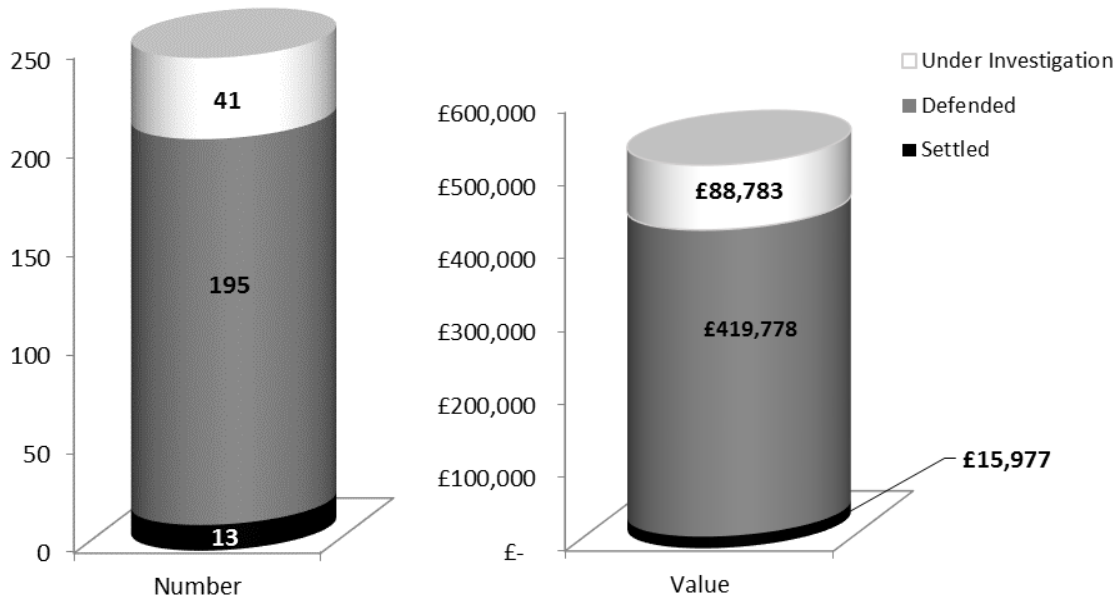
7.1 All Liability Claims

7.1.1 Liability claims represent 249 of all claims received in 2014/2015. This means an allegation of negligence is being made against the Council. A liability decision has been reached on 208 of these claims, with 195 (93.7%) being repudiated (ie turned down).

7.1.2 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 2014/2015 savings of £419,778 were achieved against defended Liability claims. Over the last three year period, these savings amount to over £2.7m.

- 7.1.3 It is pleasing to note that our repudiation rate for liability claims at 93.7% remains well above the industry average of 79.7%.
- 7.1.4 Just 13 of the claims received have been accepted, with a combined expected cost once fully settled of just £15,977. The remaining 41 claims (with reserves of £88,783 attached) remain under investigation at the present time.

