

# Annual report and accounts 2010-2011



The Pensions  
Regulator

# Annual report and accounts

2010-2011

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**Annual report and accounts 2010-2011**

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# Contents

The Pensions Regulator: Our statutory objectives	page 6
Chair's foreword	page 7
Chief executive's report	page 9
The pensions environment	page 13
Management commentary	page 17
The context of our activities in 2010-2011	
Review of our activities during the year	page 19
Strategic theme 1: Improving governance and administration	page 19
Strategic theme 2: Reducing risks to DB scheme members	page 26
Strategic theme 3: Reducing risks to DC scheme members	page 30
Strategic theme 4: Preparing for 2012	page 34
Strategic theme 5: Better Regulation	page 39
Accountability and governance	page 48
Financial review	page 64
Statutory accounts and notes to the accounts	page 72
Financial statements	page 77
Appendix 1: Formal exercises of delegated powers	page 101
Appendix 2: Key publications and web activity during the year	page 104
Appendix 3: Glossary of terms	page 106

# Our statutory objectives

The Pensions Regulator ('the regulator') is the regulator of work-based pensions, established under the Pensions Act 2004 as an executive non-departmental public body. We commenced operations in April 2005, superseding the Occupational Pensions Regulatory Authority (Opra).

## Statutory objectives

Our objectives, as established under the Pensions Act 2004, are to:

- Protect the benefits of members of work-based pension schemes
- Reduce the risk of situations arising which may lead to compensation being payable from the Pension Protection Fund (PPF)
- Promote, and improve understanding of the good administration of work-based pension schemes.

An additional objective, established under the Pensions Act 2008, is to:

- Maximise employer compliance with employer duties (including the requirement to automatically enrol eligible employees into qualifying pension provision with a minimum contribution) and with certain employment safeguards.

The regulator is funded via a Grant-in-Aid from the **Department for Work and Pensions (DWP)**, which is partially recovered from eligible schemes via the general levy. The setup costs of the **Employer Compliance Regime (ECR)** are being met by the DWP. The Pensions Regulator is financially accountable to the Secretary of State for Work and Pensions.



## Chair's foreword

The long-term shift in the pensions landscape, as well as the impact of the economic downturn, have meant that pension schemes and sponsoring employers have experienced 3 of the toughest years in living memory.

Defined benefit (DB) scheme sponsors have felt immense pressure on their funding positions, and defined contribution (DC) schemes have come under much greater scrutiny from across the industry and government.

Our primary focus continues to be on education and enablement as the best means of supporting those within our industry. We are using a range of means including guidance, e-learning tools such as the **Trustee toolkit**, and negotiation directly with schemes, employers and others to influence behavioural change positively.

The pressures on DB schemes fall on company management, employees and shareholders, and of course on scheme trustees. We remain committed to supporting actively all those involved with running DB schemes as they respond to the ongoing challenges. This is not only in terms of funding but also issues of governance and maintaining the vital trustee-employer relationship. We have also shown that, where necessary, we are willing and able to intervene to reach a positive outcome. Once again, we have emphasised the flexibility available to schemes within the funding regime and are pleased that understanding has generally increased over the first complete cycle of valuations.

The recent global economic turbulence has highlighted the subtlety, complexity and fragility of many corporate situations, and we have been required to intervene in many more cases than in previous years. In approaching this interaction, we have remained focused on our statutory objectives: to protect the benefits of members in all types of work-based pension provision and to reduce the risk of situations which could lead to a call being made on the **Pension Protection Fund (PPF)**.

We have continued to respond to a shifting landscape, which has meant a greater focus on the inherent risks facing members of DC arrangements. In light of the expanding DC sector, much of our activity in DC this year has been focused on laying the foundations for a regulatory approach to DC provision, which is fit-for-purpose.

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A key element of this is ensuring transparency and clarity across the pensions value chain to ensure that scheme members are better enabled to engage with the providers, trustees and employers. This may be in the way that members understand the value of their pension or the way they choose annuity products.

Meanwhile, we continue to prepare for the new pensions arrangements introduced by the Pensions Acts of 2007 and 2008, and in particular our role with respect to the duty on employers to automatically enrol their employees into a qualifying pension scheme. Subsequent to the '**Making Automatic Enrolment Work**' (MAEW) review we were able to re-initiate the work of designing and building the **Employer Compliance Regime (ECR)** and notifying employers of their forthcoming duties. Our aim is to build a pro-compliance culture where it is as easy as possible for employers to comply, and the burden on business is minimised.

We have also engaged in the changing European landscape and continue to play a full part in the new **European Insurance and Occupational Pensions Authority (EIOPA)**. We have been focused on the review of the **Institutions of Occupational Retirement Provision (IORP) Directive**, which has the potential to have a major impact on both the regulatory environment and our regulatory processes.

We continue to measure our performance against the **Hampton Principles**, the principles of Better Regulation, to ensure all our actions are transparent, accountable, proportionate, consistent and targeted. We are committed to protecting member benefits across all forms of pension provision while minimising the burden on schemes and those who sponsor them, and promoting operational efficiency.

I wish to finish by thanking my predecessor David Norgrove for his work since the creation of the regulator in 2005, and to acknowledge the work of the thousands of trustees who carry so much of the burden of ensuring the protection of member benefits.



**Michael O'Higgins**

Chair,  
The Pensions Regulator  
17 June 2011



## Chief executive's report

The year 2010-2011 presented The Pensions Regulator with a new and complex set of challenges. Valuations submitted by DB schemes, dated from the trough of the economic cycle, left the regulator with more recovery plans to process and especially difficult judgements to make.

Moreover, the new government's review of automatic enrolment policy forced us to place much of our preparatory work for the 2012 changes into hibernation. In addition, the public sector efficiency and reform programme restricted our ability to recruit staff, and to communicate with trustees and the pensions industry.

As a risk-based regulator, however, we are required to react to an ever changing pensions landscape in order to protect members' benefits, whatever the risks posed. Therefore, we reprioritised and refocused, while remaining true to our established approach to regulation, and went on to achieve many of our regulatory goals for the year. For me, the year was marked by a number of key events:

- We took an important step forward in improving the governance and administration of schemes by setting robust standards for record-keeping.
- We demonstrated our determination to secure DB pensions of members through the use of our anti-avoidance powers in high-profile cases such as **Nortel** and **Lehman**, and supported trustees by producing clear guidance on the employer covenant and multi-employer schemes.
- We started an in-depth dialogue with the pensions industry on our regulatory approach to DC pension schemes.
- We developed a deep understanding of the employer community who will be subject to automatic enrolment, and undertook the essential ground work for our duties in this area.
- We engaged more deeply than ever with the new **European Union (EU)** architecture for the regulation of pension schemes by playing a leading role in **CEIOPS (Committee of European Insurance and Occupational Pensions Supervisors)** and its successor **EIOPA**.

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## Improving governance and administration

We have set demanding standards for member record-keeping, and provided help and support to the industry in its focus on meeting the regulator's 2-year target to wind-up pension schemes. While these are clearly not the only areas in which we would like administration standards to improve (see our internal controls guidance also published this year), they are very important aspects of ensuring that members' benefits are paid out accurately and expeditiously.

In 2010-2011, we had an increasing number of cases dealing with governance/administration issues largely as a result of an increase in reported late payments. The current challenges faced by the industry in managing administration effectively across employer and scheme, is an indicator of the challenges that will be exacerbated for many pension arrangements from 2012 and the onset of automatic enrolment.

## Reducing risks to DB scheme members

In 2010-2011, we received the second valuations from the tranche of schemes that first went through the scheme-specific funding process (those with triennial valuation dates in 2005-2006 and 2008-2009). These schemes had valuations in the trough of the economic cycle, and over 80% triggered our attention.

We worked hard to ensure that schemes understood the flexibility in the system (on recovery plans, and in some cases valuation dates, but not on core funding assumptions). Nevertheless, our case teams had many more, and much more complex, discussions this year than previous years, as the economic conditions threw many schemes and sponsors off track.

We invested much effort into explaining our expectations on employer covenant, for different scheme types, and focused on ensuring that trustees know how to make this support as tangible and dependable as possible. We also worked to navigate schemes and employers through issues emerging from the introduction of more complex structures, such as **ERI (employer-related investment) prohibitions**. Much of our avoidance work in 2010-2011 focused on maximising recoveries from parents of insolvent employers. In separate cases, we pursued **Financial Support Directions (FSDs)** against companies in the **Lehman** and **Nortel** groups. This resulted in a joint legal challenge by administrators of 20 companies, across the **Lehman** and **Nortel** groups, to the regulator's ability to enforce an FSD in an insolvency. The High Court found that an FSD is valid in an insolvency and the costs of complying with it would rank as an expense of the administration or liquidation. We also sought a **Contribution Notice** in the **Bonas/Michel Van de Wiele** case.<sup>1</sup>

Our guidance on employer covenant is designed to ensure such remedial effort is less necessary in future. We also worked very hard, with trustees and the PPF, to maximise the position of the pension scheme where the employer covenant has been allowed to deteriorate to levels below that necessary to support the scheme. Such situations present particularly acute moral hazard issues, and challenges for trustees in ensuring their decision-making is seen to be unconflicted and prudent.

<sup>1</sup> Subsequent to the period covered in this report, the case was settled out of court.

## Reducing risks to DC members

We have received a large number of responses to our discussion paper on DC pension provision. There are many factors that must be in place to support members in achieving a good outcome from DC pension arrangements, and most of the responses agree with our proposed focus areas.

It is clear that the variety of delivery structures, governance mechanisms and product descriptions can make it very difficult for those on the demand side – employers, trustees and members – to engage effectively with the industry on what might be in the best interests of members. Our suggestions on transparency received particular support, most significantly in relation to charging structures.

The tendency for employers, trustees, providers and advisers to perform roles on both the supply-side and the demand-side, makes for an often ambiguous system of accountability and some challenges in conflict management. These are particularly acute in some business models, and this was also pointed out by many respondents.

Our vision is that DC pensions provide a good outcome for members, regardless of employer size, or type of scheme. While this poses challenges to the industry, our role, as with DB provision, will be to support good provision, and to challenge structures and business models that are unlikely to be in members' interests.

We are still considering the responses received, and I look forward to presenting our further proposals in this area next year.

## Preparing for 2012

Though our work in preparing for the onset of automatic enrolment was delayed by the government's '**Making Automatic Enrolment Work**' review, we were able to recover the position once the review reported in October of last year. Our work in preparing the regulatory structures and systems is now on track, and as our report goes to print, some of the fruits of our work on guidance, education and awareness is being disseminated to larger employers and industry advisers.

We are well aware of the challenge in developing awareness and understanding of the reforms, particularly in the harder-to-reach segments of the employer landscape, but we are excited to be playing a prominent role in the plans that have been so carefully constructed over the past few years. We look forward to engaging with all parts of the industry to make automatic enrolment a success.

## Better Regulation

We are always conscious of the regulatory burden we impose and we seek to minimise it where possible. This is one reason why we believe firmly in our mantra of '**Educate, Enable, Enforce**'. It is also clearly in the interests of all our levy payers.

Our regulatory experience has demonstrated beyond doubt that in a world where most people want to do the right thing, investment in education and communication reduces the need for regulatory intervention. We will continue to invest in educating the industry, where we feel it is appropriate.

We adopted a similar approach in our role as one of the national members of **EIOPA**, the new **European Union (EU)** level authority for pensions and insurance supervision. In spring 2011, the **European Commission** sent a **Call for Advice** to **EIOPA** on how the **EU** regulatory regime for pensions should be amended to meet the EU's objectives in this area. This is an important initiative which may have major implications for the regulation of both DB and DC pension schemes. We treat this work as a high priority.

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## The team

Finally, I would like to finish with a reflection on the effort, enthusiasm and dedication that characterises the work of everybody at the regulator. Everyone on the phones, in the case teams, the careful drafters of policy and guidance, and all the supporting teams should be proud of the organisation's achievements.

I would like to thank all of our staff, members of the Board, and our partners both private and public for your support in 2010-2011, and I look forward to working with you in what promises to be an equally exciting and challenging 2011-2012.



**Bill Galvin**

Chief executive,  
The Pensions Regulator  
17 June 2011



## The pensions environment

We regulate employer-sponsored, work-based pension schemes. These comprise primarily trust-based and personal arrangements. Occupational schemes are governed by trustees, while group personal pensions (GPPs) are an individual contract between the employee and the provider (typically an insurance company), although payment of contributions are made through the employer.

Work-based pensions are part of a wider pensions landscape which also includes the basic state pension, the State Second Pension and individual personal pensions.

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We regulate employer-sponsored,  
work-based pension schemes.

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## Profile of occupational scheme membership

### Scheme type, membership numbers and membership status

As at 31 March 2011:

- Membership of private sector occupational DB schemes stood at approximately 8.2 million
- Membership of private sector occupational trust-based DC schemes stood at approximately 1.5 million
- There were a further 5.9 million members of private sector hybrid schemes<sup>2</sup>, (of which approximately 1 million are DC members and approximately 4.9 million are DB members).

Of the 2.5 million DC trust memberships (both members of DC schemes and DC members of hybrid schemes), approximately:

- 40% are active
- 56% are deferred
- 4% are pensioners<sup>3</sup>.

Of the 13.1 million DB members (both members of DB schemes and DB members of hybrid schemes), approximately:

- 17% are active
- 46% are deferred
- 37% are pensioners.

The **2010 Annual Survey of Hours and Earnings (ASHE)** from the **Office for National Statistics (ONS)** shows that there are 2.8 million members of contract-based (group personal, group stakeholder and group self-invested personal) DC pension schemes. In a contract-based DC scheme, when a member defers their pot, it becomes an individual pension pot, and so ceases to be part of the workplace pension. As such, all of the 2.8 million members referred to are active.

### Concentration

Membership of occupational pension schemes (schemes with more than 1 member) in the private sector remains concentrated in a small number of large schemes. As at 31 March 2011:

#### DB

- 88% of memberships were in 848 schemes with more than 1,000 members
- Furthermore, 63% of memberships were found in just 136 schemes with more than 10,000 members.

#### DC

- 81% of memberships were in 202 schemes with more than 1,000 members and
- Just 4% of memberships in the 80% of schemes with fewer than 4 members.

As at 31 March 2011, there were around 44,000 occupational DC schemes registered with the regulator. As of the same date, there were around 6,000 DB schemes registered, with a further 1,700 hybrid schemes.

Tables 1 and 2 on page 15 provide further details on numbers of schemes and their members.

<sup>2</sup> A hybrid scheme is a scheme that can provide defined benefits and defined contribution benefits. A scheme providing benefits on a defined contribution basis but that is or was contracted out of the state scheme on either a Guaranteed Minimum Pension or Reference Scheme test basis is a common example of a hybrid scheme.

<sup>3</sup> The figure for pensioner members is low as most members transfer their pot to an annuity provider at retirement and so cease to be a part of the scheme.

**Table 1**

Number of private sector schemes by registered benefit type as at 31 March 2011

Status	DB	DC	Hybrid	Total
Open	1,010	33,630	710	35,350
Closed	2,760	3,880	580	7,210
Paid up (frozen)	1,460	5,060	300	6,820
Winding up	840	1,870	160	2,870
<b>Total</b>	<b>6,070</b>	<b>44,440</b>	<b>1,740</b>	<b>52,250</b>

Source: Figures taken from the regulator's Score database as at 31 March 2011

**Table 2**

Number of private sector memberships by registered benefit type as at 31 March 2011

Status	DB	DC	Hybrid	Total
Open	2,599,300	1,065,000	3,540,000	7,204,300
Closed	4,772,800	224,900	2,126,300	7,124,000
Paid up (frozen)	680,900	97,700	244,700	1,023,300
Winding up	146,600	106,100	79,500	332,200
<b>Total</b>	<b>8,199,700</b>	<b>1,493,700</b>	<b>5,990,400</b>	<b>15,683,800</b>

Source: Figures taken from the regulator's Score database as at 31 March 2011

## DB funding

In November 2010, we published the fourth **Purple Book**<sup>4</sup> jointly with the PPF, providing an analysis of data on pension scheme funding. The data and analysis in **The Purple Book 2010** relates to 96.3% of the DB pension schemes eligible for PPF compensation, and 99.8% of estimated total liabilities.

**The Purple Book 2010** shows that the aggregate funding position (total assets minus total liabilities) on an s179 basis at 31 March 2010 was a surplus of £38.3 billion. More recent data in this series will not be available until this autumn.

However, the PPF 7800 index, which is updated monthly, provides a more up to date estimate of the funding position, on an s179 basis, of a smaller sample of around 6,500 predominantly private sector DB pension schemes. This index estimates that the aggregate funding position of schemes improved during the year from a surplus of £35.6 billion at the end of April 2010 to a surplus of £45.5 billion at the end of March 2011.

The economic crisis has meant that pension schemes and sponsoring employers have experienced 3 difficult years. In December 2010, we published an analysis of 1,476 recovery plans, '**Recovery plans: assumptions and triggers**'. This analysis indicates that schemes are working with sponsors to use the flexibility of the recovery plan regime:

- The use of PPF-approved contingent assets is up 16% in the past year
- The unweighted average recovery plan length has increased by 1 year to 9.4 years
- Despite the financial pressure on companies – total employer deficit reduction contributions during 2009-2010 were up £2.6bn to £29.1bn.

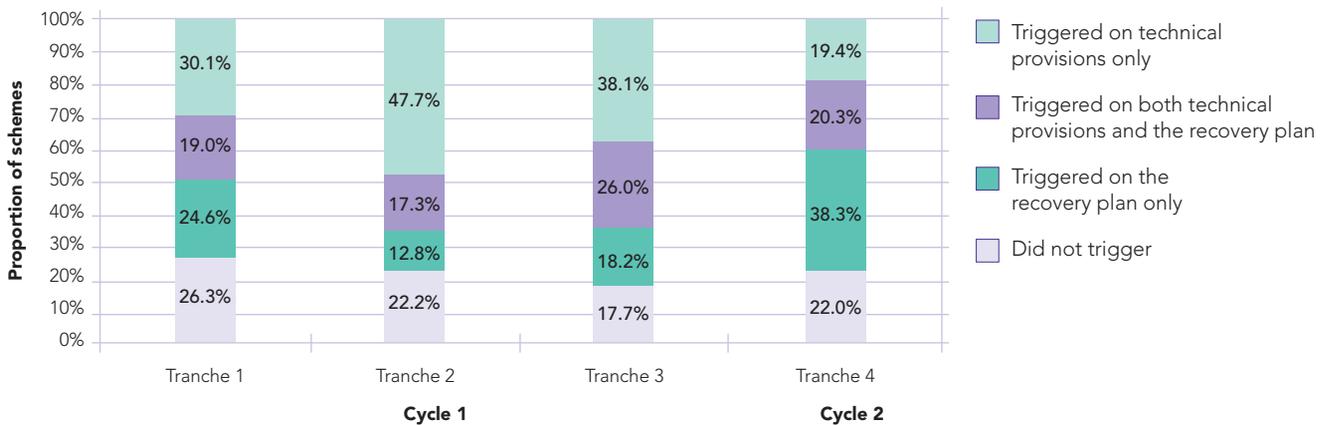
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<sup>4</sup> See <http://www.thepensionsregulator.gov.uk/docs/purple-book-2010.pdf>

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'Recovery plans: assumptions and triggers' also shows that the proportion of tranche 4<sup>5</sup> schemes triggering our attention overall is greater than that of previous tranches. In total, 81% of schemes triggered compared to 62% in the previous tranche.

**Figure 1**  
Proportion of recovery plans triggered (mutually exclusive and unweighted figures)



Given the unusually poor market conditions at the time that many of these valuations were carried out, we invited schemes to open a dialogue with us about choosing an alternative valuation date. As a result of this, and of our other interventions, a high proportion of the Technical Provisions<sup>6</sup> initially reported to us are likely to be lower than those finally agreed.

<sup>5</sup> Each year approximately one third of schemes are required to carry out a full actuarial valuation. The first tranche of schemes had valuation dates between September 2005 and September 2006. These schemes submitted their second valuation between September 2008 and September 2009. This is known as tranche 4.

<sup>6</sup> Technical provisions are the scheme-specific funding standard which must be set prudently and take into account the employer covenant on a scheme specific basis.



# Management commentary

## The context of our activities in 2010-2011

### Corporate strategy and plan

The Pensions Regulator operates in accordance with the **Corporate strategy 2008-2013**.

We build on this strategy with an annual **Corporate plan** (published in March 2010) which sets out the strategic direction and the outcomes we aim to achieve in the 5 themes during this period:

- Improving governance and administration, reducing risks to DB scheme members and reducing risks to DC scheme members all directly address our statutory objectives under the Pensions Act 2004.
- Preparing for 2012 addresses our preparation for the new employer duties, an objective established under the Pensions Act 2008.
- Better regulation relates to our ongoing commitment to the principles of better regulation – transparency, accountability, proportionality, consistency and taking a targeted approach.

Figure 2 on page 18 illustrates how these themes support our statutory objectives.

This **Annual report** responds to that plan, highlighting objectives and activity in each of our 5 key areas of focus.

