The Pensions Regulator

Annual report and accounts 2012-2013

July 2013

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Annual report and accounts

2012-2013

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Chair's foreword

It has been a challenging year but I am pleased to say that the regulator, with the help of the wider pensions industry, has made good progress in our areas of responsibility.

Automatic enrolment has made a very promising start. In late 2012, our research showed high levels of awareness and understanding among the large employers approaching their staging dates.[1] This is a reflection, I believe, of the effectiveness of our education and communication work. The research also shows that support for automatic enrolment among employers remains firm, with 79% of large employers agreeing that automatic enrolment is 'a good idea' for their workers.

We are now starting to look towards the challenge of mid 2014 when large volumes of medium-sized employers will commence their duties. This period is important because it will bring the first real test of capacity in the market to deliver appropriate and timely advice, software and products to a mass market of newly regulated employers.

Ensuring that workers are automatically enrolled into quality defined contribution (DC) schemes which offer good value for money is a further priority. Over the year, we developed and consulted on our new DC regulatory approach, code of practice and accompanying guidance. These set out our regulatory framework including the six principles for good work-based DC schemes that we expect trustees to adopt during the design, set up and ongoing operation of the scheme. The code of practice provides practical advice to trustees about the requirements of pensions legislation.

Having made the important decision to save for their retirement, it is essential that members make the right choices regarding their retirement options. To this end, we will contribute to cross-government and cross-industry discussions on decumulation. Going forward, we will work with the Department for Work and Pensions (DWP) to help promote its proposed quality standards for DC schemes.

1
98% awareness and 89% understanding among employers with 250+ employees, with staging dates between May 2013 and February 2014.

With regard to defined benefit (DB) provision, we used our April 2012 funding statement for DB schemes and a second statement published in May of this year to help trustees and sponsoring companies to agree appropriate funding plans. We continue to be clear that the best support for a DB pension is an appropriately funded scheme maintained, where possible, by a strong employer.

Later in 2013, we will review our DB strategy and code of practice for DB funding. This review will include how we will take account of the new statutory objective currently being considered by Parliament that will require us to minimise any adverse impact of the ongoing funding regime on the sustainable growth of the sponsoring employer.[2]

Importantly, we also responded to the growing occurrence of pension liberation fraud with a substantial information campaign focussed in particular on pension trustees and providers but also, via the media, on individual pension scheme members. We will undertake further work, including compliance and enforcement activities, in this area in the immediate future.

These achievements have been greatly assisted by our stakeholder community. We remain committed to working with trustees, employers, suppliers and intermediaries to achieve our statutory objectives and to help protect the interests of members of all work-based pension schemes.

On a final note, I would like to acknowledge and thank the regulator's outgoing chief executive, Bill Galvin. During his five years at the regulator, the last three as chief executive, Bill has displayed strong leadership and an impressive grip on strategic, operational and technical issues. I know I speak for all Board members when I say that we are very sorry to lose Bill and we wish him further success in his new role.

Michael O'Higgins
Chair, The Pensions Regulator
21 June 2013

2
The draft wording is detailed in the Pensions Bill published on 10 May 2013.

Chief executive's report

July 2012 marked a turning point for UK society as the first large employers started to automatically enrol their workers into work-based pension schemes.

Automatic enrolment

In December 2012, our research showed that almost all large employers surveyed as they approached their staging date were both aware of and understood their duties. This is a significant achievement for the regulator and a tangible outcome of the 44,000 letters that we sent to employers and the 600 plus face-to-face meetings we conducted across the industry.

We also worked practically with intermediaries, suppliers and trustees to help to ensure that employers of all sizes have access to the right advice and appropriate products when required. This included launching a specialist hub on our website in March 2013, highlighting a range of information and tools to support advisers and intermediaries. The effectiveness of their engagement with employers due to reach their staging dates in 2014 and beyond will be a critical factor in the continued success of automatic enrolment

Part of our progress with automatic enrolment this year can be attributed to effective collaboration with our third-party partner, Capita. This included the introduction of a centralised system for employer registration with the regulator and laying the foundations for the proactive and reactive engagements with the large volumes of employers due to comply with their duties across the coming years.

In June 2012, we published our compliance and enforcement strategy and policy to help employers and the pensions industry understand how we will act in the event of non-compliance with the automatic enrolment legislation. Additionally, we have set out in revised codes of practice and guidance, which are currently laid before Parliament and the Northern Ireland Assembly, our expectations of employers and the industry in the making and monitoring of payments to schemes.

Making automatic enrolment work effectively – in particular delivering the Government's policy intent for low- to medium-earning workers and smaller employers – will require substantial changes to current administrative practices for all parties. We will work with all parts of the industry to help make this happen.

DC regulation

In parallel with our work on automatic enrolment, we undertook a series of initiatives to improve the quality of DC schemes, into which it is clear most new participants will be enrolled. From January to March 2013, we consulted with stakeholders across the pensions industry on our new regulatory approach, code of practice and guidance, and we were encouraged and informed by the number and nature of responses received. When we publish our approach later in 2013, we intend it to provide a clear path for trustees to demonstrate their focus on our six principles for quality work-based DC schemes.

We also worked hard to promote a consistent approach to the regulation of all DC schemes, both contract-based and trust-based. To this end, we published the results of our initial analysis of the degree to which the Financial Services Authority's (FSA) regulatory regime for work-based personal pensions already includes provisions that correspond with our DC quality features.

We have made clear progress in our drive to protect the benefits of vulnerable members and prevent fraudulent transactions taking place.

We plan to work with the FSA's successor bodies, the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA), to deepen and develop this analysis to ensure the current regulatory framework will support automatic enrolment effectively. We also continued to work closely with the DWP in 2012-2013 to help their analysis of the quality of DC schemes.

Pension liberation fraud

We launched a campaign in early 2013 to raise awareness of pension liberation fraud with pensions professionals and individuals. This campaign drew together resources and support from organisations including the DWP, The Pensions Advisory Service (TPAS), the FCA, HM Revenue & Customs (HMRC) and the Serious Organised Crime Agency (SOCA).

Research undertaken by the regulator following this campaign indicates that it had a significant effect on trustees' and administrators' confidence in identifying suspicious transfer requests. It also showed that both administrators and providers have begun to incorporate the campaign material into their communications with schemes and members. This is clear progress in our drive to protect the benefits of vulnerable members and prevent fraudulent transactions taking place.

DB regulation

We continued to devote significant resources to protect the interests of almost 12 million members of DB pension schemes. The difficult economic environment led to increasingly complex casework in the past year and it also contributed to our decision to initiate a more proactive engagement with a sample of schemes in respect of their funding arrangements. This involved working with schemes before the conclusion of their valuation process to facilitate a more meaningful dialogue. Given the effective outcomes achieved for schemes, sponsoring companies and members, as well as the intelligence gained by the regulator, we plan to undertake similar work during future valuation cycles.

We aim to be as clear as possible regarding our expectations of DB scheme trustees and we published our second annual funding statement following the end of the financial year in May 2013. The key messages were: first, for trustees to use the flexibility available to adopt an approach for their recovery plan that suits the individual features of their scheme; secondly, that trustees should start their consideration of funding from the position that the current level of contributions should be maintained unless there are good grounds to do otherwise. We also continued to promote an integrated approach to addressing covenant, investment and funding risks.

Our drive for transparency contributed to our decision to publish three Section 89 reports in 2012-2013. These reports are intended to give the pensions industry an increased insight into the factors we take into account when exercising our regulatory functions.

We provided substantial analysis and insight in support of the Government's review of the appropriateness of the scheme funding legislation in the current economic environment. In May 2013, this resulted in proposed legislation to provide the regulator with an additional objective.

Europe

Developments in the European pensions agenda remain somewhat uncertain. Our recent work in this area included carrying out a quantitative impact study (QIS) for the European Insurance and Occupational Pensions Authority (EIOPA) on behalf of UK pension schemes to feed into the European Commission's review of the Institutions for Occupational Retirement Provision (IORP) Directive. We sought to represent the UK perspective from a position of independence and authority, and to ensure the UK industry was engaged in the discussion on the European proposals. We were encouraged that, in May 2013, the Commission announced that it would not include any new requirements in respect of DB funding in its proposal for a new IORP Directive planned for the autumn of 2013. However, we recognise that the approach in this area is evolving.

Operations

The increased scale and scope of our work in the past year placed a greater reliance than ever on our efficiency and effectiveness as an organisation and placed new demands on our ability to communicate our actions and requirements to the relevant audiences. In response, we developed a new corporate website, established a revised whistleblowing service to support automatic enrolment and strengthened our competency in the use of digital media.

To take account of lower than agreed staffing levels, we ran an on-going recruitment exercise across the past year. This attracted the new employees required to deliver the longer-term needs of each of our main business areas and to progress additional, new work areas. Recognising the operational challenges that lie ahead, we commenced an improvement programme for our regulatory core systems, with the aim of building new capability and increasing existing capacity in contact and case management.

We aim to be as clear as possible regarding our expectations of DB scheme trustees.

Risk

The effective assessment and management of risk is central to our task. This includes both internal risks to the attainment of our corporate objectives and external risks to pension scheme members. To develop our judgment-based decision-making capabilities, we set up dedicated risk committees in each of our main business areas, and to invest in analytical decision support tools, we focussed on the development of a model risk framework. Across the business, 2012-2013 laid the groundwork for increasingly targeted risk-based interventions.

The prevailing financial uncertainty and new policy initiatives to protect member benefits mean we must remain flexible in our approach and methodology. Alongside our work on the delivery of our **Corporate plan 2013-2016**, we will continue to contribute to key government policy decisions on issues such as the movement of small pots and improvement of scheme transfers, the defined ambition agenda and the quality assurance of DC schemes. Our actions in 2012-2013 have placed us in a strong position to respond with confidence and leadership to the dynamic pace of change across the work-based pensions landscape.

I must finish by thanking the committed and exceptionally capable staff and leadership team at the regulator for a year of significant achievement. Despite the resourcing challenges in almost all areas, individuals and teams delivered their plans and more. I was – as I have been for the past five years – hugely impressed by the commitment and spirit of our teams who are clearly dedicated to improving the outcomes for pension scheme members across the UK.

The effective assessment and management of risk is central to our task.

Bill Galvin
Chief executive, The Pensions Regulator
21 June 2013

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Introduction

- The Pensions Regulator
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- Stakeholders

The Pensions Regulator ('the regulator') is the UK regulator of work-based pensions. It is a non-departmental public body established under the Pensions Act 2004.[3] Our sponsoring body is the Department for Work and Pensions (DWP).

The Pensions Regulator

We are responsible for regulating work-based pension schemes including occupational defined benefit (DB) schemes, occupational defined contribution (DC) schemes and certain aspects of work-based personal pensions.

We are also tasked with maximising employer compliance with the employer duties related to automatic enrolment into pensions. From 2015, we will have additional responsibility for regulating the governance and administration of public service pension schemes.

We are funded via Grant-in-Aid from the DWP and are financially accountable to the Secretary of State for Work and Pensions. Some of our operating costs are recovered from eligible schemes via a levy set up by the DWP. The set up and operating costs of the automatic enrolment programme established under the Pensions Act 2008 are not offset by the levy.

3
In this **Annual report and accounts**, references to the law that applies in Great Britain should be taken to include corresponding legislation in Northern Ireland.

Annual report and accounts

The **Annual report and accounts 2012-2013** sets out what we delivered within each of the strategic themes set out in our **Corporate plan 2012-2015**:

- Reducing risks to DB scheme members
- Reducing risks to DC scheme members
- Automatic enrolment, and
- Better regulation.

It also includes our:

- Governance statement
- Accountability reports
- Financial review
- Statutory accounts and notes to the accounts, and
- Sustainability report.

The Governance statement and Accountability reports outline the main responsibilities and 2012-2013 activities of our Board, Audit committee, Remuneration committee, Determinations Panel and Senior management team. They also include details on our systems of internal controls and risk management.

The Financial review provides an overall summary of our performance in 2012-2013 and includes a remuneration report. A more detailed breakdown of our expenditure is set out in the Statutory accounts and notes to the accounts on pages 102 to 133.

The Sustainability report details how we have performed in relation to our commitment to reducing carbon emissions by 25% baselined against 2009-2010 by the target date of 2014-2015.

Finally, we have included five appendices on: The pensions landscape, Longer-term indicators, Formal exercises of delegated powers, Corporate plan 2012-2015 summary, and Key publications and web activity 2012-2013.

Regulatory approach

We have a range of functions directed by five statutory objectives:

- To protect the benefits of members of occupational pension schemes.
- To protect the benefits of members of personal pension schemes where direct payment arrangements are in place.
- To reduce the risk of situations arising which may lead to compensation being payable from the Pension Protection Fund (PPF).
- To promote, and to improve understanding of, the good administration of work-based pension schemes.
- To maximise employer compliance with employer duties and the employment safeguards (introduced by the Pensions Act 2008).

In undertaking our work we also have regard to the principles of good regulation. That is, to be: proportionate, accountable, consistent, transparent and targeted (PACTT).

We are a risk-based regulator and, as such, our strategic and operational approaches are founded on the assessment and management of both external and internal risks. We have processes in place across all of our business areas to identify and prioritise risks to members with an overall aim to ensure that our resources are focussed on the most significant risks and where our interventions will have the greatest impact.

Educate, enable and enforce is the operational approach we take to implement our regulatory strategy in each of our business areas. Educating and enabling includes producing codes of practice, guidance, toolkits, information and campaigns to communicate our regulatory expectations to the regulated community and other key audiences. Where education and enablement fail to drive behaviours to the appropriate standards, we have a number of enforcement options available to us.

Educate, enable and enforce is the operational approach we take to implement our regulatory strategy.

Government partnerships

We work closely on both strategic and operational pensions matters with a number of government and regulatory bodies.

The DWP is responsible for developing and maintaining the legislative framework for both state and occupational pensions.

The FSA, which has now been succeeded by the FCA and the PRA, was responsible for the regulation of providers of work-based personal pensions for the period of this report. We are committed to working with the FCA and the PRA, to ensure the regulation of DC provision is appropriate.

HMRC is another important government partner for the regulator in relation to sharing pension scheme data such as employer and scheme registration details.

Our other government partners include the PPF, HM Treasury (HMT), the Insolvency Service, the SOCA, the Office of Fair trading (OFT) and TPAS.

Co-operation with regulators in other countries

We work closely with regulators from other countries in order to protect member benefits effectively in situations where company sponsors have a global presence. We also work with the EIOPA through representation on internal committees and panels, and by contributing to its governance and decision-making through the board of supervisors. We are committed to sharing best practice with international regulators where possible. We are a member of the OECD Working Party on Private Pensions (WPPP) and the International Organisation of Pension Supervisors (IOPS).

Stakeholders

We work with stakeholders across the pensions sector. We engage with representatives of employers, pension providers and advisers, trustees, legal professionals and consumer and member organisations. We seek to have an effective dialogue with our stakeholders and to gain their support in delivering our statutory objectives. We engage with them through a wide range of channels, including our stakeholder advisory panel, an annual stakeholder conference and many other formal and informal discussions on our regulatory approach and policy.

We seek to have an effective dialogue with our stakeholders and to gain their support in delivering our statutory objectives.

Strategic themes

- Theme 1: Reducing risks to DB scheme members
- Theme 2: Reducing risks to DC scheme members
- Theme 3: Automatic enrolment
- Theme 4: Better regulation

Theme 1: Reducing risks to DB scheme members

Our areas of focus for DB regulation in 2012-2013 included engaging with schemes as they undertook the second cycle of triennial valuations, working proactively and flexibly with schemes in a risk-based manner, and investigating risks brought to our attention through whistleblowing reports, notifiable events,[4] scheme returns and horizon scanning.

Policy

During the year, we worked closely with the DWP to provide information and analysis to help it to consider whether to enable companies to smooth assets and liabilities in scheme funding valuations and to develop a new statutory objective for the regulator.

The Chancellor announced in March 2013 that the regulator will be given a new statutory objective to minimise any adverse impact of the ongoing funding regime on the sustainable growth of the sponsoring employer.[5] We will work with our stakeholders and the industry to consider the changes that may be required in our approach – including considering the 2004 funding regime in light of the new objective. This will be done as part of a review of our DB strategy and our code of practice for DB funding. Given the lack of a strong case in its favour, the Government chose not to proceed with a measure to permit smoothing.

Europe

In 2012-2013, we undertook a quantitative impact study (QIS) for the EIOPA on behalf of UK pension schemes to feed into the European Commission's review of the IORP Directive. The QIS results indicated that, depending on what the European Commission decides, proposals for implementing an EU-wide method for assessing scheme assets and liabilities by the use of a 'holistic balance sheet' could have a very significant impact on funding requirements for DB pension schemes in the UK. The EIOPA published the preliminary QIS report, incorporating results from all of the selected member states, in April 2013.[6]

4
See s69 Pensions Act 2004 and Regulations made there under.

5
The draft wording is detailed in the Pensions Bill 2013 published on 10 May 2013.

6
In May 2013, the Commission announced that it would not include any new requirements in respect of DB funding in its proposal for a new IORP Directive planned for the autumn of 2013.

Educate and enable

In April 2012 we published a statement on DB funding, **Pension scheme funding in the current environment**, for trustees and company sponsors of schemes undertaking scheme valuations from September 2011 to September 2012 (the '2012 funding statement'). The statement set out influential economic factors, as well as our expectations of schemes in relation to risk management, the calculation of technical provisions, and the basis for recovery plans.

We provided further information for schemes in May 2012 when we published **Scenarios for scheme funding plans in the current economic conditions**, which included case examples of how we see the approaches outlined in our funding statement working in practice.

In October 2012 we expanded on this work with our publication, **The defined benefit regime – evidence and analysis**. This document set out evidence on the ways in which schemes could make use of some of the flexibilities in the regime, particularly regarding discount rates, recovery plans and contingent assets. It also looked at estimates of the impact of the use of these approaches on schemes with valuation dates between 22 September 2011 and 21 September 2012.

We published our second annual funding statement on 8 May 2013. This statement was relevant for trustees of all schemes but was aimed primarily at schemes with valuation dates between 22 September 2012 and 21 September 2013. It signalled the review of our approach to regulating DB schemes which we plan to undertake in the autumn, taking into account the development of a new statutory objective while setting out how we expect schemes to behave now.

The key messages were: first, that trustees can use the flexibility available in setting the discount rates for technical provisions and the investment return assumptions for recovery plans to adopt an approach that best suits the individual characteristics of their scheme and sponsoring company; secondly, as a starting point, that trustees should consider whether the current level of contributions can be maintained. We also repeated our encouragement for trustees to take an integrated approach to addressing covenant, investment and funding risks and set out how our new risk indicators will help us to focus our resources on the schemes that pose the greatest risks and where we may have the greatest impact.

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At the same time as publishing the statement, we published:

- supplementary analysis for pension schemes with a valuation date between September 2012 and September 2013, which highlighted the fact that challenges presented by the current market conditions are likely to be more pronounced for this group of schemes than for those with a valuation date in the previous year
- a short report on our experience of dealing proactively with a selection of schemes with valuation dates between 22 September 2011 and 21 September 2012, see below for more details, and
- our research on the 2012 funding statement.

Monitoring, compliance and enforcement

We take a risk-based approach to regulation, intervening in schemes where we believe our actions will have the greatest impact on achieving our statutory objectives. Risks are alerted to us through a variety of routes, such as: notifiable events, reported breaches, information on scheme returns as well as through the valuation process. In 2012-2013, we undertook 2,260 cases through looking at valuations and 353 cases where risks were raised through other routes.

All schemes have now completed two full valuations, which has helped us to better identify areas of risk.

Valuations and recovery plans

The law requires every scheme to undertake a full scheme valuation once every three years. Where assets do not equal or exceed liabilities,[7] schemes are required to submit a recovery plan to the regulator for review. All schemes have now completed two full valuations, which has helped us to better identify areas of risk. This has, in turn, enabled us to work more proactively with schemes and to reach solutions in a shorter timescale than in previous years.

We received 1,558 recovery plans for schemes with valuation dates between 22 September 2010 and 21 September 2011. All plans received an initial assessment and, of these, 236 required additional review and engagement from the regulatory case teams or extra action related to late valuations. There are 241 2010-2011 recovery plans still under review.

7
On a technical provision basis.

Working proactively with schemes

In 2012-2013, we undertook a new initiative to work with a sample of schemes before the conclusion of their valuation process. Forty of the largest 200 schemes were selected and the aim of our engagement was to facilitate a dialogue through which the regulator could develop a greater appreciation of the challenges schemes face, and the schemes and sponsoring companies could gain a better understanding of our concerns and expectations.

As a part of this process, trustees of the selected schemes were encouraged to gather together information on the scheme's funding, employer covenant and investments in order to produce an integrated financial and risk management plan. Given the effective outcomes achieved for schemes, sponsoring companies and members through this proactive approach, as well as the intelligence gained by the regulator and the response received from schemes, we plan to undertake similar work during future valuations.

Clearance and avoidance

We considered approximately 41 clearance cases in 2012-2013, many of which demonstrated the increasingly complex arrangements entered into by sponsors of DB schemes. We issued 27 clearance statements in relation to contribution notices and 24 clearance statements in relation to financial support directions. We also undertook investigation in approximately 17 avoidance cases.

Section 89 reports

Following certain cases in the past year, we published Section 89 (s89)[8] reports outlining the regulatory action we have taken with a view to increasing our transparency. We published three s89 reports in 2012-2013:

British Midland Airways Limited Pension and Life Assurance Scheme

Having established that our moral hazard powers[9] were not available, we approved a regulated apportionment arrangement (RAA) whereby the scheme's liabilities passed to the PPF. RAAs are very uncommon and the regulator will only approve them if it believes it is reasonable to do so. Some of the particular factors taken into account in this case were set out in the report. The agreement reached resulted in the PPF receiving £16 million, which is significantly more than it would have been allocated in the event of insolvency.

GP Noble Trustees Limited and others

Concern over the disinvestment of £52 million from nine pension schemes led, in 2008, to the regulator suspending the trustee and appointing a new trustee with exclusive powers to the schemes concerned. The regulator went on to work with the appointed trustee and the Serious Fraud Office (SFO) and freezing orders were obtained by the appointed trustee on relevant bank accounts. Our regulatory action in this case resulted in the appointment of a trustee who, to date, has been able to recover approximately £36 million to the schemes via civil proceedings.

UK Coal

In 2012, the directors of UK Coal plc concluded that a restructuring of the group's operating structure was necessary in order to mitigate the group's operating risk and to facilitate the raising of funds. Following extensive negotiations, the relevant stakeholders (including the group, the trustees of the two sponsored pension schemes and the group's bankers) agreed a plan to restructure the business. The regulator granted clearance to certain entities within the group in respect of the restructuring plan and this report set out factors the regulator took into account in its considerations. The restructuring enabled the best available opportunity to maximise the value which the group could provide to the sponsored pension schemes.

8
Under s89 of the Pensions Act 2004 the regulator may, if it considers it appropriate to do so in any particular case, publish a report of the consideration given by it to the exercise of its functions in relation to that case and the results of that consideration.

9
Financial support direction and/or contribution notice.

Key performance indicators (KPIs)

The table below outlines how we performed against our in-year KPIs relating to DB scheme regulation as set out in our **Corporate plan 2012-2015**.

