

Southampton City Council

Risk Management Policy

2017/18 - 2020/21



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| Publication Scheme | | | |
|--------------------|--|---------------|--|
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| Lead officer | Peter Rogers, Service Lead – Risk, Insurance, Assurance and Audit. | Review date | February 2018 |

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| | | | |
|-------------------|------------------------------|----------------|-----------------------------|
| Contact | insurance@southampton.gov.uk | Effective date | 23 rd April 2018 |
| 1. Purpose | | | |

- 1.0 The purpose of this policy is to provide an overview of the operating framework, arrangements and responsibilities for managing risk within the Council. It is intended to raise awareness of the overarching principles of risk management and to assist officers, at all levels, in applying sound risk management principles and practices across their areas of responsibility. It is also relevant to Members in their capacity as ‘decision makers’ and the Governance Committee in respect of its responsibility for overseeing the Council’s risk management arrangements.
- 1.1 This policy, which has been developed in line with good practice*, recognises that risk is part of everything we do. We all manage risk – often without realising it – on a daily basis. The requirement to continue to do more with less inevitably creates challenges but also opportunities for those organisations willing and able to take the right risks. How we manage risk has never been more important in helping us meet our outcomes and objectives, improve service delivery, achieve value for money and reduce unwelcome surprises.~~local government increasingly involves dealing with uncertainty and managing significant change whilst at the same time meeting the expectation of delivering improved and more cost effective services in new and innovative ways. All of this activity attracts risk which needs to be managed effectively if required outcomes are to be achieved and exposure to unacceptable losses avoided. Effective management of risk is essential in supporting a ‘culture of innovation’ and moving from a ‘risk averse’ to a more ‘risk aware’ approach.~~
- 1.2 The principles referred to in this document are relevant and applicable to all activities that involve the management of risk. The following, which is not a complete list, illustrates the diverse range of Council policies, strategies and plans which involve, or make specific reference to, the need to manage risk.



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Corporate Decision Making Guidance

Community Risk Register (Hants & IOW)

* including 'A Structured Approach to Enterprise Risk Management' issued by the Institute of Risk Management, the Association of Insurance and Risk Managers and the Association of Local Authority Risk Managers.

2. What is risk management?

2.0 Risk and risk management may be defined as follows:

- **Risk** - 'a significant uncertainty that may affect the organisation's ability to achieve its objectives~~the effect of uncertainty on objectives~~'. A risk might be in the form of a threat but could equally relate to the ability to exploit opportunities. ~~which can be positive or negative.~~
- **Risk Management** - 'co-ordinated activities to direct and to control an organisation with regard to risk'.

2.1 **“Successful organisations are not afraid to take risks; Unsuccessful organisations take risks without understanding them.”** Effective management of risk should be seen as an 'enabler' as opposed to a 'barrier' in terms of achievement of the Council's key priorities and outcomes. In becoming more risk aware the Council will be better placed to reduce the impact and likelihood of threats occurring and to take advantage of opportunities.

2.2 The benefits that can be derived from an effective approach to risk management include:

- Better informed strategic and operational decision-making;
- Increased chances of success and reducing our chances of failure;
- Increased knowledge and understanding of exposure to risk;
- Reduced unexpected and costly surprises;
- Minimised vulnerability to fraud and corruption;
- Provision to management of early warnings of potential problems;
- Reduction in financial costs due to, e.g. service disruption, litigation, insurance premiums and claims, and bad investment decisions;
- Delivery of creative and innovative projects; and
- Protection of reputation.

2.3 Risk management is an essential part the Council's overall governance arrangements in that it provides the framework and process to enable the organisation to manage risk in a systematic, consistent and efficient way.

2.4 The Accounts and Audit (England) Regulations 2015 state that "A relevant authority (the Council) must ensure that it has a sound system of internal control which includes effective arrangements for the management of risk".

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- 2.5 The Council's Financial Procedure Rules also require that Chief Financial Officer prepares and promotes the authority's risk management policy statement and that Service Directors take responsibility for risk management including ensuring that there are regular reviews of risk with their service areas.

