

PROJECT INITIATION DOCUMENT

NEW LOCAL GOVERNMENT PENSION SCHEME 2014

CURRENT VERSION

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1. DOCUMENT HISTORY

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2. PURPOSE

The purpose of the PID is to define the project, to form a firm basis for management and the assessment of overall success. Information included in the PID will answer the following questions:

- What is the project aiming to achieve?
- Why it is important to achieve it?
- Who will be involved and what are their responsibilities?
- How and when will it happen?
- How and what needs to be communicated

It is essential to obtain a clear view of the final objectives and outcome, as well as constraints and assumptions that impact on those responsible for the project. This document outlines all of the essentials to form a firm foundation for the project, including objectives, outcomes, expectations, scope and timeframes.

3. BACKGROUND AND CONTEXT

This project is to be delivered within the context of overall reform of public service pensions schemes whilst recognising the unique nature of the LGPS as the only significant funded scheme.

In particular the project is to be carried out in line with the principles set out in the Principles document as below;

NEW SCHEME DESIGN PRINCIPLES

Principle 1: A single solution to both short and long term issues by the early introduction of the new scheme (regulations by April 2013 and implementation from April 2014) negating the need for scheme changes prior to April 2014.

Principle 2: That the single solution be designed around options that will be worked on the basis of career average and can include zero increases in employee contributions for all or the vast majority of members provided overall financial constraints are met (recognising that such constraints may change subject to further negotiations with Treasury on meeting the costs of protections – principle 7 - and that there will be no triple counting of recycled savings).

Principle 3: That the new scheme incorporates some elements of choice designed to encourage both retention of existing membership and encourage new membership.

Principle 4: That scheme costs are based on actual experience and the base numbers are provided by Government Actuary's Department (GAD) from the model fund data, can be independently verified and are supported by the Association of Consulting Actuaries (ACA).

Principle 5: In order to encourage flexible retirement, the age at which benefits may be taken (the pension age) is to be any time between 55 and 75. Benefits are to be adjusted up or down relative to the proximity of the pension age to the Normal Pension Age (NPA) which is to be linked to State Pension Age (SPA) or age 65 whichever is later.

Principle 6: That access to the scheme be provided for a broad range of employees who deliver public services through the continuation of current Admitted Body Status (ABS) arrangements

Principle 7: That the method of meeting the cost of protections (final salary and retirement age in the old scheme and the 10 year protection of pension and age into the new scheme), their value relative to other public sector schemes and their scope for recycling need to be confirmed by Treasury.

Principle 8: That scheme cost efficiencies be realised through more effective procurement and provision of both administration and investment services

Principle 9: That the LGPS maintain its relative value in terms of benefits in relation to other public sector schemes

Principle 10: That the scheme design be subject to robust and independent equality impact assessment to ensure it meets all legislative equality requirements in both effect and intent

MANAGEMENT AND GOVERNANCE MECHANISM PRINCIPLES

Principle 11: That the value of the ongoing scheme and the employer contribution cap within that value be set by agreement between the principal stakeholders of the scheme.

Principle 12: That the employer contribution cap contains both ceiling and floor values (cap and collar)

Principle 13: To ensure the long term sustainability of the scheme the mechanisms of management and governance necessary to maintain employer contributions within the cap and collar be set by scheme regulation, be under the control of the principal stakeholders of the scheme and use model fund data.

Principle 14: The mechanisms shall include tools to vary liabilities and revenue (e.g. changes to the benefit structure and / or employee contribution rates). The mechanisms shall also include a default position should agreement not be reached within a preset timescale. However such a default position should not contain a predisposed and disproportionate disbenefit to either employees or employers

Principle 15: That a clear and effective mechanism be put in place to translate the effects of cap and collar to individual employers in the LGPS. In particular

the circumstances which will allow for individual employer rates to be set outside of the cap and collar.

Principle 16: That within the cap and collar individual funding levels are to be monitored and constrained within an acceptable range.

