

Officer delegated decision 6 April 2018

Appointment of Insurance Actuary for Redress Scheme

Wards: All

Report Authorised by: Strategic Director, Corporate Resources: Jackie Belton

Portfolio: Deputy Leader for Finance and Resources, Councillor Imogen Walker

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Report summary

This report requests approval for a contract waiver to appoint the council's existing insurance actuary to undertake some work associated with the implementation and ongoing monitoring of the council's historic abuse redress scheme.

The Council requires the services of a professional insurance actuary to undertake a review of the council's insurance liabilities, financial planning and ensuring adequate insurance reserves and provisions are maintained. These reviews are normally commissioned as one off projects to satisfy the requirements of our external auditors when signing off the position of the council's insurance reserves.

In order to ensure proper financial management of the redress scheme the council has required the services of an insurance actuary to provide input and assurance on the financial projections associated with the scheme. Input from the actuary and the production of the actuarial report was fundamental to the council securing the capitalisation direction from the Ministry for Homes, Communities and Local Government (MHCLG).

This is a waiver report to secure urgent approval for the appointment of HJC Actuarial Consulting Ltd to continue the provision of these services so that the Council is able to fulfil its responsibility under the Lambeth Children's homes redress scheme. Officers are undertaking a substantive procurement for these services to ensure there is future provision of these services.

Finance summary

The cost of a typical actuarial valuation is usually in the region of £8,000 to £15,000 depending upon the type of report/s required. In 2017/18 a total spend of £80,475 was incurred with the provider in obtaining actuarial support and reports in connection with the development of the council's historic abuse redress scheme.

It is proposed to extend the existing commission by a further £100,000 for the period April 2018 to December 2019 to a total value of £180,475. This comprises of quarterly mini reviews and scheme forecasting reports for MHCLG, advice and assistance on engagement with the council's

historic insurers in relation to insurance policy commutations and insurance fund reviews. These services are only required as a consequence of the redress scheme. The actual costs associated with this contract are subject to variation depending upon the volume and types of claims that are made under the redress scheme. There is no minimum expenditure against this contract as it will only be called upon as necessary to provide adequate assurance on the redress scheme and council's insurance reserves. The cost of these services will be met from the redress budget.

Recommendations

- (1) To note the expenditure with HJC Actuarial Consulting Limited that has been incurred in 2017/18 of £80,475.
- (2) To approve a contract waiver to allow for the continued appointment of HJC Actuarial Consulting Limited from 9th April 2018 to 31st December 2019 to assist with the provision of actuarial services up to an estimated value of £100,000, and a total value of £180,475.

1. Context

- 1.1 The council has historically appointed an insurance actuary to undertake periodic valuations to determine the adequacy of maintained insurance reserves and provisions. Actuarial valuations are usually only undertaken every two to three years.
- 1.2 In 2010 the Insurance London Consortium (ILC) secured preferential rates for their members for actuarial services through HJC Actuarial Consulting Limited. The council has been using these services as required since then although these are not required every year.
- 1.3 Actuarial valuations of the council's insurance fund (reserves and provisions) are periodically required to ensure that the council is holding an appropriate level of insurance reserves to meet expected future losses/claims. External auditors often require sight of the actuarial recommendations when approving the council's accounts. A valuation is typically valid for a period of two to three years unless there has been a significant change in insurance losses or claims since a previous valuation.
- 1.4 Due to the infrequency of requiring these valuations and the low value of spend incurred each time this has never been a contract that the council has procured separately. Services have either been drawn from our existing insurance broker contract or more recently through the ILC facility.
- 1.5 Previously it was found that switching from one actuary to another created a lot of additional work requirements in addition to the standard review work required, as the new actuary was unfamiliar with the claims history of the council. The additional work required to allow the actuary to build up a detailed knowledge and history of the council's insurance position resulted in significantly increased costs being incurred.
- 1.6 As the current actuary engaged by the council has a detailed working knowledge of the council's insurance history and issues involved and also has the benefit of having direct access to the previous data sets and reports that have been utilised in previous reviews, this is a distinct advantage to the council.
- 1.7 In 2017 the actuary was instructed to undertake a fund review ahead of the council considering launching the historical abuse redress scheme. As the development of the redress scheme progressed the actuary was required to undertake significant further work including producing a value for money comparison of the scheme against traditional litigation, assessing the impact of recent case law changes on abuse claims and undertaking a full actuarial assessment and forecasting of the redress scheme. This was all unplanned work of an urgent nature.
- 1.8 The council applied to the MHCLG for a capitalisation direction that would allow the council to finance the redress scheme over a number of financial years. The actuarial advice obtained on the scheme was a critical part of the consideration by MHCLG.
- 1.9 In approving the capitalisation the MHCLG part of the terms around this is the provision of quarterly reporting and forecasting information on the performance of the scheme. In order to effectively undertake this work it is critical to have ongoing involvement from the actuary.

