BARNETT WADDINGHAM
beyond the expected

Briefing

Consolidation of academies

The pros and cons for funds and MATs

RISK | PENSIONS | INVESTMENT | INSURANCE

Since the 2010 Academies Act, we have seen many schools break away from local authority control and become independent academies. There are now over 9,000 academies and many have effectively got together and set up multi academy trusts (MATs).

A number of these MATs have dozens of schools under their trust, sometimes spread far and wide across England. Through our appointment at one LGPS fund, we became involved five years ago when one sizeable MAT sought to consolidate all of their schools into one LGPS fund.

Such an action requires a number of boxes to be ticked, most notably seeking a direction order from the Secretary of State to move assets and liabilities between funds having consulted the funds themselves.

That particular attempt was unsuccessful. However, in recent weeks we know that a number of funds have been approached by at least three large MATs as they consider consolidating their schools into one fund (or maybe just fewer funds than they have to deal with at present).

We are aware of one MAT that has sent the funds they participate in a questionnaire which, amongst other things, asks if the fund would be willing to be their host fund for all their schools and, if not, whether they would have any issues if they moved their schools to another fund.

From the MAT's perspective we can see the obvious efficiencies in having to deal with only one LGPS fund for their support staff, rather than several funds. But what are the issues for the LGPS funds involved?

The purpose of this briefing note, therefore, is to set out some of the issues that administering authorities need to think about when dealing with this request from the MATs.

Stick or twist?

Although there are some reasonably large academies in LGPS funds, most academies are usually quite small employers with not that many members.

For some funds, the number of academies that are in MATs who are looking to consolidate may not be very significant and the impact on the fund of losing a few small employers might not be deemed financially material. For other funds, however, it may be more material and some of the consequences perhaps more significant.

And undoubtedly we will probably see more academies being created and more joining MATs and so this particular issue could become more significant with the passage of time.

Of course, the other issue concerns which funds would be interested in being the host fund for each MAT. We are aware of one fund that is interested but clearly there would need to be enough funds willing to be a host fund for the MATs to be able to meet their objectives.

From a financial perspective the key issues for the fund are likely to be:

- Administration
- Employer risk
- And probably the most significant one – the resulting change in the fund's liability profile and impact on cashflow and investment strategy.

Administration

The cost and efficiency of administering funds depends on many things but the number of employers is usually key. The more employers in a fund (particularly if they are quite small employers) the bigger the administration teams need to be, although in theory there will be a point when there are economies of scale to be had. Administering authorities would need to ensure they had sufficient resources to deal with an influx of academies within their MATs.

So losing academies may well reduce administration costs but may also increase unit costs. Being a host fund will mean more employers and more administration costs but may ultimately reduce unit costs. Like any business, smaller teams are usually more nimble and can usually change direction more easily.

On the other hand, a bit like oil tankers, larger teams can be more difficult to change direction albeit are more able to ride out the storms!

Employer Risk

LGPS funds are effectively "last man standing" schemes, albeit in most funds many employers are just not allowed to go bust and benefits are of course guaranteed by statute, so in theory there will always be a "last man". For academies there is the government guarantee, albeit with conditions attached and these could change or be withdrawn in the future.

The more employers there are in a fund then the more employers that could potentially fail and leave the other employers to pick up the bill. On the other hand, the bigger the fund and the employer base, the greater the number of employers to pick up the bill.

If a MAT has schools spread across many funds, if it were to fail (and assuming no bail out) then each fund would potentially suffer a small amount of pain. If a failing MAT was in just the one fund then the impact on that fund could of course be much worse.

Cashflow and investment strategy

When academies are created, their LGPS liabilities on day one are in respect of active members only. So whilst they might not inherit a huge share of a fund's liabilities, they could potentially be a much more significant proportion of a fund's pensionable payroll.

For example, for one of our "academy rich" funds, at the 2019 valuation, the academy liabilities were 8% of total liabilities. However their pensionable pay was 23% of the total. Losing 23% of their contribution income would mean having to eat about 60% of their investment income to pay benefits, thus accelerating the timescales involved in having to plan for asset sales or try and increase the income yield from their assets – either of which constrains the investment strategy and increases the risk of lower future returns and higher costs for employers.

