

WIRRAL COUNCIL
PENSIONS COMMITTEE
19 SEPTEMBER 2011

SUBJECT:	ACADEMIES
WARDS AFFECTED:	ALL
REPORT OF:	DIRECTOR OF FINANCE
RESPONSIBLE PORTFOLIO HOLDER:	
KEY DECISION	NO

1.0 EXECUTIVE SUMMARY

- 1.1 This report informs Members of a substantial increase in the number of Scheme Employers, resulting from local authority schools choosing to convert to Academy status under the Academies Act 2010.

2.0 RECOMMENDATIONS

- 2.1 That Members note the implications for MPF in terms of higher workloads and additional costs.
- 2.2 That a report be presented to the Employment and Appointments Committee on the additional staffing requirements arising from this report.

3.0 REASON FOR RECOMMENDATIONS

- 3.1 There is a requirement for Members of the Pensions Committee to be kept up to date with legislative developments to carry out their decision making role in order to enable them to make informed decisions.

4.0 BACKGROUND AND KEY ISSUES

Academies and the Local Government Pension Scheme

- 4.1 The Academies Act 2010 enables more schools to apply for academy status, to become independent from local authority control and funding. Academies are charitable trusts, set up as companies limited by guarantee and defined by a contractual relationship with the Secretary of State for Education through a funding agreement.
- 4.2 Non-teaching staff of an academy school are eligible to participate in the Local Government Pension Scheme by virtue of paragraph 21 of Schedule 2 of the LGPS (Administration) Regulations 2008.

- 4.3 Academies funding comes direct from the Department for Education (DFE) via the Local Authorities Central Services Equivalent Grant (LACSEG) on the principle that they should receive the same level of per-pupil funding as they would receive from the local authority as a maintained school.
- 4.4 The DFE is currently undertaking a consultation on the appropriate level of grant funding allocation to both local authorities and academies. The DFE intends to protect academies who applied for conversion on or before 7 April 2011 and convert before 1 September 2011. Therefore, it has given guarantees of a specified level of funding set at 90% of the grants received under the former method of calculating the LACSEG.
- 4.5 As a consequence of Government incentives, MPF has received 17 applications from schools converting to Academy status on 1 September 2011.
- 4.6 Local authority schools irrespective of funding streams, autonomy or governance arrangements are treated as part of the Council and share the same employer contribution rate.
- 4.7 If a school decides to convert to an Academy it will automatically become a separate Scheme Employer within MPF and will require its own bespoke contribution rate. It is likely this rate will be subject to increased volatility compared to that of the Council due to the much smaller staffing profile. Any changes to membership, payroll and experience relating to incidence of retirement will impact on the pension obligations and costs.
- 4.8 DFE guidance advocates that funding grants for Academies are broadly the same before and after conversion to Academy status, and that the ceding authority loses a comparable level of funding. It is therefore deemed equitable for the deficit in respect of pensionable service prior to conversion to transfer from the local authority to the Academy through the transfer agreement signed prior to conversion.
- 4.9 The actuarial calculation of an Academy's future service element of the employer rate will reflect its own employee profile but the deficit funding element is capitalised in line with the contributions previously paid whilst grouped with the Council based on a 25 year recovery period.
- 4.10 There is concern that Academies can only rely on a seven year funding guarantee and, as such, recovery periods should be aligned to reflect this. However the Actuary has confirmed that it is satisfactory to permit Academies to fund over the longer term recovery period of 25 years afforded to local authorities. The Actuary is comfortable that the seven year limited funding argument is flawed as the seven year timeframe relates to a notice period for changing from Academy status, when the funding guarantee would then cease. The deficit would then revert to the local authority or conversely if notice is not given continue to be funded by the Academy in the normal way.

- 4.11 Discussions are taking place between the DFE and the Department for Communities and Local Government (DCLG) on this issue. If it is decided that the recovery period for Academies could only be a maximum of seven years then the contribution rate would be increased significantly.
- 4.12 The Local Government Association has requested that the Government alleviates the concerns of the potential risk of academies exiting pension funds leaving unrecoverable debt by providing a legislative guarantee to underwrite any residual unfunded pension costs.
- 4.13 There are also a number of implications on the school's administrative obligations when it converts to an Academy as the pension and HR function will no longer be automatically provided by the Council. Thereafter the Academy is responsible for the correct remittance of both employer and employee contributions and provision and reconciliation of annual returns. The Academy must assume responsibility for maintenance of employees' pension records by ensuring timely completion of the required notifications in accordance with the Pension Administration Strategy.
- 4.14 The Academy will be responsible for employer decisions including policy making in respect of employer discretions, awarding ill health retirement benefits and dealing with complaints under the Internal Dispute Resolution Procedure.
- 4.15 MPF has produced and notified local authorities of a fact sheet available on the MPF website highlighting the pension implications and administrative and statutory requirements for schools considering converting to Academy status. A copy is attached at Appendix 1.

5.0 RELEVANT RISKS

- 5.1 The LGPS regulations facilitate automatic participation to the LGPS for Academies but the current undefined position as to whether the Government will provide a legislative guarantee could subject MPF to unmitigated risk. Academies could therefore be construed to represent a body of weak covenant with no protection for MPF on cessation.

6.0 OTHER OPTIONS CONSIDERED

- 6.1 None.

7.0 CONSULTATION

- 7.1 None.

8.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

- 8.1 None arising from this report.

9.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

- 9.1 As Academies qualify under the regulations as Scheme Employers, MPF must now establish separate administration records, update accounting and reconciliation processes and conduct employer communication exercises for each individual academy.
- 9.2 These administrative tasks were previously performed for all schools under the umbrella of the Council and will result in increased volumes of work, impact on staff resources and increase administrative costs.
- 9.3 The actual implications on staffing resources and administrative procedures cannot be accurately measured as the increase in costs and volumes of work are dependent on the number of schools that choose to convert to Academies.
- 9.4 An additional officer is likely to be required for every seven Academies, mostly to be located in the Administration Section but some will be required in Financial Control. The average cost of an employee is £30,000 inclusive of oncosts . All additional costs will be recharged to the Academies.
- 9.5 A report will be submitted to the Employment and Appointments Committee detailing the actual requirements.

10.0 LEGAL IMPLICATIONS

- 10.1 None arising from this report.

11.0 EQUALITIES IMPLICATIONS

- 11.1 None arising from this report.
- 11.2 Equality Impact Assessment (EIA)
(a) Is an EIA required? No

12.0 CARBON REDUCTION IMPLICATIONS

- 12.1 None arising from this report.

13.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

- 13.1 None arising from this report.

FNCE/189/11

REPORT AUTHOR: YVONNE CADDOCK
PRINCIPAL PENSION OFFICER
telephone: 0151 - 242-1333
email: yvonnecaddock@wirral.gov.uk

APPENDICES

1 – Fact Sheet – Academies and the Local Government Pension Scheme.

REFERENCE MATERIAL

Local Government Group letter of 18 April 2011 to Department for Education.

DFE Briefing note -

<http://media.education.gov.uk/assets/files/pdf/l/local%20government%20pensions%20scheme%20guidance.pdf>

SUBJECT HISTORY (last 3 years)

Council Meeting	