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**Figure 2**  
How our Corporate plan themes support and link to our statutory objectives

	Reduce risks to the PPF	Promote good administration	Protect members' benefits	Maximise employer compliance
<b>Strategic themes</b>	Improving governance and administration			
	Reducing risks to DB scheme members			
		Reducing risks to DC scheme members		
		Preparing for 2012		
	Better Regulation			

### Government spending review

Our operations this year have been undertaken in an environment of additional budgetary constraints. As an organisation we have been asked to prepare plans for a 25% reduction in our levy-funded core cost base over the course of the next 4 years. This is part of the wider **Government Spending Review**. The 25% reduction excludes budget allocated to carry out our new duties in the Pensions Act 2008.

### Pension reform

Automatic enrolment is the core employer duty of the workplace pensions reform, and is set to commence in 2012. The full extent of the duties is set out in the Pensions Act 2008 and secondary legislation. The reform means that employers will have to automatically place their eligible jobholders into a qualifying scheme and make contributions on their behalf. Although some employers will use existing DB provision, we expect that most employers will use an existing or new DC scheme for the purpose of automatic enrolment.

The regulator is responsible for maximising employer compliance with the new duties and employment safeguards in the 2008 Act, as well as protecting the benefits of members of work-based pension schemes.

### European and international regulatory activities

2010-2011 has been a year of transition in Europe. The creation of **EIOPA** and of other new **EU** regulatory authorities, such as the **European Systemic Risk Board (ESRB)** on 1 January 2011, saw the transfer of certain rule-making powers from member state governments to the EU. The new structures operate with more institutional bodies, enhanced powers and more complex processes.

The UK, as the largest occupational pensions market in the **EU**, has played a key role in these reforms. In this rapidly changing context, our strategy has been to influence debate on selected key issues at operational and strategic levels as early as possible. This has included targeting key opinion-formers and decision-makers within our stakeholder community.

### Department for Work and Pensions (DWP)

The DWP is responsible for much of the policy and legislative framework for both state and occupational pensions. In addition to developing and maintaining the appropriate policy, legislation and regulatory framework that supports the state and occupational pensions framework, it can also issue guidance and communications where it sees a need.

**Review of our activities during the year** In this section, we set out our achievements against the agreed objectives for each of the 5 strategic themes set out in our **Corporate plan 2010-2013**. We also highlight the key trends and issues that we believe are significant.

## Strategic theme 1: Improving governance and administration

### Our key objectives

- To continue to promote good practice in relation to key aspects of governance and administration
- To continue to develop best in class education programmes to influence our core trustee audience (eg the **Trustee toolkit**) and to explore options for extending this approach to other audiences
- To ensure that trustees understand and recognise the importance of administration
- To ensure that trustees understand and comply with the **Myners Principles**

During the past year, we have focused on promoting good practice in key aspects of scheme governance and administration. Good governance and administration underpin the effective and efficient running of every pension scheme.

Governance is made up of several factors, many of which are represented below. Our work in this area has been carried out in the areas of record-keeping, scheme wind-up, internal controls, **Trustee Knowledge and Understanding (TKU)**, compliance with the **Myners Principles**, administration subcommittees, and regulatory intervention. Our activity in these areas is documented in the following sections.

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## Internal controls

Robust internal controls are a central part of governance practice and a key focus of our governance and administration activities.

Our **2009-2010 Governance survey** showed that only 56% of small schemes had a formal documented risk register in place.

### Target

As a credible proxy for trustees having a focus on effective control systems, we have targeted an increase in the proportion of small schemes that have implemented, and that maintain, a risk register.

### 2010-2011 activities

In June 2010, we published our final guidance on internal controls. This guidance was structured to recognise the needs of smaller schemes. This guidance was downloaded 6,300 times from our website in 2010-2011 and was supplemented by a new online learning tool, to further help trustees of these smaller schemes. This online learning tool forms part of our 'bite-sized e-learning education' products.

Throughout the development of, and consultation on, our guidance and online learning module, we maintained contact with key stakeholders including trustees of a range of schemes, both large and small.

During 2010-2011, we also met with a number of audit firms to discuss how they could support pension fund trustees, particularly in terms of internal control assurance.

### Outcome

Our **2011 Governance survey** found that 70% of small DB schemes have a risk register, a figure which is well above our target of 57% or more. However, as only 48% of small DC schemes have a risk register, the overall percentage for small DB and small DC schemes was 56%. This is the same proportion as last year, so we failed to meet our target of achieving an increase.

Overall, this result falls below our 66% target. We will continue to focus on improving standards in this area and will now measure this twice yearly in summer and winter 2011 and report on progress. This increased focus will help us to understand current behaviour and may highlight barriers to improvement.

## Trustee Knowledge and Understanding (TKU)

Trustees are required, by law, to have a good working knowledge of their scheme and of pensions law. An appropriate level of pensions and scheme knowledge and understanding underpins the ability of trustee boards to carry out their role effectively.

To support trustees in gaining this knowledge, we provide the **Trustee toolkit**. This is a free e-learning programme which helps trustees to meet the full requirements for Trustee Knowledge and Understanding (TKU).

Following the revision of our **TKU code of practice** in 2009, the content of the **Trustee toolkit** is now considered as a benchmark for trustee training.

The code states that trustees are expected to complete the **Trustee toolkit**, unless they have in place an alternative learning programme that covers all of the appropriate areas of the TKU code.

There are over 39,493 registered users of the toolkit (including all currently and previously active users). The number of trustees registered to the **Trustee toolkit** is 22,076.

### Target

In 2009-2010, 13,638 modules of the **Trustee toolkit** were completed. In 2010-2011, we targeted the completion of 4,000-5,300 modules per quarter. This amounts to a total of 18,300 across the year.

In addition to measuring **toolkit** module completions, we also planned to establish a baseline measure of the proportion of schemes that have a training plan in place for trustees. Our target was that 55% of medium/large schemes and 24% of small schemes have a training plan in place for trustees. This would be measured in our **Governance survey**.

## 2010-2011 activities

The **toolkit** was actively promoted to the trustee audience through direct communication channels, including emails to drive new registrations and increase user numbers.

We have continued to signpost our **Trustee toolkit** and bite-sized e-learning modules through opportunities in the pensions trade press, and have continued to actively promote the use of the **Trustee toolkit** with our key stakeholders.

The bite-sized e-learning tools have been promoted as a means of introducing smaller and less knowledgeable trustees to TKU. We have added bite-sized e-learning modules on employer covenant, multi-employer schemes, transfer incentives, and the DB and DC scheme return.

## Outcome

In total, 16,635 **Trustee toolkit** modules were completed during 2010-2011. This was a higher number than the previous year, but we did not reach our target in all quarters of the year.

During Quarter 2 (Q2), 4,560 modules were completed and in Q3 4,297. This exceeded our target. In Q1 and Q4, 4,072 and 3,706 modules respectively were completed. This was below our stated target.

External factors, including the communications spending restrictions, affected these figures. However, we continue to look for alternative ways to communicate the value of the **Trustee toolkit**.

In terms of establishing a baseline measure for schemes that have a training plan in place, our **Governance survey** found that 55% of medium and large schemes have a training plan in place. This was in line with our target. However, only 18% of small schemes reported having a training plan compared to our target of 24%.

## Record-keeping

Record-keeping continues to be a primary focus of the regulator's work on administration. Accurate data is vital to the basic functions of a pension scheme. Where records have not been properly collected or maintained, members' benefits are placed at risk.

## Target

In 2010-2011, our goal was that 40% of pension scheme members, in both DB and DC schemes, belonged to schemes that had measured the accuracy of their common data. Common data, in accordance with our guidance, is basic data such as name, date of birth, and National Insurance number.

## 2010-2011 activities

In June 2010, we published our final record-keeping guidance. This included, for the first time, targets for the presence of member records.

The targets state that from December 2012, schemes should hold 100% of the common data collected after June 2010. Schemes should also hold 95% of legacy common data – data collected before June 2010. Where schemes do not currently meet these targets, we expect reasonable and realistic plans to be put in place.

The final record-keeping guidance was downloaded 15,700 times from our website.

In January 2011, we launched an education drive which outlined the importance of good scheme administration. This included a statement to trustees about responsibilities and accountabilities for data and record-keeping, and a statement explaining what trustees should expect from their auditors in respect of record-keeping.

We also published the results of our record-keeping research and a guide to assist trustees when talking to their administrators about achieving good-quality data.

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#### Record-keeping continued...

Specifically to support schemes in meeting the record-keeping targets, we published new online education materials which can be found on our website. This education drive was accompanied by an outbound communication programme carried out by our **Customer support** team. The team contacted over 1,000 trustees to ascertain whether these schemes have plans in place to meet the record-keeping targets. This has informed our understanding of the impact of the guidance.

#### Outcome

Progress has been made. Feedback from trustees suggests that many schemes are now aware of our record-keeping guidance and are taking steps to measure and improve data.

In the past year, 69% of large schemes had taken steps to measure and improve data. Many administrators are also responding to our guidance by providing schemes with information about the presence of scheme data. This is in accordance with our guidance.

However, still only 33% of members are in schemes that have measured their common data. This is an increase from 20% in 2009-2010 but below our target of 40% for 2010-2011. We will continue to focus on educating and enabling schemes to resolve outstanding data issues by December 2012.

## Scheme wind-up

Poor standards of record-keeping also affect other scheme events, such as wind-up. Poor data can increase the length of time it takes to complete scheme wind-up. This, in turn, can increase the cost both to scheme and employer.

#### Target

Since April 2008, we have tracked the progress of schemes entering wind-up. At that time, regulatory guidance was also published on scheme wind-up. The guidance sets out our expectation that schemes should aim to complete the wind-up process within a 2-year period.

For DB schemes, our target was that 30% of schemes that entered wind-up after 2008 complete the process within 2 years. For DC schemes, our target was 70% of schemes completing the process within the expected timeframe. We also aimed to track the progress made by those schemes that entered wind-up before 2008.

## 2010-2011 activities

In June 2010, we published revised guidance on scheme wind-up. This guidance provided suggestions of good practice to help trustees and administrators to reduce the amount of time spent in the wind-up process. The guidance was downloaded 6,500 times from our website in 2010-2011.

During 2010-2011, we worked directly with a number of the largest providers of wind-up services, to help them understand and overcome the barriers to shorter wind up periods. An outbound call campaign ran concurrently with this work<sup>7</sup>.

We have also continued to work with the **DWP, PPF, Her Majesty's Revenue & Customs (HMRC)**, and the pensions industry as a whole, to ensure that members' benefits are protected from the detrimental effects of delays to wind-up.

As part of our 2010-2011 education drive on administration, we published a statement highlighting how **National Insurance Services to the Pensions Industry (NISPI)** can help trustees and administrators to manage contracting-out and to complete scheme wind-up more efficiently and effectively. Our work with **NISPI** continues.

Our free e-learning programme, the **Trustee toolkit**, also continues to provide information on the wind-up process and the PPF assessment period.

## Outcome

80% of all the schemes that entered wind-up between April 2008 and March 2011, completed the process within 2 years. This represented 47% of DB and hybrid schemes and 86% of DC schemes.

These results show that we have achieved the targets for both DB and DC schemes.

## Investment governance and compliance with Myners Principles

Whilst the regulator does not have a statutory objective to become involved in scheme investment decisions, we recognise the important role that investment governance plays in protecting members.

The **Myners Principles**, first published in 2001, set out best practice for investment decision-making in pension schemes. While voluntary, pension scheme trustees are encouraged to assess the applicability of the principles to their individual situation and to adopt these principles, unless there are good reasons to choose an alternative system of control.

Since 2008, the regulator has been involved with the **Investment Governance Group (IGG)**. The role of the **IGG** is to provide materials to support pension schemes to improve their investment governance practice.

## Target

In 2010-2011, our objective was that 77% of medium/large schemes and 28% of small schemes should monitor investment performance regularly. We also targeted an improvement in the proportion of schemes who review investment strategy regularly to 67% for medium/large schemes and 31% of small schemes. These were measured by our **Governance survey**.

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<sup>7</sup> Proactive contacts are made to the person shown in our scheme database as the 'contact details'. This may be a trustee, a solicitor, company director or whoever has been granted permission for the regulator to discuss the scheme details with.

Investment governance and compliance with Myners Principles continued...

### 2010-2011 activities

In November 2010, we published a statement setting out our expectations of trustees, employers and advisers involved in making pension scheme investment decisions. This clarified the regulator's position on employer-related investment (ERI), and our approach to schemes that engage in this type of investment decision. The regulator also worked within the IGG to raise standards of investment governance.

### Outcome

In total, our **Governance survey** shows that 78% of large and 37% of small schemes are monitoring investment performance. These figures exceed our targets.

The percentage of medium/large schemes found to be reviewing investment strategy regularly is 60%. In comparison, only 28% of small schemes were shown to be reviewing their strategy. These figures were just below our targets.

Improving investment governance practices is a key focus in our ongoing work to reduce risks to members of DC schemes.

## Administration subcommittees

An administration subcommittee can help a scheme to focus trustee expertise on key administration tasks.

### Target

Our target for 2010-2011 was to see an increase in the proportion of schemes that have an administration subcommittee.

### 2010-2011 activities

During our administration education drive in 2010-2011, we highlighted the benefit to trustees of implementing an administration subcommittee. This was particularly referenced in our '**5-step approach to good scheme administration**'.

### Outcome

Among all schemes, 23% were found to have put in place an administration subcommittee. This was the same as in 2009-2010 but below our target of 25%. However, the affect of the administration education drive will be reflected in the **2011-2012 Governance survey**, so we expect to see improvements in this area in next year's survey.

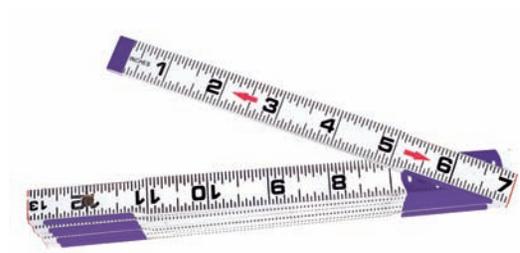
## Regulatory interventions

Our regulatory teams have been involved in a number of governance and administration related issues during this year:

- Between 1 April 2010 and 31 March 2011, 8,410 reports of late or non-payment of contributions to members were reported to the regulator. Where we made contact with trustees, employers and providers, contributions were brought up-to-date, without the need for enforcement action.
- A total of 337 whistleblower reports were received regarding breaches of law.
- 492 'notifiable events' were reported during the year, compared to 495 in 2009-2010. Notifiable events provide a reporting framework, which helps the regulator to identify situations where pension schemes are at risk. There are now 10 types of notifiable events.
- Governance issues resulting in case activity were at their highest level in 2010-2011. During the year, 109 cases were opened. This compares to 94 in 2009-2010 and 12 in 2008-2009. Our increased focus on risks associated with poor governance is a factor in this increase.
- The regulator's case teams made referrals to the Determinations Panel that resulted in the suspension of trustees in more than 250 DC schemes.
- Over the course of the year, we were involved in 41 independent trustee appointments and 284 member and third party appointments.
- During 2010-2011, we received 43 reports involving employers who were not providing their staff with access to a pension scheme. Where reports were received, contact was made with the employer and actions were put in place to rectify the situation. We have a statutory duty to maintain a register of stakeholder pension schemes. This register is published on our website to assist employers and individuals when choosing a scheme provider.
- The regulator has worked with the **Serious Fraud Office (SFO)**, **Financial Services Authority (FSA)**, **HMRC** and other bodies on investigations and strategic issues.

In addition, we continue to compile and maintain a register of trustees. We may appoint an independent trustee from the register to ensure that a scheme is properly administered and the members' benefits are appropriately protected or where there is a need for an independent trustee on the trustee board. Trustees on the register must satisfy certain conditions.

Acceptance on to the register does not represent an endorsement or approval by the regulator of the services provided by that trustee, nor should the trustees use it as a marketing tool. In 2010 (following a consultation), we clarified how we view the legislative conditions which must be met before a trustee or trustee body can join and remain on the register. We then undertook a review of all trustees on the register, and those who wished to remain on the register, against the strengthened criteria. Trustees were invited to re-apply to the register under the strengthened criteria. As a result of the review, the number of trustees on the register has reduced from 51 to 25. This review has not yet been completed.



## Strategic theme 2: Reducing risks to DB scheme members

### Our key objectives

- To protect members' benefits by continuing to operate the scheme funding regime effectively, taking account of the wider economic climate
- To continue to ensure that trustees and employers understand the scheme funding regime
- To ensure that trustees and employers understand the employer covenant

### Scheme funding

The legislation requires DB pension schemes to produce a valuation every 3 years. Where the scheme is in deficit the scheme must produce a plan to fill that deficit, and submit that plan to the regulator for examination. These plans are called recovery plans.

Every scheme has now completed at least 1 triennial valuation. Schemes have 15 months from their valuation date to submit their valuation and recovery plan to the regulator. Where valuations have not been finalised on time, we contact the scheme to establish the reasons and to ensure the valuation will be submitted.

### Target

Our objective in 2010-2011 was to maintain aggregate funding targets at a similar level to those set during 2009-2010.

## 2010-2011 activities and context

Approximately 2,500 cases were assessed by our regulatory case teams during 2010-2011.

The complexity of cases has continued to increase during 2010-2011. This has been reflected in the effort the regulatory case teams have spent on scheme specific funding cases. The average length of a recovery plan case was 125 days in 2009-2010; this rose to 188 days in 2010-2011. A comparison of case load stock, however, shows that the levels did not rise and were similar at the start and end of the financial year at approximately 1,200 cases.

More trustees have also contacted us regarding difficulties in meeting the 15-month deadline. This has led us to work directly with a greater number of trustees and employers. Overall, 100% of schemes due to complete a valuation either did so on time, or were contacted by the regulator within 1 month of their deadline.

Government spending restrictions had an impact on our ability to manage our ongoing case load. We mitigated this risk by refining our approach to risk management and ensuring retention of case team staff. Towards the end of the operational year, we were able to recruit to some essential frontline vacancies.

## Outcome

As a percentage of s179, Technical Provisions for schemes submitting recovery plans in 2010-2011 were 104%-108%. This was lower than the level of 111%-119% seen in the first 3 quarters of 2009-2010. This was expected, given our past experience of scheme funding and trends in the market, levels of assets and discount rates. We would expect funding targets to increase over the next year as we receive valuations carried out in improving economic conditions.

## Employer covenant

The employer covenant – the employer's legal obligations to a DB scheme, and their ability to meet them – remains a crucial element in protecting members' benefits.

### Target

In 2010-2011, we targeted an increase in the proportion of DB scheme trustees who have reviewed the employer covenant in the past 12 months.

### 2010-2011 activities

During 2010-2011, we published guidance for trustees on monitoring and measuring the employer covenant. This outlined the actions that trustees should take to strengthen scheme security where the employer covenant is low or has weakened. It also provided guidance on the role and value of contingent assets and other arrangements in providing long-term security for the scheme.

We also published guidance for trustees of multi-employer schemes. This guidance explains the importance of understanding who is legally responsible for underwriting the liabilities in a multi-employer scheme, and the options for mitigating the risk associated with the departure of an employer from the scheme. The guidance covers all the mechanisms which may apply when an employer departs a multi-employer scheme, including the 2 alternative mechanisms introduced by the DWP in April 2010<sup>8</sup>.

### Outcome

In 2010-2011, 74% of DB scheme trustees reported that they know how changes in employer circumstances effect funding. This was a small decline from 77% in 2009-2010.

There has also been a small reduction in the proportion of DB scheme trustees who have reviewed the covenant in the last 12 months. This has decreased from 84% to 82%.

We are currently looking at how we can provide more direction and guidance for trustees to improve this result. We will also consider whether we are able to be more directive or set clearer standards in this area to help trustees.

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<sup>8</sup> De minimus restructuring test (applicable to one-to-one restructures where the amount of the departing employer's liabilities is minimal) and restructuring test (applicable to one-to-one restructures where there is no weakening of the covenant).

## Clearance and anti-avoidance

Under the Pensions Act 2004, we were given powers to take action to secure support for a scheme. This includes action against employers (and those associated or connected with an employer) where they have acted to avoid supporting the scheme, where their actions have caused material detriment to the scheme's ability to provide benefits, or where we require support to be put in place because the employer is insufficiently resourced, or is a service company. These powers include the ability to issue a **Contribution Notice (CN)**<sup>9</sup> or a **Financial Support Direction (FSD)**.<sup>10</sup>

Concerns from within the industry during consultation, that the existence of these powers could stifle corporate activity, led to the introduction of clearance. The clearance process provides applicants with certainty that (subject to appropriate consideration of the impact on the pension scheme of the transactions detailed in the clearance application), the regulator will not use its powers to issue a CN or FSD with regard to the transaction, as detailed in the clearance application.

### Target

Our target is to respond effectively and, as required, to mitigate the risks to members' benefits and the PPF that can arise from some corporate activity. We will also continue to operate the clearance process, as required, by the Pensions Act 2004.

