The Pensions Regulator

Annual report and accounts

2006-2007

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Report presented to Parliament by the Secretary of State for Work and Pensions with the approval of the Treasury, in accordance with Section 11(5) of the Pensions Act 2004. The Accounts are prepared under paragraph 27 of Schedule 1 of the Pensions Act 2004, and presented by the Comptroller and Auditor General.

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The Pensions Regulator

The Pensions Regulator ('the regulator') was established, under the Pensions Act 2004, to regulate work-based pensions. It is an executive non-departmental public body, accountable to the Secretary of State for Work and Pensions.

The regulator commenced operations in April 2005 superseding the Occupational Pensions Regulatory Authority (Opra). The regulator is funded by grant-in-aid from the Department for Work and Pensions (DWP). Its running costs are recovered through the general levy on pension schemes.

Statutory objectives

The Pensions Act 2004 gives the regulator four statutory objectives:

* to protect the benefits under occupational pension schemes of, or in respect of, members of such schemes;
* to protect the benefits under personal pension schemes of, or in respect of, members of such schemes;[1]
* to reduce the risk of situations arising which may lead to compensation being payable from the Pension Protection Fund (PPF); and
* to promote, and to improve understanding of, the good administration of work-based pension schemes.

1 The members of personal pension schemes within this statutory objective are:
(a) the members who are employees in respect of whom direct payment arrangements exist, and
(b) where the scheme is a stakeholder pension scheme, any other members.

1 Chair's foreword

I am pleased to introduce the Pensions Regulator's second Annual report.

In our first year (2005-2006) our focus was on establishing the regulator. We built the organisation, established a clearance function, published codes of practice and carried out a number of consultations on our approach to regulation. We also worked to explain to all our stakeholders how we intended to tackle the objectives we were set by the legislation that created us.

The focus of this last year (2006-2007) has been addressing challenges. This is a slightly anodyne way of saying that our second year was more about taking on the substance of the job.

The clearance function has continued and developed. Some cases have been high profile. Most have gone through without public remark. Generally the cases coming to us for clearance or as enquiries have become much more complicated, supporting evidence that the approach we took in our first year has for most transactions been built into expectations and behaviour.

We set out our position and approach on scheme funding, and the first scheme specific recovery plans have begun to flow in. The triggers have clearly influenced behaviour, as we expected and wanted, and generally without acting as an undesirable constraint. A good deal of thought has been given to the process of evaluating these recovery plans, and carrying that through is a key task for 2007-2008.

The pressures on scheme sponsors combined with commercial opportunity gave rise to risks that schemes might be abandoned. We have consulted and issued guidance, and believe that trustees are now better placed to evaluate and - usually - resist such proposals.

We took an important step in marking out our role as regulator of defined contribution (DC) schemes, as well as defined benefit (DB), with a consultation on the risks to members' benefits of these schemes. During the second half of the year we actively engaged with the DWP-commissioned *Review of Pensions Institutions*, setting out how we could build on our relationship with the Pension Protection Fund (PPF).

We continue to believe that we have an important role in putting data and analysis into the public domain. With the PPF we published the first *Purple Book*[2] setting out for the first time a reasonably comprehensive set of data about DB schemes. And we have contributed to public discussion of significant pensions-related issues such as rising longevity and the influence of pension schemes on bond markets and interest rates.

2 *The Purple Book - DB pensions universe risk profile 2006*
A joint study by the Pensions Regulator and Pension Protection Fund focusing on risks faced by DB pension schemes, predominantly in the private sector. This is based on a data set of around 5,800 schemes, representing over 50% of the likely schemes in the DB universe, but over 85% of the membership and pension fund liabilities given the inclusion of nearly all large schemes.

The teams in Brighton have continued to respond to enquiries that run at almost 5,000 a month together with a wide range of other activities that help to protect members' benefits.

Overall I believe the past year has seen real progress on all of our stated priorities. Our stakeholder surveys support this judgement.

Pension schemes and sponsors have been helped by a benign economic environment, which of course makes our job easier too. That could change. But the staff of the regulator have shown their ability to take on the challenges of the past two years. I would like to thank them, and also the people with whom I work most directly, Tony Hobman, chief executive, whose leadership is so important, and indeed all of the directors, both executive and non-executive, who have worked together to guide the organisation so well through these two years.

David Norgrove

David Norgrove
chair, the Pensions Regulator
19 June 2007

2 Chief executive's report

Over the past year we have continued to move forward on two closely linked but parallel fronts with the aim of successfully completing an ambitious and demanding internal *culture change programme* and consolidating and completing our externally facing core pensions regulatory products and approaches.

I am happy to be able to report that in doing so we have successfully built on the strong foundations laid in our first year of operation.

Overall, and by the end of this our second full year of operation, I believe that we have succeeded in positioning ourselves as a credible, professional, pragmatic and approachable risk-based regulator. This has been evidenced by our strong performance against many of our key performance indicators and other internal and external metrics, although we do not underestimate the importance or the challenge of actioning further improvements in external perceptions in the year ahead, not least amongst those respondents who generally do not express strong views when asked.

In this report we document all of our key achievements through the year. In particular, I would highlight:

- good progress on scheme funding through the continued strong performance of our corporate risk management team (CRM);
  the establishment of our scheme specific funding (SSF) practice and the issuing of statements and guidance;
- successful delivery of all planned *Trustee toolkit* modules against a background of increasing take up;
- production of all of the codes of practice required by legislation; which have all been well received;
- clear signalling of our role as a regulator of DC as well as DB schemes with a formal consultation on risks to members of DC schemes;
- undertaking the development work necessary to issue an industry-wide consultation on scheme governance;
- achieving a high completion rate for scheme return data in support of the PPF levy;
- successful collaboration with the PPF in producing the *Purple Book*; and
- maintenance of good working relationships with the Financial Services Authority (FSA) and the PPF.

We have also continued to provide a strong and authoritative voice through well-received input to a number of external reviews and consultations including the *Deregulatory Review*, DWP's development of Personal Accounts, the *Thornton Review* of pensions institutions, NAO's review of the FSA, and their principles-based review of the regulator.

Internally, and in addition to completing our *culture change programme* on time and to budget, we have successfully rebased our entire pay and reward structure, maintained good employee relations throughout the year and achieved our planned headcount to within one full-time equivalent post.

Cumulatively this activity has meant that the year has been much more than the sum of its parts as we begin to see clear external evidence of the difference we are beginning to make in the broader pensions environment.

We will be analysing carefully the first wave of recovery plans, but I believe we are already seeing a ripple effect from our involvement in corporate transactions. Our codes and guidance continue to be positively received. Encouragingly, we are seeing growing evidence, from our external research and monitoring of the pensions environment, of the positive improvements that all of this work is seeking to promote.

Our challenge for the coming year is to maximise the leverage from this excellent start to continue to drive positive behaviours in support of pension scheme members' best interests and to punch our weight in the wider pensions arena.

I would like to thank our board, staff, and contractors for their commitment and energy in helping to deliver such a strong performance against our business plan for the past year.

Tony Hobman
chief executive, the Pensions Regulator
19 June 2007

3 The pensions environment and the regulated community

‘They have been very accessible when needed, this works for us’

‘Communication and interaction with the regulator on practical, real matters is fine, functional and it works’

‘They are willing to work with us and we have been able to co-build processes. Personal pension contribution monitoring is a prime example of where we have been able to work effectively with the regulator’

These quotes are from research on perceptions undertaken with our key stakeholders in August 2006 and March 2007.

It is important to view our work in context. Work-based pensions are part of a wider landscape which also comprises the basic state pension, the state earnings-related scheme (SERPS/S2P) and individual personal pensions. The regulator regulates work-based (ie employer sponsored) pension schemes. These comprise both trust-based and personal arrangements. Occupational schemes are governed by trustees; group personal pensions (GPPs) are an individual contract between the employee and the provider (typically an insurance company) although payments of contributions are made through the employer.

Profile of occupational scheme membership

Membership of occupational schemes remains concentrated in a small number of large schemes. At 31 March 2005, 85% of memberships belonged to just 1,600 schemes with more than 1,000 members. At 31 March 2007, 91% of memberships are found in just 1,858 schemes with more than 1,000 members.

Currently DB membership, including DB members of hybrid schemes, stands at 22.2 million. This is contrasted with 4.2 million DC only members of DC and hybrid schemes.

The figures above are taken from the regulator's *SCORE* database, and refer to membership of occupational public and private sector schemes. Information on private sector occupational schemes is given in the charts below. Information on contract-based pensions is given on page 15.

Figure 3a
Number of live private sector memberships by registered benefit type as at 31 March 2007

	DC	DB and Hybrid
2-999 members	754,627	1,464,894
1,000+ members	1,146,087	12,687,869

Source: Figures taken from the regulator's Score database

Figure 3b
Number of live private sector schemes by registered benefit type as at 31 March 2007

	DC	DB and Hybrid
2-999 members	74,113	8,622
1,000+ members	220	1,434

Source: Figures taken from the regulator's Score database

The changing environment

The decline in DB provision remains an important trend in the sector. There is evidence of significant use of benefit reductions or increases in member contributions for existing members of DB schemes - an indication of the willingness of employers to continue to offer these benefits if they can find ways to reduce the potential risks.
Source: Occupational pension schemes survey 2004 and 2005, Government Actuary's Department

In addition we estimate that 56% of private DB memberships remain in open or partially open schemes as recorded on the regulator's pension scheme database (*SCORE)* as at 31 March 2007.

Figure 3c
Private occupational DB scheme memberships by scheme status

	DB
Open	55% (4,794,849)
Closed	38% (3,385,851)
Paid up	4% (316,927)
Winding up	2% (212,035)
Partially open	1% (91,953)
Total	**100% (8,801,615)**

The level of scheme underfunding

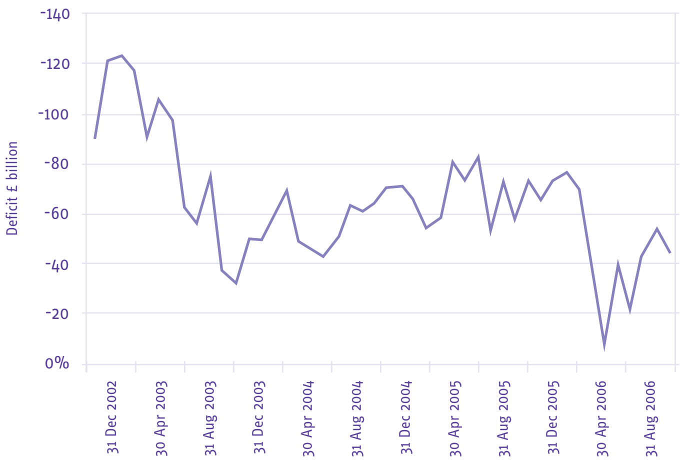
A key element in the regulator's approach to risk-based regulation of scheme funding is an understanding of which schemes pose the largest risks to scheme members and to the PPF. This is driven by data on funding levels and deficits along with credit rating data.

In December 2006 we published the *Purple Book* jointly with the PPF providing an analysis of data on scheme funding. For the purpose of that study, PPF actuaries also produced FRS17 and full buy-out estimates of the funding position as at 31 March 2006. We have stated that we will use the s179 valuation (alongside FRS17) as one of the triggers for considering whether a scheme's Part 3 valuation merits our examination.

Measures of funding levels are subject to variation over time depending on market conditions and demographic expectations (notably predicted longevity). Variations in deficit levels over time in the sample of schemes used in the *Purple Book* are shown, on a s179 basis, in the chart below.

Figure 3d

Estimated aggregate assets less aggregate liabilities of pension schemes in the data set on s179 basis



Source: The Purple Book - DB pensions universe risk profile 2006

Note: the assets and liabilities have been adjusted for changes in market conditions only. Any deficit reduction contributions have been included throughout the period shown.

We are currently receiving the first significant tranche of recovery plans. Aggregate figures from these plans will be published in autumn 2007 and will contribute to our understanding of scheme funding.

The funding of a scheme can be expressed in a variety of ways:

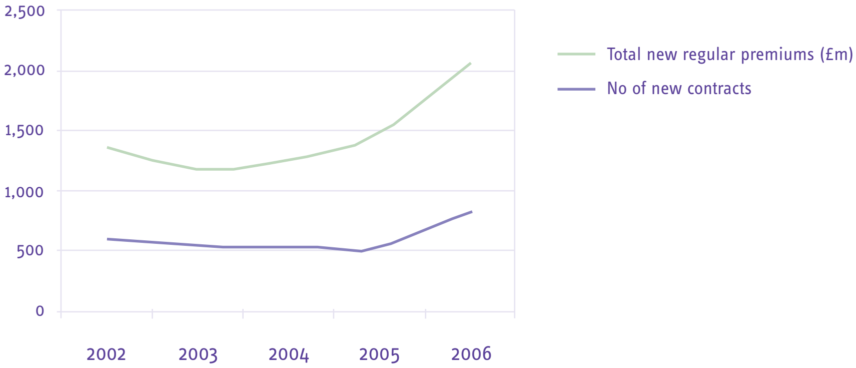
Buy-out basis	The level of coverage the current assets will provide if all benefits were to be bought out in the name of the individual member with an insurance company. *See also Full buy-out.*
FRS17	In November 2000, the UK Accounting Standards Board released a new financial reporting standard ('FRS17'). This sets out the accounting treatment for retirement benefits such as pensions and medical care during retirement.
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 MFR valuations. The benefit assumed in private insurance is usually non-capped and thus could be greater than PPF coverage.
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.

Contract-based schemes

2006 saw a significant year-on-year increase (54% more than 2005) in the numbers of new group personal pensions and employer-sponsored stakeholder pensions, both in terms of numbers of new contracts and regular contributions. This section of our regulated community (which is referred to as contract-based because the pension involves a contract between the individual and provider) is therefore growing in importance and we have increased our regulatory focus on this area over the past year, working in close consultation with the FSA. As part of the work leading to publication in April 2007 of our paper on scheme governance, we looked at the governance issues for contract-based schemes, and this is discussed in a dedicated chapter of that paper.