Principle 17: That the cap and collar mechanism be an intrinsic part of the agreement on the new scheme not a separate process

4. PROJECT OBJECTIVES

The objective of the project is to reach agreement on the big ticket elements of the new LGPS in time for regulations to be in place for the 2013 valuation.

In particular agreement is to be reached on the basic elements of both the initial scheme design and future cost management and governance:

Objective 1: Confirmation of the basis of the scheme design (e.g. CARE)

Objective 2: Confirmation of the accrual rate for the scheme

Objective 3: Confirmation of the revaluation rate

Objective 4: Confirmation of the actuarial methodology for variation to benefits either side of the NPA (with the NPA being the later of age 65 or SPA)

Objective 5: Confirmation of the value, distribution and phasing of any employee contribution increases

Objective 6: Confirmation of the transitional protections

Objective 7: Confirmation of the parameters of the employer cap and collar

Objective 8: Confirmation of the mechanism for variation of the elements to maintain scheme costs within the cap and collar values

Objective 9: Agree recommendations on best practice in governance and procurement

In reaching agreement on the above the principles set out in section 3. above should be followed.

5. FINANCIAL OBJECTIVE

In addition to the above objectives it will be necessary to set a financial objective for the project in line with the principles:

Objective 10: Confirmation of the value of the ongoing scheme [principle 11] as measured using model fund data, assumptions and methodology [principle 4] which satisfies overall government financial constraints [principle 2]

6. PROJECT OUTCOMES AND MILESTONES

Given the time constraints the project has been split into two workstreams which will run during the period January to April 2012.

Workstream 1: Initial scheme design: Objectives 1-6 and 10 (principles 1 to 10)

Workstream 2: Future scheme management: Objectives 7-9 (principles 11 to 17)

The workstreams have been timed within the project plan to achieve two runs at each (initial and final) plus enough time for consultation with all necessary committees, executives etc.

Grouping the objectives into these workstreams recognises that whilst some objectives may appear to be difficult to reach agreement on and some less so, in practice timings may not follow suit. We may find that agreement is reached fairly quickly in areas where difficulty was anticipated and vice versa.

In summary the target outcomes and milestones set out by the plan are:

- By 25th January – Workstream 1 - initial position
- By 8th February – Workstream 1 – final proposals
- 13th February to 23rd March – Workstream 1 – internal LGA and union consultation
- By 22nd February – Workstream 2 – initial position
- By 7th March – Workstream 2 – final proposals
- 12th March to 20th April – Workstream 2 – internal LGA and union consultation
- By 23rd April – DCLG commence drafting process

7. PROJECT ORGANISATION STRUCTURE

In order to structure the approach to the project there will be:

- Project management
- A project team
- A project board

Project management

This will be provided by LGA and will be the Head of Pensions supported as required by other members of both the Pensions and wider Workforce teams. The role will be to provide secretariat and project management support for the process to include the provision of a project plan, setting and hosting

meetings, taking minutes, maintaining an actions log, a risk log and the provision of regular reporting.

Project Team

The role of the team will be to work up costed options for the workstreams, consider the implications of each on the overall cost balance and equality impact of the new scheme and make recommendations to the project board. This team will meet weekly and membership will consist of officials from lead unions (to include pensions officers and lay members), LGA and DCLG. The team shall consist of no more than 10 standing members but may invite experts (e.g. actuarial, legal, equalities, administrative) to assist their deliberations at any meeting. The team will nominate and vote on a chair at its first meeting.

Project Board

The role of the board will be to ratify in principle the recommendations of the project team. This group would also have responsibility for ensuring the elements of the project plan are adhered to including the identification of blockages and the action required to rectify any slippage. The board will consist of the following members:

- LGA lead team
- Union lead team
- DCLG representative
- LGA Head of Pensions

The board will meet at least twice per month and will nominate and vote on a chair at its first meeting.