### 2010-2011 activities

We have continued to proactively investigate schemes where we receive information which indicates risk to members and the PPF. Such information comes from a number of sources including credit rating agencies, company announcements, or via the media. Instances where the regulator has proactively investigated a scheme, have increased by 135% between 2009-2010 and 2010-2011 – from 20 to 47 cases.

- In June 2010, we sought a **Contribution Notice (CN)** in the **Bonas/Michel Van de Wiele** case.<sup>11</sup>
- In July 2010, we published a determination to issue a **Financial Support Direction (FSD)** against 25 companies in the **Nortel** group in Canada, the US, Europe and Africa.

<sup>9</sup> A Contribution Notice requires payment of a specified sum into a defined benefit scheme. This power has been in place since April 2005.

<sup>10</sup> A Financial Support Direction requires financial support to be put in place for the scheme. This power has been in place since April 2005.

<sup>11</sup> Subsequent to the period covered in this report, the case was settled out of court.

- In September 2010, we issued a determination that 6 companies within the Lehman Brothers group – including the group's main operating companies in the UK as well as the US parent **Lehman Brothers Holdings Inc** – should provide financial support to the **Lehman Brothers Pension Scheme**.

In response to the regulator's actions, the administrators for 20 companies in the **Lehman** and **Nortel** groups jointly launched a legal challenge to the regulator's ability to enforce an FSD against an insolvent company. The court concluded that an FSD is valid if issued after an insolvency event and that it is an expense of the administration or liquidation. The expense must therefore be paid before any distributions to preferred creditors, floating charges and unsecured creditors.

### Outcome

Clearance activity overall continued to decrease in 2010-2011. The number of clearance statements issued in relation to a s38 Contribution Notice dropped from 55 in 2009-2010 to 40 in 2010-2011. The number of clearance statements issued in relation to a FSD increased slightly from 37 in 2009-2010 to 38 in 2010-2011.

The overall decline in clearance activity reflects 2 factors. First, that all schemes have now entered into the funding and recovery plan cycle and activities that would previously have been addressed through clearances are now being dealt with within recovery plans. Second, there has been a decrease in the level of business activity, particularly mergers and acquisitions, over the period.

We also carried out research to track understanding of our powers in the areas of clearance and anti-avoidance. In 2010, our **Perceptions tracker survey** showed that 68% of trustees, employers and their advisers, reported that they had a 'good' or 'very good' understanding of the regulator's powers and stance in relation to clearance, anti-avoidance and recovery plans. This represented an improvement compared to 2009. The most significant increase is seen among small in-house schemes where the figure has risen from 48% to 68%.

## Risk transfers and market transitions

We will take a particular interest in any corporate activity which appears to pose a risk to scheme members' benefits.

### Target

Our target in 2010-2011 was that employers and trustees should fully consider the risks associated with transferring out or modifying benefits of DB schemes.

### 2010-2011 activities

In December 2010, we published guidance for trustees and employers on conducting transfer incentive exercises. This guidance makes it clear that we expect such exercises to be structured to support members throughout the decision-making process. In line with our commitment to provide adequate support for trustees, we also published a bite-sized e-learning module on transfer incentives.

Our approach to transfer exercises is consistent with the FSA approach. We published a joint statement with the FSA in July 2010 setting out our stance, and we will continue to work closely with the FSA to ensure that conduct in this area adequately protects members.

The Pensions Ombudsman can investigate complaints made by members about the administration of their pension scheme. When reviewing a complaint, the Pensions Ombudsman may take our guidance, as well as other factors, into account in determining whether the employer or trustee has a claim to answer. If the complaint is upheld, the Pensions Ombudsman can direct that compensation be made to the members.

### Outcome

During 2010-2011, we continued to raise the issue of corporate activity that may pose a risk to members' interests. The regulator's guidance was widely reported and we have evidence that it is being used to guide new transfer exercises.

During 2010-2011, we continued to raise the issue of corporate activity that may pose a risk to members' interests.



## Strategic theme 3: Reducing risks to DC scheme members

### Our key objectives

- Improve trustee understanding and promote action to address retirement option risks
- Improve trustee understanding and promote action to address member communication risks
- Improve trustee understanding and promote action to mitigate the risks associated with default funds
- Promote trustee actions to mitigate risks to DC scheme members

There is an ongoing trend for employers to offer their employees a DC pension in place of DB provision. Most employers are expected to choose a DC scheme as their vehicle for automatic enrolment. This is expected to lead to a significant step change in DC membership.

## Reducing risks to DC schemes

Much of our activity in DC this year has been focused on reviewing and reassessing our regulatory framework for DC schemes. In January 2011, we published a discussion paper, **'Enabling good member outcomes in work-based pension provision'**. This opened a dialogue with the industry about how the regulator can support the DC market in delivering schemes which enable members to achieve a good outcome.

Our vision is that all DC pensions should provide good outcomes for members. We have identified 6 elements which we believe are necessary for members to achieve adequate income in retirement. These are:

- Appropriate contribution decisions
- Appropriate investment decisions
- Efficient and effective administration
- Protection of assets
- Value for money
- Appropriate decumulation decisions.

The formal outcome of the industry discussion will inform the next stage of our work in this area.

### Target

Our aim is that 80% of trustees report they have a 'good' or 'very good' understanding of risks to DC schemes as measured by our **Governance survey**.

### 2010-2011 activities

Our **discussion paper** was downloaded nearly 4,000 times from our website.

To increase awareness of the risks to DC schemes, we have also been actively engaging with trustees, employers, professionals and advisers through channels, such as the media and industry events. Internally, we established a new directorate covering DC, governance and administration. This creates a clear focus for our strategic and operational approach to regulating DC schemes.

### Outcome

The **Governance survey 2010-2011** shows that the proportion of trustees of DC schemes, who rate their understanding of the risks to DC schemes as 'good' or 'very good', was 88%. This exceeds our target and is an increase from 77% in 2009-2010.

## Retirement options

In our **discussion paper**, we highlighted the importance of the decisions members make when they turn their pension savings into retirement income. A key issue for the regulator has been whether schemes and providers support members in understanding and accessing the open-market option (OMO). It is a legal requirement to inform members with DC benefits of the OMO.

### Target

Our target in 2010-2011 was to maintain the high proportion of retirees who, when surveyed, said they were informed of the OMO.

### 2010-2011 activities

To help trustees to communicate with their members, we have published a leaflet, **'Making your retirement choices – think before you choose'** which was updated in November 2010.

The leaflet describes the range of options available to a member approaching retirement, including annuity types and other alternatives. It also emphasises the legal requirement that members are offered the OMO. Trustees can use this leaflet as the basis for their retirement literature.

We acknowledge the work which has been done, and which is ongoing, by the industry to improve member communications at retirement. This includes the **Association of British Insurers (ABI)'s 'Best practice guide to the retirement process'**, which was published earlier this year. We support further initiatives to continue this work.

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Retirement options continued...

We encourage trustees to review their retirement process and to focus on delivering information in a way that engages members and helps them to make decisions about their retirement which are right for them.

Where members will not or cannot engage with this difficult decision, schemes should endeavour to provide the best possible outcome through the default option.

Appropriate decisions on converting pension savings into a retirement income are 1 of the 6 elements of a good member outcome which we have highlighted in our **DC discussion paper**.

### Outcome

Our **Scheme governance survey** shows that 79% of trustees say schemes members are informed of their right to exercise the OMO. In addition, an omnibus survey found that 70% of recently retired scheme members say they were informed of the OMO.

## Member communication

Member communication is important throughout the lifecycle of the scheme: joining, transferring, leaving, and at retirement.

### Target

During 2010-2011, we targeted an increase in the proportion of trustees who say they communicate effectively with scheme members. We also targeted an increase in the proportion of scheme members who say they were communicated with effectively.

### 2010-2011 activities

Our autumn 2010 DC education drive signposted employers to our guide for employers: **Talking to your employees about pensions.** The leaflet sets out questions that employers may be asked by their employees about pensions and suggests answers and other sources of information that employees can refer to. There have been over 10,000 downloads of this guide from our website. In addition, we supplied 500 copies of this guide to the **National Association of Pension Fund's (NAPF) Pensionsforce** team who carry out pensions education in the workplace.

In June 2010, we undertook research to identify gaps between communication to members, and the ability of members to achieve a positive outcome at retirement. The research found that few DC scheme members have an adequate understanding of their DC pension benefits. Throughout the year, we have liaised with **The Money Advice Service (TMAS)**, the **Pensions Advisory Service (TPAS)**, **Which?** and the **ABI** to draw on their experience of the challenges around member understanding.

We believe that effective member communication, targeted to the scheme's membership profile, is an important feature. We will continue to encourage development and innovation in the way schemes communicate with members.

### Outcome

The recent **Governance survey** indicates that 81% of trustees assess that their scheme has communicated 'well' or 'very well' with members. The figure for DB trustee boards was 84%. For DC trustee boards the figure was 76%. These figures were below our target.

The governance survey also showed that 70% of DC scheme members feel that they understand the basic features of their pensions.

## Default funds

A scheme may allow members to invest their contributions in a default fund. This is where the member relies on those running the scheme to choose how to invest their pension contributions. A scheme may also have a default option for purchasing an annuity.

Given that over 90% of members invest in the default fund, the selection, design and monitoring of this fund is crucial in determining a good member outcome.

### Target

Our target is to track the extent to which default funds are established to reflect the profile of the scheme membership.

### 2010-2011 activities

Guidance and consultations on default funds have been published by a number of organisations in 2010-2011; including the DWP, FSA and IGG. The **National Employment Savings Trust (NEST)** has also issued a number of statements regarding the design of their default fund.

### Outcome

Our **Governance survey** found that 79% of trustees feel that their scheme's default fund was established for the profile of the scheme membership. This is below our target of 81%. The design of default funds will continue to be a focus of our work on enabling good member outcomes, from DC schemes.



## Strategic theme 4: Preparing for 2012

### Our key objectives

- To manage key risks to the Employer Compliance Regime (ECR) programme (including project delivery and its impact on the regulator's other activities)
- To deliver all ECR project objectives for 2010-2011 within budget
- To ensure external stakeholders have confidence in the design of ECR
- To ensure alignment of core regulator activity within the ECR programme
- To communicate effectively to intermediary audiences about the workplace pensions reform

The Pensions Act 2008 and secondary legislation introduced a number of changes to the UK pension system, including requiring employers to automatically enrol eligible staff into a qualifying pension scheme.

As part of these changes, we have been given a new statutory objective to maximise employers' compliance with the new duties.

The Pensions Bill 2011, currently before Parliament, contains minor amendments to the employer duties. Corresponding changes to regulations are scheduled for later in the year.

## Delivery milestones

### Target

Our target was to achieve all project milestones on time and within tolerance.

### 2010-2011 activities

In order to fulfil the extended remit given to us, we have been designing our regulatory approach and building our capacity to deliver the ECR programme.

The **Government Spending Review (GSR)** and **'Making Automatic Enrolment Work' (MAEW) review** meant we had to reschedule some of our work in this area. This did not affect our progress on critical projects.

Following the outcome of the **MAEW review** in 2010, we were able to re-initiate the work of designing and building the Employer Compliance Regime. We also resumed the procurement process to secure an external partner to help us implement new transactional processes. 2011 will be a crucial year as employers become more aware of their forthcoming duties, as a result of our communications activity.

### Outcome

As a result of the delays resulting from the **MAEW review** and **GSR**, there were no level 1 milestones planned for completion in 2010-2011. All other delivery milestones were met.

## Budget

### Target

Our target was to achieve a very small variance of 1% over or 4% under budget.

### 2010-2011 activities

Following the conclusion of the **MAEW review**, we revised our recruitment budget forecast, to enable us to bring the programme up to the necessary capacity. Communication costs were also revised, in light of government-wide restrictions on marketing, advertising and recruitment.

### Outcome

The full-year programme budget came in at 3.8% under forecast. This was within our target variance.

## Stakeholder confidence

### Target

Our 2010-2011 target was to establish a baseline measure of stakeholder confidence in our preparations for ECR. This would be measured in our **Stakeholder perceptions survey**.

### 2010-2011 activities

We undertook a wide range of stakeholder and media relations activities to explain the role of the regulator with regard to ECR. These included briefing sessions with key stakeholders, speeches and presentations, and media statements.

We also established a dialogue with a wide range of pension and employer stakeholders via informal consultation events, took part in industry seminars, and held 16 interviews with key stakeholders to measure their confidence in our ability to maximise employer compliance.

### Outcome

The 16 stakeholders surveyed agreed they had some confidence in our ability to successfully maximise employer compliance, but also had some concerns. Many acknowledged that it is early days for the Employer Compliance Regime and that the General Election created added uncertainty. Many stakeholders are reserving their judgement on the regulator's preparations until they have seen how we implement ECR over the next year.

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## Alignment of processes between employer compliance and other regulatory functions

### Target

Our target is to prepare the core regulator processes for automatic enrolment.

### 2010-2011 activities

During the year, we undertook a restructuring of the organisation. These changes establish clear lines of accountability for outcomes in DB and DC regulation, for automatic enrolment duties, and for our key functional areas.

The Executive director for ECR is part of the **senior management team (SMT)** and is involved in decision-making across the organisation. ECR communications are now fully integrated into our core communications team.

Our ECR team and DC team worked closely together to respond to and support the **MAEW review**, and to produce the DC discussion paper, 'Enabling good member outcomes in work-based pension provision'.

The ECR team is represented on the **strategy steering group** for the development of the regulator's new **Corporate strategy**. This will be published in autumn 2011.

### Outcome

The ECR and core regulator teams worked together in the production of the DC discussion paper. We also delivered a new integrated website with core regulatory and ECR coverage.

## Communications effectiveness

Effective communication will be vital in informing employers about their duties. Following the lifting of communications spending restrictions, we now have the budget allocation we need to implement our plans.

### Target

To establish a baseline measure of intermediaries' and employer awareness of workplace pensions reform and the understanding of the employer duties associated with the reform.

### 2010-2011 activities

During the past year, we have developed our communications strategy for maximising employer compliance with the new duties. This has included identifying the key audiences with whom we need to communicate, and what they need and want to know about the new duties.

We have identified our key audiences as large employers, small and medium enterprises (SMEs), pensions professionals, business advisers, business software providers and pension scheme trustees. Many of these audiences have different information needs and wants. This is reflected in our communications approach.

In April 2010, we published our first employer leaflet, 'An introduction to work-based pension changes'. This has now been updated to reflect the outcome of the **MAEW review**. In April 2011, we published detailed guidance for the business software community to help them prepare for 2012.

We also agreed a detailed plan for communications in 2011-2012 and began preparing the materials. These will be published throughout 2011-2012:

- In May 2011, we will publish detailed guidance, aimed at professional advisers, intermediaries and large employers. This guidance covers the details underpinning the legislation and the new employer duties.
- In summer 2011, we will publish new content for small and micro employers. This will be based on our website and will offer straightforward, easy-to-use, interactive tools covering the core aspects of what employers will need to do, when they need to do it, and the processes involved.
- Later in the year, we will publish details of our ECR compliance and enforcement strategy, setting out how we intend to maximise compliance with the new employer duties and the circumstances in which the use of our powers might be expected.

Table 3 on page 38 shows a breakdown of awareness of the reform. Full details of the employer survey will be published in summer 2011.

### Outcome

We have now established a baseline measure of intermediaries' and employer awareness of the reforms. An understanding of the reform will be measured in subsequent **Perceptions tracker surveys**.

Employers' awareness of workplace pensions reform was measured at 33%, while intermediaries' awareness of workplace pensions reform was measured at 77%.

We are encouraged at the levels of awareness and understanding amongst large employers, and recognise that there is substantial work to be done for small and micro employers.

The core duties are staged in over a period of years and do not apply to small and micro employers until much later in the staging profile. We plan significant campaigns to these audiences beginning in summer 2011.

Additionally, we are planning communications activities to pension advisers, trustees and administrators, both direct and through stakeholder bodies.

**Table 3**  
Breakdown of awareness and understanding of pensions reform

Employer size and audience type	Awareness of pensions reform	Planned regulatory communications activity
250+	87%	<ul style="list-style-type: none"> <li>• Direct communication to large employers 18-months before staging date</li> <li>• Relationship management activities by the regulator in co-operation with HMRC Large Business Service</li> <li>• Communication through large employer stakeholder bodies (eg CBI)</li> <li>• Detailed guidance</li> <li>• Direct letters to each employer 12 and 3 months prior to the duty date</li> <li>• Communication through intermediaries</li> </ul>
50-249	68%	<ul style="list-style-type: none"> <li>• Trade body-led activity</li> <li>• Focus on relevant industry sectors</li> <li>• Direct letters to each employer 12 and 3 months prior to the duty date</li> </ul>
5-49	43%	<ul style="list-style-type: none"> <li>• Trade body-led activity</li> <li>• Focus on relevant industry sectors</li> <li>• Interactive tools</li> <li>• Direct letters to each employer 12 and 3 months prior to the duty date</li> </ul>
1-4	29%	<ul style="list-style-type: none"> <li>• Trade body-led activity</li> <li>• Focus on relevant industry sectors</li> <li>• Interactive tools</li> <li>• Direct letters to each employer 12 and 3 months prior to the duty date.</li> <li>• Communication through intermediaries</li> </ul>
Formal (eg IFAs, pension consultants and pension administrators)	91-96%	<ul style="list-style-type: none"> <li>• Email and direct marketing</li> <li>• Communication through intermediary stakeholder bodies</li> <li>• Direct communication</li> <li>• Detailed guidance</li> </ul>
Informal (eg accountants, book-keepers, HR professionals, payroll administrators)	52-78%	<ul style="list-style-type: none"> <li>• Communication through intermediary stakeholder bodies</li> <li>• Direct communication</li> <li>• Interactive tools</li> </ul>
Trustees	79%	<ul style="list-style-type: none"> <li>• Direct communication to trustees</li> <li>• Detailed guidance published in May</li> </ul>



## Strategic theme 5: Better Regulation

### Our key objectives

- To continue to deliver risk-based regulation in line with the **Hampton Principles** and to be an exemplar of 'best practice'
- To improve our capabilities and the channels we use to engage with and communicate to those we regulate
- To provide a high-quality service to customers
- To continue to reduce burdens on our customers
- To maximise the effectiveness of the regulator through effective leadership, collaborative working and continuous improvement of internal policies and processes
- To improve our eco-efficiency

## Risk-based regulation

The regulator is committed to the principles of Better Regulation: to be transparent, accountable, proportionate, consistent and targeted.

### Target

Our target in 2010-2011 was to maintain strong ratings in our **Perceptions tracker** for our compliance with the **Hampton Principles**.

### 2010-2011 activities

We have continued to measure our performance against the **Hampton Principles**. Our **Perceptions tracker survey**, which is an annual survey of trustees, pension administrators, employers, pension lawyers, auditors, actuaries and independent financial advisers (IFAs), included questions to help us understand how customers and stakeholders perceive our compliance with these principles.

**Table 4**

Proportion of stakeholders who 'strongly agree' or 'agree' with the following statements about The Pensions Regulator (excluding 'don't knows')

	2008	2009	2010
We are a trusted source of information	91%	91%	88%
Our actions are proportionate to the risk posed	50%	54%	54%
We are focused on the most important risks to members' benefits	69%	69%	73%
We explain clearly why decisions have been made	60%	65%	61%
We are consistent in our approach to enforcing pension scheme regulation	61%	64%	63%
We are proactive in reducing risk to scheme members' benefits	66%	65%	67%

### Outcome

Our stakeholders regard our adherence to the **Hampton Principles** as being broadly consistent with previous years.

There has been a small increase in those respondents who believe we are focused on the most important risks to members and those who believe we are proactive in reducing risks to scheme members' benefits.

In contrast, there has been a slight decrease in the proportion of respondents who believe the regulator explains clearly why decisions have been made and those who believe we are a trusted source of information.

### Hampton review

In 2009, we were reviewed by the **Better Regulation Executive (BRE)** and the **National Audit Office (NAO)** for our compliance with the **Hampton Principles of Better Regulation**.

The **Hampton Review** identified 3 areas on which we needed to focus in order to reinforce our commitment to Better Regulation. These were:

- Reaching smaller schemes
- Communicating our approach to the regulation of trust-based DC schemes
- Communicating our approach to our responsibilities for regulating employer compliance under the Pensions Act 2008.

In 2010-2011, we took the following action to address these points.

### Reaching smaller schemes

We have tailored our communications to take account of the resource and time pressures on those running smaller schemes. Examples of this approach include our introduction of bite-sized e-learning modules and the recognition within our guidance documents of the different needs of small schemes.

We also continue to operate a shorter scheme return for small DC schemes and only require a return every 3 years, instead of annually as is the case for larger schemes.

In addition, we have also begun developing new information for small and micro employers, to help them comply with the new employer duties.

### Communicating our approach to the regulation of trust-based DC schemes

In January 2011, we published a discussion paper on how the regulator should support the DC market in the delivery of good outcomes for savers. 'Enabling good member outcomes in work-based pension provision' marked the start of a dialogue with the industry and stakeholders over what good DC pensions look like.

### Communicating our approach to our responsibilities for regulating employer compliance under the Pensions Act 2008

In April 2010, we published a leaflet for employers introducing their new duties under the workplace pensions reform. This was updated in January 2011 to reflect the outcome of the **MAEW review**.

