

## **Local Government Pension Scheme - implications of conversion to Academy status**

The aim of this document is to outline some of the considerations to be taken into account where a school is considering becoming an academy as there are pension issues to be dealt with.

Firstly, there is **no** need for an admission agreement as an Academy would still be a Scheduled body and therefore be required to offer all non-teaching staff (both existing and new staff) the right to become a member of the LGPS. There will be no need for any legal agreements to cover this matter. The Academy will however become a scheme employer in its own right and as such will need to have its own employer rate established.

The actuary will calculate a 'future service funding rate', which is the expected level of employer's contribution that is required to pay for new service as it accrues in the scheme. This will vary between Academies and will depend on the age/sex breakdown of the employees concerned. A 'past service adjustment' will then be added to the future service rate to arrive at an employer's contribution rate that is, in the view of the actuary, sufficient to ensure that the Academy returns to a 100% funding level (i.e. assets and liabilities that are exactly in line with each other) over an agreed period of time.

In July 2013 the Secretary of State for Education issued a written ministerial statement in which he offered a guarantee in respect of the LGPS deficit of any academy that ceases to exist. As a result the employer's contribution rate for new academies within the Leicestershire Fund is currently linked to the rate being paid by the former Education Authority. This is, however, subject to there being no reduction from the employer's contribution rate currently being paid by any academy. All new academies within the same Education Authority will pay the same employer's contribution rate, and for many the rate payable is below the rate that would be set on a stand-alone basis and using a 20 year deficit-spreading period. From 1<sup>st</sup> April 2017 existing academies and academy trusts will have an employer's contribution rate that is more specific to their own circumstances, but will generally maintain a broad link to the rate of the relevant Education Authority.

The Secretary of State's guarantee has various caveats to it and academies should be aware that, in the event that the Government fails to act in line with the guarantee, their deficit spreading period will be reduced to 7 years (this period being in line with most guaranteed funding periods) with almost immediate effect. This is likely to lead to a significant increase in their employer's contribution rate.

The Fund's previous actuarial valuation – based on the position at 31<sup>st</sup> March 2013, produced contribution rates for 2016-2017 that are currently being paid by academies and are as follows:

Leicestershire County Council	1/4/16 – 31/3/17	22.3%
Leicester City Council	1/4/16 – 31/3/17	21.7%
Rutland County Council	1/4/16 – 31/3/17	20.7%

The Fund's most recent actuarial valuation – based on the position at 31<sup>st</sup> March 2016, produced contribution rates for 2017-2020 that will be paid by new academies as follows:

Leicestershire County Council	1/4/17 – 31/3/18	23.3%
	1/4/18 – 31/3/19	24.3%
	1/4/19 – 31/3/20	25.3%
Leicester City Council	1/4/17 – 31/3/18	22.7%
	1/4/18 – 31/3/19	23.7%
	1/4/19 – 31/3/20	24.7%
Rutland County Council	1/4/17 – 31/3/18	21.7%
	1/4/18 – 31/3/19	22.7%
	1/4/19 – 31/3/20	23.7%

Rates payable by newly converting academies will be exactly in line with those paid by the relevant Education Authority.

When a school converts and joins an existing Multi Academy Trust (MAT) the intention is that all educational establishments within the Leicestershire Fund that are a part of the same MAT will pay the same employers' contribution rate, regardless of which Education Authority they reside in. So, for example, a City Council school joining a County-based MAT will pay the rate of that the other parts of that MAT are paying. Rather than try to explain all of the possible variants within this note it is better to explain based on the circumstances that are relevant to the particular case, as-and-when conversion is likely.

In addition the Academy will also need to be aware that they will be responsible for any pension costs that arise as a consequence of any actions that they may take (redundancy for a member over age 55 as an example) or circumstances outside of their control that may carry a substantial cost (tier 1 or 2 ill health retirement as an example).

On that point it would be worth considering the option of the ill health insurance offered through Legal and General which we have set up for scheme employers (once again this is optional, but recommended). This would be dealt with through the Fund Actuary and full information will be provided to you as you convert.

## Funding

Guidance from the Department of Education (DfE) makes it clear that Academies should inherit their share of any deficit/surplus that exists within the sub-fund of the former Local Education Authority (LEA).

In order to calculate the funding level - the ratio of assets to liabilities - of the sub-fund of the LEA, the value of all non-active (i.e. deferred and pensioner) liabilities is deducted from the value of the assets. The remaining assets are then divided by the value of active liabilities to arrive at the funding level of active members.

It is these active members who will be transferred to the Academy, which will become a new employer within the scheme. The Fund's actuary will calculate the value of the liability of these specific members, and hence it is possible to allocate the correct proportion of assets across to the Academy – this is an important calculation as it produces the 'starting position' for the Academy on which future employer's contribution rates will be based. For example, an Academy where the funding level of active members for the LEA has been calculated as 76% and the value of liabilities for the LGPS members employed by the Academy is £1m will be allocated £760,000 of assets.

Therefore upon conversion to an academy, the Leicestershire County Council Pension Fund will instruct the fund actuary to calculate for each converting school the opening funding position. As the pension fund is currently in deficit, this will be a deficit position. LCC will then need to forward this to the Fund Actuary.

There will be a cost to carry out this work and this will be passed onto the individual school, the expected cost is around £2,500 plus VAT. The results will be available to the academy approximately 6-8 weeks following the receipt of this membership information.

If your payroll is not an agency of Leicestershire County Council, then full data (on a spreadsheet) will be required at the time of conversion by LCC pensions office in relation to the non-teaching Local Government Pension Scheme members at the school or college, such as name, national insurance number, current pay, current hours worked etc.

#### Administration issues

As an academy and consequently a scheme employer it will have to decide its own particular discretions on what it would do in certain circumstances. It may adopt the same discretions as the current employing authority but it doesn't have to. The academy will also need to be aware of the need to provide information to the Leicestershire County Council Pensions Section, regarding starters, leavers, changes in circumstances as they arise etc. It will also need to ensure the payment of pension contributions on a monthly basis, through their chosen payroll provider.

Full guidance on all processes involved in being a scheme employer will be sent through to the school prior to the conversion date.

If the school is taking their payroll function away from the respective local authority, then you need to be aware of the increased role and responsibilities that you will take on as a result of this. Until now, the local authority will have carried out work in respect of provision of data to the pension section on your behalf. The new school will take on this responsibility and will deal direct with the pension section. The pension section does not liaise directly with third party payrolls. A full guide on managing a pension payroll will also be issued.

#### Multi Academy trusts and Subsidiary Companies

It is important that the Pension Section are made aware when you make contact with them, if the Academy is to be part of a multi academy trust, or is thinking of setting up a subsidiary company, as this will make a difference to the data that is required from you and your other partners, and the actuarial cost will be higher than that quoted above. Please therefore bring this to our attention at an early stage in this progress.

## TUPE and academies – a note for the future

Academies should be aware that the processes around the TUPE transfer of staff from the academy to a contractor are complex and usually incur a meaningful actuarial cost. Therefore early contact with the Pensions Office to discuss your proposals must be a priority as the transfer cannot take place until certain legal and funding requirements are in place.

Please do not hesitate to contact [carol.haywood@leics.gov.uk](mailto:carol.haywood@leics.gov.uk) for further information about converting to an academy and becoming an independent scheme employer.

Updated December 2016