Illustration 2 - Comparison of those claims accepted and those defended



7.2 Public Liability claims

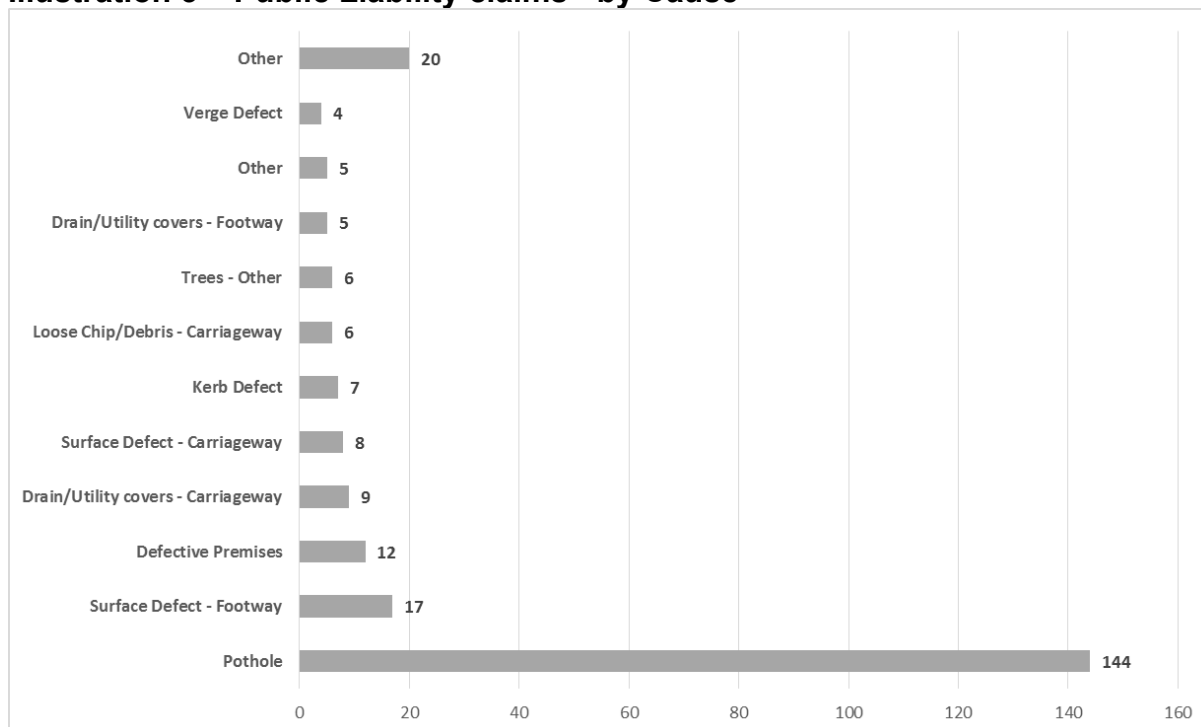
7.2.1 Of the 2014/2015 Public Liability claims received, 85.2% (207 claims) have arisen through Highways Maintenance incidents with the majority of these claims as a result of potholes on the carriageway.

7.2.2 The current repudiation rate for Highways Maintenance claims is 95.4% - again this is well above the industry average of 84.2%.

7.2.3 Of the 165 Highways claims repudiated, we expect to achieve savings of approximately £252,000 which would have been incurred in defending these claims. The main reason that we are able to successfully defend claims is because there is 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).

7.2.4 Liability has been accepted against just eight of the Highways claims against the 2014/2015 policy year, at an expected cost of £7,518.

Illustration 3 – Public Liability claims - by Cause



7.3 Employers Liability claims

7.3.1 We continue to receive a low number of Employers' Liability (EL) claims, with six claims being received during 2014/2015. The number has fallen from 16 in 2012/2013, but increased slightly compared to the five claims received in 2013/2014. 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 2014/2015 in the future.

7.3.2 Of the 2014/2015 EL claims, three relate to schools and one to each of Safeguarding, Day Services and Environment. The claims include one fall, a slip/trip, a manual handling incident and an alleged assault at a school.

7.3.3 At this time, two of the claims remain under investigation, whilst the other four have been repudiated. The expected saving against the repudiated claims is £46,378.

7.4 Other Liability claims

7.4.1 It is pleasing to note that we have received no claims of this nature against the 2014/2015 policy year. Last year we received six Officials Indemnity claims – however liability has not been accepted against any of these claims to date.

7.5 Motor claims

- 7.5.1 During 2014/2015 we received a total of 50 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 Just over half (27) of the claims received involve our own vehicle only (no Third Party involvement), making up 54% of all motor claims received in 2014/2015
- 7.5.3 Of the 23 claims involving a Third Party, we have accepted fault in 13 cases and payments made against these claims total £9,150. Two Third Party drivers reported whiplash injuries and in both cases we were successful in proving that the third party was at fault and as such recovered our own repair costs.
- 7.5.4 The main reason for motor claims (accounting for 34% of those received in 2014/2015) are incidents involving misjudgement/manoeuvring of vehicles.

7.6 Property claims

- 7.6.1 During 2014/2015 we received just eight Property claims – much less than the 32 received against 2013/2014. The main reason for the high number of claims last year was the storm weather conditions that hit Shropshire in February 2014. This resulted in extensive damage across the county – with numerous trees down and roofs blown off. Fortunately, we did not see a repeat to the same extent in 2014/2015.
- 7.6.2 Included within the eight claims received in 2014/2015 is a claim valued at £33,100. This relates to Storm damage in October 2014, which caused extensive damage to the roof of one of our schools. The average value of the other seven claims is just £441. This includes two claims for Theft, two claims for malicious damage, one for lightening damage and one relating to a burst pipe.

