BRENTWOOD BOROUGH COUNCIL

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INSURANCE AND RISK MANAGEMENT STRATEGY

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1. Policy Statement

Brentwood Borough Council is committed to the effective management of risk. The Council's employees, partners, stakeholders, residents, assets and ability to deliver its objectives and services are constantly affected by risk. The Council recognises that risk can be both positive and negative. The Council accepts its legal, moral and fiduciary duties in taking informed decisions about how best to control and minimise the downside of risk, whilst still maximising opportunity and benefiting from positive risks. The Council will ensure that Members and staff understand their responsibility to identify risks and their possible consequences.

2. Introduction

The Council's priority is to deliver excellent, customer focused, cost effective services by ensuring that the Council's Risk Management framework is in place and operating effectively. The Council's corporate insurance arrangements form part of the overall risk management approach.

This strategy outlines the Council's overall approach to risk retention and transfer including the procurement of corporate insurance cover through relevant policies of insurance to protect against loss or damage to the Council's assets and potential liabilities.

<u>Risk</u>

Risk is defined in this context as something that might have an impact on achieving the Council's objectives and its delivery of services to the community.

Risk Management can be defined as ***"the culture, processes and structures that are directed towards effective management of potential opportunities and threats to the organisation achieving its objectives".***

We use the risk management process to identify, evaluate and control risks. Risk management need not mean risk avoidance and may involve taking steps to reduce risk to an acceptable level or transfer risk to a third party. The Council recognises that it has to deliver services in an increasingly litigious and risk-averse society. The Council will therefore use risk management to promote innovation in support of the Corporate Plan.

<u>Insurance</u>

Insurance is a mechanism for transferring risks to another (the insurer) for a consideration (premium). The broad principal of insurance is that the premiums collected from many policyholders pays for the claims of a few, whilst still allowing the insurer to meet their overheads, pay dividends to shareholders, purchase re-insurance to protect themselves against catastrophic losses and to build up their reserves. The Council is not required by law to purchase insurance to cover its risks, except as set out in the next paragraph.

Under the Local Government Act 1972 it is required to have Fidelity Guarantee Insurance. This protects the Council in the event of a financial loss arising out of the fraud or dishonesty by its employees. The Council also purchases insurance and inspection services where there are other statutory requirements, for example the need, under the various Health and Safety Acts, to have boilers and lifts inspected by an independent and competent person.

3. Aims and Objectives

Aim

The aim of this Strategy is to improve the Council's ability to deliver a systematic and structured approach to identifying and managing risks across the Council. To ensure that appropriate insurance arrangements are in place to protect the Council against loss or damage to the assets and potential liabilities and to obtain the broadest cover at the best terms available.

Objectives

The objectives of this Strategy are:-

- Integrate and raise awareness of risk management for all those connected with the delivery of Council services
- To provide a robust and systematic framework for identifying, managing and responding to risk
- Anticipate and respond to changing social, environmental and legislative requirements.
- Enhance the attractiveness of the Council's risk profile to underwriters.
- Comply with any statutory requirements to have in place particular policies of insurance and associated inspection systems.
- Minimise potential claims and consequently reduce the cost of insurances
- Reduce the cost of external premium spend and to consider self-funding for low level claims
- Protect the Council's assets (people and property).
- Protect the reputation of the Council.

These objectives will be achieved by:

- Establishing clear roles, responsibilities and reporting lines within the Council for identifying and managing risk.
- Embedding risk management into the Council's decision making process, service delivery, project management and partnership working.
- Providing opportunities for training and shared learning on insurance and risk management across the Council.
- Maintaining documented procedures for the control of risk and the provision of suitable information, training and supervision.
- Maintaining an appropriate incident reporting and recording system, (with investigation procedures to establish cause and prevent recurrence) to provide opportunities for improved risk management across the Council.
- Ensuring robust Business Continuity arrangements are in place.
- Robust claims handling arrangements and insurance fraud detection.
- Maintaining claims handling protocols that are in line with statutory requirements.

4. Insurance Framework

Adequate insurance cover is an essential component of effective Risk Management.

Prior to 1992 Brentwood, like the majority of local authorities, was insured with Municipal Mutual Insurance (MMI) for all its corporate insurance requirements such as employers and public liability insurance. Insurance cover during this period was 'ground up' meaning that all insurance claims were paid in full by MMI as the policies had no deductibles or excesses.

