

Report To:	GMPF LOCAL PENSIONS BOARD
Date:	9 August 2018
Reporting Officer:	Sandra Stewart - Director of Pensions Euan Miller – Assistant Director - Pensions (Funding and Business Development)
Subject :	ACADEMY FUNDING ARRANGEMENTS UPDATE
Report Summary:	The purpose of this report is to provide the Board with an update on national developments designed to improve how academy schools and their contractors interact with LGPS Administering Authorities. Also provided is an overview of Greater Manchester Pension Fund's (GMPF) current administration and funding arrangements in relation to academy schools.
Recommendation(s):	It is recommended that the Board note the information provided in the report and its potential impact on other ongoing projects, in particular the proposed work on bespoke investment strategies for employers
Financial Implications: (Authorised by the Section 151 Officer)	Removing the ability for academy schools to pool with their local authority may increase the volatility of local authority funding levels and contribution rates.
Legal Implications: (Authorised by the Solicitor to the Fund)	There are no direct legal implications to consider. Any amendments to regulations that are made will be implemented accordingly.
Risk Management:	Increased academy admissions increase the administrative, legal, and funding risks which GMPF is exposed to. In particular poor quality data being provided to GMPF by academies could lead to statutory duties not being met, failure demand and reputational damage.
ACCESS TO INFORMATION:	NON-CONFIDENTIAL This report does not contain information that warrants its consideration in the absence of the Press or members of the public.
Background Papers:	For further information please contact Euan Miller, Assistant Director – Funding and Business Development, Greater Manchester Pension Fund, Guardsman Tony Downes House, 5 Manchester Road, Droylsden, email: euan.miller@tameside.gov.uk Tel: 0161 301 7141

1. INTRODUCTION

- 1.1 The Local Pensions Board has periodically received updates on national developments relating to education sector employers and recent initiatives to improve how academy schools and their contractors interact with LGPS Administering Authorities. Also provided at the July 2017 meeting was an overview of Greater Manchester Pension Fund's (GMPF) administration and funding arrangements in relation to education sector employers. This paper is attached as **Appendix 1** to this report for information.
- 1.2 At its November 2017 meeting, the LGPS Scheme Advisory Board agreed to establish two working groups, one on administration and the other on funding, to take forward the Board's agreed project plan. The working groups consist of representatives of key stakeholders such as the Department for Education ('DfE'), MCHLG, Multi-Academy Trusts, LGPS Practitioners and Actuaries.
- 1.3 The Scheme Advisory Board has recently published an update on the work of the two working groups. This is provided as **Appendix 2** to this report.
- 1.4 If taken forward, the proposals set out in paragraph 2.6 of **Appendix 2** to create a ring-fenced pool for academy schools in each LGPS fund would be likely to have a material impact on employer funding matters. Further details are provided in section 2 below.
- 1.5 In order to implement the proposals amendments would be required to the LGPS Regulations with a consultation exercise with relevant stakeholders expected to be undertaken prior to this.

2. ACADEMY SCHOOLS

- 2.1 Several GM local authorities allow academies to join their actuarial pool with the academy then pay the same employer contribution rate as other pool employers. Strain costs for any ill health retirements are generally treated as a pool charge.
- 2.2 Allowing academy schools to pool can help stabilise the employer contribution rate for the local authority as academy schools tend to have proportionately more contributing members and less members receiving a pension than local authorities. The resulting positive cashflow position of academy schools helps repay any deficit in the pool and reduces the need for the pool to notionally sell asset to other scheme employers in order to meet benefit outgo. All else being equal, a positive cashflow profile results in lower funding position volatility.
- 2.3 As an example, as at 5 July 2018 the Manchester City Council pool has 14,386 active members and 17,850 pensioners. 2,355 (i.e. 16%) of the active members work for academy schools, whereas only 155 (i.e. 1%) pensioner members are former employees of academies.
- 2.4 Transferring the academy schools to an academies pool would significantly increase the net benefit outflow of the MCC Pool. Although the Scheme Advisory Board note is silent on this point, it may also be expedient to transfer the admitted bodies that provide services to academy schools, which would increase the impact further. In addition, only around 30% of Greater Manchester schools have converted to academy status, therefore the ultimate impact could be much more significant.
- 2.5 An academies pool would be highly cashflow positive at outset and the most appropriate investment strategy for this pool may look very different to that of the local authority pools (following transfer of academies). This area will need to be monitored carefully in progressing the proposed work on bespoke investment strategies for employers.

- 2.6 Other key points to note in the proposals are an apparent weakening of the DfE guarantee (effectively all academies in each fund would act as guarantor each other) and that the academy schools would likely be legally ring-fenced from other LGPS employers, which is a new concept in the LGPS.

3. RECOMMENDATIONS

- 3.1 As set out at the front of the report.