Figure 3e

Contract-based schemes 2002-2006



Source: Quarter 4 2006, quarterly long-term business results, Association of British Insurers' website at www.abi.org.uk

4 Management commentary

‘I would just like to let you know how helpful I found the *Trustee toolkit*. I am a newly elected member-nominated trustee. I sat the exams before my first trustee meeting and found that the background it had given me really gave me confidence and understanding’

‘I think they have hopefully created a framework, which can be positive for the future in terms of occupational pension provision’

‘I think clearly the scale and the scope of responsibilities and operations increased significantly. (The regulator’s) approach, I think, has also changed in terms of looking at fundamental issues and prioritising and being less narrowly rule-bound’

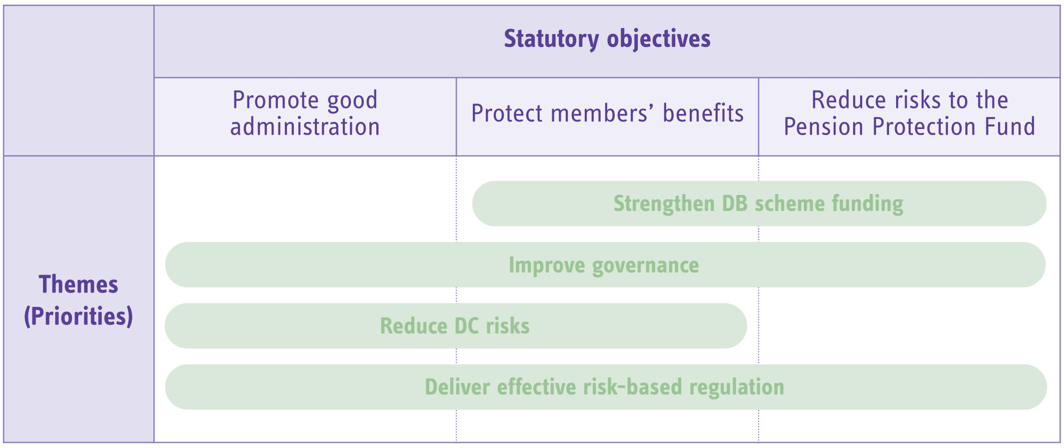
These quotes are from research on perceptions undertaken with our key stakeholders in August 2006 and March 2007.

4a The context of our activities in 2006-2007

In our *Medium term strategy,* we set out our view of the pensions environment and the key challenges we faced in our first three years. The strategy provided the framework within which we set our *Business plan for 2006-2007*, and our objectives for the past year have been focused on delivering against the four themes identified in our strategy.

The *Medium term strategy* was published in April 2006, and the *Business plan for 2006-2007* was published in July 2006.

Figure 4a
Linkage between our statutory objectives and regulatory priorities



The first three themes address directly the key impacts the regulator seeks to have on the pensions environment. The fourth theme relates to the way in which we discharge our responsibilities for good governance, maintain our links with stakeholders and develop our operational capacity to support the delivery of risk-based regulation.

Section 4b provides a review of our activities and achievements under each of these themes. We set ourselves a range of performance indicators as set out in our business plan. In some cases we measure these against baseline survey data, while others are concerned with monitoring internal processes. The latest picture is set out in the following section under the four key themes.

Our approach to risk-based regulation

Our risk-based approach requires us to be proactive and flexible. We prioritise and target our resources according to risk, and do not devote resources unnecessarily to 'tick box' supervision.

In assessing that risk, we work proactively to gather data about schemes, both with others, and through undertaking our own research to help us identify developing trends and their implications for pension schemes. We then categorise the schemes we regulate according to the risks they pose to members and the types of intervention that will be appropriate and practicable.

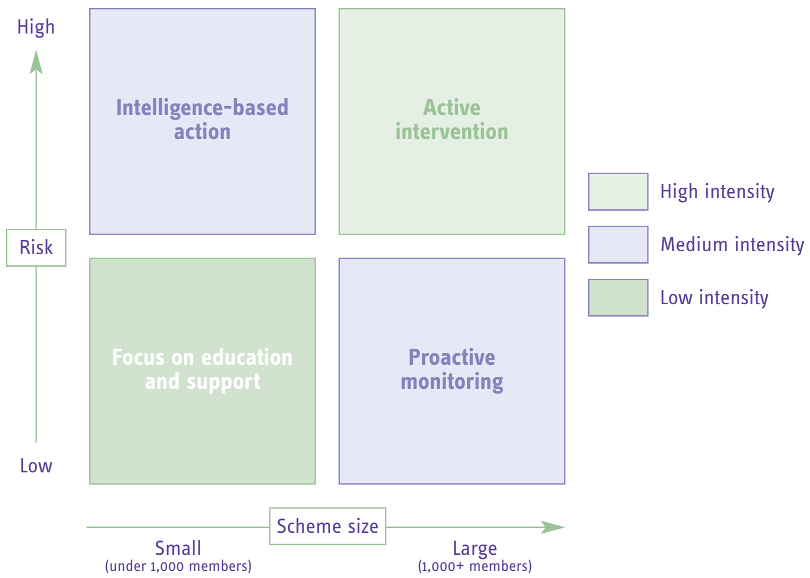
The model we have developed for this purpose is the 'risk and intervention' model (see figure 4b opposite). This takes into account our assessment of both the level of risk posed by a scheme and the potential impact on scheme members should the risk materialise. In support of the intervention model we have also developed our key risks landscape model as a means of categorising risk type in line with our strategic themes. The various risks are mapped against our regulatory response and policy developments then prioritised according to our intervention model guidelines. Our interventions take an educative, enabling or enforcing nature.

* **Education**
  We work to develop an understanding of how trustees, employers and their advisers are expected to mitigate the risks through codes of practice, specific good practice guidance, our e-learning *Trustee toolkit* and communication campaigns including road shows. To ensure the effectiveness of our educational work, we work hard to maximise credibility and uptake through extensive research and consultation and by using a variety of channels.

* **Enabling**
  We help trustees and others handle scheme specific risks through our customer support function, proactive communication with targeted schemes and service providers, and strengthening trustee capacity in negotiations with employers. To ensure the effectiveness of enabling activity we therefore work hard to deliver a responsive and professional customer experience.

* **Enforcement**
  We engage actively in cases where serious risks are apparent, using our powers, or the threat of them, to change behaviour or secure redress, usually as a last resort. We seek to ensure that there is good awareness of when we will consider acting in this way. We have processes in place to ensure that our approach and enforcement is consistent, proportionate and targeted.

Figure 4b
The risk and intervention model



Large schemes (circa 1,400 DB and hybrid, 220 DC as at 31 March 2007)
There are likely to be a few hundred schemes in active intervention, having individual case management.
Whilst the immediate risk is seen to be acceptable, it is prudent to proactively monitor these large schemes.

Small schemes (circa 8,600 DB and hybrid, 74,000 DC as at 31 March 2007)
For low risk small schemes the emphasis is on education and support. Intelligence-based action is taken where we believe that scheme specific intervention is advisable, examples being fraud, gross mismanagement or generic problems with an individual trustee.

Perceptions of our approach

In order to maximise our effectiveness it is important for us to understand how our approach is being perceived across the regulated community. To this end we carry out regular research amongst our external customers and stakeholders.

Over the past year the results of this research have shown that we are in general terms seen as being:

* a trusted source of information;
* focused on the most important risks to members' benefits; and
* proactive in reducing risks.

Our key stakeholders have reported that they have been impressed with our progress over the year. In particular they highlight our continuing work on clearance, the trustee toolkit and our secondee programme as evidence of our credibility and professionalism.

The next section sets out in more detail the results of this research in the context of progress against our strategic themes.

4b A review of our activities during the year

Our work this year has been taken forward under the four key themes identified in our *Medium term strategy*. In this section we review the key challenges we have faced and our achievements under each of these themes. We also highlight, where appropriate, key trends and issues that have begun to emerge as our evidence base and analytical capacity have grown.

It is important to stress, however, the extent to which these four themes reinforce each other. This is true not only in that elements of them are focused on the same audiences, but that many of the outcomes we are seeking to achieve necessarily cut across these themes.

A key emerging feature of our work over the year is the extent to which the whole is beginning to add up to considerably more than the sum of the parts. This can be seen in the results of surveys on perceptions of us as a risk-based regulator carried out during the year, stakeholder feedback, media commentary and - perhaps more importantly - in attitudes and behaviours across the regulated community.

Theme 1
Strengthen scheme funding

The underfunding of DB schemes poses a risk to members' benefits and addressing this risk has been a necessary and major focus for our work over the past year.

Scheme funding

As expected, only a small number of schemes (see below) completed the valuation and recovery plan process during the period of this report, with the remainder scheduled to complete the process for the first time between the end of March 2007 and November 2009. Our focus throughout the past year has therefore been on developing and issuing all of the necessary statements and codes to help schemes who will be going through the process. We also supplemented this with e-learning material and events and workshops for the industry. To aid the development of this work, and in line with our overall approach, we also successfully carried out industry-wide consultations.

We published a *Statement on scheme specific funding* in May 2006 and held 22 industry events and workshops on a range of funding issues. The statement explained how we would regulate the new scheme specific funding requirements, setting out how we intend to ensure that schemes are meeting these requirements particularly in terms of recovery plans submitted to us showing how any deficit will be eliminated.

We published guidance on specific situations facing trustees:

* guidance on contingent assets, concerning arrangements or guarantees to pay funds in certain situations rather than putting cash into schemes immediately (*May 2006*);
* guidance to help employers, trustees and scheme members identify and fully understand the implications of inducements to transfer out of DB occupational pension schemes or to agree to rule changes leading to benefit reductions (*Jan 2007*);
* we published three modules in our e-learning programme specifically for trustees of DB schemes, on how a DB scheme works; how it is funded; and on recovery plans, contributions and funding principles.

continued over...

Theme 1 Strengthen scheme funding

In December 2006 we issued a consultation on *The abandonment of defined benefit pension schemes*. This set out our views on proposed arrangements to break the link between a scheme and an employer of substance, and our proposed guidance to help trustees identify and respond to arrangements that could result in scheme abandonment. The consultation lasted until February 2007 and with some amendments, following stakeholder feedback, the guidance was issued in May 2007.

Working in partnership with the PPF we also published, in December 2006, data that gives a systematic overview of the DB pensions landscape and the risks to which DB schemes are exposed. The *Purple Book* has quickly established itself as a key data source in the pensions environment (receiving over 98,000 downloads by the end of March 2007) and we plan to update it annually as well as continuing to build our evidence base across the pensions landscape as a whole.

In parallel with this work we took the necessary steps to build our internal capacity to deal with the influx of recovery plans expected during 2007-2008. This entailed putting together a multi-skilled team with the right mix of technical, professional and administrative skills. The team has developed the processes and techniques needed to evaluate recovery plans as they are submitted, consider them against our underlying strategy and policy framework, and take action as appropriate.

The team has also engaged proactively with employers and trustees of a number of specific DB schemes in advance of recovery plans being submitted to ensure a clear understanding of our approach and expectations of trustees and employers.

* During the year over 200 pension schemes subject to the new scheme specific funding regime for the first time were contacted to establish whether they were likely to be in deficit and therefore required to submit recovery plans by the first deadline of 31 March 2007. This included all those FTSE 100 companies falling into this category.

* 351 recovery plans were received during the period of this report. The majority of these were received only shortly before the 31 March 2007 deadline for the first tranche of schemes subject to the scheme specific funding regime. Of these, 14 had been notified by 31 March that we would not be issuing any scheme funding directions in relation to them.

* Our *2007 Scheme governance survey* (to be published in summer 2007) showed that 61% of DB/hybrid scheme trustees had a good or very good understanding of the scheme funding framework (compared to 43% in our 2006 survey).[3]

Our experiences from processing of the first tranche of recovery plans will be published in autumn 2007.

3 The 2006 survey was based on a population sampled in March 2005.
The 2007 survey was based on a population sampled in November 2006.

Corporate risk management (CRM)

We have also continued our work to mitigate the risk of calls on the PPF and the risks to members' benefits that can arise from corporate transactions. The principal activity of our corporate risk management team is the clearance process. The aim of this process is to provide applicants with certainty that, subject to appropriate consideration of the impact of transactions on related pension schemes, the regulator would not use its powers to issue Contribution Notices or Financial Support Directions.

We also proactively seek to identify and take action in cases where we believe employers have sought to avoid their pension liabilities. Where insolvency has occurred or is imminent we work closely with the PPF to minimise the financial impact on them and facilitate entry to their assessment period.

As part of its interaction with the market, the team encourages enquiries, which have been running at around 100 per month over the past year. Whilst enquiry volumes have remained broadly stable, the overall number of clearance applications received has fallen slightly compared to the previous year, but the complexity of both enquiries and applications has increased. This may reflect the fact that, for the more straightforward cases, where applicants have previous experience of the clearance process, they are becoming more self-regulating.

CRM activity summary

Figure 4c

Summary of clearance and withdrawal activity over the last year

Clearances and withdrawals	2006-2007	2005-2006
Clearances granted	149	148*
Withdrawals approved	26	*
Clearances refused	1	2
Enquiries received	874	1,015

Note

* 148 is a combined figure for clearances and withdrawal approvals issued. Changes were made in the way we recorded key casework measures following implementation during the year of a new IT system to improve the recording and management of pensions regulatory activity.

We also carry out research to track understanding of our powers in this area as well as satisfaction amongst those who have dealings with us. In 2006, our *Perceptions tracker survey* reported that amongst trustees, employers, and advisers, 64% had a good or very good understanding of the regulator's powers and stance in relation to clearance and anti-avoidance.[4]

We use an ongoing external monitor that reports monthly to track satisfaction with the service provided by CRM. This survey commenced in July 2006 and the mean scores for *'overall satisfaction with service received'* are consistently high, with the average over the period July 2006 to March 2007 being 8.1 out of 10.0. The team is also judged to be responsive and professional with good appreciation of the applicant's requirements.

