

Chapter 8: Delivering personal accounts

- 8.1 This chapter describes how the Government intends to prepare for the establishment of the infrastructure ahead of the scheme's commencement and it further describes how the scheme will be managed in its live-running environment. The chapter also provides details on plans to bring in external expertise at an early stage to ensure that the financial, commercial and operational implications are fully understood, and the most effective systems and structures are in place to deliver personal accounts.
- 8.2 The work falls broadly into three stages:
- **Stage 1** – finalising the detailed policy design and developing a commercial and procurement strategy within the framework set by legislation;
 - **Stage 2** – implementing the commercial and procurement strategy; design, build and test of systems; securing people and premises; and
 - **Stage 3** – managing a fully operational personal accounts scheme.
- 8.3 The Government has examined a number of options (detailed in the following paragraphs) and has decided on an organisational structure to deliver personal accounts which would reflect this three-staged approach.
- 8.4 For the first stage, the Pensions Bill introduced on 28 November 2006, would include powers to set up a personal accounts delivery authority. This would act in an **advisory** capacity on the design of the commercial and procurement strategies. **The Regulatory Impact Assessment for this stage is detailed in the equivalent document for the Pensions Bill. This document, therefore, concentrates on the later implementation stages.**
- 8.5 For the second stage, the Government proposes to introduce a second Pensions Bill in a later session which would include the detailed provisions on personal accounts. **We propose it would also include powers for the advisory personal accounts delivery authority to take on an executive role reporting to Parliament through the Secretary of State for Work and Pensions.** This would give the delivery authority a broader remit, for example, allowing it to enter into formal negotiations, finalise contracts, and manage the specification and development of the systems needed before the scheme can go live. We propose the authority would finalise commercial contracts, create the infrastructure for personal accounts, design the investment strategy and take responsibility for the delivery of the scheme prescribed in the second Bill.
- 8.6 For the third stage, the Government proposes that an **independent** personal accounts board be established with formal responsibility for all aspects of managing the scheme from its introduction. The statutory responsibilities and objectives of this board would be prescribed in the second Bill.

Stage 2

Options for Stage 2

- 8.7 The Department for Work and Pensions (DWP) examined various options for ensuring that the work, undertaken by the personal accounts delivery authority in the period up to Royal Assent of the second Pensions Bill, could be continued as seamlessly as possible into the next development stage. The details of each option are described in the following paragraphs. The Government has concluded that there are robust reasons to prescribe a more expansive role, including executive decision-making powers, for the delivery authority in Stage 2.

Option 1: Retain the personal accounts delivery authority as an advisory body only

- 8.8 To enable personal accounts to be delivered from 2012 with this approach, DWP would have to undertake the executive and contracting work including procurement of services; programme-management for the delivery of the scheme; design and development of the investment strategy and design of a marketing and communications strategy.
- 8.9 Stage 2 functions would have little independence from the Government.
- 8.10 Contracts for services would need to be with DWP as no independent body would exist that is empowered to do this.

Benefits:

- No expenditure is incurred in extending the remit of the advisory delivery authority to take on executive functions.

Costs:

- Due to insufficient levels of experience in DWP, the advisory delivery authority would need to expand to meet its additional advisory role.
- Although the delivery authority would initially continue as before, advising the Government on policy consequences from Royal Assent of the first Pensions Bill, the executive work crucial to the eventual personal accounts scheme would fall to DWP. The level of expertise required for this work would need to be enhanced by contracting expertise from the private sector.

- The private sector expertise would be advisory only, making Stage 2 transactions two-tier with the private sector advising and DWP executing the commercial and procurement functions. This would reduce effectiveness and would be more likely to have a negative effect on meeting required deadlines. The costs of running parallel advisory and executive functions would be likely to exceed those of an integrated process.
- The role and responsibilities of the advisory body would diminish as the executive activities developed through to the implementation period, reducing input from the private sector with a potential negative effect on public confidence in the delivery of the scheme.