3. Risk Management Policy Statement

The Council recognises the need to identify and understand its key business risks and is committed to ensuring that appropriate arrangements are in place to enable informed risk decision taking, recognising the need to optimise the balance between risk and reward.

Risk management is part of good management and essential in supporting a 'culture of innovation' and moving from a risk averse to a 'risk aware' approach. It is recognised that, in order to be effective, the approach to managing risk needs to be structured and consistent and operate at both strategic and operational levels within the organisation. It is also recognised that risks should be aligned with key priorities and outcomes and that actions should be proportionate to the level of risk.

In seeking to ensure the effective management of key risks the Council will:

- Promote a consistent and clear approach in terms of how risk should be treated and managed;*
- Raise the profile and understanding of risk management at all levels across the organisation;*
- Support officers and members in terms of taking informed risk aware decisions; and*
- Reflect good practice which is aligned with the Council's approach to corporate governance.*

4. Risk Management – when and how?

4.0 Risk Management needs to be an integral part of how services are developed and delivered every day. As well as instinctively managing risk on a day to day basis, consideration and recording of risk is required in the following management processes:

- policy and decision making.
- service planning and resourcing (at all levels)
- planning when implementing change
- project development, initiation and management
- commissioning and procurement activity
- partnership working
- business continuity planning
- health and safety arrangements
- performance management.

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~~In order to ensure that risk is managed on a consistent basis there needs to be a standard methodology setting out the key principles. This methodology can then be adapted as necessary in order to reflect the approach that is most appropriate in the circumstances.~~

~~4.1 This methodology should be followed when undertaking activities such as:~~

- ~~• Outcome Based Planning and Budgeting;~~
- ~~• Project Initiation and Planning;~~
- ~~• Organisational change;~~
- ~~• Outsourcing and partnership working;~~
- ~~• Change management (e.g. internal re-structure) etc.~~

~~4.1 The following framework does not aim to bring about a one-size-fits-all approach to managing risks however it does aim to provide a broad and high-level framework of good practice that can help those involved in the above activities to ensure that their arrangements for managing risk are structured and comprehensive. An important part of the process is to identify key risks – ‘what (risks) need to be managed in order to achieve the required outcomes of the project, service or activity’? The achievement, or otherwise, of key objectives or outcomes may depend upon:-~~

- ~~• the Council doing certain things and not doing others;~~
- ~~• the occurrence of events, both internal and external, that could affect the Council, and~~
- ~~• the circumstances in which the organisation finds itself.~~