KPI	Outcome
Scheme funding expectations Awareness and understanding of the regulator's expectations regarding scheme funding among schemes and their advisers undertaking scheme valuations in the period September 2011 to September 2012, following publication of our 2012 funding statement.	Although, we were unable to measure our performance at the end of the year,[10] our survey (and interim measures) in Q3[11] among schemes and their advisers found that the majority of the messages were understood by employers and trustees.[12] Three fifths of trustees (58%) and half (49%) of employers claimed they understood all 10 key messages in the statement. On average across the 10 key messages in the statement, 85% of employers and 89% of trustees had at least some understanding of the meaning of the messages. These initial results indicate a positive response to our first funding statement and we have built on this with the publication of our second funding statement in May 2013. We have retained this KPI in our 2013-2014 Business plan.

10
We were unable to measure our performance at the end of the year as planned, as we were not able to carry out the two surveys required: the first to establish a baseline, and the second to rate performance. The second had to be delayed due to the Government's Call for Evidence on smoothing and a new statutory objective for the regulator.

11
To see the research report on the regulator's 2012 funding statement, go to: **www.tpr.gov.uk/docs/research-report-funding-statement-2012.pdf**

12
Actuaries were not asked this question.

Key performance indicators continued...

KPI	Outcome
Recovery plan response time Period of time taken by the regulator to respond to recovery plans.[13]	The recovery plan response time, on a rolling 12-month basis, at the end of this year was 3.7 months compared to our target of 3 months. Although we missed our target, there was a gradual improvement over the year: • 4.4 months in Q1 • 4.6 months in Q2 • 4.2 months in Q3 • 3.7 months in Q4. The improvement is partly attributable to concerted efforts to generate a timely decision in response to recovery plan submissions and to drive improvements in ways of working. We are undertaking more work to identify and deliver other process improvements to ways of working, and we expect benefits to be gained from these in 2013-2014. We have retained this KPI in our 2013-2014 Business plan.
Risk management Proportion of trustees with a DB scheme who manage funding and investment risk with reference to covenant.	In our Q2 scheme governance survey findings, half (49%) of the schemes surveyed said that they 'fully integrate' the management of scheme funding, scheme investments and the employer covenant. We set an increased target of 59% for Q4 on the basis that we would publish our revised DB regulatory approach in Q3 to help meet the KPI, but this was not published due to the DWP's Call for Evidence. The Q4 result (47%) therefore missed the target. We have retained this KPI in our 2013-2014 Business plan.
Record-keeping Proportion of member records in large DB schemes with all the common data items in place.	We did not achieve our target of 95% for this. However, a significant improvement has been made, with the proportion of member records with all the common data items in place almost doubled from the 34% measured in March 2012 to 60% in March 2013. We have modified the KPI this year to focus on all schemes being used for automatic enrolment, with a target of 70%. We aim to continue to drive improvements in this area in 2013-2014 through our record-keeping thematic review and a planned revision of our 2010 record-keeping guidance.

13
This KPI measures the average period of time taken by the regulator to make an initial decision on recovery plans.

Theme 2:
Reducing risks to DC scheme members

Our activities in 2012-2013 reflect our progress towards achieving our strategy of raising standards in DC schemes and improving outcomes for members. This goal is particularly important in the context of automatic enrolment and we supported trustees, providers, advisers and employers in the management, provision and selection of quality schemes.

Policy

In January 2013, we published our consultation, **Regulating work-based defined contribution pension schemes**. Our approach for regulating occupational DC trust-based pension schemes is built on the basis that they should be capable of delivering good member outcomes. We believe the following six elements are needed to achieve this:

- appropriate contribution decisions
- appropriate investment decisions
- effective and efficient administration
- protection of assets
- value for money
- appropriate decumulation decisions.

In order to deliver these elements we expect trustees to adopt our six principles for good work-based DC schemes[14] during the design, set up and ongoing operation of the scheme:

- **Principle 1:** Essential characteristics
- **Principle 2:** Establishing governance
- **Principle 3:** People
- **Principle 4:** Ongoing governance and monitoring
- **Principle 5:** Administration
- **Principle 6:** Communication to members.

14
First published in December 2011.

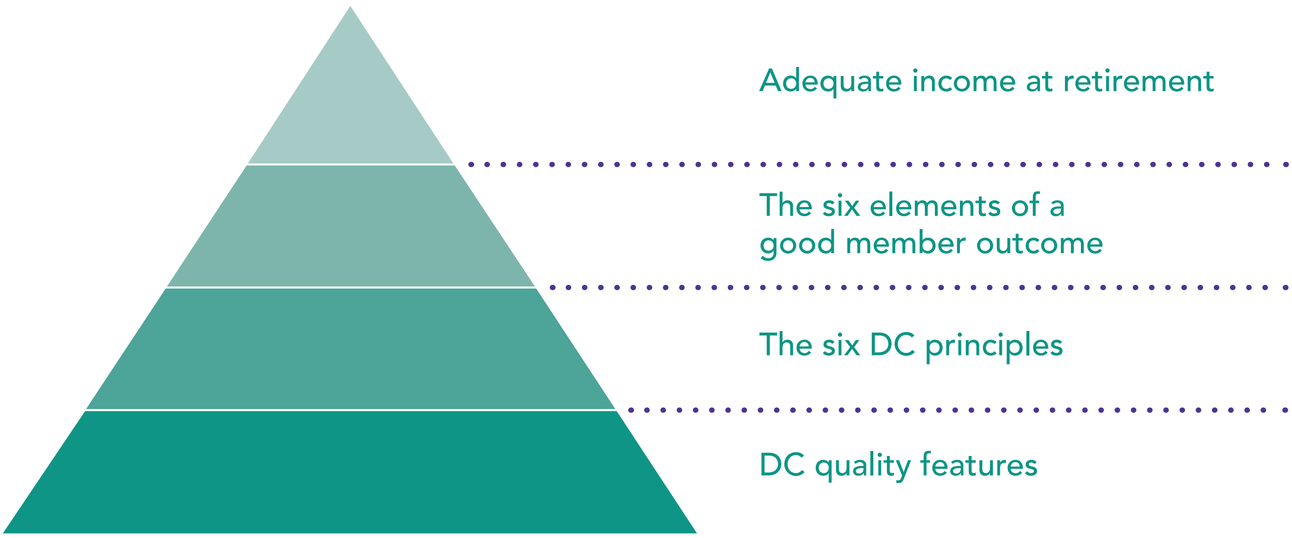
Our consultation comprised the following documents:

DC regulatory approach

This set out our draft regulatory framework for all DC schemes, including work-based personal pension schemes, and incorporated a list of the DC quality features that we first published in draft form in June 2012. These features underpin our six principles and offer further detail on the activities, behaviours and control processes that we believe schemes should incorporate in order to deliver good member outcomes. This document explained how we would use our Educate, enable and enforce approach in relation to DC schemes in order to improve outcomes for DC members.

It also set out how we intend to tailor our approach to different segments of the DC market according to scheme type and size, and how we will target our resources at the risks presented in each segment. The diagram below illustrates the relationship between each of the components of our DC regulatory approach.

Our DC regulatory approach



DC code of practice

The draft DC code provided practical guidance for trustees of occupational DC trust-based pension schemes about the requirements of pensions legislation. It set those DC quality features underpinned by legislation in the context of their legal framework. Its aim is to enable trustees with responsibility for discharging those requirements to show they have achieved the standards which the regulator considers are likely to drive good member outcomes.

DC regulatory guidance

The draft DC regulatory guidance provided information, education and assistance to trustees of occupational DC trust-based pension schemes on the good practice standards of governance and behaviours which we believe will achieve good member outcomes. It set out guidelines on actions that trustees can take in order to implement those DC quality features that are not covered by the DC code. This document should be read in conjunction with the code.

By following the guidance supplied in both the code of practice and regulatory guidance, trustees and providers can assess whether all of our quality features are present in their scheme. The features are the evidence that we look for to support claims that our DC principles have been adopted.

The consultation ended on 28 March 2013 and we received a wide-ranging response from both the supply and demand sides of the pensions industry. We will use this information to finalise our regulatory approach, code of practice and guidance for DC schemes later in 2013.

To complement the consultation, we also published **Principles and features for good quality pension schemes**. This presented the results of our initial analysis of the degree to which the FSA's (and its successor bodies') regulatory regime for work-based personal pensions already includes provisions that correspond with our DC quality features. Our analysis demonstrated that the FSA's regime is, in many respects, comparable to our regulatory framework for occupational DC trust-based pension schemes.

We will continue to work closely with the FCA and the PRA to achieve consistent standards and levels of protection across the DC landscape. Later in 2013, we will publish, with the FCA, further work setting out how the regulation of work-based personal pension schemes operates. We will also consider whether there is a need to agree joint working protocols with the FCA and the PRA to ensure a consistent regulatory approach to breaches of the law.

We will publish, with the FCA, further work setting out how the regulation of work-based personal pension schemes operates.

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We seek to ensure that the overall regulatory framework for DC schemes remains appropriate following the introduction of automatic enrolment. To this end, we are working with the DWP and across government to support the creation of high quality DC schemes that represent good value for money. We are also contributing to policy development regarding the movement of small pots and improvement of scheme transfers.

In relation to improving scheme governance and administration, we carried out specific in-depth qualitative research into the process of switching scheme administrators. The purpose of this work was to better understand the risks and challenges that the relevant parties face when switching administrators, such as transferring data. As a result of this study, we were able to identify key challenges faced by trustees and administrators in this area.

We started to work with the Pensions Administration Standards Association (PASA) in relation to drafting a code of practice for administrators, and we intend to consider how we can provide more support for trustees. This may include developing practical guidance or a check list of questions to ask and things to consider both when deciding whether to switch administrators and when going through the switching process.

We are working with the DWP and across government to support the creation of high quality DC schemes.

Educate and enable

In addition to the consultation documents detailed above, during the year we developed and published a range of information and education tools to support trustees, providers and employers to deliver good outcomes for DC scheme members. This included the online tool, **DC qualifying schemes**, which was designed to help employers to check whether their existing DC scheme meets the minimum legal requirements to qualify as an automatic enrolment scheme. We published a further guide for employers, **Selecting a good automatic enrolment scheme**, which set out the questions they should ask when choosing a scheme.

We also updated our Trustee toolkit this year to reflect the evolving nature of DC scheme regulation and we will further revise the DC modules when our regulatory approach is finalised.

As part of our drive to develop effective education and enablement tools, we set up a panel of industry practitioners to provide commentary on our general approach to the regulation of DC schemes, with a particular focus on the provision of appropriate tools. We have already hosted two very successful panel sessions in February and May 2013, and we are using the insight gathered from these events to inform our regulatory plans.

By providing effective guidance and tools and through raising awareness of our DC principles and quality features, we intend to help employers to select durable, well-governed schemes that are of a sufficient quality to deliver good member outcomes. We supported this process in 2012-2013 by starting to develop an independent voluntary assurance framework for master trusts.

We also intend to place a greater expectation on trustees and pension providers to deliver suitable products. To this end, we will set out the standards we expect to see when we finalise our regulatory approach, code of practice and guidance for DC schemes later in 2013. This will include details of our anticipation that all schemes should be able to demonstrate the presence of our quality features or to explain how what they are doing is equally compliant with the law. This will allow employers choosing a scheme for automatic enrolment on the open market to make comparisons and to be confident in their choice.

Further to this work, we have continued to liaise with our government partners, the DWP, HMT and the FSA (and its successor bodies), to improve the quality of DC schemes. In 2012-2013, this included contributing to the cross-government open-market option review group aimed at helping scheme members to achieve a good outcome from the annuity buying process.

An important element of our programme of work to improve DC scheme governance and administration involves driving up record-keeping standards. We believe that good quality record-keeping practices within schemes go a long way to protecting member benefits and the results from our 2012 record-keeping survey indicate that there is still work to be done in this area. In September 2012, we published, **Record-keeping: A progress check for trustees** and **Record-keeping: frequently asked questions about common data**.

Pension liberation fraud

Pension liberation fraud can occur in situations where people are persuaded to transfer to a new arrangement to release their pension funds before age 55 and convert them into cash. This is not the same as pension unlocking. The fraud occurs where members are misled about the possible consequences of making such a transfer, in respect of tax, fees and/or investments.

We have seen a significant increase in pension liberation fraud since 2011, resulting in known liberated funds of £200 million at the end of 2011 rising to at least £400 million by the end of 2012. To help combat this we initiated a media campaign with HMRC and the FSA in 2012 to raise awareness of the risks among individuals.

We followed this up in early 2013 with the launch of a large-scale, cross-government campaign aimed at pensions professionals as well as individuals. This involved working with other agencies, including TPAS, to create and distribute a detailed information leaflet for members to help them to understand the consequences of pension liberation fraud on their pension savings, and a warning insert for administrators and pension providers to include in the information they provide to members who request a transfer of their pension fund.[15]

We also produced an action pack and e-learning module for pensions professionals providing:

- example scenarios of pension liberation fraud
- the warning signs when members have been targeted
- information on what you can do to reduce the risk of pension liberation fraud
- a checklist for trustees and administrators to help spot liberation arrangements
- help for trustees and administrators on educating members, and
- steps to take where pension liberation fraud is suspected.[16]

We developed a number of measures to assess the success of our pension liberation fraud campaign including related research as to its effectiveness. To date, we have sent out information emails with a reach of nearly 175,000 recipients and direct mail with a reach of 72,000 recipients. Enquiries made to the regulator relating to pension liberation fraud rose from 161 in the 10-week period before the campaign to 522 in the 10-week period of the campaign. Our campaign forms part of a cross-government initiative to combat the threat of pension liberation fraud and to provide a co-ordinated response to the issues.

15
In 2012-2013, the information leaflet received 5,683 online page views and the insert received 3,864 page views. They can both be downloaded from: **www.pensionsadvisoryservice.org.uk**

16
The action pack, which received 4,856 page views in 2012-2013, and the e-learning module are available at: **www.tpr.gov.uk/professionals/pension-liberation-fraud-professionals.aspx**

Monitoring, compliance and enforcement

Our work in this area took on a variety of forms in 2012-2013. We conducted annual research and analysis relating to DC schemes and shared our findings in both statistical publications, such as **DC trust 2013** and survey reports on themes including scheme governance and record-keeping.

In early 2013, we launched a record-keeping thematic review to assess progress across the industry in meeting the quality standards set out in our 2010 record-keeping guidance for achievement by the end of 2012. We selected schemes for review using objective sample criteria and we have started to contact these schemes to request information on their data and record-keeping processes. When our review is complete, we will publish a report on our findings with the intention of demonstrating to schemes what they have to do in order to achieve good practice in this area. Where necessary, we will intervene to support schemes in meeting the required standards. We plan to review and update our 2010 record-keeping guidance later in 2013.

We intend to consult on a compliance and enforcement approach for DC schemes later in 2013. This will set out how we will:

- identify and monitor risks of non-compliance with legal requirements
- assess whether what we find is a potential breach of the law that requires further action, and
- determine which enforcement options to use to resolve problems we have identified.

We plan to review and update our 2010 record-keeping guidance later in 2013.

Key performance indicators

The table below outlines how we performed against our in-year KPIs relating to DC scheme regulation as set out in our **Corporate plan 2012-2015**.

KPI	Outcome
Six DC principles Awareness and understanding of our six DC principles of scheme design and management among the main demand and supply audiences.	By the time automatic enrolment ends in 2018, we aim to ensure that all members are enrolled into schemes where our six DC principles and underlying quality features are fully met. In-year targets were set for four key audiences associated with DC schemes, relating to our interventions to improve engagement with our six DC principles. The four audiences were: • large employers (target: 60% to be aware of the six DC principles; result 39%) • large trust-based schemes (target: 95% to be aware of the principles; result 90%) • large employee benefit consultants (target: 100% to understand the principles; result 92%), and • scheme providers (target: 100% to understand the principles and to have incorporated the principles into their schemes being used for automatic enrolment; result 100% and 78% respectively). We have retained this KPI for the relevant audiences in our 2013-2014 Business plan. We expect our performance results to improve following publication of our DC enforcement approach in 2013-2014.
Record-keeping Proportion of member records in large DC schemes with all the common data items in place.	As is the case for our DB record-keeping KPI, although we did not hit our target of 95% of member records in large DC schemes with all the common data items in place, there was a significant improvement in this measure: 55% in March 2013 compared to 35% in March 2012. We have modified the KPI this year to focus on all schemes being used for automatic enrolment, with a target of 70%. As is the case for the DB KPI, we expect to see further improvements following our record-keeping thematic review and the planned revision of our 2010 record-keeping guidance.

Key performance indicators continued...

KPI	Outcome
Trustee understanding of scheme charges The proportion of schemes with a DC element whose trustee boards have a 'fairly good', 'very good' or 'extremely good' understanding of the three key DC scheme charges: • annual management charge • total expense ratio • portfolio turnover rate.	By the time automatic enrolment ends in 2018, we aim to ensure that all members are enrolled in a scheme where trustees have a good understanding of scheme charges. This year, we missed our interim target of 39%, with a result of 32%. We expect this figure to significantly increase as a result of a number of initiatives in 2013-2014. These include new guidance for trustees on how to assess value for money, revised Trustee toolkit modules incorporating more information on costs and charges, and an OFT market study to examine the value for money element in DC schemes. We have retained this KPI in our 2013-2014 Business plan.
DC programme delivery milestones Proportion of DC programme milestones completed on time and within tolerance.	We have achieved our target of 100% in relation to this KPI. It has been a successful year for our DC programme culminating in the delivery of a consultation comprising a code of practice for trust-based DC schemes, accompanying guidance and a summary of our regulatory approach. Following a review of responses to the consultation, we will finalise our approach later in 2013. We have retained this KPI in our 2013-2014 Business plan.

Theme 3: Automatic enrolment

Supporting employers, advisers and providers to prepare for the onset of automatic enrolment was a key priority in 2012-2013. Safeguarding duties for employers came into force in July 2012 and the first employers to be affected by the legislation brought forward their staging date to start automatically enrolling their employees at this time. This is a significant pension reform and approximately 1.35 million employers will be subject to the new duties by 2018. This will result in around 6-9 million workers starting to save into a pension scheme for the first time.

Policy

In June 2012, we set out the approach we will take to meet our statutory objective to maximise compliance with the automatic enrolment employer duties and safeguards introduced by the Pensions Act 2008, as well as the approach we will take to protect the benefits of members of work-based pension schemes. We published this information in our compliance and enforcement strategy and policy.

Compliance and enforcement strategy

This document set out our risk-based approach in regard to maximising compliance with the legal obligations set out in the Pensions Act 2008 and other relevant legislation. It stated our commitment to the better regulation principles (see page 17), which includes targeting our resources on the areas that present the highest risk and outlined our enforcement options.

Compliance and enforcement policy

This document detailed how we intend to achieve the strategy's objectives and provided a robust framework in which to conduct our work. It explained how we aim to deter and prevent non-compliance risks, and to identify, assess and address instances of non-compliance. It also sought to provide employers and associated third parties with a greater understanding of how we operate and what they can expect from us. Stakeholder engagement indicated that both the strategy and policy have been well received.

In light of the changing landscape brought about by automatic enrolment, in particular the anticipated increase in DC memberships, we consulted with the industry from September to December 2012 on a review of the framework for maintaining contributions to DC schemes. The consultation set out new codes of practice to support the accurate and timely flow of contributions into both occupational and work-based personal DC schemes. We have taken into account the responses we received to this consultation in revised versions of the codes which are currently laid before Parliament and the Northern Ireland Assembly. We believe these codes will play an important role in our drive to improve DC member outcomes.

Educate and enable

Helping employers, advisers, suppliers and trustees to successfully prepare for automatic enrolment involves a multi-channel communications approach. In 2012-2013, we published a range of tools and guidance as well as hosting a variety of seminars and webinars, and more than 600 face-to-face meetings. We worked closely with the DWP on its large-scale public awareness campaign for automatic enrolment and with our third-party partner Capita to expand our customer service capabilities to support employers as they prepare for and undertake their new duties.

Employers

We commenced writing to large and medium employers periodically from 18 months prior to their staging date. In 2012-2013 we sent out more than 44,000 letters and we will build on this activity in 2013-2014. We also attended meetings, hosted speaker events, and developed and presented webinars. Our research shows that large employers' awareness and understanding of their automatic enrolment duties significantly increased during 2012-2013. Of the large employers surveyed by the regulator in autumn 2012, 98% were aware of the changes and 89% understood what they meant.[17] This increase exceeded our targets as set out in the key performance indicators section of our **Corporate plan 2012-2015** (see page 40).

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17 These figures are up from our spring 2012 survey, which found that 91% of large employers were aware of the changes while 70% of large employers understood how to discharge their duties.

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Advisers/intermediaries

In March 2013, we launched a hub on our website bringing together the information intermediaries require to support employers to comply with their new duties. This tool, entitled **Help your clients prepare for automatic enrolment**, provided a wide range of information including a staging date timeline, explanations of different types of workers and how to assess whether a particular pension scheme qualifies for automatic enrolment.

Suppliers

Throughout 2012-2013, we supported pensions providers in offering high quality schemes by raising awareness of our six principles for good work-based DC schemes (see page 27) and underlying quality features. We also provided technical support to the payroll industry to help to ensure that suitable products and services are available in time for employers to make full use of them. This involved creating revised payroll specification guides for software developers to help them to provide products that meet the legislative requirements.

Trustees

In December 2012, we published an updated five-step action checklist for trustees. This helps trustees to consider the impact on their scheme should employers decide to use it for automatic enrolment.

When surveyed in autumn 2012,

98%

of large employers were aware of the automatic enrolment changes and

89%

understood what they meant.

Monitoring, compliance and enforcement

Alongside the development and publication of our compliance and enforcement approach for automatic enrolment, we also started work on creating effective processes to both monitor and maximise employer compliance. In 2012-2013, this included working with Capita to launch a centralised system for employer registration with the regulator.

This enabled us to begin a process of monitoring and publishing key automatic enrolment statistics in order to provide an authoritative picture to industry of the impact of automatic enrolment as it takes effect. This currently focusses on details of employer registration levels and in the future will include information on where we have used our compliance and enforcement powers.

We published our first registration report, covering the period from July 2012 to March 2013, in April 2013. It confirmed that 84 employers, accounting for more than 2 million workers between them, had registered with the regulator by 31 March 2013.[18] We will update the report monthly throughout the automatic enrolment staging period.

We also implemented new intelligence software to ensure that we can effectively analyse and assess our strategic and operational risk landscape. This will enable us to target our interventions on the areas that present the highest risks.

This year, we intervened successfully to resolve a number of potential compliance issues and carried out a proactive drive into a particular area of risk to prevent non compliance with the new employer duties.

18
Employers have up to four months from their staging date to complete the registration process, which means that employers who staged after December 2012 may not be included in this report.

Key performance indicators

The table below outlines how we performed against our in-year KPIs relating to automatic enrolment as set out in our Corporate plan 2012-2015.

KPI	Outcome
Programme delivery milestones Proportion of milestones completed on time and within tolerance.	We achieved our target of 100% for this KPI. We have retained this KPI in our 2013-2014 Business plan.
Registrations Cumulative number of employers who have registered with the regulator.	We exceeded our target of 22, with a total of 84 employers registering with the regulator by the year end. This was due to a number of employers bringing forward their staging dates. We have retained this KPI in our 2013-2014 Business plan.
Communications effectiveness Proportion of large employers who are aware of and understand their automatic enrolment duties as at December 2012 and of those employers with three months to go before their staging date.	We exceeded all of our targets in relation to this KPI. For employers surveyed three months before their staging date, 100% were both aware of and understood their duties. Among large employers further than six months away from their staging date, 98% were aware of and 89% understood their duties, against targets of 92% and 70% respectively. We have retained this KPI in our 2013-2014 Business plan.

