

Chapter 3 – Creation of a personal accounts delivery authority (PADA)

Objective and background

- 3.1 In order to achieve commencement of the personal accounts scheme in 2012, as proposed in the White Paper, the commercial processes would need to be sufficiently progressed to be ready to issue Invitations to Negotiate in July 2008.
- 3.2 To enable the commercial process to remain on schedule, a substantial amount of preparatory work will be needed. This work will begin in the Department for Work and Pensions with analysis and advice to ministers on the consequences of policy options. To further this work the Bill provides for the establishment of a delivery authority that can bring in the necessary expertise to ensure this project is a success.
- 3.3 The personal accounts delivery authority (PADA) will precede the governance body/board of the personal accounts scheme. Its functions will be limited to advising on implementation issues and on the implications of proposed policy decisions on the setting-up of a personal accounts scheme.

Rationale for Government intervention

- 3.4 The establishment of a delivery authority distanced from Government and with private sector expertise has been welcomed by a wide range of stakeholders, including the ABI, Which? and the Investment Management Association as the best way to take forward the work needed to develop a system of personal accounts.
- 3.5 To be in a position to issue Invitations to Negotiate in July 2008 this Bill will legislate for an advisory delivery authority.
- 3.6 The Bill will establish the delivery authority with the limited remit to undertake preliminary work on a range of commercial, financial and technical products leading up to the issue of Invitation to Negotiate.
- 3.7 The Government will invite views on extending the functions and role of the delivery authority following the publication of a planned White Paper on personal accounts. The Government plans to bring forward legislation on the extended remit following consultation. This Regulatory Impact Assessment only covers the creation of a time-limited delivery authority with a narrow remit.

Consultation

- 3.8 This is a new area of policy that has arisen since the publication of the White Paper.

Within Government

- 3.9 Discussions have been held with the Cabinet Office, Her Majesty's Treasury, Her Majesty's Revenue and Customs and the Department for Culture, Media, and Sport.

Public consultation

- 3.10 Discussions have taken place with stakeholders including the Association of British Insurers, Investment Management Association, National Association of Pensions Funds, Norwich Union, Which?, the Trades Union Congress, and consumer associations.

Options

Option A: Preliminary work undertaken by DWP.

- 3.11 In this option civil servants alone would advise on the preliminary work needed before July 2008. A major trawl would need to be made across all Government departments to identify and recruit civil servants with the specific skills and experience necessary to conduct this work. There is some uncertainty whether the more technical skills required would be available within the existing civil service pool.

Option B: contract consultants to work for DWP

- 3.12 In this option private sector expertise would be included through the use of consultants. The consultants would advise Government and facilitate preliminary work up to the point when an Invitation to Negotiate is issued.

Option C: establish a delivery authority

- 3.13 An alternative is to create a delivery authority, utilising experts from the private sector with knowledge of private pensions administration, which would initially advise Government and facilitate preliminary work up to the point when an Invitation to Negotiate is issued.

- 3.14 In its initial remit, the delivery authority would be limited to:
- advising the Government on the operational and commercial implications of policy options; and
 - preparing specific products which comprise a financial, technical commercial strategy prior to issuing an Invitation to Negotiate.
- 3.15 The delivery authority would be accountable to the Secretary of State for Work and Pensions.

Costs and benefits

Option A: Preliminary work undertaken by DWP.

Benefits

- 3.16 No expenditure is incurred in setting up a new body, although similar costs would be incurred by DWP if the work was to be done within the Department, the costs of a private sector competitive recruitment exercise would be saved.

