



Department
for Education

Funding increases to teachers' pensions employer contributions

Government consultation response

April 2019

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Introduction

On 15 January 2019, the Department for Education launched a consultation on the proposal to support certain education institutions with the increase in employer contributions to the Teachers' Pension Scheme (TPS) in Financial Year (FY) 2019-20.¹

These changes affect the following sectors: state-funded schools; Further Education (FE); Higher Education (HE); and Independent Schools.

This document forms the Government's response to this consultation. It is split into four sections:

Section 1 explains the Department's proposal.

Section 2 summarises the respondent type.

Section 3 summarises the responses, by question, followed by the Department's response.

Section 4 sets out next steps.

¹ The Department has agreed that the employer contribution rate for the current valuation will be implemented from 1 September 2019, requiring an employer contribution rate of 23.6% from 1 September 2019 to 31 March 2023.

1. The Department for Education's proposal

In response to increasing employer contribution costs for the Teachers' Pension Scheme from FY 2019-20, the Department for Education proposed to provide funding to state-funded schools and Further Education institutions, as defined below, as these institutions are most directly funded by Government grant(s). The Department also proposed that Independent Schools and Universities (and other organisations providing HE) obliged to offer TPS would not receive funding.

State-funded Schools – £830m extra funding proposed

The Department proposed providing £830m to fund the increase to employer contributions in FY 2019-20 for the following types of school:

- Mainstream and special maintained schools
- Mainstream and special academies (including Alternative Provision, 16-19 academies and free schools)²
- Maintained Nursery Schools
- Non-maintained special schools
- Independent Special Schools
- Local Authority Centrally Employed Teachers
- Music Education Hubs

FE colleges and other public-funded training organisations – £80m extra funding proposed

The Department proposed providing £80m to cover the costs of increased employer contributions in FY 2019-20² for FE colleges and other public-funded training organisations, to include the following:

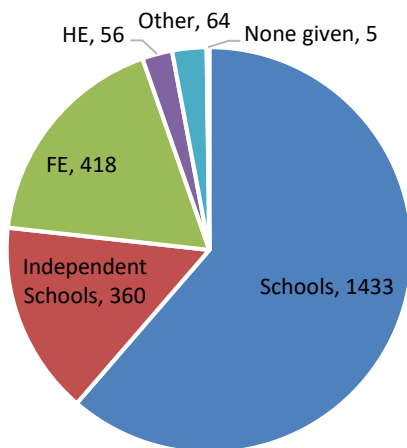
² For academies and colleges that are funded on an Academic Year basis, this means through to August 2020.

- Further Education Colleges
- Sixth Form Colleges
- Designated Institutions (including the new designated institutions that form part of HE provider group structures)
- Specialist Post-16 Institutions
- Adult & Community Learning Providers

2. Respondents by sector and role

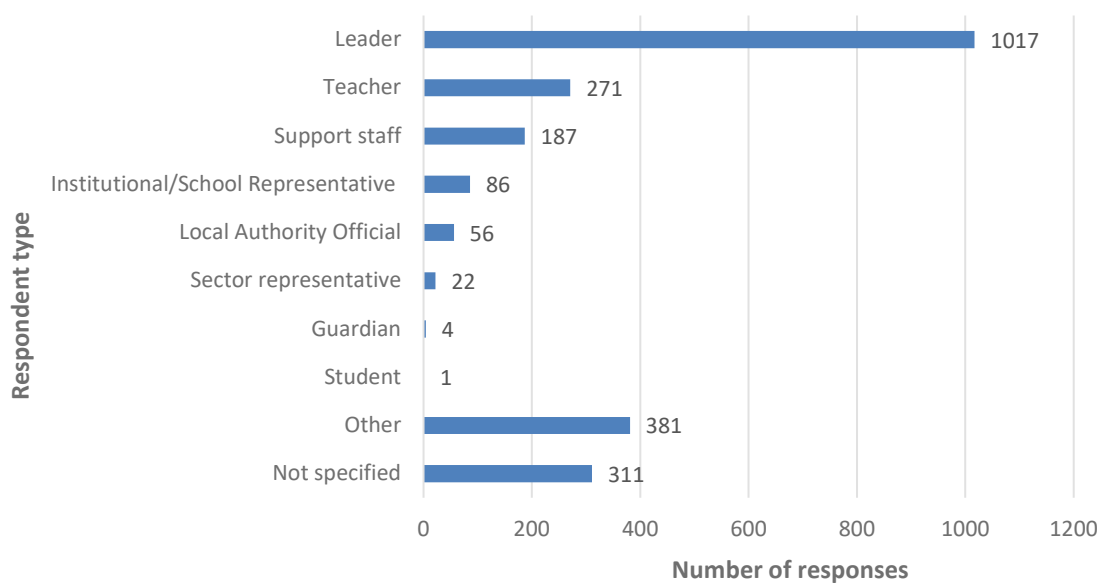
The Department received 2,336 responses, of which 2,316 were made online, 18 via email and two via post. Figure 1 shows how responses were distributed by sector.

