



Committee and Date

Audit Committee – 15th
September 2016

Item

11

Public

RISK & INSURANCE ANNUAL REPORT 2016

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1. Summary

- 1.1 This report sets out the challenges and achievements accomplished by the Risk Management Team during 2015/2016 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 and strategically manage the risks associated with developing a sustainable budget 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 both risk management and insurance and we are pleased to confirm the final reports identified the assurance level as “**Good**” with no recommendations for both audits.
- 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. The council needs to ensure that it is 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.

6. Additional Information – Risk Management

6.1 Strategic Risk Management

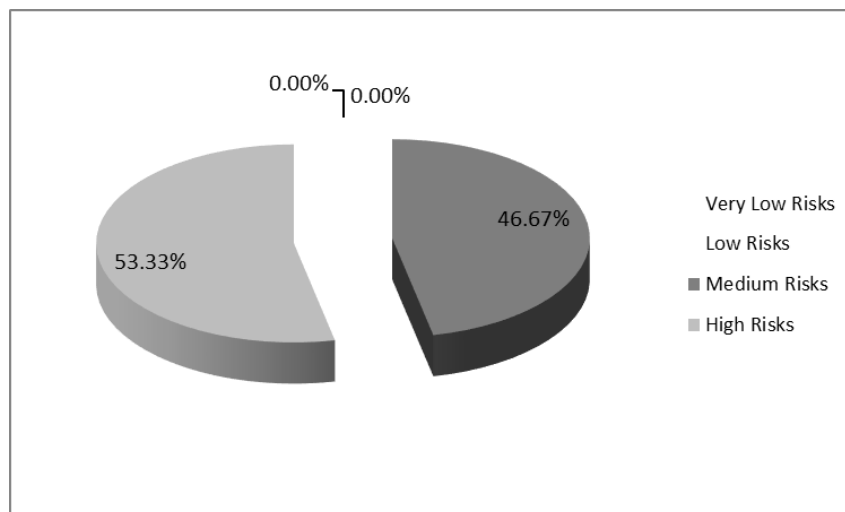
- 6.1.1 Throughout 2015/2016 our strategic risks were reviewed on a bi-monthly basis ensuring that the level of risk exposure was monitored closely in our rapidly changing environment.
- 6.1.2 This was achieved through scheduled meetings with key officers, Directors, Chief Executive and Portfolio Holder. The outcome of each review is then reported to Directors and Informal Cabinet.
- 6.1.3 The new Risk Profile & Action Plan template for managing our strategic risks has been adopted during this year. This details the direction of travel for each strategic risk over the year and clearly articulates the current controls in place and the additional controls required to mitigate and manage our strategic risk exposure effectively. This replaced the previous excel document and is clearer to understand and update.
- 6.1.4 During this year we have continued to develop an assurance mapping process linked to our strategic risks which incorporates the three lines of defence:-

Defence	Type of Assurance	Provided by/ Obtained through
First Line	Management	Provided by Heads of Service/ key managers
Second Line	Internal Governance	Provided by:- <ul style="list-style-type: none"> • Performance (scrutiny, customer experience) • Legal • Risk (operational, programmes, projects)
Third Line	External Assurance	Obtained through:- <ul style="list-style-type: none"> • Quality Assurance & 3rd Parties (e.g. Ofsted, CQC) • External Audit • Peer Reviews
Third Line	Internal Audit	Provided by Internal Audit

- 6.1.5 As a result of the focus on ICT resilience as one of our highest strategic risks, progress has been made with the formation of an ICT Digital Transformation Programme. Members of the Risk Management Team have been involved, and will continue to provide support for the duration of this transformation programme.

6.1.6 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 and this is shown clearly on each of the strategic risks where there is a link.

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



6.1.8 During 2015/2016 we consulted with all operational risk owners with regard to modifying and updating our risk definitions and matrix in order to adapt them more appropriately to today's risk climate. In order to do this we also conversed with many professional risk colleagues nationally to develop a list of appropriate definitions from which to choose. The new risk definitions and matrix were adopted in readiness for the 2016/2017 reviews and associated reporting process.

6.2 Operational Risks

6.2.1 Operational risks are reviewed and reported upon on a quarterly basis. All risks are held within one overarching risk register for each Head of Service area and circulated to risk owners for review and update.

6.2.2 At the end of the review period a detailed report is provided firstly to Heads of Service and then a collated version for Directors. These reports detail all current medium and high risks, the area they relate to and who is responsible for their mitigation. The report also details all changes that have occurred during this reporting period. These have enabled pro-active operational risk dialogue and challenge between Directors, Heads of Service and Service Managers ensuring a more accurate and robust operational risk review.