Theme 4: Better regulation

We sought to deliver operational efficiency and effectiveness across all of our activities in 2012-2013, which included prioritising our work according to the level of risk posed to the achievement of our statutory objectives. We also remained committed to ensuring that our activities have regard to the principles of good regulation. That is, to be: proportionate, accountable, consistent, transparent and targeted (PACTT).

Efficiency

In line with the Government's agenda, we intend to reduce the overall regulatory burden on schemes where possible and appropriate, given our statutory objectives. Over the year we worked closely with the DWP to identify pensions regulations which could be simplified or removed without undermining the protection of member benefits.

In 2012, we also carried out a project to measure the extent to which our information obligations on schemes present a burden to the regulated community. We are using the information obtained from this project to better manage our data collection processes, to assess the impact of our future decisions around data collection and to limit regulatory burden where possible.

We have now reached the end of the second year of the Government's Comprehensive Spending Review 2010, which requires us to reduce our spending by 25% in relation to our budget for activities arising from the Pensions Act 2004, over the course of four years to 2014-2015. In 2012-2013, we maintained tight financial controls on all of our expenditure, which involved implementing system and process efficiencies and maintaining procurement savings as well as using our current resources to optimal effect. We ended the year on target to meet the 25% reduction.

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Our systems and processes

During the year we initiated a programme to improve our core systems, including customer relationship management, document management and case management. This programme will run for three years and key milestones in 2012-2013 included identifying the detailed requirements of this programme and setting out delivery plans.

In March 2013, we completed implementation of our new human resources and performance management system which helped us to streamline related processes. In 2012-2013, we filled 202 vacancies and welcomed 16 secondees/on-loan staff. At year-end, our female to male employee ratio was 49% female to 51% male. This ratio was: 13% female to 87% male at non-executive level;[19] 36% female to 64% male at business leader level; 50% female to 50% male at manager level; 56% female to 44% male at adviser level; and 50% female to 50% male at co-ordinator level.

We are committed to maintaining a culture that is fair and inclusive and promotes respect for all, both as an employer and as a regulator. Our **Single equality scheme and action plan for 2010-2014** sets out a programme to help us to fulfil our duties under the Equality Act 2010 and training is provided to all staff.

Our policies and procedures aimed at promoting good employee health and wellbeing enable us to deal proactively with any emerging issues. Our sickness absence rates for the last two years are as follows:

- **2012-2013:** 2.2% against our target of 3.4%, which is based on the Chartered Institute of Personnel and Development (CIPD) average rate for all employment sectors (2012-2013). The public sector average rate was 4%.
- **2011-2012:** 2.9% against our target of 3.4%, which is based on the CIPD average rate for all employment sectors (2010-2011). The public sector average rate was 4%.

19
Changing to 22% female to 78% male at non-executive level for 2013-2014.

Effectiveness

We took into account the recommendations made in both the Work and Pensions Select Committee's (WPSC) 2011 report on automatic enrolment and the National Employment Savings Trust (NEST), and the National Audit Office's (NAO) 2012 report, **Regulating defined contribution pension schemes**.

This included our work to develop the performance measures and metrics for our DC regulatory programme, incorporating the particular aspects of the framework that the NAO proposed we strengthen.

Further to recommendations made in the WPSC report, we provided the payroll industry with technical support for automatic enrolment as well as reviewing our communications strategy for maximising employer compliance with automatic enrolment.

In April 2013, the WPSC published a report on its 2012-2013 inquiry into governance and best practice in work-based pension schemes. We contributed to the Government's response which, at the time of writing, was due to be published at the end of June 2013. We commit to work increasingly closer together with the FCA to ensure that the regulatory frameworks for both trust-based and contract-based pensions provide for a robust system of governance for members. We will seek to ensure that risks are jointly managed and that members are protected regardless of how their pension is provided.

To help to achieve our statutory objectives, we aim to build on positive industry perceptions of our role. Our **2012-2013 Perceptions tracker survey** showed we have maintained our strong rating in this area with 66% of our key audiences rating our performance over the past year as 'good' or 'very good', compared to 64% in the 2011-2012 survey.

66%

of our key audiences rate our performance over the past year as 'good' or 'very good'.

Risk assessment

As a risk-based regulator, we aim to focus our resources on those areas which present the highest risks and where our interventions will have the greatest impact on achieving our statutory objectives. In 2012-2013, an important element of this work was on the development of our risk management processes through the delivery of a model risk framework and by establishing dedicated risk committees in each of our main business areas. For more information on our governance of risk management, see pages 59 to 61.

Regarding intelligence analysis, a significant achievement in the past year was our threat assessment into pension liberation fraud. Our work in this area enabled us to take the lead in a successful cross-agency campaign to help to raise awareness of the issues and prevent fraudulent activity taking place. For more information, see page 32.

We also undertook a number of initiatives to improve our analysis of the pensions landscape and to enable more accurate risk-based segmentation. This included developing a thematic approach to driving improvements in scheme governance; working within an established cross-government group, including the DWP and the FCA, to develop and ensure an integrated approach to assessing risks; sharing intelligence and analysis with the PPF; and enhancing our scheme return data collection to facilitate a greater understanding of the DC landscape.

In response to our growing regulatory requirements, we continued to progress all of our methods of strategic research and analysis. This included publishing the following annual official statistics publications aimed at providing authoritative data support for businesses and the pensions industry:

- **The Purple Book: DB pensions universe risk profile** 2012[20]
- **DC trust: A presentation of scheme return data** (2013)
- **Scheme funding: Recovery plans of UK defined benefit and hybrid schemes** (2012)
- **Occupational pension scheme governance survey 2012**
- **Perceptions tracker 2011-2012**
- **Intermediaries' awareness, understanding and activity relating to workplace pension reforms – autumn 2012**
- **Employers' awareness, understanding and activity relating to workplace pension reforms – autumn 2012**[21]

We also committed to publishing key automatic enrolment statistics periodically, including employer registration levels and details of where we have used our compliance and enforcement powers.

20
Produced jointly with the PPF.

21
For a full list of our research and analysis publications please go to: **www.tpr.gov.uk/doc-library/research-analysis.aspx**

Online services and digital marketing

We completed our three-year year 'digital by default' strategy in 2012-2013, which shifted the emphasis of our website from DB product focused to a wider audience focus in line with our broadening accountabilities. This process involved extensive research with our key audiences and adapting our delivery plans according to their feedback. We also delivered ten webinars in 2012-2013 on subjects ranging from our DC consultation to an open panel discussion on automatic enrolment. Across the year, our online events attracted 8,352 registrations and 6,294 delegates.

We saw a significant growth in visitors to our website over the three-year period of the strategy,[22] with the largest year-on-year increase recorded in 2012-2013. Our audience profile also evolved, demonstrating a continuing trend relating to automatic enrolment with a 63% increase in employers using our website for the first time between spring 2012 and autumn 2012. Of these employers, 134,530 accessed one or more of our online tools relating to automatic enrolment.

In total, we delivered 878 website changes and built four campaigns. We hosted the DWP campaign web page to raise employer awareness of automatic enrolment, which was the key driver of new visitors to our website. Alongside this campaign, we launched an employer letter template tool to enable employers to comply with their legal duty to inform workers about the changes[23] and worked with our third-party partner Capita to design and launch the employer registration portal (see page 39).

We also carried out successful communication campaigns focussing on our DB funding statement (see page 21), scheme record-keeping standards (see page 33), pension liberation fraud (see page 32) and our six DC principles (see page 27). We took a multi-channel approach to each of these campaigns, which included sending out news-by-email communications and making a variety of online products available to download.

Our Trustee toolkit received a partial refresh in 2012-2013, which included the publication of 132 new downloadable resources. This allowed trustees to learn offline and resulted in more than 14,000 downloads over the year. In the fourth quarter, we also published a bite-sized learning module for the toolkit on pension liberation fraud, which has already drawn almost 2,000 unique views.

We continued to develop our social media presence. Membership of our LinkedIn group increased from 1,271 to 2,433 and our Twitter followership grew from 299 to 758. Of 154 Twitter discussions monitored, from September 2012 to March 2013, 59% related to automatic enrolment and 20% to DC. The news-by-email subscription list also increased from 23,210 to 29,506.

22
From 2010 to 2013, visitors to our website more than tripled and page views increased by over 250%.

23
This tool was used more than 40,000 times in 2012-2013.

Customer support

In July 2012, we launched a new whistleblower service, providing an online form and guidance, and we have received almost 800 enquiries through this medium to date.

Overall, we provided a high quality service to customers throughout 2012-2013 and our target to answer 80% of calls within 20 seconds was exceeded by up to almost 10%. Our customer support team received a total of 81,010 enquiries during 2012-2013:

- **Automatic enrolment** received 15,123 enquiries in 2012-2013: 9,786 by telephone and 5,337 by letter or email. Of the telephone calls, 88% were answered within 20 seconds and 2% were abandoned. Of the letters and emails, 98% were responded to within 10 working days.
- **Scheme regulation** received 19,989 enquiries in 2012-2013: 10,752 by telephone and 9,237 by letter or email. Of the telephone calls, 89% were answered within 20 seconds and 3% were abandoned. Of the letters and emails, 93% were responded to within 10 working days.
- **Scheme information management** received 45,109 enquiries in 2012-2013: 24,148 by telephone and 20,961 by letter or email. Of the telephone calls, 82% were answered within 20 seconds and 2% were abandoned. Of the letters and emails, 90% were responded to within 10 working days.
- **Whistleblowing** received 789 reports in 2012-2013: 464 by telephone and 325 by letter or email. Of the telephone calls, 85% were answered within 20 seconds and 6% were abandoned.[24]

We implemented a joint scheme registration system with HMRC this year, which resulted in a 22% increase[25] in the number of new schemes registering with the regulator or confirming the reason why they are not required to register.

We also identified 4,000 'goneaway' schemes, where we had lost contact with schemes and their trustees, and reinstated these schemes where appropriate. Our action here helped to protect the benefits of almost 10,000 members.

24
We do not provide feedback on outcomes of whistleblowing contacts.

25
84% of new schemes registered with the regulator on a monthly basis throughout the second half of 2012-2013 compared with 62% in the previous year.

Key performance indicators

The table below outlines how we performed against our in-year KPIs relating to better regulation as set out in our Corporate plan 2012-2015.

KPI	Outcome
Better regulation principles (PACTT) Collective results (average score) of the Perceptions tracker survey questions on the better regulation principles with a target to maintain 70% positive responses.	We have achieved our target of 70% with a result of 73%, compared to 71% in 2011-2012. As part of this measure, there was a significant improvement in rating the regulator as proportionate ('focused on the most important risks to member benefits'), transparent ('explaining clearly why decisions affecting schemes have been made') and consistent ('being consistent in its approach to pension regulation'). We have retained this KPI in our 2013-2014 Business plan.
Stakeholder perceptions Level of stakeholder confidence in our delivery of automatic enrolment, reducing risks to DB scheme members and reducing risks to DC scheme members.	Overall stakeholder perceptions of the regulator remain positive and have improved slightly on last year's result, thereby achieving our target that, on average, their confidence in the regulator is 'very high' or 'fairly high'. Perceptions of DC and AE improved slightly, while DB was not rated quite as strongly. Stakeholders generally praised our efforts to: engage with, inform and listen to them; provide access to our senior management team; and involve them in policy discussions. We have retained this KPI in our 2013-2014 Business plan.
New schemes registration Proportion of new schemes which have registered with HMRC that are also registered with the regulator or have confirmed the reason why they are not required to register.	We missed our year-end target of 91%. However, of the 1,220 new schemes reported by HMRC and processed through our joint registration system, 84% have either registered with the regulator or confirmed the reason why they are not required to do so. This is a significant improvement against the 2011-2012 position of 62%.
Trustee knowledge and understanding Number of trustees who have successfully completed modules of the Trustee toolkit.	A total of 15,299 modules of our Trustee toolkit were successfully completed in 2012-2013 against our cumulative target of 18,300, which we missed. However, this does represent an increase of 7% from 2011-2012. The main factor restricting our performance in this area was external uncertainty relating to possible changes to DB funding legislation and therefore a delay in our planned update of the DB modules in the toolkit. We have retained this KPI in our 2013-2014 Business plan.

Key performance indicators continued...

KPI	Outcome
Customer service The average customer satisfaction results across scheme information management, customer support and online services: • Proportion of customers who rate as 'excellent' and 'very good' the overall service they received from the regulator, measured through the satisfaction trackers; and for online services: • Average of proportion able to access 'all' or 'most' of the 'information I wanted' and average 'experience metrics' score.	The high maintenance target for each of scheme information management, customer support and online services was achieved, reflecting the very good service provided. In the case of scheme information management, 80% of customers rated the service they received as 'excellent' or 'very good', compared to a target of 77%. Customer support received a rating of 77% against a target of 76%, while the online services rating was 78% against a target of 76%. We have retained this KPI in our 2013-2014 Business plan.
Employee engagement Engagement index[26] made up of relevant measures from the Q1 staff survey.	We achieved our target of 78%, which, like last year's results, reflects a positive result across all of our engagement index measures. This is a 4% increase on 2011-2012 and scores remain favourable in comparison to other public sector and finance sector organisations. We have retained this KPI in our 2013-2014 Business plan.

26
The six measures that make up the employee engagement index are:

- I feel committed to the regulator's goals
- I am satisfied with my job
- I feel proud to work for the regulator
- I would recommend the regulator as a good place to work
- I feel encouraged to suggest ideas to improve our ways of doing things
- I feel encouraged to go the extra mile and work when required.

Governance statement and Accountability reports

Governance statement

- Scope of responsibility
- Overview
- Board

Scope of responsibility

As accounting officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of The Pensions Regulator's statutory objectives and statutory functions, and for reviewing its effectiveness. My review is informed by the work of the internal auditors, the Audit committee, the managers who have responsibility for the development and maintenance of the internal control framework, and the plan in place to address weaknesses and ensure continuous improvement of the system. It is also informed by comments made by the external auditors in their annual Audit Completion report.

Overview

The statutory objectives, functions and governance arrangements for the regulator are laid out primarily in the Pensions Act 2004 ('the Act'), with a further statutory objective added by the Pensions Act 2008. The Act provides that the regulator is operationally independent of Government, and is overseen by a Board of executive and non-executive members. The regulator's plans, finances and key appointments are subject to the approval of the Secretary of State for Work and Pensions. The regulator is the UK regulator of work-based pensions.

The chief executive is the accounting officer for the regulator. Responsibilities as accounting officer include propriety and regularity of the public finances and keeping proper records, and are set out in the Non-Departmental Public Bodies Accounting Officers Memorandum issued by HMT and published in **Managing Public Money**. The accounting officer is accountable (through the DWP chief accounting officer) to Parliament for regularity and propriety.

Having reviewed the evidence provided from risk management and internal controls, and from the internal audit opinion, I am satisfied that the regulator has maintained a sound system of internal control during the financial year 2012-2013, operating effectively across the organisation, on which I can rely as accounting officer. Areas outlined above where control issues arose over the year have been, or are in the process of being, mitigated. There were no significant control failures or data losses.

Board

Board structure

The regulator is subject to legislative requirements as to Board composition, as to its powers, functions, committee structure and responsibilities. It is accountable to Parliament through Ministers and is supported by a secretariat. Sections 1 to 3 and Schedule 1 of the Act set requirements for establishment of the regulator and composition of the Board.

The Board structure at the end of the reporting period comprised the chair, five non-executive directors, the chief executive and three executive directors. There were a number of changes in membership of the Board and its committees over the year. In February, two longstanding non-executive directors completed their second terms of office and two non-executive directors took up new appointments.

A third non-executive director appointment was also announced by the Secretary of State for Work and Pensions in January 2013. This will take effect from August 2013 and will fill the current non-executive director vacancy. In April 2013, after the end of the reporting period, two executive directors joined the regulator: one to fill a vacancy and one to succeed a retiring member.

The chief executive throughout the reporting period resigned at the end of the reporting period in order to take up a new post and left the regulator at the end of June 2013. Board members' appointment dates, terms of office, committee membership and biographies are set out on pages 65 to 70.

Responsibilities of the Board

As required by the Act, and under the framework document agreed between the regulator and the DWP, the key responsibilities of the Board are:

- overseeing the regulator's strategic direction and making key decisions on policy
- ensuring the regulator is properly run as a public body and has effective internal controls, and
- ensuring compliance with statutory and administrative requirements for the use of public funds.

Further detail is available in the Board's Code of conduct and its Standing Orders[27]. These include:

- setting the strategic direction of the organisation, within the policy and resources framework agreed with the Minister for Pensions, and approving the Corporate plan
- setting priorities, high level objectives and key operational targets
- monitoring performance against the key operational targets, or other output measures, by which the success of the regulator is to be judged
- overseeing management of corporate risk
- ensuring adequate resourcing and effective resource management
- ensuring that a sound framework is in place to manage the exercise of regulatory functions
- making arrangements for and approving the appointment of the chief executive and executive directors
- ensuring that high standards of corporate governance are observed at all times, including keeping its own performance under review
- ensuring timely submission of the Annual report and accounts to the Secretary of State and the Comptroller and Auditor General
- ensuring that the Board operates within the limits of its statutory authority and any delegated authority agreed with the DWP, and in accordance with any other conditions relating to the use of public funds
- ensuring that, in reaching decisions, the Board had taken into account any guidance issued by the Government, and
- ensuring that the Board operates sound environmental policies and practices, and operates within the framework of the Government's sustainable development strategy.

The Board publishes and regularly reviews its Code of conduct and its Standing Orders, which also cover aspects such as the terms of reference of the Board committees and the management of conflicts of interest. As an arm's length body, the Board has taken into account the principles of the Government's 2011 Corporate governance code as part of its own governance framework.

27
View these documents at: **www.tpr.gov.uk/about-us/the-board.aspx**

Board meetings from 1 April 2012 to 31 March 2013

In the year from 1 April 2012 to 31 March 2013, there were eight meetings of the Board, five meetings of the Audit committee, two meetings of the Remuneration committee and one meeting of the Committee of non-executive members. In addition there were two strategy 'away day' discussion meetings, in April and October 2012, at which the Board received extensive briefings on operational and market developments, and discussed strategic issues, as part of the process of developing and reviewing the regulator's plans.

Throughout the year, the chief executives of the Boards of the PPF and of the regulator continued to attend the meetings of each other's Boards as observers. At the March 2013 Board meeting, the Determinations Panel chair and chair-designate discussed the Panel's role and work with Board members.

Board evaluation

An internal review of the Board's effectiveness was undertaken from March 2013 through into the current year, led by the chair of the Audit committee. As this was completed after the reporting period and discussed in May 2013, an analysis will form part of the 2013-2014 Annual report and accounts. The Board has also been following through the recommendations of the previous review. The chair held individual appraisal discussions with each non-executive director in March 2012.

Role of the Board chair

The chair's role is strategic leadership responsibility for the regulator. This includes:

- chairing the Board, keeping under review the strategic direction of the regulator, and leading the regulator in the fulfillment of its legislative objectives and functions
- chairing the committee of non-executive members, in order to discharge the non-executive functions of the regulator, including ensuring that the internal financial controls secure the proper conduct of its financial affairs
- appraising the performance of non-executive members of the Board and the chief executive, and
- working with the regulator's chief executive in ensuring that the internal operations of the regulator are conducted effectively and with maximum efficiency toward achieving its objectives and functions; communicating on behalf of the regulator with key stakeholders; and ensuring stewardship mechanisms are in place and operating effectively.

Board committees

Committee of non-executive members

As required under section 8 of the Act, this committee, as permitted by section 8 sub-paragraphs (7) and (8) of the Act, continued to have two standing subcommittees: an Audit committee to which it delegated its function at section 8(4)(a), and a Remuneration committee to which it delegated its function at section 8(4)(b).

The Committee of non-executive members is required to prepare a report on the discharge of its functions for inclusion in the regulator's Annual report and accounts. These functions are the duty under section 8(4)(a) to keep under review the question of whether the regulator's internal financial controls secure the proper conduct of its financial affairs, and the duty under section 8(4)(b) and paragraph 8(4)(b) of schedule 1 of the Act, subject to the approval of the Secretary of State, to determine the terms and conditions as to remuneration of the chief executive.

Under paragraphs 18 and 20(1)(c) of schedule 1 to the Act, which give the Board the power to determine its own procedures and to authorise any of its committees to exercise any of its functions, the Board and the Committee of non-executive members have agreed additional non-statutory areas of responsibility to be included in the terms of reference for each subcommittee. The terms of reference of the committees are published as part of the Board's Code of conduct.

A report of the activities of the Committee of non-executive members during 2012-2013 is on page 72.

Audit committee

Terms of reference for the Audit committee have been agreed by the Board and the Committee of non-executive members, covering both the statutory function delegated from the Committee of non-executive members and additional areas of responsibility delegated by the Board. These are published as part of the Board's Code of conduct.

The Audit committee reports throughout the year on its activities to the Board through its minutes and oral reports. A report of the activities of the Audit committee during 2012-2013 is on pages 74 to 77.

Remuneration committee

Terms of reference for the Remuneration committee have been agreed by the Board and the Committee of non-executive members, covering both the statutory function delegated from the Committee of non-executive members and additional responsibilities delegated by the Board: in addition to its ongoing reward-related focus, to keep under review the regulator's human resource strategy and consider emerging people issues, especially in relation to talent attraction, development and retention and long-term human resource planning, with a particular focus on leadership capability, and to update the Board accordingly. The terms of reference are published as part of the Board's Code of conduct.

The Remuneration committee reports throughout the year on its activities to the Board, primarily through oral reports. A report on the activities of the Remuneration committee during 2012-2013 is on pages 78 to 79.

Determinations Panel

Section 9 of the Act requires the regulator to establish and maintain a committee called the Determinations Panel ('the Panel'), whose purpose is to exercise, on behalf of the regulator, certain regulatory functions, as set out in Schedule 2 to that Act.

A report of the activities of the Panel during 2012-2013 is on pages 80 to 84.

DWP stewardship

The accounting officer's line of accountability is through the DWP. The DWP, through the nominated steward, receives reports on performance, finance and risk, has regular accountability review meetings, and attends the regulator's Audit committee. The stewardship framework is set out in a published joint Management Statement and Financial Memorandum.

Senior management team

The corporate governance systems of the Board and its committees are further supported in the regulator's executive arm by the Senior management team (SMT). The operational management and business planning functions are co-ordinated by the SMT, chaired by the chief executive, to:

- oversee key business processes
- oversee development projects
- oversee organisational change activity
- co-ordinate activity across business areas
- assess strategic and operational risk and plan mitigations
- recommend financial and operational plans to the Board
- manage the budget, and
- manage human resources.

SMT membership comprises the chief executive (as chair), the executive directors, the head of corporate and international affairs, the head of customer communications, and the head of risk. The corporate secretary and the head of legal services also attend. The SMT meets weekly, reviewing key control metrics in accordance with priority risk areas. One meeting a month normally focusses on change management. Ad hoc meetings of the SMT and Board members occur as required to manage important items out of the standard cadence; for example, a Board sub-committee meeting was held in January 2013 to review draft DC regulatory documents for publication.

Control framework

The system of internal control has been in place at the regulator for the year ended 31 March 2013 and up to the date of approval of the Annual report and accounts, and accords with HMT guidance.