4 This was a new question not included in our 2005 survey.

Theme 2
Improve the governance of work-based pensions

A well-governed pension scheme is likely to be better administered, demonstrate a greater awareness of risk and to act more effectively in members' interests than a scheme that is poorly governed.

It is therefore no surprise that good scheme governance is fundamental to the achievement of our objectives. That is why we commissioned a major survey to assess the current state of play and to help us identify where we need to focus our efforts to help schemes and their trustees to build on best practice.

2006 governance survey

The results of our first governance survey, published in September 2006, showed that:

* there are clear links between good governance, training and established risk management processes;
* larger schemes are better governed than smaller schemes, although not all large schemes are well-governed in every respect;
* scheme trustees consider on the whole that they are performing well; and
* a significant minority of schemes have shortcomings in a range of important areas such as trustee training and understanding, management of conflicts, risk management and review of the employer covenant.

We used the survey findings to inform our thinking on the key issues we needed to focus on to promote good scheme governance. This resulted in the publication of a discussion paper in April 2007 setting out our views on governance and highlighting areas of good practice which should be of interest to trustees, advisers, employers, scheme managers and providers. We expect to publish a governance statement in the summer.

Between January and March 2007, we carried out a second governance survey. These latest results indicate that our efforts are beginning to bear fruit. In particular:

* training activity, which correlates with higher levels of governance activity, has increased;
* trustee boards are significantly likelier to have processes in place to deal with conflicts of interest;
* the majority of DB schemes have investigated the financial standing of the employer over the past year; and
* a large majority of schemes have not experienced any difficulties in retaining or recruiting existing trustees.

That said, the improvement in trustee understanding as reported by the survey findings has not yet translated into greater confidence amongst scheme respondents in managing their schemes, and there is more for us to do to help raise standards of governance and administration, especially among smaller schemes. The full results of the second governance survey will be published in summer 2007 and will inform our work for the coming year under this theme.

Extracts from our 2006 and 2007 Scheme governance surveys

Figure 4d*
The proportion of trustees who considered the collective understanding** of their trustee board to be *'very good'* for each of the following issues:

	2006	2007
How the scheme's assets are invested***	24%	56%
Provisions of the scheme rules	29%	39%
How the scheme is funded (DB only)***	36%	67%
Role of scheme trustees	44%	59%

Figure 4e*
The proportion of trustees who *'strongly agreed'* that their trustee board:

	2006	2007
Works together as an effective unit	75%	72%
Is able to conduct effective negotiations with the employer in relation to scheme funding requirements *(DB only)*	71%	66%
Understands its roles and responsibilities in relation to the scheme	68%	70%
Regularly reviews its investment strategy	64%	65%
Actively monitors service providers and professional advisers	56%	52%
Reviews the scheme rules at regular intervals and updates these as required	56%	56%
Has identified potential risks to the scheme	48%	46%
Has appropriate internal controls to manage risks	47%	51%
Ensures a high standard of member communications	36%	33%
Has appropriate processes in place to manage conflicts of interest	36%	46%

Note
* *Don't know* responses excluded for Figures 4d & 4e
** 2006 results = % saying trustees *'very well equipped… to understand relevant issues with regard to…'.*
*** 2006 wording related to schemes generally (as opposed to own scheme/s).

Theme 2 Improve the governance of work-based schemes

Trustee knowledge and understanding

Trustee knowledge and understanding is absolutely pivotal in relation to good governance. In June 2006, the code of practice on trustee knowledge and understanding came into force with the agreement of Parliament. This put in place the final building block of our undertaking to give practical guidance to trustees so that they could identify and acquire the basic knowledge and understanding necessary to run their scheme effectively.

What was clear from our governance surveys and other research carried out on trustee training was that trustees in smaller schemes had little or no access to learning opportunities. Even in bigger schemes, the picture was patchy.

An integral part of our risk-based approach to regulation is to help the regulated community to clearly understand what is expected of them. After running a successful e-learning pilot early in 2006, a major focus for our work throughout the past year has been on delivering all of the planned e-learning modules in the *Trustee toolkit*. The toolkit provides all trustees with access to the learning they need to be able to comply with the legislative requirements on trustee knowledge and understanding.

We reached a major milestone at the end of April 2007 with the publication of the eleventh, and final, core module which means that the toolkit now covers the entire scope of the requirement for trustee knowledge and understanding.

We are pleased to report that reaction to the toolkit modules has been very positive. Our annual perceptions survey rated it as a key achievement for the regulator. The survey also showed that of those trustees surveyed, 89% found the toolkit *'useful'* or *'very useful'*. By the end of March 2007, we had over 15,000 registered users of **trusteetoolkit.com** with around 240 new users registering every week. We will be looking to promote the toolkit more widely during the coming year.

In addition to completing the toolkit modules, we also took forward work on standards of performance for trustees. We are working with the *Financial Sector Skills Council* on the development of a National Occupational Standard for trustees which ties into the *National Qualification Framework* operated by the *Qualification and Curriculum Authority*. This will tie in our work on trustee knowledge and understanding to nationally accredited lifelong learning qualifications.

Scheme wind-up

During the course of the year we worked closely with the DWP on their report dealing with pension schemes in wind-up, which included proposals on how to speed up the wind-up process. As a result of this work, we agreed to take forward a number of initiatives in 2007 to help support the objective of schemes winding up key activities within two years. These initiatives include:

* providing good practice; guidance, including an additional e-learning module for the *Trustee toolkit*; and
* targeting administrators and providers who have large portfolios of schemes that have been winding up for a long time, and using our powers where appropriate.

In 2006-2007 we received 1,520 winding-up reports. Approximately 20% of these required action by us, and this included appointing independent trustees where the scheme trustees had resigned or retired, providing guidance to trustees on wind-up procedures and responsibilities, and encouraging trustees to minimise delays.

There were 2,515 schemes 'wound up' with an effective date after 31 March 2006. The number of DB and hybrid schemes that wound up between 1 April 2006 and 31 March 2007 was 298.

Scheme reports and accounts

We worked with the DWP and with the accounting profession, including the *Pensions Research Accountants Group* (PRAG), to review and develop the regulation and guidance in respect of information provided by scheme trustees in their annual report and accounts.

* A discussion document was issued in June 2006, and we published our response in November 2006. Our recommendations were fed into the DWP's review of disclosure requirements, and the *Accounting Standards Board* and PRAG reviews of pensions accounting.

Trustee appointments

The regulator's role includes maintaining a trustee register, and appointing independent trustees where necessary to protect members' benefits. We will generally refer to the register when deciding on appointments made under sections 7 and 22 of the Pensions Act 1995, as amended by the Pensions Act 2004.

* There were 55 trustees on the register (44 corporate and 11 individual) at the end of March 2007.
* 46 independent trustee appointments were made (from the register) during the year to funds with a total value of approximately £325m.
* 506 other appointments were also made during the year upon application, to DC schemes only. These include:
  - individual member appointments, to enable members to secure their own benefits, often due to ill health;
  - third party appointments to secure death benefits; and
  - third party appointments to allow a representative to act on behalf of a member based overseas.

Theme 3
Understand and address the risks to DC schemes

It is essential that trustees and others involved in running DC schemes have a clear understanding of the significant risks inherent in such arrangements and how they should be mitigating them.

Following up on a commitment made in our *Medium term strategy* we consulted with the industry on how we should address the main risks to members in relation to DC schemes, issuing a consultation document in November 2006. As part of the consultation we sought views on what we saw as being the five main risks that fall within the scope of our responsibilities and which we felt should be the focus for attention:

- **Administration**
  The need for contributions to be paid and allocated accurately and on time, together with high standards of record-keeping
- **Investment**
  The need to make appropriate investment choices and monitor performance
- **Charges**
  Charges should be proportionate to the benefits received
- **Retirement choices**
  Members need to make suitable choices of annuity on retirement
- **Member understanding**
  They need to be equipped with the right level of information and understanding to enable them to make appropriate decisions

The consultation document also set out our proposed approach to regulating DC schemes which can best be summed up as 'educate, enable, enforce' - with the emphasis very much on the first two types of action.

We proposed a three-pronged approach to regulation:

* **Education and guidance**
  Our primary focus - aiming to help parties run schemes effectively and efficiently and aiding better decision making - mainly through providing information and guidance on good practice;
* **Working in partnership**
  Central to the successful delivery of our proposals to ensure activities are appropriate and practical; and
* **Interventions**
  Using existing powers where appropriate and proportionate and as a last resort, for example through public reporting; issue of third party notice and improvement notices; removal of trustees.

The consultation period ended on 2 February 2007 and during this period we set up an industry working group with the aim of seeking their views on the issues raised in the consultation document and also to secure help in the future development of initiatives to take forward.

The consultation exercise resulted in over 40 responses. We received many positive comments as part of the exercise and, while a number of concerns were raised, we did not consider they required us to alter our fundamental approach. We did, however, modify some aspects, where it was appropriate for us to do so, in order to try and address some of the concerns raised.

Our response to the consultation was issued on 25 April 2007 and we are continuing to work closely with the FSA, the DWP, the industry working group and others where appropriate to ensure that what we put in place is appropriate, practical, and effective.

For the coming year, we have committed to conducting a survey to provide baseline evidence on the five key risks we identified in the DC consultation document. This will be a major step forward in expanding our understanding of the DC environment, where data is generally less good than the DB universe.

Theme 4
Deliver effective risk-based regulation

We need to ensure that we have the right systems, policies and people in place as well as effective working relationships with key stakeholders. We also need to ensure that our risk-based approach is properly understood in the market place and that we are seen to be a credible force.

In order to be able to deliver effective risk-based regulation, we need the right systems, policies and people in place, as well as good working relationships with the PPF and other key stakeholders. Our key objectives under this theme therefore relate to:

* the perceptions of our performance held by the regulated community and other stakeholders;
* the management and development of our resources; and
* the delivery of regulatory and other business outputs not covered by themes 1-3.

Perceptions of the regulator

In terms of the first objective, our *Perceptions tracker survey* is an essential tool. We carried out the first survey in 2005, and a second survey (the 2006 survey) during the period of this report. We have used the surveys in setting baselines for a number of our performance targets. The 2006 survey design was significantly overhauled to ensure a truer reflection of the market, and in order to provide a better quality and more appropriate vehicle going forwards.

The extent of changes to the design means that it is not possible to compare results directly from 2005 to 2006. Hence, figures from the 2006 survey quoted in this report constitute a new baseline. Full sets of findings from both surveys are available on our website at **www.thepensionsregulator.gov.uk**.

Views on our consistency with *'better regulation principles'*

We have stated in our business plans that we aim to comply with the *Better Regulation Executive's 'better regulation principles'*. Our survey included questions to help us understand how customers and stakeholders see us in relation to these principles.

Figure 4f

Extract from our *Perceptions tracker survey* on compliance with *'better regulation principles'*

	2006
% who agree that the regulator is consistent in its approach to enforcing pension scheme regulation	51
% who feel that we explain clearly why decisions affecting pension schemes have been made	49
% who feel that our actions are proportionate to the risk posed	43
% who feel that we are focused on the most important risks to members benefits	61
% who believe that we work well with government to ensure that regulation is appropriate	35
% who feel that we are proactive in reducing serious risk to scheme members' benefits	55

Figures are based on all respondents who gave a rating

continued over...

Theme 4 Deliver effective risk-based regulation

Satisfaction with the regulator

In our survey we ask a number of questions seeking views about our services. We are pleased to report that we continue to be rated highly as a trusted source of information and that respondents give high approval ratings to our guidance and codes of practice.

Of particular note is the fact that 78% of respondents feel that the risks to members' benefits would increase if we did not exist. This suggests that a broader understanding of our role and approach is now firmly established across the regulated community. Furthermore, when asked if they thought that the regulator's performance had improved, worsened or stayed the same over the last 12 months, 30% of respondents felt that it had improved, and 51% felt it had stayed the same.

Figure 4g

Extract from our *Perceptions tracker survey* on satisfaction with the regulator

	2006
% of respondents who believed that if the regulator did not exist the risks to members' benefits would increase	78
% who regard us as a trusted source of information	78
% of respondents rating our provision of guidance as either very or fairly effective	73
% of respondents rating our provision of codes of practice as either very or fairly effective	82

Figures are based on all respondents who gave a rating

Whilst these are encouraging figures a number of challenges remain. For instance, trustees and in-house pension managers are generally less knowledgeable about and satisfied with the regulator than their professional or outsourced counterparts. We will look at how we can continue to make progress across the board in the coming year.

The management and development of our resources

The Pensions Regulator was established on the foundations of its predecessor body, the Occupational Pensions Regulatory Authority. Prior to the regulator opening for business in April 2005, the DWP established a development programme to design and build the new organisation. This programme – the *culture change programme* – was continued into 2006 and concluded in March 2007.

The culture change programme in 2006-2007

Whilst key business processes were put in place during our first year (2005-2006), a number of areas of organisational development remained to be completed, including the development and implementation of IT systems. Together with the DWP, our board oversaw a programme to govern this activity. The programme was completed in March 2007, delivering all aspects of the change that we had originally scoped, within our budget and to time.

Transforming our culture and strengthening the regulator and its people

The broad range of outcomes delivered by the programme has contributed to a transformation in the culture of the organisation. This fundamental change can be seen through the positive feedback we receive from trustees, and from the pensions industry and from other stakeholders, and is supported by the results of our internal staff surveys.

