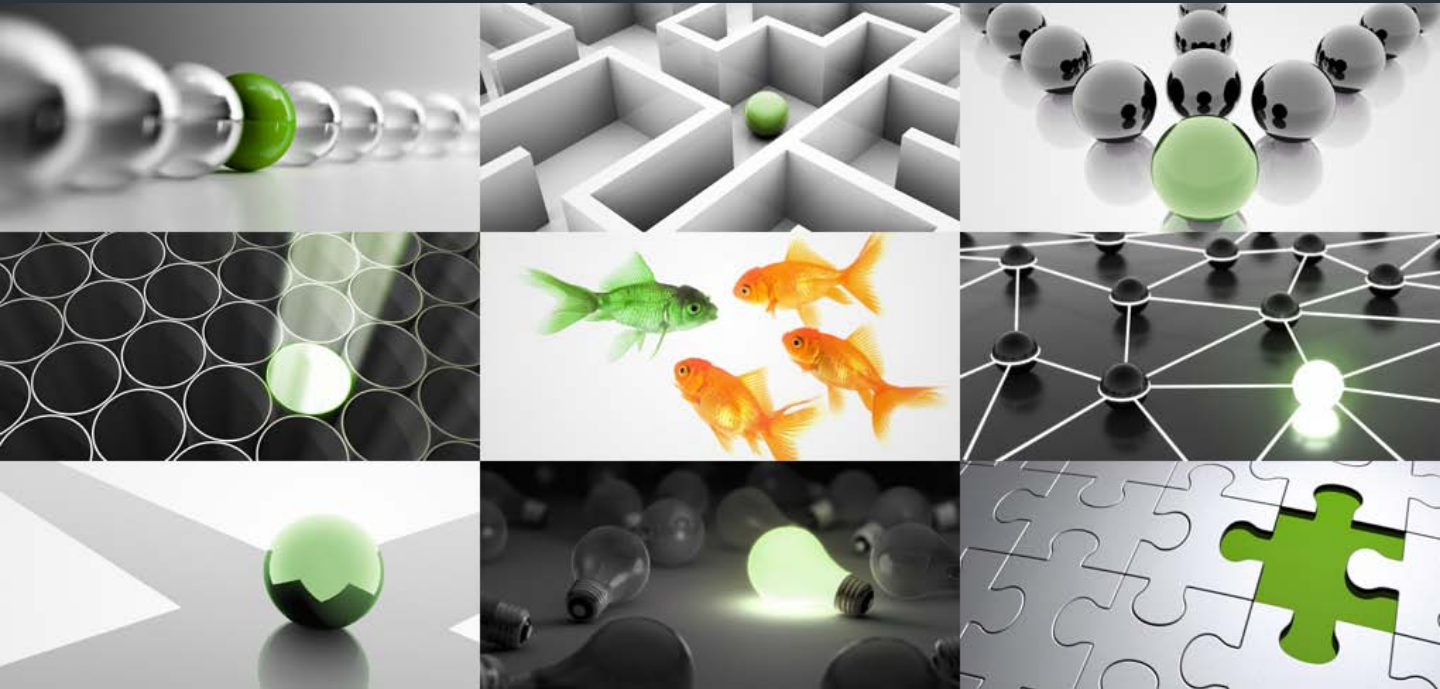


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# Rialto White Paper: Utilising Executive Interim Managers To Deliver Public Service Pension Reform

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## **About the Author**

**Robert Purse is a highly experienced and commercially aware Human Resources and General Management professional. He has worked at senior level in both the Private and Public sectors and possesses an in-depth knowledge of compensation and benefits matters, particularly occupational pension arrangements.**

**Robert has extensive practical experience of successfully managing and implementing changes to occupational pension arrangements affecting thousands of active members. In many cases, this has also involved significant changes to HR/Payroll systems and securing the consent of individual members to changes to their pension arrangements and variations to their contracts of employment.**

**Robert's company, Pension Review Advisors Ltd (PRA), has provided a detailed submission to the Public Service Pension Review Commission that was chaired by Lord Hutton. PRA has now been invited to comment on the review of the 'Fair Deal' that is currently being undertaken by HM Treasury. [www.pensionreviewassociates.com](http://www.pensionreviewassociates.com)**