Figure 1: Number of responses by sector



Individuals completing the consultation were asked to identify their roles in the sector. Figure 2 shows that the largest group of respondents classed themselves as leaders, accounting for almost half of all responses. The consultation elicited responses from those carrying out a range of roles.

Figure 2: Number of responses by respondent type



3. Summary of responses received and Government response

Question 1 - 'Do you agree with the proposal to fund schools³ for these increased costs?'

Summary of responses

Respondents were in broad agreement with the Department's proposal to support schools with the costs associated with increased employer contributions to the TPS.

Table 1: Respondents' support for the proposal

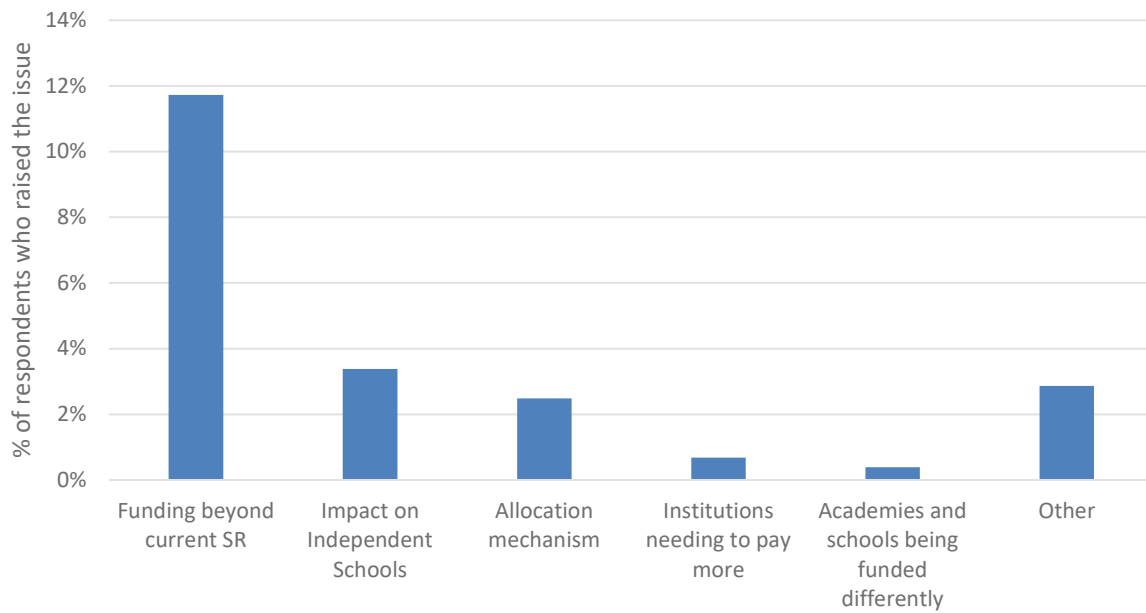
Do you agree with the proposal to fund schools for these increased costs?	Total	Percent
Agreed	1962	84%
Disagreed	165	7%
Neither agreed or disagreed	76	3%
Not answered	133	6%
Total	2336	100%

³ Mainstream and special maintained schools, Mainstream and special academies (including Alternative Provision, 16-19 academies and free schools), Maintained Nursery Schools, Non-maintained special schools, Independent Special Schools, Local Authority Centrally Employed Teachers, Music Education Hubs

Table 2: Breakdown of support for the proposal by sector

Sector	Agreed		Disagreed		Neither agreed or disagreed		Not answered	
	Total	Percent	Total	Percent	Total	Percent	Total	Percent
Schools	1367	95%	39	3%	16	1%	11	1%
Independent Schools	135	38%	110	31%	48	13%	67	19%
FE	354	85%	13	3%	10	2%	41	10%
HE	46	82%	2	4%	1	2%	7	13%
Other	59	92%	1	2%	1	2%	3	5%
Not answered	1	20%	0	0%	0	0%	4	80%
Total	1962		165		76		133	

Figure 3: Issues raised in Question 1



In addition to indicating support for the proposal, respondents were able to provide further information on their position. Figure 3 shows the issues respondents raised in their answers to Question 1.

Funding beyond the current Spending Review is clearly an important issue, being raised by **274** respondents. As is standard Government practice, future funding decisions will be taken as part of the next Spending Review process.

79 respondents raised the impact on Independent Schools. This will be considered in Question 3.

58 respondents commented on the mechanism used to allocate funding. Although allocation mechanisms did not form part of this consultation, we understand this is an important issue for institutions and have therefore held discussions separately with stakeholders.

16 respondents referred to increased contributions for schools in 2019-20 as an issue. Our proposal is to fund schools for these increased contributions and address these concerns.

