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SCHOOL INSURANCE

Report of the Director of Children's Services

Author:- *Fiona Timms Risk & Insurance Manager*
Tel:- 01438 843565

1. Purpose

- 1.1 To inform the Forum of the current methodology for recharging insurance costs to maintained schools and to propose a revised methodology for 2018/19.

2. Summary

- 2.1 Schools that participate in the Council's insurance programme are recharged annually for insurance. The Council has not historically recovered the whole of the costs associated with insurance premiums, claims and administration. This report highlights this issue and proposes a revised methodology.

3. Recommendations

- 3.1 That the Forum notes that the insurance recharge to schools is to increase by 10% for 2017/18.
- 3.2 That for 2018/19 and for a term of three years, the Council's property and liability insurance is recharged to schools on a rate per pupil basis (to be determined).
- 3.3 That the differences between the Risk Protection Arrangement offered by the Department of Education to Academy schools and the Council's insurance offer are noted; currently the council's arrangement appears to have a lower cost per pupil than the RAP.
- 3.4 Schools that convert to Academy status in the academic year are recharged the whole of the annual premium.

3.5 That schools bear the first £500 for a property damage loss (increased from £250).

4. Background

4.1 Under fair funding, schools have been given the ability to arrange their own insurance arrangements, but to date no community schools have chosen to do this and even some Foundation Schools and Voluntarily Aided schools have chosen to remain under the County Council's insurance programme.

4.2 This report concentrates on the key insurance areas of liability and property insurance only. Schools are recharged for other types of insurance in addition to this such as motor, computers, school travel and third party hirers.

4.3 Each year, the council recharges schools with the cost of the insurance premium plus a contribution to any claims costs not fully recoverable from insurers (e.g. the policy excess, loss adjuster fees etc). The method used to recharge the schools and the basis used by insurers to underwrite risks differs in approach:

- Property insurance is rated by insurers on a reinstatement value (currently provided to the Council by LSH); schools are recharged on a m2 basis.
- Liability insurance is rated by insurers on a salary basis and recharged on a per pupil basis.

The current method of recharging does not fully recover the costs of arranging insurance for schools incurred by the Council.

4.4 The council currently has sizeable deductibles (excesses) on its insurance cover. This is the amount the Council has to pay before insurers contribute. For school related property damage claims the deductible is £500,000 and for liability claims £200,000. In practice this means that the council self-funds the majority of claims.

4.5 The council has a number of historic claims that relate to schools. These are for mesothelioma (asbestos related fatal disease) and abuse. Claims can still be brought today for incidents that occurred many years ago. Prior to 1992, MMI was the council's insurer. This insurer ceased underwriting in 1992 and to ensure all future claims are met the council has to pay a levy of 25% on any claims that have been/will be paid since 1992. Prior to 1972 the council was uninsured.

4.6 The premiums charged by insurers for 16/17 that can be directly attributed to the schools were:

Property Insurance

Fire & Perils	£ 522,374
Engineering	£ 31,344
Fidelity Guarantee	£ 30,708
Contract works	£ 5,475

Liability Insurance

Employers & Public Liability	£ 419,829
Medical Malpractice	£ 9,307
Total	£1,019,037

- 4.7 The total amounts recharged to schools in 16/17 was £1,526,600 for property related insurance and £203,885 for liability. A total of £1,730,785. This included a ten percent increase. Although this appears that the council has over recovered from the schools, the cost of claims needs to be taken into consideration. The cost of claims against the key insurance areas are detailed in the following section 4.8

4.8 Property Claims - schools

Financial Year	No. of claims	Paid Total	Outstanding Total	Total	Average
2011 12	192	£443,095	£0	£443,095	£2,308
2012 13	128	£480,185	£0	£480,185	£3,751
2013 14	108	£488,613	£0	£488,613	£4,524
2014 15	105	£406,877	£26,811	£433,688	£4,130
2015 16	97	£387,128	£182,211	£569,338	£5,869
2016 17	91	£1,122,649	£2,956,768	£4,079,417	£44,829
Grand Total	721	£3,328,547	£3,165,790	£6,494,336	£9,007

The 16/17 year includes the major flood damage at Highwood School

Liability Claims – schools Employers liability claims

Financial Year	No. of claims	Paid Total	Outstanding Total	Total	Average
2011 12	15	£172,236	£614,992	£787,228	£52,482
2012 13	14	£543,229	£200,115	£743,344	£53,096
2013 14	12	£86,974	£179,060	£266,034	£22,170
2014 15	11	£35,227	£205,268	£240,495	£21,863
2015 16	7	£9,851	£96,000	£105,851	£15,122
2016 17	12	£121	£63,900	£64,021	£5,335
Grand Total	71	£847,638	£1,359,335	£2,206,973	£31,084

