

# **EIT Task and Finish Final Report Risk Management and Insurance**

## **1. Executive Summary**

This report provides Members with an assessment of the current Risk Management and Insurance function. It demonstrates current performance levels, and its interaction with customers and the Council. It concludes with an assessment of a number of options for the way forward. Due to recent reductions in the establishment it propose that no further reductions are made at this moment in time, but does suggest a further review occurs when the Corporate Risk Insurance Manager retires.

## **2. Recommendation**

That Members recommend to Cabinet there is no change to the Risk Management and Insurance function at this moment in time. A further review of the function to take place in 2012 when the Corporate Risk and Insurance Manager retires.

### Background

The Comprehensive Spending Review has revealed that reductions in funding to Local Government will be larger and happen more quickly than was previously anticipated. In light of this Stockton has approved a number of Task and Finish review in the Value For Money Programme. This review is one of those and the presentation of this report to Members follows the agreed guidelines for such reviews.

### Baseline

#### ***What service and how the service is provided***

Risk Management and Insurance:

Description of the Service – The principal functions of RM & I Section fall under three headings which are; to provide advice and support on the management of operational & strategic risks, insurance procurement and administration services and, the handling of insurance claims made by and against the Authority. The delivery of these services entails the following:

- Planning, development and implementation of risk management policy and strategy to successfully manage potential opportunities and threats to the Council achieving its business aims and objectives.
- Designing, developing and directing a strategic approach to risk financing by means of well co-ordinated internal and external insurance programmes, supported by efficient management systems and procedures which ensure value for money and, optimise protection of the Council's assets and against legal liabilities that might be incurred in the course of its business.
- Establishing and maintaining effective and efficient in-house capabilities and technical expertise to handle insurance arrangements and claims for all Service Areas of the Council and its externalised companies. This is to ensure that insurable loss is properly recovered and the Authority's economic viability and operational performance is properly safeguarded.
- Improving, enhancing and devising innovative solutions for inclusion in the annual business unit plan for the delivery of the risk management agenda so that this

integral element of good governance is maintained at the high standard required to enable Stockton to remain at the forefront of best performing authorities nationally, and to promote its good practice model.

- Designing and delivering training events, educational support material and professional advice to develop and improve the knowledge and technical skills of elected members, senior managers and their teams to ensure that risk management strategy is fully embedded, aligned with Council policy and practiced competently and proficiently across the Authority.
- Ensuring the professional and personal development and motivation of the Section's staff in their pursuit of challenging but realistic objectives in line with the Council's Competency Framework.

Risk Management and Insurance is a central support service forming part of the Finance, Procurement and Performance Division within the Corporate Finance Department of the Council's Resources Directorate. The Section is based at Kingsway House, Billingham and delivers its corporate work programmes through a combination of desktop handling operations, telecommunication technology, site inspections, surveys and investigations, meeting attendances and training events. This fully utilises the services of a compliment of 6.2 FTE staff. They interface with service grouping personnel at all levels across the Council as well as with those from the two externalised management companies, members of the public, various voluntary organisations and regional agencies. Additionally, a support role on risk and insurance related matters is provided to elected members, and to the Audit Committee in particular. The team is flexible and capable of delivering a customer focused service.

The comprehensive range of in-house insurance services referred to are linked directly to procurement contracts negotiated with insurance companies, external claims handlers and civil litigation lawyers and, to the prudent administration of the Council's self-insurance funds. Also, Service Level Agreements are in place with Tristar Homes Ltd and Tees Active Leisure, the companies responsible for management of SBC's housing stock and leisure establishments respectively. Furthermore, extensive use is made of computerised data management systems (LACHS and MKInsight) to monitor and co-ordinate the various work strands and to provide management information and reporting capabilities. In these ways the Section makes the most of competitive procurement processes and modern technology to achieve business objectives and create efficiencies across its areas of operation.