9 respondents posed questions around academies and other schools being funded on a different basis. Academies receive funding on an Academic Year basis, and will therefore receive funding to August 2020. Non-academy state-funded schools receive funding on a Financial Year basis, and will therefore receive funding to March 2020. As is standard Government practice, future funding decisions will be taken as part of the next Spending Review process.

67 respondents cited other issues including: from where the extra funding would come; the future of unfunded public sector pension schemes; funding for Wales; and the length of

time from the announcement of the increased employer contributions (September 2018) to the implementation date in September 2019.

Government response

Government will fund schools (as defined in Section 1) for these increased costs in FY 2019-20. This decision is based on i) the strongly positive response to this element of our proposal, with 84% of respondents in agreement and ii) this is consistent with the Department's proposal to support institutions most directly funded by Government grant.

Question 2 – ‘Do you agree with the proposal to fund FE colleges and other public-funded training organisations for these increased costs?’

Summary of responses

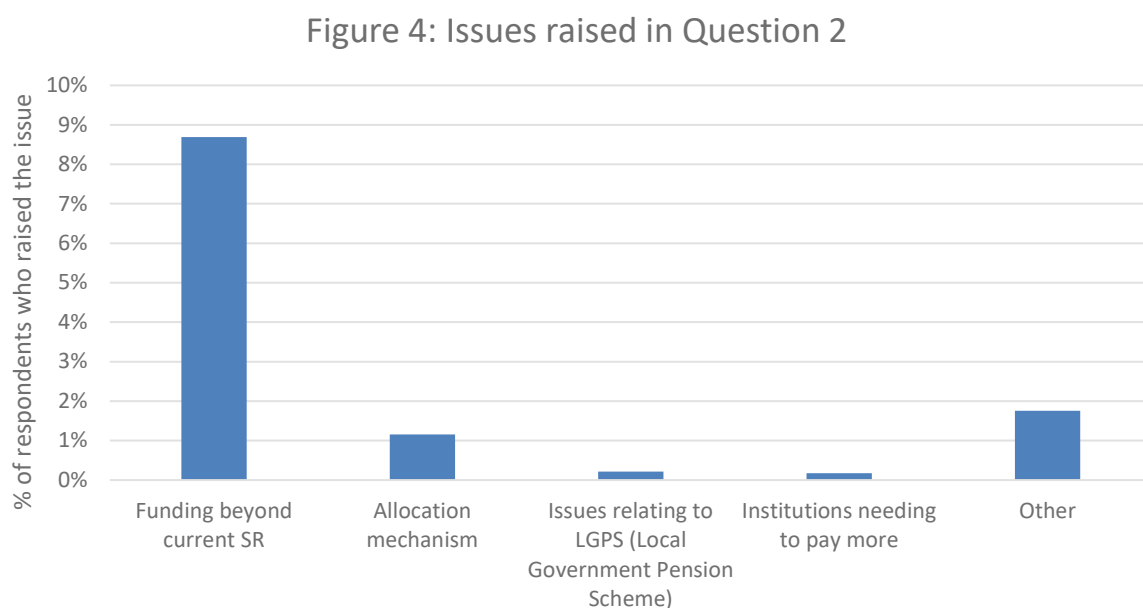
Table 3: Respondents’ support for the proposal

Do you agree with the proposal to fund FE colleges and other public-funded training organisations for these increased costs?	Total	Percent
Agreed	1911	82%
Disagreed	128	5%
Neither agreed or disagreed	78	3%
Not answered	219	9%
Total	2336	100%

Table 4: Breakdown of support for the proposal by sector

Sector	Agreed		Disagreed		Neither agreed or disagreed		Not answered	
	Total	Percent	Total	Percent	Total	Percent	Total	Percent
Schools	1251	87%	41	3%	31	2%	110	8%
Independent Schools	154	43%	74	21%	44	12%	88	24%
FE	405	97%	10	2%	0	0%	3	1%
HE	46	82%	2	4%	2	4%	6	11%
Other	55	86%	1	2%	1	2%	7	11%
Not answered	0	0%	0	0%	0	0%	5	100%
Total	1911		128		78		219	

Figure 4 shows the wider issues raised by respondents in answers to Question 2.



Funding beyond the current Spending Review is clearly a concern for FE colleges and other public-funded training organisations, raised by **203** respondents. As is standard Government practice, future funding decisions will be taken as part of the next Spending Review process.

27 respondents commented on the mechanism used to allocate funding. Although allocation mechanisms did not form part of this consultation, we understand this is an important issue for institutions and have therefore held discussions separately with stakeholders.

5 respondents expressed views relating to the Local Government Pension Scheme (LGPS).

4 respondents raised increased contributions for FE colleges and other public-funded training organisations in 2019-20 as an issue. Our proposal is to fund FE colleges and other public-funded training organisations for these increased contributions.

