

Position Statement on Academies and Employing Body Status in the LGPS

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Academies have been able to become employing bodies in the LGPS over a number of years and under different legislation. The West Midlands Pension Fund currently has 76 academies with membership.

For post-coalition Government academies, the current approach under the latest legislation is to treat them as statutory bodies, which gives them the same time period as councils for achieving full funding, and starts them off with only active members, leaving pensioners and deferred liabilities of the former school with their local authority. This gives them a contribution rate comparable, in most cases, to the rate they had before becoming an academy, and similar to the rate that would emerge from an initial pooled approach proposed in the December 2011 joint letter from the Department of Education and CLG on the subject. A major reason for the letter is understood to be that some other funds are only allowing academies a seven-year period in which to recover any deficit in funding which increases contribution rates markedly.

The current approach by the West Midlands Pension Fund was adopted as being fair and reasonable for the two parties involved - the local education authority and the academy - as well as practical to administer from the Fund's viewpoint. Neither party could claim they were cross-subsidising the other in terms of pension costs after separation at the outset.

An approach based upon the pooling of an academy's pension net liabilities, with their local education authority, could be adopted, but would introduce potential cross-subsidy issues for both parties.

For example, under pooled arrangements, the risks around ill-health, death in service, funding strain from members transferring in periods of service and differential pay increase for an academy, would be spread and any adverse (or positive) impact mitigated.

However, any benefits arising from a significantly different workforce profile of the academy would be lost. For example, because under a pooled arrangements costs would be shared in proportion to payroll, in future, the academy could have to pick up an increased share of past service deficits as local education authority pensionable payrolls fall. A key thing to note also is that if the current market conditions persist, a change now to pooled arrangements could lead to increased contributions for some academies. The converse is also true.

However, it should be noted that even if pooling happens some costs which create a strain on the Fund, such as early retirement, would continue to be funded by one-off lump-sum payments as they are currently and give rise to no cross-subsidy issues.

Even if pooled arrangements operated, it would appear that academies would still require their notional share of assets and liabilities to be calculated each year for FRS17/IAS19 accounting purposes. This, itself, would lead to a requirement for the actuary to separate the academy from the LEA.

Any change to the approach applied to academies for practical reasons should be done by local authority area and require the agreement of the LEA and academies within that area. The Fund will respond to requests for a pooling arrangement to be introduced. There is no intention to change the current arrangements, although the situation will be monitored. The position could change if the Government introduce legislation to require costs to be pooled.

If any LEA or academy wishes to explore the impact of full pooling on contribution rates, they will need to fund the actuarial costs involved in undertaking the work.