***What influences impact on the service (political social economical, technological)***

All of these factors will impact on risk management and insurance services to varying degrees, some typical examples of which are provided in the table below:

<b>INFLUENCE</b>	<b>EVENT</b>	<b>IMPACT ON SERVICE</b>
Political:	Changes in legislation e.g. Ministry of Justice motor claims reforms. Lord Justice Jackson's Review of civil litigation costs	Shorter claims investigation periods, penalties for non-compliance & increases in claim handling and settlement costs
	Government funding reductions	The level of reductions will inevitably have a significant

		affect on the Council's risk profile and consequently the workload of the RM & I Section.
Social:	Changes in welfare-related services	New risks emerging as a result of reductions e.g. reputation risks as services are changed resulting in greater need for RM support and demands on the Service.
Economical:	Changes in economic conditions – higher unemployment and lower standards of living	Likely to put a strain on social services, increased pressure on staff and could also result in more stress – related and legal liability claims. Increase in crime and incidence of fraudulent claims
Technological:	Failure to modernise ICT equipment and applications and greater exposure to data security breaches.	Greater susceptibility to breakdowns and business interruption. Capacity restrictions, reduced efficiency and potential for systems enhancement.

***What service costs and what resources it uses people buildings etc***

The Risk Management and Insurance Section is located at Kingsway House, Billingham and occupies two inter-connecting rooms on the third floor and also has use of a separate small records store elsewhere in the building. The accommodation provides sufficient office space for the whole team and the usual furniture and telecommunications equipment necessary to deliver the service. Storage space has recently been reduced to the present walk-in cupboard area following an ongoing programme to transfer all records to electronic medium whilst meeting statutory retention requirements.

The current organisation structure is as detailed in Appendix A. In recent years staffing levels have been gradually reduced from a compliment of 8 full-time employees to the current level of 6.2 FTE staff. This has been achieved by means of job-share and part-time working arrangements and is about to be further reduced by the retirement of another employee at the end of 2010. This loss of resource will be offset in part by a small reduction in future workload due the forthcoming transfer of housing stock to an RSL. In the circumstances and, in view of the current constraints on recruitment, the vacant post will not be filled. However, it is difficult to see that any further reduction of working hours beyond this level could be achieved without adversely affecting service delivery and the ability to meet current targets and operating standards of the service.

1 x Corporate Risk & Insurance Manager	Grade Q
1.6 x Senior Risk & Insurance Officer	Grade K
2.6 x Finance Technician	Grade H
1 x Insurance Clerk	Grade C

The budget for the section for 2010/11 is £151,531.

***What does consultation tell us***

The Risk Management Section undertakes an annual survey of client departments across the Council to obtain feedback on their level of satisfaction with the services

provided. The assessment is based upon responses to a questionnaire covering 19 elements of the service which are rated on a range of scores between 1 and 5. The current target level of achievement is 4 and this has been consistently exceeded and improved upon as shown in the latest results included at Appendix A of the report.

Insurance Services Satisfaction Surveys are carried out on a similar basis, but on a monthly cycle with questions aligned directly with those of other comparable finance business units. The target level score in this area has also been surpassed and historic/current feedback results are also set out in Appendix A.

In early 2010 specialist practitioners, Marsh Risk Consultancy Partnership, were commissioned to carry out an independent objective review of the Council's risk management programme and processes to test how well they're embedded across the authority and the extent to which the discipline was having a positive effect on the achievement of objectives.

The risk management policy, strategy and procedures were compared and contrasted with best practice to gauge performance and standing against a recognised achievement level, the ALARM National Performance Model for Risk Management. The Council's maturity on a scale of 1-5 was assessed at level 4 which is classed as "embedded and working". The report concluded that the results demonstrated that the Council remains at/close to the forefront of best risk management practice in most activity areas covered by the national model and asserted that there is a very high level of corporate governance assurance in Stockton.

Also, in 2009/10 the Risk Management and Insurance Section submitted evidence of its service performance for examination and assessment as part of Resources Service Group submission for the Government's Customer Service Excellence accreditation. Each area of the directorate was assessed separately and the Assessor reported being satisfied beyond any doubt that the required standards were achieved, commenting that "All staff involved in the process shared a clear passion for what they do and a real sense of pride in delivering excellent services was apparent."