41 respondents cited other issues including: long-term viability of TPS; the scale of the increase; and source of the funding.

Government response

Government will fund FE colleges and other public-funded training organisation in FY 2019-20. This decision is based on: i) the strongly positive response to this element of our proposal, with 82% of respondents in agreement and ii) this is consistent with the Department’s proposal to support institutions most directly funded by Government grant.

Question 3 – ‘Please provide any additional evidence relating to the impact on all sectors, which you think the Department should consider when considering these proposals.’

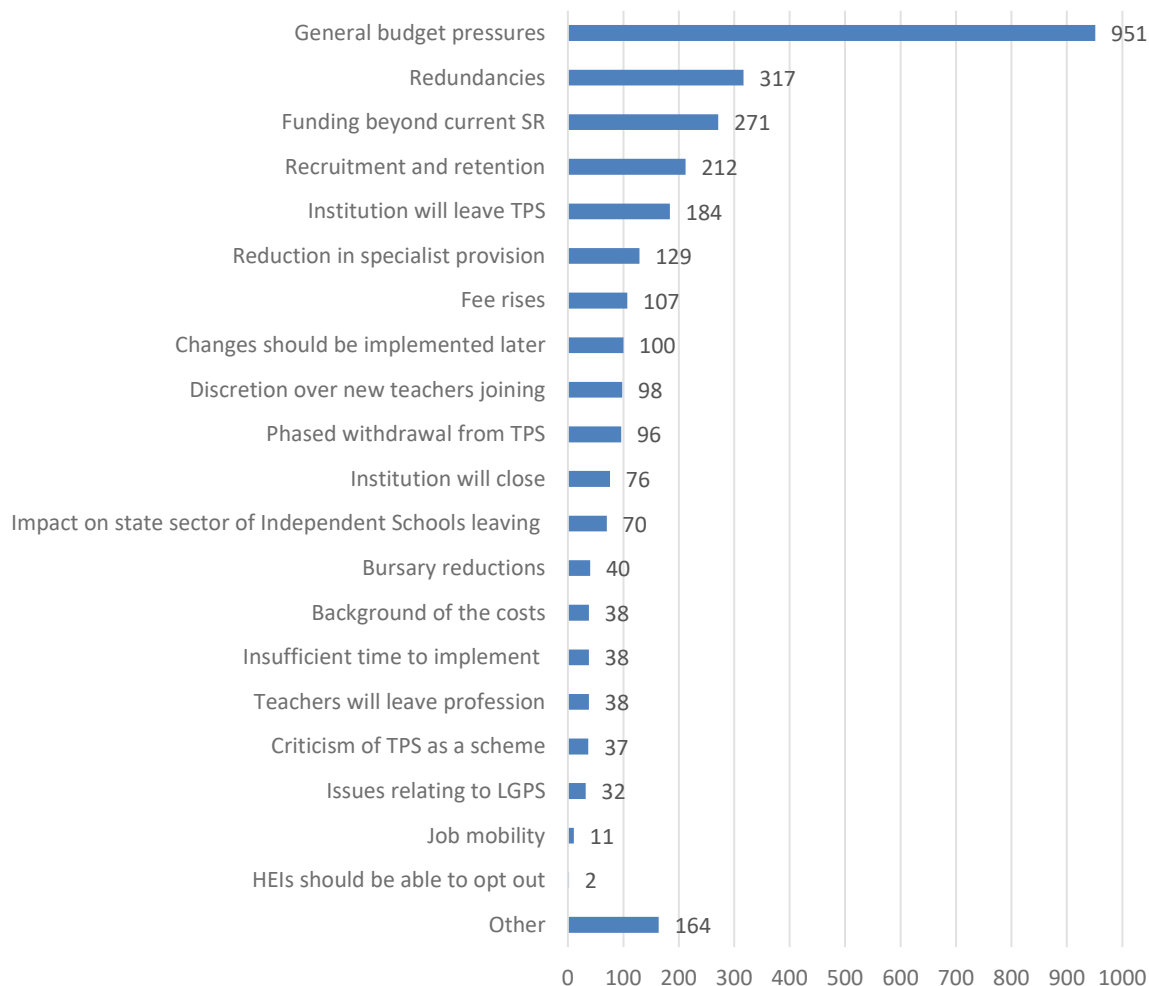
Table 5 shows that Question 3 engaged all parts of the education sector. In particular, 93% of Independent School respondents and 96% of HE respondents answered this question.

Table 5: Response rate by sector for Question 3

Sector	Answered		Not Answered	
	Total	Percent	Total	Percent
Schools	901	63%	532	37%
Independent Schools	334	93%	26	7%
FE	295	71%	123	29%
HE	54	96%	2	4%
Other	48	75%	16	25%
Not given	1	20%	4	80%
Total	1633		703	

Figure 5 lists the themes that emerged from the responses. As this was a more open question, a higher volume and wider range of issues were raised compared to Questions 1 and 2.