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# 1. Introduction

**The purpose of this White Paper is to demonstrate the contribution that executive interim managers can make to the successful implementation of public service pensions reforms.**

**1.1.** Historically, pay in the 'Public Service' was moderated to reflect the enhanced terms and conditions of employment enjoyed by public service workers. These enhancements included:

Annual Leave Entitlement,  
Normal Retirement Age (NRA) significantly below the Statutory Retirement Age (SRA) when the state pension becomes payable,  
Pension Arrangements, predominantly Defined Benefit (DB) linked to final pensionable salary, and;  
Redundancy Payments.

Average pay in the public service has now, according to informed sources that include 'Incomes Data Services', significantly exceeded the pay for comparable roles in the private sector. Unfortunately, no one has properly advised public service workers of the true value of their total remuneration package.

**1.2.** HM Government commissioned a detailed review of public service pension provision. The Independent Public Service Pensions Commission (PSPC), chaired by Lord Hutton of Furness, produced its final report in March 2011.

In its interim report the PSPC found that the current public service pension structure had been unable to respond flexibly to workforce and demographic changes in the past few decades. This has led to:

Rising value of benefits due to increasing longevity,  
Unequal treatment of members within the same profession,  
Unfair sharing of costs between the employee, the employer and taxpayers, and;  
Barriers to increasing the range of providers of public services.

**1.3.** In its final report the PSPC made a number of significant recommendations, which included:

**1.3.1.** A new career average revalued earnings (CARE) scheme should be introduced for general use in the public service pension schemes,

**1.3.2.** Pension benefits, for active members, should be up-rated in line with average earnings,

**1.3.3.** NRA for most public service workers, but excluding the 'uniformed' services, should be increased so that it is in line with the SRA,

**1.3.4.** There should be a fixed cost ceiling to the proportion of pensionable pay that HM Government (The Taxpayer) will contribute,

**1.3.5.** That over time public service pensions should move towards a common framework for scheme design,

**1.3.6.** Every public service pension scheme should have a properly constituted, trained and competent Pension Board, with member nominees, responsible for meeting good standards of governance including effective and efficient administration<sup>1</sup>,

**1.3.7.** All public service pension schemes should issue regular benefit statements to active scheme members,

<sup>1</sup> This broadly mirrors the practice for 'Trust' based schemes in the private sector.

**1.3.8.** Central and local government should closely monitor the benefits associated with the cooperative projects within the Local Government Pension Scheme with a view to extending this approach. The Government should also examine the potential for realizing greater efficiencies in the administration of public service pensions by sharing contracts, combining support services and considering outsourcing,

**1.3.9.** The consultation process should be centrally co-ordinated to set the cost ceilings and timetables and overall implementation. The consultation on details should be conducted scheme by scheme involving employees and their representatives,

**1.3.10.** That it should be possible to introduce the new arrangements before the end of this Parliament (May 2015), and;

**1.3.11.** The Government must honour in full the pension promises that have been accrued by scheme members, and;

**1.3.12.** The final salary link for current members, for past service, be maintained.

**1.4.** The Government has accepted the PSPC's recommendations and will produce its proposals (On how to take the matter forward) in autumn 2011.

## 2. Problem Statement

There are some very significant problems associated with the PSPC's recommendations.

**2.1. Timing** – This is not a minor issue. The Government is now committed to implementing the proposed changes by May 2015. No government is likely to want such a contentious issue unresolved in the lead up to a General Election. It follows that implementation is needed by May 2014, which is just 3 years away.

The Government does not intend to table its proposals until autumn 2011, which means that implementation is unlikely to start before spring 2012. This reduces the 'window of opportunity' for successful implementation to just 2.5 years. It is our experience that 2.5 years leaves no room for slippage, particularly if there were to be a legal challenge.

**2.2. Contractual Issues** – Many public service workers will have a contractual right to a particular NRA. Changing that (NRA) amounts to a variation to their terms and conditions of employment. Such a change will require consultation, with a view to reaching agreement, with both individuals and their representatives.