Option 2: Extend the remit of the advisory personal accounts delivery authority to give it executive decision making powers

- 8.11 Under this option, the delivery authority would utilise experts from the private sector with knowledge of administration of large volumes of accounts. The delivery authority having, in its initial role, advised Government and facilitated preliminary work, would have its remit extended by the second Bill. From Royal Assent of this Bill, the delivery authority would undertake the executive and contracting work, including: procurement of services; programme management for the delivery of the scheme; design and development of the investment strategy and design of a marketing and communications strategy.
- 8.12 This would provide visible independence from government. Contracts for services would be with the delivery authority rather than with government.

Benefits:

- An executive decision-making delivery authority at this early stage would reassure stakeholders that the delivery of personal accounts would be free from political interference.
- Appointments would be visible and underline the Government's commitment to utilising the experience, skills and knowledge of the private sector to deliver personal accounts.
- This approach should also tackle perceived weaknesses in Government delivering large-scale systems and build confidence in the personal accounts scheme.
- Using private sector expertise in an executive role would streamline processes and be more cost-effective than the two-tier approach of Option 1.

Costs:

- Some extra costs for recruitment and, possibly, accommodation would be associated with the extension of the delivery authority to meet its executive role.

Option 3: The live-running governance body comes into existence following Royal Assent of the second Bill

- 8.13 With this option, rather than extending the powers of the advisory delivery authority through the second Bill, a single body would be created at this point to oversee both the setting-up of personal accounts and its live running from 2012.
- 8.14 The skills set needed for set-up would differ from those required for live-running.
- 8.15 This approach would limit the tenure of the delivery authority and would make it more difficult to recruit the appropriate individuals with the right skills for such a short contract.

Benefits:

- Appointments would be visible and underline the Government's commitment to utilising the experience, skills and knowledge of the private sector to deliver personal accounts.
- This approach would reassure stakeholders that the delivery of personal accounts would be free from political interference.
- This approach should also tackle perceived weaknesses in Government delivering large-scale systems and build confidence in the personal accounts scheme.
- There would be a clear unified line of responsibility for funding to meet costs incurred from set-up and the liability for debt management.

Costs:

- To avoid a delay in appointing members to the personal accounts board and the serious impact this would have on the infrastructure timetable and the introduction date of the new scheme, recruitment would need to be included with that for the advisory delivery authority. As the skills set for set-up and live-running governance would differ significantly, the board would need to include a greater number of members with specific skills to cover both stages, or the job specifications for individual board members would need to be broad enough to cover functions in both periods. The former would be more expensive than a focused delivery authority board and the latter might exclude individuals most appropriately skilled to set up the scheme.

- Recruitment costs for the personal accounts board would occur earlier and need to be added to the costs of the advisory delivery authority.
- Attracting staff with the required skills and experience to work for the advisory delivery authority would be difficult if the body's existence was limited to the period running up to, and immediately beyond, the date of Royal Assent of the second Bill. The remuneration package would need to be significantly enhanced to attract the right calibre of candidates to apply for finite, short-term positions within the delivery authority.
- Funding to allow the permanent governance body to be effective from Royal Assent of the second Bill would need to be in place at that point.

Summary and recommendation for Stage 2

Recommendation: Option 2 – extend the remit of the advisory personal accounts delivery authority to give it executive decision making powers

- 8.16 The main benefits of Option 2 are that it:
- establishes a visible delivery authority distant from Government that utilises the expertise and skills found within the private sector;
 - maintains stakeholder consensus and builds confidence in the system of personal accounts; and
 - provides immediate continuity in delivering the infrastructure for a personal accounts scheme.

Regulatory powers

- 8.17 The delivery authority's functions would be limited to advising on and establishing a personal accounts scheme from 2012.
- 8.18 The delivery authority would have no power to impose duties or regulatory responsibilities. It would only seek to deliver the infrastructure required for a system of personal accounts to be operational from 2012.