Figure 5: Response themes



General budgetary pressures was the biggest issue raised, by a significant margin, forming part of **951 out of 1,633 (58%)** responses.

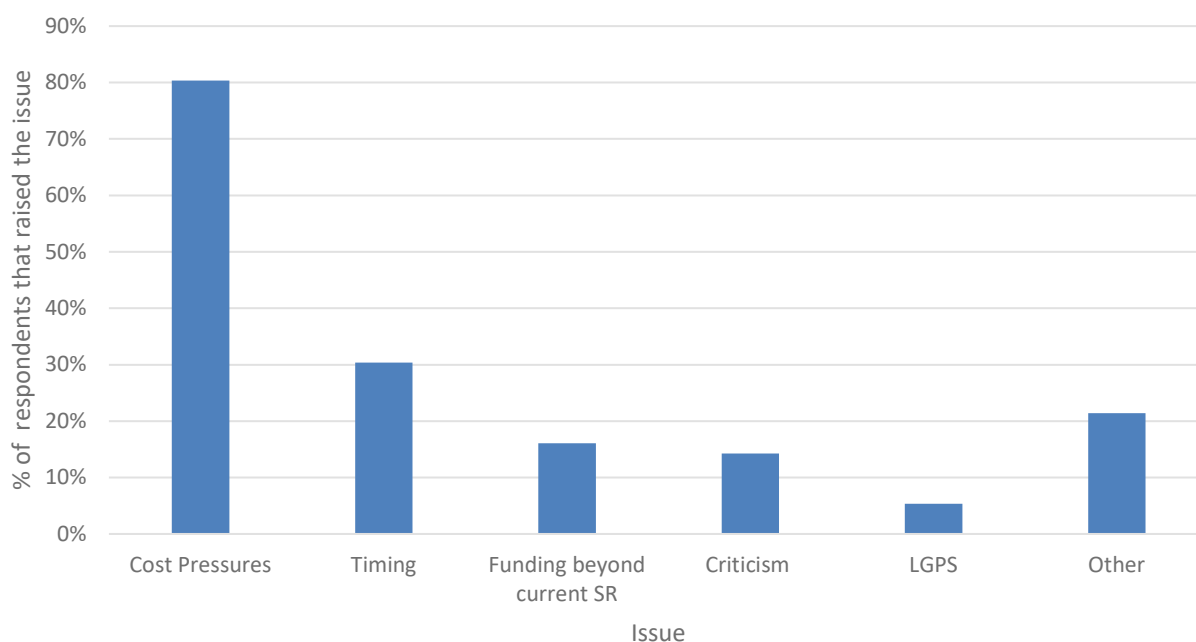
Respondents also listed the impacts this might have on the running of their institution, with the following issues the most frequently discussed: potential redundancies (**317**); recruitment and retention of teachers (**212**); and a reduction in specialist provision (**129**).

Funding beyond the current Spending Review is clearly an important issue, with **271** respondents raising it. As is standard Government practice, future funding decisions will be taken as part of the next Spending Review process.

184 respondents raised institutions potentially leaving the scheme. This will be discussed in more depth at the end of this section.

Response from Universities (and other organisations providing HE) obliged to offer TPS

Figure 6: Type of issue cited by HE sector respondents



45 respondents (80%) raised concerns about existing budgetary pressures caused by factors such as demographic changes and the tuition fee cap.

17 respondents cited concerns about timing, typically either i) time from the announcement of the increased employer contributions to their implementation in September 2019 or ii) that changes should be implemented at a later date.

9 respondents raised funding beyond 2019-20. As is standard Government practice, future funding decisions will be taken as part of the next Spending Review process.

8 respondents criticised the nature and reasoning for the cost increase or the structure and long-term viability of the scheme.

3 respondents raised issues around the Local Government Pension Scheme (LGPS), particularly the combined impact of the increase to TPS and LGPS on provider sustainability.

12 respondents cited other issues including: long-term viability of TPS; the scale of the increase; the Augar review (the Government's Review of Post-18 Education and Funding); and the source of the funding.

The following is a breakdown of the number of HE respondents who raised the need for funding to be targeted to their sector.

Funding HE, from HE respondents	Number of responses	%
Fund HE	44	79%
Do not fund HE	0	0%
Not raised	12	21%
Total	56	100%

The Department notes that 79% of HE respondents believe Universities (and other organisations providing HE) obliged to offer TPS should be funded for the increase to employer contributions to TPS, and considered this when making its final decision.

Sample of responses from HE sector representatives

The Department received the fewest responses (50) from Universities (and other organisations providing HE) obliged to offer TPS. However, this represents a 63% response rate, as there are only 79 institutions that fall within this description. The remaining six responses for Higher Education were comprised of five sector representatives and one former member of staff.