The Scheme of Arrangement began in 1992 when MMI became no longer viable financially and was no longer able to provide ongoing cover. This authority, along with others, took on responsibility for a portion of the outstanding and any future incurred claims. This council has set up a specific provision for MMI claims based on a levy that the scheme administrator imposed on all local authorities following an actuarial review of the total scheme liabilities and assets. A levy of 15% was imposed on scheme creditors in January 2014 and a further levy of 10% was imposed in April 2016. The balance of the fund now stands at £223,108.76. The levy and reserve may change depending on the outcome of future actuarial assessments of scheme assets and liabilities.

Following the demise of MMI in 1992 the council subsequently insured through Zurich Municipal and continued to insure on a ‘ground-up’ basis but incurred low level excesses on some of its policies.

Insurance Premium Tax (IPT) was introduced by the UK government in 1994, and means that all insurance premiums are subject to the tax which was originally set at 5%. This has increased from 6% in 2011 to 9.5% in November 2015, then 10% in November 2016, to its current rate of 12%.

The commercial insurance market for the public sector has for many years been very restricted with local authorities typically perceived by insurers as ‘bad’ risks, with only a handful of insurers willing to underwrite local authority business.

In basic terms, each insurer estimates the chances of a range of events happening and determines what they will need to charge to fund these potential risks, based on a fixed level of excess. If an authority wishes to increase the level of excess and suffer more potential costs should an event take place, then the insurer would be expected to reduce premiums to take account of the reduced level of risk that they are expecting.

As a general rule, the more an authority decides to self-insure, the lower the costs of insurance should be; however, self-insurance requires the authority to maintain a level of resources sufficient to meet all likely claims against the organisation. This would be managed through an insurance reserve.

One of the main drivers in deciding to self-insure is cost versus risk. An insurance company will charge a premium that it considers will cover the cost of any claims that it is likely to have to pay during the period of insurance (particularly in relation to small predictable losses), plus an amount in respect of its profit and administration costs.

Instead of paying a premium to insure against these predictable losses, the council can instead use the money to pay for any loss settlements that may arising during the year. An additional benefit of this approach is that the council retains this money should any losses be less than anticipated. In contrast, larger infrequent losses are hard to predict and to avert, and it is therefore prudent to insure against this type of loss to avoid exposing the council to any unnecessary large financial loss.

In determining its insurance programme and deciding which risk to insure against and to what degree, the council considers its appetite for risk, i.e. the amount of risk exposure or potential adverse impact (in this context cost, financial loss) from an event that the council is willing to accept.

At the present time, the council does not maintain an insurance reserve to meet the cost of claims falling under the policy excess. This cost is meet out of departmental budgets that the insurance claim falls under. If the excesses were increased it would be necessary to establish an insurance fund. To estimate the level of funds the council would require holding in the insurance reserve, the council would need to commission an independent actuary to provide a consolidated view of the council's current and potential liabilities. This review would need to be carried periodically.

The ability of this authority to self-insure and maintain a self-insurance reserve will need to be weighed against the premium cost of insurance as well as set against the context of the overall general balances of the Council.

Insurance will be procured in accordance with external regulatory requirements applying at the time (e.g. OJEU procedures) and the Council's Financial Regulations. Following a tender exercise in 2013, a new contract was awarded for a five year period with an option to extend the contract for a further two years should it be identified that this provides best value for the Council.

Liability claims will be managed in accordance with the Civil Procedures Rules with strict adherence to the protocol timetable. The Insurance Officer will lead on all investigations and provide the liaison between employees, solicitors and insurers.

Analysis of claims will lead to risk improvements in the areas of training, security and systems of work.

The Annual Review Process

The annual review process requires the Council to provide the Insurer with information on changes to sums to be insured for the following insurance year, which runs from 1 April to 31 March. These sums include information on the value of the Council's property estate, computer equipment, vehicles, etc. On receipt of this information and the Council's claims history over the year, the Insurer will then assess the Council's risk profile and present a report detailing proposed premiums for the following insurance year categorised by policy type.

On receipt of this report the Council reviews the figures for accuracy and assesses whether the report is a fair representation of the Council's risk profile based on claims experience. A meeting is then convened between the Council and the Insurer to discuss the report.

