

WIRRAL COUNCIL
PENSIONS COMMITTEE
20 MARCH 2012

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 the funding strategy adopted by Merseyside Pension Fund (MPF) in respect of local authority schools choosing to convert to Academy status under the Academies Act 2010.

2.0 BACKGROUND AND KEY ISSUES

- 2.1 Members previously considered the financial and resource implications on MPF and Academies in relation to the continuing Local Government Pension Scheme (LGPS) obligations for non-teaching staff on 19 September 2011 (minute 46 refers).
- 2.2 There have been various communications and considerable debate on the treatment of Academies in the LGPS with particular reference to the different approaches applied by individual Pension Funds when setting employer contribution rates
- 2.3 A recent survey by the Chartered Institute of Public Finance & Accountancy (CIPFA) has highlighted an inconsistency in approach to how Administering Authorities are calculating contribution rates. Specifically, a minority of Pension Funds are adopting shorter deficit recovery periods for Academies than the original local authority recovery period. This results in a significant increase in contribution rates from those applying when the school was part of the local authority.

Government Correspondence

- 2.4 The Department for Education (DfE) has been clear in its correspondence that Academies should not be treated less favourably in the LGPS than local authority maintained schools, as they receive their funding from the public purse.
- 2.5 On 22 December 2011 the Secretary of State for Communities and Local Government (DCLG) and the Secretary of State for Education issued a joint letter to local authorities recommending that, for the purposes of assessing their employer contribution rate, an Academy should be pooled with the local authority who previously maintained the school. A copy of the letter is attached at Appendix 1.

- 2.6 Further to this joint letter, the Department for Education (DfE) issued correspondence dated 3 January 2012 directly to schools. This correspondence actively promotes Academy Status as the preferred approach for education provision. To encourage schools to consider Academy status the letter confirms that to allay concerns of any risk of increased LGPS contributions that the school can request to stay “pooled” with their local authority for pension purposes. A copy of this letter is attached at Appendix 2.

MPF approach to determining Academy Contribution rates

- 2.7 Prior to the letter of 22 December 2011, there was no formal recommendation or guidance on how Pension Funds should calculate employer contribution rates for newly converted Academies.
- 2.8 In the absence of any guidance and in conjunction with the Actuary, MPF adopted what could be described as a “quasi-pooled” approach in determining Academy funding arrangements.
- 2.9 I am satisfied this funding approach for setting Academy contribution rates achieves the same general contribution outcome as a pooled arrangement, except in relation to the future service rate, as follows:

Future Service Element

- 2.10 Academies are treated as separate employers with a **bespoke future service contribution rate** based solely on the membership of the Academy and not the entire Council membership.

Past Service Element

- 2.11 Upon conversion, the initial allocation of assets and liabilities to the Academy is based on the liabilities of current LGPS staff who transfer to the Academy. The assets are adjusted by a proportionate share of the Councils **past service deficit** that would have been payable if the school continued to be maintained by the Local Authority. The Academy is also awarded by MPF the same deficit recovery period as the local authority.
- 2.12 On the basis that a failing Academy would be managed by the Secretary of State with measures taken to transfer liabilities to an alternative educational establishment, the Actuary has advised that there is a minimal risk to MPF in spreading repayments over the same period as the original local authority.
- 2.13 Going forward assets and liabilities are tracked separately with all experience in relation to salaries and incidence of retirements being borne by the school. This achieves transparency and avoids cross-subsidy of future costs in accordance with the separation of budgets.

- 2.14 Although pooling provides the ability to stabilise the potential volatility of contribution requirements, it is possible that if current market conditions persist following conversion, the allocation of the deficit based on the proportionate share of the payrolls could increase, due to the headcount/pay restraints strategies currently being pursued by councils.
- 2.15 Following receipt of the guidance in December 2011, MPF sought actuarial advice on whether the adopted approach was equitable to both the academy and Local Authority and is compliant with the overall principles of the recent guidance.
- 2.16 As there are no specific regulations determining employer contribution costs upon conversion to Academy status, MPF believes that the policy is fair and equitable to all Scheme stakeholders and will lead to the appropriate attribution of pension costs in the future.
- 2.17 The policy may be subject to revision on receipt of any alternative, prescriptive regulatory direction from DCLG.

3.0 RELEVANT RISKS

- 3.1 Government may legislate to compel Administering Authorities to pool Academies.
- 3.2 Any formal change to pooling Academy contribution costs would require an exercise in retrospectively applying the legislation to historical Academies, and rebasing their contribution costs.

4.0 OTHER OPTIONS CONSIDERED

- 4.1 No other options have been considered

5.0 CONSULTATION

- 5.1 The DfE is consulting with schools seeking confirmation whether pooling has been requested and the terms and conditions offered by their LGPS Fund.

6.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

- 6.1 There are none arising from this report.

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

- 7.1 If the Government provides regulatory direction prescribing that Academies must be pooled with the Local Authority then the responsibility for long term liabilities would fall to the Local Authority if there is a concern regarding the Academies financial covenant.
- 7.2 Staff and actuarial resources would be required to retrospectively apply any legislative change to the determination of Academy contribution costs.

8.0 LEGAL IMPLICATIONS

8.1 There are none arising from this report

9.0 EQUALITIES IMPLICATIONS

9.1 Has the potential impact of your proposal(s) been reviewed with regard to equality?

No, because non-teaching staff retain access to the LGPS upon conversion to Academy status and the funding framework adopted has been actuarially assessed as being equitable to both the Academy and Local Authority.

10.0 CARBON REDUCTION IMPLICATIONS

10.1 There are none arising from this report

11.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

11.1 There are none arising from this report

12.0 RECOMMENDATION

12.1 That Members approve the adopted method for determining the contribution rates and ongoing funding approach in respect of Academies; as separate employers with bespoke future service contribution rates and equitable transfer of the ceding authority's deficit and equivalent recovery period.

13.0 REASON FOR RECOMMENDATION

13.1 MPF has sought actuarial advice to ensure that the adopted approach is broadly in line with the directional stance of the DfE at inception and will lead to the appropriate attribution of costs in the future..

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APPENDICES

- 1 – Joint letter from the Secretaries of State for Education and Communities and Local Government to Local Authority Leaders - December 2011
- 2- Letter dated 3 January 2012 from Department for Education to schools

REFERENCE MATERIAL

Mercer Viewpoint – Academies and the LGPS.

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Pensions Committee	19 September 2011