

MEETING:	SCHOOLS FORUM
DATE:	8 DECEMBER 2011
TITLE OF REPORT:	SCHOOLS INSURANCE
OFFICER	SCHOOLS FINANCE MANAGER

CLASSIFICATION: Open

Wards Affected

County-wide – All Schools

Purpose

To provide an update on schools insurance for 2011/12 and potential changes to the 2012/13 offer.

Recommendation

THAT School Forum is asked to note the progress in reviewing the insurance offer to schools and to comment on the proposed strategy for pricing insurance in 2012/13

Key Points Summary

- The report sets out the background to the significant price increase in schools insurance in 2011/12 and the actions taken to restore the insurance claims fund.
- Proposed reductions in the insurance offer to schools for 2012/13.

Alternative Options

- 1 Under the scheme of delegation, individual schools have a choice on who in the market they buy their insurance from.

Reasons for Recommendations

- 2 Due to the high level of claims for winter flood damage in 2010/11 the balance of risk self-insurance fund incurred at estimated loss of £635k. Changes were made to the balance of risk scheme for 2011/12 which resulted in higher premiums to schools, due to additional insurance underwriting costs (limiting the excess on any claim to a maximum of £50k) and to ensure the insurance claims fund is funded at an appropriate level to meet future liabilities. Future years pricing realigns the schools premium, using the latest forecasts.

Introduction and Background

3. Self insurance schemes are common in local authorities and are designed so that the income generated in the good years is used to pay for a higher level of claims in the bad

years. The council purchases insurance by competitive tender, via the OJEC process with the advice and support of its brokers. This process ensures that the Council (and schools) receives the most economically advantageous policies in order to protect its assets along with limiting the financial exposure in the event of claims.

4. The bad weather claims from schools in the winter of 2010/11 cost an estimated £750k and the premiums collected from schools under the balance of risk insurance scheme were £116k leaving a shortfall of £635k. In normal circumstances the shortfall would be met by the claims fund however only £23k remained in the fund due to the high cost of flood claims in the exceptional floods of summer 2007.
5. In order to refinance the claims fund the following actions have been taken;
 - Provision was made within the capital programme to meet £600k of the bad weather claims from 2010/11
 - A schools property insurance policy was purchased from an external insurer from April 2011 to limit any single loss to a maximum £50k for any claim. Prior to this, liability was unlimited
 - In addition to recovering the costs, the balance of risk premiums charged to schools were significantly increased by up to 200% to generate an income of £400k in excess of the policy costs in order to cover the potential liability arising from another bad winter
 - A range of excesses were offered to schools, i.e. £1,000, £2,500, £5,000 and £10,000 (these sit within the £50k excess imposed by the external insurers) so that schools could choose to reduce the cost of insurance by managing their risk
 - The extra income over and above the liability claims to be used to restore the insurance claims fund in 2011/12
 - An actuarial review of the council's insurance fund has been commissioned and to include the schools balance of risk to review the insurance fund. Previously the actuarial reviews had concentrated on the council's insurance fund and excluded schools.
 - The council's insurance policies have been amended to run from 1st April to 31st March providing a clear link with the prices charged to schools on a financial year basis. In doing this, on the advice of the insurance brokers, the council has taken the opportunity to fix insurance pricing costs until March 2014 as market costs are expected to increase over this period.
 - Prices to schools would be reviewed for 2012/13 taking account of the actuarial advice. Final prices have yet to be determined however a reduction of approximately £20 per pupil is expected. It may be slightly more for schools taking out the higher excesses.
 - Schools that purchased insurance elsewhere in 2011/12 will be charged a re-joining fee if they wish to re-join the council scheme. This is because all those schools that remained with the scheme have contributed to the restoration of the insurance claims fund and should benefit from lower prices in future.
6. The actuary's report forecast a claims liability for 2012/13 of £196k for schools property, employer and public liability. In pricing the offer to schools, it is proposed that the most

reasonable approach is to recover the cost of the insurance premiums in addition to meeting the actuary's forecast of claims.

7. There are risks to this approach as follows;
- That a second bad winter will erode the additional income received from schools in 2011/12 and the insurance claims fund may not be sufficient to meet future claims.
 - If the insurance fund continues to lose money then the council will withdraw from providing schools with insurance. Schools will have to buy insurance direct from the market as the council is not able to subsidise the cost of insurance services to schools.
 - Schools purchasing their insurance cover from alternative sources may under insure to achieve price reductions and that the council would be left meeting any shortfall in liabilities. These risks would be minimised by requiring all schools taking their own insurance to have their policy checked by the council's insurance broker. There would be a cost to the school for this checking.
8. Action is being taken to ensure that schools receive comprehensive cold weather property advice to ensure that the costs arising from cold weather damage are minimised. School claims will be investigated to ensure that the property advice has been followed. Any cases where schools have omitted to follow the advice will result in costs of up to the £50k excess being charged to the school so that the insurance fund does not bear the full cost.

Key Considerations

- 10 None identified.

Community Impact

- 11 None at this stage.

Financial Implications

- 12 Provided this winter does not generate an exceptionally high level of claims then, based on the actuary's review, the schools insurance claims fund will be sufficient to meet future liabilities. This will allow the balance of risk scheme to continue to be offered to schools. The 2012/13 insurance prices offered to schools will be based on the premiums charged to the council and the forecast liabilities (i.e. the excesses to be met by the insurance fund) in 2012/13.

Legal Implications

- 14 There are no legal implications.

Risk Management

- 15 The risk to the balance of risk property self insurance fund has been minimised by taking an insurance policy limiting the council's liability to a maximum of £50,000 for each property claim. Prices to schools were increased in 2011/12 to restore the fund to a surplus.

Appendices

15 None

Background Papers

16 Fund review Herefordshire Council (Draft 2) 4 November 2011