



EXECUTIVE BOARD DECISION

REPORT OF:	Executive Member for Finance and Governance
LEAD OFFICERS:	Strategic Director of Finance and Resources
DATE:	Thursday, 12 December 2024

PORTFOLIO/S AFFECTED:	Finance and Governance
WARD/S AFFECTED:	(All Wards);
KEY DECISION:	Y

SUBJECT: Insurance & Risk Financing Strategy

1. EXECUTIVE SUMMARY

- 1.1. To present the Council's proposed Insurance & Risk Financing Strategy (IRFS), included at Appendix 1, to the Executive Board for approval.
- 1.2. The IRFS sets out 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. Its aims are to:
 - maintain an insurance programme that provides an optimal balance between self-insurance and external insurance within a framework of prudential financial management;
 - ensure the Council maintains sufficient insurance provision for received claims below policy excesses and reserves to meet future potential and contingent liabilities and to support the Council's wider financial obligations;
 - maintain robust and effective claims handling procedures to enable the Council to successfully defend claims and where this is not possible, to minimise the costs of claims; and
 - ensure that the Council remains an attractive risk to insurers and underwriters for future insurance procurement.

2. RECOMMENDATIONS

That the Executive Board:
- approves the adoption of the Insurance & Risk Financing Strategy.

3. BACKGROUND

- 3.1. This report and accompanying IRFS provides the Executive Board with comprehensive details of the Council's insurance arrangements, in accordance with the Council's Financial Procedure Rules. The Financial Procedure Rules require the Chief Finance Officer to arrange and administer the Council's insurance cover. The Rules require the Chief Finance Officer to approve any self-insurance arrangement, in consultation with the relevant Chief Officer and

the Executive Member (Finance and Governance), where self-insurance is deemed to be the most economically advantageous option.

4. KEY ISSUES & RISKS

- 4.1. The IRFS sets out the Council's arrangements for risk financing, specifically its insurance arrangements.
- 4.2. A key element of its overall approach to risk is the strategic approach the Council follows towards self-funding insurable losses. That is, using commercial insurance where there are compulsory requirements or where it has deemed it more appropriate to do so, particularly to provide a cap to its financial liabilities in respect of third-party liability claims.
- 4.3. The Council's insurance arrangements are a mixture of self-insurance and commercially purchased insurance, with decisions on the balance between the two based on an assessment of risk, availability of commercial insurance and premium costs. The insurance arrangements cover the various activities and services undertaken by the Council and the Council's property portfolio.
- 4.4. An actuarial review of the Council's insurance arrangements was undertaken in January 2024 in conjunction with the Council's Insurance Brokers. Following the review the Insurance provision was increased by £4m to ensure that the Council was adequately providing for historic claims, as well as the impact of the current economic climate on claims frequencies and claims inflations rates, to allow for a prudent approach in the event of an adverse development in the run-off of claims. Going forward further options for increasing the Council's level of self-insurance will be explored both as part of the annual renewals process and future insurance tenders. Increasing the level of self-insurance would make the Council more attractive to insurers bidding for the Council's insurance.
- 4.5. The IRFS provides the framework to ensure that the Council has in place an optimal balance between external insurance and self-insurance, an evidence based calculation and maintenance of an adequate insurance reserve to meet its liabilities for received claims below policy excesses and future potential liabilities for claims incurred but not yet received, and that appropriate and robust arrangements are in place for the handling of insurance claims. As a large organisation, with a diverse portfolio of assets and liabilities, it is prudent for the Council to insure itself against the financial consequences of unexpected events and to provide for claims which may be received which are not covered by any of its policies.
- 4.6. The Council has a Corporate Risk Management Policy Statement, Risk Management Strategy and Framework and a Risk Management Toolkit in place that ensure the mechanisms and tools are in place for risks to be identified, owned, treated and managed. Having in place strong and embedded risk management arrangements across the Council allows for the retention of some risks, either by deciding to accept and self-insure those risks in their entirety or by purchasing insurance cover for losses that arise over a certain value. Adopting this approach makes the Council more attractive to insurance underwriters opening up more opportunities for cost effective insurance cover.
- 4.7. However, insurance comes at a cost and the Council has to undertake a number of risk-based decisions to determine the most effective balance between the cost of commercial insurance and the cost of retaining the risk through self-insurance.
- 4.8. Insurance is a financial mechanism through which the Council can transfer an unknown potential liability into the certainty of a smaller but fixed annual cost. By combining a large number of exposures into a group, the insurer can predict the probability of loss relating to uncertain events with a degree of accuracy for the group as a whole. With larger organisations, such as the Council, the combining of large numbers of exposures can be undertaken across the organisation with similar degrees of accuracy in relation to possible losses to the whole organisation.

