Title: Amendments to the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 **IA No:** DWP2016_01 **Lead department or agency:** Department for Work and Pensions **Other departments or agencies:** **THIS IS A REVISED AND FINAL IMPACT ASSESSMENT**[1]	Impact Assessment (IA) **Date:** 24/03/2016 **Stage:** Final **Source of intervention:** Domestic **Type of measure:** Secondary legislation **Contact for enquiries:** Laura.webster@dwp.gsi.gov.uk
Summary: Intervention and Options	**RPC Opinion:** Validated

Cost of Preferred (or more likely) Option				
Total Net Present Value	**Business Net Present Value**	**Net cost to business per year** (EANCB on 2014 prices)	**In scope of One-In, Three-Out?**	**Measure qualifies as**
£-37.82m	£-37.82m	£-4.18m	Yes	OUT

What is the problem under consideration? Why is government intervention necessary?

1) Financial Reporting Standard 102 (FRS102), introduced in 2014, revised the financial reporting framework in the UK, replacing all previous accounting standards for accounting periods commencing on or after 1 January 2015, and covers the format, content and accounting policies for UK pension schemes. As a consequence, Government intervention is required to amend the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 ("the 1996 Regulations") in order to remove out of date legal requirements which no longer reflect modern UK accounting practices or pension scheme investments, and to make pension scheme financial statements more useful to users.

2) Under the 1996 Regulations, trustees of Occupational Pension Schemes are required to obtain a statement from the scheme auditors on whether, in their opinion, contributions have been paid in accordance with the scheme's schedule of contributions. This requirement is difficult for the larger multi-employer schemes, and auditors who may not be able to obtain sufficient evidence to provide a basis for an auditor's statement. Intervention is required to exempt schemes with at least 20 participating employers from the requirement for an auditor's statement of contributions.

What are the policy objectives and the intended effects?

1) The policy objective is to modernise the investment disclosure requirements in the 1996 Regulations so that they better align with FRS102 and the guidance that supports it (the pensions Statement of Recommended Practice (SORP)). The intended effects are improved financial reporting and reduction of the burden on pension scheme by removing out of date investment analysis.

2) The change to the requirements for an auditor's statement will better reflect the pensions landscape which has evolved since the regulations were introduced in 1996. For example, there is now a statutory requirement for schemes to have adequate internal controls covering administrative processes, and there are also specific regulatory requirements around monitoring the flow of contributions.

[1] IMPACT ASSESSMENT HAS BEEN REVISED FOLLOWING OPINION FROM THE REGULATORY POLICY COMMITTEE (RPC). See opinion number: RPC-3277(1)

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

1) In addition to the ‘do nothing’ option, three options for amending the 1996 Regulations as a consequence of FRS102 were considered. The policy is not achievable through non-legislative options as existing requirements are prescribed in legislation.

Option 1 – update the detailed prescribed investment disclosure requirements to meet accounting standards as set out in FRS102 and the pensions SORP.

Option 2 – amend the 1996 Regulations to remove all the prescribed investments that must be disclosed, as listed in the Schedule to these regulations, and replace with a requirement that the auditor provides a statement confirming that the accounts have been prepared in line with FRS102 / the pensions SORP, noting any material departures from these.

Option 3 – the same as Option 2, but retaining those requirements not covered by the new accounting standard FRS102.

Do nothing: was not considered in detail as this would leave intact existing outdated legislations.

Following consultation, the Government’s preferred approach is Option 3.

2) On removing the requirement for an auditor’s statement, the other option considered was the “do nothing” option. On balance, we considered that we needed to update these requirements. Following stakeholder engagement the preferred option was to have a starting point of 20 participating employers, as we believe this represents the right balance between not wanting to place an impossible burden on large multi-employer schemes and ensuring that schemes that are able to meet this requirement do so.

Will the policy be reviewed? It will be reviewed. **If applicable, set review date:** 04/2021

Does implementation go beyond minimum EU requirements?			Yes / No / N/A		
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.	**Micro** Yes	**< 20** Yes	**Small** Yes	**Medium** Yes	**Large** Yes
What is the CO_2 equivalent change in greenhouse gas emissions? (Million tonnes CO_2 equivalent)			**Traded:** N/A	**Non-traded:** N/A	

I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) that the benefits justify the costs.