6.2.3 Following the provision of these reports a final summary report is presented by the Section 151 Officer to Directors.

6.2.4 To support the implementation of the new definitions and matrix 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 allows time for the risks to be updated there and

then which enables all risk owners to update their operational risks with risk management 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 To support our business continuity management arrangements, regular testing to ensure they are robust is necessary. During the early part of 2016 a live exercise called 'Back to the 70's' was undertaken to test how we would manage a cyber-attack and the impact this would have on our organisation.
- 6.3.3 We were fortunate to have the support of the DCLG Resilience Advisor during the development of the exercise and as an observer of the exercise whilst it took place. The DCLG Resilience Advisor is our link into COBR and his feedback was extremely positive and he was re-assured that they could rely on us as an authority to manage such an incident robustly and provide meaningful and accurate reporting.
- 6.3.4 We are one of the first local authorities to live test such a scenario and interest has been received from both Alarm and other colleagues as to how we have undertaken this and the learning outcomes from this.
- 6.3.5 Following the exercise a Post Exercise Report & Action Plan was produced and we continue to develop processes and undertakings to meet the requirements identified within this.
- 6.3.6 One of the key actions was to ensure that loggists were available to log key decisions during any incident. We asked for volunteers for this role and then provided training to these in effective logging. We now have 16 fully trained loggists who form part of our Emergency Response Teams and will take part in all future meetings and exercises.
- 6.3.7 Under the Civil Contingencies Act we have a responsibility to raise awareness within the local business community of the need to have robust business continuity management arrangements in place to preserve their organisations/ businesses. We have facilitated two sessions called 'Your Business Matters' with local businesses sharing best business continuity management practice.
- 6.3.8 During national Business Continuity Week we also ran a live exercise over the week with these businesses to test the robustness of their arrangements. Following this we collated a response and action plan document which was provided to all participants. Feedback has been excellent and these will be continued to be undertaken on an annual basis during national Business Continuity Week.

6.4 Emergency Response & Business Recovery Plan for Schools

6.4.1 Following the provision of the Emergency Response & Business Recovery Plan for schools we have continued to support schools in the completion of this and the testing of the robustness of their plans.

6.4.2 We have undertaken a desktop exercise with schools and their Schools Emergency Management Teams to test a scenario and how they would manage it. Further sessions are booked to continue to support all other schools who had been unable to attend this first session.

6.4.3 Excellent feedback has been received from the schools who have confirmed that they have found the plan and training extremely beneficial enabling them to become more robust and confident in their planned response to any incident.

6.5 Opportunity Risk Management Strategy

6.5.1 During 2015/2016 we have continued to share our strategy nationally. Shropshire Council's Opportunity Risk Management Strategy is considered nationally, through Alarm, to be best practice and is now contained as a link on their website.

6.5.2 This year has seen Jane Cooper, Risk Management Officer, successfully short listed through Alarm as a finalist for two awards; Resilience Award for the exercise 'Back to the 70's' and Community Award for the work undertaken with schools in the development of their Emergency Response & Business Recovery Plans.

6.6 Project Risk Management

6.6.1 We have, and continue to support key projects that are currently underway or due to be commenced.

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.

6.8 Risk Management & Business Continuity Training

6.8.1 We have continued to provide risk management and business continuity training opportunities for colleagues including schools as detailed below.

6.8.2 Schools Emergency Response & Business Recovery Plan Development

- We delivered nine training sessions either centrally or within School Development Groups around the county. This enabled us to provide support to 130 delegates representing 89 maintained schools and 9 academies in the development of their plans. The sessions allowed them time to develop their arrangements with subject matter experts on hand to support them.

6.8.3 Operational Risk Management Training

- During 2015/2016 we facilitated three operational risk management training sessions to provide refresher training to existing risk owners and introduce new risk owners to the process. In total 65 delegates attended these training sessions which is 83% of risk leads. The sessions allowed delegates to undertake their quarterly review with support from the risk management team on hand to answer queries or provide advice.

6.8.4 Risk & Insurance Training for Schools

- This training continues to be offered to all maintained schools on a termly basis. So far 92% of schools have been represented but we continue to run the sessions to enable new school staff to attend and also to continue to provide updated and relevant information in relation to changes in legislation and best practice.