Some public service workers will, almost certainly, have a contractual right to a particular type of pension arrangement. A change from 'Final Salary' to CARE will probably amount to a contractual variation.

Some public service workers, not already active members of a particular scheme, do have a contractual right to join that scheme. This may again amount to a contractual variation.

**2.3. Data** – All data held by HR, Payroll and Pension Administrators needs to be fully 'cleansed', cross-referenced and validated<sup>2</sup>.

**2.4. Communications** – This is a critical success factor! All active scheme members must receive all relevant communications. Where a scheme is not already closed to new entrants, all employees who satisfy the eligibility criteria should also receive all relevant communications.

<sup>2</sup> The author has never encountered a situation where there is an accurate match between the data held by HR, Payroll and the Pensions Administrators.



Wherever possible, each and every consultation meeting should be immediately followed by a jointly-agreed communiqué to all active members and affected employees<sup>3</sup>. It is entirely likely that there will be a hostile response from employee representatives, which means that sponsoring employers must take the initiative. In our experience an on-line ‘modeller’, validated by independent actuaries, that enables active members to fully understand the impact of proposed changes is very helpful.

**2.5. Conflicts of Interest** – We do not question the commitment, or professionalism, of our public service colleagues, but the proposed changes are, we believe outside their ‘Comfort Zone’. They may well be obliged to consult on changes that impact directly upon them and with which they do not agree. In all probability they are unlikely to possess the requisite knowledge of occupational pension arrangements and how to successfully implement changes to those arrangements within very challenging timescales.

**2.6. IT** – In addition to the problems outlined above, sponsoring employers will need to ensure that their HR and payroll systems can cope with the proposed changes, as indeed will scheme administrators.

This issue is further complicated by the impending introduction of the National Employment Savings Trust (NEST) and auto-enrolment/re-enrolment. Most, if not all, public service pension schemes will ‘qualify’ as an alternative to NEST. Few, if any, sponsoring employers in the public service will have had the functionality for auto-enrolment/re-enrolment built into their current HR and payroll systems.

<sup>3</sup>Some employees, although not active members, may have a contractual right to join an existing DB arrangement, which may provide for a link to final pensionable salary.

**2.7. Resourcing** – As identified at 1.3 (above) and 4.2 (below), the changes involved in implementing the PSPC’s recommendations are anything but ‘business as usual’. This massive change programme, if it is to succeed, will require:

**2.7.1.** Dedicated resources, it is not something that can be undertaken on an ‘ad hoc’ basis,

**2.7.2.** People, with a track record of delivering projects on time and to budget, willing to commit to a project/programme of fixed duration (c.2.5 years),

**2.7.3.** Practical experience of similar change programmes,

**2.7.4.** Expertise and a track record of success in a range of fields that include:

**2.7.4.1.** Collective consultation on complex and contentious issues,

**2.7.4.2.** Employment law,

**2.7.4.3.** HR administration,

**2.7.4.4.** Payroll and pensions administration, and;

**2.7.4.5.** Project management.

## 3. The Risks

**3.1.** The risks associated with public service pension reform are very substantial. The Government has committed to implementing the reforms during the lifetime of the current Parliament. It follows that a failure to successfully implement the reforms could have significant political repercussions.

**3.2.** The financial risks associated with any failure, particularly in the current economic climate, are substantial. Certain employers are excluded from 'The Occupational and Personal Pension Schemes (Consultation by Employers and Miscellaneous Amendment) Regulations 2006'. This exclusion applies to any employer in relation to a public service pension scheme<sup>4</sup>. The exclusion has never been tested and any employer, particularly one participating in a funded, trust-based, scheme (e.g. LGPS) would be unwise to rely upon this exclusion.

**3.3.** We advise that any employer proposing to make changes consistent with the PSPC recommendations undertakes a consultation process, with a view to reaching agreement that is consistent with:

**3.3.1.** The Occupational and Personal Pension Schemes (Consultation by Employers and Miscellaneous Amendment) Regulations 2006

**3.3.2.** The Trade Union and Labour Relations (Consolidation) Act 1992, and;

**3.3.3.** The Employment Rights Act 1996.

<sup>4</sup>This exclusion is rather strange. The Regulations (SI 2006 No. 349) are not particularly onerous and do not require consultation to be undertaken with a view to reaching agreement.

