

BUDGET & PERFORMANCE PANEL

Risk Management Strategy Update

25 July 2006

Report of Head of Financial Services

PURPOSE OF REPORT

To inform members of the Panel of progress and developments with the Council's Risk Management Strategy with particular regard to its relationship with the VFM and Efficiency Strategy.

This report is public

RECOMMENDATIONS

(1) That the report is noted

1.0 Introduction

- 1.1 The Council's Risk Management Strategy was introduced in December 2003 and last updated on 27 July 2005 (a copy of the strategy approved by the Audit Committee is attached as Appendix A). The Audit Committee, under a responsibility to monitor the effectiveness of the Council's Corporate Governance arrangements, receives reports on the effectiveness of risk management from both external and internal audit and on progress with the implementation of the strategy from the Head of Financial Services.
- 1.2 The Value For Money (Efficiency) Strategy describes the Risk Management Strategy's contribution in the following terms: *"The Council's Risk Management Strategy and Policy Statement effectively sets out how the Council has embedded risk assessment into its strategic and operational decision making. It seeks to ensure that the Council is always informed what are the risks in any course of action it is considering. The introduction of a computerised risk management system and the development of service risk registers have brought about major improvements in the identification of potential risks and how they can be mitigated, thus ensuring VfM in the delivery of service objectives. The strategy is monitored by the officer Risk Management Group and progress on implementing the Risk Management Action Plan is reported to the Audit Committee on a quarterly basis."*

- 1.3 Whilst risk management considerations may play a part in the implementation of any of the other strategies identified as contributing to the VFM Strategy, there is a particularly strong relationship between risk management and the performance management framework, the identification and management of new risks and opportunities being an important element in raising and sustaining standards of performance. Recognising this, work programmes to implement the risk management strategy are developed so as to complement those relating to performance management and particularly the introduction of the Escendency performance management system.
- 1.4 This reports sets out the progress made in implementing the strategy and details a number of areas in which risk management activities have contributed to efficiency within the Council.

2.0 Details

Implementation of the Risk Management Strategy

- 2.1 As alluded to in the extract from the VFM Strategy (§1.2 above), a significant element in implementing the strategy is concerned with establishing and maintaining a computerised risk register which facilitates the management of the Council's significant strategic and operational risks. Corporate strategic risks have now been maintained and updated on this system for two years, drawing on objectives and targets set out in the Council's Corporate Plans. Over the past twelve months, the system has been extended to include strategic risks identified within individual Service's business plans and operational (day-to-day) risks that may not otherwise be identified.
- 2.2 The process of building up and "rolling-out" the use of this system is ongoing, with a target date for completion of 31 December 2006. Where possible, the opportunity is being taken to combine the approach with workshops being held to introduce the Escendency system. The following work programme was approved by Audit Committee at its last meeting on 28 June 2006.

Task	PROVISIONAL Target Date
Develop robust risk management procedures for partnership working.	1 August 06
Complete operational risk registers for each service.	31 December 06
Reassess the risks associated with 2006/07 Corporate Plan.	30 June 06
Ensure that project initiation documents include an adequate risk assessment.	TBC
Develop and deliver further appropriate training.	31 March 07

- 2.3 In terms of a contribution to effective decision making, corporate report writing guidance has been updated to ensure that risk and opportunity are properly identified and considered in Committee reports. The formal identification and evaluation of potential risks and opportunities are key elements in enabling and supporting well informed decision making. This reviewed guidance on risk is being included in training being delivered this year to relevant officers by Democratic Services.

- 2.4 Risk Management considerations will be evident in quarterly reports produced under the new performance management framework. Emerging risks and opportunities, their potential implications for existing work programmes and performance targets, and proposals on how to address them are elements to be included in the quarterly managers' reports to Performance Review Teams and the Budget & Performance Panel. As with other elements of these reports, it is envisaged that the nature and quality of the information will evolve and improve as the risk management and performance management systems are implemented.

