

PENSION FUND COMMITTEE – 8 MARCH 2013

ACADEMIES WITHIN THE OXFORDSHIRE LGPS FUND

Report by the Assistant Chief Executive and Chief Financial Officer

Introduction

1. At its meeting in December 2012, this Committee agreed to consult on the options for pooling academies within the Oxfordshire LGPS Fund. Annex 1 to this report contains the Consultation Report and the covering letter that was published and made available to all schools (both maintained and academies) as well as key organisations involved in the sponsorship of academies in Oxfordshire.
2. The closing date for responses to the consultation was 22 February 2013, which was after this report was finalised. This report therefore covers the main issues within the consultation report itself, plus any early feedback. Any consultation responses received after this report has been finalised, but before the consultation deadline will be summarised, and presented to the Committee directly.

Consultation Report

3. The aim of the consultation report is to consider the future arrangements for treating academies within the Oxfordshire Pension Fund, which best protects individual academy schools and the Pension Fund against financial risk. In particular, there is a need to consider how best to meet the regulatory requirement to maintain employer contribution rates as stable as possible, and ensure no academy is in a position where it is unable to meet its pension liabilities.
4. The consultation report highlights that many academies will be small employers in terms of LGPS membership (normally defined as those with less than 50 active members). As such, changes in the profile of scheme membership is more likely to directly impact on the contribution rate, and any high cost ill-health retirement will have a dramatic effect on the contribution rate. (Ill-health costs are estimated between £250,000 and £750,000 depending on grade and age at point of retirement).
5. There is also the concern that where an academy closes for any reason, any pension costs are not currently underwritten and as such would fall to the Pension Fund as a whole.
6. The Consultation report therefore looked at options to mitigate these risks. Following the previous decision of this Committee not to pool the academies

with the County Council (following feedback from the Cabinet), this option was not included in the current consultation. Early responses to the consultation, including the response submitted on behalf of the School's Forum asked this Committee to reconsider this position.

7. In particular, these early responses highlighted the fact that the County Council, subsequent to their previous decision not to support the option to pool with Oxfordshire academies, had determined to support all Oxfordshire schools become academies. As the financial risk associated with pensions is increasingly seen as a barrier to moving to academy status, the County Council could further support its schools to become academies by accepting pooling and sharing the pension risk.
8. The consultation report set out the reasons why the option for pooling academies with the County Council had been rejected. In particular, if all schools switch to academy status, their combined membership would form over 40% of the total membership of a pool with the County Council. As academies are free to set their own terms and conditions, this would mean that the Council's own contribution rate would be highly dependent on decisions made independently of the Council.
9. The early responses suggested that the Council impose conditions alongside membership of the pool such that each academy bears the costs of its own actions, but shares the unforeseen risks. These proposals were seen to reflect the arrangements the Council has with a number of contractors where we have out-sourced service provision. In these cases, the funding of pension costs is covered as part of the service contract. However, there is no legal mechanism to impose such conditions on academies, as there is no contractual relation between the Council and individual academies.
10. The view of the County Council remains that it is inappropriate to pool academies with the County Council, and that there are other options included in the consultation report which would appropriately mitigate the risks faced by individual academies.
11. The key issues in respect of the options that were included in the consultation report are
 - Whether membership of a pool should be compulsory for all academies
 - If compulsory for small academies, how should small be defined, and could larger academies have the option to join (with any decision to be permanently binding on the academy)
 - Should there be more than one pool for academies.
12. The initial responses were not in favour of making membership of a pool compulsory for all academies, arguing that larger academies and those backed by an Academy Trust in a position to pick up any financial liability, should be entitled to remain outside any pool. These responses also supported the created of a separate pool if requested by an Academy Trust to cover all their sponsored academies within the Oxfordshire Fund.

13. The responses though did believe that all schools should have the option to join a single academy pool. It was argued that the potential liabilities of an ill-health retirement would be prohibitive for even a large academy, and as such, the Academy should have the option to join the pool and share the risk.
14. The early responses were against a model of multiple pools based on different criteria, including school partnerships. It was argued that such a model would lead to fragmentation, would be overly complex for individual academies being asked to make a decision as to which pool to join, and ultimately would not meet the objective of creating groups of academies of sufficient size to adequately share the risks.
15. The early responses represent the views of the Schools Forum (which in turn represents all schools in Oxfordshire), a secondary academy and a secondary maintained school. A further update will be presented to the Committee covering any further views expressed between the finalisation of this report, and the deadline for responses.

RECOMMENDATION

16. **The Committee are RECOMMENDED to consider in light of the responses to the consultation, what changes, if any, it wishes to make to the Funding Strategy Statement in respect of pooling academy schools, which will then form the basis of the 2013 Valuation results.**

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Background papers: None

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