2. Proposal and Reasons

- 2.1 The cost of appointing an insurance actuary to undertake the type of reviews required by the council and its auditors is typically £8,000 to £15,000 per review undertaken every two to three years.
- 2.2 In 2017 it was necessary to instruct the actuary to undertake a number of urgent and critical pieces of work in connection with the redress scheme. This resulted in unplanned expenditure of £80,475 being incurred in connection with this work.
- 2.3 The redress scheme and its implementation was approved by cabinet in December 2017 with the scheme becoming operational in January 2018. As there is a requirement to undertake quarterly reviews of the scheme there is an urgency to commission the actuary to assist with the first of these reviews which will be required from the end of March.
- 2.4 Aside from the urgency issue it is vital that there is a required continuity of actuarial input in relation to the ongoing valuation and forecasting of the scheme. In undertaking the scheme development work the actuary was required to spend a significant amount of time reviewing and understanding a lot of data for which the council has paid. There would be insufficient time to undertake a procurement exercise for the work that is now required, and even if time allowed, this would inevitably require a significant resource and time for the new provider to get up to the same position.
- 2.5 HJC Actuarial Consulting Limited have invested a significant amount of time and expertise in supporting the council on child abuse redress and have a strong working knowledge of the relevant issues. Having launched the scheme the council is receiving a significant volume of claims into the scheme. It would therefore be difficult at this stage to seek to appoint any other supplier to undertake this work without causing a significant setback to the progress already made, and incurring further unnecessary expenditure.
- 2.6 The services of the actuary are essential. There is an imperative to ensure there are proper arrangements in place for the provision of actuarial services to support accurate financial forecasting and mitigate the Council's risk exposure.
- 2.7 The nature of the work required will include undertaking either a full or mini actuarial review of the redress scheme on a quarterly basis to determine whether there are any emerging issues or trends that require further analysis. As part of these quarterly reviews the forecasting of the ultimate cost of the redress scheme will be updated to ensure that the council continues to remain within the financial envelope of the capitalisation direction. In addition to these quarterly reports the actuary will be undertaking a substantive piece of work in relation to seeking contributions from the council's historic insurers including pursuing options such as policy commutations. The actuary will also be undertaking fund reviews in connection with those claims emerging that sit outside of the redress scheme but where the council retains a financial liability. In addition there will be assurance style reviews of changes required to the operational aspects to ensure adequate data capture.
- 2.8 It is therefore proposed to retain the services of the existing provider of actuarial services to provide the necessary support to the council on the redress scheme. Under S17.2 of the Contract Standing Orders there is provision to secure a waiver from Contract Standing Orders on the basis of urgency as the Council has a specific statutory obligation.

3. Finance

- 3.1 The cost of appointing an insurance actuary to undertake the council's 'business as usual' insurance valuations is normally in the region of £8,000 to £15,000 per occasion depending upon whether a full or mini actuarial review is required. Such valuations are undertaken once every two to three years. No spend against this activity was incurred in 2016/17. In 2017/18 a total of £80,475 was spent against this supplier in obtaining actuarial support and reports in connection with the development of the council's historic abuse redress scheme.
- 3.2 This contract waiver seeks to appoint the existing insurance actuary to undertake activities in support of the council's redress scheme up until December 2019 by a value of £100,000 to a maximum cost of up to £180,475. It should be noted that the actual costs may be subject to variation depending upon the actual need for actuarial input depending on the level of redress applications, litigation made outside of the scheme and any identified trends or issues. There is no minimum expenditure against this contract as it will only be called upon when necessary to undertake scheme reviews. The costs associated with the actuarial advice required for the redress scheme will be met from the budget that has been established for redress.