**3.4.** The key risks arise from the fact that some/many of the proposed changes probably amount to a variation to employees' terms and conditions of employment:

**3.4.1.** Collective consultation must be undertaken with a view to reaching agreement, to do otherwise would run the risk of a hugely expensive protective award being made and the entire collective consultation process having to be repeated <sup>5</sup> with the inevitable slippage against what are already challenging timescales. For a medium-sized local authority, with perhaps 15,000 FTE employees in scope of the proposed changes, a protective award could cost well over £110M. For a major (metropolitan) authority the cost could be well over £225M.

**3.4.2.** Collective bargaining arrangements need to be carefully reviewed to ensure that employee representatives/trade unions have an appropriate mandate.

**3.4.3.** Irrespective of the outcome of collective consultation, individual, written, consent to the proposed changes must be sought. A failure to do so could result in litigation. The proposed changes are contentious and it is certain that Employee Representatives and Trade Unions will be looking for any grounds upon which to base a challenge.

## 4. Previous Options

- 4.1. Typically, for a major change programme, the affected public service body would recognize that it does not have the skills and resources in-house and would go out to tender for specialist services. In the main, this work would go to large technology, outsourcing and consulting houses (Third party suppliers). Third party suppliers would typically be matched by a large internal public service team. These individuals would be seconded from other roles, and their own jobs normally backfilled by contractors, or short-term employment contracts.
- 4.2. This is not a 'typical' major change programme. It impacts the entire public service and many of the individuals who might normally have formed part of the internal team will be conflicted.

## 5. The Solution

**The proposed solution will involve:**

- 5.1.** A comprehensive review of current arrangements, which explores the options for change and the associated risks and benefits,
- 5.2.** A detailed review of contractual issues,
- 5.3.** An appropriate Project Plan covering all aspects of the proposed changes,
- 5.4.** Putting in place a full Project Team of executive interim managers with the necessary skills, experience and track record,
- 5.5.** Providing full project management/direction, and;
- 5.6.** Successful implementation, to time and budget.

## 6. The Benefits of Using Interim Managers

- 6.1. Executive Interim managers offer a value for money alternative to large technology, outsourcing and consulting houses,
- 6.2. Executive interim managers run their own businesses and are senior people, typically with board level experience in major Public and Private Sector organizations. They possess a proven record covering strategy, leadership and delivery, in particular in transformation activities. They are available in days, implement at speed and typically deliver benefits worth ten to twenty times whatever they are paid. They are objective, independent and totally unaligned. Using executive interim managers means that, unlike major consulting firms, the client never gets junior/inexperienced people,
- 6.3. There are executive interim managers, including the author, with practical experience of successfully implementing major change to occupational pension arrangements, within budget and on time, and;
- 6.4. There are many executive interim managers with a proven track record of working in the public service.

## 7. Implementation

Successful implementation depends upon a range of factors, not least the experience and expertise of the 'team'. Many organisations have experienced very significant problems in implementing changes to pension arrangements, so what is the key? Successful implementation requires:

**7.1.** Full approval (in writing), for the proposed changes, by the sponsoring employer,

**7.2.** Accurate data,

**7.3.** HR, Payroll and Pension Administration systems that are properly maintained and 'fit for purpose',

**7.4.** Honest and open communication with members,

**7.5.** Honest and open consultation with member representatives, undertaken with a view to reaching agreement, and;

**7.6** The exclusion of 'conflicted' individuals, other than member representatives, from the consultation and implementation processes.



## 8. Summary

This White Paper argues that the Government can significantly lower both the risk and cost of the major transformation activities associated with implementing the recommendations of the PSPC by using executive interim managers, rather than relying upon the major consulting firms and outsource providers.

Historically, many high profile public sector projects and change programmes that were led/supported by the major consulting firms and outsource providers have, for a range of reasons, either failed, or come in over budget and late. This is a change programme that cannot be allowed to fail and which must be delivered on time.

## 10. Acknowledgements

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**10.4 .** The Rialto Consultancy [www.rialtoconsultancy.com](http://www.rialtoconsultancy.com)

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