i) Framework

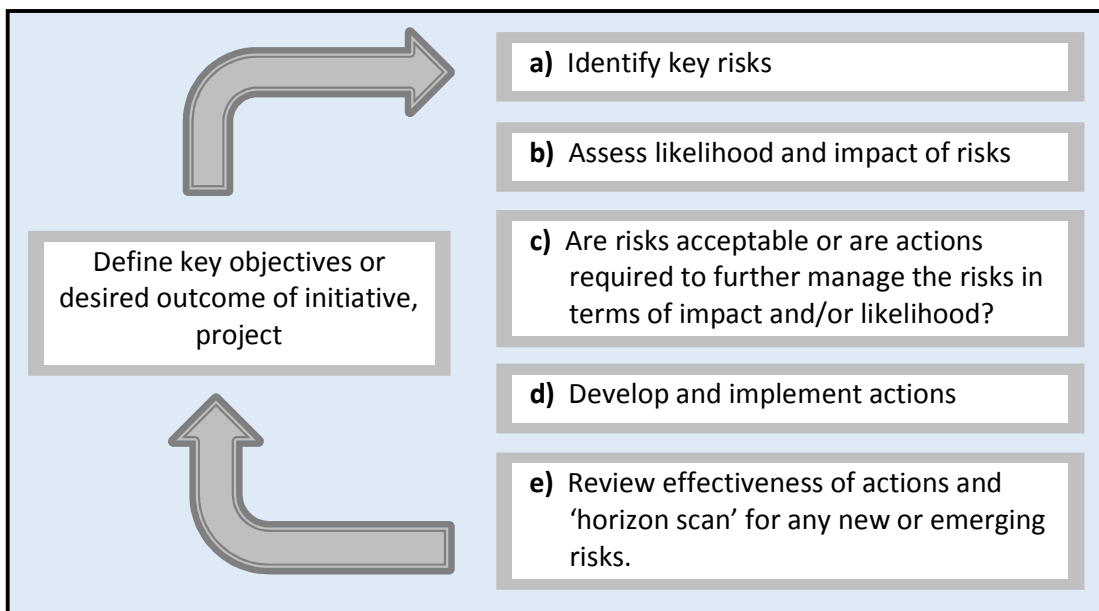


Figure 1.0 Risk Management Process and Framework

- a) What could prevent the organisation, service or project from delivering its key priorities and required outcomes? Is ‘success’ subject to key dependencies or assumptions? Have you considered the “what if” scenario? The identification of key risks may either be via a group or individual contribution however there should be consensus on what the key risks are. **Each risk should be considered in terms of ‘event – cause (or trigger) – consequence’**. Typically risks are articulated using the following terms “Loss of..., Failure to..., Lack of..., Opportunity to ..., Increase in... etc”.

There are a number of different types of risks that an organisation may face including financial loss, failure of service delivery, physical risks to people, and damage to the organisation’s reputation. To act as a prompt and to ensure completeness, a checklist of risk categories has been developed around the acronym PERFORMANCE:

| | | |
|--------------------------------|-------------------|--|
| <u>Political Opportunities</u> | <u>Outcomes</u> | <u>New Partnerships / Projects / Contracts</u> |
| <u>Economic</u> | <u>Reputation</u> | <u>Customers / Citizens</u> |
| <u>Regulatory</u> | <u>Management</u> | <u>Environment</u> |
| <u>Financial</u> | <u>Assets</u> | |

- b) Each risk should then be considered in terms **of how likely it is to occur and, if it did, what the potential impact might be?** Where there are a number of risks then the ‘risk scores’ may be plotted on a ‘Risk Matrix’ (Appendix ii) which can be used to highlight the most significant risks and/or illustrate how risks compare with, or relate to, each other. In most cases the focus will inevitably be on the highest risks i.e. those that pose the greatest threat.
- c) **The aim is to ensure that that the decision maker, project manager, board, service director etc is able to make an informed decision as to whether a particular risk can, or should, be accepted** (after considering the ‘likelihood and impact’). ‘Risk appetite’ is likely to be informed by an understanding of any existing controls and will also be influenced by the expected ‘reward’ or outcome. The logic used to treat risk is as follows:

