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Review of funding approach for Academies

Summary of consultation responses

Academies' consultation

On 9 June 2015 the Pensions Committee agreed that Academies should be consulted on a revised set of funding principles. The objective of the consultation was to ensure that the approach adopted by the Fund continues to be equitable to all employers (academies or otherwise), compliant and broadly consistent with principles adopted by other LGPS funds.

On 17 June 2015, the Chair of the Committee invited all Academies in the Fund to consider and provide any comments on the following principles:

1 **Pension deficit** – that the Academy continues to be responsible for the same amount of pension deficit after conversion as before

2 **Funding approach** - the Actuary should assess contribution rates using a risk-adjusted approach (similar to that used for the Council and its maintained schools)

3 **Deficit recovery period** – this should increase from 15 years to 22 years (in line with the Council and maintained schools), reducing by three years at each subsequent triennial valuation

4 **Pooling** – the option to form, on a voluntary basis, a pool, with members of the pool all paying the same contribution rate. Academies not wishing to join the pool continue to be treated as standalone employers with their own contribution rate, as is currently the case.

The close of the consultation was initially set to be the end of September. However, at the request of the Academies, this was extended to the end of October 2015.

Response to consultation

Five responses were received, covering comments from a number of Academies in the Fund. A summary of the responses to the principles outlined above are set out below together with Officer recommendations:

1 **Pension deficit** – there was a wide range of comments received on asset allocation. Comments were similar to those made prior to the consultation i.e. "poor" market conditions at the conversion date leading to less assets, and the approach not being equitable to academies (but with no justification given other than the Council should not claim assets to fully fund the liabilities that Academies leave behind on conversion). There was little comment specifically about the principle that an Academy should continue to be responsible for the same amount of pension deficit after conversion as before.

Recommendation that the Fund continues with the current approach. The recent Pension Ombudsman determination in favour of the East Riding Fund provides strong evidence that the proposed principle is sound, from both an actuarial and fairness perspective.

5 **Funding approach** – there was one response supporting the use of a risk-adjusted approach and asking for input to the methodology used. Another request asked for details on methodology.

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Recommendation that a risk-adjusted approach is adopted as part of the 2016 formal valuation process. Further explanation about the approach, and an opportunity to ask Officers and the Actuary questions, will again take place as part of the formal valuation process and employer consultation on the Funding Strategy Statement.

6 **Deficit recovery period** – there was broad agreement with increasing the deficit recovery period to 22 years. One response suggested that deficit recovery contributions, which have been paid under the 15 year deficit recovery period contribution rate, should be refunded.

Recommendation that the Fund extends the deficit recovery period for Academies to 22 years. Furthermore, recommendation that no refunds of deficit recovery contributions, approved under the existing funding approach, should be paid to Academies for past periods. These contributions have been credited and are reflected in each Academy's funding position.

7 **Pooling option** – across the responses there was no appetite to pool with other academies. However, one response requested further details of the operation of the Academies pool.

Recommendation that an Academies pool is not set up as part of the 2016 formal valuation.

Other points raised

- A number of the responses made reference to a disparity in the actuarial discount rate used at the 2013 formal valuation for the Council (and its maintained schools) compared to Academy employers. The Fund Actuary and the Fund can confirm that a discount rate of 5.0% was used for all employers in the Fund, including the Council. There appears to be confusion in the responses between the discount rate used at the 2013 valuation and the discount rate that is used to calculate an Academy's asset allocation on conversion; the two rates are constructed using the same methodology but can differ if underlying market conditions are different at the respective dates.
- Some responses made reference to funding arrangements in other LGPS Funds. The LGPS Regulations are not prescriptive about the way in which assets are allocated or contribution rates are set for any type of employer (including Academies). Each fund has the duty to determine an appropriate funding strategy based on a number of factors, including the perceived risks or "strengths of covenant" of each type of employer.
- There was also a wide range of other comments raised not relating to the proposed principles in the consultation e.g. relating to governance of the Fund. Academies, along with all other employers in the Fund, will again be given the opportunity next year to attend an employer forum, individual face-to-face surgeries with the Fund Actuary and consult on the Funding Strategy Statement as part of the 2016 formal valuation process.

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Illustrative impact on Academy contribution rates

The following table illustrates a very approximate range of rates for the Fund's Academies under the current approach and recommended approach based on the consultation outcome.

Funding approach	**Description**	**Illustrative rate (% of pay)**		
		Low	Average	High
Current	Existing approach	11.5%	25%	52.7%
Recommended	Individual rates, 22 year recovery period, risk-adjusted approach	10%	21%	40%

Next steps

The Fund is currently undertaking preparation work for the 2016 valuation including a risk profiling exercise to cover all employers in the Fund. Any agreed funding approach changes by the committee, as a result of the above, would feed into this work and will be documented in the Funding Strategy Statement. The Funding Strategy Statement is prepared and presented to the committee as part of the 2016 valuation process.

Prepared by:-

Richard Warden

Fund Actuary

November 2015

For and on behalf of Hymans Robertson LLP

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Appendix - List of Academies participating in the Fund

Academy*	Contribution Rate 2016/2017 (% of pay)
Robert Fitzroy Academy	11.5%
Harris City Academy (Crystal Palace)	13.0%
Harris Academy South Norwood	15.8%
Paxton Academy	16.1%
Harris Invictus Academy	16.5%
Harris Haling Park	16.5%
David Livingstone Academy (STEP)	16.6%
ARK Oval Primary Academy	16.7%
Harris Primary Academy Kenley	19.0%
Castlehill Primary Academy	20.1%
Forest Academy	20.2%
St Cyprian's Greek Orthodox Primary School Academy	21.7%
Aerodrome Primary School	22.3%
Harris Academy Purley	23.2%
Atwood Primary Academy	23.5%
Applegarth School	24.0%
Gonville Academy (STEP)	24.2%
Pegasus Academy Trust	24.3%
Harris Upper Norwood Academy	24.4%
Riddlesdown Collegiate	24.7%
Norbury Manor Business and Enterprise College for Girls	24.8%
Local Authority Maintained Schools	**25.2%**
Fairchildes Primary School	25.8%
Oasis Ryelands Primary	26.1%
Oasis Academy Shirley Park	26.6%
Oasis Academy Byron	26.7%
West Thornton Primary Academy	26.7%
Woodcote High School	28.3%
Addington High School	28.8%
Harris Benson Academy	29.1%
New Valley Primary School	29.7%
Shirley High School Academy	29.9%
St Thomas Becket RC Primary	30.9%
St Marks CofE Primary	30.9%
Wolsey Junior Primary Academy	31.4%
Chipstead Valley Primary	31.4%
Broadmead Primary	32.6%
The Quest Academy	32.8%
Oasis Academy Coulsdon	32.8%
St Joseph's College	33.4%
Beulah Nursery and Infant School	33.8%
Winterbourne Junior Boys	37.7%
Rowdown Primary	38.0%
Archbishop Lanfranc	43.8%
St James the Great R.C Primary	52.7%

***Notes**

The academies highlighted in grey joined after the valuation date 31 March 2013.

The academies highlighted in yellow are newly established or Free Schools.

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