The control system supports the achievement of the regulator's objectives, while safeguarding public funds and departmental assets. It is designed to manage risk to a reasonable level, rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can, therefore, only provide reasonable and not absolute assurance of effectiveness. The regulator's commitment to value for money underpins its planning and control systems. The control system has evolved to ensure the regulator is compliant with the requirements on government spending, and to track and monitor service delivery in areas most affected.

Internal controls

Key components of the system of internal control are:

- codes of conduct and supporting training materials where appropriate, for Board members, staff and contractors, setting out expectations of behaviour, and the policy framework for declaring and managing conflicts of interest, ensuring data protection and information security, countering the risk of fraud, and providing for a system of whistleblowing
- standing orders and terms of reference for the Board and its committees, and schedules of financial and regulatory delegations, which are approved by the Board and which are reviewed at least once a year; also terms of reference for the SMT and its standing panels, which are kept under review by the SMT
- a business planning system linking strategic, operational and personal objectives, subject to regular review by the SMT, and with quarterly reporting to the Board and the DWP Steward, using agreed performance indicators
- an annual budget together with quarterly forecasts, agreed by the Board, developed through using priority-based budgeting methodology, linking into the business planning cycle. This includes a set of financial protocols outlining the relationship between levy-funded activities and those relating to automatic enrolment, which are also reviewed annually
- management reporting through the SMT on a set of agreed measures designed to reflect the performance of the organisation and to monitor key risk indicators
- detailed business process rules, a consistent standard of documentation, and clear lines of accountability and escalation in respect of regulatory decisions and actions taken
- a process for managing change, the resources dedicated to change projects and the overall change burden on the organisation, and
- a programme of internal audits and a system for progressing implementation of audit recommendations and reporting progress to the Audit committee.

The performance of the chief executive and SMT members is reviewed by the Remuneration committee in determining their remuneration for the year. Details of the remuneration of all Board members are given in the Remuneration Report on pages 93 to 101.

Risk management

The identification and management of risks forms an integral part of the way the regulator operates. It emphasises outcomes over process, although it devotes significant resource to ensuring that the mechanisms it has put in place to illuminate, mitigate, and escalate risks are robust and fit for purpose, and that it can provide assurance to the Audit committee and the Board that this is so. It keeps these mechanisms under constant review, and makes changes to process as external and internal circumstances change.

The regulator deals with two fundamental risk types: those risks to members in the external pension landscape, and those which, if left to crystallise, would specifically affect the regulator's ability to deliver its strategic objectives, and its Corporate plan. Risks are managed at the level most able to deal with them, with the most serious risks being escalated to the Audit committee and to the Board.

Assessments of the risks faced by members of UK work-based pension schemes and by the PPF inform our regulatory approach and corporate planning, and are taken into account when judging the prioritisation of interventions, and the allocation of resources. Twice a year, the Board reviews a risk departmental analysis of the pension landscape, and discusses the risks which arise from this analysis, and the policies and mitigating actions which this generates. The output has been used this year to provide an initial risk-lens for the regulator's objective setting, and corporate planning.

Examples of risks affecting the pension landscape discussed by the Board this year include:

- the risks of potential regulatory overlap or underlap between different regulatory jurisdictions
- the risks arising from automatic enrolment, and its impact on providers, employers, and members
- the risks which arise from political and economic events such as the Eurozone crisis, and
- threats which are identified as a result of horizon scanning, such as pension liberation fraud, and the subsequent emphasis on pre-emptive and multi-agency response.

continued...

Risk management continued...

Similarly, the identification, escalation, and mitigation of those strategic, operational and reputational risks, which as a result of their probability and impact, may affect the ability of the regulator to achieve its statutory objectives, form a central element of the regulator's internal control framework. The following forums form an integral part of the risk assessment and escalation process, and help to provide assurance that risk management is effective:

- The Board reviews the risk register and risk heat-map annually, and monitors the effectiveness of mitigations.
- The Audit committee reviews the regulator's top risks on a quarterly basis, challenging the management response, and monitoring the effectiveness of mitigations, and the trend of changing risks over time. It also commissions quarterly in-depth reviews of individual risks, which are presented by those accountable for their management.
- The SMT validates on a quarterly basis the regulator's risk register, and the top cross-cutting risks which are escalated to the Audit committee. Additionally, there is a monthly assessment of risks, and the impact they have on the development of KPIs.
- The regulator's Risk committee, which meets quarterly, is responsible for linking top down risks with those captured by the risk register process, weighting those risks in terms of threat and control, and proposing the top ranking cross-cutting risks to the SMT. Risks are escalated based on both ranking (quantitative impact) and on judgement.

Business risk committees have been established in each of our three main business areas (DB; DC, governance and administration; and Automatic enrolment) to provide appropriate risk management capabilities at that level.

Key risks within the regulator which were escalated to the Audit committee in the past year include:

- supply chain analysis, including the risks in managing third-party partners in delivering key projects, for example on automatic enrolment
- the risks arising from wrongful data disclosure, and the effectiveness of our mitigations in this regard
- the operational risks posed by the replacement and enhancement of our key infrastructure and IT systems
- the risks arising from the management and priority-setting surrounding the regulator's project management portfolio, and
- human resource risks, in terms of recruitment and engagement.

The risk department works closely with other government agencies to ensure as far as possible that our risk management is robust and effective. To this end, the last year has seen close co-operation with the Government's Actuary Department (GAD), in seeking to develop a model risk governance framework, and in testing the logic and transparency of our risk identification process. The model risk governance framework will ensure that all models developed and used meet the recommended best practice outlined in the Macpherson review. While the framework is being developed, significant analysis will be subject to an appropriate level of quality assurance in line with the spirit of the model risk governance framework and best practice outlined in the Macpherson review.

The risk department remains a regular participant at the Risk Improvement Group, an HMT-sponsored initiative which seeks to share best practice across government in terms of assurance and risk management. It has also upgraded the Risk Monitoring Group which is a dual agency risk forum with the PPF, which seeks to identify and escalate common risks to senior management.

Financial contingency

Our budget of financial resource and headcount is agreed with the DWP. The funding is provided through a combination of an annual levy on pension schemes, and through taxation for the set up and running of the automatic enrolment duties, both via Grant-in-Aid from the DWP. There is limited recourse to extra contingency funding through the Departmental supplementary estimates process, which could, in theory, be recouped from pension schemes on a post hoc basis. This facility has never been used.

Certain limited recourse contingency arrangements are in place by agreement with the DWP, including specific measures to cover unpredictable elements of the impact of economic conditions, and higher than anticipated legal costs.

In line with government spending controls, new arrangements were put in place in July 2011, in agreement with Ministers, to delegate responsibility for expenditure in certain circumstances to the regulator, reflecting its arms length body status, with monitoring/oversight of costs by the DWP. This provided much needed flexibility to the organisation which has helped to improve service levels throughout the year, and allowed us to respond to increased caseloads.

Information security

In accordance with our responsibilities under the HMG Security Policy Framework and the Data Protection Act 1998, the regulator has in place arrangements to provide for information security. We also have ISO 27001 accreditation. It is our established practice to let the Information Commissioner's Office (ICO) know of data protection related incidents, whether or not these may rate as significant or there may be a reporting requirement. I can confirm that for the year 2012-2013 no incidents were drawn to the ICO's attention.

Internal audit

Based on the internal audits completed as part of the internal audit programme for the year, the internal auditors concluded that the regulator has adequate and effective systems over governance, risk and control, which provide reasonable assurance regarding the effective and efficient achievement of our objectives. A programme of internal audits was agreed by the Audit committee, and was undertaken and reported to the committee during the period of this statement. Assurance ratings received were one fully effective rating, five effective ratings, one partially effective rating, one ineffective rating, and two follow-up reports which were un-rated. As its report on pages 74 to 77 sets out, the Audit committee formed the view that the monitoring and reporting systems in place to give the SMT an appropriate level of control over the processes and management of processes within the organisation were broadly effective. Where gaps were identified, appropriate actions were effectively put in place.

A process is in place to ensure that the agreed management responses to internal audit recommendations are monitored by the SMT, progressed and implemented effectively, and that progress is regularly reported to the Audit committee. As its report sets out, the committee was satisfied that good progress was being made in putting those recommendations into action over the year.

Responsibilities of SMT members

Members of the SMT take shared responsibility for executive decision-making and in making recommendations in papers for the Board to consider. In addition, each member of the SMT has designed controls for their area of responsibility and has given the chief executive formal assurance that these have been operating effectively throughout the year.

Audit committee and Board review

The Audit committee has reviewed the risk register on a quarterly basis. As its report on pages 74 to 77 sets out, through its enquiries the committee has endorsed management's assessment of key risks, and has concluded that effective and thorough monitoring and reporting systems were in place to give the SMT an appropriate level of control over the management of risk.

In addition, twice a year the Board reviews an analysis of the pension landscape, and annually the Board reviews the risks, changing the top level risks if necessary, reviews the risk appetite, and reviews risk management strategies and contingency plans in the light of Audit committee experience. In this financial year, the Board annual risk review took place in July 2012.

Conclusion

Having reviewed the evidence provided from risk management and internal controls, and from the internal audit opinion, I am satisfied that the regulator has maintained a sound system of internal control during the financial year 2012-2013, operating effectively across the organisation, on which I can rely as accounting officer. Areas outlined above where control issues arose over the year have been, or are in the process of being, mitigated. There were no significant control failures or data losses.

I can confirm that the regulator received no ministerial direction under the Ministerial Code 2010 during the financial year 2012-2013.

Bill Galvin
Chief executive, The Pensions Regulator
21 June 2013

Details of Board membership

Board appointments and committee membership

Name	Date appointed	Date term expires/expired	Committee membership
Michael O'Higgins Appointed as chair	1 January 2011	31 December 2013	Non-executive (chair)
Non-executive members			
Alan Pickering CBE	8 February 2005	7 February 2013	Remuneration (chair), non-executive to 7 February 2013
Chris Swinson OBE	8 February 2005	7 February 2013	Audit (chair), non-executive to 7 February 2013
Tony Brierley	9 July 2008	8 July 2016	Audit (chair from 8 February 2013), non-executive
Isabel Hudson	1 June 2009	31 May 2017	Remuneration (chair from 8 February 2013), non-executive
Bruce Rigby	1 June 2009	31 May 2017	Audit, non-executive
David Martin	1 February 2013	31 January 2017	Remuneration, non-executive from 8 February 2013
Graham Mayes	1 February 2013	31 January 2017	Audit, non-executive from 8 February 2013
Executive members			
Bill Galvin Appointed as chief executive	17 January 2011	16 January 2014 (resigned in March 2013 with effect from 30 June 2013)	
Stuart Weatherley	1 April 2007	31 March 2013	
Charles Counsell	1 July 2011	1 July 2014	
Stephen Soper	11 May 2011	30 April 2016	

AP Reappointed from 8 February 2009 for 4 years.
CS Reappointed from 8 February 2009 for 4 years.
BG Acting chief executive from May 2010. Leaving the regulator in June 2013.
SW Reappointed from 1 April 2010 for 3 years.
CC Interim executive director from January 2011.
SS Interim executive director from February 2011. Reappointed director from 1 May 2013 for 3 years.
TB Reappointed from 9 July 2012 for 4 years.
IH Reappointed from 1 June 2013 for 4 years.
BR Reappointed from 1 June 2013 for 4 years.

Details of Board attendance

Member	Number of meetings			
	Board	Audit committee	Remuneration committee	Committee of non-executive members
Michael O'Higgins	8/8	N/A	N/A	1/1
Alan Pickering CBE	5/6	N/A	1/1	1/1
Chris Swinson OBE	6/6	4/4	N/A	N/A
Tony Brierley	8/8	5/5	N/A	1/1
Isabel Hudson	7/8	N/A	2/2	1/1
Bruce Rigby	8/8	5/5	N/A	1/1
David Martin	2/2	N/A	1/1	0
Graham Mayes	2/2	1/1	N/A	0
Bill Galvin	8/8	N/A	N/A	N/A
Stuart Weatherley	8/8	N/A	N/A	N/A
Charles Counsell	8/8	N/A	N/A	N/A
Stephen Soper	8/8	N/A	N/A	N/A

Board members

Chair

Michael O'Higgins became chair of the regulator in January 2011. He was chair of the Audit Commission for six years to September 2012 and of the charity Centrepoint for eight years until December 2011. He is also chair of Investec Structured Products Calculus VCT plc and became chair of the NHS Confederation in November 2012.

Michael is a non-executive director of Network Rail and of HMT, and chair of the Treasury Group Audit Committee.

Previously, Michael was a managing partner with PA Consulting, leading its government and IT consulting groups, latterly as a director on its International Board, and a partner at Price Waterhouse. He began his working career as an academic at the London School of Economics and the University of Bath.

Non-executive directors

Tony Brierley is a solicitor with 25 years' experience in the private equity and venture capital industry. He was formerly general counsel and company secretary of 3i Group plc, the FTSE100 international private equity business. As a member of 3i's Management Committee he was responsible for the group's legal, compliance, company secretarial and internal audit functions worldwide. He now has a portfolio of commercial and public sector non-executive positions.

Isabel Hudson has had an extensive career in financial services in the life, non-life and pensions industries in a number of senior roles, including M&A and as finance director. She has worked both in the UK and in continental Europe. More recently, she was an executive director of Prudential Assurance UK before leaving to set up Synesis Life, one of the new pension buy-out insurers, which was sold at the end of 2008.

Isabel is currently a non-executive director of QBE, a top 20 global non-life insurer, where she has been on the main board since 2005. In February 2010, she was appointed a non-executive director on the board of the Phoenix Group, followed in December 2010 with an appointment as a non-executive director for MGM Advantage, the enhanced annuity provider. She is also chair of the National House-Building Council's board of directors and an ambassador for the disability charity, Scope.

continued...

Non-executive directors continued...

Bruce Rigby retired in early 2012 after a full career with Mercer, mainly as a consulting actuary advising on occupational pension provision. He held many management roles with the company, including global leadership of Mercer's Retirement, Risk and Finance business and as its global chief retirement strategist. In addition, Bruce is a non-executive director of Baillie Gifford Life and Mercer Global Investments Europe, and a governor of Edinburgh Napier University.

David Martin has 40 years' experience in the pensions industry, including 30 years of giving direct advice to trustees of occupational pension schemes. He is an actuary and was, until recently, a partner at Mercer Ltd and its predecessor companies (1980 to 2012). David is involved at a senior level with the Institute and Faculty of Actuaries. He is a vice-chair of the Professionalism Committee of the International Actuarial Association, and an officer of the Groupe Consultatif – a grouping of the European Actuarial Associations.

Graham Mayes is a finance professional with over 30 years' experience in the global consumer goods industry with Kimberly-Clark and Unilever. He has held numerous financial positions, including director of finance for Kimberly-Clark's MEA region from 2006 to 2009. He is currently a trustee director for Kimberly-Clark Pension Trust Ltd where he chairs both the funding and defined contribution committees. He is also chair of the audit committee for the Dartford and Gravesham NHS Trust.

Alan Pickering CBE is chair of BESTrustees and is a trustee of six of that firm's clients. He was with Watson Wyatt between 1992 and January 2009. Before that, he spent 20 years with the Electrical, Electronic, Telecommunications and Plumbers Union where he gained considerable experience in many aspects of employee relations, pensions and personal finance. He is chair of the Plumbing Industry Pension Scheme, having been closely involved with the development of many other industry-wide schemes. Early in 2012, he was appointed independent chair of the Royal Mail Statutory Pension Scheme. In 2005, he became a trustee of the Life Academy (Pre-Retirement Association), assuming the charity's chairmanship in November 2006.

Alan was a member of the Occupational Pensions Board from 1991 to 1997, serving as its deputy chair during 1993. He was chair of the National Association of Pension Funds from 1999 to 2001. From 2001 to 2004, he served as chair of the European Federation for Retirement Provision. In 2001, Alan led a review into the simplification of private pension provision. His report, **A simpler way to better pensions**, was published in July 2002.

Chris Swinson OBE is a chartered accountant and formerly a senior partner of BDO Stoy Hayward. He served as a council member of the Institute of Chartered Accountants in England and Wales and was president from 1998 to 1999. He was also Comptroller and Auditor General of Jersey.

Chief executive

Bill Galvin became chief executive of the regulator in January 2011. Prior to this, Bill was acting chief executive of the regulator from May 2010 and executive director for strategic development from October 2008.

Formerly, Bill led on pensions protection policy at the DWP. Prior to joining the DWP, he worked as a strategy consultant at IBM Consulting and in strategy and marketing for IBM Global Services.

In August 2010, Bill was appointed as non-executive director for TPAS, and in 2012 was appointed as non-executive director for the Solicitors Regulation Authority.

Executive directors

Stephen Soper is the executive director for DB regulation at the regulator. Prior to this he was interim DB executive director from February 2011 and an attendee of the regulator's Board. He is responsible for both policy and operational decisions made about current and future DB regulation.

Stephen previously held the position of head of risk and funding at the regulator where he was responsible for mitigating risks to member benefits and overseeing all DB casework. Stephen joined the regulator following over 23 years' experience in multi-national financial services organisations, focusing on banking and insurance.

A chartered banker (ACIB), Stephen began his career at RBS within the international banking division and subsequently worked at the Allied Dunbar Group, Zurich Financial Services, Eagle Star and Aon. He has held various executive positions including commercial bank treasurer, Board director, COO of a UK Bank, restructuring director and group change director.

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Executive directors continued...

Charles Counsell is the executive director for automatic enrolment at the regulator. Prior to this he was interim automatic enrolment executive director from January 2011 and an attendee of the regulator's Board. Previously he held the role of programme manager for this stream of work.

Charles joined the regulator in 2005 and has been involved with the design and delivery of automatic enrolment since 2008. For nearly 20 years, Charles has set up and run major business change programmes. As well as his work in the public sector, he has run major programmes of change in the financial services and automotive industries. Many of these programmes have been international, including work in South Africa, the United States, the Middle East and Europe.

Stuart Weatherley was the executive director for business support operations at the regulator from April 2007 to March 2013, covering finance, human resources, information technology, procurement, scheme return and levy, practice management group, change management and facilities.

He is an accountant (CIMA) with broad experience of financial and commercial operations in industry at senior management and Board level. He has also spent many years in management consultancy with PriceWaterhouse, working with blue chip and public sector organisations to manage change programmes and advise on strategy development and business improvement.

Accountability reports

- Report of the activities of the Committee of non-executive members
- Report of the activities of the Appointments committee
- Report of the activities of the Audit committee
- Report of the activities of the Remuneration committee
- Report of the activities of the Determinations Panel
- Freedom of information, data protection and complaints

Report of the activities of the Committee of non-executive members

The Committee met once during the period of this report.

Its consideration included a range of staff matters such as staffing levels, the annual staff survey, recruitment, and senior management leadership, progress with non-executive Board appointments and with Determinations Panel chair and member appointments, and the regulator's IT systems.

By correspondence, the Committee also agreed the chairmanship and membership of the Audit and Remuneration committees on the appointment of new non-executive directors to the Board by the Secretary of State.

Membership of the Committee of non-executive members consists of the chair, Michael O'Higgins, and the non-executive directors. From the start of the period to 7 February, the non-executive directors were Chris Swinson OBE, Alan Pickering CBE, Tony Brierley, Isabel Hudson and Bruce Rigby. From 8 February to the end of the reporting period the non-executive directors were Tony Brierley, Isabel Hudson, Bruce Rigby, Graham Mayes and David Martin.

Reports follow from each of the standing sub-committees, the Audit committee and the Remuneration committee, including the membership of these committees.

Attendance records are on pages 65 and 66 – 'Details of Board membership' and 'Details of Board attendance' tables.

Report of the activities of the Appointments committee

During the reporting period, an Appointments committee was established under schedule 1 paragraph 11 to the Pensions Act 2004, so that the regulator could appoint a chair of the Determinations Panel. The committee consisted of the chair of the regulator's Board together with a senior member of DWP staff and an independent member.

The appointment needed to take effect from early April 2013 (just after the end of the reporting period), at the end of the second four-year term of office of the chair, John Scampion CBE.

As a result of the open recruitment process, the Appointments committee nominated, and the Board appointed, Andrew Long as Determinations Panel chair. The appointment was announced in December 2012 and took effect in April 2013, just after the end of the reporting period, which was when the second term of appointment of John Scampion CBE came to an end.

Report of the activities of the Audit committee

The Audit committee met on five occasions in 2012-2013 and provided regular feedback to the Board. Specifically, the Audit committee:

- reviewed the annual accounts for the regulator for the period 2011-2012 and recommended their approval to the Board
- reviewed the external audit management report for 2011-2012
- reviewed the internal audit management report for 2011-2012
- approved the internal audit strategy and plan for 2012-2013
- approved the external audit strategy and plan for 2012-2013
- considered and reviewed with the Senior management team, the approach to risk management and kept the regulator's risk register under review
- considered and reviewed the system of delegated authorities and their use
- reviewed Board and Determinations Panel members' expenses and hospitality information for publication
- received reports from the internal auditors reviewing areas of the business, as set out in the internal audit strategy and plan, and
- monitored the implementation of recommendations made in those internal audit reports.

The Audit committee also met in May and June 2013 to review:

- the draft Governance statement
- the final internal audit report for the year 2012-2013, and
- and the regulator's **Annual report and accounts 2012-2013**, together with the internal and external auditors' reports for the year.

Following completion of those reviews, the Audit committee recommended to the Board approval for the Annual report and accounts.

Conclusions

As a result of its work and the reports it has received and considered, the Audit committee:

- noted that the regulator's control system is designed to manage risk rather than to eliminate all risk. It therefore provides reasonable rather than absolute assurance of effectiveness. It has evolved to provide compliance with government spending requirements and to track and monitor service delivery in key areas
- endorsed management's assessment of key risks, through identification, prioritisation, monitoring and reporting systems, and concluded that effective and thorough monitoring and reporting systems were in place to give the SMT an appropriate level of control over the management of risk, and
- noted that one audit report resulted in a fully effective assurance, five in an effective level of assurance, one in a partially effective level of assurance and one in an ineffective level of assurance. In addition, two audits were follow-up audits which were not assurance rated.

The Audit committee was satisfied at the year end that good progress was being made in the implementation of agreed internal audit recommendations; and concluded that the monitoring and reporting systems in place give the SMT an appropriate level of control over processes, that management of processes within the organisation were broadly effective, and that where gaps were identified, appropriate actions were effectively put in place.

Membership

Membership to 7 February 2013 was Chris Swinson OBE (chair), Tony Brierley and Bruce Rigby. Membership from 8 February 2013 was Tony Brierley (chair), Bruce Rigby and Graham Mayes.

Risk management

The Audit committee reviewed the regulator's top risks on a quarterly basis. The committee has instituted a comprehensive review of processes and inputs to identify, prioritise, monitor, manage and mitigate risks, both operational and strategic, throughout the organisation and their reporting ultimately to the Board. The committee was able to question management as to the ratings given to risks, to monitor the effectiveness of mitigations and to consider the changes and trends in risks. It also undertook the first in a series of in-depth reviews of risks within specific areas of the organisation.

Internal audit strategy and plan for 2012-2013

The committee agreed a programme of internal audits for the year, covering major areas of the business assessed as priority topics for review, investigation and audit. During the year, additional audit work was undertaken as identified by the committee as necessary and appropriate. Progress over the year was kept under review and the committee was able to review all of the audit reports before review of the Annual report and accounts and the Governance statement and their subsequent recommendation to the Board for approval.