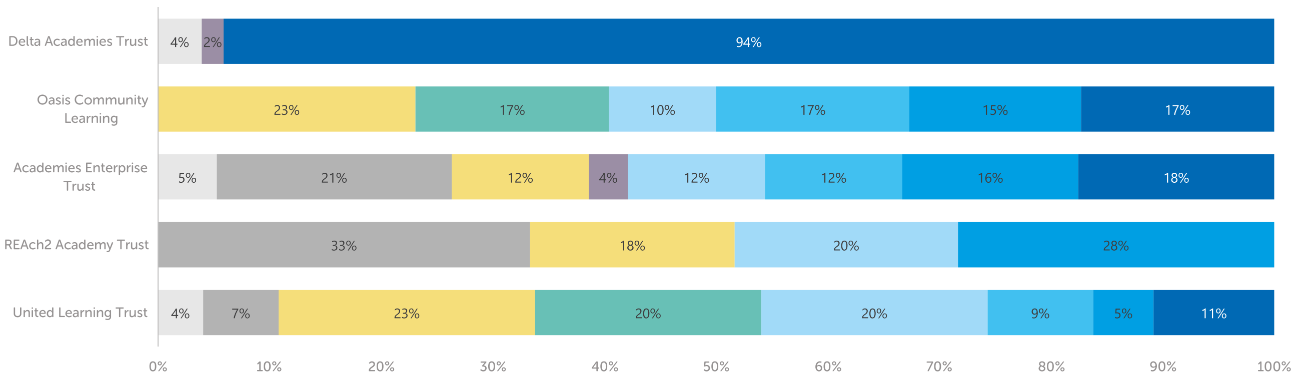
Halfway house?

Having to deal with fewer LGPS funds is clearly beneficial to MATs from an administrative point of view. But, as ever, having all your eggs in one basket does increase risks for both funds and MATs. The concept of MATs or any LGPS employers "shopping around" for a single home is not really how the LGPS works and of course not all the shops will be open for business.

The latest government data tells us there were just under 9,500 academies out of the 22,000 schools in England as at February 2021. In Ofsted's 2019/20 report they state that 84% of academies are part of one of 1,200 MATs. However over 800 MATs run six or fewer schools - 50 have over 20 schools. As at February 2021 the government data suggests the five biggest MATs were as opposite. If we analyse where these top 5 MATs have their schools then we get the following:

Top 5 MATs	Number of schools
United Learning Trust	74
REAch2 Academy Trust	60
Academies Enterprise Trust	57
Oasis Community Learning	52
Delta Academies Trust	50

TOP FIVE - GEOGRAPHICAL DISTRIBUTION



	United Learning Trust	REAch2 Academy Trust	Academies Enterprise Trust	Oasis Community Learning	Delta Academies Trust
East Midlands	4%		5%		4%
East of England	7%	33%	21%		
London	23%	18%	12%	23%	
North East			4%		2%
North West	20%			17%	
South East	20%	20%	12%	10%	
South West	9%		12%	17%	
West Midlands	5%	28%	16%	15%	
Yorkshire and the Humber	11%		18%	17%	94%

As we see, United Learning Trust, Academies Enterprise Trust and Oasis Community Learning are quite well spread across England with the other two in only three or four of the nine regions, with Delta having almost all their schools in the Yorkshire and the Humber region.

So, for some of the larger MATs, a compromise might be to hoover up the smaller groups of academies in the other funds into the ones where they are primarily based. It might therefore make more sense to allow a bit of rationalisation and tidying up rather than a full-scale migration to one fund.

In summary, as is often the case, there are pros and cons of consolidation for both funds and the MATs. The optimal solution will depend on the specific circumstances, the size and maturity of the relevant funds, the resources available and attitude to risk at each fund. Given the increase in activity in this area, it would be useful for each fund to consider their position and policy criteria.

We'd be happy to discuss the way forward for your fund with you and undertake any analysis you may find helpful.

Please contact your Barnett Waddingham consultant if you would like to discuss any of the above topics in more detail. Alternatively get in touch via the following:

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