Signed by the responsible Minister Ros Altmann ***Date:*** 20/05/2016

Summary: Analysis & Evidence Policy Option 1

Description:

FULL ECONOMIC ASSESSMENT

Price Base Year 2015	PV Base Year 2016	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: £27.54m	**High:** £48.20m	**Best Estimate:** £37.82m

COSTS (£m)	**Total Transition** (Constant Price) Years		**Average Annual** (excl. Transition) (Constant	**Total Cost** (Present Value)
Low	Optional		Optional	**Optional**
High	Optional		Optional	**Optional**
Best Estimate	£0.1m			**£0.1m**

Description and scale of key monetised costs by 'main affected groups'

We have assumed a small familiarisation cost estimated as £40k based on approximately 7900 businesses for the removal of account and £12k for the changes to multi-employer schemes. This would be a one-off cost occurring in mid-2016.

Other key non-monetised costs by 'main affected groups'

BENEFITS (£m)	**Total Transition** (Constant Price) Years		**Average Annual** (excl. Transition) (Constant	**Total Benefit** (Present Value)
Low	Optional		£3.2m	**£27.5m**
High	Optional		£5.6m	**£48.2m**
Best Estimate	£0.0		£4.4m	**£37.9m**

Description and scale of key monetised benefits by 'main affected groups'

The key benefit is in administrative cost savings for pension schemes no longer having to provide information, preparations of disclosure, and audit.
There are also small savings for multi employer schemes that are no longer required to comply with prescribed requirements.

Other key non-monetised benefits by 'main affected groups'

Key assumptions/sensitivities/risks **Discount rate (%)** 3.5

The estimates use the standard Green Book discount rate and latest economic assumptions.

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			**In scope of OITO?**	**Measure qualifies as**
Costs: £0.1	**Benefits:** £-4.2m	**Net:** £-4.2m	Yes	OUT

Evidence Base (for summary sheets)

Background

Description of options considered (including do nothing)

Amendments to the investment disclosure requirements

1. Three options were considered in addition to the ‘do nothing’ approach (which would not modernise the 1996 Regulations), All three options as well as the draft regulations were consulted on.
2. Under Option 1, the detailed prescribed investment disclosure requirements in these regulations would be updated to reflect current accounting requirements as set out in FRS102, and current pension scheme investments. The disadvantage of this approach is the risk of future divergence between scheme investment practices and accounting standards on the one hand and the legislative requirements on the other, potentially leading to increased scheme costs and further amendments to the regulations to rectify the position.
3. Under Option 2, all of the prescribed investment disclosure requirements in the 1996 regulations, including those not covered by FRS102, would have been deleted, with the scheme auditor required to provide a statement confirming that the accounts have been prepared in accordance with FRS102 / the pensions SORP, noting any material departures from these.
4. The preferred option (Option 3) is very similar to Option 2. However, under Option 3 three of the existing provisions on investment information that must be disclosed by pension schemes would be retained as this information is not covered by the new reporting standard FRS102.

Removing the requirement for an auditor’s statement of contributions for large multi-employer schemes

5. We sought views at consultation[1] as to whether 20 was the correct figure for the number of employers that would constitute a large multi-employer scheme. We received a variety of views and, whilst some respondents thought this number was arbitrary and should be reduced, none of the respondents offered a view on what a suitable alternative number might be. We would not want this exemption to apply to all multi-employer schemes – the aim of this policy is to target the larger schemes because in general the more employers there are, the more likely it will be that the auditor will not be able to produce the statement of contributions. We believe that a starting point of 20 employers represents the right balance between not wanting to place an impossible burden on large multi-employer schemes and ensuring that schemes that are able to meet this requirement do so. We also believe that the auditor’s statement provides a helpful level of assurance for smaller schemes.

[1] https://www.gov.uk/government/consultations/occupational-pensions-reducing-regulatory-burdens-and-minor-regulation-changes

Monetised and non-monetised costs and benefits of each option (including administrative burden)

6. The proposed approach to modernising the investment disclosure provisions and changes to the requirements of multi-employer schemes combined is likely to save businesses between £3.2m and £5.6m per year with a best estimate of £4.4m (entirely through reduced scheme administration costs).

7. Using the best estimate of £4.4m the majority of the savings (£4.3m) is estimated to come in respect of the removal of the investment requirements with further savings coming from the change in requirements for multi-employer schemes to obtain statements of contributions (£0.1m).

Rationale and evidence that justify the level of analysis used in the IA (proportionality approach)

8. The methodology used in the costing of this policy impact is relatively straight forward as there is a direct saving to pension schemes who will no longer have to produce out of date investment analysis in order to comply with legislation. Indirect effects or behavioural change as a result of this policy is not anticipated. Evidence was sourced directly from Pension Industry experts to obtain realistic estimates to best represent the likely savings of removing the requirements. The alternative approach would have been to run a costly data collection exercise to obtain information directly from scheme administrators, which was deemed disproportionately burdensome for this policy change.