The Committee gave and will continue to give close attention to monitoring progress quarterly in the implementation of previous audit recommendations.

Information security and data management

The internal audit programme included the area of information security and data management. The report was provided to and discussed by the committee after the end of the reporting period.

Systems and processes

The internal audit programme for the period covered a range of systems and processes in the regulator including business continuity planning, IT programme and change management, operational support, risk management, customer support, trustee register, scheme information management and automatic enrolment.

Financial information

In addition to the external auditors' annual work, the internal audit programme covered an audit of key financial controls.

Human resources

Alongside the audit programme, an external review was undertaken of HR-related risks and to recommend how best the regulator can continue to expand and diversify its operation in delivering its broadening remits such as automatic enrolment successfully, whilst maintaining and upholding its purpose, values and achievements. The report was provided to and discussed by the committee after the end of the reporting period.

Review of internal audit service provision

The committee was involved in a review of internal audit arrangements for the regulator, as the current contractual arrangements were due to come to an end at the end of the reporting period, after provision of internal audit services to the regulator for a number of years. The review has led to a new arrangement being put in place from the start of the 2013-2014 financial year under which internal audit services are provided by auditors whose services have been procured via a DWP framework agreement.

Board and Determinations Panel expenses

The committee reviewed the expenses of Board and Determinations Panel members for quarterly publication on the regulator's website and was satisfied that the expenses claimed were appropriate.

Report of the activities of the Remuneration committee

The Remuneration committee met on two occasions in 2012-2013 to review:

- executive remuneration arrangements and objectives for 2012-2013
- SMT members' objectives for 2013-2014
- the chief executive's remuneration
- staff remuneration arrangements
- additional duties allowances, and
- review of market pay rates.

Membership to 7 February 2013 was Alan Pickering CBE (chair) and Isabel Hudson. From 8 February 2013, the membership was Isabel Hudson (chair) and David Martin.

Whilst the committee continued to focus on reward-related issues and on the objectives for senior staff, it also discussed diversity issues, employee consultation and representation, and received an update on civil service pension reform. Through its discussions, including with management, the committee formed the view that effective and thorough human resource approaches have been in place to give the SMT an appropriate level of support.

In accordance with Part 1 of Schedule 1 of the Pensions Act 2004, the remuneration of all non-executive members of the Board of the regulator (including the chair) is determined by the Secretary of State for Work and Pensions.

The remuneration of the initial chief executive was determined by the Secretary of State for Work and Pensions, in accordance with Part 2 of Schedule 1 of the Pensions Act 2004. Legislation requires that the remuneration of subsequent chief executives is determined by the regulator with the approval of the Secretary of State. The final decisions on remuneration for the current chief executive were, however, taken in accordance with the current rules on public sector pay, rather than by the regulator.

The remuneration of the other executive members of the Board of the regulator is also, in accordance with Part 2 of Schedule 1, determined by the regulator and approved by the Secretary of State for Work and Pensions. Decisions on such remuneration are also taken in accordance with the current rules on public sector pay.

Most executive members of the Board were eligible in this period for an annual bonus to a maximum of 10% of base salary based on performance. In the Support operations director's contract, the maximum was 20%; under the terms of his contract, no bonus is payable to the DB regulation director. Non-executive members of the Board, the chair and the Determinations Panel are not entitled to receive any bonus from the regulator.

The Board chair is responsible for reviewing annually the performance of the chief executive, reporting the results of this review to the regulator's Remuneration committee, and making recommendations. The Remuneration committee decides the amount of any performance-related bonus payments due under the terms of the chief executive's contract, after considering the recommendations provided to it. However, final decisions on performance-related bonus awards lie with the Secretary of State for Work and Pensions.

Report of the activities of the Determinations Panel

Legislative framework

Section 9 of the Pensions Act 2004 requires the regulator to establish and maintain a committee called the Determinations Panel ('the Panel'), whose purpose is to exercise, on behalf of the regulator, certain regulatory functions, as set out in Schedule 2 of that Act. In summary, these powers may be used either where the regulator considers that certain enforcement action needs to be taken in respect of pension schemes, their trustees or employers, or where trustees or other interested parties ask that certain actions be taken to safeguard the interests of scheme members. The purpose of this arrangement is to ensure that serious regulatory action is taken by the regulator in a fully transparent way, allowing those affected to understand the reason for it and the evidence upon which it is based.

Membership

The Panel has a chair appointed by the regulator. The chair then nominates at least six other members, who must then be appointed by the regulator. At the start of the period there were seven such members – Peter Hinchliffe, Andrew Long, Suzanne McCarthy, Elizabeth Neville, Alasdair Smith, Anthony Stern and Daniel Taylor. In March 2013 I nominated three new members to the Board for appointment – Jennifer Eady, Matthew Lohn and Catharine Seddon. Shortly after the period of this report, in April 2013, the terms of appointment for Suzanne McCarthy and Daniel Taylor, as well as for myself, came to an end, and they stepped down from the Panel. Andrew Long became chair of the Panel from April 2013.

Procedures

Procedures made by the Panel ensure that every regulatory decision it makes is reached after a full and impartial consideration. This requires the Panel to be satisfied that the evidence put forward supports the decision it is being asked to make. If the Panel is not satisfied, in accordance with the standard of proof applying to its determinations (on the balance of probabilities), then it will refuse to make the decision requested.

The cases coming before the Panel are prepared by the regulatory teams and incorporated into a warning notice which is sent, in standard procedure cases, to all parties who are considered to be directly affected by the decision under consideration and giving each party a full opportunity to respond, and to make their own case, if they wish.

The papers, including the warning notice, the supporting exhibits and the responses, are then submitted to the Panel. The Panel for a specific case is a subcommittee of members, which is supported by a clerk as appropriate and the Panel's administrative support staff.

The Panel then makes its decision, allowing no further representations to be made by the regulatory teams or by any other party. In those cases where an oral hearing has been applied for, and granted, all parties are invited to give evidence or make representations.

The procedures have been designed to ensure that the Panel's determinations are made in a fair, open and impartial manner. They place an expectation on regulatory case teams to investigate fully and explain the grounds of concern with sufficient evidence to support them.

Special procedure is an emergency procedure allowing action to be taken quickly and without notification to the directly affected parties. This is put into action when the regulator considers that the scheme funds or members' interests would otherwise be at immediate risk.

A special procedure decision must be fully reviewed by the Panel at a compulsory review soon after the initial hearing, with all parties given an opportunity to make representations on the initial decision made.

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Consultation on procedures

The Panel first published its procedures in 2006 and minor revisions were made effective in July 2008. In April 2012 the Panel issued a draft revised procedure document for a detailed 12-week consultation. A total of 11 responses were received from a cross-section of stakeholders including legal firms, professional and trade bodies, consultants and administrators. This consultation coincided with one also being undertaken by the regulator's case team, in relation to case team procedure. Following this consultation process, and further review, the Panel's updated procedures were published in January 2013.[28]

Casework in 2012-2013

During the year the Panel has been asked to make determinations in six cases. The schemes concerned in these cases were DB and DC. In one case the Panel held an oral hearing. The remaining cases were determined on consideration of the papers. All these cases were determined under the standard procedure and all the applications were granted. View further details in the table on page 84.

During the year the Panel also held two compulsory reviews, following special procedure hearings during the previous year. In both these instances the action was upheld. One compulsory review was held as an oral hearing, and the other determined on consideration of the papers.

The number of cases sent to the Panel in this period by the regulatory arm of the regulator has dropped from that in the past few years. Although there is no immediate clear reason for this reduction in cases being passed from the case teams to the Panel, the Panel believes that it partly reflects the change in legislation for time limits on financial support direction (FSD) and contribution notice (CN) cases, which were brought in by Section 26 of the Pensions Act 2011. The statutory deadline of two and six years respectively now applies for the case team to issue a warning notice, rather than for the final determination by the Panel. This has, therefore, allowed more time for such cases to be investigated by the case teams before they decide whether they should come to the Panel.

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View the revised procedure at:
www.tpr.gov.uk/docs/dp-procedure-january-2013.pdf

Upper Tribunal references of Panel determinations

Any determination made by the Panel can be appealed to the Upper Tribunal ('the Tribunal'). This is called a reference. The Tribunal is the independent body set up to hear references on determinations. It will issue its own guidance on the form and content of a reference and may decide to confirm, vary, revoke or substitute the determination made by the Panel.

There are currently four cases with the Tribunal. These are two FSD cases determined in 2010-2011 and a CN case determined in the same year, along with a further FSD case determined in 2011-2012.

The Panel awaits with interest the outcome of the Tribunal hearings.

Meetings and Panel training

In March 2013, I attended the regulator's Board meeting, together with Andrew Long, where I updated the Board on the work of the Panel over the past year, as well as a review of my past eight years as chair of the Panel.

The Panel arranged a training event for its members in March 2013, which covered a broad range of topics relevant to its work, including the legislation surrounding the avoidance powers of FSDs and CNs and the various tests that need to be applied, pension liberation fraud, DC pension schemes, decision-making and reason writing. The training event was also an opportunity for knowledge sharing between new Panel members and the existing members, as well as those about to leave after completing two full terms as Panel members.

The Panel holds quarterly meetings where members discuss a variety of topics. Over the past year, these discussions have included an update on scheme-specific funding, the Public Service Pensions Bill, an update on independent trustee appointments, and managing conflicts of interest.

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Conclusion

This is my last contribution to the regulator's Annual report and accounts, my term of appointment having come to an end on 5 April 2013. I very much wish to express my appreciation to the support team within the regulator and my indebtedness to my fellow members over the past eight years for all they have done collectively to build this decision-making Panel.

Together we have been able to create a body which, though formally part of the regulator, ensures that decisions are reached impartially and parties treated fairly, a body which in the words of Mr Justice Warren is independent in its decision making. My sincere best wishes go to my successor, Andrew Long, and his colleagues.

Determination requested	Number of cases	Outcome
Appointment of independent trustee	2	One case was heard as an oral hearing. Vesting orders were made at the same time.
Vesting order	2	One case was heard as an oral hearing. Appointment of an independent trustee was made at the same time.
Waiver of disqualification	2	Both cases were brought under s10(2)(b) of the Pensions Act 2004.

John Scampion CBE
Chair, Determinations Panel
April 2013

Freedom of information, data protection and complaints

Freedom of information and data protection

The regulator's policy is to be as open and transparent as possible in our work, including proactive publication of material of public interest on the website, for example Board and Panel members' expenses.

In the period 1 April 2012 to 31 March 2013, 36 information requests were made under the Freedom of Information Act 2000 (FoIA), and three subject access requests under section 7 of the Data Protection Act 1998 (DPA). This compares with 47 FoIA requests and five subject access requests in the previous year. We also provided a response to two information requests outstanding at the previous year end.

Most requests related to regulatory action taken by the regulator. There were also a number of requests relating to information regarding automatic enrolment, procurement and expenditure, and requests for registrable data.

Under Section 82 of the Pensions Act 2004 much of the information we gather falls within the definition of 'restricted information', and it is therefore an offence for it to be released, except where certain conditions apply. Alongside the duty to provide information, FoIA also makes provision for exemptions. For example, restricted information is exempt from disclosure under section 44. We consider each request on a case by case basis, to establish whether a full, summarised or redacted version of information could be disclosed. We also take into account DPA provisions on disclosure and apply relevant exemptions.

In 20 of the responses to FoIA requests, we disclosed some or all information requested and in six we were not able to disclose any information. In eight instances, we did not hold the information that was requested. A further two requests were withdrawn and two remained outstanding, but within the statutory time limit, as at 31 March 2013.

We received no requests for an internal review of our decision not to disclose information.

Under the FoIA, there is a further right of appeal to the Information Commissioner's Office (ICO). At the time of writing, we have not been advised by the ICO of any referrals. One complaint was made to the ICO regarding the alleged failure of the regulator to comply with subject access requests made under the DPA. The ICO advised that a redacted copy of the information should be disclosed to the data subject. The regulator subsequently made the disclosure.

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Complaints

In 2012-2013, at stage 1 we received 18 new complaints. As at 31 March 2013, we had responded to 15, with three complaints withdrawn. At the start of the year, there were three outstanding complaints which we responded to in this period. By comparison, 24 new complaints were received in 2011-2012.

A third of the complaints related to the way regulatory investigations had been carried out in specific schemes. We also received complaints relating to scheme levy, information contained in warning notices, the scheme return process, the recruitment process and automatic enrolment in respect of how staging dates had been applied.

Of the 15 new stage 1 complaints responded to, two were upheld in full, five were partially upheld and eight not upheld. In the case of the three complaints outstanding from the previous year, all were not upheld.

We received five stage 2 complaints in this period compared to three the previous year. At the start of the year there was one outstanding complaint, which we responded to in this period. Of the six responded to, two were upheld differently from the decision made at stage 1.

During the year, three complaints were referred to the Parliamentary Ombudsman. The Parliamentary Ombudsman did not uphold any of the complaints made.

Financial review, Statutory accounts and notes to the accounts

Financial review

- Form of accounts
- Results for the period
- Property, plant and equipment and intangible assets
- Payments to suppliers
- Going concern
- Levies account
- Audit
- Accounting officer responsibilities
- The Remuneration Report

Form of accounts

The accounts have been prepared in a form directed by the Secretary of State for Work and Pensions, with the approval of the Treasury, in accordance with paragraph 27 of schedule 1 of the Pensions Act 2004.

Results for the period

The financial statements are set out on pages 106 to 133.

The regulator is funded by Grant-in-Aid (GIA) payments from the DWP. The Levy activities relating to the Pensions Act 2004 and the Pensions Act 2008 are funded by a GIA which is recovered through the General levy. Automatic enrolment (AE) is funded through a GIA which is funded by the DWP. Expenditure on activities is accounted for separately to prevent cross subsidy.

The accounting policies under which income and expenditure are recognised are set out in note 1 to the accounts.

In the year ended 31 March 2013, the regulator had net expenditure of £48.9m. This includes £19.7m which is directly attributable to AE. The net expenditure has been transferred to the General Reserve and is offset through contributions from the DWP of £28.8m for the regulator's Levy activities and £17.8m from the DWP for AE activities.

Payroll staff costs have increased by £4.6m to £23m compared to 2011-2012 expenditure levels. Non-payroll staff costs have increased by £0.1m across the organisation including a £0.6m increase in respect of Levy and a £0.5m decrease in respect of AE. Increasing staff levels to cover the requirements of automatic enrolment and the expansion of activities relating to the DC impact of the Pensions Act 2008 and public sector pensions are the main reason for the overall increased expenditure.

Other operating charges have increased by £5.4m across the organisation: a £2.1m increase for Levy and a £3.3m increase for AE. The increase in AE is a result of the completion of a full year with a commercial partner to deliver the requirements for AE (the contract commenced October 2011). The increase in Levy is mainly the result of the increase in consultancy expenditure relating to managing the growth of the organisation and ensuring systems and processes are suitable for the increased volume and professional fees relating to legal cases.

Subsequent to the year end, the regulator has signed a new 10-year lease on its Napier House office which will expire in July 2023.

No other significant events have occurred since period end.

Property, plant and equipment and intangible assets

The regulator occupies only short leasehold property and does not have any finance leases. Rent payable for accommodation has been charged to operating leases (note 5 to the accounts).

All non-current assets are valued at current replacement cost as detailed more fully in notes 7 and 8 to the accounts.

Payments to suppliers

The regulator is committed to the prompt payment of bills for goods and services received. Payments are normally made as specified in contracts. If there is no contractual provision or understanding, invoices are deemed due to be paid within 30 days of the receipt of the goods or services, or presentation of a valid invoice or similar demand, whichever was later. During the period ended 31 March 2013, by volume, the regulator paid 88% of invoices in line with this policy.

The Late Payment of Commercial Debts (Interest) Act 1998 and the Late Payment of Commercial Debts Regulations 2002 provides all businesses and public sector bodies with the following entitlements:

- the right to claim interest for late payment
- the right to claim reasonable debt recovery costs, unless the supplier has acted unreasonably
- the right to challenge contractual terms that do not provide a substantial remedy against late payment, and
- the right for 'representative bodies' to challenge contractual terms that are grossly unfair on behalf of small and medium enterprises.

Going concern

The balance sheet at 31 March 2013 shows net liabilities of £7.4m. This reflects the inclusion of liabilities falling due in future years which, to the extent that they are not to be met from the regulator's other sources of income, may only be met by future grants or GIA from the DWP, as the regulator's sponsoring department. This is because, under the normal conventions applying to Parliamentary control over income and expenditure, such contributions may not be issued in advance of need.

Levies account

The Pensions Act 2004 does not require the regulator to prepare a levies account. During the year ended 31 March 2013, the regulator invoiced and collected levies on behalf of the DWP (the General levy and PPF administration levy and fraud compensation levy for PPF, which will be reported in the audited financial statements of that organisation). The following un-audited results summarise key facts and figures in respect of levy activity undertaken during the period. These figures do not feature in the audited accounts of the regulator.

During the year, the regulator invoiced £54.2m net of which £15.1m relates to the PPF administration levy, £35.6m related to the General levy and £3.5m related to other PPF levies.

The opening debt position as at 1 April 2012 was £308k of which the balance under 30 days was a net creditor of £17k. Closing debt position as at 31 March 2013 was a net creditor balance of £1.4k. The closing balance comprises £206k to the General levy offset by credit notes and waivers of £31k relating to the PPF administration levy, £31k relating to other PPF levies and £145k relating to Occupational Pensions Regulatory Authority (Opra)[29] levies. Schemes are contacted to apply for a refund in these cases.

The regulator collected £54.5m during the year. £54.7m of cleared funds have been transferred to the DWP during the financial year of which £215k related to prior year, and £1k relates to cash received but not transferred at year end.

The regulator pro-actively sought payment of any outstanding levy payments with an internal credit control team and has also contracted with a legal services provider to assist with this. This work will continue with a view of seeking prompt payment of levy. Our current cumulative debtor days are 38 days.

Prior to onward transmission to the DWP or the PPF, the regulator places levies received and unallocated cash receipts in respect of levies on overnight deposit. Any interest earned is paid over to the relevant recipient along with levy payments. Total interest earned and transferred in 2012-2013 was £3k.

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The Pensions Regulator replaced Opra in 2005.

Audit

The Pensions Act 2004 requires the regulator's accounts to be certified by the Comptroller and Auditor General (C&AG). The audit fee for 2012-2013 was £33k.

Accounting officer responsibilities

The accounting officer confirms:

- there is no relevant audit information of which the auditors are unaware
- he has taken all steps he ought to ensure the auditors are aware of all relevant audit information, and
- he has taken all the steps he ought to establish that The Pensions Regulator's auditors are aware of the information.

Michael O'Higgins
Chair, The Pensions Regulator
21 June 2013

Bill Galvin
Chief executive, The Pensions Regulator
21 June 2013

The Remuneration Report

The Remuneration committee

Details of the activities of the Remuneration committee during the period ended 31 March 2013 are set out on pages 78 and 79.

Remuneration policy

In accordance with Part 1 of Schedule 1 of the Pensions Act 2004, the current and future remuneration of all non-executive members of the board of the regulator (including the chair) is determined by the Secretary of State for Work and Pensions.

The remuneration of the initial chief executive was determined by the Secretary of State for Work and Pensions in accordance with Part 2 of Schedule 1 of the Pensions Act 2004. Remuneration of subsequent chief executives is determined by the Secretary of State based on recommendations from the Remuneration committee.

The current and future remuneration of the other executive members of the regulator's Board is determined by the regulator and approved by the Secretary of State for Work and Pensions.

Additionally, the Secretary of State for Work and Pensions determines the fees of the Determinations Panel for current and future periods.

Certain executive members of the Board are eligible for an annual bonus ranging from 10% to 20% (chief executive 10%). Non-executive members of the Board, including the chair, and the Determinations Panel are not entitled to receive any bonus from the regulator.

The chair is responsible for reviewing annually the performance of the chief executive and reporting the results of this review to the regulator's Remuneration committee. The Remuneration committee will decide the amount of any performance-related bonus payments due under the terms of the chief executive's contract. The final decision on performance-related bonus awards lies with the Secretary of State for Work and Pensions.

Service contracts

The length of service contracts is determined by the Secretary of State for Work and Pensions for non-executive members of the Board (including the chair) and the chief executive. The length of service contracts for other executive members of the Board and for members of the Determinations Panel is determined by the regulator and approved by the Secretary of State for Work and Pensions. Details of service contracts are shown in the table below.

The notice periods of the Board members' contracts and the amounts payable for early termination of Board members' contracts are set out in the table below.

Name	Notice period	Early termination payable to employee (Net pay plus accrued bonus if applicable)
Michael O'Higgins (chair)	6 months from Chair, 6 months from DWP	Maximum of 6 months' pay
Non-executive members		
Alan Pickering CBE*	1 month	1 month
Chris Swinson OBE**	1 month	1 month
Anthony Brierley	1 month	1 month
Bruce Rigby	1 month	1 month
Isabel Hudson	1 month	1 month
David Martin***	1 month	1 month
Graham Mayes****	1 month	1 month
Executive members		
Bill Galvin*****	3 months from employee, 6 months from employer	Maximum of 6 months' pay
Stuart Weatherley******	3 months	3 months
Charles Counsell	3 months	3 months
Stephen Soper	3 months	3 months

Other than as shown above, the regulator would have no other contractual liability upon termination of a Board member's appointment.

* Retired on 7 February 2013.
** Retired on 7 February 2013.
*** Appointed to the board on 1 February 2013.
**** Appointed to the board on 1 February 2013.
***** Tendered resignation on 1 April 2013, last day of service 30 June 2013.
****** Left under voluntary redundancy terms on 31 March 2013.

Remuneration and pension entitlements

The following section provides details of the remuneration and pension interests of the regulator's Board and the members of the Determinations Panel. 'Salary' includes gross salary; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation.

Bonuses are based on performance levels attained and are made as part of the appraisal process. Bonuses relate to the year in which they were paid to the individual.

Remuneration

The following figures are subject to audit

Non-executive members

Non-executive part-time members of the Board receive non-pensionable remuneration as set out in the table below.

	2012-2013		2011-2012	
	Salary	Total Benefits in Kind	Salary	Total Benefits in Kind
M O'Higgins (Chair)[30]	£55-60k	£1,500	£55-60k	£300
C Swinson OBE*	£20-25k	£700	£20-25k	£700
I Hudson	£20-25k	£100	£20-25k	£100
B Rigby	£20-25k	£1,000	£20-25k	£300
A Pickering CBE**	£15-20k	£100	£20-25k	£200
A Brierley***	£15-20k	£300	£20-25k	£100
G Mayes****	£0-5k	£100	N/A	N/A
D Martin*****	£0-5k	£nil	N/A	N/A

* Retired on 7 February 2013. Full year equivalent £20-25k.
** Retired on 7 February 2013. Full year equivalent £20-25k.
*** Reappointed to the Board on 9 July 2013 on a full year equivalent £15-20k. He was subsequently appointed chair of the Audit committee from 8 February on a full year equivalent £20-25k.
**** Appointed from 1 February 2013. Full year equivalent £15-20k.
***** Appointed from 1 February 2013. Full year equivalent £15-20k.

The total amount paid to non-executive directors (including the chair) during the period was £160-165k. The monetary value of benefits in kind covers any benefits provided by the employer and treated by the Inland Revenue as a taxable emolument. The benefits shown above represent the payment of expenses for travelling to Board meetings. The remuneration of the chair and non-executive members is non-pensionable.

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Two days per week, full time equivalent £140-145k.