Contribution to VFM and Efficiency

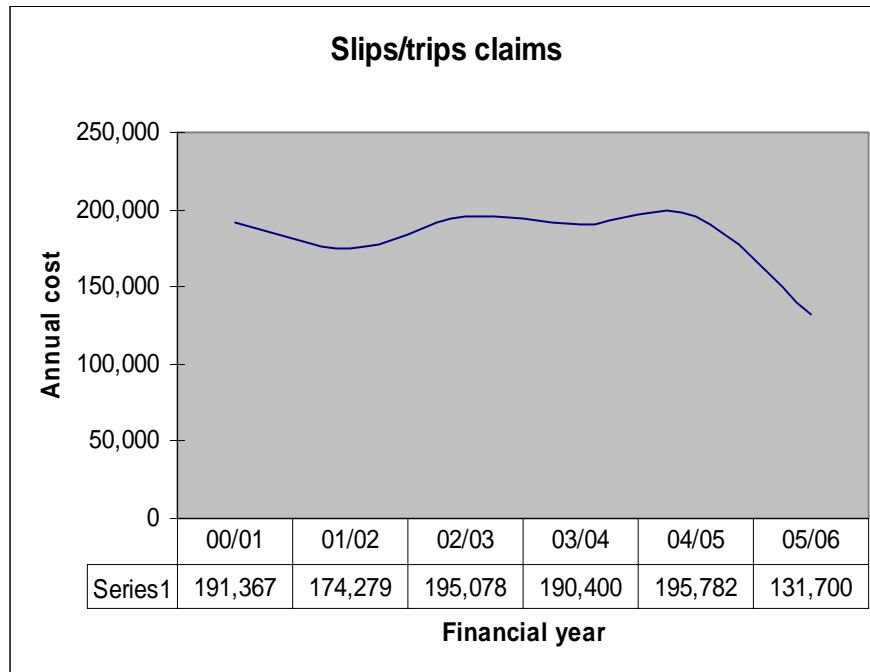
- 2.5 Whilst the risk management strategy's primary objective may not specifically be to deliver efficiencies, the implementation of sound and comprehensive risk management processes and techniques will help achieve this objective in a number of ways, for example by:

- identifying and avoiding/managing potentially hazardous activities and costly courses of action;
- identifying and taking advantage of opportunities;
- focussing on priorities, key objectives and risks, thereby identifying the potential to divert resources from less significant activities;
- where insurable risks are involved, identifying the potential for savings in terms of insurance premiums and/or payouts.

- 2.6 In this latter area, the Risk & Insurance Manager seeks to identify, using the results of risk analysis and claims history information, to identify possible efficiencies and savings. Recent outcomes have included the following:

2.7 Trips and slips

- 2.7.1 The Council's Public Liability insurance policy has a £10,000 excess for each and every claim. That means, for every successful liability claim made, the Council has to pay the first £10,000 of the compensation payment that is made. It therefore makes sense both financially and in reputation/community terms, to reduce the incidence of these claims wherever possible.
- 2.7.2 It was identified two years ago that a major financial burden to the authority was in the payment of slips/trips claims, where the accident occurred on Council owned land (as opposed to on the highway, which is County Council responsibility). The cost of these claims, at the time, was regularly averaging £190,000 per year.
- 2.7.3 A thorough risk assessment was carried out and it became apparent that, whilst it was not easy to prevent the slipping/tripping accident occurring, many claims were succeeding purely due to the fact that the Council had insufficient documentation to defend itself. A valid defence in these types of liability claims is that the area in question is regularly inspected and that documentary evidence is available to support this.
- 2.7.4 A working group identified the areas of land in Council ownership, ascertained which services had responsibility for them, and determined how often they should be inspected and how the inspections should be recorded. Most services have now adopted regular systems of inspection and produce suitable records. As a result, claims are now regularly defended successfully and this has resulted in substantially reduced claims costs. This last financial year (2005/06) has seen a 30% reduction in claims payments compared to previous years. Claims costs have been just £131,700, as opposed to the £190,000 average in previous years, as shown in the following graph. This is one measurable example of the benefits of risk management that have been gained so far.



2.8 Assessing the viability of a self funding option

- 2.8.1 The Council has always purchased traditional insurance cover as a way of transferring its insurable risks. There is, however, another method of financing these risks, namely a total self funding option. At present, the Council has a £10,000 excess on liability claims, a £2,500 excess on material damage claims and a £500 excess on motor claims. As such, the Excess Provision Fund was created 14 years ago to finance the cost of the claims within these excess levels.
- 2.8.2 In order to consider the viability of a total self funding option, it is necessary to consider the cost/benefit of total self funding against the cost/benefit of the current insurance arrangements. Options were considered by Finance Star Chamber on 3 May 2006. Whilst at this time it seems likely that maintaining the existing insurance arrangements is probably the most cost effective option, a major factor that needs to be taken into account is the cost of reinsurance. The Council's brokers have been asked to undertake a full broking exercise to provide a more accurate quotation for the Aggregate Stop Loss and Excess of Loss policies. Only once these figures are known more accurately can a well informed decision be made. Also, the uncertainty posed by the employment of external claims handlers must be taken into account when deciding which option provides best value. The vested interest that the insurers' claims handlers have, adds weight to the option of maintaining existing arrangements.
- 2.8.3 In addition to considering the viability of the total self funding option, the Risk and Insurance Manager regularly considers other "alternative risk transfer" options. For instance, at renewal, quotations are regularly sought for increasing the levels of excesses on each policy. The resulting possible premium saving is then compared to the claims history and the expected average cost of claims. To date, none of the options offered have been economically viable, but this exercise will continue to be taken as part of each renewal exercise.