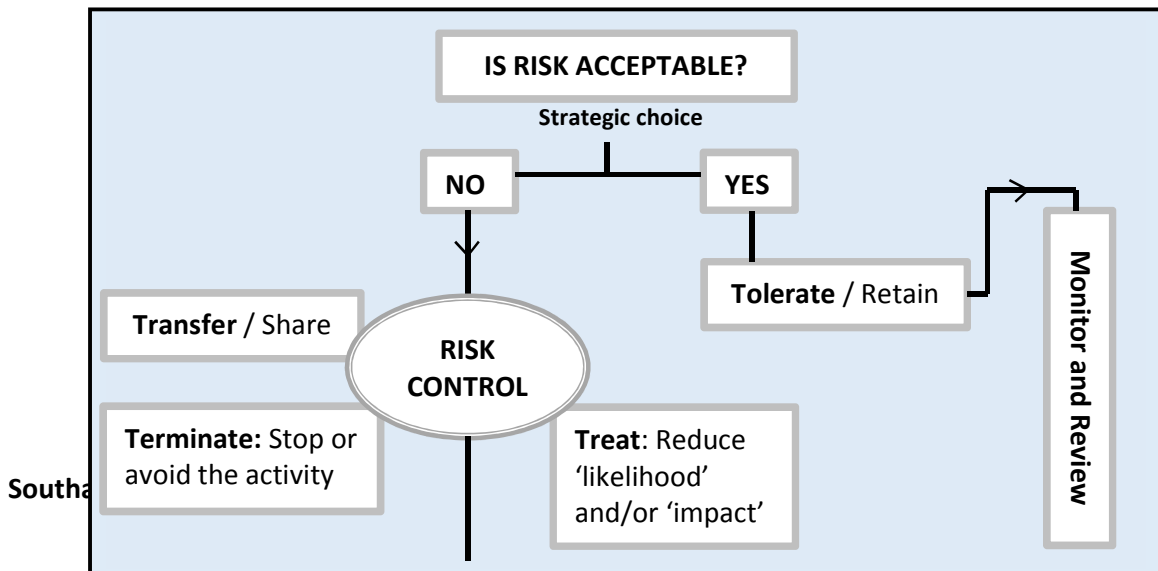




Figure 2.0 Risk Treatment Logic

- d) In terms of risk treatment the options comprise one, or a combination, of the following:
- **Treat:** reduce risks to an acceptable level by developing and implementing actions or controls to reduce the likelihood and/or impact of the risk event; OR
 - **Transfer:** risks may be able to be shared or transferred to another party e.g. contract, partnership or insurance; OR
 - **Terminate:** or avoid the activity (the risk is unacceptably high and/or the cost or effort in managing the risk to an acceptable level is disproportionate to the potential benefit or gain); OR.
 - **Tolerate:** the current level of risk is considered to be acceptable to the Council.
- e) The agreed actions to manage the risk should be formally recorded with responsibility for action clearly identified together with an appropriate timescale for action (see Appendix iii for examples of risk registers). **The risk register, or log, should be subject to periodic review, and challenge, to ensure that the agreed actions are being progressed satisfactorily.** In addition, the review will provide an opportunity to consider whether there are any new or emerging issues that may impact on the risk and/or any new risks that need to be considered.

5. Risk Management Roles and Responsibilities

5.0 All employees, members and those who act on behalf of the Council have a role to play in managing risk. The following is a summary of the principal roles and responsibilities in respect of risk management:-

| Individual/Group | Role/Responsibility |
|-----------------------------------|---|
| Members | <ul style="list-style-type: none"> • To have an understanding of the key principles of risk management; |
| Cabinet Member for Finance | <ul style="list-style-type: none"> • To be responsible for leading on risk management. |
| Cabinet Members | <ul style="list-style-type: none"> • To ensure that there is an appropriate consideration of risk in relation to the decision making process; • To be aware of the Council’s strategic risks and those relating to their respective portfolios. |

| Individual/Group | Role/Responsibility |
|--|--|
| Governance Committee | <ul style="list-style-type: none"> To provide independent assurance on the adequacy of the risk management framework and the internal control and reporting environment, including (but not limited to) the reliability of the financial reporting process and the Annual Governance Statement; To be satisfied and provide assurance that appropriate action is being taken on risk and internal control related issues identified by the internal and external auditors and other review and inspection bodies. |
| Council Management Team | <ul style="list-style-type: none"> To approve the Council’s Risk Management Policy and to determine and agree the Council’s overall risk appetite; Annually, to identify and agree the Council’s strategic risks and to facilitate development of appropriate action plans to manage the risks. |
| Strategy Hub Management Team / Operations Hub Management Team | <ul style="list-style-type: none"> To review, on a quarterly basis, the Council’s key risks; To review Service Risk Registers; To support and monitor the implementation and ongoing processes for embedding risk management throughout the Council. |
| Service Directors / Service Management Teams | <ul style="list-style-type: none"> To identify operational or service risks and ensure that such risks are managed in accordance with the Council’s Risk Management Policy, To ensure that information management risks are appropriately managed; To ensure that business continuity plans are in place covering key service areas and that the plans are reviewed and tested; To provide evidence, based on sources of internal and external assurance, to support preparation of the Annual Governance Statement. |
| Service Leads / Service Managers | <ul style="list-style-type: none"> To manage risk in their service areas and in accordance with the agreed risk appetite or tolerance. |
| Service Lead: Risk, Assurance, Insurance & Audit | <ul style="list-style-type: none"> To facilitate the continuing development of the Council’s risk management arrangements including developing appropriate guidance and information; To support services in the management of operational and strategic risk; |

| Individual/Group | Role/Responsibility |
|------------------|---|
| | <ul style="list-style-type: none"> • To facilitate and support the both the Hub Management Teams and the Council Management Team in respect of the periodic review of the Council's key risks; • To arrange appropriate risk financing measures and provide advice and guidance on the extent of insurance or self-insurance arrangements; • Where appropriate, to arrange the placement of cover with insurers including the negotiation of premium rates and policy terms. |
| Employees | <ul style="list-style-type: none"> • To manage risk in the course of undertaking their duties. |