Public liability claims

Financial Year	No of claims	Paid Total	Outstanding Total	Total	Average
2011 12	27	£177,721	£21,894	£199,615	£7,393
2012 13	23	£140,701	£54,700	£195,401	£8,496
2013 14	30	£41,065	£46,792	£87,857	£2,929
2014 15	32	£47,861	£134,591	£182,452	£5,702
2015 16	15	£8,558	£31,700	£40,258	£2,684
2016 17	18	£100	£115,875	£115,975	£6,443
Grand Total	145	£416,006	£405,552	£821,558	£5,666

As is evidenced by the figures, liability claims are not submitted immediately but can be made up to 3 years after an accident (this is increased to the age of 21 in respect of claims for children). Any historic abuse claims or asbestos related disease claims that are received now will not be included in the above figures as they will predate these policy years. For example, we received a claim for an asbestos related disease in 2011 from a former pupil from the 1960's -70's. Her claim is for over £800,000 and predates the authority having arranged insurance. This has therefore been settled without any recompense from insurers and is not included in the table above.

- 4.9 The following table summarises the recharges made to schools over the past five years compared to cost of claims. The actual premium charged by insurers for schools is only currently available for 2016/17 (£1,050,380).

Year	Total Recharge	Total claims cost
2012 13	£1,644,499	£1,418,930
2013 14	£1,511,831	£ 842,504
2014 15	£1,566,030	£ 674,183
2015 16	£1,628,087	£ 675,189
2016 17	£1,730,485	£4,259,413

- 4.10 When the claims costs in 4.8 are taken into account, it can be seen that the council is not fully recovering the costs of insuring schools. If we used the following rough guidance for claims – Property £500,000 and liability £400,000 then we should be charging schools in the region of £2 million per annum – an increase of approximately £250,000 over what was recharged for 16/17. In addition to the limited allowance for claims, no allowance is currently made for the Insurance Team's costs.
- 4.11 When a school makes a claim for property damage it is recharged directly with a £250 policy excess. This is the only financial implication schools face for submitting a property claim. No cost is directly recharged for a liability claim.
- 4.12 The council's insurance programme has been tendered and the responses are currently being evaluated. It is in the council's interest to accept more self-insurance to protect itself against market fluctuations; insurance premium tax (increased to 12% from 1 June) and to ultimately save revenue expenditure. The tender document has asked for quotations on the existing basis of insurance and with higher deductibles of £1 million.

5. Contents of report

- 5.1 When a school becomes an academy, it has the option of either arranging its own insurance or joining the Department for Education's (DfE's) Risk Protection Arrangement (RPA) which is a voluntary arrangement for academies and free schools. The RPA is not an insurance scheme but is a mechanism through which the cost of risks that materialise from 1

September 2014 will be covered by government funds. The cost of joining this scheme is £20 per pupil or place (regardless of the type of school).

- 5.2 At the present time, the Council only charges the schools that transfer a pro rata proportion of the annual insurance charge. It is proposed that they should be charged for the whole year as no return premium is received by the Council in the year.
- 5.3 The Insurance Team have completed a comparison between the RPA scheme and the cover available to schools through the council. This is attached as Appendix A. It can be seen that there are differences between the two offers.
- 5.4 The Council proposes that the rates charged to schools for property and liability insurance will again increase by 10% for 2017/18 and will be processed more promptly by the Finance Team this year. This has been advised to the schools to enable them to budget appropriately in the budget preparation guide and budgeting software. This would increase the rates charged to the schools as follows:

Property

Fire	0.792 per m2
Remainder of insured perils	£ 10.62 per pupil

Liability

Employers & public liability	£ 1.77 per primary school pupil
	£ 2.54 per secondary school pupil
Medical malpractice	£ 25.95 per school

- 5.5 Schools will be recharged according to their individual declarations for motor; school travel; computer; third party hirers and engineering inspection covers.
- 5.6 Following the outcome of the evaluation of the tender, the Finance and Insurance Teams will calculate an equitable figure to recharge the schools on a price per pupil/place basis to replace the rates in the table in 3.3. with the aim of retaining this rate for at least a 3 year term to give the schools a greater degree of certainty on insurance costs. To give a ball park figure, based on a total of £2 million to be recharged and pupil numbers of 188,731 the rate per pupil would be in the region of £11 (but this may well be higher due to fluctuations in pupil numbers and additional costs we may have to factor in)
- 5.7 It is further proposed that the schools property damage excess will be increased to £500 each and every claim to encourage risk reduction measures to be implemented by the schools.

6. Conclusion

- 6.1 A review of the manner in which schools are recharged for insurance has illustrated that they are currently subsidised by the authority. Following the conclusion of the insurance tender, it is proposed that a rate per pupil is set for 2018/19 for the main insurance covers (property and liability). This may result in a further report to the Forum.