Developing people: people transformation

Through our flexible resourcing model and through secondments from external bodies we have brought new skills and experience into our organisation. As we have developed our structures internally, we have been able to share this expertise across the organisation to ensure that our overall capabilities are enhanced, and that our staff have the right competencies and skills for the challenges of being a risk-based regulator. Additionally, we have instituted a business skills programme, with participants working towards a recognised qualification, to improve further the business understanding of key staff.

Managing knowledge

The programme has achieved significant progress in furthering our management of organisational knowledge, giving priority to ensuring effective learning from our cases and developing tools and processes to promote knowledge sharing across the organisation.

Central to our ability to be a risk-based regulator is the effective use of the information from scheme returns and recovery plans, to build our understanding of the pensions universe. We are increasing our capacity to analyse information through investments in people and systems.

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Theme 4 Deliver effective risk-based regulation

Developing our IT systems

Over the course of the year we have transformed our IT system capability. We have built and implemented *SCORE* - our new database containing scheme return and registration information. This is in place across the organisation.

We have also implemented 'off the shelf' IT products. This includes a new electronic document and records management system, ensuring that we have robust storage and efficient control and retrieval of electronic documents, supported by a new capability for incoming mail to be scanned electronically.

The public-facing part of our business has also been transformed, with a new contact management system allowing us to record contacts with our customers and stakeholders, and offering us a single view of our customer contact history. We also use this system to manage follow-up activity more effectively, as part of our campaign management capability, enabling us to target specific audiences: for example promoting awareness of the importance of the response to scheme return notices issued.

Finally we have implemented a new practice management capability into the teams within the deliver directorate (where our regulatory functions are carried out). This allows us to manage our case load more effectively and provides new levels of management information to support risk assessment and the monitoring of progress.

The delivery of regulatory and other business outputs

Scheme returns and levy collection

We are required to issue a scheme return to all schemes no less than once every three years. Our agreed policy is that smaller DC schemes will be asked to complete a scheme return on a three-yearly basis. However, to enable the PPF to calculate its risk based levy, returns are being sent to DB schemes on an annual basis.

Returns were issued during the year 1 April 2006-31 March 2007 to DB schemes and to a number of larger DC schemes.

The return collects information needed for the register of pension schemes and is designed to provide an in-depth information database for the regulator, from which we can build an accurate picture of the schemes we regulate, for the DWP and, where appropriate, the PPF.

The scheme return has evolved in format, as we have sought to minimise the burden on schemes in supplying data to us, and to move towards a fully web-based service. We are working closely with the PPF on the future development of the scheme return and associated processes.

During the year, and after consultation with the PPF, who calculate the risk-based levy on the basis of the data collated, the latest version of the scheme return was sent to 8,600 DB schemes, of which 7,005 had been returned at the end of the period. This represents just over 79% of the number of schemes to which returns were issued. On the basis of scheme members represented, returns were received covering 94.5% of the total membership of those schemes to which returns were issued.

The approach to our collection of scheme return data from the larger DC schemes continues to evolve and forms part of our consultation exercise with key stakeholders, in order to further improve our online services. We have so far collected data from 7,228 of these schemes and will continue to collect data from the remaining schemes during the latter part of 2007 and early 2008.

Information on levy collection is given in the financial review on page 68.

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Theme 4 Deliver effective risk-based regulation

Europe and non UK-pensions activity

The regulation of work-based pensions in the UK is increasingly influenced by developments in European law and policy making. In particular, all governments and regulators have been tasked with implementing an important pensions directive (Directive 2003/41/EC of the European Parliament and of the Council of 3 June 2003 on the activities and supervision of institutions for occupational retirement provision) which now provides the current rules on, amongst other things, the funding framework for schemes and the regulation of cross-border schemes.

Cross-border schemes

The UK, along with all other EU states, adopted the *Budapest Protocol* early in 2006. This governs the standards and processes for how regulators authorise, approve and then regulate their cross-border schemes.

The appetite amongst UK-based schemes to operate cross-border remains low. The regulator currently has 25 schemes with the UK as home state. We are required to act as host regulator for 18 schemes. Our trustee services team operates the authorisation and approval processes.

CEIOPS

The regulator has taken an active role in the *Committee of European Insurance and Occupational Pensions Supervisors* (CEIOPS). In *CEIOPS*, insurance and regulators from across Europe meet to provide a sounding board for regulatory policy that is fed into the European Commission. The UK regulator also currently holds the Presidency of the *International Organisation of Pension Supervisors* (IOPS) - a global group of pensions regulators who determine good practice, set standards, and influence law makers.

Customer support contacts

Early in the year we restructured our customer support team and from October 2006 we introduced outbound communication campaigns. The first example of these campaigns was to support the completion of scheme returns. At the end of March 2007, over 13,000 proactive outbound contacts had been completed, and we believe this has contributed to the high response rate for scheme returns.

* A total of 46,712 calls were directed to our customer support number (43,000 in 2005-2006): of these, 87.6% were answered within 20 seconds (service level target 80%). The abandonment rate was 4% (service level target < 5%). The service levels set for telephone activity were consistently achieved month on month during the period of this report.
* The above figure includes 10,436 calls relating to the scheme return and 4,442 calls relating to levies. An additional 46,541 calls were directed to our outsource partner for handling front line scheme return enquiries.
* We received 6,033 general enquiries via email, letter and fax. The service level target of responding within five working days was met in 92.2% of cases.
* Technical enquiries received have totalled 3,440. The service level target of responding within 20 working days (note this service level was measured only from August 2006) was met in 86.6% of cases.

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Theme 4 Deliver effective risk-based regulation

Research activity

Key results from our perceptions and governance surveys are presented elsewhere in this report. Our research activity is managed by an in-house team, with specific surveys commissioned from independent research companies. Our programme over the last year has included:

* *Perceptions tracker survey 2006*
  An annual quantitative survey involving 750 interviews spread across our key stakeholder audiences (on both the in-house and professional sides). The survey enables us to monitor perceptions of us as a regulatory body, and in doing so contributes towards the organisation's performance indicators. It also enables us to monitor the extent, nature of and satisfaction with contact with the regulator.

* *Key stakeholders' perceptions 2006*
  A qualitative study involving 51 in-depth interviews with key stakeholder organisations and/or individuals. Its purpose was to gauge satisfaction with the regulator, and to hear stakeholder opinions and views about us in more detail than the *Perceptions tracker survey* allowed.

* *Scheme governance 2007*
  An annual quantitative survey amongst 500 trustees from DC, DB and hybrid schemes of various sizes. The purpose of the study is to provide a detailed and trackable understanding of current practices in scheme administration and governance.

* *Code of practice review 2006*
  This web-based study was promoted on our website to users of the *Reporting breaches* code of practice. The purpose of the study was to gauge satisfaction with the code and associated guidance and thereby identify and prioritise the need for any improvements or refinements.

* *CRM service tracker (ongoing)*
  This is an external ongoing monitor that reports monthly on customer satisfaction with the service provided by the clearance team in relation to corporate transactions.

* *Make it your business*
  This is a web-based employee survey, enabling the organisation to track staff satisfaction and attitudes. The survey has been bi-annual to date, but will become annual, with the next survey due in March 2008.

* *The regulator's website - March 2006*
  Conducted by the in-house research team, this web-based survey gauged satisfaction with the regulator's website amongst users, and assessed enthusiasm for a range of potential functionalities.

* *Telephone customer value survey*
  Not reported back yet, but this quantitative survey (600 interviews) will provide the organisation with its first detailed understanding of the customer experience in respect of the telephone enquiry service offered by the regulator.

Other pensions regulatory activities

Late and non-payment of contributions

Approximately 12,000 reports of late and non-payment of contributions to personal pensions and occupational pension schemes were received. Circa £1m in outstanding contributions was secured by following up reports of non-payment and working with employers.

Register of stakeholder schemes

We have maintained a register of stakeholder schemes and their status and have responded to reports that access by employers is not being granted.

Notifiable events

Notifiable events are defined by the Pensions Act 2004, which put in place a reporting framework designed to help the regulator focus on triggers that could potentially lead to serious risks to pension schemes. There are 13 types of notifiable events. In total 640 events were reported during the year (391 in 2005-2006). The most common types of events reported were transfer of more than 5% of scheme assets or £1.5m, changes in senior personnel, and decisions to relinquish control of employer.

Whistleblowing reports

1,233 whistleblower breach of law reports were received.

Enforcement

We engage actively in cases where serious risks are apparent, using our powers (or the threat of them) to gain restitution of funds, change behaviours or secure redress.

Whilst we did not initiate any prosecutions during the period of this report, three matters were referred to the police or other agencies. In addition:

* A trustee was prohibited in a case involving the *Ericsson Employee Benefits scheme*.
* As a result of proactive intervention, c.£800,000 of attempted pensions liberation transfers were prevented.
* We secured the return of wrongly claimed demutualisation payments of c.£30,000.

Theme 4 Deliver effective risk-based regulation

Key publications and web activity during the year

April 2006	
Corporate document:	*Medium term strategy*
May 2006	
Regulator's statement:	*How the Pensions Regulator will regulate the funding of defined benefits*
Guidance:	*Contingent assets*
June 2006	
Discussion paper:	*A review of the form and content of pension scheme report and accounts*
Toolkit module:	*The four major asset classes*
Guidance:	*Paying lump sum death benefits*
July 2006	
Code of practice 08:	*Member-nominated trustees and directors - putting in place and implementing arrangements, laid before Parliament*
Code of practice 09:	*Internal controls, laid before Parliament*
Corporate document:	*Business plan 2006-2007*
Corporate document:	*Annual report and accounts 2005-2006*
Guidance for scheme members:	*Your retirement choices*
August 2006	
Guidance:	*Member-nominated trustees and member-nominated directors*
Toolkit modules:	*How a defined benefit scheme works, Funding your DB scheme*
September 2006	
Survey/report:	*Occupational pension scheme governance*
Guidance:	*Introduction to the scheme return*
October 2006	
Toolkit module:	*Defined benefit recovery plans, contributions and funding principles*
November 2006	
Consultation:	*Regulating DC schemes in relation to risk to members*
Toolkit module:	*DC schemes*
Code of practice 10:	*Modification of subsisting rights*
Regulator's statement:	*A review of the form and content of pension scheme report and accounts*
December 2006	
Discussion paper:	*Abandonment of defined benefit pension schemes*
Data/analysis/report:	*The Purple Book (joint publication with PPF) (annual publication)*

January 2007 Guidance: Toolkit module:	*Inducement offers* *Fund management*		
February 2007 Guidance for scheme members: Corporate document: Guidance: Guidance:	*Are your contributions being paid on time?* *Memorandum of understanding between the Pension Protection Fund, the Department for Work and Pensions and the Pensions Regulator* *Internal controls: (Complying with the obligation to establish and operate internal controls and example risk register)* *Stakeholder employer pack - Pensions choice in the workplace (A collection of guidance documents for employers)*		
Website usage[5]		**2006-2007**	**2005-2006**
	Number of users visiting the site	128,527	*
	Number of visits they made	926,384	782,600
	Number of pages viewed during those visits	2,848,864	*
	Most popular pages *(after Homepage and Search)*:	Codes and guidance Stakeholder decision tree Online services	Codes and guidance Press releases About us
	Number of people subscribed to our 'news by email' service at end of reporting period:	7,223	c.6,000**

5 These figures relate to our website at **www.thepensionsregulator.gov.uk**.
Please see page 26 for information on usage of **www.trusteetoolkit.com.**

* Not available
** For technical reasons we were unable to record the exact number of subscribers on 31 March 2006.

4c Accountability and governance

Board structure

Section 1 of the Pensions Act 2004 ('the Act') sets minimum requirements for the composition of the board. The current board structure comprises the chair, five non-executive members, the chief executive and three executive directors. Despite one resignation during the year, the board complied with the requirements of the Act throughout the year. Board members' appointment dates, terms of office, and committee membership are detailed in the table opposite.

All members have been appointed to the board by the Secretary of State for Work and Pensions following open competition. Biographical information about each board member can be found on pages 45 and 46.

In 2006-2007 non-executive members receive a non-pensionable annual allowance of £10,200. 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 page 70.

Details of board appointments and committee membership

Name	Date appointed	Date term expires	Committee membership
David Norgrove *Appointed as chair*	1 January 2005	1 January 2008	Non-executive (chair)
Non-executive members			
Laurie Edmans CBE	8 February 2005	7 February 2008	Audit, non-executive
Alan Pickering CBE	8 February 2005	7 February 2009	Audit, non-executive
Chris Swinson OBE *Senior independent director (SID)*	8 February 2005	7 February 2009	Audit (chair), non-executive
Caroline Thomson	8 February 2005	7 February 2009	Remuneration (chair), non-executive
Roger Walsom	8 February 2005	7 February 2008	Remuneration, non-executive
Executive members[6]			
Tony Hobman *Appointed as chief executive*	1 July 2004 *(designate)* 6 April 2005 *(confirmed)*	n/a	
Mark Eade	Interim appointment 25 February 2005 Confirmed in post 7 June 2005		
June Mulroy	Interim appointment 28 February 2005 Confirmed in post 7 June 2005	31 May 2008	
Charlie Massey *(on secondment from Department for Work and Pensions)*	1 September 2005	31 August 2008	

6 Mark Eade resigned with effect from 13 November 2006. Stuart Weatherley was appointed as interim executive director for business support from 13 September 2006, but was not a board member during the period of this report. The Secretary of State appointed him as a board member with effect from 1 April 2007 to 31 March 2010.

Attendance at meetings from 1 April 2006 to 31 March 2007

	Board	Audit Committee	Remuneration Committee	Non executive Committee
Number of meetings	11	7	3	1
David Norgrove	11	n/a	n/a	1
Laurie Edmans CBE	9	7	n/a	1
Alan Pickering CBE	11	6	n/a	1
Chris Swinson OBE	8	6	n/a	1
Caroline Thomson	10	n/a	3	0
Roger Walsom	11	n/a	3	1
Tony Hobman	10	n/a	n/a	n/a
June Mulroy	11	n/a	n/a	n/a
Charlie Massey	11	n/a	n/a	n/a
Mark Eade	4	n/a	n/a	n/a

Responsibilities of the board

Under the management statement and financial memorandum agreed between the regulator and the DWP, the key responsibilities of the board are:

* **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 2006 to 31 March 2007 (except for August). Two additional meetings were held in July and December 2006 at which the board received briefings on operational and pensions environment developments, and discussed strategic issues, as part of the process of developing and reviewing the regulator's corporate plans.