6. Integration with other processes

6.0 Outcome Based Planning and Budgeting / Performance Management

As part of the business planning process Service Directors and their management teams are required to consider the risks that may impact on delivery of their key priorities and outcomes. The identified risks are then used to inform development of Service Risk Registers noting that Services Directors may, at their discretion, consider it necessary to escalate a risk to the Council's Strategic Risk Register for oversight by CMT. Guidance document and templates are published on the intranet which are intended to support the development of service risk registers and provide guidance in respect of the review and monitoring processes.

<https://staffinfo.southampton.gov.uk/finance-procurement/risk-insurance/risk-management/service-risk-registers.aspx>

6.1 Medium Term Financial Strategy

The Council's Medium Term Financial Strategy includes a financial risk register that is reviewed on a quarterly basis. The financial risk register identifies the key risks to the Council's financial position over the short to medium term together with a summary of the mitigating actions in place and/or planned. These financial risks include an assessment of both the adequacy of proposed financial reserves and an assessment of the robustness of estimates.

<http://www.southampton.gov.uk/council-democracy/council-plans/medium-term-financial-strategy.aspx>

6.2 Decision Making

A report author is expected to provide the decision taker with relevant and proportional information regarding the risks that may be associated with the activity, project or initiative that is the subject of a decision making report. In respect of risk, the report author should consider what information the decision taker might reasonably be expected to need to know and understand, particularly those risks that they are being asked to accept. Information regarding risk should be both relevant and proportional in

order to support informed decision taking. Further guidance in respect of how risk is presented in a corporate decision making report is published on the intranet at: <https://staffinfo.southampton.gov.uk/finance-procurement/risk-insurance/risk-management/decision-making-risk.aspx>

6.3 Partnership Working

A 'Partnership Code' forms part of the Council's Constitution. This Code outlines the requirements for establishing, managing and reviewing partnerships, as well as expected conduct of Council officers and Councillors who are a member of a partnership. The Code makes reference to the need for risks to be assessed and monitored both at inception and dissolution of a partnership. Partnership Risk Management guidance is also published on the intranet at:

<https://staffinfo.southampton.gov.uk/finance-procurement/risk-insurance/risk-management/partnership-risk.aspx>

6.4 Programme and Project Management

The importance of identifying and managing risk is a theme that runs throughout the programme and project management process from initiation to implementation. Published guidance on the intranet is intended to assist both project managers and project sponsors/boards in understanding both the importance of managing risk and the process of identifying and managing key risks.

<https://staffinfo.southampton.gov.uk/finance-procurement/risk-insurance/risk-management/project-risk-management.aspx>

6.5 Internal Audit

Internal audit plays a vital role in advising the Council that arrangements in relation to governance, risk management and internal control are in place and operating effectively. Response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisations' objectives. The Internal Audit function provides an independent, objective assurance and consulting activity designed to add value and improve an organisations' operations. The Council's annual 'Internal Audit Plan' is informed by the Council's strategic risks together with discussions with individual Service Directors and CMT.

6.6 Corporate Governance

Corporate governance comprises the systems and values by which Councils' are directed and controlled and through which they are accountable to and engage with their communities. To demonstrate compliance with the principles of good corporate governance, Southampton City Council must ensure that it does the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner. CIPFA / Solace "*Delivering Good Governance in Local Government*" guidance identifies "Managing risks and performance through robust internal control and strong public financial management" as being one of the principles of good governance.

6.7 Annual Governance Statement

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The Accounts and Audit (England) Regulations 2015 require that local authorities publish an Annual Governance Statement (“AGS”) with their annual Statement of Accounts. The AGS is a key corporate document that sets out the Council’s overall corporate governance framework and highlights any significant gaps or areas where improvement is required. Risk Management is an integral part of the Council’s overall governance framework.

