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Sixty second summary

Back to school: Testing times for the LGPS

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Schools may be closed for the Easter break now, but we're back to the conundrum of Academies in the LGPS. SAB are looking for Funds collectively to resolve the issues, and regulations will follow if that test is failed.

Here are the main issues, and practical solutions, to help both Funds and Academies achieve good marks and better outcomes.

The recent Scheme Advisory Board announcement[1] on Academies in the Local Government Pension Scheme has put this topic back into the LGPS timetable. The SAB announcement is clear that "***the immediate focus should be to explore the scope for resolving the identified issues within the LGPS***" as opposed to regulatory change. There is therefore a real, but short, opportunity to make progress here, and hopefully avoid yet further regulatory change.

This comes at the same time as the Government Actuary's Department request from the Fund Actuaries for extensive and detailed information: 14 questions per Fund plus 17 items of data per Academy – not a quick task given the number of academies. The four actuarial firms are working with GAD to get consistent and pragmatic approaches agreed before proceeding. In any event, this data will ideally help to shed some light, to counter the sometimes heated opinions we hear.

We still haven't had sight of the report for SAB prepared by PwC, although we'd be surprised if it contained much we haven't heard or said before. In summary, here are the main issues, and some thoughts on practical solutions which Funds could adopt: we hope such steps will be sufficient for the LGPS to "pass the test".

Issue: Academies start life with a pension deficit

Fact: Yes, as the Academy's pension liabilities and assets are carved out of their ceding Council, which itself will typically have a deficit. Academies will receive a fair attribution of deficit at outset, to leave themselves and the Council in a broadly unchanged position compared to their previous position as an LEA School. DfE/DCLG guidance explicitly acknowledges this is a necessary step. An important point is that academies leave behind the risks associated with legacy liabilities (for ex-employees) which are retained by the ceding Council.

Practical solution: Pension funding is a zero sum game: if Academies are to be given a lower deficit at outset then this requires that someone else (presumably the ceding Council) must retain a higher deficit. The current position is fair to all parties, unless additional funds are to be made available from central government.

Issue: Academies in the same Fund pay different rates.

Fact: Yes, as this reflects the membership of each Academy. This avoids cross-subsidy between Academies.

[1] News item 4th April 2017 on http://lgpsboard.org/

Practical solution: Funds may offer Academies the opportunity to pool for consistency of contributions. However, pooling on its own is not a mechanism to pay lower contributions. By definition, half of the pool participants would pay more than they would as a standalone employer. There are now a significant number of multi-academy trusts in Funds and they may pay the same contribution rate.

Issue: Different Funds set contribution rates in different ways

Fact: Yes, as Funds reflect their own investment strategy and attitudes to risk in their approach to setting contributions. An Academy's contribution rate will also reflect the funding position of its ceding Council at the time of conversion. LEA schools pay different rates as a result of the different Funds' historic experience (e.g. investment returns) and so it should not be a surprise that academies pay different rates too.

Practical solution: Proceed with caution with any potential standardisation of approach, as this generally implies there will as many losers as winners. But remember that the "losers" will at least be paying in full for the benefits earned for their own employees: the "winners" may well find in due course that artificially suppressed contributions will come back to bite them.

Issue: Academies are treated by Funds as being less secure than Councils

Fact: Funds will take different views on the guarantee offered by the Department for Education. However, most Funds have reflected the DfE guarantee in their approach to contribution rate setting. Hymans Robertson's own analysis, of the contribution rates arising from the 2016 valuation, suggests the gap between Academy and Council rates is small and closing, with many Academies actually seeing contribution rate reductions from this year.

Practical solution: Councils have tax-raising powers which should be reflected in a lower–risk rating than Academies, so perhaps no solution is required. Many Funds however already take steps to ensure consistency of approach with Academy and Councils, for example, by allowing academies to pay something close to the ceding Council's rate, offering stabilised contributions or phasing if rates are increasing.

Issue: Academies have to pay high actuarial fees

Fact: Typical LGPS actuarial fees are only around 10% of the equivalent cost in the private sector: FRS102 reports cost £00s not £000s. It is necessary to calculate the value of the transferred benefits, assets to be allocated to the academy and a contribution rate on joining, and provide accounting disclosures each year. These are necessary requirements of all employers with funded defined benefit obligations, whether in public or private sector, whether Academies or not.

Practical solution: Ensure the Fund and Academies understand why and when actuarial fees are incurred. Seek economies of scale where possible, for instance by combining accounting disclosures in the one Fund.

Issue: Academies cause an administrative burden for the Funds

Fact: Administering Authorities are experiencing an increase in administration due to the growing numbers of employers within each Fund, which is particularly driven by the academisation programme. This is sometimes compounded by reduced officer resource at the Authority due to Council cutbacks or reorganisations.

Practical solution: Offer training to employers to help them understand their administrative obligations: this will deliver benefits to the Fund officers in the form of better and more efficient engagement by the Academies. Funds may seek technological and on-line solutions to simplify and speed-up the administrative processes.

Issue: The LGPS costs more than the Teachers Scheme

Fact: Yes and no: the LGPS costs less due to the receipt of investment returns, but the Teachers Scheme Academies' contributions are less as the (unfunded) deficit is in effect met by all of us as tax-payers.

There is no easy solution: Teachers' contributions are always subject to the vagaries of future governments, whereas the LGPS cost can be derived from real visible money and data applicable to each Academy.