- 4.9. The Council follows the strategic approach of self-funding insurable losses, using commercial insurance only where there are compulsory requirements or where it has deemed it more appropriate to do so, particularly to provide a cap to its financial liabilities in respect of third party liability.
- 4.10. The risk management arrangements available to the Council fall into three groups:
- 1) Risks that are entirely covered through external insurance.
 - 2) Risks that the Council entirely self-insures.
 - 3) Risks that are a mixture of self-insured with external insurance that caps the amount of the losses.
- 4.11. The Council's insurance arrangements are therefore a mixture of self-insurance and commercially purchased insurance, with decisions on the balance between the two based on risk.
- 4.12. Under the self-insuring arrangements (2 and 3) losses are met from monies set aside for the purpose, on the basis of defined events, just as though there was commercial insurance cover in place. This is referred to as the Insurance Provision at the Council
- 4.13. Each year the Council sets aside an additional sum in the Insurance provision in order to meet the cost of self-insured losses and insurance excesses resulting from claims that have occurred during the year, along with reserves to cover the cost to the Council of potential claims arising from incidents in that year but where the claims are received in the future.
- 4.14. Decisions about the risks and the appropriate self-funding provision for them are made based on a balance of four factors:
- a) Risk Tolerance: The Council's capability to withstand shocks.
 - b) Risk Appetite: The Council's willingness to assume insurance risk.
 - c) Risk Modelling: The profile of our insurance loss distributions (e.g. previous claims).
 - d) Market Pricing: How insurers will price our risk.
- 4.15. The principle of self-insurance is that the Council sets aside an adequate sum of money from which self-insured claims and policy excesses can be met. This fund will also cover any claims against the Council which are not currently covered by insurance, such as claims made for breaches of human rights.
- 4.16. To assist in the calculation of the appropriate sum to set aside in its Insurance Fund, the Council will use the services of external actuaries employed by its broker. The Insurance Provision maintained by the Council was subject to an actuarial review in December 2023 and the conclusions are covered in more detail below. The actuary suggested that there was a deficit in the Council's insurance provisions. He also noted that there is a significant uncertainty in the projections and reserves, including but not limited to the impact of the current economic environment on claims frequencies and the potential of claims inflation rates being higher than currently expected.
- 4.17. The report highlighted certain risk areas (specifically residual claims incurred but not reported and emerging claims) which could cause the Council future claims costs. It also noted that there is the possibility that certain policy years may see more adverse development to that expected in this review. The actuary believed it was prudent for the Council to include a reserve for late reported occupational disease.
- 4.18. The report advised that it would be prudent to provide for claims incurred but not reported relating to occupational disease. Key areas of potential long tail employee exposure, and therefore late reported claims, noted were:
- Mesothelioma;
 - fibrosis of the lung tissue (asbestosis;)
 - lung cancer (both asbestos related and other);

- noise induced deafness;
- vibration white finger;
- upper limb disorders;
- skin diseases; and
- asthma.

4.19. The report also noted there is a changing litigation landscape and new types of claims that do not feature materially in the historic loss history, but are becoming more claims, which could impact on one or more historic policy years more significant going forward. Three areas were identified as being of most relevance to local authorities in the in the current environment of financial pressures, duty of care with respect to minors and the disabled, restructuring and collaborations with other authorities:

- Abuse;
- Deprivation of Liberty; and
- Alleged failure to train/failure to provide appropriate support in the workplace.

4.20. The Council's insurance approach will provide a stable and consistent financial platform from which to meet the costs of insurable events to its assets and liabilities, with external spend on insurance being kept at a minimum.

4.21. Since 1992 the local authority insurance market has been volatile, with a number of company failures and withdrawals of companies from underwriting local authority business. In addition, premium costs have swung dramatically during this period.

4.22. Going forward, regular actuarial reviews of the Insurance Provision will provide assurance that the Council is setting aside appropriate levels of funding against future liabilities and identify any requirement to adopt a long-term approach to increasing that provision if necessary.

5. POLICY IMPLICATIONS

5.1. There are no policy implications arising directly from this report.

6. FINANCIAL IMPLICATIONS

6.1. The Council provides for the insurance premium cost in its annual Revenue Budget. The 2024/25 budget provision for this was £1.3m. The Council also reviews the level of the Insurance Provision required annually, as part of the preparation of the Statement of Accounts to ensure this is adequate. This provision covers claims in respect of public and employer's liability, motor vehicle and buildings insurance claims which are below the policy insurance excess and self-insured limit.

6.2. Underpinning the development of a longer term strategic approach to self insurance (as opposed to commercial insurance) an additional insurance reserve of £4m was established in 2024/25 to ensure that the Council was adequately providing for historic claims, as well as the impact of the current economic climate on claims frequencies and claims inflations rates, to allow for a prudent approach in the event of an adverse development in the run-off of claims. It should also help the Council control better the cost of insurance premiums from one year to the next.

6.3. The revenue budget and insurance claims provision will need to be reviewed annually to ensure that the sums going forward support the Council's prudent approach to financial management and provide adequate funding against estimated future liabilities for exiting and future claims. These sums will be informed by the result of the proposed annual actuarial review.

7. LEGAL IMPLICATIONS

Failure to procure and maintain adequate and appropriate insurance cover will place the Council in breach of its statutory responsibilities. It will give rise to a significant risk of complaints, claims and litigation. The associated costs would be borne directly by the Council.

8. RESOURCE IMPLICATIONS

There are no additional resource implications arising from the implementation of this policy or strategy.

9. EQUALITY AND HEALTH IMPLICATIONS

Please select one of the options below. Where appropriate please include the hyperlink to the EIA.

Option 1 Equality Impact Assessment (EIA) not required – the EIA checklist has been completed.

Option 2 In determining this matter the Executive Member needs to consider the EIA associated with this item in advance of making the decision. (*insert EIA link here*)

Option 3 In determining this matter the Executive Board Members need to consider the EIA associated with this item in advance of making the decision. (*insert EIA attachment*)

10. CONSULTATIONS

Strategic Director, Finance & Resources

11. STATEMENT OF COMPLIANCE

The recommendations are made further to advice from the Monitoring Officer and the Section 151 Officer has confirmed that they do not incur unlawful expenditure. They are also compliant with equality legislation and an equality analysis and impact assessment has been considered. The recommendations reflect the core principles of good governance set out in the Council's Code of Corporate Governance.

12. DECLARATION OF INTEREST

All Declarations of Interest of any Executive Member consulted and note of any dispensation granted by the Chief Executive will be recorded in the Summary of Decisions published on the day following the meeting.

VERSION:	1
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CONTACT OFFICER:	Colin Ferguson
DATE:	10/10/2024
BACKGROUND PAPER:	N/A