6.8.5 Business Continuity Exercise 'Back to the 70's'

- In January 2016 we undertook a 'live' business continuity exercise to test our response to a cyber-attack. This involved the engagement and participation of 50 members of the emergency response teams and three observers. A representative from the DCLG also attended and his input was extremely beneficial.

6.8.5 Loggist training

- Loggist training was developed as a result of an action in the post exercise report and action plan produced following 'Back to the 70's'. We developed and delivered three training sessions resulting in the provision of 16 trained loggists to support future responses to real incidents or exercises.

6.8.6 We will continue to provide scheduled training opportunities and work with colleagues to develop bespoke training packages where required.

6.9 External Work

6.9.1 During the year we have worked to develop commercial relationships with external colleagues and organisations. This has enabled income generating opportunities with the following organisations:-

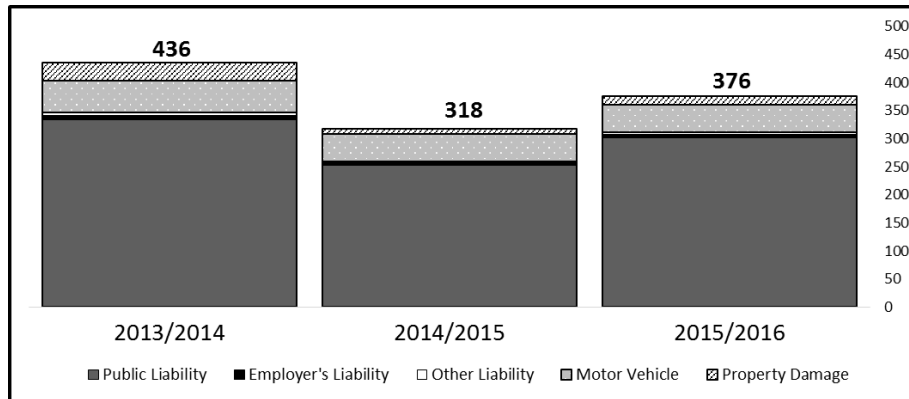
- Academy Schools - Emergency Response & Business Recovery planning;
- STaR Housing - business continuity management desktop exercise and action planning;
- Shropshire Housing Group – development of their business continuity plan and live exercise;
- Severnside UniTe – business continuity management desktop exercise and action planning.

6.9.2 We continue to be in discussion with other organisations in scoping further income generating opportunities.

7. **Additional Information – Insurance**

7.0.1 We received 376 claims against the 2015/2016 policy year, this is an increase of 18% compared to the previous year but still fewer than the number of claims received during 2013/2014. The increase is mainly due to the number of Public Liability claims notified which has risen from 254 to 303. The majority of councils have seen an increase in their public liability claims and this has not been helped by a wet winter that saw many potholes forming quickly. In addition we have seen an increase in Property claims notified (up from 9 to 15). Although this is an increase on the previous year this level is still extremely low.

Illustration 1 - Comparison of claims received year on year



7.1 All Liability Claims

7.1.1 Liability claims represent 312 of all claims received in 2015/2016. A liability claim means an allegation of negligence is being made against the Council. Following investigations a liability decision has been reached on 287 of these claims, with 253 (88%) being repudiated (i.e. 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 2015/2016 savings of £534,924 were achieved against defended Liability claims. Over the last three year period, these savings amount to over £1.9m.

7.1.3 When a claim is received a claim form is issued for completion which will give us more detail in order that the claim can be investigated fully. Once the claim form has been issued the claim is recorded as a pending claim until such time the claim form is returned. However, there are a number of claim forms that are not returned and the table below shows the number pending claims whose claim forms have not been returned and the savings attached to these.

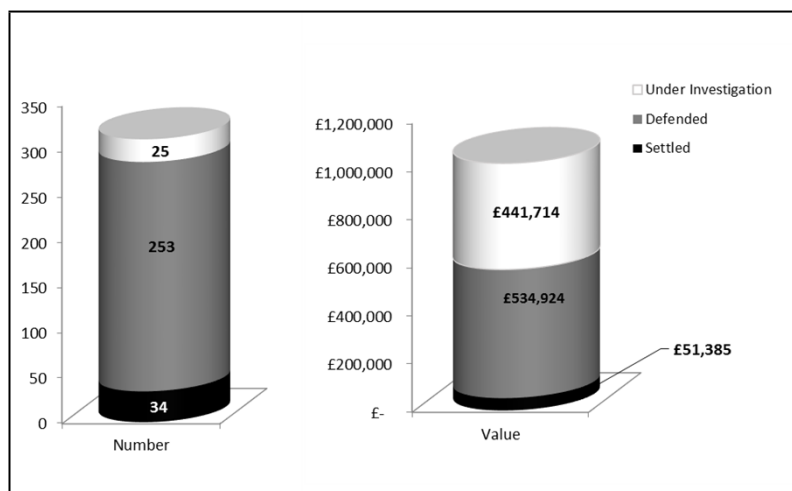
Policy Year	Total Number of Claims	Savings
2013/14	108	£ 62,767
2014/15	74	£ 85,830
2015/16	98	£ 71,549

