

APPENDIX A

RISK FINANCING AND INSURANCE STRATEGY

Introduction

The London Borough of Barnet Council is a 'Commissioning Council' and this operating model allows us to take a flexible approach to shape the future of the organisation and, most importantly, to continue to provide excellent services to residents during these challenging times.

This strategic commissioning approach follows a carefully planned evolution, away from the traditional model of providing services 'in house' through a number of directorate silos, to a 'mixed economy' of services with the aim of securing the best deal for residents.

Commissioning involves a fundamentally different approach to determining how local services are provided. It is the adoption of a system in which the council works with elected Members, partners and residents to set the strategic priorities of the borough, in the context of the available resources within the borough, to agree a set of outcomes which reflect the needs of residents and which the full range of local partners work together to achieve.

Services are then bought or 'commissioned' from a diverse mix of providers within the market (in house and from the wider public sector, private and third sectors) to deliver these outcomes.

Commissioning is not a linear process. At any given time within a commissioning organisation, commissioning will be running at different scales and across multiple policy areas.

This council, along with many others, faces a number of challenges, which have to be managed and resourced effectively. The prudent use of diminishing resources and the high demand for delivery of good quality services, through a variety of alternative delivery models, continue to be biggest challenges facing the council.

Objectives of the strategy

The council has reviewed its insurance strategy, so that it can support the financial challenges ahead by retaining as much financial risk 'in house' as is prudent to do so, with the main objectives being to:

- Protect the Council's assets (people, monetary and physical assets) from loss, damage or injury;
- Prevent, reduce or minimise the financial cost of protection and/or loss

In the approach to deliver the objectives, we shall ensure there is:

- Effective risk management to prevent, reduce or minimise the risk of loss, damage or injury
- An appropriate provision to finance retained risk (self-insured risks) and to minimise spend on insurance premiums by employing effective procurement practices
- A robust claims handling procedure

- A scheme of delegation for the settlement of claims
- A mechanism for the recovery of any financial loss from partners and contractors, where appropriate

National context

There has been an increase in speculative and/or fraudulent liability claims. In 2015, fraudulent motor claims were the most common and there was a 36% increase in volume of fraudulent liability claims. Barnet Council is not immune from such claims and has developed robust procedures to identify these, all claims are subject to rigorous checks including data matching with national insurance claims databases and Government bodies.

There have been 'catastrophic' losses in the public sector, caused by fire, including arson such as the total loss of South Oxfordshire District Council Civic Centre in 2015.

Cyber risk is a growing area with a varied set of risks. Whilst the level of threat will vary across local authorities, Barnet and its IT partner are monitoring the risk of malicious cyber-attacks.

The Barnet approach

This council has for many years accepted a degree of insurable risk, holding a provision for self-funded losses rather than incurring external premiums.

Any financial loss is funded either:

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

The strategy going forward is to continue to bear as much financial risk 'in house' as is prudent to do so. To ensure the council is aware of its potential liabilities and make adequate provision, an Insurance Actuary is commissioned biennially to calculate the full extent of incurred liabilities and the Insurance Provision is adjusted accordingly.

If a catastrophic event occurred the council would not have the financial resources to self-fund so it has to consider the optimum balance between self-insurance and externally procured insurance to finance any such loss should it occur.

The total cost of risk financing and insurance in 2016/17 was circa £4.2m, which comprised external premiums £1.8m (including premiums recharged to leasehold property, commercial tenants and schools), claims estimated to be settled against service budgets £2.1m and operational costs £0.29m.

The Summary of Cover 2016-17, at Appendix B, shows the current levels of cover both internal (per claim excess or fully self-funded risks) and externally procured levels of cover, per claim and annual caps where applicable.

The Insurance Strategy - Risk Analysis 2016/17, at Appendix C, outlines the current rationale behind the level of external insurance procured, underwritten internally by the insurance provision and/or charged to services.

The Medium Term Financial Strategy and Risk Management Strategy are particularly significant to this strategy and collectively support the council's efforts to manage risks effectively.

Any significant changes in the Council's insurance cover or self-insurance arrangements will be agreed by the Chief Finance Officer (section 151 Officer) and reported to Policy and Resources Committee.

Self-insurance

Adopting a higher level of self-insurance provides a greater opportunity to obtain cost-effective insurance cover for those risks where we choose to seek external insurance.

The Council will 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; and
- Agreeing an 'Aggregate Loss Limit' for some risks to restrict the potential total loss exposure in a particular year to a specific sum.

Procurement of external insurance cover

The decision to procure external insurance or to self-insure focuses on risks that are outside the risk tolerance of the council and takes account of a range of factors, which include:

- Analysis of risk exposures, changing through the advent of alternative delivery models;
- Availability of alternative risk transfer options;
- Condition of the insurance markets and the availability of cover;
- Council's financial capacity to assume risk;
- Effectiveness of the Council's risk management arrangements;
- Cost of insurance versus the cost of claims;
- Benchmarking and actuarial assessment data; and
- Advice from the Council's insurance broker.

The council will always purchase insurance cover for those risks where the potential loss is considered to be significant and financially unacceptable or where insurance is required by law or contractual agreement.

Due to the specialist nature of insurance procurement, the Council uses an insurance broker to provide advice on the procurement process and tender evaluation.

The Chief Finance Officer (section 151 Officer) will determine the duration of insurance contracts in consultation with the Council's insurance broker.

Insurance Provision

The Council maintains an Insurance Provision 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.

'Known' claims are those that have already been reported or made against the Council, some of which will go on to be settled (paid). 'Unknown' claims are those incidents that will already have occurred but have not yet been reported to the Council.

The Insurance Provision is kept under review by the Chief Finance Officer (Section 151 Officer) to ensure it is maintained at an appropriate level.

The council maintains a risk and litigation reserve to meet costs which are outside of the scope of the insurance budget.

Review of Strategy

Finance Regulations state that the Chief Finance Officer (section 151 Officer) is responsible for maintaining the Insurance Strategy and arranging adequate insurance cover for the Council.

The strategy will be reviewed on an annual basis however as it is market practice to enter into three-year Long Term Agreements for insurance contracts, a consolidated update of the strategy and appendices will be presented to Policy and Resources Committee for approval every three years.

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