6.8 **Fraud Risk Management**

The policies and processes in respect of fraud risk management apply to all employees, elected members and others who work for or on behalf of the Council. Internal control systems are intended to minimise the opportunity for fraud or misappropriation of assets. The Council’s Anti-Fraud and Corruption Policy and associated policies are published on the intranet at:

<https://staffinfo.southampton.gov.uk/finance-procurement/risk-insurance/internal-audit/fraud-and-corruption.aspx>

7. Communication

- 7.0 The Risk Management Policy and other associated guidance and template documents are published on the intranet and subject to periodic review to ensure that they remain fit for purpose. The Risk Management Policy forms part of the Council’s Strategy and Policy Framework and is hosted on the Policy Hub.

8. Reporting

- 8.0 The Service Lead: Risk, Assurance, Insurance & Audit Risk shall, via the Service Director Finance and Commercialisation, present an annual report to the Governance Committee outlining the risk activities and risk priorities for the forthcoming period and will additionally provide a mid-term update. Any shared learning arising from the annual plan is cascaded to via Service Directors as appropriate.

9. Review

- 9.0 The Risk Management Policy is approved by Council Management Team and presented the Council’s Governance Committee for noting. The document is reviewed annually by the Council’s the Service Lead: Risk, Assurance, Insurance & Audit with any significant changes reported to both CMT for approval and the Governance Committee.

Glossary of common terms used in relation to risk management

Appendix i

| | |
|-----------------------------|---|
| Assessing risks | <i>The evaluation of risk with regard to the impact if the risk is realised and the likelihood of the risk being realised.</i> |
| Consequence | <i>The outcome of an event.</i> |
| Contingency | <i>An action or arrangement that can be put into place to minimise the impact of a risk if it should occur.</i> |
| Control | <i>Any action, procedure or operation undertaken to either contain a risk to an acceptable level, or to reduce the likelihood.</i> |
| Corporate Governance | <i>The system by which an organisation is directed and controlled.</i> |
| Exposure | <i>The consequences, as a combination of impact and likelihood, which may be experienced by the organisation if a specific risk is realised.</i> |
| Fraud | <i>The intentional distortion of financial statements or other records by persons internal or external to the organisation, which is carried out to conceal the misappropriation of assets or otherwise for gain.</i> |

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| | |
|--------------------------------|--|
| Governance Committee | <i>The Member body responsible for ensuring the adequacy of the risk management framework, internal control and reporting environment including (but not limited to) the reliability of the financial reporting process and the Annual Governance Statement.</i> |
| Hazard | <i>A situation or thing that has the potential to harm a person or organisation</i> |
| Horizon Scanning | <i>Systematic activity designed to identify, as early as possible, indicators of changes in risk.</i> |
| Identifying Risks | <i>The process by which events that could affect the achievement of key objectives, are drawn out, described and recorded.</i> |
| Impact | <i>The effect that a risk event would have if it occurs.</i> |
| Inherent Risk | <i>The level of risk before any action has been taken to manage it.</i> |
| Internal Control | <i>The policies, procedures, practices and organisational structures designed to provide reasonable assurance that business objectives will be achieved and that undesired events will be prevented or detected and corrected.</i> |
| Likelihood | <i>The probability that an identified risk event will occur.</i> |
| Operational Risk | <i>Risks concerned with day-to-day operational issues that an organisation might face as it delivers its services.</i> |
| Residual Risk | <i>The level of risk remaining after action has been taken to manage it.</i> |
| Risk | <i>The effect of uncertainty on objectives.</i> |
| Risk Appetite/Tolerance | <i>The amount of risk that the Council is prepared to accept, tolerate or be exposed to at any point in time.</i> |
| Risk Assurance Report | <i>The risk reporting tool adopted by the Council which captures information about each risk in terms of how it should be managed and the effectiveness of the controls in place (via an assurance rating).</i> |
| Risk Financing | <i>The mechanisms (e.g. insurance programmes) for funding the financial consequences of risk.</i> |
| Risk Management | <i>The culture, processes and structures that are directed towards effective management of potential opportunities and threats to the organisation achieving its objectives.</i> |

| | |
|-----------------------|--|
| Risk Owner | <i>The person with responsibility for that controls in place to manage a risk are adequate and appropriate and/or that the actions required to manage a risk are being progressed.</i> |
| Risk Matrix | <i>The number of levels of likelihood and impact against which to measure the risk and to record the risk appetite.</i> |
| Risk Policy | <i>The overall organisational approach to risk management.</i> |
| Strategic Risk | <i>Risks concerned with the high level strategic aims and objectives of the organisation.</i> |