Investment disclosure provisions

9. The analysis for investment disclosure provisions was conducted by the Pensions Research Accountants Group[2] (PRAG) on the following basis:
   a. First, they identified the number of relevant schemes using The Pension Regulators latest information (7,894 schemes in total).
   b. Then estimated the time required to prepare accounts, disclose information and then audit the accounts (between 0.25 and 7 hours per scheme).
   c. This was then combined with a total labour cost assumption (£100 per hour) to create the final estimates in terms of the value of time saved.
10. The full calculations are set out in Annex A for information.
11. It is estimated that the number of relevant schemes impacted would be 5,994 defined benefit and 1,900 defined contribution schemes. Not all pension schemes are affected by the changes, which only have an impact on schemes that are required to have an auditor (this excludes small schemes).
12. In estimating the total administrative cost savings PRAG looked at three areas that would be affected: the provision of information; preparations of disclosure; and the audit.
13. To calculate the cost savings the Pensions Research Accounts Group estimated the number of hours that each activity would be expected to take using a high and low estimate, by size and type of scheme. This ranged from between a quarter of an hour for small schemes to seven hours for the largest DB schemes. These figures are then multiplied by the number of affected schemes and a total labour cost per hour of £100.

Wage assumptions

14. We sought advice from PRAG on the estimated cost to trustees to provide the information required. Their advice was to use an hourly rate of £100, which is an informed judgement based on their knowledge of average industry audit costs, discussions with a pension accounts service provider, and ONS wage statistics. Since this information is typically represented by accounting providers and auditors who charge fees rather than salary costs, it should not be treated as a pure wage cost and therefore it is not uprated (as any non-wage costs are already included in the estimate). We have compared this figure against a Cabinet Office report[3] on hourly auditing fees which finds the average hourly cost in 2011 to be £83, which is broadly in line with the PRAG estimate of £100 for 2016 if we account for average private sector earnings growth.

[2] PRAG is an independent research and discussion group. Further information can be found here: www.prag.org.uk/

[3] https://assets.digital.cabinet-office.gov.uk/media/5329db42ed915d0e5d00002f/130731_evidence_on_trends_in_audit_fees_wp.pdf

15. On this basis removing the requirement for provision of information is estimated to save around £0.6m, preparation of disclosures would save around £1.3m and audit of disclosures £2.4m. This would give a total annual saving of £4.3m (taking the midpoint between the high and low estimates).

Multi-Employer Schemes

16. The savings for the changes to multi employer schemes were estimated by DWP. The Pension Regulator provided an estimate of 2568 multi employer schemes and 38 master trusts that they expected would be affected by this policy. Using these figures DWP estimated savings in administrative staff time of 2 hours for multi employer schemes and 10 hours for master trusts, resulting in a total annual saving of around £100k. The assumed time saved for Master Trust schemes is higher because they have many more employers to collect information from.

17. This estimate of time taken for the preparation of a schedule of contributions is based on our knowledge of the process, work involved and an examination of the combined hours for the removal of audited accounts analysis from PRAG which includes similar collection and analysis of information. As we are removing the vast majority of the prescribed requirements, schemes will not have to comply with these when they produce their financial statements.

Familiarisation costs

18. For both measures we expect there to be some one-off familiarisation costs associated with noting the three pieces of information which they must still disclose under the amended regulations (which they will have disclosed in previous years) and noting that they will no longer have to disclose all the other information that was included in the Schedule to the 1996 Regulations.

19. The familiarisation cost will involve reading and digesting the relevant section of the miscellaneous regulations which is not expected to consist of more than a few pages. Following the approach used in a similar IA[4], we estimate it will take around 5 minutes to read (based on an average reading speed of 300 words per minute) and a further 10 minutes to digest the information. This gives a total of 15 minutes work. The assumed hourly wage rate is £19.10 and is based on the gross median hourly rate for an associate professional, which has then been increased by 27% in line with the Green Book to account for non-wage costs[5]). This gives total familiarisation costs of £40k based on approximately 7900 businesses for the removal of accounts and £12k for 2606 schemes for the mulit employer scheme changes. This would be a one-off cost occurring in mid-2016.

Risks and assumptions

20. The key risk is that the figures provided by industry do not reflect the true costs. However, to mitigate this DWP consulted with key stakeholders and industry representatives in the recent consultation asking for information on the impact on pension schemes. No comments specifically addressed the amount of savings achieved however, there was broad agreement from stakeholders that in principle there would be a reduction in costs and that the Pensions Research Accountants Group were well placed to identify the costs.

Summary and preferred option with description of implementation plan

21. Pension schemes will produce the financial information under the amended regulations when preparing their end of year documents.

    Occupational Schemes with 20 or more participating employers will no longer need to obtain a statement from their auditor as to whether, in their opinion, contributions have been paid in accordance with the scheme's schedule of contributions.

