

## **Wiltshire Council**

**Schools Forum**  
**3<sup>rd</sup> October 2013**

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### **REVIEW OF ACADEMIES AND THE LOCAL GOVERNMENT PENSION SCHEME**

#### **Purpose of report**

1. This report updates the Schools Forum of the approach taken by the Wiltshire Pension Fund (WPF) in respect of schools converting to academy status.

#### **Background**

2. Currently, 35 schools have converted to academy status in Wiltshire. Nearly all of these conversions have occurred since September 2010.
3. Under the Local Government Pension Scheme (LGPS) Regulations, the academy must become a Scheme Employer and the WPF must accept them.
4. As with schools, academies' teachers are eligible for the Teachers Pension Scheme and only the support staff are eligible for the LGPS. Currently, there are approximately 1,800 LGPS active members of the WPF working for academies in Wiltshire. This represents a movement, to date, of £28.5m in liabilities from Wiltshire Council to the academies.
5. Guidance on the treatment of pensions for academies is issued from the Department for Education (DfE) & Department for Communities and Local Government (CLG). Using this, the WPF have considered and taken advice from the actuary and legal advisers to form a consistent approach on how to deal with converting schools.
6. There does remain an element of ambiguity between this guidance and the LGPS Regulations, so WPF's approach attempts to align the objectives of the DfE and CLG of broadly treating academies, where possible, no more or less favourably than maintained schools.
7. A consultation on the treatment of academies from CLG is also expected in the autumn which may lead to subsequent legislation changes and require a review of the WPF's policy.

#### **Main considerations for Schools Forum**

##### **Wiltshire Schools**

8. The pension costs and associated risks for Wiltshire schools are pooled with those of Wiltshire Council due to their inherent ties and funding structure with the LEA. Wiltshire Council maintains an extremely strong covenant due to its tax raising powers enabling a longer term approach to be taken when setting employer contribution rates (currently 19.5% per annum of pensionable pay).

## **Conversion to Academy Status**

9. When a school converts to academy status, the new academy is treated as an independent employer within the WPF. All schools considering converting are advised to contact the WPF's Employer Relationship Manager (Andrew Cunningham, Tel: 01225 713612 Email: [Andrew.Cunningham@Wiltshire.gov.uk](mailto:Andrew.Cunningham@Wiltshire.gov.uk)) at the earliest opportunity for guidance on the process, administration requirements and costs. They will also be provided with a information outlining their pension responsibilities.
10. Where appropriate, or on request, visits are made to schools and meetings are held with their Bursary / Business Managers or board of governors. When each academy converts, they are directed to the appropriate contacts and to the information on the website which can be found at the following link:  
  
<http://www.wiltshirepensionfund.org.uk/employer-admitted-body/converting-to-academy-status.htm>
11. The website outlines the position in respect of pensions and the WPF's policies (including information on the costs and risks involved).
12. When an academy is set up, WPF's actuary has to calculate a new employer contribution rate for the academy and determine the appropriate amount of assets that need to be moved from the LEA (Wiltshire Council) in respect of the transferring pension liabilities. The actuarial report, outlining this information and the calculations used, costs £3k; this cost is re-charged to the academy concerned. Each academy's employer contribution rate is reviewed as part of the Triennial Valuation and depending on the results, the rate is adjusted accordingly.
13. As academies are standalone employers, they are responsible for all of the pension costs relating to their staff including pension strain costs (one off cash payments) for items such as redundancies or ill-health retirements; both of which can be significant.
14. An academy will also require an FRS17 actuarial report each financial year to include within their year-end accounts. The WPF's actuary provides these reports, and based on current prices they cost approximately £2-3k for the first year to be set up and then £700 for future years.

## **Contribution Rates**

15. All academies are set up with the same funding level as Wiltshire Council's position on the day they convert. Therefore, if Wiltshire Council is 75% funded (meaning it has assets to cover 75% of its liabilities) then the academy will be allocated within the WPF an asset value of 75% of the transferring liabilities of the active members concerned.
16. A contribution rate paid by an employer paid is split into two elements. A Future Service Rate which covers the cost of a member accruing benefit each day and the Past Service Deficit payment which aims to ensure the employer is a 100% funded over its set recovery period. This contribution rate is quoted as a percentage of pensionable pay.
17. To date these employer contribution rates have ranged from 16% - 30%. The high variability of starting employer contribution rates is largely due to the

financial conditions at the point of conversion although academies can pay higher contribution rates as a 'standalone employer' because they have a weaker financial covenant than Wiltshire Council. This means their pension deficit recovery period will be shorter than the 20 years used for Wiltshire Council.

18. Some LGPS funds have taken as little as 7 years for this deficit recovery period as this was the maximum length of time academies funding was guaranteed for. The WPF's view is that academies are less secure than Wiltshire Council but to "treat academies equitably" as far as possible while maintaining a level of prudence to protect the WPF a starting deficit recovery position of 14 years has been used in setting their contribution rate.
19. Other factors that impact on contribution rates include the differences in membership profile.
20. Where there is a significantly large increase in contribution rates the WPF tries to mitigate the immediate impact of this by allowing academies to phase in any increases. However, academies need to be aware that this approach effectively only pushes the cost of repairing funding deficits further into the future.

### **2013 Triennial Valuation**

21. Every three years a Valuation is undertaken by the actuary to review all employers' funding levels and to reset contribution rates. The 2013 Triennial Valuation is currently being finalised and the results, which include the new employer contribution rates to come into force from April 2014 onwards will be presented to employers at a meeting on 10 October 2013, at 2.30pm at St John's Parish Conference Centre, 2 Wingfield Road, Trowbridge. All academies have been invited.
22. As financial conditions have deteriorated since 2010 the expectation is that contribution rates will significantly increase for the majority of employers although this outcome is less clear for employers that have joined the WPF since 2010. The WPF will enter discussions with academies following the above meeting in respect of any 'phasing in' of employer contribution rates to mitigate any immediate impact of significant increases.

### **Next Steps**

23. The WPF will continue to try and assist schools who have or are considering converting to academy status to make them aware of their pension's responsibilities and potential costs which can be significant.
24. The next presentation being held for academies and those considering converting is being held at St John's Parish Conference Centre, 2 Wingfield Road, Trowbridge on Monday, 21 October 2013 (10am-11:30am). Invites have been sent to all Wiltshire Schools for this event which provides more detail on the following areas:
  - Different financial arrangements applying to academies
  - Fund Valuations and contribution rates
  - Pension reporting for FRS17 purposes (accounting requirements)
  - Data requirements & employer responsibilities (e.g. ill health)
  - Employer Discretions

25. In the meantime, the WPF will maintain its current approach in respect of academies and await the outcome of the forthcoming consultation from the Government in the autumn.

**Options for consideration**

26. None applicable

**Proposal**

27. That Schools Forum is asked to note the report.

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