HALTON BOROUGH COUNCIL

RISK FINANCING AND INSURANCE STRATEGY

1. Background

1.1 Risk financing refers to the arrangements established to fund the financial consequences of risk. The purpose of this strategy is to establish a framework that will govern the Council's approach to funding losses sustained in the course of its business.

1.2 Losses can be funded either:

- **Internally –** By retaining and managing particular risks with losses being financed through the Council's own funds.
- **Externally –** By transferring particular risks, generally by purchasing external insurance cover.

1.3 This strategy seeks to ensure that the structure of the Council's insurance programme achieves an optimum balance between self-insurance and externally procured insurance.

2. Factors influencing the strategy

2.1 The total cost of risk to the Council is significant and includes expenditure on:

- Insurance premiums
- Self-insured losses
- Uninsured losses
- Brokerage fees
- Insurance administration / claims handling costs
- The cost of risk mitigation activities

As a public body it is vitality important that the Council can demonstrate that it seeks to obtain value for money from this expenditure.

2.2 The Council does not have the financial resources to self-insure against all the risks it faces. Data produced by the insurance industry indicates that the number and value of catastrophic losses in the public sector is increasing. The Council therefore needs to ensure that it has appropriate external insurance in place to finance any such loss should it occur.

2.3. Recent changes in the insurance market have resulted in insurers seeking significant increases in premium from local authority clients. This consequently incentivises local authorities to accept greater levels of self-insurance in order to avoid increased costs and further pressure on revenue budgets.

2.4 A compensation culture has become established in the United Kingdom and there are sections of society and claimant solicitors who see local authorities as 'fair game'. The Council therefore needs to ensure that it has robust procedures in place to defend against speculative and / or fraudulent liability claims. Provision also needs to be made to limit the extent of the Council's exposure to the cumulative effect of such claims in any one financial year.

3. Objectives of the strategy

3.1 The objectives of this strategy are to:

- Protect the Council's assets (people and physical assets);
- Incentivise effective risk management to prevent, reduce or minimise the risk of loss, damage or injury;
- Self-insure whenever the cost of a potential loss would not significantly affect the Council's financial position;
- Purchase insurance cover for those risks where the cost of a potential loss is significant or insurance is required by law or contractual agreement;
- Minimise the Council's exposure to catastrophic losses and the cumulative effect of attritional losses;
- Make appropriate provision to finance retained risk (self-insured risks);
- Protect the Council's finances through the operation of robust claims handling procedures;
- Formalise a scheme of delegation for the settlement of claims;
- Minimise spend on insurance premiums by employing effective procurement practice;
- Set out the basis for the internal recharging of risk financing expenditure.

4. Procurement of external insurance cover

4.1 External insurance cover helps to improve financial certainty by smoothing year on year fluctuations in the cost of claims and losses. It also provides financial protection against spikes in costs due to large losses and/or aggregate costs. However, the cost of insurance cover will always reflect the Council's underlying loss experience and may not present the most cost-effective option.

4.2 Finance Standing Orders delegate responsibility to arrange insurance cover to the Operational Director – Finance. The decision to purchase external insurance or to self-insure will take account of a range of factors, which include:

- Analysis of risk exposures;
- The Council's financial capacity to assume risk;
- The effectiveness of the Council's risk management arrangements;
- The cost of insurance versus the cost of claims;
- The condition of the insurance markets and the availability of cover;
- The availability of alternative risk transfer options;
- Benchmarking and actuarial assessment data;
- Advice from the Council's insurance broker.

4.3 Procurement of external insurance will therefore focus on risks that are outside the risk tolerance of the Council, i.e. where the potential loss arising from a risk would be considered financially unacceptable. Lower-value losses will be self-funded.

4.4 Insurance cover is purchased in accordance with the Council's Procurement Standing Orders and relevant EU procurement rules. Due to the specialist nature of insurance procurement, the Council uses an insurance broker to provide advice on the procurement process and tender evaluation.

4.5 The Operational Director – Finance will determine the duration of insurance contracts in consultation with the Council's insurance broker.

5. Self-insurance

5.1 Adopting a higher level of self-insurance makes the Council more attractive to insurance underwriters and provides a greater opportunity to obtain cost-effective insurance cover.

5.2 The Council will therefore seek to minimise the overall cost of risk financing by:

- Employing effective risk management and self-insuring some risks in their entirety;
- Purchasing insurance cover for some risks over a certain financial limit that is considered outside the risk tolerance of the Council;
- Agreeing an 'Aggregate Loss Limit' for some risks to restrict the potential total loss exposure in a particular year to a specific sum.

5.3 At policy renewal the Operational Director - Finance will review:

- The level of deductible for each class of insurance cover and take account of the sensitivity of changes in premium for the Council accepting a higher or lower level of self-insurance;
- The level at which the 'Aggregate Loss Limit' is set.

5.4 Any significant changes in the Council's insurance cover or self-insurance arrangements will be agreed by the Operational Director – Finance and reported to the Executive Board.

6. Management of claims

6.1 Claims handling

6.1.1 The Insurance team handles all pre-litigation Public Liability (PL) & Employers' Liability (EL) claims in-house up to the value of £25,000. This arrangement has delivered a substantial saving on external claims handling costs and assists the defence of claims through the team's knowledge of the Council and the local area.

6.1.2 The Insurance team received a programme of comprehensive training prior to taking on responsibility for claims handling. Regular refresher training and ongoing support from external solicitors is also provided.

