

## Pension Fund Committee

6 December 2011

### Academy Schools in the Pension Fund



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## Report of Don McLure, Corporate Director, Resources

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### Purpose of the Report

- 1 The purpose of the report is to provide Members with information on the way Pension Fund assets and liabilities are allocated and employer pension contribution rates are set for Academy Trusts when schools convert to academy status.

### Background

- 2 The Department for Education's policy encourages schools to pursue academy status and since the beginning of the year eighteen academies have been established that have employees in the Pension Fund. Nine of these are from schools formerly maintained by Darlington Borough Council and nine from schools formerly maintained by Durham County Council.
- 3 Academy Trusts are 'scheduled body' employers in the Pension Fund, meaning they are automatically entitled to participate in the Fund. Academy Trusts need to be set up with their own separately identifiable Pension Fund assets and liabilities and their own employer contribution rate.
- 4 There is no national guidance on how assets and liabilities should be apportioned. The Local Government Employers organisation raised this issue with Communities and Local Government and the Department for Education earlier this year and has recently met with them to discuss the issue. As yet no guidance has been issued and different Pension Fund administering authorities are dealing with this issue in different ways.

### Scheduled Body Status

- 5 Previously, 'scheduled body' status in the LGPS has almost exclusively been reserved for public sector or quasi-public sector bodies that could not become insolvent. Academy Trusts are different in that they *can* become insolvent or can be closed down at short notice. This means academies technically have a weaker employer covenant than local authority controlled schools.

- 6 There is a potential risk to all other employers in the Pension Fund if an academy becomes insolvent and leaves a pension deficit which is not taken on by any other organisation. In this situation any outstanding deficit would effectively be shared between the remaining contributing Pension Fund employers.
- 7 The Department for Education has written to the Council to emphasise its commitment to academy schools, to confirm that academy funding agreements are open-ended and to express the view that any insolvency risk is minimal.
- 8 Academy Trusts will be treated in the same way as other 'scheduled body' employers in the Pension Fund, using the same assumptions to value their liabilities and using the same 19 year deficit correction recovery period.

### **Summary of treatment of Academy Trusts within the Durham County Council Pension Fund**

- 9 The Council, working with the actuary, has considered a range of possible options for dealing with Academy Trusts within the Pension Fund and has decided on the following approach:
  - From the date of conversion a new academy will be established as a separate employer in the Pension Fund with (notional) separate assets and liabilities.
  - The (notional) asset transfer to a new academy will be determined after initially ensuring the original Council's non-active liabilities are 'fully funded' as at the last valuation date (31 March 2010) and applying an adjustment to take account of changes to the overall funding level of the Pension Fund since the last valuation.
  - The transfer of pension liabilities to the new academy will be based solely on the pension liabilities of the transferring employees.
  - The assumptions used in setting the new academy's employer contribution rate will be the same as those used for other Scheduled Body employers in the Fund.
  - The deficit recovery period used for the new academy will be nineteen years.
  - The method set out above will be subject to review at the next valuation (due as at 31 March 2013, with any contribution changes applying from 1 April 2014).

### **Recommendation**

- 10 Members are asked to note this report.