Later in 2011, we will publish details of our ECR compliance and enforcement strategy, setting out how we intend to maximise compliance with the new employer duties and the circumstances in which the use of powers might be expected.

## Communicating with our regulated community

### Target

In 2010-2011, we targeted a continued improvement in the reach of, and response to, our campaigns via email, website subscription and news-by-email.

### 2010-2011 activities

We have continued to group our communications into key themes during this period. This is designed to maximise efficiency and reach.

Our focus has been split into 3 education drives:

- We started the year with a DB education drive
- This was followed by a focus on DC which included the publication of our discussion paper on enabling good outcomes in DC provision
- We concluded the year with a focus on administration.

### Outcome

While there was a quarter-on-quarter increase in web unique visitors, web traffic volumes were significantly below the earlier levels. News-by-email subscriptions decreased due to our cleansing of the email subscription list.

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**Table 5**  
Annual website usage as at 31 March 2011

	2009-2010	2010-2011
Number of users visiting the site	230,976	299,943
Number of visits they made	558,156	544,091
Number of pages viewed during those visits	3,053,071	2,480,874
Number of people subscribed to our 'news-by-email' service at the end of the reporting period	15,517	11,091

Our website continues to be the main portal for communications with year-on-year usage rising. 2010-2011 saw a significant rise in the number of users visiting the site with an extra 60,000 users.

We note that page views fell in 2010-2011. This can be partly attributed to the site redesign in March 2010. The redesign of the site improved the customer journey by directing users into audience-focused sections, delivering a more streamlined experience.

In 2010-2011, we implemented an improved email system. The news-by-email subscription list was cleaned and subscribers were asked to re-register to an improved service. Over 3,000 invalid addresses were removed.

### Stakeholder perceptions

We work closely with a range of stakeholders who represent the views of our wider audiences. We hold regular meetings with stakeholders to explain our regulatory approach, discuss emerging risks and issues, and obtain their input to the development of our policies and communications.

We also have a small stakeholder advisory panel, which is attended by key stakeholders representing our regulated community. The advisory panel enables us to establish a close dialogue with stakeholders representing those who are affected by our decisions, and helps us to shape our regulatory approach.

We also hold an annual stakeholder forum to communicate our plans for the year ahead and provide stakeholders with an opportunity to question our senior team.

In our annual **Perceptions tracker survey** this year, a total of 700 interviews were carried out with trustees, pension administrators, employers, pension lawyers, auditors, actuaries and IFAs. The survey asked a number of questions about our services and the way we undertake them.

**Table 6**

Proportion of stakeholders who 'strongly agree' or 'agree' with the following statements about The Pensions Regulator (excluding 'don't knows'). The issues considered were altered this year to reflect our additional responsibilities following the Pensions Act in 2008.

	2008	2009	2010
Informative	89%	92%	86%
Respected	77%	77%	75%
Independent	73%	71%	75%
Transparent	56%	62%	54%
Authoritative	–	–	80%
Approachable	–	–	73%
Straightforward	–	–	61%
Evidence-based	–	–	59%

As illustrated in Table 6 above, three-quarters of respondents in our **Perceptions tracker survey** see the regulator as informative, authoritative, respected and independent. While respondents are least likely to see the regulator as transparent, evidence-based and straightforward many respondents are either neutral or are unsure, rather than negative on each of these aspects, eg only 11% of respondents disagreed that we were transparent and only 5% disagreed that we were evidence-based. This reflects the complexity of our operating environment but we shall seek to improve our performance in these areas.

## Customer quality of service

### Target

During 2010-2011, our aim was to improve the proportion of customers who were 'very satisfied' with the service they received and who rated the quality of service as 'excellent' or 'very good'. This was measured by our **Customer satisfaction survey**.

### 2010-2011 activities

#### Customer support

All activities within our **Customer support** team continue to be closely measured against service level targets.

- Between 1 April 2010 and 31 March 2011, a total of 15,329 calls were answered by our **Customer support team** dealing with regulatory enquiries. This compares with 21,213 calls answered during 2009-2010. The decrease is at least in part due to improvements to information on our website.
- Complexity in calls has increased over this period. Of these calls, 93% were answered within 20 seconds. The abandonment rate<sup>12</sup> was 2.5%. Service level agreements for both of these measures are 80% and 5% respectively.
- We also handled, to conclusion, in excess of 9,300 regulatory enquiries via email, letter and fax. The service level target, to respond within 10 working days, was met in 93% of cases.
- In 2010-2011, we also further developed our capability to support customers proactively on a range of topics. Approximately 1,345 proactive contacts<sup>13</sup> were made about recovery plans and record-keeping.

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<sup>12</sup> The percentage of calls that are not picked up due to all staff being engaged on calls or other business.

<sup>13</sup> Proactive contacts are made to the person shown in our scheme database as the 'contact details'. This may be a trustee, a solicitor, company director or whoever has been granted permission for the regulator to discuss the scheme details with.

## Scheme information management

The **Scheme information management team** has gone through a transitional phase in 2010-2011. We have seen a decrease in transactional enquiries and an increase in more complex and technical enquiries. A focus on improving processes and overall customer experience has seen an increase in first call resolution rate<sup>14</sup>. We have also proactively worked to strengthen the relationship with PPF where customers are required to work with both organisations. This has positively impacted customer experience.

- Between 1 April 2010 and 31 March 2011, a total of 20,117 calls were answered by our **Scheme information management team**. These included calls about scheme return, levy, registration, wind-up and general scheme administration enquiries. Of these, 69% were answered within 20 seconds. The abandonment rate was 5.9%.

Service levels agreements for both of these measures are 80% and 5% respectively.

- We handled in excess of 27,778 enquiries via email and letter. Of these, 10,614 related to levy queries and 17,163 related to scheme return and scheme enquiries. The service level target, to respond within 10 working days, was met in 83% of cases.
- In 2010-2011, we continued to proactively support our customers in meeting their statutory duties. Approximately 6,427 proactive contacts were made in relation to scheme registration, scheme administration, scheme return and levy payments.

### Outcome

The overall quality of service for customer support is measured by the **Customer satisfaction survey**. This survey found that 83% of customers stated that the service was 'very good' and 56% stated they were 'very satisfied'.

The overall quality of service for the **Scheme information management team** has increased from 74% to 82% in 2010-2011. Overall customer satisfaction has increased from 54% to 63%.

In light of the recruitment restrictions during 2010-2011, the resources within the team fell below the planned resources required. This has affected our ability to meet the targets set at the beginning of the year.

<sup>14</sup> First call resolution is properly addressing the customer's need the first time they call, thereby eliminating the need for the customer to follow up with a second call to us.

## Reducing our burden on customers

The scheme return collects information needed for the register of pension schemes. This enables more effective regulation and the provision of scheme data to the PPF. It also enables the DWP to perform a pensions tracing service. The scheme return data allows the PPF to calculate its risk-based levy and the regulator to invoice schemes for the general and PPF administration levies.

We recognise the regulatory burden imposed by the scheme return. Any new data requests must be justified through a robust governance process to ensure that it is essential to request that data.

### Target

Our target in 2010-2011 is to increase the percentage of scheme returns completed on time to 90%.

### 2010-2011 activities

We have sought to reduce burden by simplifying the scheme return submission process and maximising the use of pre-populated forms to limit data entry. Submissions are also now made through our online service, **Exchange**.

All eligible DC schemes have now received at least 1 scheme return notice from the regulator and all eligible DB schemes have now completed 4 annual scheme return cycles using **Exchange**.

Our **Customer support team** has carried out outbound calls throughout the relevant periods to help encourage on-time submission.

### Outcome

Following the successful scheme return collection for DB schemes in 2009-2010, this year we have again maintained this high level. By 31 March 2011, 99.91% of schemes had completed their scheme return.

The scheme return collection for DC schemes was also successful this year with 95.9% of scheme completing the process by 31 March 2011.

## Effectiveness of internal policies and processes

### Structure

In order to take account of the changes in the pensions industry, especially the growth of DC pensions and the regulator's duties for ensuring employer compliance with the new automatic enrolment duties, in February 2011 the regulator underwent a limited restructuring.

The aim of the restructuring was to establish clear lines of accountability for regulatory outcomes in DB and DC pensions, and for our automatic enrolment duties. In future, each of these areas will be led by a single director. A further element of the changes was the creation of a new risk function, which brings together the existing strategic risk and analysis team with our regulatory intelligence team so as to provide enhanced capability in this important area. Finally, changes were made to our communications functions in order to ensure that our inward and outward lines of communication are closely integrated.

### Our people

As a small organisation, with a large field of influence and impact, we depend on our ability to identify and mitigate the most important risks, it is essential that we continue to recruit and retain high calibre people able to deliver our challenging objectives. We do this by offering jobs that make a real difference, work opportunities that provide personal and professional growth, and competitive salaries and benefits. We support our staff with opportunities for learning and development, and continue to develop opportunities to harness our core knowledge and expertise.

Through our secondment programme, we welcomed 15 secondee or 'on loan' staff from private firms and other government bodies and, over the year as a whole, we filled 72 vacancies from the internal, civil service and external market. All recruitments were in compliance with Cabinet Office rules, including where applicable, the restraints on expenditure and recruitment introduced last summer.

Overall staff engagement<sup>15</sup>, as measured by our **Annual staff survey**, remains high. We have continued to work closely with our recognised trade union, the **Public and Commercial Services Union (PCS)** and held regular meetings with them during the year.

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. Over the last 12 months, we have enhanced our work on equality and diversity, with the production of our **Single equality scheme and action plan for 2010-2014**. The scheme sets out a programme of action to help us to fulfil our duties under the Equality Act 2010.

We have in place a suite of policies and practices aimed at promoting good employee health and wellbeing, which enables us to deal proactively with any emerging issues. Our sickness absence rates for the last 2 years are as follows:

- **2010-2011**  
2.8 % (2,058 days) against our target which was 3.4% (Chartered Institute of Personnel and Development (CIPD)) benchmark based on all sectors 2009-2010). The public sector benchmark was 4.2%.
- **2009-2010**  
2.8% (2,111 days) against our target which was 3.3% (CIPD benchmark based on all sectors 2008-2009). The public sector benchmark was 4.3%.

### Delivery of optimum internal systems

#### Target

To maintain an average of no more than 40 debtor days<sup>16</sup>. We will also aim to achieve no more than a very small variance of 1% over or 4% under budget.

#### 2010-2011 activities

The **Finance team** continues to work very closely with all business units, and actual and forecast costs are managed through a business partnering model which promotes financial awareness and accountability.

#### Outcome

Across the financial year, we have achieved an average of 42 debtor days. We will continue to work with the DWP to remove longer-term debt from our ledger to help reduce debtor days.

<sup>15</sup> Measuring a number of factors which include staff loyalty, job satisfaction and additional discretionary effort.

<sup>16</sup> The average period in days that the regulator takes to pay debt.

## Our environment

### Eco-efficiency

#### Target

A reduction of 10% in our CO2 emissions from gas and electricity use compared to 2009-2010 levels.

#### 2010-2011 activities

We undertook a number of initiatives during 2010-2011 to reduce our energy usage. This included enhanced management of heating and cooling in the building, and reducing the impact of travel on our carbon footprint.

#### Community activity

Staff organised several events during the year, which raised approximately £2,000. The money was donated to a variety of local and national charities.

#### Outcome

We achieved an overall reduction of 9.5%, just under our target of 10%.

## European and International activities

2010-2011 saw the creation of **EIOPA** and of other new **EU** regulatory authorities such as the **Systemic Risk Board (ESRB)**. In 2010-2011, we focused on ensuring that the UK voice was heard as the structures developed and that the UK was fully represented in the new authority. We continue to be represented on a number of pensions-related committees. These committees determine the technical advice given to the **EU Commission** and, as such, form part of the policy and law-making process within the **EU**.

In this capacity, we have maintained the influence we previously held within the **Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS)** as it transitioned to **EIOPA**. Our Chief executive served on the main decision-making body of **CEIOPS**, until the transition to the new structure in January 2011. He now acts as the Permanent Representative for the UK on pensions issues on the Board of Supervisors of **EIOPA**.

Our main focus of work in **CEIOPS** and subsequently **EIOPA** has been within the **Occupational Pensions Committee (OPC)** in which we have undertaken work on areas including: disclosure to The Pensions Regulator, pre-contractual disclosure to members, and the impact of the economic crisis on pension schemes.

We have also led the pensions work on the **Financial Stability Committee**, and have played an important role in the Peer Review process, whereby regulators assess their performance against the implementation of the **Budapest Protocol**. We have also participated in the meetings of the **Committee for Consumer Protection (CCP)** and its **EIOPA** successor – the **Committee for Consumer Protection and Financial Innovation (CCPFI)**.

We have worked proactively with both Government and commercial stakeholders around the European Commission's pensions **Green Paper** and will continue to contribute to the subsequent call for advice on the reform of the **IORP Directive**.

While there are a number of different views across Europe on this issue, we continue to ensure that the UK approach to scheme funding is understood and that pensions are treated in a manner appropriate to their nature.

We have sought to promote best practice around data collection, interpretation and presentation. The **ESRB** has the power to demand data from the regulator and we have set up an internal data group to ensure that this data can be provided without unnecessary additional burden on schemes.

In addition, we have continued to take a leading role in monitoring the development of cross-border pension provision across the **European Economic Area (EEA)**, both through **EIOPA** and continuing dialogue with industry participants.

We have renewed our secondee programme with **EIOPA** and a secondee from the regulator has recently begun working in Frankfurt. Our European team in the UK continues to be heavily engaged across all the European pensions work streams both domestically and abroad.

### International committees

We have continued to engage on pensions issues in key international organisations, namely the **International Organisation of Pensions Supervisors (IOPS)** and the **Organisation for Economic Co-operation and Development (OECD)**. This enables us to share, influence and learn from international best practice regarding regulation. The **OECD** core principles and **IOPS** guidelines, while non-binding, formed part of the foundation of the call for advice by the Commission on the review of the **IORP Directive**.



# Accountability and governance

## Board structure

Sections 1 to 3 and Schedule 1 of the Pensions Act 2004 ('the Act') set requirements for the establishment of the regulator and the composition of the Board. The current Board structure, meeting with the requirements of the Act, comprises the chair, 6 non-executive members, the chief executive and 2 executive directors. Board members' appointment dates, terms of office, and committee membership are detailed below.

In 2010-2011, the Audit committee chair, who is also senior independent director, received a non-pensionable annual allowance of £24,190. The 5 further non-executive members each received a non-pensionable annual allowance of £21,006. The executive Board members are members of the regulator's staff and receive salaries and pensions. Further details of the remuneration of all Board members are given in the **Remuneration report** on pages 66 to 71.

There were a number of Board membership changes over the year. The Secretary of State appointed Michael O'Higgins as chair from January 2011, when David Norgrove's second term of office came to an end. Bill Galvin was appointed as Chief executive in January 2011 after being acting chief executive since Tony Hobman left in May 2010 to become CEO of the **Consumer Finance Education Body (CFEB)**. Laurie Edmans CBE stepped down as non-executive director in June 2010, in the light of his appointment to the board of **NEST** from July 2010. Graham Brammer stepped down as executive director for employer compliance in January 2011. Charles Counsell and Stephen Soper became interim executive directors in January and February 2011 respectively, and attend Board meetings though are not members.<sup>17</sup>

<sup>17</sup> Subsequent to the period covered in the report, in May 2011 the Secretary of State appointed Stephen Soper as executive director for DB and board member for 2 years.

## Details of Board appointments and committee membership

Name	Date appointed	Date term expires	Committee membership
David Norgrove Appointed as chair	1 January 2005	31 December 2010 <sup>18</sup>	Non-executive (chair)
Michael O'Higgins Appointed as chair	1 January 2011	31 December 2013	Non-executive (chair)
<b>Non-executive members</b>			
Laurie Edmans CBE	8 February 2005	7 February 2011 <sup>19</sup>	Audit, non-executive <sup>20</sup>
Alan Pickering CBE	8 February 2005	7 February 2013 <sup>21</sup>	Remuneration (chair), non-executive
Chris Swinson OBE	8 February 2005	7 February 2013 <sup>22</sup>	Audit (chair), non-executive
Tony Brierley	9 July 2008	8 July 2012	Audit, non-executive
Isabel Hudson	1 June 2009	31 May 2013	Remuneration, non-executive
Bruce Rigby	1 June 2009	31 May 2013	Audit, non-executive
<b>Executive members</b>			
Tony Hobman Appointed as chief executive	1 July 2004 (designate) 6 April 2005 (confirmed)	31 March 2012 <sup>23</sup>	
Bill Galvin Appointed as chief executive	17 January 2011 <sup>24</sup>	16 January 2014	
Stuart Weatherley	1 April 2007	31 March 2013 <sup>25</sup>	
June Mulroy	7 June 2005	31 May 2011 <sup>26</sup>	
Graham Brammer	15 September 2008	14 September 2012 <sup>27</sup>	

<sup>18</sup> Reappointed 1 January 2008 for 3 years; term completed 31 December 2010.

<sup>19</sup> Reappointed 8 February 2008 for 3 years; retired 30 June 2010.

<sup>20</sup> Part year: to 30 June 2010.

<sup>21</sup> Reappointed from 8 February 2009 for 4 years.

<sup>22</sup> Reappointed from 8 February 2009 for 4 years.

<sup>23</sup> Left the regulator in May 2010.

<sup>24</sup> Acting chief executive from May 2010.

<sup>25</sup> Reappointed from 1 April 2010 for 3 years.

<sup>26</sup> Reappointed in 2008 for 3 years and, subsequent to the period covered in the report, in May 2011 for 18 months.

<sup>27</sup> Stepped down in January 2011

## Attendance at meetings from 1 April 2010 to 31 March 2011

Between 1 April 2010 and 31 March 2011, there were 10 meetings of the Board, 5 meetings of the Audit committee, 4 meetings of the Remuneration committee and 1 meeting of the Non-executive committee.

Member	Number of meetings			
	Board	Audit committee	Remuneration committee	Non-executive committee
Michael O'Higgins	2	n/a	n/a	0
David Norgrove	8	n/a	n/a	1
Laurie Edmans CBE	3	1	n/a	1
Alan Pickering CBE	10	n/a	4	1
Chris Swinson OBE	9	5	n/a	1
Tony Brierley	10	5	n/a	1
Isabel Hudson	10	n/a	4	1
Bruce Rigby	9	4	n/a	1
Tony Hobman	2	n/a	n/a	n/a
June Mulroy	10	n/a	n/a	n/a
Graham Brammer	7	n/a	n/a	n/a
Bill Galvin	10	n/a	n/a	n/a
Stuart Weatherley	10	n/a	n/a	n/a

### 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 as follows:

- Policy**  
 Overseeing the regulator's strategic direction and making key decisions on policy
- Governance**  
 Ensuring the regulator is properly run as a public body and has effective internal controls
- Ensuring** that statutory and administrative requirements for the use of public funds are complied with.

### Board meetings

The full Board met monthly during the year from 1 April 2010 to 31 March 2011, except for August and January. In addition, 2 'away day' meetings were held in July and in December 2010 at which the Board received extended 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 chairs or chief executives of the Boards of the PPF and of the regulator have continued to attend the meetings of each other's Boards regularly, as observers.

At the December Board meeting, the chair of the Determinations Panel discussed the Panel's role and work with Board members.

## Committees of the Board

As required by the Pensions Act 2004, the Board has established a committee of non-executive members. With the agreement of the Board, the committee has established 2 standing subcommittees: the **Audit committee** and the **Remuneration committee**. Their remit and activities are summarised below.

## Board evaluation

An internal review of its effectiveness was discussed by the Board in April 2010. The Board has been following through the recommendations arising from the review, which include bringing stakeholder relations more to the fore.

The performance of the chief executive and executive directors 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 66 to 71.

## Board members

### Chair from 1 January 2011

**Michael O'Higgins** became chair of The Pensions Regulator in January 2011, having previously been chairman of **Alexander Mann Solutions**. He has also been chairman of the **Audit Commission** since October 2006.

Michael is a non-executive director of **HM Treasury**, chair of the **Treasury Group Audit Committee**, and chairman of **Investec Structured Products Calculus VCT plc**. He is also a non-executive director of **Oxford Medical Diagnostics plc** and chair of the charity **Centrepont**.

Previously, Michael was a managing partner with **PA Consulting**, leading its Government and IT consulting groups, latterly as a director on its International Board. Prior to that, he was a partner at **PriceWaterhouseCoopers**, worked at the **Organisation for Economic Co-operation and Development (OECD)** in Paris and held academic posts at the **University of Bath**, the **London School of Economics**, **Harvard University** and the **Australian National University**.

### Chair until 31 December 2010

**David Norgrove** began his career at **HM Treasury**, where he started as an economist. His time there included 2 years on secondment to the **First National Bank of Chicago**. He was also **Private Secretary** to Prime Minister, **Margaret Thatcher**, from 1985 to 1988. He joined **Marks & Spencer** in 1988, holding various senior positions before being appointed to the Board in 2000. Whilst at **Marks & Spencer**, he was chair of the pension fund trustees from 2000 until his retirement in 2004. David is a trustee of the **British Museum** and chair of the **Amnesty International Charitable Trust**. In January 2005, he was appointed as the first chair of the regulator. David began his role as chair of the **Low Pay Commission** on 1 May 2009. In February 2010, he was appointed as chair of the Government's new **Family Justice Review Panel**.