Executive members

	2012-2013		2011-2012	
	Salary	Performance related*	Salary	Performance related**
B Galvin (Chief executive)	£140-145k	£10-15k	£140-145k	£10-15k
S Weatherley (Business support executive director)[31]	£170-175k	£5-10k	£110-115k	£10-15k
S Soper (DB regulation executive director)	£210-215k	N/A***	£190-195k[32]	N/A
C Counsell (Automatic enrolment executive director)	£140-145k	£5-10k	£105-110k[33]	£nil
Band of highest paid director's total remuneration	£210-215k		£210-215k	
Median total remuneration	£43k		£39k	
Ratio	4.9		5.4	

* Bonuses relating to 2011-2012 performance but paid in 2012-2013.
** Bonuses relating to 2010-2011 performance but paid in 2011-2012.
*** Not eligible for a bonus under terms of contract.

Reporting bodies are required to disclose the relationship between the remuneration of the highest paid director in their organisation and the median remuneration of the organisation's workforce.

The banded remuneration of the highest paid director in the organisation in the financial year 2012-2013 was £210-215k (2011-2012: £210-215k). This was 4.9 times (2011-2012: 5.4) the median remuneration of the workforce, which was £43k (2011-2012: £39k). The reason for the decrease in the ratio is that there was no change in the highest paid director salary and the median salary has been increased by the annual pay rise and appointment of senior staff associated with the organisation's aims and objectives.

In 2012-2013 no employees (2010-2011: nil) received remuneration in excess of the highest-paid director. Remuneration ranged from £16k to £210-215k (2011-2012: £16k to £210-215k).

31
Left under voluntary redundancy terms on 31 March 2013. The salary above includes a compensation payment of £57k. He also received payment in lieu of notice of £25k (not included in the above table).

32
Appointed to the Board on 1 May 2011. Full year equivalent band is £210-215k.

33
Appointed to the Board on 1 July 2011. Full year equivalent band is £140-145k.

Executive members' pension benefits

Executive members	Accrued pension at age 60 as at 31/3/13 and related lump sum (£'000)	Real increase in pension and related lump sum at age 60 (£'000)	CETV at 31/3/12 (£'000)	CETV at** 31/3/13 (£'000)	Real increase in CETV (£'000)
B Galvin (Chief executive)	15-20 plus lump sum of 0	2.5-5 plus lump sum of 0	154	197	26
S Weatherley (Business support Executive director)	10-15 plus lump sum of 0	0-2.5 plus lump sum of 0	192	238	39
C Counsell (Automatic enrolment Executive director – start 01/07/2011)	5-10 plus lump sum of 0	2.5-5 plus lump sum of 0	27	65	27
S Soper (DB regulation Executive director – start 01/05/2011)	20-25 plus lump sum of 0	2.5-5 plus lump sum of 0	157	211	29

**The CETV includes prior civil service pensions.

The pension entitlement of the chief executive is based on the Inland Revenue's earnings cap of £137,400.

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four DB schemes – either a final salary scheme (Classic, Premium or Classic plus), or a whole career scheme (Nuvos).

These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under Classic, Premium, Classic plus and Nuvos are increased annually in line with pensions increase legislation. Members joining from October 2002 may opt for either the appropriate DB arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

Employee contributions are salary-related and range between 1.5% and 3.9% of pensionable earnings for Classic and 3.5% and 5.9% for Premium, Classic plus and Nuvos. Increases to employee contributions will apply from 1 April 2013. Benefits in Classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For Premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service.

Unlike Classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per Classic and benefits for service from October 2002 worked out as in Premium. In Nuvos, a member builds up a pension based on their pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with pensions increase legislation. In all cases, members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The Partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of three providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of Classic, Premium and Classic plus and 65 for members of Nuvos.

Further details about the Civil Service pension arrangements can be found at the website: www.civilservice-pensions.gov.uk.

Cash equivalent transfer values

A cash equivalent transfer value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from lifetime allowance tax which may be due when pension benefits are taken.

Real increase in CETV

This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Determinations Panel

Members of the Determinations Panel receive a daily allowance in respect of the time devoted by each of them to the work of the Panel. The rate for the chair is £1,051 per diem and for the other members is £808 or £692 per diem.

Salary (2012-2013)	Members
£25-30k	J Scampion (Chair)*
£10-15k	P Hinchliffe
£5-10k	S McCarthy, A Long, MA Smith, E Neville, AE Stern**
£0-5k	M Maunsell*** O Dickson**** D Campbell ***** D Taylor

* Left 5 April 2013.
** Started 1 April 2012.
*** Left 30 April 2012.
**** Left 30 April 2012.
***** Left 30 April 2012.

Members of the Determination Panel may be removed from office at any time by the chair of the Panel with the approval of the regulator. The chair can be removed from office at any time by the regulator. Members who wish to leave the Panel are required to give the chair two months' notice and the chair is required to give the regulator three months' notice. Any compensation payment would be made in line with contractual obligations with reference to these notice periods.

Michael O'Higgins
Chair, The Pensions Regulator
21 June 2013

Bill Galvin
Chief executive, The Pensions Regulator
21 June 2013

Statutory accounts and notes to the accounts

- Statement of the Board's and chief executive's responsibilities
- The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament
- Financial statements
- Notes to the accounts

Statement of the Board's and chief executive's responsibilities

Under paragraph 27 of schedule 1 to the Pensions Act 2004, the regulator is required to prepare a statement of accounts in the form and on the basis determined by the Secretary of State for Work and Pensions with the approval of HMT. The accounts are prepared on an accruals basis and are required to give a true and fair view of the regulator's state of affairs at the period end and of its income, expenditure and cash flows for the financial period.

In preparing the accounts, the regulator was required to:

- observe the accounts direction issued by the Secretary of State for Work and Pensions, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis
- make judgments and estimates on a reasonable basis
- state whether applicable accounting standards have been followed in accordance with the financial reporting manual and disclose and explain any material departures in the financial statements, and
- prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the entity will continue in operation.

The chief executive is the accounting officer for the regulator. His relevant responsibilities as accounting officer, including propriety and regularity of the public finances and for the keeping of proper records, are set out in the Non-Departmental Public Bodies Accounting Officers Memorandum issued by HMT and published in Managing Public Money.

Michael O'Higgins
Chair, The Pensions Regulator
21 June 2013

Bill Galvin
Chief executive, The Pensions Regulator
21 June 2013

The Certificate and report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of The Pensions Regulator for the year ended 31 March 2013 under Schedule 1 of The Pensions Act 2004. The financial statements comprise: the Statement of Comprehensive Net Expenditure, Statement of Financial Position, Statement of Cash Flows, Statement of Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Board, Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Board and the Accounting Officer are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to The Pensions Regulator's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by The Pensions Regulator; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on regularity

In my opinion, in all material respects the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of The Pensions Regulator's affairs as at 31 March 2013 and of the net expenditure for the year then ended, and
- the financial statements have been properly prepared in accordance with the Pensions Act 2004 and the Secretary of State for Work and Pensions' directions made thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with the Secretary of State for Work and Pensions' directions issued under by the Pensions Act 2004, and
- the information given in the Chair's foreword, the Chief executive's report and the Management commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns, or
- I have not received all of the information and explanations I require for my audit, or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General, National Audit Office
157-197 Buckingham Palace Road, Victoria, London SW1W 9SP
25 June 2013

Financial statements

Statement of Comprehensive Net Expenditure for the year ended 31 March 2013

	Note	2012-2013 £'000	2011-2012 £'000
Expenditure			
Staff costs	4	**25,912**	21,044
Depreciation and Amortisation	5	**342**	529
Other expenditure	5	**22,629**	17,062
Total expenditure		**48,883**	38,635
Interest receivable		**(20)**	(20)
Net expenditure after interest, before taxation		**48,863**	38,615
Taxation	6	**4**	4
Net expenditure after interest and taxation		**48,867**	38,619
Other comprehensive expenditure			
Net gain on revaluation of property, plant and equipment		**(56)**	(2)
Total comprehensive expenditure		**48,811**	38,617

All income and expenditure is derived from continuing operations.
The accounting policies and notes on pages 111 to 133 form part of these accounts.

Statement of Financial Position at 31 March 2013

	Note	**At 31 March 2013** £'000	At 31 March 2012 £'000
Non-current assets			
Property, plant and equipment	7	**815**	525
Intangible assets	8	**455**	451
Total non-current assets		**1,270**	976
Current assets			
Trade and other receivables	11	**977**	666
Cash and cash equivalents	12	**1,370**	2,642
Total current assets		**2,347**	3,308
Total assets		**3,617**	4,284
Current liabilities			
Trade and other payables	13	**(9,976)**	(8,520)
Provisions	14	**(21)**	(62)
Total current liabilities		**(9,997)**	(8,582)
Non-current assets less net current liabilities		**(6,380)**	(4,298)
Non-current liabilities			
Provisions	14	**(1,004)**	(840)
Other payables	13	**–**	(15)
Total non-current liabilities		**(1,004)**	(855)
Assets less liabilities		**(7,384)**	(5,153)
Taxpayers' equity			
Revaluation reserve		**41**	179
General reserve		**(7,425)**	(5,332)
		(7,384)	(5,153)

The financial statements on pages 106 to 133 were approved and authorised for issue by the Board on 12 June 2013 and were signed on its behalf by:

Michael O'Higgins
Chair, The Pensions Regulator, 21 June 2013

Bill Galvin
Chief executive, The Pensions Regulator, 21 June 2013

The accounting policies and notes on pages 111 to 133 form part of these accounts.

Statement of Cash Flows for the year ended 31 March 2013

	Note	2012-2013 £'000	2011-2012 £'000
Cash flows from operating activities			
Net expenditure after interest		**(48,863)**	(38,615)
Adjustments for non-cash transactions	5	**345**	536
(Increase)/Decrease in trade and other receivables	11	**(311)**	371
Increase in trade and other payables	13	**920**	5,053
Increase in provisions	14	**123**	39
Cash outflow due to taxation		**(4)**	(3)
Net cash outflow from operating activities		**(47,790)**	(32,619)
Cash flows from investing activities			
Purchase of property, plant and equipment	7	**(463)**	(287)
Purchase of intangible assets	8	**(120)**	(177)
Net cash outflow from investing activities		**(583)**	(464)
Cash flows from financing activities			
GIA to cover ongoing operations Levy		**28,800**	22,848
GIA to cover initial costs of AE		**17,780**	12,168
GIA received from DWP for TPAS		**–**	(3,212)
GIA paid from the regulator to TPAS		**–**	3,212
Net financing		**46,580**	35,016
Net (decrease)/increase in cash and cash equivalents in the period	12	**(1,793)**	1,933
Cash and cash equivalents at the beginning of the period	12	**2,642**	709
Cash and cash equivalents at the end of the period	12	**849**	2,642

The accounting policies and notes on pages 111 to 133 form part of these accounts.

Statement of Changes in Taxpayers' Equity for the year ended 31 March 2013

	Revaluation Reserve	General Reserve	Total Reserves
	£'000	£'000	£'000
Balance at 1 April 2011	**177**	**(1,729)**	**(1,552)**
Changes in taxpayers' equity 2011-2012			
GIA received from DWP	**–**	**35,016**	**35,016**
Net gain on revaluation of property, plant and equipment	**2**	**–**	**2**
Comprehensive expenditure for the year	**–**	**(38,619)**	**(38,619)**
Balance at 31 March 2012	**179**	**(5,332)**	**(5,153)**
Changes in taxpayers' equity 2012-2013			
GIA received from DWP	**–**	**46,580**	**46,580**
Net gain on revaluation of property, plant and equipment	**56**	**–**	**56**
Transfers between reserves*	**(194)**	**194**	**–**
Comprehensive expenditure for the year	**–**	**(48,867)**	**(48,867)**
Balance at 31 March 2013	**41**	**(7,425)**	**(7,384)**

*Transfers between reserves are made in respect of the following:

- Each year, the realised element of the Revaluation Reserve (ie an amount equal to the excess of the actual depreciation over depreciation based on historical cost of revalued assets) is transferred from the Revaluation Reserve to the General Reserve.
- On disposal of a revalued asset, the balance on the Revaluation Reserve in respect of that asset becomes fully realised and is transferred to the General Reserve.

The accounting policies and notes on pages 111 to 133 form part of these accounts.

Notes to the accounts

1 Statement of accounting policies

These financial statements have been prepared in accordance with the 2012-2013 Government Financial Reporting Manual (FReM) issued by HMT. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context.

Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the regulator for the purpose of giving a true and fair view has been selected. The particular policies adopted by the regulator are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

1.1 Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of property, plant and equipment and intangible assets.

a) Property, plant and equipment

Property, plant and equipment are valued at current replacement cost which is calculated by applying appropriate Office for National Statistics indices to the historical cost of each asset. Any surplus on revaluation of property, plant and equipment is credited to the Revaluation Reserve. Any permanent impairment in the value of property, plant and equipment on revaluation is charged to the Statement of Comprehensive Net Expenditure when it occurs. The regulator is required to remit the proceeds of disposal of property, plant and equipment to the Secretary of State.

The threshold for treating expenditure on single items of property, plant and equipment as capital expenditure is £1,000.

continued...

1.1 Accounting convention continued...

b) Depreciation and amortisation

Depreciation is provided on property, plant and equipment and amortisation is provided on intangible assets at rates calculated to write down the cost or valuation (less any estimated residual value) of each asset evenly over its expected useful life as follows:

Leasehold improvements	–	the shorter of 10 years or the remainder of the lease term
Furniture, fixtures and office equipment	–	10 years
IT hardware (telecoms and servers)	–	7 years
IT hardware (other)	–	5 years
IT software	–	7 years

A full year's charge is made in the year of acquisition.

During 2012-2013, the regulator conducted a review of its depreciation rates to ensure assets were charged over the expected useful economic life of the assets. This resulted in furniture and office equipment being charged over 10 years (5-7 years 2011-2012), IT hardware (telecoms and servers) over 7 years (5 years 2011-2012) and IT software over 7 years (5 years 2011-2012). The impact of this change in accounting estimate is a £241k reduction in the depreciation charge for the current year.

Assets are not depreciated until they are commissioned or brought into use.

c) Intangible assets

The costs of purchasing major software licences and software built in-house are capitalised as intangible assets, although ongoing software maintenance costs are written off in the period in which they are incurred.

Intangible assets are carried at depreciated replacement cost, which is a proxy for fair value.

The threshold for treating expenditure on single items of intangible assets as capital expenditure is £1,000.

d) Impairment

Under IAS 36, individual assets are reviewed for impairment to ensure their carrying amount is not greater than the recoverable amount. Property, plant and equipment are valued at current replacement costs which is calculated by applying appropriate Office for National Statistics indices to the historical cost of each asset. An impairment surplus is taken to the revaluation reserve, an impairment loss is recognised as an expense in the Statement of Comprehensive Net Expenditure for assets carried at cost, and treated as a revaluation decrease for assets carried at revalued amount.

e) Other income and expenditure

Other income and expenditure is recognised on an accruals basis. Where income received relates to a period of time covering more than one accounting period, that part extending beyond the current accounting period is treated as deferred income.

f) Value added tax

The regulator's activities are exempt under the terms of the VAT legislation and therefore input VAT is not recoverable. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase of non-current assets as appropriate.

g) Employee benefits

In accordance with IAS 19 Employee benefits, an accrual is made for short-term employee benefits, such as salaries, paid absences and general staff bonuses. Bonuses in relation to Senior Civil Service employees are not recognised until payments to individuals have been determined and notified. A sampling approach has been adopted for calculation of the accrual.

h) Operating leases

Rent payable under operating leases is charged to the Statement of Comprehensive Net Expenditure on a straight line basis over the term of the lease.

Amounts received as inducements to enter into operating leases are treated as deferred income (rent rebates), and are recognised to reduce the operating lease costs over the same period as the corresponding lease.

i) Financial Instruments

Trade and other receivables
Trade and other receivables are not interest bearing and are stated at cost reduced by appropriate allowances for estimated irrecoverable amounts.

Cash and cash equivalents
Cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Trade and other payables
Trade and other payables are not interest bearing and are stated at amortised cost.

j) Government grants and Grant-in-Aid

Grant-in-Aid received used to finance activities and expenditure which support the statutory and other objectives of the entity are treated as financing, credited to the General Reserve, because they are regarded as contributions from a controlling party.

continued...

1.1 Accounting convention continued...

k) Early retirement and severance costs

Compensation payments are charged to the Statement of Comprehensive Net Expenditure when an early retirement or severance arrangement has been agreed. Obligations relating to those former members of staff aged 50 or over are provided for until their normal date of retirement.

l) Provision for liabilities

Provision is made for early retirement and redundancy costs when a constructive obligation is created. Similarly, provision for leasehold dilapidations is made as the dilapidations arise over the life of the lease.

m) Reserves

General Reserve
Grant-in-Aid received from the regulator's sponsoring organisation and the total costs included in the Statement of Comprehensive Net Expenditure are transferred to this reserve.

Revaluation Reserve
This reflects the unrealised balance of the cumulative indexation and revaluation adjustments to non-current assets.

n) Going concern

The negative cumulative balance on the General Reserve is due to timing differences between consumption and payment since the regulator only draws Grant-in-Aid from the DWP, reflected in the Statement of Changes in Taxpayers' Equity, to cover its current cashflow requirements.

o) Critical accounting judgements and key sources of estimation uncertainty

The Board are required to exercise judgement, estimates and assumptions in the application of these policies. Actual results could differ from these estimates. Information about such judgements and estimation is contained in the accounting policies or the notes to the accounts, and the key areas are summarised below.

Critical judgements in applying the accounting policies

IT software internally generated
In identifying what software development work should be capitalised under IAS 38, internal procedures have been developed which include an ongoing review to ensure accuracy and consistency of capitalised amounts as disclosed in note 8.

Dilapidations
A dilapidation provision has been put in place for the office the regulator occupies in Brighton, on which the new lease will expire in 2023. The provision is to make good dilapidations or other damage occurring during the lease periods. This provision is expected to be utilised at the expiry date of the lease.

There are no other significant judgements made in applying the accounting policies.

Key sources of estimation uncertainty
There are no significant areas of estimation uncertainty.

1a Pensions

The majority of past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) which is a defined benefit scheme and is unfunded and contributory, except in respect of dependents' benefits. The regulator recognises the expected cost of providing pensions on a systematic and rational basis over the period during which it benefits from employees' service by payment to the PCSPS of amounts calculated on an accruing basis. Liability for the payment of future benefits is a charge on the PCSPS. As described more fully in note 4, certain employees can opt for a stakeholder pension.

1b Impending application of newly issued accounting standards not yet effective

No standards and interpretations that have been issued but are not yet effective, and that are available for early application, have been applied by the regulator in these financial statements. There are no standards or interpretations issued, but not yet effective, which are expected to have a material effect on the financial statements in the future.

2 Statement of operating costs by operating segment

	AE £'000	Levy £'000	Total TPR £'000
2012-2013			
Gross expenditure	19,673	29,214	48,887
Income	(9)	(11)	(20)
Net expenditure	19,664	29,203	48,867
Total assets	634	2,983	3,617
Total liabilities	(5,510)	(5,491)	(11,001)
Net liabilities	(4,876)	(2,508)	(7,384)
2011-2012			
Gross expenditure	15,510	23,129	38,639
Income	(10)	(10)	(20)
Net expenditure	15,500	23,119	38,619
Total assets	2,645	1,639	4,284
Total liabilities	(5,686)	(3,751)	(9,437)
Net liabilities	(3,041)	(2,112)	(5,153)

The regulator comprises two distinct operating segments: Levy and Automatic enrolment (AE) (previously described as the Employer Compliance Regime (ECR)). Levy activity relates to the regulation of new and existing DB and DC schemes while AE supports the delivery of automatic enrolment.

Levy activity is funded by Grant-in-Aid payments from the DWP which is recovered through the General levy charged on pension schemes in the United Kingdom. AE is tax-payer funded through a separate Grant-in-Aid stream from the DWP and as such, it is critical that resources are charged and treated separately and to the correct funding stream.

All AE-related work is separately recorded on separate ledgers and strict protocols are adhered to in order to avoid cross subsidy. Reporting is provided to the executive team and board on both AE and Levy expenditure.

3 Board members

The chair and other members of the board of the regulator are appointed under the Pensions Act 2004 by the Secretary of State for Work and Pensions. The current chair was appointed on a part time basis from 1 January 2011 for a period of three years. His salary is set by the Secretary of State in line with senior civil servants.

Other part-time (non-executive) Board members are also appointed for periods of between 1 and 4 years. Details of the remuneration and pension benefits of the chair and all other members of the Board are given in the Remuneration Report on pages 93 to 101. The total cost for the chair and part-time Board members are as follows and these costs are included within other operating expenditure (note 5):

	2012-2013	2011-2012
	£'000	£'000
Salary/fees	**163**	165
Social security costs	**16**	17
Part-time Board expenses	**6**	3
	185	185

4 Staff numbers and related costs

	AE £'000	Levy £'000	Total TPR £'000
2012-2013			
Salaries and wages*	4,256	13,687	17,943
Social security costs	286	1,419	1,705
Other pension costs	546	2,839	3,385
	5,088	17,945	23,033
Temporary staff	293	2,346	2,639
Severance and Early Retirement costs	–	296	296
Subtotal**	**5,381**	**20,587**	**25,968**
Less recoveries in respect of outward secondments	–	(56)	(56)
Total net costs	**5,381**	**20,531**	**25,912**

	AE £'000	Levy £'000	Total TPR £'000
2011-2012			
Salaries and wages*	3,144	11,228	14,372
Social security costs	205	1,165	1,370
Other pension costs	400	2,328	2,728
	3,749	14,721	18,470
Temporary staff	761	1,793	2,554
Severance and Early Retirement costs	–	173	173
Subtotal**	**4,510**	**16,687**	**21,197**
Less recoveries in respect of outward secondments	–	(153)	(153)
Total net costs	**4,510**	**16,534**	**21,044**

* Salaries and wages for 2012-2013 includes staff holiday accrual of £270k for Levy (2011-2012: £175k) and £75k for AE (2011-2012: £27k).

** No staff salaries have been capitalised for 2012-2013 (2011-2012: £128k). The prior year salaries capitalised are included in software under development in note 8.

4 Staff numbers and related costs continued...

The Pensions Act 2004 includes employment with the regulator under the Superannuation Act 1972, and all employees of the regulator including the Chief executive are entitled to membership of the Principal Civil Service Pension Scheme (PCSPS), including family benefits. The PCSPS is an unfunded multi-employer DB salary-related scheme, but the regulator is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2007 and details can be found in the accounts of the Cabinet Office: Civil Superannuation (**www.civilservice.gov.uk/pensions**).

For 2012-2013, employers' contributions of £3,332k (2011-2012: £2,682k) were payable to the PCSPS at one of four rates in the range 16.7% to 24.3% of pensionable pay, based on salary bands. The scheme's actuary reviews employer contributions every four years following a full scheme valuation. The contribution rates reflect the benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Employees joining after 1 October 2002 can opt to open a partnership pension account, a stakeholder pension with an employer contribution, and employers contributions of £50k (2011-2012: £43k) were payable to one or more of a panel of three appointed stakeholder pension providers. Employers' contributions are age-related and range from 3% to 12.5% of pensionable pay, and employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £3k (2011-2012: £3k), being 0.8% of pensionable pay, were payable to the PCSPS to cover the cost of future provision of lump sum benefits on death in service and ill health retirement of these employees.