Thereafter, should an agreement be reached the contractual relationship between the Council and the Insurer will continue until the next annual review.

5. Risk Management Framework

Risk Management is a central part of the Council's strategic management. It is the process by which risks are identified, evaluated and controlled.

The risk management process will add value to the Council's decision-making process and is key to the organisation's strategic development, playing a fundamental role in reducing the possibility of failure and increase the Council's successes.

In broad terms risks are split into three categories:

- Strategic – those risks relating to the long term goals of the Council
- Operational – risks related to the day-to-day operation of each individual service
- Project – consideration of the risks occurring as a result of the Council's involvement in specific initiatives

The Strategic Register is owned by the Corporate Leadership Board, with ownership for risks being assigned to individual officers and Operational Registers are maintained by the relevant Department.

The Council is committed to establishing a systematic and consistent approach to risk identification, analysis, control, monitoring and review and consists of five stages:-

- Identify Risks – this involves the identification of risks, describing and recording them.

- Evaluate Risks – the identified risks are each assessed in terms of their likelihood and potential impact and determined against a profiling matrix.

- Manage Risks – this involves the identification and implementation of control measures to mitigate the impact risk, the cost effectiveness of implementing these measures and the estimation and evaluation of residual risk. There are four basic ways of treating risk, which are:-

Retain	Accept the risk exposure as part of the risk appetite
Avoid	Stop undertaking the activity which gives rise to that risk
Transfer	Involves another party bearing or sharing the risk i.e. via insurance
Reduce	Control the risk and take action to reduce either likelihood of a risk occurring and/or the consequences if it does occur

- Report – progress in managing risks should be monitored and reported to ensure actions are carried out.

- Review – review the effectiveness of the control and to inform decision making.

6. Roles and Responsibilities

Everyone in the Council is involved in risk management and should be aware of their responsibilities in identifying and managing risk. However, the ultimate responsibility for managing risk lies with:

- Members of the Audit & Scrutiny Committee
- Corporate Leadership Board

To ensure the successful implementation of this policy, responsibilities for risk management are detailed below:

<u>Members of the Audit & Scrutiny Committee</u>
- Approve the Council's Insurance and Risk Management Strategy
- To ensure that strategic risks are being actively managed and report any concerns to full Council

<u>Corporate Leadership Board (CLB)</u>
- Ensure the Council implements and manages risk effectively through the delivery of the Insurance and Risk Management Strategy and consider risks affecting delivery of service.
- Ensure risk management is considered by CLB on a quarterly basis
- Be responsible for and monitor the Strategic and Operational Risk Registers
- Assign a responsible officer to each significant strategic risk.
- Receive and approve updates on the management action plan and on any new significant emerging risks.
- Support the embedding of risk management within the culture of the Council.

<u>Senior Management Team (SMT)</u>
- Take responsibility for the promotion of the Insurance & Risk Management Strategy within their area.
- Ensure that operational risk registers are managed, monitored, responded to and communicated effectively in their areas and reported quarterly at SMT.

<u>Finance Director</u>
- Ensure risk forms part of the overall performance management framework
- Contribute to the formulation and future development of the overall Insurance and Risk Management Strategy
- Provide updates to CLB and Members on significant risks identified and emerging from the risk register and other sources.

<u>Departmental Managers</u>
- Review and update risks quarterly, including monitoring controls and treatment progress.
- Ensure awareness of risk culture is embedded across their respective departments and services.
- Maintain risk registers in their respective areas of responsibility.
- Identify resources to address the highest priority risks and make requests to CLB for funds to avoid, transfer or reduce risk

Team Managers

- Identify, evaluate and control risks facing the Council in achieving its objectives
- Include staff without direct responsibility for owning and managing risk in quarterly risk discussions to ensure teams identify potential risks associated with service delivery as necessary.

Employees

- To ensure they are aware of the risks on the risk register for their service area and have contributed to the identification of potential risks they are aware of.