#### ***What do complaints and compliments tell us***

There has been only one instance in recent years when a customer has expressed disappointment with services provided by the Section. This was in relation to the outcome of a legal case that went to trial in the civil court and where, after a protracted hearing, the judge ultimately found against the Council. A full debriefing of the material facts of the case was held with the client department afterwards when agreement was reached on lessons learned from the particular circumstances with a view to increasing the prospects of success in similar cases in the future.

This apart, feedback from the Section's customers has been entirely positive as evidenced by the following selection of compliments received:

#### Managing Risk and Opportunity Training Courses -

- Logical structured working through a defined process.
- Enjoyable, well explained, good examples.
- A worthwhile and practical course, delivered by experts.
- Good mix of talks and activities.
- Interesting, and very relevant to my work.

- It was a very professional presentation and was very helpful to me in developing the risk training for Middlesbrough BC.

### **3. Service Evaluation and Findings**

***Is the service needed is it statutory what level of service is needed and, what options are there for changing the way the service is delivered e.g. structurally, technologically***

The activities of the RM & I Section are underpinned by a number of legislative frameworks including -

Under Section 151 of the Local Government Act 1972 it is required that every local authority in England and Wales should make arrangements for the proper administration of their financial affairs and secure that one of their officers has responsibility for the administration of those affairs. These functions are deemed to include risk management and insurance arrangements, for which suitable and sufficient systems and procedures are required to comply with the statutory regulations.

All legislation pertinent to local government has an impact on services delivered by the R M & I Section and in particular, compliance with the above statutory regulations will involve the Chief Financial Officer in the activities relating specifically to risk management and insurance functions as follows:-

- The provision of advice on the management of risk to the Council and elected Members to facilitate service delivery.
- The provision of risk management and insurance advice for the strategic planning and policy making process of the authority to ensure efficient and effective protection of resources.
- The provision of management data from the corporate information system covering insurance claims, property risk status and incidents of accidental injury so that trends and weaknesses can be identified and resources more effectively targeted to deal with them.

These are enshrined in the Council's Financial Regulations and Standing Orders

In respect of technology the section currently uses the MKI Insight computer system to manage its risk base and to produce the Corporate Risk Register. For the processing of insurance claims and associated management information it uses a system called LACHS (Local Authority Claims Handling System). In both cases the section is constantly looking at ways of refining and improving utilisation to produce more efficient ways of working.

***Benchmarking how does the service perform – costs - can you demonstrate that the service is cost effective***

The Section participates in a regional risk management benchmarking group to compare risk management approaches, practices and performance with neighbouring local authorities and other public sector bodies

This exercise is undertaken annually and ten authorities participated in the latest review. Stockton achieved a score of 89.87% which was the highest overall rating of all the organisations involved and an improvement on the previous year when the

Council came only second in the table. The full results of the survey are shown in Appendix A of the report.

As a corollary of the above it is pleasing to report that the Council has suffered no major service interruptions in recent years as a result of failing to identify or manage risk.

One way in which the cost effectiveness of the work carried out by the Section can be demonstrated is in relation to the procurement of external insurance covers and risk management services. In 2008, we were instrumental in developing a consortium framework for the tendering process in conjunction with Darlington Borough Council. This resulted in both authorities significantly reducing their spend on insurance premiums and service costs, with SBC achieving annual savings of circa £500,000 and a second year fixed rates guarantee. These reductions will continue to be realised under the terms of a five years Long Term Agreement expiring in 2013.

The procurement project included an assessment of the Council's risk management strategy and initiatives and it was acknowledged that the results of this contributed to the advantageous renewal terms that were negotiated.

Further evidence of financial efficacy in the Section's management of its business functions is to be found in the planning and administration of the Council's provisions for self-retained insurance liabilities. Reviews of these self-insurance funds are undertaken by external actuaries at periodic intervals. The last review was carried out in 2008 and confirmed that Stockton was operating this fund in an effective and efficient manner.

### ***What does inspection tell us***

**External Assessments** – In its last annual report, the Audit Commission asserted that the Council has a history of achieving high scores in all areas of its use of resources assessments. Risk management and internal control are included under the 'Governing the Business' theme and the maximum possible score of 4 out of 4 was successfully maintained in the reported year ending 2009.