The Department is grateful to the following sector bodies for their long-form, detailed responses to the consultation: University Alliance, MillionPlus, GuildHE, UCEA (Universities and Colleges Employers Association).

The following extracts reflect a representative sample of the themes raised by respondents relating to the increase in employer contributions to the TPS.

University Alliance said that, *‘Many institutions in the higher education sector had been planning their 2019/20 budget to include a two percentage point rise in employer contributions to the Teachers’ Pension Scheme in England and Wales, previously announced in Budget 2016.’*

They also stated that their members have limited tools at their disposal for meeting new costs aside from cutting existing services and diverting funds. They argued that if the changes do go ahead, remedial funding should, at least on a transitional basis, be provided to universities on the same basis as for schools and colleges.

UCEA produced a detailed response to which other organisations often referred. They opened by stating that, *‘Universities have for many years been operating in a financially challenging environment surrounded by great uncertainty.’* They described a range of pressures that these institutions face, highlighting that post-92 universities tend to have a higher dependency on tuition fees than the pre-92 universities and less ability to generate additional income.

UCEA also noted that post-92 universities generally have lower levels of reserves and assets than older pre-92 universities, so substantial cuts to their budgets will require redirecting funds away from student services and investment plans. Staff costs represent on average 55% of institution expenditure (2016/17) so unforeseen additional spending, particularly where it increases staff costs directly as with the increase in pension contributions, tends to leave institutions little choice but to respond through reductions in headcount in order to meet the additional cost.

Finally, UCEA referred to several institutions that are currently addressing significant financial sustainability challenges with visible activity to review and reduce workforce numbers. Based on the most recent HESA data from 2016/17, unless universities take significant steps to manage these increases in TPS costs the result will be a doubling of the number of universities in deficit.

Government response

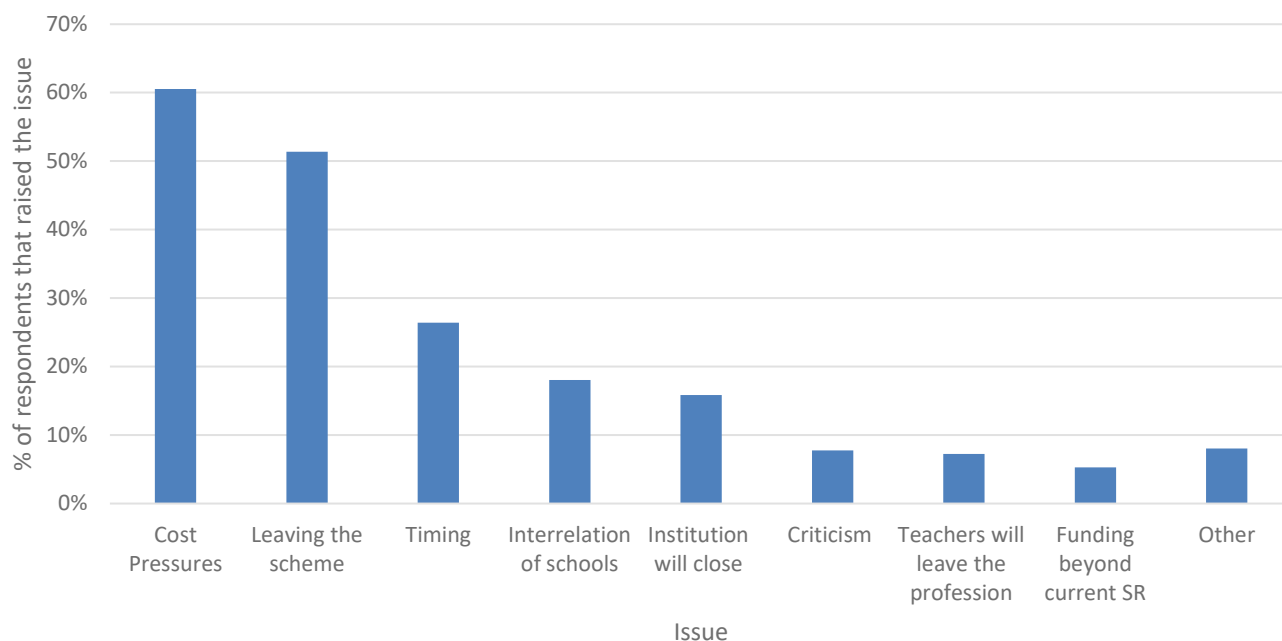
The Department has carefully considered the response from the HE sector and noted the additional cost pressures for affected institutions at a time when the sector is facing a number of issues and risks. However, the Department has decisions to make regarding the allocation of available funding across the Education sector. The Department conducted initial analysis on each sector, which suggested that state schools and further education colleges were in high levels of need for additional support. Therefore, the Department has concluded that, while the judgement is finely balanced, the evidence presented by respondents does not sufficiently justify a change in approach.