Role of GAD

Both the team and the board may call upon GAD to provide calculations of scheme and option costs based on model fund data, assumptions and methodology. GAD will also be responsible for costing the final proposals resulting from the project. The method of commissioning and payment for such work is to be agreed with DCLG.

8. COMMUNICATIONS & CONSULTATION

It is vital to keep all stakeholders up to date with the progress of the project but also to manage expectations in terms of outcomes.

Although all parties should continue to communicate with their members separately a joint communication on progress shall be produced and made available to all stakeholders via the LGPS members' website. LGA will take the lead in producing this joint communication.

It shall be the responsibility for each party to ensure that full and appropriate consultation is undertaken with their respective membership. In particular the LGA lead team should ensure that communication and consultation is effectively managed for all types of employers.

9. INITIAL PROJECT PLAN

The initial project plan shows the timings and responsibilities for each element of the project in the form of a Gantt chart.

It will be updated at the approval of the project board as necessary.

10. PROJECT CONTROLS

The project controls consist of:

- Milestones on the project plan
- The project board
- Fortnightly reporting to government

It shall be the responsibility of the project board to ensure that the outcomes and milestones as set out in the project plan and this document are achieved. The board shall take whatever action it deems necessary to identify and resolve blockages and delays.

In particular the action taken is to be reported to government in the fortnightly progress report which shall include at least the following items:

- Summary of progress to date
- Progress against current workstream
- Projected completion date of current workstream
- Issues cleared since last report
- Risks managed since last report
- New issues since last report
- New risks since last report
- Actions taken/planned to resolve issues or manage risks

11. RISK ANALYSIS

This section will cover the major risks to the project and the steps to be taken to manage those risks. Other risks as they arise will be added to a project risk log and reported to the project board.

Risk	Potential	Control
No agreement reached on objective 10 (net cost of new scheme)	Workstream one will not be able to be completed. Project will fail. Contributions increases and new scheme design will be imposed by government. Industrial action restarts. Significant danger of mass opt outs	Make the setting of objective 10 the first task of workstream one. Provide a full range of accountable data to provide a sound basis for the case for a net cost
No agreement reached on treatment of	Workstream one will not be able to be	Make the agreement of the treatment of

transitional protections	completed. Project will fail. Contributions increases and new scheme design will be imposed by government. Industrial action restarts. Significant danger of mass opt outs	transitional protections a high priority task for workstream one. Provide a full range of accountable data to provide a sound basis for the treatment of transitional protections
Government do not accept any agreement on workstream one	Contributions increases and new scheme design will be imposed by government. Industrial action restarts. Significant danger of mass opt outs	Ensure full and early reporting of progress especially with regard to financial objectives.
No agreement reached on automatic management process in workstream two	Unions withdraw from process, industrial action restarts?	Make the agreement of the automatic management process a high priority task for workstream two.
Government do not accept any agreement on workstream two but do accept agreement on workstream one and choose to implement workstream one	Unions withdraw from process, industrial action restarts?	Ensure full and early reporting of progress especially with regard to any potentially contentious issues flagged by DCLG
Overall project timescale is not met	Project will fail. Contributions increases and new scheme design will be imposed by government. Industrial action restarts. Significant danger of mass opt outs	Project board to ensure the timescales set out in the plan are met
Pull out by individual stakeholders signed up to the principles	Splintering of support for process, loss of authority for the process. Government may step in and deem project to have failed	Full and open dialogue and consultation with all members
Change in government policy directly effecting outcomes of the project	Outcomes may need to adjusted which may not be possible within set timescales	All stakeholders to use their influence to mitigate the possibility and impact of such changes
Membership drain (opt outs) during process	Project parameters may shift causing financial	Full and informative communication with

due to ongoing uncertainty	objective to become unachievable within the timescale	membership during the process
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12. ITEMS OUT OF SCOPE

This project does not include any of the elements included in stages 3 and 4 of the Principles document.