

# Sixty second summary

Significant Education sector updates



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We examine the LGPS implications of significant recent announcements and emerging news from the Education sector.

## Further Education (FE) sector

### ONS Classification Review

The Office for National Statistics (ONS) is the body responsible for classifying all institutional sectors and their financial transactions into the relevant section of the UK National Accounts.

ONS [announced](#) on 31 May that they will review the sector classification of Further Education Corporations, Sixth Form College Corporations and Designated Institutions in England. Since 2012, in England, these bodies have been classified as part of the private sector. The “Skills for Jobs” White Paper and resulting legislation (Skills and Post-16 Education Act 2022) appear to be the catalyst for the review. The review is expected to be completed between July to September 2022.

A reclassification has potentially significant implications for the LGPS. With the current classification and no central government guarantee, there is a high risk of a poor outcome for LGPS funds if an FE body becomes insolvent. This poorer covenant results in a more prudent funding approach and higher contributions for many FE bodies than academies or councils. We understand from our discussions with the Education & Skills Funding Agency (ESFA) that one of their options if FE bodies are reclassified is to consider the value-for-money case of providing a guarantee to FE sector bodies, similar to the guarantee already provided to academies.

### GAD report on FE participation in the LGPS

GAD have been commissioned to carry out a review of FE participation in the LGPS to enable DfE to consider a range of potential options should the sector be reclassified. GAD has been asked to complete their report ahead of the ONS decision. We understand GAD will be engaging with actuaries and funds as part of the process.

### 2022 valuation

All parties reiterate there are no expectations that reclassification is the likely outcome but it's positive that exploratory work is being completed concurrently. Nonetheless the timeline of the reclassification and subsequent review makes it challenging for funds to consider any significant covenant changes as part of the 2022 valuations. The regulatory flexibilities to revise employer contributions between valuations could be used beyond April 2023 but there are efficiencies in carrying out the work alongside the valuation.

We continue to support funds to engage early with FE bodies to better understand individual circumstances, to manage risk and to set appropriate funding plans. We recommend preparing contribution plans under both review outcome scenarios, to enable well-informed discussions and avoid rushed engagement, decisions and Funding Strategy Statement updates late in the financial year.

## Higher Education (HE) sector

We understand that the ONS has been reviewing Universities for some time, but this has been focused on whether they will remain classified as a 'non-profit institution serving households', or changed to 'private non-financial corporations', both of which are non-public sector. However, the ONS forward plan suggests that they are now going to undertake a full UK review of HE sector classification in January to March 2023. The ESFA have confirmed that Universities will not be included in the GAD review.

## Academies

### Guarantee review

The 2013 DfE LGPS guarantee for academies provided the clarity needed around what support central government would provide if an academy failed. This allowed LGPS funds to review academy funding strategy and brought contributions more into line with the levels paid by local authority schools. While there was some initial concern about the annual limits within the guarantee, it has only infrequently been called upon. In cases where it was needed, payment has been relatively smooth. Nonetheless, we understand a Parliamentary Minute will shortly be laid confirming the continuation of the guarantee with an increased annual limit of £20m.

### Outsourced contracts – approval process and DfE guarantee

Academies can outsource a service to a contractor which then becomes an admission body in the LGPS, commonly using a pass-through agreement to share the funding risks. Before entering into the agreement the academy must seek approval from the ESFA. However, approval has often not been sought before admission was granted. ESFA have recommended that funds ask academies for confirmation of approval before progressing an admission.

Additionally, the current DfE guarantee doesn't apply to outsourcing arrangements involving employees transferred prior to academisation or where academy trusts decide to outsource services currently being provided by the Local Authority. Again, this cuts across what's been happening in practice. ESFA will notify LGPS funds once they have completed their review. We understand they will also address the issue of backdating for arrangements currently in place.

### Education reform White paper

We examined the LGPS implications of the education reform in our [recent 60 second summary](#). From our latest discussions with ESFA, extensive activity isn't expected in the short term. There is a natural brake on activity due to current DfE pipeline capacity issues and the systematic process for an academy to convert or move to another MAT. We understand early attention and financial support will be focussed on the Educational Improvement Areas announced in the "*Levelling Up the United Kingdom White Paper*".

### 2022 Valuations

We understand DfE's expectation is for academy schools to be treated the same as locally maintained schools for funding purposes as part of the 2022 valuations. Where this is not the case, funds should be ready to explain why.

## Actions

As Education sector employers form a significant and growing proportion of LGPS liabilities, it's important to have a good understanding of the challenges and risks impacting the sector. The recent news and announcements impact the LGPS and require careful consideration and actions as part of the 2022 valuations. Your Fund Actuary will be in contact shortly to discuss further.

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