The outstanding pension contributions as at 31 March 2013 of £416k (31 March 2012 £290k) are included within current liabilities in note 13.

Average number of persons employed

The average number of whole-time equivalent persons employed during the year was as follows:

Number of staff	AE 2012-2013	Levy 2012-2013	Total TPR 2012-2013
Employees	49	301	350
Temporary staff	2	28	30
Staff engaged on capital projects	–	–	–
Total	51	329	380

Number of staff	AE 2011-2012	Levy 2011-2012	Total TPR 2011-2012
Employees	36	255	291
Temporary staff	6	21	27
Staff engaged on capital projects	–	1	1
Total	42	277	319

4.1 Reporting of Civil Service and other compensation schemes – exit packages

Comparative data for previous year in brackets

Exit package cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band
<£10,000	– (–)	– (1)	– (1)
£10,000-£25,000	– (–)	– (6)	– (6)
£25,000-£50,000	– (–)	1 (1)	1 (1)
£50,000-£100,000	– (–)	2 (1)	2 (1)
£100,000-£150,000	– (–)	– (–)	– (–)
£150,000-£200,000	– (–)	– (–)	– (–)
Total number of exit packages by type	**– (–)**	**3 (9)**	**3 (9)**
Total resource cost/£'000	**– (–)**	**177 (186)**	**177 (186)**

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in full in the year of departure. Where the regulator has agreed early retirements, the additional costs are met by the regulator and not by the Civil Service pension scheme. Ill-health retirement costs are met by the pension scheme and are not included in the table.

5 Other expenditure

	AE £'000 DEL programme	Levy £'000 DEL programme	Levy £'000 DEL admin	Total TPR £'000
2012-2013				
Running costs				
Chairman and part-time board fees and expenses*	46	90	49	185
Consultancy, contracted-out and other professional services	516	2,441	1,315	4,272
Business process outsourced services	12,800	–	–	12,800
Training and recruitment costs	173	585	315	1,073
Staff travel and expenses	126	228	123	477
General office expenses including accommodation expenses	238	986	530	1,754
Rentals under operating leases	130	460	248	838
Dilapidations costs	–	111	59	170
Computer systems development and maintenance	256	499	269	1,024
Impairment of non-current assets	–	–	–	–
Auditor's remuneration	–	21	12	33
	14,285	**5,421**	**2,920**	**22,626**
Non-cash items				
Loss on disposal of fixed assets	–	–	3	3
Depreciation	4	–	222	226
Amortisation	1	–	115	116
	5	–	340	345
Total	**14,290**	**5,421**	**3,260**	**22,971**

* There is tax due to HMRC on expenses incurred of £0.6k (2011-2012: £0.6k).

The regulator's expenditure is allocated between DEL (Departmental Expenditure Limit) programme and DEL admin to reflect the distinction between front line services and back office services. Levy expenditure is split on a notional basis (65% DEL programme and 35% DEL admin) as agreed with the DWP. All AE expenditure is considered DEL programme.

5 Other expenditure continued...

	AE £'000 DEL programme	Levy £'000 DEL programme	Levy £'000 DEL admin	Total TPR £'000
2011-2012				
Running costs				
Chair and part-time Board fees and expenses	44	92	49	185
Consultancy, contracted-out and other professional services	1,315	1,266	682	3,263
Business process outsourced services	8,546	–	–	8,546
Training and recruitment costs	210	454	245	909
Staff travel and expenses	106	190	102	398
General office expenses including accommodation expenses	191	975	525	1,691
Rentals under operating leases	141	429	231	801
Dilapidations costs	–	109	58	167
Computer systems development and maintenance	438	405	218	1,061
Impairment of non-current assets	–	–	–	–
Auditor's remuneration	–	22	12	34
	10,991	**3,942**	**2,122**	**17,055**
Non-cash items				
Loss on disposal of fixed assets	–	–	7	7
Depreciation	5	–	254	259
Amortisation	1	–	269	270
	6	–	530	536
Total	**10,997**	**3,942**	**2,652**	**17,591**

6 Tax on interest receivable

	AE £'000	Levy £'000	Total TPR £'000
2012-2013			
UK Corporation Tax	2	2	4
2011-2012			
UK Corporation Tax	2	2	4

7 Property, plant and equipment

2012-2013	Levy				AE	Total TPR
	Leasehold improvements £'000	**Furniture fixtures and office equipment £'000**	**IT hardware £'000**	**Levy total £'000**	**IT hardware £'000**	**Total £'000**
Cost or valuation						
At 1 April 2012	1,143	782	1,472	**3,397**	28	**3,425**
Additions	–	254	207	**461**	2	**463**
Disposals	–	(143)	(27)	**(170)**	–	**(170)**
Revaluations	23	4	106	**133**	4	**137**
At 31 March 2013	**1,166**	**897**	**1,758**	**3,821**	**34**	**3,855**
Depreciation						
At 1 April 2012	1,060	742	1,093	**2,895**	5	**2,900**
Charged in year	27	31	164	**222**	4	**226**
Disposals	–	(142)	(25)	**(167)**	–	**(167)**
Revaluations	23	2	55	**80**	1	**81**
At 31 March 2013	**1,110**	**633**	**1,287**	**3,030**	**10**	**3,040**
Carrying amount at 31 March 2012	**83**	**40**	**379**	**502**	**23**	**525**
Carrying amount at 31 March 2013	**56**	**264**	**471**	**791**	**24**	**815**

The asset categories 'Furniture, fixtures and fittings' and 'Office equipment' used in the prior year have been combined in the current year to show as 'Furniture, fixtures and office equipment'. In addition 'Telecoms equipment' has been transferred in to 'IT hardware'.

The regulator does not lease any assets.

7 Property, plant and equipment continued...

2011-2012	Levy				AE	Total TPR
	Leasehold improvements £'000	Furniture fixtures and office equipment £'000	IT hardware £'000	Levy total £'000	IT hardware £'000	Total £'000
Cost or valuation						
At 1 April 2011	1,148	749	1,581	**3,478**	–	**3,478**
Additions	–	38	221	**259**	28	**287**
Disposals	(26)	(5)	(330)	**(361)**	–	**(361)**
Revaluations	21	–	–	**21**	–	**21**
At 31 March 2012	**1,143**	**782**	**1,472**	**3,397**	**28**	**3,425**
Depreciation						
At 1 April 2011	984	735	1,262	**2,981**	–	**2,981**
Charged in year	83	12	159	**254**	5	**259**
Disposals	(26)	(5)	(328)	**(359)**	–	**(359)**
Revaluations	19	–	–	**19**	–	**19**
At 31 March 2012	**1,060**	**742**	**1,093**	**2,895**	**5**	**2,900**
Carrying amount at 31 March 2011	**164**	**14**	**319**	**497**	–	**497**
Carrying amount at 31 March 2012	**83**	**40**	**379**	**502**	**23**	**525**

8 Intangible assets

Intangible assets comprise software licences and software developed in-house.

2012-2013	Levy				AE	Total TPR
	Software under development £'000	Software internally generated £'000	IT software acquired £'000	Total £'000	IT software acquired £'000	Total £'000
Cost or valuation						
At 1 April 2012	128	1,235	1,097	**2,460**	7	**2,467**
Additions	–	–	120	**120**	–	**120**
Transfers between asset categories	(128)	128	–	**–**	–	**–**
Disposals	–	–	(79)	**(79)**	–	**(79)**
At 31 March 2013	**–**	**1,363**	**1,138**	**2,501**	**7**	**2,508**
Amortisation						
At 1 April 2012	–	1,034	981	**2,015**	1	**2,016**
Charged in year	–	74	41	**115**	1	**116**
Disposals	–	–	(79)	**(79)**	–	**(79)**
At 31 March 2013	**–**	**1,108**	**943**	**2,051**	**2**	**2,053**
Carrying amount at 31 March 2012	**128**	**201**	**116**	**445**	**6**	**451**
Carrying amount at 31 March 2013	**–**	**255**	**195**	**450**	**5**	**455**

8 Intangible assets continued...

Intangible assets comprise software licences and software developed in-house.

2011-2012	Levy				AE	Total TPR
	Software under development £'000	Software internally generated £'000	IT software acquired £'000	Total £'000	IT software acquired £'000	Total £'000
Cost or valuation						
At 1 April 2011	–	1,235	1,280	**2,515**	–	**2,515**
Additions	128	–	42	**170**	7	**177**
Disposals	–	–	(225)	**(225)**	–	**(225)**
At 31 March 2012	**128**	**1,235**	**1,097**	**2,460**	**7**	**2,467**
Amortisation						
At 1 April 2011	–	845	1,120	**1,965**	–	**1,965**
Charged in year	–	189	80	**269**	1	**270**
Disposals	–	–	(219)	**(219)**	–	**(219)**
At 31 March 2012	–	**1,034**	**981**	**2,015**	**1**	**2,016**
Carrying amount at 31 March 2011	**–**	**390**	**160**	**550**	**–**	**550**
Carrying amount at 31 March 2012	**128**	**201**	**116**	**445**	**6**	**451**

9 Financial instruments

As the cash requirements of the regulator are met through Grant-in-Aid provided by the DWP, financial instruments play a more limited role in creating and managing risk than would apply to a non-public sector body of a similar size. The majority of financial instruments relate to contracts to buy non-financial items in line with the regulator's expected purchase and usage requirements and the regulator is therefore exposed to little credit, liquidity or market risk.

The fair values of the regulator's financial assets and liabilities for both the current and comparative year do not differ materially from their carrying values.

10 Impairments

There are no impairments in the current year or prior year.

11 Trade receivables and other current assets

2012-2013	**AE £'000**	**Levy £'000**	**Total TPR £'000**
Amounts falling due within the year			
Trade receivables	–	–	–
Other receivables	7	70	77
Prepayments	–	900	900
	7	970	977

Intra-government balances

At the end of the current and prior year there are no central government, local government, NHS or public corporation receivables.

All receivables in the current and prior year were due within one year.

2011-2012	**AE £'000**	**Levy £'000**	**Total TPR £'000**
Amounts falling due within the year			
Trade receivables	–	4	4
Other receivables	6	42	48
Prepayments	14	600	614
	20	**646**	**666**

12 Cash and cash equivalents

	AE £'000	Levy £'000	Total £'000
Balance at 1st April 2012	2,595	47	2,642
Net change in cash and cash equivalent balances	(2,031)	238	(1,793)
Balance at 31 March 2013	**564**	**285**	**849**
At 31 March 2013 the following balances were held:			
Commercial banks and cash in hand (within current liabilities – note 13)	(34)	(487)	(521)
Short-term investments (within current assets)	598	772	1,370
Balance at 31 March 2013	**564**	**285**	**849**
At 31 March 2012 the following balances were held:			
Commercial banks and cash in hand (within current assets)	10	47	57
Short-term investments (within current assets)	2,585	–	2,585
Balance at 31 March 2012	**2,595**	**47**	**2,642**

Cash at bank and short-term investments represents the only funds held. All funds are held at HSBC and the short-term investments represents funds held overnight in linked money market accounts. The balances held at bank for both AE and Levy were not overdrawn at year end – the overdrafts shown are due to uncleared payments which will be covered from the release of the short-term investments held.

13 Trade payables and other current liabilities

2012-2013	**AE £'000**	**Levy £'000**	**Total TPR £'000**
Amounts falling due within one year			
Bank overdraft (note 12)	34	487	521
Other taxation and social security	102	495	597
Trade payables	–	347	347
Accruals and deferred income	5,374	3,137	8,511
	5,510	**4,466**	**9,976**
Amounts falling due after more than one year			
Other payables, accruals and deferred income	–	–	–
	–	**–**	**–**

Intra-government balances

Current year Levy payables include central government payables of £1k, due to the Department for Communities and Local Government. The prior year includes central government payables of £68k comprising £52k due to The Central Office of Information and £16k to HMRC. There are no central government payables relating to AE outstanding at the end of the current year. The prior year comprises £60k due to HMRC and £21k due to the DWP. Other than already disclosed, the regulator has no further balances owed to central government, local government, the NHS or public corporations.

Accruals and deferred income due in less than one year comprises accruals relating to outsourced services £4,860k (2011-2012: £4,983k) and rent rebates receivable £15k (2011-2012: £59k). There is no deferred income due in greater than one year at the end of the current year. At the end of the prior year deferred income due in greater than one year comprised £15k rent rebates receivable.

2011-2012	**AE £'000**	**Levy £'000**	**Total TPR £'000**
Amounts falling due within one year			
Other taxation and social security	77	390	467
Trade payables	108	236	344
Accruals and deferred income	5,501	2,208	7,709
	5,686	**2,834**	**8,520**
Amounts falling due after more than one year			
Other payables, accruals and deferred income	–	15	15
	–	15	15

14 Provisions for liabilities and charges

	Early retirement £'000	Severance £'000	Dilapidations £'000	Year ended £'000
Balance at 1 April 2012	**29**	**47**	**826**	**902**
Provided in the year	122	120	170	412
Provision not required written back	(3)	–	–	(3)
Provisions utilised in the year	(119)	(167)	–	(286)
Balance at 31 March 2013	**29**	**–**	**996**	**1,025**
Analysis of expected timing of discounted flows				
Not later than one year	21	–	–	21
Later than one year and not later than five years	8	–	–	8
Later than five years	–	–	996	996
Balance at 31 March 2013	**29**	**–**	**996**	**1,025**
Balance at 1 April 2011	**79**	**125**	**659**	**863**
Provided in the year	14	186	167	367
Provision not required written back	(27)	–	–	(27)
Provisions utilised in the year	(37)	(264)	–	(301)
Balance at 31 March 2012	**29**	**47**	**826**	**902**
Analysis of expected timing of discounted flows				
Not later than one year	15	47	–	62
Later than one year and not later than five years	14	–	826	840
Balance at 31 March 2012	**29**	**47**	**826**	**902**

All provisions in the current and prior year relate to Levy activities

Early retirement is related to individuals on early retirement for which the regulator is liable, severance covers the cost of restructuring during 2012-2013 and dilapidations cover the cost of restoring Napier House at the end of the lease.

15 Commitments under leases

Total future minimum lease payments under operating leases are given in the table below for each of the following periods.

	AE 2012-2013 £'000	**Levy 2012-2013 £'000**	**Total 2012-2013 £'000**	Total 2011-2012 £'000
Obligations under operating leases for the following periods comprise:				
Buildings:				
Not later than one year	–	221	**221**	845
Later than one year and not later than five years	–	–	**–**	221
Later than five years	–	–	**–**	–
	–	221	**221**	1,066
Other:				
Not later than one year	–	75	**75**	–
Later than one year and not later than five years	–	86	**86**	55
Later than five years	–	–	**–**	–
	–	161	**161**	55

The existing lease for the regulator's office in Brighton expires in July 2013. Subsequent to the year-end, a new lease was signed which will expire in July 2023 with a break clause in July 2018. The above disclosures only relate to the current lease.

The regulator has no obligations under finance leases.

16 Capital commitments

Amounts contracted for but not provided in the accounts amounted to £nil (2011-2012: £nil).

There were no amounts authorised by the Board not contracted for in the current or prior year.

17 Commitment under PFI contracts and other service concession arrangements

The regulator is not party to any PFI contracts.

18 Other financial commitments

Amounts contracted for but not provided in the accounts amounted to £nil (2011-2012: £nil).

19 Contingent liabilities disclosed under IAS 37

The regulator has not entered into any unquantifiable contingent liabilities by offering guarantees, indemnities or by giving letters of comfort.

20 Losses and special payments

There were no losses or special payments during the current or prior year.

21 Related party transaction

The regulator is a non-departmental public body (NDPB) accountable to the Secretary of State for Work and Pensions. The DWP, TPAS and the PPF are regarded as related parties. All transactions with related parties have been completed at arms length. During the period, the regulator's transactions with the Department included payments of DWP secondees working at the regulator. In total the transactions with the DWP not related to the provision of Grant-in-Aid totalled £46k (2011-2012: £107k). Additionally for 2012-2013 regulator staff were seconded to the DWP which related to receipts of £56k (2011-2012: £38k).

During the prior year the regulator made Grant-in-Aid payments to TPAS of £3.2m and the Departmental Steward, on behalf of the Secretary of State, made matching Grant-in-Aid payments to the regulator of £3.2m to fund this expenditure. No Grant-in-Aid payments were made or received relating to TPAS in the current year. There were no funds relating to TPAS held as at 31 March 2013 or 31 March 2012.

This year the regulator had no transactions with the PPF.

During the period no other related parties, including the regulator's Board members and key management staff, had undertaken any material transactions with The Pensions Regulator.

22 Third party assets

The regulator does not hold any third-party assets.

23 Subsequent events

Subsequent to the year-end, the regulator signed a new 10-year lease on its Napier House office which will expire in July 2023.

There have been no other subsequent events which require disclosure in these accounts.

Sustainability report

- Overview of performance
- Summary of performance against Greening Government targets
- Greenhouse gas emissions
- GHG performance commentary
- Waste performance commentary
- Use of finite resources
- Biodiversity and adaptation plans
- Sustainable procurement

By including this sustainability report, the regulator is conforming to the public sector requirements laid down in the Government Financial Reporting Manual. We contribute data to the DWP which produces an annual online report on sustainability.

This report is an extended version of the sustainability section in the DWP's Annual report and accounts. Further explanation of the data used is held both in the DWP's records and on our Sharepoint site.

Overview of performance

In line with the **Greening Government Commitment**, we have committed to reducing carbon emissions by 25% baselined against 2009-2010 by the target date of 2014-2015. Our targets and achievements relate to our sole occupancy at Napier House, Trafalgar Place, Brighton.

Summary of performance against Greening Government targets

Area	2009-2010 baseline	2012-2013 performance	2012-2013 normalised data by FTE (380)	2012-2013 normalised data M^2 (3362)
Average annual full time equivalent staffing figure:	337	380	N/A	N/A
Energy and emissions	CO^2e tonnes	CO^2e tonnes		
Mains standard grid electricity	677.7	532.7	1.4	0.2
Total greenhouse gas emissions	43.3	47.5	0.1	<0.1
Travel and related emissions	CO^2e tonnes	CO^2e tonnes		
Fleet – mileage average inc. car hire	Not available	2.5	N/A	N/A
Domestic flights	Not available	14.7	N/A	N/A
Rail national/ average	Not available	19.1	N/A	N/A
Taxi regular	Not available	1.0	N/A	N/A
Bus	Not available	<0.1	N/A	N/A
Waste	Tonnes	Tonnes		
Waste – whole estate	14.4	6.9	N/A	N/A
Water	M^3	M^3		
Water – whole estate	7540	2864	7.6	0.9

Greenhouse gas emissions

		2010-2011	2011-2012	2012-2013
Non-financial indicators (tCO2e)	**Scope 1 emissions**			
	Gas	36.7	37.0	47.5
	Total Scope 1	**36.7**	**37.0**	**47.5**
	Scope 2 emissions			
	Electricity: Brown	605.4	579.1	532.7
	Total Scope 2	**605.4**	**579.1**	**532.7**
	Scope 3 emissions			
	Fleet – mileage average inc. car hire	3.6	2.6	2.5
	Taxis	0.8	1.8	1.0
	Domestic air	7.5	18.3	14.7
	Rail	19.2	28.0	19.1
	Total Scope 3	**31.1**	**50.7**	**37.2**
	TOTAL EMISSIONS	**673.2**	**666.8**	**617.4**
Related energy consumption (KWh)	**Scope 1**			
	Gas	198,290	201,439	256,491
	Scope 2			
	Electricity: Brown	1,110,379	1,067,210	1,021,666
	TOTAL ENERGY	**1,110,379**	**1,067,210**	**1,021,666**
Financial indicators (£)	**Scope 1 and 2**			
	Gas	5,909	8170	10,094
	Electricity: Brown	108,573	119,597	117,256
	Water	19,450	15,272	9,016
	Scope 3			
	Fleet – mileage	2,342	2,078	4,700
	Car hire	2,040	429	260
	Taxis	4,011	9,251	7,900
	Domestic air/rail	74,842	118,351	137,387

GHG performance commentary

In 2013-2014, we plan to install photovoltaic panels in Napier House and we will measure the amount of electricity saved.

The overall saving of 7% against 2011-2012 carbon emissions has resulted from continued efforts in reducing power and waste, and efficient managing of the heating and cooling system. Our deployment of thin client PCs has continued alongside our server virtualisation programme, delivering a more energy efficient technology footprint.

Waste performance commentary

We promote recycling of all paper, card, tins, plastic and glass. We continue to work with our main supplier to raise awareness and understanding of the importance of recycling among our employees.

Waste		2010-2011	2011-2012	2012-2013
Non-financial indicators (tonnes)	Waste to landfill	11.9	8.4	6.9

Use of finite resources

Water consumption (Scope 2)		2010-2011	2011-2012	2012-2013
Non-financial indicators (m^3)	Water consumption	7,075	6,358	2,864

Biodiversity and adaptation plans

We are not required to have a biodiversity action plan as we occupy one city-based site.

Sustainable procurement

We work in line with the 'flexible framework' developed by the business-led sustainable procurement task force. Our policy is advertised on our intranet and forms part of the procurement cycle. We follow the guidelines set out in the Government Buying Standards Report.

Sustainability continues to be a functional part of the procurement process, and a detailed impact assessment form is used to record the positive or negative impacts on the sustainability criteria of a given project. In line with our aim to attain level 3 of the flexible framework, all of our controls are regularly assessed for general sustainability risks. Detailed supplier expenditure analysis was undertaken in 2012-2013, with a resulting programme of supplier engagement initiated.

Full compliance to level 3 will be our focus for 2013-2014.

Appendix 1: The pensions landscape

There are currently around 5.8 million active members of work-based private sector pension schemes. This group is made up of roughly 3.1 million active members of occupational pension schemes split between DC and DB schemes and 2.7 million members of DC work-based personal pension arrangements.

In addition, there are 12 million deferred or pensioner memberships across 46,000 occupational schemes, with a large concentration of members in a small number of schemes (1,600 schemes have 1,000 or more members).

The pensions landscape

		Schemes	Total memberships	Active members
DB pensions		5,510	7,679,000	1,371,000
Hybrid pensions	DB	1,563	4,461,000	431,000
	Hybrid		552,000	173,000
	DC		1,050,000	484,000
DC pensions		38,744	1,382,000	593,000
DC work-based personal pensions		1,896	2,700,000[34]	2,700,000[34]
All DC		41,692	5,100,000	3,777,000
Public service pensions		330	12,700,000	5,100,000

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The source for the figures given for 'Total memberships' and 'Active members' of DC work-based personal pensions is the **Annual survey of hours and earnings**, ONS, 2012, published in February 2013.

Deferred memberships of contract-based schemes are not considered work-based scheme members.

Number of schemes

	Benefit type		
Status	**Defined benefit**	**Defined contribution**	**Hybrid**
Open	861	29,344	591
Closed to new members	2,522	3,881	552
Closed to future accrual	1,621	4,365	306
Winding up	506	1,154	114
All	5,510	38,744	1,563

Number of memberships

	Benefit type		
Status	**Defined benefit**	**Defined contribution**	**Hybrid**
Open	1,944,000	1,086,000	2,955,000
Closed to new members	4,409,000	156,000	2,567,000
Closed to future accrual	1,186,000	75,000	473,000
Winding up	140,000	66,000	68,000
All	7,679,000	1,382,000	6,063,000

Membership figures rounded to nearest thousand.

The source for all of the figures shown in this appendix, subject to footnote 34, is the register of occupational and personal pension schemes maintained by the regulator, 31 March 2013.