The Department will therefore not fund Universities (and other organisations providing HE) obliged to offer TPS at this stage, or take any mitigating actions against the risks identified in the consultation.

Response from Independent Schools

Figure 7 details the issues raised by Independent Sector respondents in Question 3.

Figure 7: Type of issue cited by Independent Sector respondents



218 respondents cited wider cost pressures, such as fee rises and the long-term affordability of Teachers' Pension Scheme membership.

95 respondents cited timing, typically either i) time from the announcement of the increased employer contributions to their implementation in September 2019 or ii) that changes should be implemented at a later date.

Some respondents cited the likelihood of schools leaving the scheme, or teachers leaving their schools: **185** indicated leaving the scheme via some route; **65** respondents cited the potential impact on the state sector of i) schools closing and ii) job mobility between sectors; **57** stated their institution could close as a result of the increased costs.

Some responses looked at the likelihood of schools leaving the scheme, or teachers leaving their schools: **26** raised the possibility that teachers may leave the profession if their school opted out of the scheme.

29 respondents cited other issues including: long-term viability of TPS; the scale of the increase; and the source of the funding.

28 respondents criticised the nature and reasoning for the cost increase or the structure and long-term viability of the scheme.

19 respondents raised funding beyond the 2019-20 as an issue. As is standard Government process, future funding decisions will be taken as part of the next Spending Review settlement.

The following is a breakdown of the responses from the Independent Sector who expressed the need for funding to be targeted to their sector.

Funding Independent Schools, from Independent Sector respondents	Number of responses	%
Fund Independent Schools	100	28%
Do not fund Independent Schools	2	<1%
Not raised	258	72%
Total	360	100%

The Department notes that 28% of respondents from the Independent Sector believe Independent Schools should be funded for the increased employer contributions to the TPS, and considered this when making its final decision.

Government response

We note the cost pressures that the increases in employers' contributions will place on Independent Schools, as well as the desire from Independent Schools to attain greater flexibility over their status in the scheme. The Department also notes the potential effects of this change, particularly redundancies or reduction in specialist provision. As shown above, respondents' main focus was less on the Department providing funding to Independent Schools for these costs, but on Independent Schools' continued membership of the scheme.

The Department therefore confirms the funding rationale set out in the consultation document and will not fund Independent Schools at this stage. However, by way of a potential mitigation to the risks identified, the Department will begin work to consider allowing Independent Schools to leave the scheme via phased withdrawal. This potential phased withdrawal approach would enable a school to retain its current teacher members in the scheme but would close the scheme to new entrants. Therefore, a school could remain in the scheme but close the scheme to applications from teachers yet to join the school. This approach would be optional to all Independent Schools who are members of TPS. The Department accepts there is a case for this and will consult with members, employers and other stakeholders at the earliest opportunity. A statutory consultation would be required before any amendments to the scheme regulations are made.

TPS is one of the best pension schemes in the country, continuing to provide valuable retirement benefits for teachers. Teachers enjoy a defined-benefit scheme, giving them a

guaranteed, inflation-proof retirement income based on what they earn over their careers. In addition, TPS offers extensive benefits above a pension including insurance for family members, flexible retirement and ill health support.