The latest assessment relating to the financial year 2008/9 and based around the Key Lines of Enquiry for that year found that the Council performance is excellent at governing the business and there are sound internal control arrangements and a high standard of governance.

**Internal Assessments** – Internal Audit appraised the Council's risk management systems and procedures in 2008/9 when the findings were as follows:

- The risk management framework in place within SBC is proper, comprehensive and robust.
- The process in place for identifying, evaluating and controlling risk was satisfactory.
- The process for monitoring and reporting risks was effective.

Each of these areas was thus given a Full Assurance rating – 'a sound system of controls is being applied consistently'.

***Who are the customers and what impact would changes have on them***

The Risk Management & Insurance Service provides quarterly and annual reports on the work it undertakes to the Council's Audit Committee. A full risk management training programme is delivered to elected members, senior and middle managers. The Section is also presently contracted to provide full insurance support and training services to the Council's ALMO, Tristar Homes Ltd and, to its externalised Leisure Services Management company, Tees Active Leisure Ltd. Additionally, training and support services are provided to Xentrall, the Stockton/Darlington Partnership and there are working relationships with the governors of LEA and Voluntary Aided schools, diocesan administrators and third sector organisations on all matters concerning risk and insurance management.

The service is provided mainly during normal office hours, but key officers are required to be available for call out at any time to respond to emergency situations that could give rise to claims under the Council's insurance policies or to attend out of hours committee meetings when required.

The Risk Management and Insurance Section has been in place since LGR in 1995 and the majority of staff remain unchanged since that time. Consequently, an in-depth knowledge of the Council's activities, systems and working practices has been built up over this time and the well-trained team has high levels of experience and expertise in delivering the services provided across the authority. The loss of these qualities and skills particularly in relation to the planning and procurement of insurance covers, self-insurance arrangements, claims investigation and management and the application of a disciplined governance approach to strategic and operation risk control would undoubtedly impact adversely on the day to day support available to customers. Moreover, there is a real risk that although reductions will bring short-term savings, they will result in higher costs to all concerned over the long term and potentially seriously reduce the Council's capability to manage its own risks. Therefore the implications of any austerity measures need to be carefully considered.

***What is likely to impact on demand for these services in the future***

The Government's announcement of significant reductions to public sector funding over the next four years as part of the recent Comprehensive Spending Review will have far reaching implications for insurance and risk management. The level of reductions are significant and are likely to have a serious effect on the Council's risk profile.

It is anticipated that the reductions could have an impact on the quality and the level of services that may be delivered because the Authority will have to perform its role with a substantial amount less. In this event some of the ramifications for the Section in the future which will increase demand for its services are as follows:

- Insurance market forecasts of imminent increases in motor vehicle and liability insurance covers.
- Possible reduced risk exposures as the Council deals with resource reductions e.g. changed staff levels, service changes, buildings rationalisation.
- Changes to the design of the insurance programme (ratio of self-insurance to external insurance)
- Changes could result in higher claims exposure and a rise in suspect as well as fraudulent claims
- With a potentially smaller workforce there could be an effect on employers' liability insurance.

- The Council could face new risks as a result of the reductions e.g. reputational risk as services are removed or reduced.
- There is going to be uncertainty and this generally leads to premium increases and a tightening of terms and conditions of cover.
- The cuts could prove a catalyst for further changes to current insurance buying practices and risk financing arrangements and may provide further opportunities for regional or consortium framework purchasing and pooling schemes.
- As budgets come under pressure, risk management will need to play an even greater part in the insurance mix
- There will potentially be a need to work closely with insurers to develop new products to meet changed requirements e.g. a Big Society insurance policy

Failing to take a considered, professional approach to such issues risks not only an adverse effect on service delivery, but could also become costly, and threaten to cancel out the very savings the reductions are intended to achieve.