Risk Scoring - Likelihood and Impact Appendix ii

| | | | | | | | | |
|---------------------------|----------------|---|-----------------------------|----------|----------------------------|-------|---------|--|
| LIKELIHOOD | Almost Certain | A | | | | | | |
| | Likely | B | | | MANAGE & REDUCE | | | |
| | Possible | C | MANAGE & REVIEW | | | | | |
| | Unlikely | D | | | | | | |
| | Very Unlikely | E | MONITOR & REVIEW | | | | | |
| RISK RATING MATRIX | | | 5 | 4 | 3 | 2 | 1 | |
| | | | Minor | Moderate | Significant | Major | Extreme | |
| | | | IMPACT | | | | | |

| LIKELIHOOD (Probability) | | |
|---------------------------|-------|---|
| A - Almost Certain | > 95% | Highly likely to occur |
| B - Likely | ↑ | Will probably occur |
| C - Possible | 50% | Might occur |
| D - Unlikely | ↓ | Could occur but unlikely |
| E - Very Unlikely | < 5% | May only occur in exceptional circumstances |

| IMPACT (Consequence) | | | |
|------------------------|--|--|--|
| | SERVICE DELIVERY (key outcomes/ priorities) | FINANCIAL | REPUTATION |
| 5 - Minor | No noticeable effect | Expenditure or loss of income < £10k | Internal review |
| 4 - Moderate | Some temporary disruption to a single service area/ delay in delivery of one of the Council's key strategic outcomes or priorities | Expenditure or loss of income £10k - £499k | Internal scrutiny required to prevent escalation |
| 3 - Significant | Regular disruption to one or more services/ a number of key strategic outcomes or priorities would be delayed or not delivered | Expenditure or loss of income £500k - £4.99m | Local media interest. Scrutiny by external committee or body |
| 2 - Major | Severe service disruption on a services level with many key strategic outcomes or priorities delayed or not delivered | Expenditure or loss of income £5m - £9.99m | Intense public and media scrutiny |
| 1 - Extreme | Unable to deliver most key strategic outcomes or priorities / statutory duties not delivered | Expenditure or loss of income >£10m | Public Inquiry or adverse national media attention |

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Southampton City Council Risk Financing Policy 2017/18 - 2020/21

[This policy is an appendix to the Risk Management Policy]

CONTENTS

1. Purpose
2. Definitions
3. Structure, Resources and Accountability
4. Risk Financing Methodology
5. Alternative Risk Transfer
6. Benchmarking
7. Review

1. Purpose

- 1.0 The purpose of Risk Financing Policy, which is a key component of the Council's Risk Management Policy, is to summarise the Council's overall approach to risk financing. The Risk Financing Policy will be of particular relevance to the Governance Committee in respect of its responsibility for overseeing the Council's risk management arrangements.

2. Definitions

- 2.0 **Risk Financing** - "Utilisation of source(s) of funds to pay for insurable losses. Source(s) of funds can be classified as:
- **Internal** - a risk retention arrangement is established to use funds from within the organisation to pay for losses;
 - **External** - a risk transfer arrangement (generally through the purchase of insurance) is established to provide access to funds to pay for losses".
- 2.1 Although this document refers primarily to self-insurance [risk retention] and external insurance cover, in some cases other risk financing options may be available and these will be referred to as appropriate.