Costs

- 3.17 This option will not meet the stakeholders' concerns that Government is not best placed to oversee the creation of such large scale financial products.
- 3.18 The failure to establish a delivery authority when there is stakeholder consensus in support of it would expose the Government to criticism of political interference.
- 3.19 There would be no line of responsibility for decisions through to the personal accounts governance body/ board.
- 3.20 Civil servants are unlikely to have sufficient levels of experience successfully to guide and prepare the processes necessary to secure the services and infrastructure most appropriate to the creation of a personal accounts scheme.
- 3.21 Gathering civil servants with the necessary skills and experience from across government departments to undertake this work would have a negative effect on delivery of Government initiatives elsewhere.
- 3.22 Within the Department for Work and Pensions, the preliminary work crucial to the eventual personal accounts scheme would be competing with other priorities within the Department. Any delays on the part of the Department could lead to a failure to be able to issue an Invitation

to Negotiate in July 2008, which would ultimately delay commencement of personal accounts beyond 2012.

Option B: contract consultants to work for DWP

Benefits:

3.23 Private sector expertise would be included through the engagement of contracted consultants.

3.24 The preliminary work would not be undertaken solely by civil servants.

Costs:

3.25 It is unlikely that this approach would convince stakeholders that processes are sufficiently and transparently removed from Government.

3.26 Consultant organisations would not necessarily be able to provide the levels of competencies needed which could be obtained through direct competitive recruitment from the private sector.

3.27 The use of consultants would not provide clear and transparent lines of accountability for underachievement or deviation from the remit, for example, failure to minimise the impact of set-up costs incurred on the live-running scheme's annual management charge.

Option C: establish a delivery authority

Benefits

3.28 The establishment of a delivery authority, at a distance from Government at this early stage would allow the public to identify the personal accounts scheme with a new body.

3.29 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.

3.30 This approach would reassure stakeholders that the delivery of personal accounts would be free from political interference.

3.31 This approach should also tackle perceived weaknesses in Government delivering large scale systems and build confidence in the personal accounts scheme.

3.32 The establishment of a delivery authority, with a single task and focussed approach would reduce the risk of delays in preliminary work

on commercial, financial and technical products being completed prior to issuing an Invitation to Negotiate in July 2008.

- 3.33 The delivery authority would most likely be classified as a Non Departmental Public Body and as such would provide clear and transparent lines of accountability and reporting to Parliament through the Secretary of State for Work and Pensions.

Costs

- 3.34 Some extra costs would be associated with the establishment of a delivery authority for recruitment.
- 3.35 It is estimated that establishing the delivery authority would have a funding requirement of £21 million between 2006/07- 2008/09. (Although accurate financial costings are not available for Options A and B, they would also involve a funding requirement)
- 3.36 The delivery authority would be funded from within the DWP DEL budget. As a Non Departmental Public Body this would be paid over as Grant in Aid.

Small firms impact and competition assessment

- 3.37 The creation of the delivery authority will not have an impact on small firms.
- 3.38 The legislation will create a single body corporate to act as the delivery authority, with a remit limited to preliminary work up to the point when an Invitation to Negotiate is issued. This will have no impact on competition.
- 3.39 The RIA for the White Paper on Personal Accounts will set out in more detail the impact of Personal Accounts themselves on small firms and competition.

Enforcement, sanctions and monitoring

- 3.40 Because the delivery authority at this stage has a limited lifespan of approximately one year and its function is to advise, it will be brought to an end by Order of the Secretary of State after the end of 2008 if its remit / lifespan has not been amended through subsequent legislation.

Implementation and delivery plan

3.41 The delivery authority will be established following Royal Assent of the Bill.

Post implementation review

3.42 The delivery authority will be required to submit both an annual report and accounts to Parliament through the Secretary of State for Work and Pensions. DWP, as sponsor Department, will have a stewardship role in relation to the delivery authority as it currently has with the Pensions Protection Fund and The Pensions Regulator.

Summary and recommendations

3.43 The main benefits of Option C 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.
- Gives the delivery authority some ownership over the documents that will form the foundation of delivering the infrastructure for a personal accounts scheme.
- Provides clear and transparent lines for accountability and reporting.

3.44 The Government recommends Option C – the establishment of a separate delivery authority.