#### **4. Options**

Other authorities have Risk Management and Insurance sections although they are not always joined together. It would be possible to look at partnering with other authorities in the Tees Valley. However as with Stockton the teams are small. Given the section has already reduced in size from 8.0 fte to 6.2 fte in recent times it is difficult to contemplate there will be any great economies of scale from such a merger and of course the savings would have to be shared. This allied to the fact we are about to enter a period of considerable uncertainty and no doubt operational change focus on risk management and insurance issues will need to be increased. It is suggested this is not the time to be considering this option.

Some authorities outsource part or all of this service. It has always been Stockton's belief that having an in house team that has significant knowledge of the services that are being risk assessed, managed and insured leads to better value for money and greater flexibility. The benchmarking data above clearly illustrates Stockton is a leading authority in the North East in terms of Risk Management. We also have high repudiation rates in defending insurance claims.

Unfortunately we are not able to compare these against the private sector participants as they do not release this information. This could be because they do not wish to expose their performance levels, although they will say it is commercially sensitive information. On all available evidence it is not recommended this service be transferred in to the private sector.

In 2012 the Corporate Risk and Insurance Manager will retire, as with other elements of this review, this does create the possibility for this post not to be replaced and the section merged with another. As mentioned above the section has already undergone a 22.5% reduction in its staff numbers. There would have to be certainty in pursuing such a course of action there was sufficient capacity left within the section for it to be able to proficiently carry out its required duties. This is an area where if this isn't done the financial consequences for the council are in real pound notes. This should not however stop that potential change being assessed.

#### **5. Conclusions and Recommendations**

The Risk Management and insurance function will by December 2010 have been downsized from 8.0fte to 6.2 fte, a 22.5% reduction. For the time being it is proposed no further reduction takes place. The coming financial year will undoubtedly be a difficult one in light of the central government funding reductions that are proposed.



This function is one where we will need to ensure we retain focus in that period to ensure we do not incur financial loss in this area as a consequence of those changes. The retirement of the section head in 2012 will provide an opportunity at that point to assess how the function will continue from that point.

## Risk Management & Insurance – Performance Indicators

### Customer satisfaction survey results:

Risk Management Services Satisfaction Surveys are currently based on 19 questions with a range of scoring between 1 to 5, with 5 being “Excellent”, 3 “Met Demand” and 1 being “Poor”.

Insurance Services Satisfaction Surveys are carried out on a similar basis, but with questions aligned directly with those of other comparable finance business units, and historic/current feedback results in both areas are as follows:

Service Area	Score					
	2004/05	2005/06	2006/7	2007/8	2008/9	2009/10
Risk Management	3.9	4.2	4.3	4.4	4.2	4.5
Insurance	4.1	4.3	3.7	4.1	4.5	4.6

### Claims Handling Performance

Indicator	Target (Cumulative)	20010/11 (to date)
1. Claims notified to claims handlers	93% within 3 working days	100%
2. Acknowledgement letter issued to claimant	97% within 21 days overall	98.5%
3. Claim forms passed to claims handlers following receipt from services within 40 days of initial notification	97% within 5 working days	98%
4. Claims queries from claims handlers	Within diarised period	90.5%
5. Ratio of self-insurance provisions to external insurance purchase	70%	69%

### Training Courses 2009/10

Course Objectives:

	Yes %	No %	Did not respond %
Did you find the course enjoyable?	79	8	13
Were the course objectives clearly set out?	100	-	
Do you think the objectives were achieved?	100	-	

Delivery of Training:

		Strongly agree > > > Strongly disagree			
		1	2	3	4
Presentation was clear and understandable	%	58	34	8	
Resources were appropriate and comprehensive	%	53	42	5	
Training was delivered to an appropriate level	%	53	31	16	
Length of course was acceptable	%	45	34	13	8
		< 88% >			

### Benchmarking

Authority – ( Type )	2009/10	Ranking
(A) - Unitary	76.79	6
(B) - Unitary	87.62	2
(C) - County	67.33	9
(D) - Unitary	69.67	8
(E) - Unitary	62.89	10
(F) - Unitary : Stockton Borough Council	89.87	1
(G) - Unitary	83.97	4
(H) - Police	84.89	3
(I) - Unitary	70.45	7
(J) - County	83.12	5