2.8.4 Also, over the past two years, several large Public Sector organisations in the South of England have “pooled” their insurable risks and created a mutual insurance company. Whilst this is not currently considered to be a viable option for an authority the size of Lancaster, the Risk and Insurance Manager will continue to monitor the progress of this developing area of the insurance market.

2.9 Outcome of recent renewal process

Policy alterations/ premium savings

2.9.1 There were several options available to the Council this year that would produce savings and deliver best value.

2.9.2 Professional negligence “run off” cover has been in place for Building Design for seven years now, since Building Design transferred to Cumbria County Council and then to Capita. The cover was taken out because professional negligence policies are written on a “claims made” basis as opposed to the usual “claims occurring basis”. This meant that a policy needed to be in place should a claim be made relating to an incident that occurred whilst Building Design Services were part of Lancaster City Council. As time has passed, it has become apparent that there is very little likelihood that a claim will now be received and the remaining risk is considered to be minimal. As such, a decision was made not to renew this policy, which has resulted in an annual saving of £7,560.

2.9.3 The Personal Accident policy has only had two claims made on it in over 15 years. The policy covers injury to staff in cases where the Council has not necessarily acted negligently. However, when staff are injured through no fault of the Council, they still receive sick pay and so suffer no financial loss. Theoretically, the Council could seek reimbursement of the sick pay outlay, but, in practise, this is not beneficial as there is a £2,500 excess on the policy. As such, it was considered that the policy in its current format was not required. A quotation was received to reduce the cover to just “assault only” i.e. compensation for injury as a result of an assault during Council business. Two options were available, either including or excluding weekly benefits. As the first option was just £86 more expensive, at £1,199, a decision was made to accept this cover. This renegotiation of the policy has resulted in an annual saving of £9,972.

2.9.4 As the sum insured for Civic Regalia on the All Risks policy is £358,710 and yet very few items are ever taken out of the Banqueting Suite, consideration was given to the necessity of having the items insured on an “All Risks” basis rather than just basic Fire and Special Perils cover. A quotation was received for this reduction in cover but the resulting saving would have been just £724 per annum. As such, the existing cover represents excellent value for money and the saving opportunity did not justify the substantial reduction in policy cover. A decision was made, therefore, to maintain the Civic Regalia insurance on an All Risks basis.

2.9.5 A review of Council Housing sums insured was undertaken prior to renewal terms being offered. There was an overall reduction in the sum insured of £36,149,441. This meant that, whilst the property rate had been increased due to poor claims experience, the actual premium still reduced by £14,693.

2.10 Future considerations

2.10.1 The sums insured on the buildings schedule have not been reviewed for a long time. It is essential that property values are as accurate as possible because under-insuring can lead to an application of the “average” doctrine i.e. in the event of a major loss, the Insurers may determine that a property is under-insured and could reduce payment pro-rata to the level of under-insurance.

3.0 Conclusion

- 3.1 Work on implementing the Risk Management Strategy has already raised the profile and contribution of risk management processes and techniques within the Council, and this is reflected in assessments provided by the Audit Commission. There is, however, still some way to go and full implementation of the Risk Management Strategy is being actively pursued, with challenging targets being set in the current work programme to have complete risk registers in place by the end of 2006.
- 3.2 In relation to VFM and efficiency, embedding risk management will help provide greater confidence in decision making; contribute to innovation in identifying new opportunities; and help highlight how and where resources can be used more efficiently and effectively by being diverted to higher priority activities.

CONCLUSION OF IMPACT ASSESSMENT

(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)

None identified arising from this report

FINANCIAL IMPLICATIONS

None arising directly from this report

SECTION 151 OFFICER'S COMMENTS

The Deputy s151 Officer's comments are incorporated within the report

LEGAL IMPLICATIONS

Legal Services have been consulted and have no further comments to add.

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no further comments.

BACKGROUND PAPERS

Risk Management Strategy July 2005

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