7.1.4 Having taken the repudiation savings and those made from the pending claims, the overall savings over the past three years amount to over £2.1m.

7.1.5 It is pleasing to note that our repudiation rate for liability claims at 88% remains well above the industry average of 79.7%.

7.1.6 34 of the claims received have been accepted, with a combined expected cost once fully settled of £51,385. The remaining 25 claims remain under investigation at the present time and have reserves of £441,714 attached to them. However, one claim alone has a reserve of £278,000.

Illustration 2 - Comparison of those claims accepted and those defended



7.2 Public Liability claims

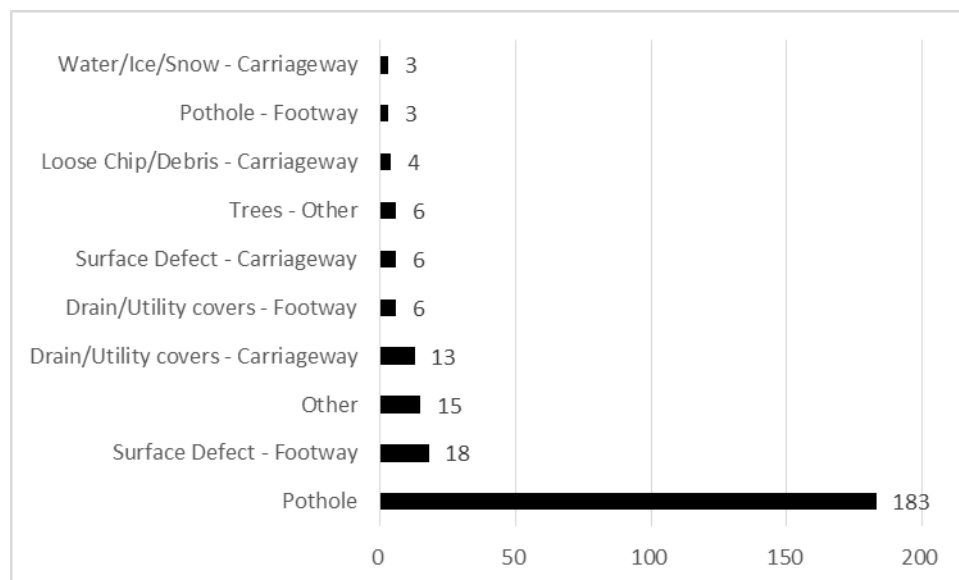
7.2.1 Of the 303 Public Liability claims received during 2015/2016, 257 claims (84.8%) have arisen through Highways Maintenance incidents with the majority of these claims arising as a result of potholes on the carriageway.

7.2.2 A liability decision has been made on 240 of these, 214 being repudiated. The current repudiation rate for Highways Maintenance claims is therefore 89.2% - again above the industry average of 84.2%. However, as detailed below some of the claims were accepted because of our statutory duty but were in fact as a result of the actions of Ringway. If correct action had been taken the repudiation rate for Highways claims would have been 92%.

7.2.3 Of the 214 Highways claims repudiated, we expect to achieve savings of approximately £377,855 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 26 of the Highways claims against the 2015/2016 policy year, at an expected cost of £23,050. Seven of these claims however have occurred as a result of the failure of Ringway – either because of a failed repair or the repair was not carried out as requested. These claims have a value of £5,614 and a recovery from Ringway is being undertaken.

Illustration 3 – Public Liability Highways claims - by cause



7.3 Employers Liability claims

7.3.1 We continue to receive a low number of Employers' Liability (EL) claims, with four claims being received during 2015/2016. The number has fallen again from the 6 in 2014/2015. 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 2015/2016 in the future.

7.3.2 Of the 2015/2016 EL claims, two related to Highways Maintenance, one Adult Social Care and one Shropshire Town and Rural Housing. The claims include two falls, one slip and one harassment.