3. Structure, Resources and Accountability

- 3.0 The Council's Financial Procedure Rules state that the Chief Financial Officer has responsibility 'to advise the Cabinet on proper insurance cover where appropriate, and effect corporate insurance cover, through external insurance and internal funding'.
- 3.1 The Service Lead: Risk, Assurance, Insurance & Audit reports to the Chief Financial Officer on all strategic risk financing issues and is responsible for ensuring that the adopted policy is implemented and is subject to annual review.
- 3.2 The Council's Risk Management and Insurance service is responsible for:
- Maintaining adequate and cost effective risk financing measures;
 - Managing the internal self-insurance fund;
 - Providing risk management advice, guidance and support;
 - Arranging, where appropriate, the placement of cover with external insurers including the negotiation of premium rates and policy terms; and
 - The provision of an appropriate insurance claims handling service.

- 3.3 The Council will normally appoint an external independent insurance broker/advisor to support and assist the Council in respect of the periodic tender of its insurance portfolio. The appointment will normally include provision of ongoing support on a retained basis.
- 3.4 The appointment of an insurance broker/advisor will be led by the Service Lead: Risk, Assurance, Insurance & Audit with such an appointment normally taking place at least six months in advance of any renewal (or tender) of external insurances.
- 3.5 External insurance will be procured in accordance the Council's Contract Procedure Rules. The Council will award contracts for the provision of insurance services on the basis of the most economically advantageous terms in respect of price and quality.
- 3.6 The tender of the Council's insurance portfolio will normally take place every three to five years (unless a longer or shorter term contract or agreement is proven to be beneficial to the Council). In accordance with good practice the Council will normally seek to enter into a 'long term agreement' ("LTA") with insurer(s). The LTA, which normally includes a discount on the premium, provides continuity of cover, an element of financial certainty and is in line with the standard market approach.

4. Risk Financing Methodology

- 4.0 An effective risk financing programme is one that provides appropriate and adequate protection for the Council to support and enable current and future service delivery in addition to being able to demonstrate value for money.
- 4.1 The overall objective of the Risk Financing Policy is to ensure that funds are available to pay for insurable losses using the most cost effective sources of finance. In doing so the Council seeks to protect its financial position through the selective purchase of insurance cover and seeks to ensure that the risk financing structure is as financially efficient as possible, whilst accepting that financial certainty has a cost.
- 4.2 The aim is to achieve the optimum balance between self-insurance and external insurance, with the latter intended primarily to protect the Council against the effects of a catastrophic loss and to limit the Council's financial exposure in any one period. The approach seeks to smooth the cost of risk and minimise year on year fluctuations.
- 4.3 The structure of the risk financing programme will be subject to a periodic review, led by the insurance broker/advisor, in order to identify any potential gaps, duplication, etc in cover, and to evaluate self-insurance against other risk transfer options.
- 4.4 The cost of risk (i.e. external insurance premiums and contribution to the internal insurance fund) is apportioned across service areas on an equitable basis via an annual insurance recharge.

- 4.5 It is the responsibility of Service Directors and Service Leaders to ensure that any significant changes in exposure e.g. provision of new services, disposal of properties, outsourcing of services etc are communicated to the Service Lead: Risk, Assurance, Insurance & Audit.
- 4.6 Losses within the insurance deductible are met from the self-insurance fund, which is reviewed on a monthly basis by the Service Lead: Risk, Assurance, Insurance & Audit.
- 4.7 In line with good practice the 'self-insurance fund' is subject to independent actuarial review which is normally undertaken every three years. The review considers whether adequate funds are available to meet current and future liabilities. A summary of the report is provided to the Chief Financial Officer and to the Governance Committee.

5. Alternative Risk Transfer

- 5.0 The Council is committed to securing value for money and securing the most cost efficient source of risk financing. The insurance market for local authorities has traditionally been a specialist market with only a very limited number of insurers prepared to offer cover.
- 5.1 The Council, in consultation with its insurance broker/advisor, will keep abreast of any opportunities in respect of 'alternative risk financing' including consortia purchasing, joint procurement, risk pooling etc. The foregoing options would however only be considered where any such proposals provided an acceptable level of financial certainty and security and a clear cost benefit.

6. Benchmarking

- 6.0 Where appropriate the Council will compare its approach to risk financing with peer authorities and will draw on benchmarking data in order to identify potential gaps in cover or areas for review.

7. Review

- 7.0 This document will be reviewed as per the arrangements for the Risk Management Policy.