AGENDA ITEM 6b

Essex Pension Fund Board	EPB/33/14
date: 10 December 2014	

Funding Strategy – Academy employer contributions 2015/16 & 2016/17

Report by Director of Essex Pension Fund and Head of Essex Pension Fund
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1. Purpose of the Report

1.1 To update Members of the Essex Pension Fund Board on the process for the setting of academies' employer contribution rates following the 2013 actuarial valuation.

1.2 To recommend to Members the method for setting the academies' employer contribution rates for the remaining two years of the current valuation period.

2. Recommendations

2.1 That the employer contributions rates for academies now be set for the next two years as detailed in paragraph 4.4 of this report, continuing the current strategy.

3. Background

3.1 Following the 2013 valuation, at the time of setting employer contributions for academies for the three years commencing 1 April 2014, the outcome of the DCLG consultation on academy pooling was awaited.

3.2 Pending clarity on the outcome of that consultation, the Board agreed that existing academies would retain their 2013/14 ongoing contribution rates in 2014/2015. This is expressed as a percentage of payroll. They would also pay their annual rate of deficit contributions for 2013/14 increased by 4.5% which is the actuary's long term pay increase assumption. The deficit contributions are expressed as a cash sum.

3.3 A separate exercise was to be undertaken with the academies to set contribution rates for 2015/2016 and 2016/2017.

4. Setting academies contribution rates for 2015/16 & 2016/17

4.1 While discussions have continued between the Department for Education (DfE) and the DCLG, the outcomes of both the original consultation and a further fact finding consultation have yet to emerge and the eventual solution remains unclear. DCLG officers have indicated in informal discussions that they do not know when the issue will be resolved and an announcement made.

4.2 For their financial planning purposes, academies now need to be made aware of the contribution rate that they will be required to pay with effect from 1 April 2015. Given that any significant change to strategy by DCLG resulting in a need to change contribution rates ahead of the 2016 valuation cycle would be likely to require amending legislation to enable valuation certificates to be revisited between valuations, it would appear sensible now to provide academies with intended contribution rates for the two remaining years of this valuation cycle.

4.3 The provision of stable employer contribution rates is a key consideration in setting those rates. In addition, given that the direction of the outcome of the consultation remains uncertain, any change in the Fund's approach now may require subsequent unpicking, creating further complications. The Essex Pension Fund currently has some 200 participating academies in the Fund and the alteration of contribution rates represents a significant piece of work.

4.4 It is proposed therefore that pending any Government announcement, for the two years commencing 1 April 2015 the current strategy is continued. Academies would continue to pay their 2013/14 ongoing contribution rate and their annual deficit contributions for 2013/14 as increased by 4.5% for each of the years commencing 1 April 2014, 2015 and 2016. A further review of Academy employer contributions will take place as at the 2016 valuation.

4.5 This will treat all the 2010 Academies Act academies in a consistent manner and ease the working of any future adjustments required. Special mitigations may be required in the 2016 funding strategy statement for any academies whose underlying performance has moved significantly away from this approach. This will ease where necessary the transition to the approach adopted at the 2016 valuation and allow for affordability and stability issues.

4.6 This approach, which is endorsed by the Fund Actuary, arrives at results that in aggregate across all academies are broadly in line with the results of the 2013 valuation.

4.7 This approach has also been discussed with the Board's Smaller Employers representative Jenny Moore and the proposal was scheduled to be highlighted at the academy forum held on 5 December. A verbal update will be given at the meeting.

4.8 Consequently **it is recommended** that the Essex Pension Board agrees that employer contributions are now set for academies for the two years commencing 1 April 2015 as detailed in paragraph 4.4.

5. Link to Essex Pension Fund Objectives

5.1 Within reasonable risk parameters, to achieve and then maintain assets equal to 100% of liabilities in the timescales determined in the funding strategy statement

5.2 To recognise in drawing up its funding strategy the desirability of employer contribution rates that are as stable as possible

5.3 To manage employers' liabilities effectively, having due consideration of each employer's strength of covenant, by the adoption of employer specific funding objectives

6. Risk Implications

6.1 The funding strategy statement contains a requirement to set the contribution rates for academies for the next two years.

6.2 There is a risk that waiting for the outcome of the 2013 DCLG consultation on pooling to emerge prior to the setting of employer contribution rates for the two years commencing 1 April 2015 may result in late notification of contribution requirements to academies, affecting their financial planning.

7. Communication Implications

7.1 Contribution rates must communicated to the academies for each of the remaining two years of the current valuation period.

7.2 Early communication of the contribution rates will assist academies in their financial planning.

8. Finance and Resources Implications

8.1 It is a requirement to set employer contribution rates for all active participating employers. Resources are planned accordingly.

8.2 There will be financial implications for the Fund and its participating academy employers as a result of setting the employer contribution rates for the remaining two years of the current valuation period commencing 1 April 2015.

9. Background Papers

9.1 5 March 2014 Pension Fund Board Report EPB/01/14 (Funding Strategy Statement and March 2013 Actuarial Valuation Progress)

9.2 9 December 2013 Pension Fund Board Report EPB/38/13 (Academy pooling consultation)