Small firms impact and competition assessment for the personal accounts delivery authority

- The creation of the delivery authority would not have an impact on small firms.
- The executive delivery authority would have, as part of its remit, to work with stakeholders across Government, the financial industry, employers, and consumers to ensure delivery remains focused on the objectives for the target group.
- Its primary purpose would be to ensure that the detailed decisions about processes, service specification and the nature of the relationship between the personal accounts live-running body and its outsourced providers are developed and progressed in the period before the introduction of the scheme. The delivery authority would also be responsible for ensuring that the burdens on employers are minimised through appropriate implementation considerations.
- It would have regard to the need to avoid duplication of work or function with other authorities, for example the Pensions Regulator or the Financial Services Authority, such as applying for authorisations or providing reports.
- It would also have regard to the need for the processes designed by the contracted body to be as straightforward as practicable and to avoid duplicating any existing obligation on employers with regard to employment law. It would ensure proper checks and balances are in place to ensure these requirements are met on an ongoing basis. It would observe Government guidelines on procurement.
- In conducting its business and, in particular, in regard to imposing any new burdens on business, the delivery authority would observe Government processes designed to ensure public accountability and transparency. It would have proper regard to the impact of its decisions on market competition.

Post-implementation review for the personal accounts delivery authority

- DWP, as the sponsoring Department, would have a stewardship role in relation to the delivery authority as it currently has with the Pensions Protection Fund and the Pensions Regulator.
- As part of scrutinising the performance of the delivery authority, DWP may decide that a post-implementation review is necessary. Such a decision would be exceptional and would be taken based on particular circumstances at the time.

Stage 3

- 8.19 The Government proposes that an independent personal accounts board would be established to be responsible for the management of the personal accounts scheme. The Government anticipates that there would be a handover period during which the delivery authority and the personal accounts board are both in place.
- 8.20 The objectives of the scheme will be set out in statute and are likely to include:
- optimising levels of participation and contribution among the target group;
 - setting an investment strategy in the best interest of members;
 - minimising burdens on employers;
 - considering the impact on other high-quality pension provision;
 - assuring security of administration;
 - governing in the best interests of members and beneficiaries;
 - ensuring that the board acts impartially, prudently, responsibly and honestly;
 - delivering appropriate levels of choice;
 - achieving both the lowest possible charges for members and charges that are fair between members; and
 - ensuring that funds are invested in the best interests of the members.
- 8.21 The personal accounts board would be responsible for regularly reviewing the investment strategy, in the light of participation rates, evaluation of evidence on how the scheme is operating, and feedback from members or their representatives. The board will also ensure that the needs and requirements of individual groups within the wider target group are considered.
- 8.22 The board would be responsible for three distinct areas:
- setting the **strategic direction** of the scheme and how the objectives set by Government would be achieved;
 - **overall management** of the scheme – oversight of scheme delivery, monitoring levels of service to members, setting standards for collection, verification and payment, and information to members; and

- **investment strategy** – ensuring that contributions are invested in the best interests of members, deciding on the range of choice available to investors, the strategy for investment of the default fund, and appointment and management of fund managers.

Options for Stage 3

8.23 The Government has looked in detail at a number of options for the live-running governance body, which are described in the following paragraphs. It concluded that the scheme should be managed by a body corporate/Non-Departmental Public Body (NDPB) as this option provides the right balance of autonomy and public accountability.

Option 1: A body corporate/NDPB

- 8.24 This option would utilise private sector expertise but incorporate clear lines of accountability to Government.
- 8.25 In addition to the governance being undertaken by skilled professionals with maximum autonomy from political pressures, the public would be reassured that the Secretary of State for Work and Pensions, as their representative, has the ultimate power to dismiss those responsible for underperformance.
- 8.26 The Cabinet Office guidance on public bodies would ensure that the level of Ministerial involvement in appointments would be balanced in such a way as to ensure the independence of the personal accounts board.