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[4] Amendments to Pension Schemes Bill (private sector defined benefit transfers) IA. IA no: RPC14-HMT-2212. September 2014. http://www.parliament.uk/documents/impact-assessments/IA14-13A.pdf

[5] This estimate is based on the assumption that pensions administration is likely to be a higher wage paying profession than general administration.. The hourly rate data are taken from the most recent available ASHE, 2015: http://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/annualsurveyofhoursandearnings/2015provisionalresults#earnings-by-occupation

Annex A: Detailed calculations

Table 1 – Provision of Information

		Defined Benefit					Defined Contribution				Total
		Up to 99 members	100-999 members	1,000-4,999 members	5,000-9,999 members	10,000+ members	12-99 members	100-999 members	1,000-4,999 members	5000+ members	
Number of schemes affected		2183	2680	802	152	177	1310	410	120	60	**7894**
Average hours taken to provide information	low	0.25	0.5	1	2	3	0.25	0.25	0.25	0.5	
	high	0.5	1	2	4	7	0.5	0.5	0.5	1	
Total estimated time cost	low	545.75	1340	802	304	531	327.5	102.5	30	30	**4012.75**
	high	1091.5	2680	1604	608	1239	655	205	60	60	**8202.5**
Cost per hour		£100	£100	£100	£100	£100	£100	£100	£100	£100	
Estimated value of time savings	low	£54,575	£134,000	£80,200	£30,400	£53,100	£32,750	£10,250	£3,000	£3,000	**£401,275**
	high	£109,150	£268,000	£160,400	£60,800	£123,900	£65,500	£20,500	£6,000	£6,000	**£820,250**
	best	£81,863	£201,000	£120,300	£45,600	£88,500	£49,125	£15,375	£4,500	£4,500	**£610,763**

Table 2 – Preparation of accounts

		Defined Benefit					Defined Contribution				Total
		Up to 99 members	100-999 members	1,000-4,999 members	5,000-9,999 members	10,000+ members	12-99 members	100-999 members	1,000-4,999 members	5000+ members	
Number of schemes affected		2,183	2,680	802	152	177	1,310	410	120	60	**7,894**
Average hours taken to prepare accounts	low	0.5	1.5	2	2.5	3	0.5	0.5	0.5	0.75	
	high	1	3	4	5	7	1	1	1	1.5	
Total estimated time cost	low	1091.5	4020	1604	380	531	655	205	60	45	**8,592**
	high	2183	8040	3208	760	1239	1310	410	120	90	**17,360**
Cost per hour		£100	£100	£100	£100	£100	£ 100	£100	£100	£100	
Estimated value of time savings	low	£109,150	£402,000	£160,400	£38,000	£53,100	£65,500	£20,500	£6,000	£4,500	**£ 859,150.00**
	high	£218,300	£804,000	£320,800	£76,000	£123,900	£131,000	£41,000	£12,000	£9,000	**£ 1,736,000.00**
	best	£163,725	£603,000	£240,600	£57,000	£88,500	£98,250	£30,750	£9,000	£6,750	**£ 1,297,575.00**

Table 3 – Audit of accounts

		Defined Benefit					Defined Contribution				Total
		Up to 99 members	100-999 members	1,000-4,999 members	5,000-9,999 members	10,000+ members	12-99 members	100-999 members	1,000-4,999 members	5000+ members	
Number of schemes affected		2,183	2,680	802	152	177	1,310	410	120	60	**7,894**
Average hours taken to prepare accounts	low	1	3	4	7	14	0.5	1	1.5	3.5	
	high	1.5	5	7	10	21	0.75	1.5	2	5	
Total estimated time cost	low	2,183	8,040	3,208	1,064	2,478	655	410	180	210	**18,428**
	high	3274.5	13400	5614	1520	3717	982.5	615	240	300	**29,663**
Cost per hour		£100	£100	£100	£100	£100	£ 100	£100	£100	£100	
Estimated value of time savings	low	£218,300	£804,000	£320,800	£106,400	£247,800	£65,500	£41,000	£18,000	£21,000	**£ 1,842,800**
	high	£327,450	£1,340,000	£561,400	£152,000	£371,700	£98,250	£61,500	£24,000	£30,000	**£ 2,966,300**
	best	£272,875	£1,072,000	£441,100	£129,200	£309,750	£81,875	£51,250	£21,000	£25,500	**£ 2,404,550**

Table 4 – Estimates for multi employer scheme changes

Multi Employer Schemes

Number of schemes		2,568
Hours per scheme		2
Price per hour	£	19
	£	96,814

Master Trusts

Number of schemes		38
Hours per scheme		10
Price per hour	£	19
	£	7,163

Total	£	103,977