

# Scheme Advisory Board

**Meeting of the Board 27<sup>th</sup> June 2018**

**ITEM 4 Paper B**

## **Academies Project**

### **Background**

1.1 At its meeting in November 2017, the Board agreed to establish two working groups, one on administration and the other on funding, to take forward the Board's agreed project plan.

1.2 Both working groups have met three times in 2018. At its first meeting, the administration working group agreed to establish a sub-group to examine the scope for introducing a single monthly data extract.

### **Administration working group**

1.3 The working group together with the sub-group has met on three occasions in 2018. The work of the group is focussed on 4 key areas :-

- More consistency in pensions administration
- More effective communication
- Improved training at local, regional and national level, and
- Clarifying the duties and responsibilities of stakeholders

1.4 When it met in January 2018, the group agreed that the major obstacle to improving pensions administration within the academy sector is inconsistency in the data extracts required by different administering authorities bearing in mind that academies within an individual MAT often straddles over a number of individual authorities. Further problems were identified with the multiplicity of payroll providers with varying levels of capacity and effectiveness and the limitations associated with annual data reconciliations.

1.5 The group therefore agreed to invite Colin Lewis from Aquila Heywood to the meeting in March 2018 to outline the i-connect facility which is used by a number of academy and other scheme employers as an employer portal. It was agreed

that a sub-group should be established to formulate a draft monthly single data extract based on the 54 data items included in the i-connect package. The sub-group met in May 2018 and agreed the draft data extract shown at Annex A.

1.6 Introducing a universal monthly data extract will both introduce greater levels of consistency in pensions administration and data collection and free up valuable resources by significantly reducing the time spent on end of year data reconciliations. It would also pave the way to create a “kite mark” for pensions payroll providers to ensure that they are capable of providing the payroll data required by the universal data extract. Another key component of the proposal would be the introduction of a standard employer portal that would act as a buffer and filter between scheme employers and administering authorities.

1.7 The working group is fully aware of the degree of change that the introduction of a universal monthly data extract would entail for payroll providers, scheme employers, software providers, administering authorities and their pensions administration systems. However, there is a clear consensus within the group that the move to a universal monthly data extract, coupled with a standard employer portal, would, despite the changes involved, significantly increase the effectiveness of pensions administration within the academies sector.

1.8. At this stage, the Board needs to be aware that a proposal of this scope and potential advantage has a clear application beyond just the academy sector and that any final recommendations made by the working group will need to be considered by the Board in the context of the scheme as a whole.

**Recommendation – that the Board notes the work of the administration working group to date and approves the continuation of the sub-groups work to formulate a universal monthly data extract for future consultation with key stakeholders.**

### **Funding working group**

2.1 The funding working group is exploring proposals to standardise conversion methodologies, move to single future service rates within each LGPS fund and to better enable MATS to consolidate their schools in one LGPS fund.

2.2 The proposal to standardise conversion methodologies arises from a variety of approaches adopted by local fund actuaries including share of fund; consistency with local authority and active cover and the academy sector’s need for more fairness and consistency in the way that conversions are conducted.

The four actuarial firms were asked by the working group to consider and agree a common approach to conversion.

2.3 When the group met in January 2018, John Dignan (GAD/DfE) explained that at the 2016 valuation the academy sector paid on average a 21% employer contribution rate (primary + secondary) compared to 23% for local authority employers. Funding levels for both sectors were 73% and 84% respectively. On deficit recovery periods, academies were treated broadly similar to local authority employers.

2.4 GAD went on to explain that with a single, uniform contribution rate of 21%, there would be 2,300 winners and 2,600 losers with the net effect being a loss to the scheme of £47 million.

2.5 The group has since met on 14<sup>th</sup> March and 24<sup>th</sup> May with a further actuarial meeting on 11<sup>th</sup> June. The group considered options for achieving the following objectives;

- Ring-fence the liabilities of academies from other fund employers and vice versa
- Minimise the impact on assets and cash-flows of each LGPS fund
- Achieve a common future service rate for academies
- Achieve over time a common deficit contribution rate for academies
- Standardise the conversion methodology for academies

2.6 An option to achieve these objectives from the group is to be discussed at the meeting of the DfE academy working group on 20<sup>th</sup> June. The outline of that option is;

- The creation of ring-fenced pools within each English LGPS fund for new academies with a single methodology on conversion
- For existing academies to be transitioned into the pool and onto the pool rate over an appropriate period of time
- For MATs will be able to consolidate their schools into a single pool but to minimise movement of MATS across funds once they are consolidated
- DfE guarantee to be adapted to 'stand behind' pools (methodology to be agreed)

2.7 It is important to note that the above does not meet the DfE primary aim of a common academy rate across funds and therefore they may wish to consider if the benefit of moving to a common rate within funds is something they wish to pursue.

2.8 Feedback from the DfE working group will be provided at the Board meeting

**Recommendation – that the Board notes the work of the funding working group to date and agrees that subject to the feedback from DfE continues to develop the option outlined in paragraph 2.7 above.**