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## Non-executive directors

**Alan Pickering CBE** is chairman of BESTrustees and is a trustee of 4 of that firm's clients. He was with **Watson Wyatt** between 1992 and January 2009. Before that, he spent the previous 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 chairman of the **Plumbing Industry Pension Scheme**, having been closely involved with the development of many other industry-wide schemes. In 2005, he became a trustee of the **Life Academy (Pre-Retirement Association)**, assuming the charity's chairmanship in November 2006. He was a member of the **Occupational Pensions Board** from 1991 to 1997, serving as its deputy chairman during 1993. He was chairman of the **National Association of Pension Funds** from 1999 to 2001, and from 2001 to 2004 he served as chairman of the **European Federation for Retirement Provision**. In 2001, he 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 is **Comptroller and Auditor General of Jersey**.

**Tony Brierley** is a solicitor and has spent over 20 years 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. She 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. She also chairs the **Business Development Board** of the disability charity, **Scope** and is a member of the **With Profits Committee of Standard Life**. In February 2010, she was appointed a non-executive director on the Board of the **Phoenix Group**.<sup>28</sup>

**Bruce Rigby** has worked in the UK pension industry for more than 30 years and is now **Mercer's global chief retirement strategist**. In this role, he focuses on the development of new and innovative pension offerings. He is an actuary and has held a number of leadership roles with **Mercer**. Until the end of 2008, Bruce led their global retirement, risk and finance consulting business.

**Laurie Edmans CBE** has had a long career in financial services. Formerly deputy chief executive of a mutual life insurer and chair of the industry body on pensions, he now has a portfolio of commercial and public interest roles. These include chairing the **Safe Home Income Plans group**, deputy chairman of **MGM Assurance**, treasurer of the **Family and Parenting Institute**, and trusteeship of a pension scheme, the **Pensions Policy Institute** and of the **Quest School for Autistic Children**. He was previously a non-executive Board member of the **Occupational Pensions Regulatory Authority (Opra)**. He was appointed to the Board of **NEST** and, as a consequence, retired from the regulator's Board at the end of June 2010.

<sup>28</sup> Subsequent to the period covered in this report, on 1 June 2011, Isabel Hudson was appointed by the FSA as non-executive director and deputy chair of the National House-Building Council (NHBC).

## Chief executive

**Bill Galvin** became chief executive of The Pensions Regulator in January 2011. He was acting chief executive from May 2010, previously holding the position of executive director for strategic development at The Pensions Regulator. Bill was formerly at the **Department for Work and Pensions (DWP)**, where he led on pensions protection policy. Prior to joining 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 a non-executive director for **The Pensions Advisory Service (TPAS)**.

**Tony Hobman** left The Pensions Regulator in May 2010 to become CEO of the **Consumer Financial Education Body (CFEB)**. He has held a number of senior appointments within the financial services arena. He spent 20 years with **Barclays Bank**, holding a number of key roles in marketing, project and change management, and customer service. In 1996, he joined **ProShare** as head of investor services and was promoted to chief executive in 1999. From 2000 to 2001, he was chief executive of **Money Channel plc**. In 2002, he was appointed as chief executive of the **Occupational Pensions Regulatory Authority (Opra)** and in July 2004, chief executive designate of The Pensions Regulator. In April 2005, he began work as the first chief executive of the regulator. In January 2010, Tony was additionally appointed to be an Electoral Commissioner.

## Executive directors

**June Mulroy** was the regulator's **executive director for business delivery** until February 2011 when she became the **executive director for defined contribution, governance and administration**. This is a core operational function of the organisation, with responsibility for capturing scheme information, mitigating risks to scheme members' benefits and promoting better administration of pension schemes. An ex-psychologist and chartered accountant, June worked in large corporates and in banking for over 17 years as a dealer/risk analysis specialist and consultant. Recognising the strong element of change management in all her previous roles, she moved into the NHS and worked in 2 acute trusts, one of which was the 'flagship' of the NHS at the time, Chelsea and Westminster Hospital. Since then, she has worked in Switzerland and Paris, the latter being for the United Nations in UNESCO.

**Stuart Weatherley** is the **executive director for business support operations**, covering finance, human resources, information technology, procurement, scheme return and levy and facilities at The Pensions Regulator. He is an accountant (CIMA) with broad experience of financial and commercial operations in industry at senior management and main board level. He has also spent many years in management consultancy with **PriceWaterhouse**, working with blue chip and public sector organisations managing change programmes and advising on strategy development and business improvement.

**Graham Brammer** stepped down as **executive director for Employer Compliance Regime (ECR)** in January 2011. He has worked in a number of senior positions within **Barclays Group** over a number of years. He was appointed as board director of UK retail banking in 2006, responsible for UK operations. He has previously served as a non-executive director of the Estates Board of **HM Revenue & Customs**.

**Stephen Soper** is the interim **executive director for defined benefit** at The Pensions Regulator. In this role, 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, overseeing all DB casework. Stephen joined the regulator following over 24 years working 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.

**Charles Counsell** became interim **Employer Compliance Regime (ECR) executive director** at The Pensions Regulator in January 2011 and is an attendee of the Board. Charles was previously the **programme manager for ECR**, and prior to that was programme manager for the regulator's last major change programme when the regulator was formed out of **Opra**. Charles has nearly 18 years experience of setting up and running major change programmes in both the private sector and government.

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## Report of the activities of the committee of non-executive members of The Pensions Regulator in 2010-2011

### Functions of the committee of non-executive members

Under section 8 of the Pensions Act 2004 ('the Act'), the regulator must establish a committee of non-executive members. The committee is required by section 8(5) to prepare a report on the discharge of its functions for inclusion in the regulator's **Annual report**.

The committee's functions are set out in section 8(4):

- (a) the duty to keep under review the question of whether the regulator's internal financial controls secure the proper conduct of its financial affairs;
- (b) the duty to determine under paragraph 8(4)(b) of schedule 1 of the Act, subject to the approval of the Secretary of State, the terms and conditions as to remuneration of any chief executive appointed under paragraph 8(4)(a) of that schedule.

The committee, as permitted by section 8 sub-paragraphs (7) and (8) of the Act, continued to have 2 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).

Under paragraphs 18 and 20(1)(c) of schedule 1 of the Act, which give the Board the power to determine its own statutory procedures and to authorise any of its committees to exercise any of its functions, the Board and the non-executive committee agreed additional, non-statutory areas of responsibility to be included in the terms of reference for each subcommittee.

### Activities of the committee in 2010-2011

The committee itself met once during the period of this report and considered the job description and person specification for a new chief executive.

Details of membership of the committee and its subcommittees, and attendance records, are on pages 49 to 50 – 'Details of Board appointments' and 'Attendance at meetings' tables.

Reports from each of the subcommittees are given on the following pages.

## Report of the activities of the Audit committee in 2010-2011

Terms of reference for the audit committee were 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. The audit committee met on 5 occasions in 2010-2011 and provided regular feedback to the Board. The committee:

- reviewed the annual accounts for the regulator for the period 2009-2010 and recommended their approval to the Board
- approved an internal audit strategy for the year
- advised the executive management team on the approach to management of strategic risk and kept the risk schedule under review
- reviewed board expenses and hospitality information for publication
- reviewed the external audit management report for 2009-2010
- approved the external audit strategy for 2010-2011
- received reports from the internal auditors reviewing areas of the business as agreed under the internal audit strategy
- monitored the implementation of recommendations made in those reports.

Membership was as follows:

Chris Swinson OBE (chair) – April 2010 to March 2011  
Laurie Edmans CBE – April 2010 to June 2010  
Tony Brierley – April 2010 to March 2011  
Bruce Rigby – April 2010 to March 2011

For the year 2010-2011, the committee met in April 2011 to review the draft **Statement on internal control** and in June 2011, to review the **Statement on internal control** and the regulator's **Annual report and accounts**, and to recommend that the Board should approve the **Annual report and accounts**.

## Board expenses

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

## Strategic risk management

The committee reviewed the strategic risk schedule on a quarterly basis. The committee was able to question management as to the ratings given to each risk, and progress in mitigating action. Through its enquiries, the committee endorsed management's assessment of key strategic risks, and took the view that effective and thorough monitoring and reporting systems were in place to give the executive directors an appropriate level of control over the management of risk.

## Internal audit strategy for 2010-2011

The committee agreed a programme of internal audits for the year, covering major areas of the business assessed as providing priority topics for internal audit during this year. Progress was kept under review during the year, and the committee was able to review all of the audit reports prior to its approval of the **Annual report and accounts** and the **Statement on internal control**. The committee noted that 3 audit reports gave a full assurance, 1 gave a partially effective assurance and the remaining 4 gave an effective level of assurance.

The committee gave and will continue to give close attention to monitoring progress in the implementation of previous audit recommendations, and was satisfied at the year end that good progress had been made in putting those recommendations into action.

As a result of its analysis of the internal audit work, the committee formed the view that effective and thorough monitoring and reporting systems were also in place to give the executive directors an appropriate level of control over processes and management of processes, within the organisation.

## Report of the activities of the Remuneration committee in 2010-2011

Terms of reference for the **Remuneration committee** are agreed by the Board and the committee of non-executive members, covering both the statutory function delegated from the non-executive committee and additional responsibilities delegated by the Board. Following the Board effectiveness review for 2008-2009, the committee was given an additional non-statutory role, 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.

This report covers the period of the first application of the duties under section 8(4)(b) of the Act (terms and conditions of chief executive), which did not relate to the first chief executive of the regulator.

The remuneration committee met on 4 occasions in 2010-2011 to review:

- reward-related issues
- leadership development
- talent management, identification and development
- equality and diversity
- succession planning
- performance management.

Membership of the **Remuneration committee** was as follows:

Alan Pickering CBE – April 2010 to March 2011 (chair)  
Isabel Hudson – April 2010 to March 2011

Whilst the committee continued to focus on reward-related issues, its consideration of the organisation's strategic human resource approaches has been satisfactory to the Board. Through its discussions, including with management, the committee formed the view that effective and thorough approaches were in place to give the executive directors an appropriate level of support.

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## Executive and senior management teams

Since autumn 2010, the operational management and business planning functions have been updated. These are now co-ordinated by a senior management team, chaired by the chief executive, which normally meets weekly, 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
- manage human resources.

From February 2011, there have been some changes to the portfolios of the regulator's senior management team, which enhance the regulator's resilience and responsiveness and address the specific challenges of regulating DB funding, DC schemes and automatic enrolment. They reflect changes in the pensions world, including preparation for the introduction of automatic enrolment and the increasing prevalence of DC pension schemes.

Senior management team membership consists of the chief executive, executive directors, head of corporate and international affairs, head of customer and channels, and head of risk. The head of the corporate secretariat also attends, 1 meeting a month normally focuses on change management.

## Report of the activities of the Determinations Panel in 2010-2011

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.

The Panel has a chair appointed by the regulator. The chair then nominates at least 6 other members, who must then be appointed by the regulator. 7 members have been appointed: Duncan Campbell, Olivia Dickson, Geoffrey Fitchew<sup>29</sup>, Dianne Hayter, Michael Maunsell, Suzanne McCarthy and Daniel Taylor. In May 2010, Dianne Hayter resigned from the Panel following her appointment to the House of Lords.

Procedures made by the Panel ensure that every regulatory decision is reached after a full and impartial consideration, the Panel needing 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 their determinations, (normally on the balance of probabilities) then it will refuse to make the decision asked for.

<sup>29</sup> Sadly, Geoffrey Fitchew died in April 2011.

The cases coming before the Panel are prepared by the regulatory teams and incorporated into a warning notice which is sent to all parties who are considered to be directly affected in 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 the Panel's clerk as appropriate and the Panel's administrative support staff.

The Panel then makes its decision allowing no further representation to be made by the regulatory teams or by any other party. The only exception to this is where an oral hearing has been applied for and granted – in these cases, all parties are invited to give evidence or make representations. The process has been designed to ensure that the Panel's determinations are made in a fair, open and impartial manner.

During the year, the Panel has been asked to make determinations in 23 cases. The schemes concerned in these cases were DB, DC and hybrid (containing an element of both DB and DC). In 4 cases, the Panel held an oral hearing. The remaining 19 cases were made on consideration of the papers. All the applications were granted, although not in the exact terms of the application in every instance. Further details are in the table on page 58. An additional 2 cases were due to be heard by oral hearing during the year, but these were both settled before the oral hearing was due to take place and after full preparation was made by the Panel for a substantial hearing.

There were 2 special procedure hearings during the year. This is an emergency procedure allowing action to be taken quickly and without notification to the directly affected parties, 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 soon after the initial hearing, with all parties having been given an opportunity to make representations on the decision made.

Although the number of cases sent to the Panel by the regulatory arm of the regulator and considered by the Panel was slightly lower than the previous year, the size and complexity of the cases increased significantly, as did the time the Panel needed to devote to these cases. The Panel ruled on its first contribution notice, which was heard at the very end of the previous financial year. A second contribution notice case was also heard, together with 2 financial support direction cases.

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. They will issue their 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.

The 2 contribution notice cases along with the 2 Financial Support Direction cases were all heard as oral hearings and have subsequently been referred to the Upper Tier Tribunal. The Upper Tribunal has yet to hear the substantive applications from these cases.

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Determination requested	Number of cases	Outcome
Contribution notice	2	1 case was heard at the very end of the previous financial year <sup>30</sup> , although both applications were granted in the current financial year. Both cases were heard as oral hearings and both cases have since been referred to the Upper Tribunal.
Financial Support Direction (FSD)	2	Both cases were heard as oral hearings. In 1 case, the FSD was made against some, but not all, of the targets. Both cases have since been referred to the Upper Tribunal. The FSDs were made against 31 different targets, on behalf of pension schemes with deficits of over £2bn between the 2 cases.
Prohibition of trustee	1	This was an application to prohibit an individual.
Suspension of trustee	1	This case related to the suspension of a corporate trustee and was heard at the same time as the authorisation to execute instruments (below). The application was heard as a special procedure and was upheld at compulsory review.
Appointment of trustee	5	In 1 case, the order to appoint an Independent Trustee (IT) was subsequently revoked due to an external record-keeping error. The case was then re-heard and the application granted. 1 case was heard as a special procedure and related to a number of schemes. The compulsory review for this was held at the very end of the financial year.
Vesting order	6	3 cases were heard as part of other applications. 1 was heard as a special procedure and related to a number of schemes. The compulsory review for this was held at the very end of the financial year.
Wind up	2	1 case was a bulk wind-up application relating to 109 schemes and the other was heard at the same time as the application to modify the scheme.
Modification of scheme	1	This case was heard at the same time as 1 of the wind-up applications.
Authorisation to execute instruments enabling removal or resignation of a trustee	1	This case was heard at the same time as a suspension application and was heard as a special procedure. The application was upheld at the compulsory review.
Voiding clause of deed of amendment	1	Granted
Revocation of order	1	This was to revoke an order to appoint an IT due to a small procedural error relating to postal addresses. The application to appoint the IT was subsequently reheard and granted (as reported above).

<sup>30</sup> Subsequent to the period covered in this report, April 2010-March 2011, a settlement was reached on this matter.

In December, I attended the Board meeting where I updated the Board on the work of the Panel, and in particular the past 12 months where new issues had been raised in some of the cases brought to the Panel.

The Panel holds quarterly meetings where members discuss a variety of topics. Over the past year, these discussions have included updates on the trustee register, issues raised in past cases and data security. Two panel members also attended the advanced judicial skills course run by the **Judicial Studies Board**.

A number of Panel members will reach the end of their second term of office in spring 2012. With this in mind, together with the need to replace Dianne Hayter<sup>31</sup>, the recruitment of new members has started. This will be completed in the 2011-2012 financial year and will be reported on in more detail in the next annual report and accounts.

### **John Scampion CBE**

Chair,  
Determinations Panel  
April 2011

<sup>31</sup> And since April 2011, also Geoffrey Fitchew.

## Complaints against the regulator

Informal complaints and enquiries about the way the regulator administers regulatory cases and deals with its customers are handled initially by our customer support team and regulatory staff, and many are resolved satisfactorily. For those not resolved we operate a 3-stage formal complaints procedure:

- Stage 1:** The complaint is investigated by the Corporate secretary.
- Stage 2:** If unresolved, the complaint is reviewed by the chair of the regulator.
- Stage 3:** If still unresolved, the complaint can be referred to the regulator's **Independent complaints adjudicator (ICA)**.

The regulator also comes within the jurisdiction of the **Parliamentary and Health Service Ombudsman**.

## Complaints received between 1 April 2010 and 31 March 2011

In 2010-2011, at Stage 1, we received 20 new complaints. As at 31 March 2011, we had responded to 18 complaints with 1 outstanding and 1 that was pending awaiting further information from the complainant. As at 31 March 2010, there was 1 outstanding complaint which was responded to in 2010-2011.

We received 5 Stage 2 complaints. As at 31 March 2011, there were no outstanding Stage 2 complaints. As at 31 March 2010, there had been 1 outstanding complaint which was responded to in 2010-2011.

At Stage 3, the **ICA** responded to 5 complaints and a separate report is below. In relation to explaining the organisation's regulatory policies, work has been undertaken on this during the past year and further work is underway for the coming year. No complaints received during 2010-2011 remained under investigation at 31 March 2011.

By comparison, 23 new formal complaints were received in 2009-2010. In numerical terms, the number of complaints received was similar those in the previous year. However the level of complexity has been high in a number of these complaints, which may reflect the more challenging nature of regulatory activity underway.

9 complaints dealt with during 2010-2011 related to the scheme levy, with complainants expressing dissatisfaction with the level of service they had received. A further 7 Stage 1 complaints related to the way in which regulatory investigations relating to pension schemes had been carried out. 1 complaint related to a Stage 3 response from the **ICA**. There have also been 2 complaints made relating to recruitment.

Of the 19 Stage 1 complaints that were responded to, 7 complaints were upheld in full, 7 complaints were partially upheld and 4 complaints were not upheld. 1 complaint did not come within the regulatory remit of the regulator. Of the 6 Stage 2 complaints received in this period, none were upheld differently from at Stage 1.

Regular reports on complaints are made to senior management and any issues arising out of each complaint are acted on as appropriate. For example, a training issue in relation to levy queries has been identified and training to relevant teams has been provided.

## Report of the independent complaints adjudicator for The Pensions Regulator 2010-2011

This year has seen an increase in the number of complaints referred to the Independent Complaints Adjudicator. 5 individual complaints have been referred to me and have been investigated on behalf of the complainant, compared to 2 complaints last year. During the course of my investigations, I have again been impressed with the thoroughness and detailed work undertaken by The Pensions Regulator personnel involved in complaint handling. Many of these matters are complicated and complex. They involve a review of much data and historical information and take a considerable amount of time to complete. In the majority of cases this has been done well, thoroughly and transparently. Full explanations have been given wherever possible, and considerable time has been taken to ensure that the reply is accurate and helpful to the complainant.

The complaints that I have investigated have identified some different issues and areas of concern within the organisation. I outline the key issues in a brief synopsis of the complaints here.

### Complaint 1

This complainant required information on whether his complaint could be investigated or not by the regulator. He was not prepared to provide detailed information and wished to withhold the name of the scheme. Given that the regulator would be unable to conduct an investigation without even this most basic information, he was informed that they would not be able to conduct an investigation on his behalf. He remained unhappy with this decision and complained about the organisation and the individuals who were involved in the handling of his query. He complained about the time taken to respond and the detail of the response provided by the chair of the regulator, Mr Norgrove. He remained unhappy about the way his complaint was handled and it was referred to me, as the independent adjudicator.

I found that there was some delay in explaining the regulator's decision and its complaint procedure to the complainant and upheld this element of his complaint. I also found that the regulator had handled his complaint according to their published procedures, and that he was given full and comprehensive explanations at each stage of the complaint process. I did not uphold this element of the complaint.

### Complaint 2

This complainant raised formal objections to a pension consultation committee proposed by his pension scheme. He was unhappy about the response received from the regulator. While he accepted that my review would be unlikely to change the facts of his complaint, he was hopeful that I might be able to influence policy within the regulator's office. Having investigated his complaints comprehensively, I found that the regulator personnel had progressed all elements of the complaint in a timely and transparent manner. The complainant was provided with comprehensive explanations for the decisions taken at each stage of the process and I did not uphold the complaint.

### Complaint 3

This complaint related to a request for investigation by the regulator of a particular scheme. Following the request, the regulator's office indicated that there was no evidence of improper activity on the part of the trustees of the scheme and as such referred the complainant to **The Pensions Advisory Service**. The risk-based approach taken by the regulator's office was explained to the complainant. He remained unhappy with this response.