Committees of the board

As required by the Act, the board has established a non-executive committee. With the agreement of the board, the committee established two sub-committees: the audit committee and the remuneration committee. The remit and activities of the non-executive committee and its two sub-committees are summarised in the committee's report below.

In addition the board established a committee to oversee the work of the *culture change programme* (see page 50). As the programme was completed within the period of this report, this committee was disbanded as from 31 March 2007.

Board appraisal and evaluation

The board reviewed its own performance, collectively, at its meeting in May 2006, and a number of action points were agreed with a view to enhancing communications between the board and its committees, and the board's involvement in the business planning cycle.

The chair carried out individual appraisal interviews with the non-executive board members in summer 2006.

The performance of the chief executive and executive directors is reviewed by the remuneration committee. Please refer further to the Remuneration report on page 70.

Board members

Chair

David Norgrove

David's career, spanning both the public and private sectors, began at the Treasury, where he started as an economist. His time there included two years on secondment to the *First National Bank of Chicago*, and he was 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. In January 2005 he was appointed as the first chair of the Pensions Regulator.

Non-executive Directors

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*, treasurer of the *Family and Parenting Institute*, and trusteeship of a pension scheme and of the *Quest School for Autistic Children*. He was previously a non-executive board member of Opra.

Alan Pickering CBE joined *Watson Wyatt* in June 1992 after twenty years with the *Electrical, Electronic, Telecommunications and Plumbers Union*. He is chairman of the *Plumbing Industry Pension Scheme* and in January 2005 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, and its deputy chairman in 1993, and chairman of the *National Association of Pensions Funds* between May 1999 and May 2001. His report *'A Simpler Way to Better Pensions'* was published in 2002.

Chris Swinson OBE was formerly senior partner of *BDO Stoy Hayward*. He served as a member of the *ICAEW* council and was president from 1998 to 1999. As chairman of the *Regulation Review* of the accountancy profession between 1995 and 2000, he managed the development of proposals for regulating the profession, which were then implemented. He currently works as an expert witness in financial cases.

Caroline Thomson has worked in broadcasting for 30 years. She was formerly deputy director of the *BBC World Service* and since 2000 was director of policy and legal, and then strategy, and as such she led the BBC's bid for a successful review of its charter and is currently negotiating the licence fee settlement. She is now chief operating officer for the BBC. She has responsibility for the BBC's policy, legal, strategy, distribution and property function and all the BBC's major infrastructure projects including digital switchover. Reporting to the director general, she is a member of the BBC's executive board.

Roger Walsom was formerly a partner at *Ashurst*, the leading firm of City solicitors. He is currently a consultant to the firm on specific projects. His career has spanned the worlds of commercial and financial services, including mergers and acquisitions, financing, insolvency, insurance, employment and other issues. He is also a non-executive director of *St James's Place plc* and *INVESCO Income Growth Trust plc*.

Board members *continued*

Chief executive

Tony Hobman has held a number of senior appointments within the financial services arena. He spent twenty 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 Pensions Regulator.

Executive directors

Charlie Massey is the executive director of strategic development. The strategic development function relates to strategy, policy and guidance, communications and regulated community learning. Before this, Charlie was a senior civil servant in the DWP, responsible for heading up the division that created the Pensions Regulator and the Pension Protection Fund. He previously worked in the Prime Minister's Strategy Unit where he led projects on drugs and childcare. He has also worked in HM Treasury as well as a number of roles in the Department of Social Security.

June Mulroy is the executive director of business delivery. This is the 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* including working at the *Chelsea and Westminster Hospital*. Since then she has worked in Switzerland and Paris, the latter being for the *UN* in *UNESCO*.

Stuart Weatherley is the executive director of business support, providing finance, human resources, information technology and facilities services at the regulator. Stuart 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.

Annual report of the non-executive committee of the Pensions Regulator

Functions of the non-executive committee

Under section 8 of the Pensions Act 2004 ('the Act'), the regulator must establish a non-executive committee. 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.

Activities of the non-executive committee in 2006-2007

The committee, as permitted by section 8 sub-paragraphs (7) and (8), chose to establish two sub-committees: 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 sub-committee.

The committee itself met once during the year to receive reports from its sub-committees, to review the terms of reference of those sub-committees, and to appoint Chris Swinson OBE as the senior independent director ('SID'). It subsequently met in May 2007 to approve this report.

Details of membership of the committee and its sub-committees, and attendance records, are on page 43.

Reports from each of the sub-committees are given on the following pages. However, there is no report in respect of the non-executive committee's duties under section 8(4)(b) of the Act. This is because those duties do not relate to the first chief executive of the regulator, but only to subsequent appointments.

Report of the activities of the audit committee in 2006-2007

Terms of reference for the audit committee were agreed by the board and the non-executive committee covering both the statutory function delegated from the non-executive committee and additional areas of responsibility delegated by the board.

The audit committee met on seven occasions in 2006-2007:

* to review its terms of reference, and to evaluate its own performance;
* to review the annual accounts for the regulator for the period 2005-2006 and recommend their approval to the board;
* to approve an internal audit strategy for the year, and advise on the development of the internal audit programme for 2007-2008;
* to advise the executive management team on the approach to management of strategic risk and to keep the risk schedule under review;
* to review the external audit management report for 2005-2006;
* to approve the external audit strategy for 2006-2007; and
* to receive reports from the internal auditors reviewing areas of the business as agreed under the internal audit strategy, and to monitor implementation of recommendations made in those reports.

Subsequently, in relation to the year 2006-2007, the committee met in April 2007 to conduct its annual review of strategic risk and to receive an outstanding report under the 2006-2007 internal audit programme; in May 2007, to receive a further outstanding internal audit report and to review the Statement on internal control and the regulator's Annual report and accounts; and in June 2007 to recommend that the board should approve the Annual report and accounts.

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.

Further comment on risk management is included in the Statement on internal control on page 78.

Internal audit strategy for 2006-2007

The committee agreed a programme of audits for the year covering 14 areas of the business. Progress was kept under review during the year, and two of these audits were deferred for operational reasons. In addition, the proposed audit of the *culture change programme* was not taken forward on the basis that the programme was already subject to other audit regimes.

The committee was able to review, prior to its approval of the Annual report and accounts and the Statement on internal control, all except one of the audit reports commissioned. It was noted that, of the twelve reports received, two were follow-up reports (where no assurance rating is given), one gave a full assurance, and nine gave a substantial level of assurance.

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

Report of the activities of the remuneration committee in 2006-2007

Terms of reference for the remuneration committee were agreed by the board and the non-executive committee, covering both the statutory function delegated from the non-executive committee and additional responsibilities delegated by the board. However, the committee did not exercise its statutory function during the year, for the reasons given above.

The remuneration committee met on three occasions in 2006-2007:

* to review its terms of reference;
* to review the chief executive's objectives and performance, and review his remuneration within the scope set by the Secretary of State under Paragraph 8(3)(b), schedule 1 of the Act; and
* to review the regulator's staff reward strategy.

The chief executive's objectives for the year were set by the chair of the regulator and agreed with the remuneration committee. The committee subsequently (at its meeting in May 2007) considered the chief executive's performance and approved his annual bonus within the ceiling set by the Secretary of State.

The Remuneration report is on page 70.

Executive management team

The executive board members, chaired by the chief executive, met regularly through the year (normally twice a month) as an executive management team:

* to ensure strategic management of the organisation within the business plan and budget agreed by the board;
* to co-ordinate policy development initiatives, and provide a gateway function in respect of items to be referred to the board;
* to ensure effective management of strategic risk;
* to establish a performance management system and keep targets and performance against targets under review; and
* to propose an annual budget for approval by the board and to monitor expenditure against budget.

Programme board

The *culture change programme* consisted of a number of projects, with the aim of completing implementation of business processes and supporting IT systems initiated under the programme in 2005-2006. A little over £6.6m of the regulator's expenditure in 2006-2007 was attributable to the *culture change programme*. The programme was managed using a *PRINCE2* framework within the *Office of Government Commerce* (OGC) gateway process.

Information on the key activities carried out under the programme is provided on page 33.

The programme was directed by an executive steering committee, overseen by the programme board made up of executive directors, a non-executive board member, the programme manager and representatives of the DWP, and chaired by the chief executive. The programme board was established as a committee of the regulator's board.

Other accountability arrangements

Management statement and financial memorandum

The regulator is accountable to the Secretary of State for Work and Pensions. The DWP therefore has a 'stewardship' role, and the operating framework for the regulator is set out in a *Management statement and financial memorandum* (MSFM) signed by the DWP Steward and the chair of the regulator.

Accountability reviews

Compliance with the MSFM is monitored through regular meetings between the chief executive and the head of the stewardship team at the DWP. These meetings focused on reporting performance and finances, and discussing risks and issues of concern.

In addition the chief executive and chair met with the Minister for Pensions Reform on two occasions during the period of this report, and with the Secretary of State who visited the regulator in March 2007.

Memoranda of understanding

A tripartite *memorandum of understanding* (MoU) between the regulator, DWP and the PPF was in place over the period of this report. It was reviewed during the year, and was published in February 2007. Regular meetings continued throughout the period of this report, at executive and operational levels, to ensure efficient and effective joint working.

MoUs with the FSA and with ACPO (the *Association of Chief Police Officers*) were also in place for the period of this report.

An MoU with the UK Actuarial Profession was published in November 2006.

NAO review

During 2006-2007, the National Audit Office (NAO) undertook a principles-based examination of the way that we have introduced risk-based regulation. This follows on from their 2002 report on Opra, which made recommendations about how risk-based regulation should be introduced. The report of their review is due for publication in autumn 2007.

Determinations panel – report of activity during the year

Section 9 of the Pensions Act 2004 requires the regulator to establish and maintain a committee called the Determinations panel the purpose of which is to exercise on behalf of the regulator certain regulatory functions as set out in the second schedule of that Act. In summary these functions might be used either where the regulator considers that certain enforcement action needs to be taken in respect of pensions schemes, their trustees or employers, or where trustees or other interested parties ask that certain actions are taken to safeguard the interests of scheme members.

The panel has a chair appointed by the regulator. The chair then nominates at least six other members who must then be appointed by the regulator. Seven members have been so appointed. Information about the current membership of the panel is available on our website[7]. Details of panel remuneration are given in the Remuneration report on page 75.

The panel conducts its meetings and makes its decisions following procedures decided upon by the panel in consultation with the regulator, and published in 2006. They ensure that every regulatory decision is made after a full and impartial consideration of the evidence on which it is based, the panel needing to be satisfied that the evidence supports the decision they are asked to make. If the panel are not so satisfied in accordance with the standard of proof applying to their determinations (normally on the balance of probabilities) then it is their responsibility to refuse to make the decision asked for.

The cases coming before the panel are prepared by the regulatory teams and incorporated into a warning notice sent to all parties having an interest in the decision under consideration 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 documents and the responses are then submitted to the panel, normally a sub-committee of three members sitting with an independent barrister and clerk, together with their administrative support staff. The panel then make their decision in a wholly disinterested way allowing no further representation to be made and no access to them by either the regulatory teams or any other party. The only exception to this is where an oral hearing has been agreed when all parties are invited to attend 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.

7 www.thepensionsregulator.gov.uk/regulatoryActivity/determinations/determinations-01.aspx

During the year the panel have been asked to make determinations in respect of 18 defined benefit schemes.

In eight cases the application was for the appointment of an independent trustee brought by the regulator. In seven cases the appointment was made and in one case the application was refused. In one of these cases the panel was asked to appoint an independent trustee and to prohibit an existing trustee from acting. They granted the appointment but refused the prohibition.
In four cases application was made by former pension scheme trustees for their disqualification from the office of trustee to be waived. The waiver was granted in one case and refused in the other cases.
In four cases applications were made by trustees of pension schemes for extensions of the statutory time given to them to pay cash equivalent transfer values to scheme members. Three applications were granted and one refused.
One application was granted for the variation of an existing order made by the regulator.
In one case the panel was asked to review the financial penalties that had previously been determined by Opra against a trustee. The panel decided not to amend the previously determined penalty.

The panel heard these cases in 25 hearings. In all except one case the determinations were made on consideration of the papers following the approach described. In one case (the appointment of independent trustee, refused by the panel) the determination was made following an oral hearing in which the panel heard evidence and submissions made by Counsel for the parties.

During the year the panel have continued their development and training programme in four sessions. They have had presentations on the regulatory approach and method adopted by the regulator. They have also worked on refinements and improvements, on a non-case specific basis, to the processes for bringing cases forward for determination. This was to help ensure that the objectives for open, fair and impartial consideration of issues described above could be fully achieved.

John Scampion
chair, Determinations panel
March 2007

Complaints against the regulator

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 most are resolved satisfactorily. For those not resolved we operate a three-stage formal 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

The regulator also comes within the jurisdiction of the Parliamentary Commissioner for Administration.

In 2006-2007, we received 22 formal complaints (15 in 2005-2006). As at 31 March 2007, all but two of these complaints had been closed at stage 1. One complaint remained under investigation at stage 1 at 31 March 2007, and one complaint was referred by the complainant to our chair and subsequently, under stage 3, to our Independent Complaints Adjudicator whose investigation was not concluded within the period of this report. No cases were referred to the Parliamentary Commissioner for Administration during the year.

These complaints covered a number of issues, such as concerns about trustees, delays experienced in communications from the regulator, perceived lack of action from the regulator, and the erroneous receipt of invoices.