Benefits:

- As the personal accounts board would be a body corporate/NDPB, it would be accountable to Parliament, which would be able to call for its governance board to account for underperformance or deviation from its remit.
- The Secretary of State would have the power of appointment or approval of board members.

Costs:

- The personal accounts board would be funded out of the scheme's annual management charge.
- Overall costs are likely to be similar for all three options. However, this option would differ from 'Option 2: an Executive Agency' in that its accounts would not form part of any Department's accounts.

Option 2: an Executive Agency

- 8.27 An Executive Agency is usually part of a Government department or is linked to a sponsoring department, or it may be a department itself. Its Chief Executive is normally answerable on operational issues to a Minister in the sponsoring department. All its staff are civil servants and its accounts are consolidated into those of the sponsoring department.
- 8.28 Although its Chief Executive is normally recruited through open competition it would be perceived as a branch of Government. This could result in a perceived reduction in independence.
- 8.29 It is unlikely that the salaries available within the Civil Service would effectively compete with the financial sector to attract individuals of the calibre needed.

Benefits:

- The Chief Executive of an Executive Agency is normally answerable on operational issues to a Minister in the sponsoring department.

Costs:

- It is unlikely that civil servants would have the appropriate skills.
- There would be a perceived lack of independence from Government.

Option 3: a fully independent commercial body

- 8.30 With this approach, the personal accounts board would operate as a fully commercial company with total independence from Government. However, although legally it would be independent from Government, it would have been created by statute to deliver a Government objective and any failure is likely to be broadly perceived as being a failure of Government policy.

Benefits:

- Its decision making would not be constrained by political issues.

Costs:

- Overall costs are likely to be similar for all three options. However, this option would differ from 'Option 2: an Executive Agency' in that its accounts would not form part of any departments' accounts.
- It would lack clear lines of accountability to the public through Government.
- There is a potential that the long-term interests of the target group do not remain at the core of the company's commercial objectives.

Summary and recommendation

Recommendation: Option 1: body corporate/NDPB

- 8.31 The main features of Option 1 are:
- the personal accounts board would be a body corporate/NDPB and thereby accountable to Government;
 - the Government would be able to call its governance board to account for underperformance or deviation from its remit;
 - the Secretary of State for Work and Pensions would have the power of appointment or approval of its board members; and
 - the governing body would be able to draw on the skills and expertise in the private sector.

Consultation on all three stages

- 8.32 The policy for a delivery authority has arisen since the publication of the May White Paper. DWP officials met with the stakeholders detailed in paragraphs 8.33 and 8.34 to discuss the role and remit of this new body within the wider context of the introduction of the personal accounts scheme.
- 8.33 Discussions have taken place with stakeholders including the Association of British Insurers, Investment Management Association, National Association of Pension Funds, pension providers, Which?, the Trades Union Congress and consumer associations.
- 8.34 Within Government, discussions have been held with the Cabinet Office, Her Majesty's Treasury, Her Majesty's Revenue and Customs, the Department for Culture, Media, and Sport, the Department for Trade and Industry, the Financial Services Authority and the Pensions Regulator.
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Regulation

- 8.35 The personal accounts scheme would be subject to the appropriate level of regulation to ensure that it is as robustly regulated as existing pension schemes and in accordance with the framework set out in legislation. The DWP is engaging with existing organisations, including the Pensions Regulator and the Financial Services Authority, to identify the requirements, risks and impacts on the scheme.

Small firms impact and competition assessment

- 8.36 The live-running personal accounts board would have as part of its objectives:
- minimising burdens on employers;
 - considering the impact on other high quality pension provision; and
 - ensuring that the board acts impartially, prudently, responsibly and honestly.

Post-implementation review

- 8.37 DWP, as the sponsoring Department, would have a stewardship role in relation to the personal accounts board as it currently has with the Pensions Protection Fund and the Pensions Regulator.
- 8.38 As part of scrutinising the performance of the personal accounts board, DWP may decide that a post-implementation review is necessary. Such a decision would be exceptional and would be taken based on particular circumstances at the time.