On investigation, I found the decision not to progress the review of the pension scheme by the regulator had been explained fully to the complainant. While a comprehensive explanation of the risk-based approach had been provided I was not fully confident that the complainant understood this and its implications. As a result of this, I criticised the regulator for not responding in detail to all the individual points made in the complainant's correspondence. A comprehensive reply with explanations had been given, although I accepted that from the complainant's point of view it might have appeared that not all the issues he had raised had been considered. I did not believe this limitation warranted a further investigation of the original complaint.

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#### Complaint 4

This complainant contacted the regulator stating that there was no **Independent Dispute Resolution (IDR)** process in place for his occupational pension scheme. Following an investigation by the regulator, it was decided not to progress the complaint, given the risk-based approach. The complainant remained unhappy with this response.

In particular, he remained unhappy that the risk-based approach resulted in pensioners possibly suffering loss and stated that the system favoured the employers. My investigation found that the decision of the regulator was reasonable, although I recognised that the complainant would remain dissatisfied with the outcome. I did not uphold the complaint.

#### Complaint 5

This complainant raised a complaint against the regulator regarding the communication with him following the wind-up of a pension scheme and the outstanding levy payments.

On my review of all the documentation, it was clear that the information provided to the complainant had been inaccurate, confusing and contradictory on occasions. This was accepted by the regulator's personnel at both stages of the internal review. It was not possible to waive the outstanding levy payment as the regulator operates within a strict legislative framework, prohibiting such waivers. I recognised that the information provided to the complainant had been misleading and confusing but it was also clear that this had been responded to by senior personnel within the organisation, who had offered a full apology. I did not uphold this complaint

### Key issues

During my investigation certain issues have arisen. The key ones are:

- Delays in correspondence
- Confusing and contradictory information was provided to a levy payment enquirer
- Difficulty in explaining the regulator's risk-based approach.

### Recommendations

I would recommend that the regulator consider the following possible actions:

- Establish a new approach to how the risk-based approach to regulation is explained to complainants.
- Detailed information regarding individual schemes should be checked to ensure accuracy before sending out information to the complainant.
- Regulatory personnel involved in a scheme levy customer focused role should be provided with training.

### Conclusion

This has been a busy year for the regulatory personnel, which has been evident in the increase in the number of complaints referred to the independent adjudicator. Each complaint has been investigated comprehensively and I remain confident that all complainants are treated fairly and openly. It is clear that there are some issues regarding how the regulatory policies are explained to complainants. Clearly this is not being done in a way which maintains confidence in the system. This matter should be addressed in the year ahead. I am confident that once this issue has been responded to, complainants will have increased trust and confidence in the regulatory process.

**Ros Gardner**

Independent Complaints Adjudicator  
April 2011

## Freedom of Information and data protection

The regulator's policy is to be as open and transparent as possible. Our publication scheme is available on our website, and we have a disclosure log where we publish information which has recently been released under the **Freedom of Information Act 2000 (FoIA)**. In line with the government agenda on transparency, the publication scheme also includes detailed information on the regulator's expenditure, contracts, the regulator's structure and any information we consider to be in the public interest.

The regulator is bound by the provisions of the **FoIA**, which applies to all recorded information held, and gives individuals and organisations the right to request information held by a public authority. Similarly, the regulator is bound by the provisions of the **Data Protection Act 1998**, and only processes personal information in accordance with the 8 principles of the Act, and to answer subject access requests received from individuals.

In the period 1 April 2010 to 31 March 2011, the regulator received 36 requests for information under the FoIA, and 1 subject access request under the Data Protection Act 1998. This compares with 51 FoIA requests and 10 subject access requests received in the previous year.

A substantial number of the information requests received in the year focused on the regulator's expenditure, including procurement, and on regulatory cases. They also included requests relating to the organisation, policy and procedures.

Along with the duty to provide information, the FoIA also provides for exemptions. As the regulator has been given strong powers to insist that trustees and others provide information about schemes, those are balanced by restrictions upon the ways in which the information provided may be used. Under section 82 of the Pensions Act 2004, much of the information we gather falls within the definition of 'restricted information', and the Act makes it a criminal offence for restricted information to be released. Such information is exempted from disclosure under FoIA section 44. However, each request is considered on a case-by-case basis to establish whether a summarised or redacted version of the information could be disclosed.

In considering what can be disclosed, we also take into account the provisions on disclosure contained in the Data Protection Act 1998. If applicable, we then apply the relevant exemptions to disclosure.

To achieve the best balance in being open and transparent whilst protecting sensitive information, the regulator may decide in some cases to release information in the form of a summary or collection of information, so framed that information relating to any particular person or organisation cannot be ascertained from it. This would only apply in cases where it is appropriate for that information to be disclosed to the public in general and not just the specific applicant.

In 17 FoIA cases, we disclosed some or all of the information requested. In 19 cases, we were not able to disclose the information requested. In 7 of these cases, we did not hold the information and in one case the information requested was sensitive personal data. In 1 case, we believe the disclosure of information would have had a prejudicial effect on the way in which the regulator carried out its public affairs.

The remaining 10 cases in which we did not disclose any information related to case-specific information which was restricted from disclosure under the Pensions Act 2004, and where we were also unable to provide a summary or redacted version.

We received 2 requests to review our decision not to disclose information. In 1 case, further redacted information was disclosed to the applicant and in the other case we did not disclose. Under FoIA, there is a further right of appeal to the Information Commissioner to look into the matter and take a decision. 1 case was referred to the Commissioner and remained under consideration at the end of the period.



# Financial review

## 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 in pages 77 to 100.

The regulator is funded by 2 Grant-in-Aid (GIA) payments from the DWP. The regulator's business-as-usual is funded by a GIA, which is recovered through the general levy. The **Employer Compliance Regime (ECR)** is funded through 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 on page 82.

In the period ended 31 March 2011, the regulator had net expenditure of £31.9m. This includes £7.2m which is directly attributable to ECR. The net expenditure has been transferred to the general reserve and is offset through contributions from the DWP of £25.3m for the regulator's business as usual activities, and £8.0m from the DWP for ECR activities.

Payroll staff costs have stayed constant during 2010-2011 compared to 2009-2010 expenditure levels. Non-payroll staff costs have decreased by £3.3m across the organisation, of which £1.7m is in respect of the regulator (TPR) and £1.6m in respect of ECR. Ongoing spending controls implemented across government during 2010-2011 are the primary reason for the reduction in spend. ECR was also subject to a government review in the year, which resulted in lower than anticipated spend.

Other operating charges have decreased by £4.5m across the organisation, £1.8m for the regulator and £2.7m for ECR. This reduction is as a direct result of the government spending controls. Consultancy and professional services is the largest reduction of £2.8m across the regulator. Other staff costs including training, recruitment and travel have reduced by £0.9m reflecting the recruitment restrictions. Other general costs have also decreased by £0.8m.

There have been no significant events occurring since period end.

## Property, plant and equipment (PPE) and intangible fixed 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 16 to the accounts).

PPE are valued at current replacement cost as detailed more fully in Note 7 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 to be 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 2011, by volume, the regulator paid 87% of invoices in line with this policy.

## Going concern

The Statement of financial position at 31 March 2011 shows net liabilities of £1.6m. 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 Grants-in-Aid 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 2011, 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 unaudited 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 £68.6m net of which £22.2m relates to the PPF administration levy, £42.5m relates to the general levy and £3.9 related to the PPF.

The opening debt position as at 1 April 2010 was £2.5m of which £1.7m was under 30 days. Closing debt position as at 31 March 2011 was £230k, of which £30k was under 30 days. £40k relates to the PPF administration levy, and £410k to the general levy. There are also outstanding credit notes and waivers of (£70k) relating to the PPF and (£150k) relating to Opra levies. Schemes are currently being contacted to apply for a refund.

The regulator collected £70.9m during the year. £70.79m of cleared funds have been transferred to the DWP during the financial year, of which £48k related to prior year, and £56k relates to cash received but not transferred at year end.

As an organisation, the regulator has been pro-actively seeking payment of any outstanding levy payments with an internal credit control team and have 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 42 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 in 2010-2011 was £4k, all of which £23.38 is payable at 31 March 2011.

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## 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 2010-2011 was £35K.

## 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.
- 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  
17 June 2011



**Bill Galvin**

Chief executive,  
The Pensions Regulator  
17 June 2011

## The Remuneration report

### The Remuneration committee

Details of the activities of the **Remuneration committee** during the period ended 31 March 2011 are set out in pages 55 to 56 of this **Annual report**.

### 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. Legislation requires that the remuneration of subsequent chief executives is determined by the regulator with the approval of the Secretary of State. The final decision on remuneration for the current chief executive was, however, taken in accordance with the current rules on public sector pay.

The current and future remuneration of the other executive members of the Board of The Pensions Regulator is determined by The Pensions 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.

All executive members of the Board are eligible for an annual bonus to a maximum of 20% of base salary based on performance (chief executive 10%). Non-executive members of the Board, the chairman 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. 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 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)
David Norgrove (chair)*	3 months from chair, 6 months from DWP	Maximum of 6 months' pay
Michael O'Higgins (chair)**	3 months from chair, 6 months from DWP	Maximum of 6 months' pay
<b>Non-executive members</b>		
Laurie Edmans CBE***	1 month	1 month
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
<b>Executive members</b>		
Tony Hobman (Chief executive)****	3 months from employee, 6 months from employer	Maximum of 6 months' pay
Bill Galvin (Chief executive)*****	3 months from employee, 6 months from employer	Maximum of 6 months' pay
Stuart Weatherley	3 months	3 months
June Mulroy	3 months	3 months
Graham Brammer	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.

\* Left on 31 December 2010.

\*\* Started on 1 January 2011.

\*\*\* Left on 30 June 2010.

\*\*\*\* Left on 14 May 2010 (acting chief executive from May 2010).

\*\*\*\*\* Started on 17 January 2011.

Information subject to audit

## Remuneration and pension entitlements

The following section provides details of the remuneration and pension interests of the Board of the regulator 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 of £21,006 per annum. Other than C Swinson OBE, audit committee chair, who receives a non-pensionable remuneration of £24,190.

Salary (in bands of £5,000)	Total Benefits in Kind (to the nearest £100)	Board members
£20-25k (All part time members of the Board)	£200 A Pickering CBE £300 A Brierley £200 B Rigby £300 I Hudson	LM Edmans CBE (left 30 June 2010), A Pickering CBE, C Swinson OBE, A Brierley, I Hudson, B Rigby
£105-£110k <sup>32</sup> (Chair)		D Norgrove (left 31 December 2010)
£55-£60k <sup>33</sup> (Chair)		M O'Higgins (started 1 January 2011)

The total amount paid to non-executive directors (including the chair) during the period was £260k. 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.

<sup>32</sup> 3 days per week, full time equivalent £180k-185k.

<sup>33</sup> 2 days per week, full time equivalent £140k-145k.

The current chair's remuneration is non-pensionable, details of the previous chair's pension benefits are set out below. The pension entitlement is based on the Inland Revenue earnings cap of £123,600. The CETV figure includes prior civil service pensions.

Chair's pension benefits					
	Accrued pension at age 60 as at 31 March 2011 and related lump sum (£'000)	Real increase in pension and related lump sum at age 60 (£'000)	CETV at 31 March 2010 (£'000)	CETV at 31 March 2011 (£'000)	Real increase in CETV (£'000)
D R Norgrove (Chair)	40-45 plus lump sum of 0	0 plus lump sum of 0	758	779	0

### Executive members

Salary 2010-2011	Performance-related paid during 2010-2011	Salary 2009-2010	Performance-related paid during 2009-2010	
£20-25k <sup>34</sup>	£5-10k	£175-180k	£10-15k	A H Hobman (Chief executive) <sup>35</sup>
£140-145k	£5-10k	£120-125k	£5-10k	B Galvin <sup>36</sup> (Chief executive)
£135-140k	£5-10k	£135-140k	£5-10k	J Mulroy (Defined contribution, governance and administration)
£110-115k	£5-10k	£110-115k	£15-20k	S Weatherley (Business support executive)
£140-145k <sup>37</sup>	£5-10k	£140-145k	£10-15k	G Brammer (ECR executive)

Stephen Soper was appointed interim executive director for DB at The Pensions Regulator in February 2011. Charles Counsell was appointed interim Employer Compliance Regime (ECR) executive director at the regulator in January 2011. As they are not members of the Board, their details are excluded from the above table.

<sup>34</sup> The full year equivalent is £175k-£180k.

<sup>35</sup> Left on 14 May 2010 to become CEO of the Consumer Financial Education Body (CFEB).

<sup>36</sup> Became acting CEO of the regulator on 17 May 2010, and permanent from 17 January 2011.

<sup>37</sup> Left the regulator on 17 April 2011.

Executive members' pension benefits					
	Accrued pension at age 60 as at 31 March 2010 and related lump sum (£'000)	Real increase in pension and related lump sum at age 60 (£'000)	CETV at 31 March 2010 (£'000)	CETV at* 31 March 2011 (£'000)	Real increase in CETV (£'000)
B Galvin (Chief executive)	10-15 plus lump sum of 0	0-2.5 plus lump sum of 0	75	101	15
A H Hobman (Chief executive)	10-15 plus lump sum of 35-40	0-2.5 plus lump sum of 0-2.5	234	240	3
J Mulroy (Defined contribution, governance and administration)	25-30 plus lump sum of 0	0-2.5 plus lump sum of 0	471	508	21
S Weatherley (Business support executive)	5-10 plus lump sum of 0	0-2.5 plus lump sum of 0	101	142	29
G Brammer (ECR executive)	5-10 plus lump sum of 0	0-3.5 plus lump sum of 0	49	85	27

\*The CETV includes prior civil service pensions.

The pension entitlement of the Chief executive is based on the Inland Revenue's earnings cap of £123,600.

Pension benefits are provided through the **Civil Service** pension arrangements. From 1 October 2002, civil servants may be in 1 of 3 statutory based 'final salary' DB schemes (**Classic**, **Classic plus** and **Premium**). The schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under **Classic**, **Classic plus** and **Premium** are increased annually in line with changes in the **Retail Prices Index (RPI)**. From 31 July 2007, new entrants may choose between membership of **Nuvos** or joining a good quality 'money purchase' stakeholder arrangement with a significant employer contribution (**Partnership pension account**).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic, 3.5% for **Premium**, **Classic plus** and **Nuvos**. Benefits in **Classic** accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to 3 years' 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 (but members may give up (commute) some of their pension to provide a lump sum). **Classic plus** is essentially a variation of **Premium**, but with benefits in respect of service before 1 October 2002 calculated broadly in the same way as in **Classic**.

**Nuvos** is a career average pension scheme. Benefits are accrued at the rate of 2.3% of pensionable earnings for each year of service. There is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum).

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 selection of approved products. 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).

Further details about the **Civil Service** pension arrangements can be found at the website: [www.civilservice-pensions.gov.uk](http://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 CETV figures, and from 2003-2004 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the **Civil Service** pension arrangements and for which the CS Vote has received a transfer payment commensurate with the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the **Institute and Faculty of Actuaries**.

### 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 per diem.

Salary 2010-2011	Members
£5-£10k	S McCarthy, D Hayter
£10-£15k	D Campbell
£15-£20k	M Maunsell, D Taylor
£20-£25k	O Dickson
£45-£50k	J Scampion (Chair)
£50-£55k	G Fitchew

Members of the **Determination Panel** may be removed from office at any time by the chair of the Panel with the approval of The Pensions Regulator. The chair can be removed from office at any time by The Pensions Regulator. Members who wish to leave the Panel are required to give the chair 2 months' notice and the chair is required to give The Pensions Regulator 3 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  
17 June 2011



**Bill Galvin**  
Chief executive,  
The Pensions Regulator  
17 June 2011

# Statutory accounts and notes to the accounts

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

Under paragraph 27 of schedule 1 to the Act, 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 **HM Treasury (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 flow 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.
- 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 **HM Treasury** and published in **Managing Public Money**.



**Michael O'Higgins**  
Chair,  
The Pensions Regulator  
17 June 2011



**Bill Galvin**  
Chief executive,  
The Pensions Regulator  
17 June 2011

## Statement on internal control

### Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control. The system must support the achievement of the regulator's objectives, while safeguarding public funds and departmental assets. These responsibilities are assigned under the **Non-Departmental Public Bodies Accounting Officers Memorandum** issued by **HM Treasury**, and are published in **Managing Public Money**.

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 **Management Statement and Financial Memorandum**.

### The purpose of the system of internal control

The regulator's system of internal control 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 our planning and control systems. The systems aim to deliver year-on-year reductions in cost whilst improving service delivery and maintaining risk at appropriate levels.

Our control system has adapted to ensure the regulator is compliant with the new restrictions imposed in-year on government spending, and to track and monitor service delivery in areas most severely affected.

### Capacity to handle risk

The regulator's capacity to handle risk is defined by the flexibility we have in plans, resources and operational capability that allows us to react to unanticipated events.

### In-year planning adjustments

The regulator is required to focus interventions on areas of greatest risk to member benefits. The legislative framework is not prescriptive on areas or thresholds for intervention. Our **Corporate strategy** and **Business plans** set out our priorities and a resource envelope, but in-year adjustments can be made: the regulator has the ability to refocus priorities, and adjust trigger levels for interventions and so manage workload to a finite capacity (though with corresponding shifts in risk profile). This is an important factor in our capacity to manage risk, as much of the regulator's work is demand-driven, and characterised by unpredictable levels of complexity and volume of casework.

### Flexible capability

The regulator's business model attempts to retain flexibility in capability by employing up to 30% of our headcount on fixed term and shorter term contractual arrangements, allowing skill sets to be adjusted and ensure resources are fungible across different activity types. In 2011-2012, the DWP introduced controls on recruitment that severely curtailed our ability to continue with this approach. We received some easements to the controls in December.

### Financial contingency

The regulator's budget of financial resource and headcount is agreed annually with the DWP. It is recouped through an annual levy on pension schemes. 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 posthoc basis. The 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.

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### Operational risk capacity

Our capacity to handle operational risk is determined by the quality of decision-making in our frontline staff, and the robustness of our procedures. We maximise this capacity through a significant investment of training of frontline staff, who are responsible for risk assessment of individual cases and interactions. A risk-rating process is embedded in our operational procedures, with associated rules on escalation. While not designed to remove all risk of poor-quality decision-making, our operational processes aim to ensure that decision-making on cases is taken at the appropriate level in the organisation.

As a result of government controls on recruitment, advertising and procurement of goods and services, certain frontline business functions were operating outside normal service levels in the second and third quarter. We received delegated authority in recruitment in December 2010, which allowed us to put mitigations in place, though frontline customer support and case handling remains outside planned service levels; this has reduced significantly our capacity to handle operational risk.

### Governance capacity

The Board met 10 times in the year, and reviews strategic risk biennially. The Audit committee reviews risk on a quarterly basis, and the **senior management team (SMT)** meets weekly, reviewing key control metrics in accordance with priority risk areas. Ad hoc meetings of SMT and Board members occur as required to manage important items out of the standard cadence.

The dynamic management of risk through the year means that the regulator's capacity to handle risk is maximised, and the limitations of budget and resource inevitable in a small organisation are mitigated to the extent possible.

### The risk and control framework

The system of internal control has been in place at the regulator for the year ended 31 March 2011 and up to the date of approval of the **Annual report and accounts**, and accords with Treasury guidance.

The system of internal control is built on an ongoing process designed to identify the risks to the achievement of the regulator's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically, through the regulator's management system.

The SMT devotes considerable attention to identification and assessment of strategic and operational risks, in consultation with the audit committee and internal auditors. This process is supported by a risk adviser, who ensures the risk schedule is kept up-to-date and provides training for those involved in the assessment of risk.

The Audit committee reviewed the strategic risk schedule on a quarterly basis. Through its enquiries the committee endorsed management's assessment of key strategic risks, and took the view that effective and thorough monitoring and reporting systems were in place to give the executive an appropriate level of control over the management of risk.

In addition, there is an annual review by the Board and Audit committee jointly, which reviews the strategic risks, changing the strategic risks if necessary, reviews the risk appetite, and reviews risks for risk management strategies and contingency plans from the Audit committee.

The 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 whistle-blowing.

- Clear standing orders and terms of reference for the Board and its committees and for the **senior management team** and project management panels and a schedule of financial and regulatory delegations of authority, approved by the Board and reviewed at least once per annum.
- A business planning system linking strategic, operational and personal objectives, subject to regular review by the **executive management team** and quarterly reporting to the board and DWP Steward, using agreed performance indicators.
- An annual budget and 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 the Employer Compliance Regime which are reviewed annually.
- Management reporting, through the **senior management team**, on a set of agreed measures designed to reflect the performance of the business 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 robust process for managing change, the resources dedicated to change projects and the overall change burden on the organisation.
- A programme of internal audits and a system for progressing implementation of audit recommendations and reporting progress to the Audit committee.

### Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the managers who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports.

I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board and the Audit committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

In accordance with our responsibilities under the **HMG Security Policy Framework and Data Protection Act 1998**, the regulator has in place robust arrangements to ensure information security and no material breaches have occurred during the year. A programme of internal audits was agreed by the Audit committee and reported to the committee during the period of this statement. Assurances received included 1 partial effective, 4 effective and 4 fully effective ratings.