7.3.3 At this time, two of the claims remain under investigation with a reserve of £42,158 whilst the other two have been repudiated. The expected saving against the repudiated claims is £10,193.

7.4 Other Liability claims

7.4.1 We have received five Official Indemnity claims against the 2015/2016 policy year. Official Indemnity claims are where a claimant has suffered a purely financial loss as opposed to damage or injury. Liability has not been accepted against any of these claims to date giving a saving of £4,770.

7.5 Motor claims

- 7.5.1 During 2015/2016 we received a total of 49 motor claims which matches the number received in 2014-2015.
- 7.5.2 Of these received, 33 involve our own vehicle only (no Third Party involvement), making up 67% of all motor claims received in 2015/2016.
- 7.5.3 Of the 16 claims involving a Third Party, we have accepted fault in 10 cases and payments made against these claims total £14,544.
- 7.5.4 The main reason for motor claims during 2015/2016 are incidents involving misjudgement/manoeuvring of vehicles.

7.6 Property claims

- 7.6.1 During 2015/2016 we received just 15 Property claims but this was up slightly from 2014/2015 where 9 property claims were received.
- 7.6.2 Included within the 15 claims received in 2015/2016 there is one claim valued at nearly £21,000 and another valued at £11,500. The first one of these relates to an oil leak at one of our schools where the cost of trace and access to locate and repair the leak was covered. The other relates to fire damage to one of our properties in our housing stock. The average value of the other 13 claims is £1,700. This includes four claims for storm/lightening damage, three for theft, two for fire, two accidental, one malicious and one burst pipe. Of the total number of property claims 9 related to educational properties.

7.7 Current exposure

- 7.7.1 We currently have 304 open claims with reserves of just over £3.2m attached. Whilst this report so far has focused on claims against the 2015/2016 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 1960's. These normally relate to Employers Liability claims as shown in illustration 4 below. We currently have open 23 Employers Liability claims, of which 13 are disease related claims with reserves of £266,302. Ten are for noise related injuries, two for vibration white finger and one for mesothelioma.
- 7.7.2 The majority of open claims are of a low value with 48% (146 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 44% (134 claims) are valued between £1,000 and £25,000. Whilst 48% of the number of claims are valued under £1,000, the combined value of these claims (£43,000) represents just 1.2% of the overall reserve of £3,617m.

Illustration 4 – Open Employers Liability claims by Policy Year

Employer's Liability	Number of claims	Value (£)
1962/1963	1	£150,000
1963/1964	1	£13,000
1969/1970	1	£5,440
1974/1975	1	£16,253
1975/1976	1	£3,529
1976/1977	1	£10,061
1978/1979	1	£5,197
1979/1980	2	£29,060
1980/1981	1	£2,973
1985/1986	2	£24,789
2005/2006	1	£6,000
2011/2012	1	£14,488
2012/2013	5	£389,626
2014/2015	1	£6,665
2015/2016	3	£46,658
Total	23	£723,739

7.7.3 We have just five claims that are valued above £100,000 – the combined reserves of these claims being £1.21m. Liability is denied against two of the claims. The remaining three claims are still under investigation.

7.7.4 Of the 304 claims open, just over 56% have been repudiated (171 claims) and as such the £1.52m reserved against these claims is not likely to be paid. However there is the possibility of a challenge to these decisions which could result in legal action (and increased costs in some areas). 96 claims remain under investigation at present and 37 claims have been accepted and we are negotiating settlement. The value of the accepted claims being approximately £397,811.

Illustration 5 – Open claims by detailed status

By Status	No.	Value
Repudiated	171	£ 1,527,150
Accepted	37	£ 397,811
Under Investigation	96	£ 1,698,892
	304	£ 3,623,853

7.8 Municipal Mutual Insurance (MMI) Clawback

7.8.1 In previous years 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 Following the publication of the accounts it was confirmed that a levy of a further 10% would be applied to creditors. This resulted in a second payment by Shropshire Council of £444,303

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.

7.8.4 In addition to the payments detailed above, there is an ongoing 25% contribution to all claim payments that has to be made by Old Shropshire on an ongoing basis.

7.10 Other Policies

7.10.1 With the move to commissioning and new ways of working the insurance policy has been extended to include the name of STAR Housing. Therefore this company is covered under the same policy and conditions as Shropshire Council.

7.10.2 The Insurance Team supports and advises the above company 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 chair with the Risk Management Officer also being a committee member. 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

Michael Wood, Portfolio Holder Finance, Governance & Assurance

Local Member

N/A

Appendices