Internal Audit

- Maintain an independent role in line with guidance from the Institute of Internal Auditors and others and ensure compliance with the Public Sector Internal Audit Standards
- Ensuring that internal controls are robust and operating correctly

7. Risk Analysis

Once risks have been identified they need to be assessed systematically and accurately. The process requires managers to assess the level of risk by considering:

The probability of an event occurring – 'likelihood' and the potential outcome of the consequences should such an event occur – 'impact'. Managers will assess each element of the judgement and determine the score. The table below gives the scores and indicative definitions for each element of the risk ranking process:-

Score	Likelihood	Description
1	Unlikely/rarely happens	I would be very surprised to see this happen, but cannot entirely rule out the possibility
2	Less likely/moderate	I would be mildly surprised if this occurred, but cannot entirely rule out the possibility
3	Likely/possible	I think this could maybe occur at some point, but not necessarily in the immediate future
4	Very likely/high	I think this could occur sometime in the coming year or so
5	Definite/very high	I would not be at all surprised if this happened within the next few months

Score	Impact	Description
1	Negligible Impact	• Very minor service disruption/little inconvenience • None injury • Financial loss under £5,000
2	Minor Impact	• Minor service disruption/short term inconvenience • Minor injury • Financial loss under £10,000 • Isolated service user complaints • Breach of regulations/standards
3	Moderate Impact	• Service disruption • Loss time injury • Financial loss under £50,000 • Adverse local media coverage/lots of service user complaints • Breach of law punishable by fines only • Failure to achieve a Service Plan objective
4	Significant Impact	• Significant service disruption • Major/disabling injury • Financial loss under £100,000 • Adverse national media coverage • Breach of law punishable by fines or possible imprisonment • Failure to achieve one or more Strategic Plan objective
5	Major Impact	• Total service loss for a significant period • Fatality to employee, service user or other • Financial loss in excess of £100,000 • Ministerial intervention in running service • Breach of law punishable by imprisonment • Failure to achieve a major corporate objective in the Strategic Plan

The risk ratings for each part of the assessment are then combined to give an overall ranking for each risk. The ratings can be plotted onto the risk matrix, see below, which assists in determining the risk priority.

8. Risk Ranking Table

Brentwood Council has introduced a best practice five stage approach to Risk Management.

Likelihood / Probability					
	5	**10**	**15**	**20**	**25**
	4	**8**	**12**	**16**	**20**
	3	**6**	**9**	**12**	**15**
	2	**4**	**6**	**8**	**10**
	1	**2**	**3**	**4**	**5**
	Negligible	Minor	Moderate	Significant	Major
	Negative Impact / Severity				

Risk Tolerance		
Red (High Risk)	20 – 25	Must be managed down as a priority
Amber (Medium Risk)	12 - 16	Seek to influence medium term/monitor
Yellow (Accept Risk)	6 - 10	Acceptable, but continue to monitor
Green (Low Risk)	1 - 5	Continue to monitor / Close risk

9. Monitoring arrangements for Key Risks

The reason for monitoring key risks is to create an early warning system for any movement in risk. Key risks, 12 or above, will be individually reported to CLB, who will review whether it is appropriate for the risk to be escalated to the Strategic Risk Register. Any risks below 6 will be reviewed at an appropriate level as to whether it is appropriate for the risk to be removed from the risk registers or de-escalated.

Risk registers are living documents and therefore must be regularly reviewed and amended. The Insurance and Risk Management Strategy requires risks recorded on the Strategic Risk Register and Operational Risk Registers to be monitored on a quarterly basis by the relevant risk owner.

Monitoring reports are presented for approval to the Corporate Leadership Board prior to final ratification by the Audit Committee.

The questions asked during monitoring are:-

- Is the risk still relevant?
- Is there any movement in the risk score?
- Are there controls still in place and operating effectively?
- Has anything occurred which might change its impact and/or likelihood?
- Have any significant control failures or weaknesses occurred since the last monitoring exercise?
- If so, does this indicate whether the risk is increasing or decreasing?
- If the risk is increasing do I need to devise more controls or think of other ways of mitigating the risk?
- If the risk is decreasing can I relax some existing controls?
- Are controls/actions built into appropriate documented action plans?
- Are there any new or emerging risks?
- Have any of the existing risks ceased to be an issue (and can therefore be archived)?

10. Indicators of Success

- Strategic and Operational Risk Registers monitored on a quarterly basis and report presented to Audit Committee

- Annual review of the Insurance and Risk Management Strategy

- Adhoc reports provided to the Corporate Leadership Board when new, significant risk issues arise