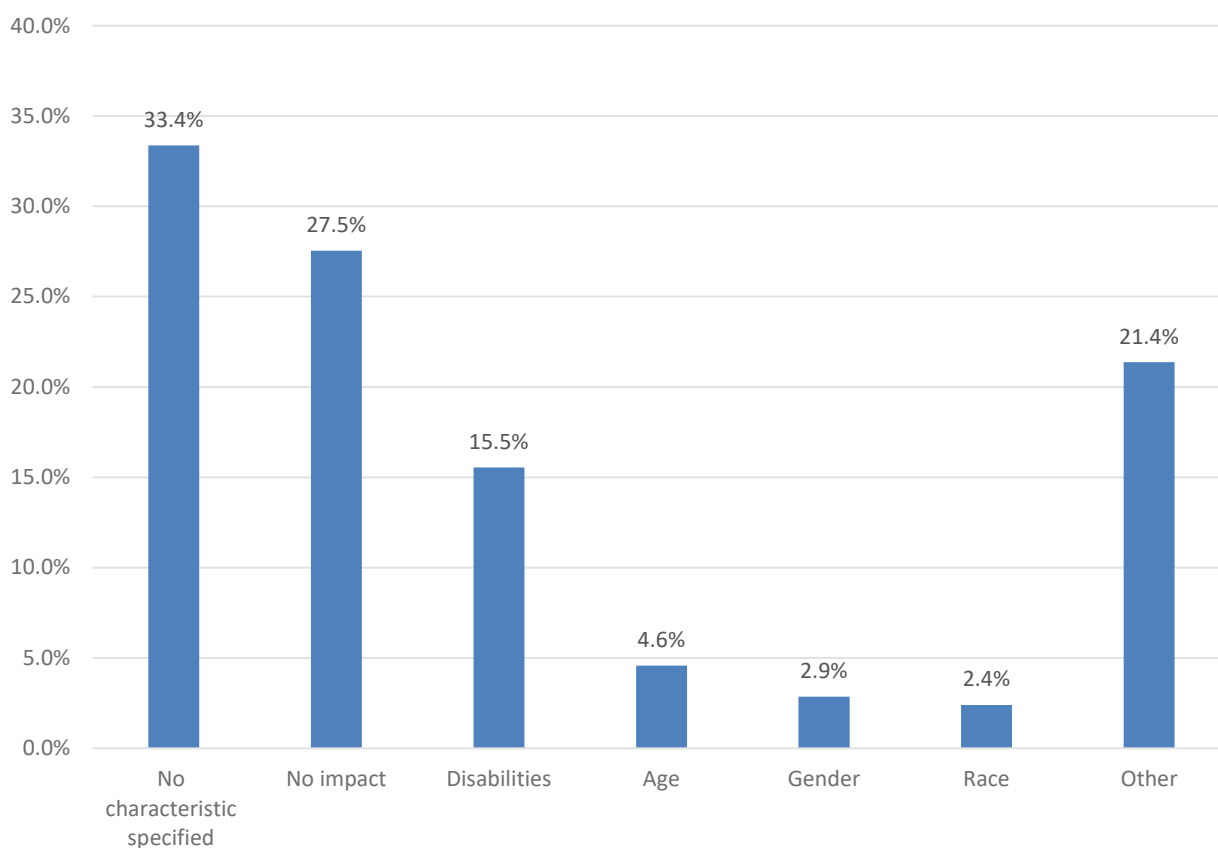
The Department aims to ensure that teachers can move freely between state and Independent School sectors and believes that continued TPS membership supports that aim.

The Department has considered Independent Schools and Universities (and other organisations providing HE) obliged to offer TPS separately from each other, due to the difference in the way they receive funding from Government. For example, Independent Schools possess greater control over their means to raise funding and have the ability to opt out of the scheme, whereas HE institutions do not. They therefore require different approaches when considering mitigations.

Question 4 – Equalities Impact

To what extent will this proposal have an impact on people with one or more protected characteristics?

Figure 8: Impact on protected characteristics



37.5% of respondents answered this question. Although the question was focused on protected characteristics, many respondents took the opportunity to express their views on the students, the workforce and the impact on other characteristics that are not classified as protected under the Equalities Act 2010.

292 respondents cited an impact but did not specify a characteristic.

241 respondents cited no impact on those with protected characteristics.

187 expressed views on other characteristics that are not classified as protected under the Equalities Act 2010, such as socio-economic disadvantage.

136 respondents cited an impact on those with a disability, with many referencing the positive impact of funding children who have Education, Health and Care Plans (EHCPs).

40 respondents cited an impact on those of a certain age. Some respondents raised the impact on those closer to retirement in the independent sector who will be less able to plan if their institution opts out of TPS.

25 respondents cited an impact on those of a certain gender, particularly as much of the teaching workforce is female.

21 respondents cited an impact on those of a certain race, given the varied proportions of BME workforce and students across different institutions.

Beyond this, the Department has conducted its own Equality Impact Assessment. This looked at the whole equalities impact. Here are some key findings.

Disability

For the workforce, if Independent Schools and HE were funded at the expense of Schools and FE, there would be a negative impact on those with a disability given the higher proportion of staff with the characteristic in Schools and FE.

For students, there will be positive impact on those with the protected characteristic of disability as **92.2%** of pupils with a statement or EHCP attend state-funded schools. A further **1.4%** are educated at non-maintained special schools and **6.3%** attend independent education institutions. The Department's proposed approach covers non-maintained special schools and Independent Special Schools. Comparatively, only **6%** of students at post-92 universities have declared a disability.

Age

There will be an effect based on a student's age, as the funding is primarily directed towards institutions that educate those under the age of 18.

Race

For the workforce, the proposal will have a negligible negative impact on race, given the higher proportion of BME workers in the HE workforce (**14%**) compared to schools (**8.6%**) and FE (**6%**).

Government response

The Department has undertaken an Equality Impact Assessment on both students and the workforce and considered this when making a final decision. **The Department determined that any negative impacts are largely marginal and are justifiable in the context of the decisions and the policy proposal.**

4. Next steps

The Department will determine the appropriate allocation mechanism for distributing funding to state-funded schools and FE and announce this in due course. We will consider funding beyond 2019-20 at the forthcoming Spending Review.

We will engage with sector bodies, including the Independent Schools Council and other government departments, on the possibility of changing the regulations of the scheme so that Independent Schools have the option to implement a phased withdrawal from the scheme.



Department
for Education

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