Any expressions of dissatisfaction that are not escalated to our corporate secretariat are handled primarily by our front-line customer support team working closely with the managers of the relevant team depending on the nature of the query.

Regular reports on complaints are made to senior management and these are acted on as appropriate. For example, in response to customer feedback, additional IT and staff resources were deployed to improve the scheme return process.

Freedom of Information

The Freedom of Information Act 2000 (the FoIA) gives individuals and organisations the right to request information from any public authority. In keeping with the spirit of the FoIA, we seek to release information where possible and appropriate. Where we are unable to release the information requested we aim to provide advice and assistance in keeping with the principles of the FoIA.

In its second year since inception, and also the second year since the FoIA came into force, the regulator experienced a fall in the volume of requests. In the period 1 April 2006-31 March 2007, the regulator received 19 requests for information under the FoIA 2000, and two subject access requests under the Data Protection Act 1998. This compares with 25 Freedom of Information requests received in the previous year.

In seven cases we disclosed some or all the information requested.

In eleven cases we were not able to disclose the information requested.

One request was transferred to the DWP's pensions tracing service.

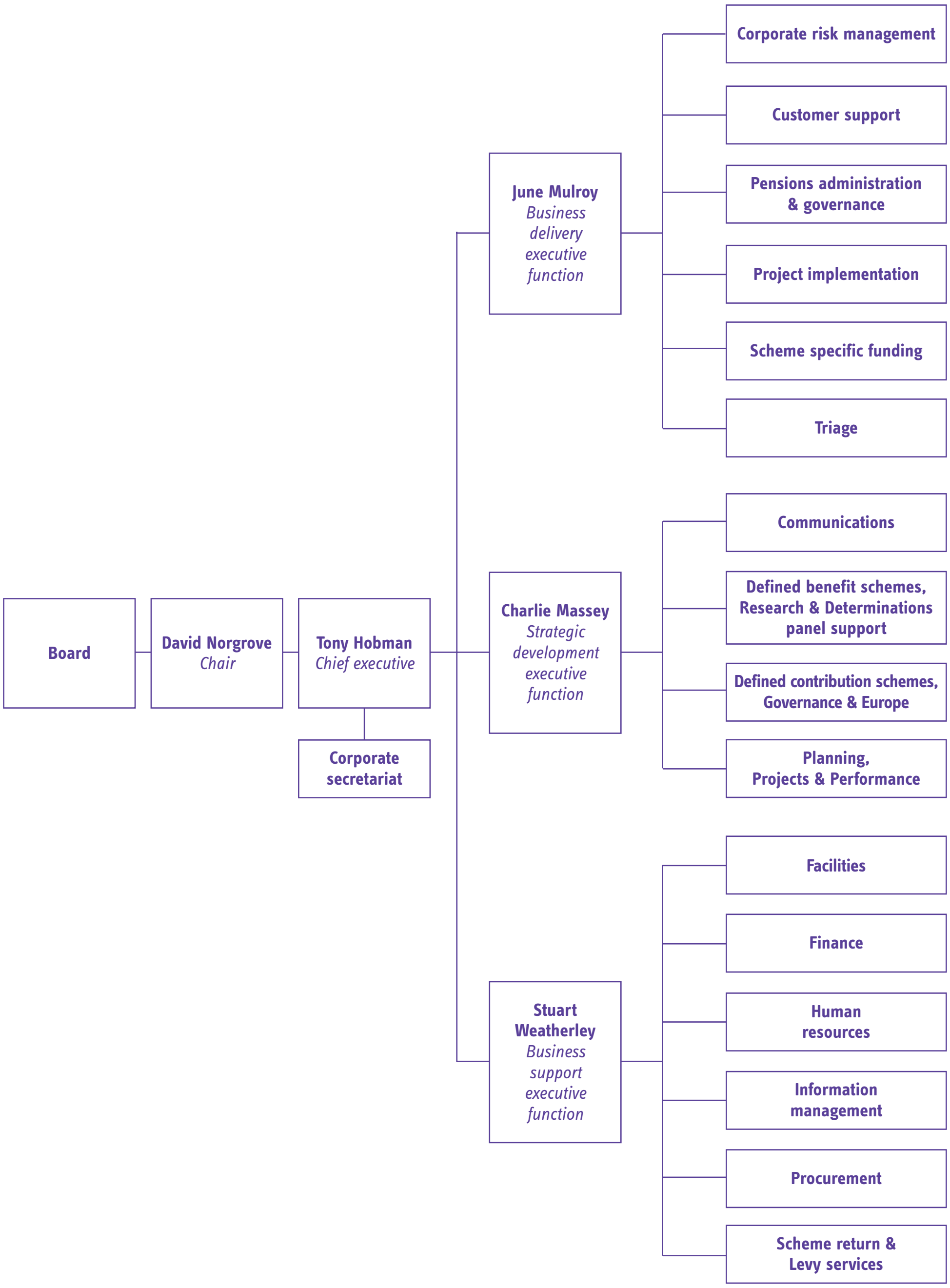
Freedom of Information requests received during the period of this report have in the main focused on regulatory cases. The majority of requests were made by pension scheme members requesting information as to how decisions have been made in connection with their scheme and who made those decisions. A number of the requests were related to clearance issues. Others concerned levy collection, pensions liberation, respondents to the regulator's consultation papers, and the work of the Determinations panel.

Much of the information that we gather in undertaking our regulatory function falls within the definition, under the Pensions Act 2004, of 'restricted information'. That Act makes it a criminal offence for restricted information to be released except in limited circumstances. Information that is caught by this definition is exempted from disclosure under section 44 of the Freedom of Information Act 2000, and this has been the main reason why we are often unable to release information in response to requests.

We received two requests to review our decision not to disclose information. Reviews were carried out by the corporate secretary, looking at the exemptions that had been applied in withholding information, the reasons for applying those exemptions, and the explanations that had been given. In both cases the exemptions applied were upheld and further detail was given to explain the reasons for maintaining the exemptions.

Where information is withheld there is a right of appeal to the Information Commissioner. No cases were referred to the Commissioner during the period of this report.

Organisation structure as at 31 March 2007



Relations with employees

We give a high priority to the provision of information to, and consultation with, employees. The *Public and Commercial Services Union* (PCS) has continued to be actively involved in staff and business matters, and regular meetings were held with senior management and PCS throughout the year. Board and management team minutes were available to all staff, team meetings were held regularly and an in-house magazine was published regularly, on our intranet. Through our staff survey (carried out in August 2006 and March 2007) we measured and saw significant improvements in staff satisfaction and morale during the year.

Equal opportunities
We complied with equal opportunities legislation and we are committed to providing equality of opportunity for those applying for jobs and internal selection and staff development opportunities. We seek to offer a fair and accountable service in our day-to-day dealings with the public, employees, and future employees. During the year we worked on the development of the public sector equality duties and intend to publish and implement an equality scheme in 2007.

Learning and development
Developing staff skills, knowledge and behaviours in line with our values and business needs was a top priority for the organisation. Our competency and objective-based performance development approach helped individuals and their managers to define and action development needs. This year we focused on delivery of extensive training to all staff on our new IT systems (see *culture change programme* on page 33) and the provision of a business skills programme in association with the University of Brighton to enhance financial and interpersonal skills and business acumen.

Community activity
Our community team, formed the previous year, continued to highlight opportunities for staff to get involved in charitable organisations, with a focus on initiatives where there is mutual benefit: charities gaining from the existing skills of staff, and the staff learning new skills they can bring back into the regulator. During the year:

* a number of representatives from local charities were invited to talk to staff about the work they do so that interested staff can follow up with the charities concerned;
* several events were organised by the staff during the year which raised approximately £1,508, donated to a variety of local and national charities reflecting staff concerns; and
* a number of successful local business people gave presentations to staff about their achievements to increase our links with the local business community and to exchange knowledge.

Environment
We have continued to implement changes to our practices with a view to promoting sustainability and progressively minimising our environmental impact including:

* our procurement policy requires suppliers tendering for contracts to confirm their systems and policy on sustainability and asks if they have the ISO14001 Environmental Management quality standard;
* we are currently reviewing our suppliers of gas and electricity and intending to move to sourcing via the OGC (Office of Government Commerce) framework, which requires that all suppliers have a specified proportion of their supply from renewable and sustainable sources (over 25% of electricity should come from renewable resources);
* we are reviewing our supplier of stationery and one criterion is the environmental impact of the supplier's product range;
* we are implementing a building management system which allows data control over energy use, allowing greater ability to reduce consumption; and
* over 60 computers were decommissioned and given to charity to be sent to Africa and 500 PEP computer backup tape cases were recycled.

4d Looking forward – summary of plans for 2007-2008

Our corporate plan for 2007-2010 was published in May 2007. It incorporates the business plan for 2007-2008 which sets out our key objectives for the year, summarised in the tables on the following pages.

Theme 1: Strengthen DB scheme funding
Objective for 2007-2008
The regulator ensures that the valuation process is adopted and completed in line with legislative and code requirements and that trustees fulfil their role in this process.
Key activities

* Deliver communications to key target groups, specifically trustees, members, advisers and employers, which raise awareness and understanding of DB funding arrangements. Embrace all communication channels, including media, web, direct communications, stakeholder briefings and events.
* Underpin communication activities with environmental scanning of how the market is responding to scheme funding challenges, delivering consistent messages on those issues where problems are becoming apparent.
* Produce and update policies and guidance aimed at strengthening DB funding, in a way that reflects the practical learning in the first two years of the regulator's operation, and communicate guidance effectively to the appropriate stakeholders.
* With the PPF, produce the *Purple Book* which informs the development of regulatory responses and how they should be communicated, as well as improving understanding within the pensions community and wider marketplace.
* Improve the way that the regulator handles contact with trustees. Monitor effectiveness through survey material.
* Conduct proactive campaigns to inform and remind scheme trustees and their advisers of their responsibilities in completing the valuation process and the need to submit a recovery plan where appropriate.
* Proactively monitor the completion of valuations and the recovery plan process to ensure the expected returns are received by the statutory deadline. This will encompass the identification of recovery plans due and not received for follow-up. Action will be taken as appropriate.
* Assess the recovery plans received using a mixture of qualitative and quantitative techniques to assess their appropriateness in the individual scheme circumstances and pursue further proportionate action as appropriate.

Theme 1: Strengthen DB scheme funding *continued...*

Objective for 2007-2008

The regulator ensures that scheme specific technical provisions are calculated in a prudent manner and recovery plans are appropriate.

Key activities

* Analyse recovery plans received to identify those which merit further scrutiny taking account of published statements on the regulatory approach. Where concerns are identified, seek more information on the trustees' justification for funding objectives or recovery plan shape and duration, so as to influence the level of contributions proposed. If necessary justify the use of regulatory powers to secure an outcome that better protects members' benefits and the PPF.
* Update and refine regulatory approaches to DB scheme funding in the light of experience of market developments from environmental scanning and other sources.
* Provide input into reviews undertaken by other regulatory bodies in the UK and EU, including the ASB review of FRS17. Ensure that developments in accounting and European standards support the goal of providing clarity on scheme assets and liabilities in way that drives positive behaviour from stakeholders while reflecting the support that schemes and members receive from employers and the PPF.

Objective for 2007-2008

The regulator ensures that appropriate mitigation is offered to minimise detriment to schemes involved in corporate transactions.

Trustees: *** negotiate with employers; and**
*** take and act upon professional advice**

Key activities

* Work with the main stakeholders, for corporate transactions that come for clearance, to ensure that the trustees recognise the importance of the pensions creditor and obtain appropriate mitigation. Encourage clearance applications for corporate transactions where appropriate (and signalled as such in guidance) through delivering added value in a professional and timely manner so that the clearance process is not seen as an undue hindrance.

* Seek to identify cases where steps may have been taken to avoid the pensions creditor, and which may be subject to regulatory powers. Consider whether action would be appropriate from a risk-based perspective and take such action to prevent and deter avoidance.

* Ensure that trustees, employers, advisers and other market participants are clear about the approach that the regulator takes to clearing corporate transactions, and taking anti-avoidance action, through the preparation and dissemination of information and messages through appropriate channels, in particular by issuing revised clearance guidance.

Theme 2: Improve governance of work-based pensions
Objective for 2007-2008
The regulator promotes good governance of schemes by encouraging improvement of the knowledge and understanding of trustees, employers and their advisers and its translation into behaviours.
Key activities

* Publish and implement the regulator’s approach to governance, ensuring that it addresses all the key areas of risk identified from environmental scanning and pensions community feedback and that it reaches its targeted audiences.
* Publish and publicise the results of the 2006-2007 governance survey in a way that highlights and communicates key learning for the regulator and the pensions community, and build on this survey in commissioning the 2007-2008 survey, in consultation with key stakeholders.
* Complete and embed our administration and governance practice. This will ensure we are better placed to initiate and follow through education, enabling and enforcement actions targeted at identified risks to good governance and administration.
* Ensure that enforcement action is taken in a way that is proportionate to the risks identified and targeted at serious risks within the pensions environment.
* Design and deliver targeted outbound communication campaigns that inform trustees and their advisers of their responsibilities, and better enable them to perform their role in line with legislation and the regulator’s expectations.
* Build partnerships with other bodies and regulators to develop, communicate and implement initiatives to improve governance across areas of common responsibility.
* Conduct further scanning and research to ensure that the regulator’s strategy and guidance remains fit for purpose.
* Support the DWP in developing a revised legislative regime for disclosure that balances improvements in governance with reductions in burdens on business.
* Put together standards of performance for trustee learning to enable the *Skills Council* to take forward a co-ordinated approach to pensions skills learning, and use and communicate these as a means of encouraging the development of good practice in governance.
* Maintain relationships with other agencies delivering governance learning to ensure there is a consistent message in the regulator’s *Trustee toolkit* e-learning programme.