A process is in place to ensure that the agreed management responses to internal audit recommendations is monitored by the senior management team, progressed and implemented effectively, and progress regularly reported to the audit committee. The committee was satisfied that good progress was made over the year. Directors have designed adequate controls for their area of responsibility and these have been operating effectively throughout the year. Formal assurance has been provided by each director.

### Significant internal control issues

As Accounting Officer and as part of the review of effectiveness, I must disclose the actions taken/proposed to deal with any significant internal control issues. No significant internal control failures occurred in the past year.



**Bill Galvin**  
Chief executive,  
The Pensions Regulator  
17 June 2011

## The Certificate and Report of the Comptroller and Auditor General to the House of Parliament

I certify that I have audited the financial statements of The Pensions Regulator for the year ended 31 March 2011 under the Pensions Act 2004. These comprise the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Cash Flows, the 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, Chief Executive and auditor

As explained more fully in the Statement of the Board's and Chief Executive's Responsibilities, the Board and the Chief Executive, as 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 the Pensions Act 2004. I conducted my audit in accordance with 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.

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

### Opinion on Regularity

In my opinion, in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions 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 2011 and of its 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 directions issued 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 directions issued under the Pensions Act 2004; and
- the information given in the Chair's Foreword, the Chief Executive's Report, the Pensions Environment, the Management Commentary, the Accountability and Governance and the Financial Review sections of the Annual Report 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 or returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Statement on Internal Control 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  
24 June 2011

# Financial statements

## Statement of Comprehensive Net Expenditure for the year ended 31 March 2011

		Year ended 31 March 2011	Year ended 31 March 2010
	Note	£'000	£'000
<b>Expenditure</b>			
Staff costs	4	<b>(21,519)</b>	(24,474)
Depreciation and Amortisation	5	<b>(566)</b>	(719)
Other expenditures	5	<b>(9,861)</b>	(14,218)
<b>Net expenditure</b>		<b>(31,946)</b>	(39,411)
Interest receivable		<b>13</b>	13
		<b>13</b>	13
<b>Net expenditure after interest before taxation</b>		<b>(31,933)</b>	(39,398)
Taxation	6	<b>(3)</b>	(4)
<b>Net expenditure after interest and taxation</b>		<b>(31,936)</b>	(39,402)
<b>Other comprehensive expenditure</b>			
Net (loss)/gain on revaluation of property, plant and equipment		<b>(20)</b>	97
<b>Total comprehensive expenditure for the year ended 31 March 2011</b>		<b>(31,956)</b>	(39,305)

## Statement of financial position as at 31 March 2011

		At 31 March 2011	At 31 March 2010
	Note	£'000	£'000
<b>Non current assets</b>			
Property, plant and equipment	7	497	701
Intangible assets	8	550	727
<b>Total non current assets</b>		<b>1,047</b>	1,428
<b>Current assets</b>			
Trade and other receivables	11	1,037	699
Cash and cash equivalents	12	709	280
<b>Total current assets</b>		<b>1,746</b>	979
<b>Total assets</b>		<b>2,793</b>	2,407
<b>Current liabilities</b>			
Trade and other payables	13	3,409	4,427
Provisions	14	162	148
<b>Total current liabilities</b>		<b>3,571</b>	4,575
<b>Non current assets plus current assets less current liabilities</b>		<b>(778)</b>	(2,168)
<b>Non current liabilities</b>			
Provisions	14	701	568
Other payables	13	73	132
<b>Total non current liabilities</b>		<b>774</b>	700
<b>Assets less liabilities</b>		<b>(1,552)</b>	(2,868)
<b>Taxpayers' equity</b>			
Revaluation reserve		177	197
General reserve		(1,729)	(3,065)
		<b>(1,552)</b>	(2,868)

The financial statements on pages 77 to 100 were authorised for issue by the Board on 8 June 2011 and were signed on its behalf by:



**Michael O'Higgins**  
Chair,  
The Pensions Regulator  
17 June 2011



**Bill Galvin**  
Chief executive,  
The Pensions Regulator  
17 June 2011

## Statement of Cash Flows for the year ended 31 March 2011

		Year ended 31 March 2011	Year ended 31 March 2010
	Note	£'000	£'000
<b>Cash flows from operating activities</b>			
Net Expenditure after interest before taxation		<b>(31,933)</b>	(39,398)
Adjustments for interest and depreciation		<b>587</b>	820
(Increase)/Decrease in trade and other receivables	11	<b>(338)</b>	24
(Decrease)/Increase in trade payables	13	<b>(1,078)</b>	680
Increase/(Decrease) in provisions	14	<b>147</b>	(541)
Taxation		<b>(3)</b>	(27)
<b>Net cash outflow from operating activities</b>		<b>(32,618)</b>	(38,442)
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	7	<b>(139)</b>	(201)
Purchase of intangible assets	8	<b>(86)</b>	(387)
<b>Net cash outflow from investing activities</b>		<b>(225)</b>	(588)
<b>Cash flows from financing activities</b>			
GIA to cover ongoing operations TPR		<b>25,309</b>	27,446
GIA to cover ongoing costs of ECR		<b>7,963</b>	11,185
GIA received from DWP for TPAS		<b>3,984</b>	3,435
GIA paid from the regulator to TPAS		<b>(3,984)</b>	(3,435)
<b>Net cash inflow from financing activities</b>		<b>33,272</b>	38,631
<b>Net increase/(decrease) in cash and cash equivalents in the period</b>	12	<b>429</b>	(399)
<b>Cash and cash equivalents at the beginning of the period</b>		<b>280</b>	679
<b>Cash and cash equivalents at the end of the period</b>	12	<b>709</b>	280

## Statement of Changes in Taxpayers' Equity for the year ended 31 March 2011

	Revaluation Reserve £'000	General Reserve £'000	Total Reserves £'000
<b>Balance at 1 April 2009</b>	100	(2,294)	(2,194)
<b>Changes in taxpayers' equity for 2009-2010</b>			
Net gain on revaluation of property, plant and equipment	97	–	97
Retained surplus/deficit	–	(39,402)	(39,402)
<b>Total comprehensive expenditure for the year ended 31 March 2010</b>	97	(39,402)	(39,305)
GIA received from DWP	–	38,631	38,631
<b>Balance at 31 March 2010</b>	197	(3,065)	(2,868)
<b>Changes in taxpayers' equity for 2010-2011</b>			
Net (loss) on revaluation of property, plant and equipment	(20)	–	(20)
Retained surplus/deficit	–	(31,936)	(31,936)
<b>Total comprehensive expenditure for the year ended 31 March 2011</b>	(20)	(31,936)	(31,956)
GIA received from DWP	–	33,272	33,272
<b>Balance at 31 March 2011</b>	177	(1,729)	(1,552)

The accounting policies and notes on pages 82 to 100 form part of these accounts.

## Notes to the Accounts

### 1 Basis of Preparation

These financial statements have been prepared in accordance with the 2010-2011 Government Financial Reporting Manual (FReM) issued by HM Treasury. 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 for the reportable activity are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

#### Standards, Amendments and Interpretations effective for the year ended 31 March 2011

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.

## 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) Government grants and Grant-in-Aid

Grant-in-Aid and Grant 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.

### b) Property, plant and equipment

Property, plant and equipment are valued at current replacement cost which is calculated by applying appropriate Office for National Statistics (ONS) 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.

### c) Intangible assets

The costs of purchasing major software licences and software built in-house are capitalised as intangible fixed 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.

### d) Depreciation

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

Depreciation is provided on property, plant and equipment and 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 and office equipment	– 5 years
Information technology costs (IT costs)	
– information technology equipment	– 5 years
– major software licences	– 5 years
– software development and enhancement	– 5 years

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

### e) 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.

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1.1 Accounting Convention continued...

**f) Early retirement costs**

Compensation payments are charged to the Statement of Comprehensive Net Expenditure. Obligations relating to those former members of staff aged 50 or over are provided for until their normal date of retirement.

**g) Provision for liabilities**

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

**h) 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 ONS 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.

**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) Taxpayers' equity**

**General Reserve**

The General Reserve is used to record all future liabilities. 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**

The Revaluation Reserve is used when the value of an asset on the statement of financial position becomes greater than the value at which it was previously carried. Not every increase in value is added to the Revaluation Reserve, the exact treatment depends on whether it has been previously impaired.

## 1.1 Accounting Convention continued...

## k) Critical accounting judgements and key sources of estimation uncertainty

The regulator's accounting policies are set out in Note 1 to these financial statements. 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 includes 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 current lease for the office the regulator occupies in Brighton, on which the lease will expire in 2013. 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.

## l) Operating segments

The regulator comprises of 2 distinct operating segments; business as usual (BAU) and the Employer Compliance Regime (ECR).

The Employer Compliance Regime (ECR) is 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 ECR-related work is separately recorded on separate ledgers and strict protocols are adhered to avoid cross subsidy. Reporting is provided to the executive team and Board on both ECR and BAU expenditure.

## 1.2 Pensions

The majority of past and present employees are covered by the provisions of the **Principal Civil Service Pension Scheme (PCSPS)** which is a DB 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.

## 1.3 Cost of Capital

In the previous financial statements, as required by the FReM, a charge reflecting the cost of capital utilised by the regulator was included in the Net Expenditure Account. The FReM has now withdrawn this requirement with effect from 1 April 2010, and the charge has been removed from the Statement of Comprehensive Net Expenditure in the 2010-2011 financial statements and the 2009-2010 comparative. The total for 2009-2010 is not affected by this change as the charge was reversed on the face of the Net Expenditure Account.

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## 2 Analysis of net expenditure and assets by segment

	<b>ECR</b> <b>£'000</b>	<b>TPR</b> <b>£'000</b>	<b>Total</b> <b>£'000</b>
<b>2010-2011</b>			
Gross expenditure	<b>(7,211)</b>	(24,725)	(31,936)
Income	-	-	-
Net expenditure	<b>(7,211)</b>	(24,725)	(31,936)
Total assets	<b>684</b>	2,109	2,793
<b>2009-2010</b>			
Gross expenditure	<b>(11,431)</b>	(27,971)	(39,402)
Income	-	-	-
Net expenditure	<b>(11,431)</b>	(27,971)	(39,402)
Total assets	<b>239</b>	2,168	2,407

## 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 3 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. Part-time (non-executive) board members are entitled to a monthly non-pensionable fee of £1,751 in 2010-2011 (2009-2010: £1,751) and out of pocket expenses. C Swinson OBE received a monthly non-pensionable fee of £2,016 in 2010-2011 (2009-2010: £2,016).

Details of the remuneration and pension benefits of the chairman and all other members of the Board are given in the Remuneration report on pages 66 to 71. The total cost for the chairman and part-time board members are as follows and these costs are included within other operating expenditure (Note 5):

	<b>Year ended</b> <b>31 March 2011</b> <b>£'000</b>	Year ended 31 March 2010 £'000
Salary/fees	<b>211</b>	268
Social security costs	<b>21</b>	24
Other pension costs (Chair only)	<b>12</b>	17
Part-time board expenses	<b>16</b>	2
	<b>260</b>	311

#### 4 Staff numbers and related costs

	ECR Year ended 31 March 2011 £'000	TPR Year ended 31 March 2011 £'000	Total TPR Year ended 31 March 2011 £'000
<b>2010-2011</b>			
<b>Employees</b>			
Salaries and wages*	2,097	10,852	12,949
Social security costs	120	995	1,115
Other pension costs	272	2,190	2,462
	<u>2,489</u>	<u>14,037</u>	<u>16,526</u>
<b>Temporary staff**</b>	2,527	2,451	4,978
Severance and early retirement costs	–	146	146
	<u>2,527</u>	<u>2,451</u>	<u>4,978</u>
<b>Subtotal</b>	<b><u>5,016</u></b>	<b><u>16,634</u></b>	<b><u>21,650</u></b>
Less recoveries in respect of outward secondments	–	(131)	(131)
<b>Total net costs</b>	<b><u>5,016</u></b>	<b><u>16,503</u></b>	<b><u>21,519</u></b>
<hr/>			
	ECR Year ended 31 March 2010 £'000	TPR Year ended 31 March 2010 £'000	Total TPR Year ended 31 March 2010 £'000
<b>2009-2010</b>			
<b>Employees</b>			
Salaries and wages*	2,042	10,849	12,891
Social security costs	149	958	1,107
Other pension costs	258	1,977	2,235
	<u>2,449</u>	<u>13,784</u>	<u>16,233</u>
<b>Temporary staff**</b>	4,114	4,122	8,236
Severance and early retirement costs	–	170	170
	<u>4,114</u>	<u>4,122</u>	<u>8,236</u>
<b>Subtotal</b>	<b><u>6,563</u></b>	<b><u>18,076</u></b>	<b><u>24,639</u></b>
Less recoveries in respect of outward secondments	–	(165)	(165)
<b>Total net costs</b>	<b><u>6,563</u></b>	<b><u>17,911</u></b>	<b><u>24,474</u></b>

\* Salaries and wages as at 31 March 2011 includes staff holiday accrual £192k (£181k as at 31 March 2010).

\*\* No costs have been capitalised for 2010-2011 (£337k 2009-2010).

These were included in additions to internally developed IT software in Note 8.

#### 4 Staff numbers and related costs *continued...*

##### 2010-2011

The average number of staff employed, including temporary staff

	ECR 31 March 2011 no.	TPR 31 March 2011 no.	Total TPR 31 March 2011 no.
Employees	17	240	257
Temporary staff	20	27	47
Staff engaged on capital projects	–	–	–
<b>Total</b>	<b>37</b>	<b>267</b>	<b>304</b>

##### 2009-2010

The average number of staff employed, including temporary staff

	ECR 31 March 2010 no.	TPR 31 March 2010 no.	Total TPR 31 March 2010 no.
Employees	23	238	261
Temporary staff	24	43	67
Staff engaged on capital projects	–	9	9
<b>Total</b>	<b>47</b>	<b>290</b>	<b>337</b>

##### Staff paid over £100,000 in addition to directors

Salary range £'000	2010-2011 FTE	2009-2010 FTE
100-105	2.2	1.7
105-110	–	1.0
115-120	1.0	1.7
175-180	0.1	–
195-200	0.9	2.0
225-230	–	0.2
230-235	1.0	1.0

Details of the remuneration and pension benefits of the Board of the regulator are given in the Remuneration report on pages 66 to 71. The staff costs in the table above include the costs of the chief executive and the full-time members of the Board.

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 resource accounts of the Cabinet Office: Civil Superannuation ([www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)).

#### 4 Staff numbers and related costs *continued...*

For 2010-2011 employers' contributions of £2,474k (£2,250k 2009-2010) were payable to the PCSPS at 1 of 4 rates in the range 16.7% to 24.3% of pensionable pay, based on salary bands. The scheme's actuary reviews employer contributions every 4 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 £9k 2010-2011 (£40k 2009-2010) were payable to one or more of a panel of 3 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 £1k 2010-2011 (£2k 2009-2010), 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 pensions contributions as at 31 March 2011 equates to £242k (31 March 2010 £230k).

##### 4.1 Reporting of Civil Service compensation schemes

Exit package cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band
£50,000-£100,000	–	1	1
£100,000-£150,000	–	1	1
<b>Total number of exit packages by type</b>	<b>–</b>	<b>2</b>	<b>2</b>
<b>Total resource cost/£'000</b>		<b>208</b>	<b>208</b>

Redundancy and other departure cost 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 the year the obligation arose. When the regulator has agreed early retirements, the additional costs are met by the department and not by the pension scheme. Ill-health retirement costs are met by the pension scheme and are not included in the table. These figures represent gross liability and do not take into account reversal of provisions from previous periods.

## 5 Other expenditure

	ECR Year ended 31 March 2011 £'000	TPR Year ended 31 March 2011 £'000	Total TPR Year ended 31 March 2011 £'000
<b>2010-2011</b>			
<b>Running costs</b>			
Board chair – includes expenses	30	90	120
Part-time board members' fees	29	95	124
Part-time board expenses	–	16	16
Consultancy, contracted out and other professional services	1,612	4,025	5,637
Training and recruitment costs	9	315	324
Staff travel and expenses	26	186	212
General office expenses including accommodation expenses	255	1,352	1,607
Dilapidations costs	–	160	160
Computer systems development and maintenance	237	584	821
Operating leases including rent	–	792	792
Impairment of non-current assets	–	13	13
Auditor's remuneration	–	35	35
	<b>2,198</b>	<b>7,663</b>	<b>9,861</b>
<b>Non-cash items</b>			
Depreciation	–	305	305
Amortisation	–	261	261
	<b>–</b>	<b>566</b>	<b>566</b>
<b>Total</b>	<b>2,198</b>	<b>8,229</b>	<b>10,427</b>

## 5 Other expenditure continued...

	ECR Year ended 31 March 2010 £'000	TPR Year ended 31 March 2010 £'000	Total TPR Year ended 31 March 2010 £'000
<b>2009-2010</b>			
<b>Running costs</b>			
Board chair – includes expenses	7	139	146
Part-time board members' fees	13	150	163
Part-time board expenses*	–	2	2
Consultancy, contracted out and other professional services	4,062	4,337	8,399
Training and recruitment costs	156	894	1,050
Staff travel and expenses	40	321	361
General office expenses including accommodation expenses	168	1,727	1,895
Dilapidations costs	–	120	120
Computer systems development and maintenance	426	708	1,134
Operating leases including rent	–	805	805
Impairment of non-current assets	–	94	94
Auditor's remuneration	–	49	49
	4,872	9,346	14,218
<b>Non-cash items</b>			
Depreciation	–	474	474
Amortisation	–	245	245
	–	719	719
<b>Total</b>	<b>4,872</b>	<b>10,065</b>	<b>14,937</b>

\* There is tax due to HMRC on expenses incurred of £0.4k 2010-2011 (2009-2010: £0.8k).

## 6 Tax on interest receivable

	ECR Year ended 31 March 2011 £'000	TPR Year ended 31 March 2011 £'000	Total TPR Year ended 31 March 2011 £'000
<b>2010-2011</b>			
UK Corporation Tax at 21% on interest receivable	1	2	3
	ECR Year ended 31 March 2010 £'000	TPR Year ended 31 March 2010 £'000	Total TPR Year ended 31 March 2010 £'000
<b>2009-2010</b>			
UK Corporation Tax at 21% on interest receivable (2008-2009: 21%)	1	3	4

## 7 Property, plant and equipment

	Leasehold improvements £'000	Telecoms equipment £'000	Furniture, fixtures and fittings £'000	Office equipment £'000	IT hardware £'000	Total £'000
<b>Cost or valuation</b>						
At 1 April 2009	1,331	247	715	32	1,265	3,590
Additions	–	–	–	–	201	201
Disposals	–	–	–	(20)	(4)	(24)
Revaluations	(132)	35	24	–	75	2
<b>At 31 March 2010</b>	<b>1,199</b>	<b>282</b>	<b>739</b>	<b>12</b>	<b>1,537</b>	<b>3,769</b>
<b>Depreciation</b>						
At 1 April 2009	760	196	551	28	1,075	2,610
Charged in year	177	50	148	4	95	474
Disposals	–	–	–	(20)	(2)	(22)
Revaluations	(81)	35	19	–	33	6
<b>At 31 March 2010</b>	<b>856</b>	<b>281</b>	<b>718</b>	<b>12</b>	<b>1,201</b>	<b>3,068</b>
<b>Net book value at 31 March 2009</b>	<b>571</b>	<b>51</b>	<b>164</b>	<b>4</b>	<b>190</b>	<b>980</b>
<b>Net book value at 31 March 2010</b>	<b>343</b>	<b>1</b>	<b>21</b>	<b>–</b>	<b>336</b>	<b>701</b>
<b>Cost or valuation</b>						
At 1 April 2010	1,199	282	739	12	1,537	3,769
Additions	–	–	–	–	139	139
Disposals	–	(7)	–	(3)	(319)	(329)
Revaluations	(51)	–	1	–	(51)	(101)
<b>At 31 March 2011</b>	<b>1,148</b>	<b>275</b>	<b>740</b>	<b>9</b>	<b>1,306</b>	<b>3,478</b>
<b>Depreciation</b>						
At 1 April 2010	856	281	718	12	1,201	3,068
Charged in year	166	1	7	–	131	305
Disposals	–	(7)	–	(3)	(314)	(324)
Revaluations	(38)	–	1	–	(31)	(68)
<b>At 31 March 2011</b>	<b>984</b>	<b>275</b>	<b>726</b>	<b>9</b>	<b>987</b>	<b>2,981</b>
<b>Net book value at 31 March 2010</b>	<b>343</b>	<b>1</b>	<b>21</b>	<b>–</b>	<b>336</b>	<b>701</b>
<b>Net book value at 31 March 2011</b>	<b>164</b>	<b>–</b>	<b>14</b>	<b>–</b>	<b>319</b>	<b>497</b>

All assets are owned by the regulator and do not relate to ECR, the regulator does not lease any assets.