7.7 Current exposure

- 7.7.1 We currently have 235 open claims with reserves of £3.1m attached. Whilst this report so far has focused on claims against the 2014/2015 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 in illustration 4 below. We currently have open 30 Employers Liability claims, of which 12 are disease related claims with reserves of just under £110,000. Eight are for noise related injuries and four for vibration white finger.
- 7.7.2 The majority of open claims are of a low value with 36% (85 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 54% (127 claims) are valued between £1,000 and £25,000. Whilst 36% of the number of claims are valued under £1,000, the combined value of these claims (£23,000) represents just 1% of the overall reserve.

Illustration 4 – Open Employers Liability claims by Policy Year

Employer's Liability	Number of claims	Value (£)
1969/1970	1	10,000
1973/1974	3	27,000
1974/1975	1	11,500
1975/1976	1	2,016
1979/1980	1	10,728
1980/1981	1	2,702
1982/1983	1	10,000
1985/1986	1	15,000
1987/1988	1	14,999
2005/2006	1	6,000
2009/2010	1	16,100
2010/2011	2	202,000
2011/2012	2	67,238
2012/2013	7	532,350
2013/2014	2	10,830
2014/2015	4	42,083
Total	30	980,546

7.7.3 We have just six claims that are valued above £100,000 – the combined reserves of these claims being £1.36m. Liability is denied against all six claims. One of these claims, with a value of £375,000 was successfully defended at Court and we are in the process of recovering our costs.

7.7.4 Of the 235 claims open, 46% have been repudiated (109 claims) and as such the £4.16m 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). 76 claims remain under investigation at present and 99 claims have been accepted and we are negotiating settlement. The value of the accepted claims being approximately £251,600.

Illustration 5 – Open claims by detailed status

By Policy Year	No.	Value (£)
Liability Accepted	50	£ 251,574
Repudiated	109	£ 2,162,721
Under Investigation	76	£ 693,012
Total	235	£ 3,107,307

7.8 Municipal Mutual Insurance (MMI) Clawback

- 7.8.1 Last year we reported that as MMI were no longer able to foresee a solvent run off, the Scheme of Arrangement was implemented and a levy was applied to creditors in early 2014 resulting in a payment by Shropshire Council of £834,000.
- 7.8.2 There has been no notification that another levy will be applied any time soon, however the Year ended 30 June 2015 Annual Accounts for MMI are eagerly awaited to ascertain the state of the current financial position and therefore the likelihood that we could be faced with a further payment in 2016.
- 7.8.3 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 Broker Contract

- 7.9.1 This year saw the end of our Broker contract with Marsh Brokers Ltd. Whilst we could have considered extending the contract with Marsh, we felt that the broker market was especially competitive and following areas of dissatisfaction with our current broker, we opted to go out to tender.
- 7.9.2 A significant amount of interest was shown with nine firms requesting tender documents. This included three local firms but unfortunately they did not submit a tender.
- 7.9.3 Following completion of the tender process we have appointed Arthur J Gallagher Brokers on a two year contract with the option to extend for a further year based on a fixed fee. This award has seen annual savings of £13,225 and a saving of £39,675 over the potential contract period.
- 7.9.4 We are working closely with the new brokers to undertake a full review of our portfolio and are looking forward to the challenge that will inevitably come from a new broker looking after our interests.

7.10 Other Policies

- 7.10.1 With the move to commissioning and new ways of working we have extended the insurance policy to include 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 in the same way it supports Shropshire Council.

7.11 Reporting

- 7.11.1 The insurance team have access to detailed management information regarding the number of claims received, the cause and the cost and can report on trends happening within any service area. To this end we provide regular reporting to key service areas such as highways, property services,

and transport operations group which informs their decision making. We also work closely with services to manage their risks and to ensure that incidents do not happen again which have given rise to a claim.

7.11.2 There is close involvement in the Alarm Midlands Group and the Risk & Insurance Manager is deputy chair. This allows the team to be aware of current legislation changes, trends and best practice from other authorities.

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
Opportunity Risk Management Strategy
Business Continuity Management Policy
Business Continuity Plan
Insurance Annual Report

Cabinet Member

Mike Owen, Portfolio Holder Resources & Support

Local Member

N/A

Appendices