* Develop and refine the *Trustee toolkit* to ensure that it meets stakeholder needs, adding modules as required during the year, for example understanding the role of the PPF, responsibility during wind-ups and the implications for the trustees of new policies.
* Publicise the *Trustee toolkit* on the regulator's website, in press articles, features and other appropriate media in a way that encourages trustees to improve their knowledge and understanding.
* For the use of the *Trustee toolkit*, establish a benchmark through the 2007 *Scheme governance survey*. The aim is to significantly improve the extent to which the *Trustee toolkit* is used by trustees in the 2008 survey results.

Objective for 2007-2008

The regulator reduces the time schemes take to wind up.

* Develop and deliver a communications strategy targeted at key audience segments that raises awareness of and buy-in to the regulator's expectations for timeliness of the wind-up process.
* Agree processes with relevant government agencies and external providers to identify and track progress of schemes in wind-up.
* Identify and target, in a risk-based manner, schemes in wind-up over two years so as to obtain and agree action plans for faster closure, paying particular attention to working with those professionals who would be most influential in enabling faster wind-up, and taking appropriate action where there is insufficient co-operation.

Theme 3: Address risks to DC scheme members
Objective for 2007-2008
Provide further education and guidance, developed in partnership with the industry and other regulatory bodies, to cover the five key risks, tailored to the relevant audiences.
Key activities

* Develop and publish best practice guidance to help trustees, employers and their advisers to address the risks to DC schemes effectively. Ensure that this guidance and other key messages are communicated effectively to target audiences through a range of channels.
* Finalise the approach to regulating DC schemes, publishing an analysis of consultation responses and a further update later in the year drawing on our research into the prevalence of risks and ways in which they can be effectively addressed.
* Work closely with other regulators and bodies in the pensions community to ensure a coherent overall approach to tackling DC risks, including continuing to lead the DC consultation working group.
* Design and implement proactive approaches, and supporting policies, to regulatory intervention in schemes to address DC risks at a scheme and provider level.
* Continue to work closely with the FSA to develop and implement an approach in relation to contract-based schemes.
* Develop and commission a DC governance survey so as to fill gaps in the regulatory and industry knowledge base on DC and enable performance to be measured.
* Deliver a customer focused DC communications campaign based around publication of good practice guidance, and development of policies around the use of powers/ interventions in DC schemes. Monitor progress across the key areas of risk.

Theme 4: Deliver regulation in a risk-based way
Objective for 2007-2008
The regulator further enhances and strengthens its position as an authoritative and proportionate risk-based regulator.
Key activities

* Apply the risk and intervention model in line with agreed policies, processes and business rules throughout the regulator so as to be able to demonstrate that regulatory intervention is consistent and proportionate. Refine the model as appropriate.
* Deliver a programme of research and environmental scanning that ensures that the regulator is fully abreast with trends and developments in pensions and can adapt its risk model and communications accordingly.
* Play a full part in supporting developments in government pensions legislation and policies, especially in relation to deregulation, so as to help streamline and improve the overall regulatory framework in a way that is consistent with the regulator's statutory objectives.
* Strengthen the regulator's capability to play its part in influencing developments in the EU and other international forums so that these have a positive impact on the ability of the UK private sector to deliver pensions.
* Develop and deliver a communications strategy that is focused on disseminating key messages to targeted audiences. Refine the approach on the basis of feedback from surveys and the outcome of campaigns.
* Complete the final stages of large scale systems and process building and monitor delivery of the systems to ensure that they deliver their objectives and the planned benefits are achieved.
* Ensure that departmental and individual objectives remain aligned to corporate objectives, and that they are reviewed regularly.
* Continue to enhance and improve the customer support function so as to manage reactive enquiries for customers and intelligence requests in line with agreed service standards.

Theme 4 - Deliver regulation in a risk-based way *continued...*
Objective for 2007-2008
The regulator reduces the regulatory burden by demonstrating value for money.
Key activities
* Embed continuous improvement throughout the regulator and monitor progress towards achieving improvements to customer service and efficiency. * Implement key improvements to the processes for collecting scheme returns and levy. * Refine and deliver the HR strategy, in particular through supporting and sustaining the flexible resourcing model, succession planning and investment in developing the skills and knowledge needed by the business. * Continue to develop the performance of staff through our performance development approach.

4e 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 76 to 99.

The regulator is funded by grant-in-aid from the DWP and any liabilities still arising from Opra are also funded by this grant-in-aid.

The accounting policies under which income and expenditure are recognised are set out in note 2 to the accounts.

With effect from the 2006-2007 reporting period, the *Government Financial Reporting Manual* requires Non-Departmental Public Bodies (NDPBs) to account for grants and grants-in-aid received for revenue purposes as financing because they are regarded as contributions from a controlling party which gives rise to a financial interest in the residual interest of NDPBs. This is a change in accounting policy from earlier periods when such items were recorded as income. The effect of this change on the certified 2005-2006 accounts and the impact of the change on the results of the current year is shown in note 1 of the accounts. Note there is no impact on the net liability of the regulator as a result of this change in policy.

In the year ended 31 March 2007, the regulator had net expenditure of £31.6m. The net expenditure has been transferred to the general reserve and is offset through contributions from the DWP of £29.5m.

The expenditure figures include £6.0m which is directly attributable to the continuation of the *culture change programme*. This was offset through contributions of £6.9m from the DWP.

Staff costs in the year ended 31st March 2007 were £4.2m higher than the previous year due to the increased staff numbers, plus the full year effect of staff taken on in 2005-2006 and increased temporary staff costs to deliver the *culture change programme*. £2.9m of this increased cost is directly attributable to the *culture change programme*.

Other operating charges remain at a similar level to previous years. Training and recruitment costs have increased over the period due to an increase in the level of recruitment plus the recruitment of some high profile senior roles. The reduction of £0.4m in general accommodation costs is due to the move to a single site location. £3.1m of operating charges are directly attributable to the *culture change programme*.

There have been no significant events occurring since period end.

Financial review continued...

Tangible 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 charges (note 11 to the accounts).

£0.7m of the fixed asset expenditure is directly attributable to the *culture change programme*.

Fixed assets are valued at current replacement cost as detailed more fully in note 8 to the accounts.

Payments to suppliers

The regulator is committed to the prompt payment of bills for goods and services received. Payments are normally made as specified in contracts. If there is no contractual provision or understanding, invoices are deemed 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 year ended 31 March 2007, the regulator paid 87% of invoices received by their due date.

Going concern

The balance sheet at 31 March 2007 shows net liabilities of £2.24m. 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 in line with the normal conventions applying to Parliamentary control over income and expenditure whereby 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 2007, the regulator invoiced and collected levies on behalf of the DWP (the regulator's general levy and the PPF administration levy) which will be reported in the audited financial statements of that organisation. The PPF initial levy from the previous year was also re-invoiced and collected where appropriate on behalf of the PPF. There was no PPF initial levy for this levy year as it was replaced by the risk-based levy which the PPF invoiced and collected directly. The following un-audited results summarise key facts and figures in respect of levy activity undertaken during the period. None of these figures feature in the audited accounts of the regulator. The total levies due to be invoiced during the period were £41.7m (£29.7m in respect of the regulator's general levy and £12.0m in respect of the PPF administration levy.)

During the year, the regulator collected £75.3m in respect of levies, of which £0.2m had not been allocated by levy type at the year end. The £75.1m collected and allocated during the year comprised £33.2m (PPF initial levy), £29.2m (the regulator's general levy) and £12.7m (PPF administration levy). These collections represented respectively by value 96.2%, 82.1% and 81.9% of the amounts invoiced. The regulator has been robust in seeking payment of any outstanding levy payments with an internal credit control team and has also contracted legal experts to assist with this. This work will continue with a view to obtaining payment of all outstanding levy.

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 2006-2007 was £111,000 of which £109,000 had been paid over by 31 March 2007.

As at 31 March 2007 total levies paid across to either the DWP or the PPF were £81.3m, and at period end the regulator held cash balances still to be paid over to the DWP and the PPF of £277,000 and £85,000 respectively.

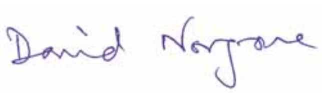
Audit

The Pensions Act 2004 requires the regulator's accounts to be certified by the Comptroller and Auditor General (C&AG). The audit fee for 2006-2007 was £29,200. No non-audit services were provided during the year.

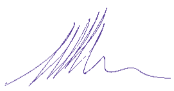
Accounting officer responsibilities

The accounting officer confirms:

* there is no relevant audit information of which the auditors are unaware;
* he has taken all steps he ought to ensure the auditors are aware of all relevant audit information; and
* he has taken all the steps he ought to establish that the regulator's auditors are aware of the information.



David Norgrove
chair, the Pensions Regulator
19 June 2007



Tony Hobman
chief executive, the Pensions Regulator
19 June 2007

4f Remuneration report

The remuneration committee

Details of the activities of the remuneration committee during the period ended 31 March 2007 are set out in Section 4c of the Annual report. Section 4c also includes details of the composition of the board of the regulator. As also shown in Section 4c, the remuneration committee consists of two non-executive board members, Caroline Thomson (chair) and Roger Walsom.

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 regulator's initial (and current) chief executive is determined by the Secretary of State for Work and Pensions in accordance with paragraph 8 of Schedule 1 of the Pensions Act 2004.

The remuneration of the other executive members of the board of the regulator is determined by the regulator and approved by the Secretary of State for Work and Pensions.

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

Bonus payments to a current maximum of 20% of base salary are payable to all executive members of the board (including the chief executive) based on performance. Non-executive members of the board, the chairman and the Determinations panel are not entitled to receive any bonus from the regulator.

The remuneration committee assesses the performance of the chief executive against agreed objectives and recommends the performance-related bonus payable, within guidelines set by the Secretary of State for Work and Pensions. The chief executive reviews the performance of the executive members of the board in conjunction with the chair and the remuneration committee.

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 given in Section 4c of the Annual report.

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 employee, 6 months from employer	Maximum of 6 months' pay
Non-executive members		
Laurie Edmans CBE	1 month	1 month
Alan Pickering CBE	1 month	1 month
Chris Swinson OBE	1 month	1 month
Caroline Thomson	1 month	1 month
Roger Walsom	1 month	1 month
Executive members		
Tony Hobman *(chief executive)*	3 months from employee, 6 months from employer	Maximum of 6 months' pay
June Mulroy	3 months	3 months
Charlie Massey	3 months	3 months
Mark Eade	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.

During the year ended 31 March 2007, Mark Eade resigned with effect from 13 November 2006. Stuart Weatherley was appointed as an interim executive director for Business support from 13th September 2006 to 31st March 2007 to cover whilst the permanent recruitment process took place. (He was subsequently appointed as permanent executive director for Business support, and, with effect from 1 April 2007, as a member of the board.)

The following information is 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; performance pay or bonuses; 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.

This report is based on payments made by or accrued by the organisation and thus recorded in these accounts.

Remuneration

Non-executive members

Non-executive part-time members of the board receive non-pensionable remuneration of £10,200 per annum.

Salary (in bands of £5,000)	**Total Benefits in kind** (to the nearest £100)	**Board members**
£10-15k (All part-time members of the board)	£400 (C Swinson OBE) £600 (R Walsom)	L M Edmans CBE, A Pickering CBE, C Swinson OBE, C Thomson, R Walsom
£100-£105k	D Norgrove *(chair)*	

The total amount paid to non-executive directors (including the chair) during the period was £161,000.

The monetary value of benefits in kind covers any benefits provided by the employer and treated by the Inland Revenue as a taxable emolument. The benefits shown above represent the payment of expenses for travelling to board meetings.

The chair's remuneration is pensionable and details of the chair's pension benefits are set out below:

Chair's pension benefits					
	Accrued pension at age 60 as at 31/3/06 and related lump sum (£'000)	Real increase in pension and related lump sum at age 60 (£'000)	CETV at 31/3/07 (£'000)	CETV at 31/3/06 (£'000)	Real increase in CETV (£'000)
D Norgrove *(chair)*	30-35 plus lump sum of nil	0-2.5 plus lump sum of nil	622	589	2

The pension entitlement shown above is based on the Inland Revenue earnings cap of £105,600.

Executive members

Executive members			
	Salary (2006-2007)	**Performance-related (2006-2007)** *(subject to approval)*	**Salary (2005-2006)**
A H Hobman *(chief executive)*	£180-185k**	Up to 20%	£175-180k
J Mulroy *(business delivery executive)*	£130-£135k	Up to 20%	£110-115k
C Massey *(strategic development executive) Seconded from the DWP*	£120-£125k	Up to 20%	£120-£125k
M Eade *(business support executive)****	£54-£70k	Up to 20%	£100-£105k

** Subject to approval by Secretary of State
*** Resigned with effect from 13 November 2006

All salary figures include accrued performance-related bonuses for all executive directors.

C Massey is paid directly by the DWP and his costs are reinvoiced to the regulator.

Executive members' pension benefits					
	Accrued pension at age 60 as at 31/3/06 and related lump sum (£'000)	Real increase in pension and related lump sum at age 60 (£'000)	CETV at 31/3/07 (£'000)	CETV at 31/3/06 (£'000)	Real increase in CETV (£'000)
A H Hobman *(chief executive)*	5-10 plus lump sum of 20-25	0-2.5 plus lump sum of 2.5-5	122	96	22
C Massey *(strategic development executive)*	2.5-5 plus lump sum of 7.5-10	15-20 plus lump sum of 50-55	203	167	36
June Mulroy *(business delivery executive)*	15-20 plus lump sum of nil	12.5-15 plus lump sum of nil	292	28	259
Mark Eade *(business support executive) Left 13/11/06)*	n/a	n/a	n/a	n/a	n/a

The pension entitlement of the chief executive is based on the Inland Revenue's earnings cap of £105,600.