## 8 Intangible assets

	IT software internally generated £'000	IT software acquired £'000	Total £'000
Intangible assets comprise software licences and software developed in-house			
<b>Cost or Valuation</b>			
At 1 April 2009	898	1,187	2,085
Additions	337	52	389
Disposals	–	(2)	(2)
<b>At 31 March 2010</b>	<b>1,235</b>	<b>1,237</b>	<b>2,472</b>
<b>Amortisation</b>			
At 1 April 2009	466	1,035	1,501
Charge in year	190	55	245
Disposals	–	(1)	(1)
<b>At 31 March 2010</b>	<b>656</b>	<b>1,089</b>	<b>1,745</b>
<b>Net book value at 31 March 2009</b>	<b>432</b>	<b>152</b>	<b>584</b>
<b>Net book value at 31 March 2010</b>	<b>579</b>	<b>148</b>	<b>727</b>
<b>Cost or Valuation</b>			
At 1 April 2010	1,235	1,237	2,472
Additions	–	86	86
Disposals	–	(43)	(43)
<b>At 31 March 2011</b>	<b>1,235</b>	<b>1,280</b>	<b>2,515</b>
<b>Amortisation</b>			
At 1 April 2010	656	1,089	1,745
Charge in year	189	72	261
Disposals	–	(41)	(41)
<b>At 31 March 2011</b>	<b>845</b>	<b>1,120</b>	<b>1,965</b>
<b>Net book value at 31 March 2010</b>	<b>579</b>	<b>148</b>	<b>727</b>
<b>Net book value at 31 March 2011</b>	<b>390</b>	<b>160</b>	<b>550</b>

All intangible assets are owned by the regulator and do not relate to ECR.

## 9 Financial Instruments

### Financial Instruments and fair values

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.

### Liquidity risk

The regulator's net revenue resource requirements are solely funded by Grant-in-Aid from its sponsor department. The capital expenditure is also financed through Grant-in-Aid. The regulator is consequently not exposed to significant liquidity risks.

### Interest Rate risk

The regulator is not exposed to any interest rate risk. All surplus funds are placed on deposit with commercial banks at the prevailing deposit interest rate.

### Foreign Currency Risk

The regulator's exposure to foreign currency is not currently significant.

### Fair values of financial instruments

The fair value of a financial instrument is the price at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair values have been determined with reference to available market information at the balance sheet date, using the methodologies discussed below.

The carrying amounts and fair values of the regulator's financial instruments are as follows:

	2010-2011		2009-2010	
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
<b>Financial assets</b>				
Cash at bank and in hand	709	709	280	280
Receivables:				
central government	48	48	51	51
Receivables: other	23	23	45	45
Receivables: staff	36	36	26	26
<b>Financial liabilities</b>				
Payables:				
central government	327	327	153	153
Payables: suppliers	664	664	479	479
Payables: other	2,343	2,343	3,734	3,734

The above figures exclude statutory payables which relate to taxes and social security due to **HM Revenue & Customs (HMRC)**. None of the financial assets have been subject to an impairment.

Trade receivables, trade payables, cash and cash equivalents – fair values are assumed to approximate to cost due to the short-term maturity of the instruments.

## 10 Impairments

	ECR Year ended 31 March 2011 £'000	TPR Year ended 31 March 2011 £'000	Total Year ended 31 March 2011 £'000	Year ended 31 March 2010 £'000
Impairment of non-current assets	–	33	33	132
	<u>–</u>	<u>33</u>	<u>33</u>	<u>132</u>

During 2010-2011 £13k (2009-2010 £94k) has been charged to the Statement of Comprehensive Net Expenditure (see Note 5), and £20k (2009-2010 £38k) allocated against a previous increased valuation in the Revaluation reserve.

## 11 Trade receivables and other current assets

	ECR 31 March 2011 £'000	TPR 31 March 2011 £'000	Total 31 March 2011 £'000
<b>Amount falling due within 1 year</b>			
Trade receivables	7	64	71
Other receivables	4	32	36
Prepayments and accrued income	6	924	930
	<u>17</u>	<u>1,020</u>	<u>1,037</u>
	ECR 31 March 2010 £'000	TPR 31 March 2010 £'000	Total 31 March 2010 £'000
<b>Amount falling due within 1 year</b>			
Trade receivables	–	96	96
Other receivables	1	25	26
Prepayments and accrued income	–	577	577
	<u>1</u>	<u>698</u>	<u>699</u>

Central government trade receivables relate only to 'business as usual' and include £41k due from the DWP (2009-2010 £48k and £4k HM Treasury) within the regulator and £7k due from the DWP within ECR (2009-2010 nil). There are no further amounts with local authorities, NHS or other corporations.

## 12 Cash and cash equivalents

	ECR 31 March 2011 £'000	TPR 31 March 2011 £'000	Total 31 March 2011 £'000
Balance at 1 April 2010	238	42	280
Net change in cash and cash equivalent balance	429	–	429
<b>Balance at 31 March 2011</b>	<b>667</b>	<b>42</b>	<b>709</b>
The following balances at 31 March 2011 were held			
Commercial banks and cash in hand	11	42	53
Short-term investments	656	–	656
<b>Balance at 31 March 2011</b>	<b>667</b>	<b>42</b>	<b>709</b>

Cash at bank and short term investments represents the only funds held at 31 March 2011. All funds are held at HSBC.

### 13 Trade payables and other current liabilities

	<b>ECR</b> <b>31 March 2011</b> <b>£'000</b>	<b>TPR</b> <b>31 March 2011</b> <b>£'000</b>	<b>Total</b> <b>31 March 2011</b> <b>£'000</b>
<b>Amounts falling due within 1 year</b>			
Other taxation and social security	44	337	381
Trade payables	25	656	681
Accruals and deferred income	494	1,853	2,347
	<u>563</u>	<u>2,846</u>	<u>3,409</u>
<b>Amounts falling due after more than 1 year</b>			
Other payables, accruals and deferred income	–	73	73
	<u>–</u>	<u>73</u>	<u>73</u>

TPR Accruals include central government accruals of £93k, which includes £65k due to the Central Office of Information (COI) and £28k to HMRC. Central government accruals relating to the Employer Compliance Regime include £147k due to the COI.

Deferred income due in less than 1 year comprises rent rebates received £59k.

Deferred income due in greater than 1 year comprises rent rebates only £73k.

	<b>ECR</b> <b>31 March 2010</b> <b>£'000</b>	<b>TPR</b> <b>31 March 2010</b> <b>£'000</b>	<b>Total</b> <b>31 March 2010</b> <b>£'000</b>
<b>Amounts falling due within 1 year</b>			
Other taxation and social security	41	339	380
Trade payables	129	425	554
Accruals and deferred income	701	2,792	3,493
	<u>871</u>	<u>3,556</u>	<u>4,427</u>
<b>Amounts falling due after more than 1 year</b>			
Other payables, accruals and deferred income	–	132	132
	<u>–</u>	<u>132</u>	<u>132</u>

Accruals include central government accruals of £240k (2009-2010 £153k), which for 'business as usual' (TPR) includes nil due to the DWP (2009-2010 £7k), nil to the **National School of Government** (2009-2010 £4k), £65k due to the **COI** (2009-2010 nil), and £28k to **HMRC** (2009-2010 £20k). Central government accruals relating to ECR include nil due to the **DWP** (2009-2010 £7k), nil to the **SFO** (2009-2010 £13k) and £147k to the **COI** (2009-2010 £102k).

Deferred income due in less than 1 year comprises rent rebates received £59k.

Deferred income due in greater than 1 year comprises rent rebates only £73k.

## 14 Provisions for liabilities and charges

	Early retirement £'000	Severance £'000	Dilapidations £'000	Year ended 31 March 2011 £'000	Year ended 31 March 2010 £'000
<b>Balance at 1 April 2010</b>	180	37	499	716	1,257
Provided in the year	–	125	160	285	221
Provision not required written back	(35)	(37)	–	(72)	(28)
Provisions utilised in the year	(66)	–	–	(66)	(734)
<b>Balance at 31 March 2011</b>	<b>79</b>	<b>125</b>	<b>659</b>	<b>863</b>	<b>716</b>
<b>Due within 1 year</b>	<b>37</b>	<b>125</b>	<b>–</b>	<b>162</b>	<b>148</b>
<b>Greater than 1 year</b>	<b>42</b>	<b>–</b>	<b>659</b>	<b>701</b>	<b>568</b>

	Early retirement £'000	Severance £'000	Dilapidations £'000	31 March 2011 Total £'000
<b>Analysis of expected timing of discounted flows</b>				
In the remainder of the Spending Review period (to 2012)	37	125	–	162
Between 2013 and 2017	42	–	659	701
<b>Balance at 31 March 2011</b>	<b>79</b>	<b>125</b>	<b>659</b>	<b>863</b>

### Liabilities and provisions

Early retirement is related to individuals on early retirement for which the regulator is liable, severance covers the cost of restructuring during 2008-2009 and dilapidations cover the cost of restoring Napier House at the end of the lease. All provisions relate to The Pensions Regulator (TPR) only.

## 15 Capital commitments

Amounts contracted for but not provided in the accounts amounted to nil (31 March 2010: nil)  
There were no amounts authorised by the Board not contracted for.

## 16 Commitments under leases

The regulator occupies an office in Brighton, the lease on which will expire in 2013. Total future minimum lease payments under operating leases are given in the table below for each of the following periods.

	ECR 31 March 2011	TPR 31 March 2011 £'000	Total 31 March 2011 £'000	31 March 2010 £'000
<b>Obligations under operating leases comprise:</b>				
<b>Buildings</b>				
Not later than 1 year	–	845	<b>845</b>	827
Later than 1 year and not later than 5 years	–	1,126	<b>1,126</b>	1,930
Later than 5 years	–	–	–	–
	<u>–</u>	<u>1,971</u>	<u><b>1,971</b></u>	<u>2,757</u>
<b>Other</b>				
Not later than 1 year	–	1	<b>1</b>	3
Later than 1 year and not later than 5 years	–	–	–	1
Later than 5 years	–	–	–	–
	<u>–</u>	<u>1</u>	<u><b>1</b></u>	<u>4</u>

All commitments under leases relate to TPR only and the regulator has no obligations under finance leases.

## 17 Commitment under PFI contracts

The regulator has no obligations under PFI contracts.

## 18 Other financial commitments

Amounts contracted for but not provided in the accounts amounted to nil (31 March 2010: 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 Related party transaction

The regulator is a Non-Departmental Public Body (NDPB) accountable to the Secretary of State for Work and Pensions. The DWP, the PPF and the ERSP are regarded as related parties. During the period, the regulator's transactions with the DWP, included payments of DWP secondees working at the regulator. This year the regulator had no transactions with PADA or PPF. However, in total the transactions with the DWP not related to the provision of Grant-in-Aid totalled £74k (2009-2010 £137k). Additionally for 2010-2011, regulator staff were seconded to the DWP which related to receipts of £89k (2009-2010 £119k).

During the year, the regulator funded Grant-in-Aid payments to **The Pensions Advisory Service (TPAS)** of £4.0m. The Departmental Steward, on behalf of the Secretary of State, made matching Grant-in-Aid payments to the regulator of £4.0m to fund the regulators expenditure on Grant-in-Aid payments to TPAS.

There were no funds relating to TPAS held as at 31 March 2011. During the period, no other related parties, including the regulator's board members and key management staff, had undertaken any material transactions with the regulator.

## 21 Third party assets

The regulator does not hold any third party assets.

# Appendix 1

## Formal exercises of delegated powers

The regulator uses its powers on a daily basis to support discussions with schemes. In the vast majority of occasions, these 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 reserved to the Determinations Panel. See pages 56 to 59 for the report of the activities of the Determinations Panel in 2009-2010. The following tables on pages 102 and 103 outline the delegated powers reported as formally exercised by the regulator's functions.

The following information is not subject to audit.

<b>Formal exercises of delegated powers</b>			
<b>Statute reference</b>	<b>Power exercised</b>	<b>April 2009 – March 2010</b>	<b>April 2010 – March 2011</b>
S42 PA04	The issue of a clearance statement in relation to a s38 Contribution Notice	55	40
S46 PA04	The issue of a clearance statement in relation to a financial support direction	37	38
S72 PA04	Demand information and documents for occupational and personal pension schemes	35	27
S288 PA04	Revocation of the authorisation of an occupational pension scheme to accept contributions from European employers	4	4
S289 PA04	Revocation of the approval of an occupational pension scheme to accept contributions from specified European employer	2	4
Employer Debt Regulations SI 2005/678 as amended in 2008 by SI 2008/731 and SI2008/1068	Reg 7(1)(a) direction – the power to suspend the trustees' power to enforce the s75 debt for a period	5	0
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	7	4
Employer Debt Regulations SI 2005/678 under transitional provisions in reg.2 of SI 2008/731	Reg 7(2)(b) direction – the power to remove the suspension of the trustees' power to enforce the s75 debt, if an approved withdrawal arrangement comes into force	2	0
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	5	2
Employer Debt Regulations SI 2005/678 as amended in 2008 by SI 2008/731 and SI2008/1068	Reg 7(3) notice – the power to approve a withdrawal arrangement	2	0
Employer Debt Regulations SI 2005/678 as amended in 2008 by SI 2008/731 and SI2008/1068	Reg 7(1)(c) direction – the power to remove the suspension of the trustees' power to enforce the s75 debt, if an approved withdrawal arrangement comes into force during the period	1	0

Formal exercises of delegated powers <small>continued...</small>			
Statute reference	Power exercised	April 2009 – March 2010	April 2010 – March 2011
S7(3)(b) 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)	854	275
S79(3)	Appointment of an inspector (for purposes of s72-78 covering provision of information and inspection of premises)	1	5
S99	(Inspection) S73-76 Inspect premises and retain documents found (including those on computer)	1	1
S33(4)	Welfare Reform and Pensions Act 1999 – application to extend implementation period	1	0
S100 S78(2)(a)	Obtain a warrant to search premises and seize documents from Magistrates' Court	1	0
S23(1) (while s22 applies to scheme) PA95	Appoint an independent trustee: <ul style="list-style-type: none"> <li>• During an assessment period for PPF</li> <li>• When the scheme is authorised to continue as a closed scheme</li> <li>• When sponsoring employer becomes insolvent</li> </ul>	38	23
	<b>Total</b>	<b>1,051</b>	<b>423</b>

## **Appendix 2**

# **Key publications and web activity during the year**

Key publications and web activity during the year	
April 2010	
May 2010 DB education drive	
June 2010 DB education drive	Record-keeping guidance published Wind-up guidance published Statement on employ covenant published Determination to issue a Contribution Notice (CN) published Guidance on monitoring employer covenant published
July 2010 DB education drive	Guidance on understanding employer support in multi-employer schemes published Determination to issue a Financial Support Direction (FSD) published Guidance on transfer incentives published <b>Annual report and accounts 2009-2010</b> published
August 2010	
September 2010	Determination to issue a Financial Support Direction (FSD) published
October 2010 DC education drive	DC trust data 2010 published
November 2010 DC education drive	Updated leaflet ' <b>Making your retirement choices – think before you choose</b> ' published Statement on employer related investment (ERI) published Employer support guidance published
December 2010 DC education drive	Incentives and enhanced transfer value (ETV) guidance published
January 2011 Administration education drive	Discussion paper on ' <b>Enabling good outcomes in DC pension provision</b> ' published
February 2011 Administration education drive	Statement on the importance of administration published Statement for trustees on the role of statutory auditors published Joint statement with <b>NISPI</b> on scheme administration published Guide for trustees on the role of the scheme administrator published
March 2011 Administration education drive	

# Appendix 3

## Glossary of terms

## Glossary of terms

### Defined benefit (DB)

Benefits are worked out using a formula that is usually related to the members' pensionable earnings and/or length of service. These schemes are also referred to as 'final salary' or 'salary-related' pension schemes.

### Defined contribution (DC)

Benefits are based on the amount of contributions paid, the investment returns earned and the amount of pension this money will buy when a member retires. These schemes are also referred to as 'money purchase' pension schemes.

### Full buy-out

The cost of insuring a pension scheme in the private market. The discount rate applied to liabilities would be more prudent in general than the discount rate applied to section 179 and Minimum Funding Requirement (MFR) valuations. The benefit assumed in private insurance is usually non-capped and thus could be greater than Pension Protection Fund (PPF) coverage.

### FRS17

In November 2000, the **UK Accounting Standards Board** released a new financial reporting standard ('FRS17'). This sets out the accounting treatment for retired benefits, such as pensions and medical care during retirement.

### Hybrid scheme or partial defined benefit schemes

A scheme that can provide defined benefits and defined contribution benefits. A scheme providing benefits on a defined contribution basis but that is (or was) contracted out of the state scheme on either a Guaranteed Minimum Pension or Reference Scheme test basis, is a common example of a hybrid scheme.

### Open scheme

The scheme continues to accept new members and benefits continue to accrue.

### Paid up Scheme

All contributions to the scheme have stopped and no further pensionable service accrues. Members' benefits for earlier service continue to be held and invested in the scheme.

### Pension Protection Fund (PPF)

A statutory corporation run by the Board of the PPF, established under the Pension Act 2004.

### Pension protection levy

This is the annual amount that a pension scheme is charged by the PPF. It is composed of a scheme-based levy and a risk-based levy. It is similar to an insurance premium.

### Risk-based levy

See **Pension protection levy** above. Calculated on the basis of a pension scheme's deficit and insolvency risk of the sponsoring employer.

### Scheme actuary

The named actuary appointed by the trustees of a defined benefit occupational pension scheme to carry out specific duties set out in the Pensions Act 1995.

### Scheme-based levy

See pensions protection levy. Calculated on the basis of section 179 liabilities and the number of members participating in the pension scheme.

**Glossary of terms** continued...**Scheme closed (to new members)**

The scheme does not admit new members. Existing members can continue to accrue pensionable service/benefits.

**Scheme funding position**

The difference between the assets and the liabilities of a pension scheme (scheme deficit if negative; scheme surplus of positive).

**Scheme funding valuation**

New legislation on scheme funding came into force on 30 December 2005. The new requirements, introduced by the Pensions Act 2004, replace the minimum funding requirement and apply to occupational pension schemes providing defined benefits.

**Scheme member**

In relation to an occupational pension scheme, as scheme member is any person who:

- is an active member
- is a deferred member
- is a pensionable member
- has rights due to transfer credits under the scheme or
- has pension credit rights under the scheme.

This includes scheme members whose only entitlements are equivalent pension benefits (EPBs) as those rights were earned through pensionable employment. Members for occupational and personal schemes do not include dependants of members. Those whose only entitlements are lump sum benefits payable on death, are also not included.

**Scheme return notice**

The Pensions Act 2004 set out the requirement to send occupational pension schemes a scheme return to complete. The information collected in the scheme return will further enable the regulator to perform its role and responsibilities. The scheme return notice is issued to schemes to inform them that it is time to complete a scheme return.

**Section 179 (s179) valuation**

To calculate the risk-based pension protection levy, the PPF board must take account of scheme underfunding. To obtain a consistent basis for determining underfunding, schemes can complete a PPF valuation (section 179). This valuation will be based on the level of assets and liabilities for the scheme. The liabilities will be based on the scheme benefits taking into account key features of the levels of compensation paid by the board of the PPF, as set out in Schedule 7 of the Pensions Act 2004.

**Scheme winding up/wound up**

Winding up describes the process of reaching wind-up from normal ongoing status. After the wind-up is complete (the scheme is wound up), there will be no assets or liabilities left in the scheme, and the scheme will cease to exist as a legal entity.

Wind-up involves liquidating the scheme, calculating every member's entitlement and then realising that entitlement through the purchase of an individual, immediate or deferred insurance policy or a transfer to another pensions scheme.

The scheme must be wound up in accordance with the scheme rules and any relevant legislation.

continued over...

## Glossary of terms continued...

### Technical provisions

Legislation requires schemes to hold sufficient assets to cover their 'technical provisions' (essentially the ongoing scheme specific funding target for each scheme). The level of a scheme's technical provisions can generally be expected to fall within a range between the value of its liabilities in accordance with the employer's accounting standard (either FRS17 or IAS19), and the value placed on its PPF level of compensation benefits for levy purposes (s179). The precise point in the range will vary between schemes depending on, for example, the maturity of the scheme and the strength of the employer covenant.

### The Pensions Regulator ('the regulator')

The UK regulator of work-based pension schemes, an executive non-departmental public body (NDPB) established under the Pensions Act 2004.

### Trustees

#### Corporate trustee (non-professional)

A company usually related to the employer (or the employer itself) set up to act as trustee for a scheme or a series of related or associated schemes.

#### Member-nominated trustee (MNT)

A person nominated by the members (and sometimes elected) to be a trustee of the scheme. A MNT may be a member of the scheme. A MNT is appointed in accordance with sections 16-21 of the Pensions Act 1995.

#### Pensioner trustee

A pensioner trustee is an individual or a company recognised by HMRC (Inland Revenue) as having pensions expertise.

#### Professional trustee (including corporate)

A professional trustee not connected with the employer and not a scheme member. The trustee could be a corporate trustee company or an individual. A professional trustee provides trusteeship and trustee services to a number of unrelated and non associated pension schemes.

#### Statutory independent trustee

A trustee appointed to a scheme where an insolvency practitioner has been appointed over an employer in accordance with sections 22-26 of the Pensions Act 1995.



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