Appendix 2: Longer-term indicators

We aim to measure, as far as practicable, the outcomes of our regulatory interventions, both in terms of what the interventions have achieved and how effectively we deliver these outcomes.

To this end, we set out key performance indicators each year in our Corporate plan to measure elements of our in-year regulatory performance within our main business areas.[35]

Measuring our effectiveness in achieving our statutory objectives, especially over a one-year timeframe, is not straightforward as:

- pensions are a long-term product and it may be decades before it becomes clear whether members have received their full benefits
- other factors over which we may have no or minimal impact, such as underlying market conditions, will strongly influence the outcome.

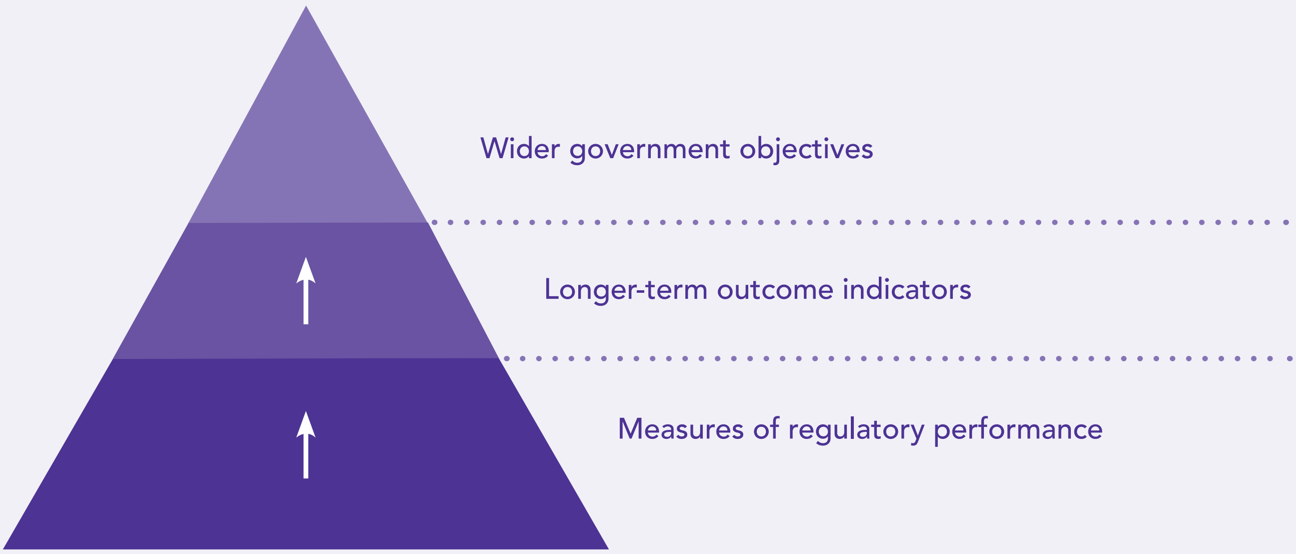
We also look to track our progress by monitoring longer-term indicators, as set out in our **Corporate plan 2012-2015**.

In doing so, we recognise that the measurement of our performance is set in the context of the broader outcomes which the Government seeks to achieve such as increasing both the amount that people are saving into pensions and the amount that people receive for their savings. As an independent body, we make a contribution to these broader aims through achieving our statutory objectives.

In 2012-2013, we generated processes to enable us to report on our longer-term indicators and these are explained below alongside our initial findings.

35
This year we are reporting on our longer-term indicators within the DB, DC and automatic enrolment business areas only. We will also monitor over the longer term the extent to which trustees have a good level of knowledge and understanding as part of our drive to improve scheme standards of governance and administration.

Longer-term indicators in context



Wider government objectives

Our regulatory performance combines with macro-economic forces to contribute to wider objectives that the Government seeks to achieve in relation to the UK pension system.

These objectives are detailed in the DWP paper **'Reinvigorating workplace pensions'** published in November 2012 and include increasing both the amount that people are saving into pensions and the amount that people receive for their savings.

Longer-term outcome indicators

We employ longer-term indicators to monitor the outcomes that schemes/individuals achieve in the areas of our regulatory focus, but where our influence is impacted by broader market factors. For example, we assess the extent to which:

- DB schemes are funded to levels that protect the PPF and members
- better outcomes are achieved for DC scheme members
- automatic enrolment becomes an accepted part of an employer's duties.

Measures of regulatory performance

We use KPIs as short-term, in-year measures of the outcomes of our regulatory interventions, where our actions have a direct influence. For example, we measure:

- the effectiveness of risk management plans for DB schemes
- trustee awareness and understanding of our principles and features for good quality DC schemes
- employer awareness and understanding of their new duties under automatic enrolment.

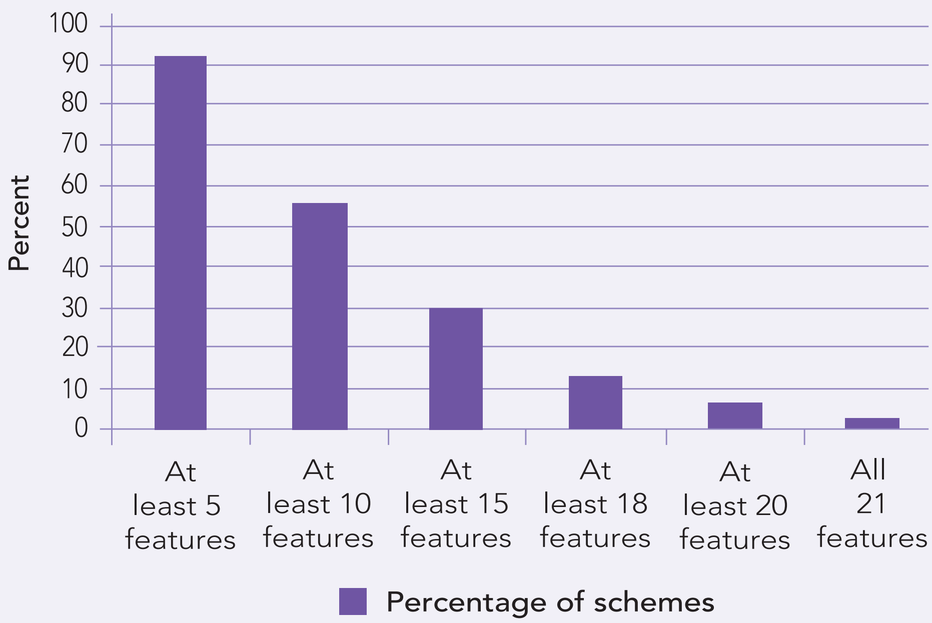
DB scheme regulation

Over the longer term, we seek to assess the degree to which we are achieving our statutory objectives in relation to DB schemes by monitoring the extent to which all members receive full entitlement from their scheme. Where this is not possible, we will monitor the extent to which schemes where the sponsor becomes insolvent are funded below the levels which the PPF believes are appropriate.

Given the challenges presented by monitoring these indicators, in the interim we used the level of funding in schemes at the point of their s143 valuation[36] that are then transferred into the PPF as a barometer of our progress.

This is shown in the graph below, which highlights the average level of the funding of schemes that have transferred into the PPF at the point of their s143 valuation between 2009 and 2012. It illustrates a rise from 69% in 2009 to a peak of 73% in 2010, before a fall to 65% in 2012.

Estimated s143 funding ratio of schemes transferred into the PPF



Source: The Pensions Regulator's analysis of PPF data

36
S143 Pensions Act 2004 sets out the circumstances under which the PPF Board must obtain a valuation of assets and protected liabilities of a scheme following either an insolvency event or a scheme notification/application.

This rise and fall reflects scheme funding more generally over this period, with the buy-out deficit improving from 58% to 68% between 2009 and 2010 before falling back to 67% and 60% in 2011 and 2012 respectively. Notwithstanding the market-driven impact[37] on scheme deficits during this period, the value of scheme assets rose by almost a third across the same period: from £780.4 billion in 2009 to £1,026.8 billion in 2012. In the coming year we plan to develop a measure to assess the extent to which members of DB schemes do, or do not, receive their full entitlement.

DC scheme regulation

Over the longer term, we seek to assess the degree to which we are achieving our objectives in relation to DC schemes by monitoring, first, the extent to which the quality features underlying our six DC principles are integrated into work-based DC schemes. We also aim to monitor the extent to which members of DC schemes achieve better outcomes, as indicated by the degree to which schemes deliver the six elements (see page 27) necessary for members to achieve good outcomes.

In relation to the first indicator, in August 2012 we commissioned a baseline survey to review the extent to which 21 of the 31 quality features underlying our six DC principles were integrated into work-based DC schemes.[38]

Ultimately, we will expect all schemes to bear these features. However, our interim findings reflect the newness of these requirements.[39]

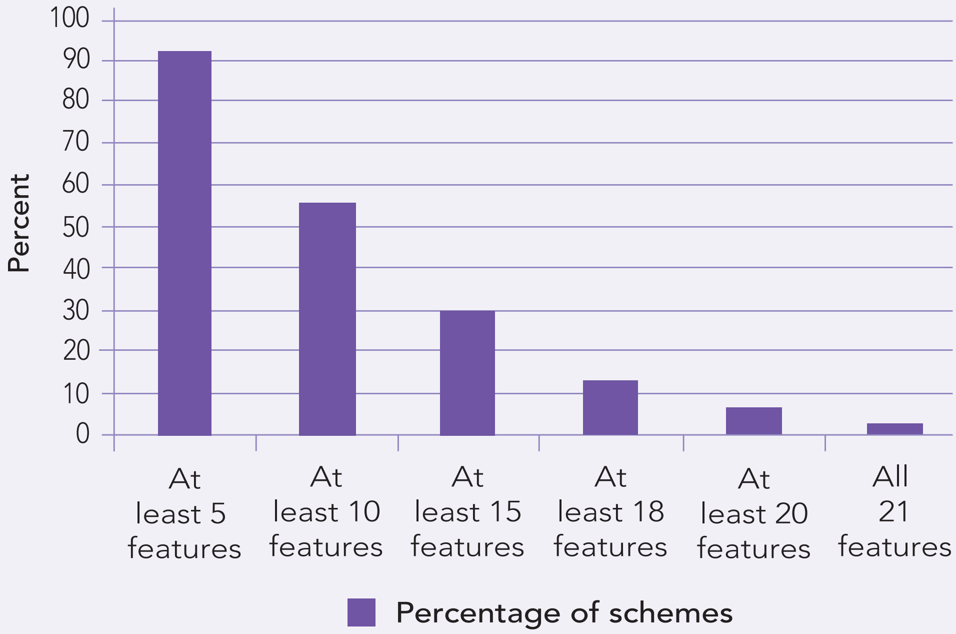
37
Principally influenced by a fall in the gilt yields used to calculate scheme liabilities.

38
The survey was restricted to 21 features based on draft proxy definitions. The remaining features were not covered as they were qualitative or multi-faceted in nature and did not lend themselves to reliable identification through survey methodology.

39
The features were first published in draft form in June 2012.

The graph below illustrates the proportion of schemes that confirmed incorporation of the features covered by our survey.

Overall presence of 21 features



Source: Based on IFF 2012 Survey of DC schemes

The majority (92%) of schemes were able to demonstrate the presence of at least five of the 21 features, while more than half (56%) of schemes demonstrated at least 10 features. Just under a third (29%) could evidence at least 15 of the features, while just over one in ten (13%) incorporated at least 18 features. A minority of schemes (6%) had at least 20 or 21 features present.

The presence of the features varied significantly by scheme size. For large schemes, the proportion of schemes with at least 20 of the features present rose to almost half (48%), while over three-quarters (78%) were able to demonstrate the presence of at least 15 features. For almost all of the features, large schemes were more likely to be able to demonstrate their presence than small schemes.

Encouragingly, the schemes most likely to be used for automatic enrolment were also more likely to have the features present[40] than schemes that are less likely to be used.[41]

40
55% had at least 15 features present, while 25% had at least 20.

41
26% had at least 15 features present, while 5% had at least 20.

Our second longer-term indicator is to monitor the extent to which members of DC schemes achieve better outcomes, as indicated by the degree to which schemes deliver the six elements necessary for members to achieve good outcomes. In relation to this indicator, we commenced a new programme of work in 2012-2013 to develop a full set of indicators intended to assess the overall impact of our work on the outcomes received by DC scheme members. We expect to be able to publish our findings from this programme in due course.

Automatic enrolment

Over the longer term, we seek to assess the degree to which we are achieving our statutory objective to maximise employer compliance with the employer duties and employment safeguards introduced by the Pensions Act 2008 by monitoring the extent to which the process of automatic enrolment becomes an accepted part of an employer's duties, akin to all other established legal obligations.

Our research shows that 84 employers, accounting for more than 2 million workers between them, registered as having commenced their automatic enrolment duties between July 2012 and March 2013.[42]

At this early stage of the automatic enrolment process, our first step towards monitoring our longer-term progress in this area was to consider the findings of our employer awareness and understanding tracking surveys. The most recent survey (autumn 2012) reported that support for automatic enrolment remains firm among large employers (250+ employees), with 79% agreeing that automatic enrolment is a 'good idea' for their workers. However, support from small and micro employers was less pronounced.[43]

We will continue to use this survey to measure employer perceptions of automatic enrolment and the extent to which the automatic enrolment process becomes an accepted part of their duties. We also plan to monitor our progress by recording and publishing key statistics, including employer registration levels, and by contributing to the Automatic enrolment programme evaluation process.

42
This figure is taken from the **Automatic enrolment registration report** published on our website in April 2013. It should be noted that employers have up to four months from their staging date to complete the registration process, which means that employers with a staging date after December 2012 may not be included in this report.

43
65% and 53% respectively thought automatic enrolment was a 'good idea' for their workers.

Appendix 3: Formal exercises of delegated powers

We use our powers on a daily basis to support discussions with schemes. In the vast majority of occasions, our powers do not need to be formally invoked, but are successful in influencing behaviour.

Where we do formally invoke our powers, these are either delegated to the executive or to a specified role appropriate to exercise the power or reserved to the Determinations Panel. See pages 80 to 84 for the report of the activities of the Determinations Panel in 2012-2013. The following tables on pages 149 to 151 outline the delegated powers reported as formally exercised by the regulator's functions in 2012-2013.

The following information is not subject to audit.

Statute reference	Power exercised	April 2011–March 2012	April 2012–March 2013
S42 Pensions Act 2004 (PA04)	The issue of a clearance statement in relation to a s38 contribution notice	31	27
S46 PA04	The issue of a clearance statement in relation to a financial support direction	25	24
S72 PA04	Demand information and documents for occupational and personal pension schemes	47	50
S288 PA04	Revocation of the authorisation of an occupational pension scheme to accept contributions from European employers	4	1
S289 PA04	Revocation of the approval of an occupational pension scheme to accept contributions from specified European employer	4	1
Employer Debt Regulations SI 2005/678 as amended in 2008 by SI 2008/731 and SI2008/1068	Reg 7A(1)(c)/7(2) notice – the power to approve a regulated apportionment arrangement	1	2
Employer Debt Regulations SI 2005/678 under transitional provisions in reg.2 of SI 2008/731	Schedule 1A Para 2(1) notice – the power to approve a withdrawal arrangement	0	2
S7(3) Pensions Act 1995 (PA95)	Appoint a trustee to schemes: with exclusive powers if required; Order the employer or scheme to pay fees and expenses etc (see s8)	498	553

Statute reference	Power exercised	April 2011–March 2012	April 2012–March 2013
S23(1) (while s22 applies to scheme) PA95	Appoint an independent trustee: • During an assessment period for PPF • When the scheme is authorised to continue as a closed scheme • When sponsoring employer becomes insolvent	5	7
s103 PA95, s89 PA04	The regulator may, if it considers it appropriate to do so in any particular case, publish a report of the consideration given by it to the exercise of its functions. The report may be in such form and manner as the regulator considers appropriate.	5	2
	Total	**620**	**669**

All powers executed were as part of the regulator's case work programme in 2012-2013. The volumes of powers executed across the case types were as follows.

Powers exercised by case type

Case type	Powers exercised
Clearance	46
Avoidance	24
Cross border	2
Governance	12
Pension liberation	19
Wind-up	2
Recovery plan	6
Trustee appointment	552
Financial management	2
Withdrawal	4
Total	**669**

Overall, the volume of powers formally exercised has increased by 8% since 2011-2012. Around 80% of the regulator's use of powers is trustee appointments and many of these are a reactive activity in response to the normal retirement patterns of trustees which are outside the control of the regulator. Leaving aside these trustee appointments, the volume of powers exercised by the regulator overall has dropped slightly although there has been a sustained increase in the number of section 72 powers exercised.

The regulator also published three reports using the section 89 power. Under s89 of the Pensions Act 2004 the regulator may, if it considers it appropriate to do so in any particular case, publish a report of the consideration given by it to the exercise of its functions in relation to that case and the results of that consideration. It is likely that the regulator will use this power more often as a tool to educate the regulated community.

Leaving aside those appointments under section 7(3) of the Pensions Act 1995 which related to DC schemes, the split of powers across scheme benefit type were as follows:

- 97 of the powers executed by case teams were in relation to DB schemes (83%)[44]
- 20 were in relation to DC schemes (17%).

44 This includes hybrid schemes.

Appendix 4:
Corporate plan 2012-2015 summary

This Annual report and accounts reports on our objectives for 2012-2013 as set out in our Corporate plan 2012-2015 within the strategic themes of: reducing risks to DB scheme members, reducing risks to DC scheme members, automatic enrolment, and better regulation.

Our objectives can be summarised as:

- **DB scheme regulation**
  We sought to engage with schemes as they undertook the second cycle of triennial valuations and to promote an integrated approach to scheme risk management, taking account of employer covenant, funding and investments.

- **DC scheme regulation**
  We sought to raise awareness of our six principles for good work-based DC schemes. This included then publication of underlying quality features to support the integration of these principles and to help schemes to achieve the six elements that we believe are necessary to deliver good member outcomes (see page 27).

- **Automatic enrolment**
  We sought to support employers, advisers and providers to effectively prepare for automatic enrolment. This included the publication of our compliance and enforcement strategy and policy, which together set out the approach we will take to meet our statutory objective to maximise compliance with the employer duties and safeguards introduced by the Pensions Act 2008 and other relevant legislation.

- **Better regulation**
  We sought to deliver operational efficiency and effectiveness across all of our activities in 2012-2013 and to remain committed to undertaking our regulatory activities in a manner that takes account of the principles of good regulation. That is, to be: proportionate, accountable, consistent, transparent and targeted (PACTT).

Our Annual report and accounts 2012-2013 sets out how and whether we met these objectives and the activities we undertook to achieve them.

Appendix 5:
Key publications and web activity 2012-2013

Key publications and web activity 2012-2013	
April 2012	• Bringing your staging date forward • Staging date timeline (updated) • Determination notice – Desmond & Sons • Pension scheme funding in the current environment • Trustee toolkit module: Introducing pension schemes
May 2012	• Scenarios for scheme funding plans in the current economic conditions • Automatic enrolment blog: Checking whether our pension scheme qualifies • Occupational pension scheme governance: A report on the 2012 scheme governance survey • Webinar: Pension scheme funding in the current environment • Corporate plan 2012-2015 • Scheme record-keeping: A report on the 2012 scheme record-keeping survey • Webinar: A detailed look at assessing your workforce • Automatic enrolment blog: Establishing payroll processes for automatic enrolment • Report under s89 of the Pensions Act 2004. Issued by The Pensions Regulator in relation to the British Midland Airways Limited Pension and Life Assurance Scheme • Trustee toolkit module: The trustee's role

Key publications and web activity 2012-2013	
June 2012	• Webinar: Reviewing your pension arrangements • Explaining qualifying DC schemes tool • Enabling a good member outcome in DC pensions: An update on the industry dialogue • Six principles for good workplace DC – Draft key features • Selecting a good automatic enrolment scheme • Scheme funding: Recovery plans of UK defined benefit and hybrid schemes • Automatic enrolment: Compliance and enforcement strategy • Automatic enrolment: Compliance and enforcement policy • Employer duties: Our regulatory approach – A quick guide to The Pensions Regulator's compliance and enforcement strategy for employers subject to automatic enrolment duties • Employer letter template tool
July 2012	• Webinar: Reviewing your pension arrangements • Employer letter template tool • Automatic enrolment intermediaries hub: Helping your clients prepare for automatic enrolment • Annual report and accounts 2011-2012 • Automatic enrolment blog: Communicating to our workers about automatic enrolment • Response to NAO report on regulation of DC pensions • Research report: Employers' awareness, understanding and activity relating to workplace pension reforms, Spring 2012 • Statement from The Pensions Regulator: Incentive exercises • Statement from The Pensions Regulator: Financial support directions and insolvency • Trustee toolkit module: Pensions law
August 2012	• Webinar: Communicating with workers and enrolling eligible jobholders • A detailed guide to workplace pensions reform for software developers to be used in conjunction with the Test data companion v3.0 • Trustee toolkit module: Check your scheme • Trustee toolkit module: The four major asset classes

Key publications and web activity 2012-2013	
September 2012	• Stakeholder update: Autumn 2012 • Webinar: Automatic enrolment duties and common myths for payroll professionals • Maintaining contributions consultation and guidance
October 2012	• A guide for suppliers: How to do business with The Pensions Regulator • Webinar: Record-keeping and the common data targets • Webinar: Automatic enrolment – A keynote briefing for trade bodies • Intermediaries' awareness, understanding and activity relating to workplace pension reforms, Spring 2012 • Talking to your employees about pensions: A guide for employers • The defined benefit regime: Evidence and analysis • Trustee toolkit module: Fund management • Trustee toolkit module: Strategic investment
December 2012	• Automatic enrolment: Five step action checklist for trustees • Stakeholder update: Winter 2012 • Scheme return sample questions: defined contribution schemes • Trustee toolkit module: How a DC scheme works

Key publications and web activity 2012-2013	
January 2013	• Trust-based pension scheme features research: A summary research report on the draft DC features • Report under s89 of the Pensions Act 2004. Issued by The Pensions Regulator in relation to the UK Coal Mining Sections of the Industry-wide Coal Staff Superannuation Scheme and Industry-wide Mineworkers Pension Scheme • DC consultation comprising : – Consultation document – Regulating defined contribution pension schemes – Annex 1 – Regulatory approach: Ensuring good governance and administration in work-based defined contribution pension schemes – Annex 2 – Code of practice 13: Governance and administration of occupational defined contribution trust-based pension schemes – Annex 3 – Regulatory guidance: Governance and administration of occupational defined contribution trust-based pension schemes • Principles and features for good quality pension schemes: Initial analysis of the presence of the regulator's defined contribution quality features in FSA regulation of work-based personal pensions • Contractual versus automatic enrolment • Information for journalists: A quick guide to regulating defined contribution schemes • Determinations Panel procedure • Case Team procedure • Pension liberation fraud: An action pack for pension professionals • Pension liberation fraud transfer pack insert for members • Pension liberation fraud awareness leaflet for members • Trustee toolkit module: Study planner
February 2013	Employers' awareness, understanding and activity relating to workplace pension reforms, Autumn 2012
March 2013	• Webinar for DC trustees: Consultation on DC governance and administration • Webinar: Understanding automatic enrolment processes • Intermediaries' awareness, understanding and activity in relation to workplace pension reforms, Autumn 2012 • Webinar: Pension liberation fraud • Stakeholder update: Spring 2013

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