4. Legal and Democracy

- 4.1 The Council has delegated the authority to enact this report's recommendations to the Deputy Leader for Finance and Resources, acting in consultation with the Leader.
- 4.2 The Contract Standing Orders includes provision for officers to waive the Contracts Standing Orders in circumstances such as urgency or where it is demonstrably in the Council's best interest to do so.
- 4.3 The EU procurement regime applies to the proposed award by virtue of the Public Contracts Regulations 2015. The Regulations allow contracting authorities to negotiate contract extensions where it is strictly necessary, for reasons of extreme urgency brought about by events unforeseeable by the contracting authority, and / or where additional services are required from the contractor that through unforeseen circumstances were not included in the original contract. It must be the case that the additional services cannot be technically or economically separated from the original contract without great inconvenience to the contracting authority, or although separable, are strictly necessary for the completion of the original contract.
- 4.4 The Council's Constitution requires that all key decisions, decisions which involve resources between the sums of £100,000 and £500,000, and important or sensitive issues must be published on the website for five clear days before the decision is approved by the Director or Cabinet Member concerned. Any representations received during this period must be considered by the decision-maker before the decision is taken.

5. Consultation and co-production

- 5.1 The Council has sought to develop the historic abuse redress scheme in consultation with SOSA and has funded (separately) the costs of their legal representatives. In addition

consultation on the redress scheme has been undertaken with a wide range of stakeholders.

6. Risk management

- 6.1 The contractor has in place all necessary insurance requirements to indemnify the council as part of existing contract requirements. Without this contract in place the council would be exposed to significant risk and increased cost should forecasting be inaccurate and/or trends not picked up and addressed in a timely manner. This could potentially affect the council's financing arrangements as part of the capitalisation directive.

Risk	Level	Mitigation
Actuarial valuations not undertaken, scheme costs exceeds financial envelope.	Low	Having in place a contract with existing actuary.
Actuary unable to undertake required work.	Low	Utilising actuary already familiar with the issues and redress scheme parameters.

7. Equalities impact assessment

- 7.1 An equalities impact assessment was undertaken as part of the redress scheme implementation this has been reviewed in light of the changes proposed. There are no equality implications arising out of this contract waiver.

8. Community safety

- 8.1 There are no implications here.

9. Organisational implications

- 9.1 Environmental

None

- 9.2 Staffing and accommodation

None

- 9.3 Procurement

This contract has never previously been procured. Due to the urgency associated with this service, this report has been prepared to waive contract standing orders in accordance with 17.2e of contract standing orders which makes provision for circumstances where there is a specific statutory obligation. There is no guarantee of the volume of work to the provider, figures in this report are based on estimates which are expected to vary depending on the demand for the service. In order to ensure future provision for this service officers are undertaking a procurement to ensure there are longer term arrangements.

9.4 Health

None

10. Timetable for implementation

10.1 The table below shows the timetable for implementation:

#	Description	Date
1	Submitted to Category Board Administrator	13.03.18
2	Category Board	21.03.18
3	Decisions Online	28.03.2018 to 05.04.2018
4	Report Signed Off	06.04.2018
5	Contract Commencement	09.04.2018

10.2 This contract will be monitored through a formal contract review on an annual basis. Due to the nature of the services provided under this contract regular contract monitoring discussions are held with the contractor.

Audit trail				
Consultation				
Name/Position	Lambeth directorate/division or partner	Date Sent	Date Received	Comments in para:
Christina Thompson, Director of Finance	Finance, Corporate Resources	07.03.18	09.03.18	
Michael O'Hora, Legal Services	Governance and Democracy	07.03.18	08.03.18	4.1 – 4.3
Wayne Chandai, Democratic Services	Governance and Democracy	06.03.18	08.03.18	4.4
Martin Crump, Finance	Finance	07.03.18	07.03.18	3.1-3.2
Councillor Imogen Walker	Deputy Leader of the Council (Finance and Resources)			

Report history	
Original discussion with Cabinet Member	N/A
Report deadline	N/A
Date final report sent	N/A
Report no.	N/A
Part II Exempt from Disclosure/confidential accompanying report?	No
Key decision report	No
Date first appeared on forward plan	n/a
Key decision reasons	n/a
Background information	None
Appendices	None

APPROVAL BY CABINET MEMBER OR OFFICER IN ACCORDANCE WITH SCHEME OF DELEGATION

I confirm I have consulted Finance, Legal, Democratic Services and the Procurement Board and taken account of their advice and comments in completing the report for approval:

Signature _____ **Date** _____

Post Mark Nicolson

Head of Risk & Insurance

I approve the above recommendations:

Signature _____ **Date** _____

Post Jackie Belton

Strategic Director, Corporate Resources