6.1.3 The Council’s in-house claims handling arrangements are subject to annual audit by the Council’s insurers.

6.1.4 PL and EL claims valued in excess of £25,000 are handled by the Council’s insurers. The insurer is also responsible for handling any claims received under all of the Council’s other insurance policies.

6.2 Legal support

6.2.1 External solicitors are used to provide advice and support to the Insurance team and to case manage litigation and any claims of a complex nature.

6.3 Reserving

6.3.1 A realistic approach is taken to claims reserving (estimating the likely total cost of each claim) that takes into account forecast costs and potential indemnity.

6.3.2 The Judicial Studies Board (JSB) guidelines are followed when assessing general damages.

6.3.3 Reserves on open claims are reviewed at least every 12 months and on receipt of relevant additional information.

6.4 Management information system

6.4.1 The LACHS claims handling system is used to record claims information.

6.4.2 Claims bordereaux are produced from this system and issued to the relevant insurers on a quarterly basis.

6.5 Defence of claims

6.5.1 A robust approach is adopted to defending claims:

- The Insurance team works closely with the relevant Council department responsible for the claim in order to determine the Council’s position on liability.
- Regular claims surgeries are held with external solicitors to discuss the strategy for defending litigated claims. Where appropriate the Council will run cases to trial.
- A zero-tolerance approach is taken in regard to fraudulent or exaggerated claims and opportunities to publicise the successful defence of such claims are pursued.

6.6 Settlement of Claims

6.6.1 All claim settlements must be authorised before payment is made. Delegated authority to settle claims is consistent with the financial authorisation limits set out in Finance Standing Orders:

Officer	Delegated limit
Principal Insurance Officer	Up to £10,000
Divisional Manager – Audit & Operational Finance	Up to £100,000

Operational Director – Finance	Up to £1,000,000

6.6.2 Formalised arrangements are in place with the Council's external claims handlers and insurers that allow the settlement of claims on behalf of the Council. Payments made by the Council's claims handlers or insurers are reimbursed via a monthly invoice.

6.7 Claimant legal costs

6.7.1 When a claim is settled the claimant solicitor's costs are usually significantly greater than the damages awarded to the claimant. Where appropriate, the Council uses the services of legal costs draftsmen to provide challenge and assurance over the amount of costs claimed.

7. Financing of retained risk

7.1 Insurance reserve

7.1.1 The Council maintains an Insurance Reserve so that it can meet its unpaid retained insurance liabilities, i.e. the settlement costs of known and future (unknown) claims from current and past policy years.

7.1.2 'Known' claims are those that have already been reported or made against the Council, some of which will go on to be settled (paid).

7.1.3 'Unknown' claims are those incidents that will already have occurred but have not yet been reported to the Council. These are typically referred to as IBNR (Incurred but not reported).

7.1.4 The Insurance Reserve may only be used to finance expenditure in the following circumstances:

- **Property damage claims** - to cover the cost of repair, replacement, reinstatement, site clearance, making safe or other associated costs in the event of an insured peril (or agreed peril for self-insurance), within the limits of any relevant policy excesses.
- **Liability claims** - to cover the cost of settlement under the insurance policy excess where the Council has become legally liable to settle (compensate) a liability claim that has been made against it or its officers and elected members.
- **Other claims** - to cover the cost of settlement under the policy excess where the claim meets the requirement for settlement under the terms of the relevant insurance policy (or relevant self-insurance criteria).

7.1.5 The balance of the Insurance Reserve is kept under review by the Operational Director - Finance to ensure that it is maintained at an appropriate level.

7.1.6 A full actuarial valuation of the Insurance Reserve will be undertaken at least every three years. This will involve a qualified actuary analysing the Council's past insurance claims experience (numbers, cause and cost of past and current claims) in order to assess the adequacy of the reserve.

7.2 Municipal Mutual Insurance (MMI) reserve

7.2.1 A separate reserve has been established in regard to the Council's potential liabilities in regard to the MMI Scheme of Arrangement. MMI were previously the Council's insurers and wrote its last policy in 1992. It is anticipated that it could be a further 20-25 years before all its claims are paid.

7.2.2 As a scheme creditor the Council was required to pay an initial levy of 15% (£177,854) of the total value of all claims paid on its behalf since 30 September 1993. The levy will also apply to all future claim settlements.

7.2.3 It is forecast that at least one further levy will be declared in future years in order to address MMI's deficit of assets to meet forecast liabilities.

7.2.4 A reserve of £420k has been established against the potential for a further levy. This has been calculated based on an additional levy of 35% of the total value of claims paid. The adequacy of this reserve will be kept under review by the Operational Director – Finance.

8. Recharging of risk financing costs

8.1 The cost of financing risk (externally procured insurance cover, the cost of self-insured claims settled, claims handling costs, insurance brokerage costs etc.) is charged to the cost centre of the Insurance team, including any costs relating to schools that have opted into the Council's insurance programme.

8.2 On an annual basis internal departments and schools are re-charged for the cost of risk financing. Recharges are calculated at cost centre level and schools are charged individually.

8.3 The basis of apportioning costs varies according to the type of cover provided but the main factors used to determine recharges are employee numbers in each business area, the number and value of claims received, and the total sum insured for buildings and contents.

8.4 An internal excess of £250 is charged to the relevant department in respect of all motor vehicle claims. No departmental excess is charged in respect of liability claims.

8.5 The basis upon which risk financing costs are recharged will be reviewed annually by the Operational Director – Finance.

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