

Insurance arrangements for academies converting from maintained schools: DfE briefing note

Introduction

1. Local authorities are responsible for funding insurance of maintained schools, even if funding is delegated or devolved to schools for certain categories of insurance. Very commonly, schools which are given funding buy back into the local authority's scheme because that offers better value for money than a stand-alone policy with an insurer. In some authorities all insurance arrangements are made centrally.

Academies

2. Academy trusts are responsible for making arrangements for the insurance of the academy. It is imperative that a converting academy is insured from midnight of the date of conversion so that there is continuity of cover.
3. The main types of insurance cover which must be arranged are:
 - a) premises and contents. These should be insured at replacement cost against damage by subsidence, fire, lightning, explosion, storm, flood, riot, malicious damage, terrorism and similar risks;
 - b) business interruption (Academies Financial Handbook suggested level of cover £1-2m, but this would depend on the school's size)
 - c) governing body and employer liability. The currently recommended level of cover for academies is £10m for each, as a minimum;
 - d) any statutory motor transport insurance.
4. Other types of insurance such as engineering cover may also be arranged.
5. Guidance on insurance cover, and reimbursement of insurance costs, are the responsibility of the Young People's Learning Agency. Reimbursement is made at actual costs on receipt of invoices, not as part of a formula allocation. Broker's fees and insurance tax are also reimbursable, but insurance cover for vehicles is not currently reimbursed except where the vehicle is used solely for maintenance purposes (eg large mowers).
6. Insurance premiums for academies are often higher than for maintained schools, although this will vary depending on the nature of

the buildings and the area in which the school is situated. At present a typical premium for a large secondary academy is about £90k.

Obtaining insurance

7. In obtaining insurance, the trust must follow normal public procurement rules and ensure that the policy offers value for money. In particular, it must follow EU procurement directives where they apply, and if a multi-year agreement is under consideration it is very likely that the EU threshold for OJEU advertisement will be reached.
8. This means that an academy seeking to make insurance arrangements should first of all approach the local authority, which will have a group policy for schools tendered in compliance with EU rules. The LA may be willing to have the academy included in this, at least for premises insurance; and it will normally be financially advantageous for the academy to take advantage of this, due to economies of scale. However, the authority or its insurer may not be willing to extend the cover to include an academy. The difficulties in doing so can arise from three main points:
 - a. the LA scheme may have a high threshold (typically £250k) which the authority would have to meet before any payment by the insurer. The LA would naturally not wish to meet this for an academy. It is sometimes possible to negotiate a lower threshold specifically for the academy, on payment of an extra premium, so that the threshold is a reasonable one for the academy to afford from its own resources;
 - b. the LA or the insurer may take the view that the LA has no 'insurable interest' in the academy and therefore cannot be covered by the LA's policy. The concept of insurable interest means that the body taking out insurance must be in a position where it would suffer loss, directly or indirectly, if the event being insured against took place. This is intended to protect the insurer against fraud. In the view of the Department, LAs do have an insurable interest in academy buildings and for business interruption purposes, because of their statutory duty to provide sufficient school places in an area, and even more so if the academy building is held on a lease from the LA; but it is up to the LA and the insurer to take a view on this. In most cases the LA and insurer would not consider that there is an insurable interest for liability insurance, and in those cases where LAs are including academies in group schemes it is therefore normally only for premises and sometimes business interruption;
 - c. the LA may take the view that offering insurance to academies is trading outside its statutory powers.
9. If LA insurance is not available the next source which should be considered is the framework established in conjunction with the

Department by the Crescent Purchasing Consortium, whose website is at: <http://www.cpc.salford.ac.uk/>

10. Although primarily working for the FE sector, CPC has established an EU-compliant framework for academy insurance. This allows the submission of one set of information from the school which is passed to insurers on the framework, who will then quote for the business.
11. Apart from these sources it is open to an academy trust to approach an individual insurer either direct or through a broker. School insurance work tends to be limited to a few companies. If an insurer is approached direct or through a broker the trust must ensure that either it carries out an EU compliant tender exercise or that it limits any insurance agreement to a value below that specified in the EU procurement directives. That will normally mean having a one year agreement only, and then seeking a multi-year agreement in subsequent years through an EU-compliant route
12. A school which has had approval for conversion should keep its assigned DfE Project lead up to date with its progress in obtaining insurance because of the need for continuity of cover.
13. When cover has been obtained, the YPLA academy funding team: AcademiesFinanceTeam@ypla.gov.uk will need to be asked for reimbursement of the premiums. Copies of the invoice should be supplied.

DfE
August 2010

nb. This note does **NOT** deal with insurance schemes for staff absence through sickness etc, which is not regarded as insurance in the same way as the risks set out above. Academies receive funding for such insurance in their formulaic General Annual Grant, not as additional reimbursement, and must decide for themselves whether to take out absence insurance or cover their own risk.