In respect of M. Eade, employees do not accrue defined benefits in the *Civil Service Pension Scheme* until they have been members for two years, before which their entitlement on leaving service is to apply for a transfer value to a personal or stakeholder pension.

Pension benefits are provided through the Civil Service pension arrangements. From 1 October 2002, civil servants may be in one of three statutory based ‘final salary’ defined benefit schemes (classic, premium, and classic plus). The schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, and classic plus are increased annually in line with changes in the Retail Prices Index. New entrants after 1 October 2002 may choose between membership of premium 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 and 3.5% for premium and classic plus. 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 three 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.

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**.

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 £650 per diem and for the other members is £500 per diem.

Members	**Salary**
G Fitchew, S McCarthy, M Maunsell, D Hayter, O Dickson, D Campbell, D Taylor	£5-£10k
J Scampion CBE *(Chair)*	£15-£20k

Members of the Determinations panel may be removed from office at any time by the chair of the panel with the approval of the regulator. The chair can be removed from office at any time by the regulator.

Members who wish to leave the panel are required to give the chair two months' notice and the chair is required to give the regulator three months' notice. Any compensation payment would be made in line with contractual obligations with reference to these notice periods.

David Norgrove
chair, the Pensions Regulator
19 June 2007

Tony Hobman
chief executive, the Pensions Regulator
19 June 2007

5 Statutory accounts and notes to the accounts

‘Clearance is definitely a big improvement. Getting clearance procedure running as quickly as possible is one of their biggest successes which they don’t get reported on much’

‘You hear that the regulator can be pretty tough when it comes to negotiation on what it wants in terms of protection of the pension funds underneath it, but it doesn’t seem to have been a hindrance and that was hugely important, to have a regulator that was operating with the pension schemes and their sponsors in a sensible and responsible way, not unduly pedantic ’

These quotes are from research on perceptions undertaken with our key stakeholders in August 2006 and March 2007.

5.1 Statement of the board's and chief executive's responsibilities

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

In preparing the accounts, the regulator was required to:

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

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

David Norgrove

David Norgrove
chair, the Pensions Regulator
19 June 2007

Tony Hobman
chief executive, the Pensions Regulator
19 June 2007

5.2 Statement on internal control

Scope of responsibility

The regulator became operational in April 2005 with its core processes based on those operated by Opra. The regulator's wider range of powers required new processes and associated controls, and by April 2006 the key processes and controls were in place. Some areas continued under development in 2006-2007, under the auspices of our *culture change programme*.

As accounting officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the regulator's policies, aims and objectives, while safeguarding the public funds and departmental assets for which I am personally responsible in accordance with the responsibilities assigned to me under the *Non-Departmental Public Bodies Accounting Officers Memorandum* issued by the Treasury and published in *Government Accounting*.

The regulator is accountable to the DWP, within a framework set out in a *Management Statement and Financial Memorandum* agreed between the regulator and the department on 9 December 2005.

The DWP receives reports on performance, finance, and risk, primarily through regular review meetings, held in 2006-2007 between myself and a member of the department's pensions protection and stewardship team. In addition the chair of the regulator, David Norgrove, has met with the managing director of strategy and pensions, and the chair and myself have also met with the Minister for Pensions Reform.

The *Management Statement and Financial Memorandum* was reviewed during the year and minor revisions were agreed with the department in December 2006, principally to clarify the requirements for reporting progress against our business plan.

The purpose of the system of internal control

The system of internal control in the regulator 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 system of internal control consists of:

* an ongoing process designed to identify and prioritise 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;
* codes of conduct 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 for staff whistleblowing;
* clear standing orders and terms of reference for the board and its committees and for the executive management team and project management committees, and a schedule of financial and pensions regulatory delegations of authority, approved by the board and reviewed at least once per annum;
* a business planning system linking strategic, operational, team and personal objectives and 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 agreed by the board, developed through close integration with the business planning cycle, subject to monthly management reporting and quarterly review by the board, and with financial controls and a clear system of delegations overseen by the executive director for business support;
* regular reporting to the board of developments across the business, and consultation with board members on key policy issues, including two 'awaydays' per annum to ensure the board has sufficient time for strategic review and planning;
* detailed business process rules, a consistent standard of documentation, and clear lines of accountability and escalation in respect of pensions regulatory decisions and actions taken; and
* a programme of internal audits and a system for progressing implementation of audit recommendations and reporting progress to the audit committee.

The system of internal control has been in place in the regulator for the year ended 31 March 2007 and up to the date of approval of the Annual report and accounts, and accords with Treasury guidance.

Capacity to handle risk

The regulator has taken a positive approach to risk management and has adopted a risk management approach which it felt was entirely appropriate to its role and remit. The regulator's executive management team devoted regular attention to the identification and assessment of strategic and operational risks, in consultation with the audit committee and internal auditors, in the period covered by this statement. A risk adviser was nominated to assist in keeping the strategic risk schedule under review in consultation with directors and heads of business units, as set out in the following section. Our approach was therefore fully operational from the beginning of the period to which this statement refers.

The risk and control framework

The purpose of risk management is to enable the mitigation and monitoring of the risks that have been identified. The process was developed as outlined above, and the approach to risk management, and the risk schedule, was reviewed by the audit committee at its meetings during the period. The approach adopted includes a risk management policy statement and guidance document, schedules of strategic risks and recording of mitigating actions (owned by business unit heads and subject to monthly reviews by directors with their heads of business units). The process is managed by a nominated risk adviser, and the strategic risk schedule and recorded actions and risk ratings are reviewed quarterly by the executive management team and the audit committee. During the year the risk review process was amended to ensure closure of risks was properly considered. A closed risk register was implemented.

As at 31 March 2006 there were nine strategic risks identified in the risk schedule. A director was assigned to be the owner of each strategic risk, and was responsible for:

- identifying or proposing actions to mitigate the risk;
- making recommendations as to the impact of mitigating actions on the inherent risks; and
- reviewing the risk each month.

Some of the risks are fairly generic to any organisation like the regulator, such as those relating to business continuity, staffing or project management. Others were specific to our core business or to changing circumstances, such as receiving a whistleblowing report but failing to take the appropriate action to prevent pension benefits being misappropriated or misused.

At team level, managers are encouraged to build risk mitigation actions into their workplans, and training on risk management has been provided. Work began towards the end of the period to develop a business improvement programme, designed to embed a continuous improvement capability across the organisation.

In addition to regular review of the risk schedule throughout the year, the executive management team reviewed the risk management approach, and the relevance and appropriateness of the nine identified strategic risks in March 2007. The audit committee carried out a similar review at its meeting on 4 April 2007 and a report was made to the board meeting on 2 May 2007. It is intended this type of review will be carried out on an annual basis.

Further assurance was provided by an internal audit of our risk management process carried out during the year. The audit report gave a full assurance rating.

Review of effectiveness

As accounting officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review was informed by the work of the internal auditors, and the executive directors and managers within the regulator who had responsibility for the development and maintenance of the internal control framework, and by comments made by the external auditors in their management letter and other reports. I was 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.

A programme of internal audits was agreed by the audit committee and reported to the committee during the period of this statement. Assurances received were either substantial, or in the case of our risk management system, full assurance.

A process is in place to ensure that the agreed management response to internal audit recommendations is monitored by the executive management team, progressed and implemented effectively, and progress reported regularly to the audit committee. The committee was satisfied that good progress was made over the year in achieving that implementation.

The audit committee also regularly reviewed, and was satisfied by, the operation of the risk management system.

Significant internal control problems

No significant internal control problems arose during the year to 31 March 2007.

Tony Hobman
chief executive, the Pensions Regulator
19 June 2007

5.4 The certificate and report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of The Pensions Regulator for the year ended 31 March 2007 under Schedule 1 of the Pensions Act 2004. These comprise the Income and Expenditure Account, the Balance Sheet, the Cashflow Statement and Statement of Total Recognised Gains and Losses 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

The Board of the Pensions Regulator is responsible for preparing the Annual Report, the Remuneration Report and the financial statements in accordance with the Pensions Act 2004 and directions made thereunder by the Secretary of State for Work and Pensions and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of the Board's and Chief Executive's Responsibilities.

My responsibility is to audit the financial statements and the part of the remuneration report to be audited in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Pensions Act 2004 and the Secretary of State for Work and Pensions' directions made thereunder. I report to you whether, in my opinion, certain information given in the Annual Report, which comprises the Chief Executive's report, the pensions environment and the regulated community, and the Management commentary, is consistent with the financial statements. I also report whether 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.

In addition, I report to you if The Pensions Regulator has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal control reflects The Pensions Regulator's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or form an opinion on the effectiveness of The Pensions Regulator's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Board and the Chief Executive in the preparation of the financial statements, and of whether the accounting policies are most appropriate to The Pensions Regulator's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that 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. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions

Audit Opinion

In my opinion:

* the financial statements give a true and fair view, in accordance with the Pensions Act 2004 and directions made thereunder by the Secretary of State for Work and Pensions, of the state of The Pensions Regulator's affairs as at 31 March 2007 and of its Net Expenditure for the year then ended;
* the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Pensions Act 2004 and the Secretary of State for Work and Pensions' directions made thereunder; and
* information given within the Annual Report, which comprises the Chief Executive's Report, the pensions environment and the regulated community, and the Management commentary, is consistent with the financial statements.

Audit 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.

Report

I have no observations to make on these financial statements.

John Bourn

John Bourn

Comptroller and Auditor General,

National Audit Office, 157-197 Buckingham Palace Road, Victoria, London SW1W 9SP

25 June 2007

5.5 Financial statements

Income and Expenditure Account for the year ended 31 March 2007

	Note	Year ended 31 March 2007 £'000	Period from 6 April 2005 to 31 March 2006 (restated) £'000
Income			
Other income	3	**174**	190
		174	190
Expenditure			
Staff costs	5	**19,225**	14,997
Other operating charges	6	**12,695**	12,385
		31,920	27,382
Net expenditure on ordinary activities		**(31,746)**	(27,192)
Interest receivable		**172**	151
Net expenditure for year before notional interest on capital employed		**(31,574)**	(27,041)
Notional interest (payable)/ receivable on capital employed	2(b)	**42**	60
Loss on disposal of fixed assets	8	**-**	(364)
Net expenditure for year before tax		**(31,532)**	(27,345)
Tax on interest receivable	7	(33)	(29)
Net expenditure on ordinary activities after taxation	13	**(31,565)**	(27,374)
Reversal of notional cost of capital		**(42)**	(60)
Net expenditure for the financial year		**(31,607)**	(27,434)

All activities were continuing through the year

Statement of total recognised gains and losses for the year ended 31 March 2006

	Note	Year ended 31 March 2007 £'000	Period from 6 April 2005 to 31 March 2006 (restated) £'000
Net expenditure for the financial year		**(31,607)**	(27,434)
Unrealised gains on revaluation of fixed assets	13	**19**	22
Total recognised gains/(losses) relating to year		**(31,588)**	(27,412)

Balance sheet as at 31 March 2007

	Note	**At 31 March 2007**		At 31 March 2006 (restated)	
		£'000	**£'000**	£'000	£'000
Fixed assets	8				
Tangible assets	2(d)	**1,872**		2,292	
Intangible assets	2(e)	**499**		82	
			2,371		2,374
Current assets					
Debtors	9	**514**		5,875	
Cash at bank and in hand	18(c)	**305**		31	
		819		5,906	
Creditors					
Amounts falling due within one year	10	**(4,265)**		(4,621)	
Net current (liabilities)/assets			**(3,446)**		1,285
Total assets less current liabilities			**(1,075)**		3,659
Creditors					
Amounts falling due after more than one year	10		**(308)**		(367)
Provisions for liabilities and charges	12		**(855)**		(3,447)
Total net liabilities			**(2,238)**		(155)
Financed by					
General Reserve	13		**(2,238)**		(155)
			(2,238)		(155)

Approved by the Pensions Regulator at a meeting on 6 June 2007

David Norgrove
chair, the Pensions Regulator
19 June 2007

Tony Hobman
chief executive, the Pensions Regulator
19 June 2007

Cash Flow Statement for the year ended 31 March 2007

	Note	**Year ended 31 March 2007** **£'000**	Period from 6 April 2005 to 31 March 2006 (restated) £'000
Net cash outflow from operating activities	18(a)	**(33,096)**	(23,421)
Interest received		**172**	151
Tax paid		**(29)**	(10)
Capital expenditure	8	**(1,177)**	(2,393)
Financing	18(b)	**34,404**	25,647
Increase/(Decrease) in cash	18(c)	**274**	(26)

The accounting policies and notes on pages 86 to 99 form part of these accounts.

Notes to the Accounts

1 Basis of Preparation

1.1 Basis of accounting

The financial statements are drawn up in accordance with a direction given by the Secretary of State for Work and Pensions in accordance with Paragraph 27(2) of Schedule 1 of the Pensions Act 2004. The financial statements are prepared in accordance with generally accepted accounting practice in the United Kingdom (UK GAAP) and the Companies Act requirements, the disclosure and accounting requirements contained in HM Treasury's *Fees and Charges Guide*, and the accounting and disclosure requirements given in *Government Accounting* and in the *Financial Reporting Manual* (FReM), insofar as these are appropriate to the regulator and are in force for the financial year for which the statements are prepared. The financial statements are prepared under the modified historical cost convention by the inclusion of fixed assets at their value to the business by reference to current costs.

1.2 Change of accounting policy

With effect from the 2006-2007 reporting period, the FReM requires NDPBs to account for grants and grants-in-aid received for revenue purposes as financing because they are regarded as contributions from a controlling party which gives rise to a financial interest in the residual interest of NDPBs. This is a change in accounting policy from earlier periods when such items were recorded as income. The effect of this change on the certified 2005-2006 accounts and the impact of the change on the results of the current year is shown below. Note there is no impact on the net liability of the regulator as a result of this change in policy.

	At 31 March 2006 (Previously stated)	Impact of adopting the new policy	At 31 March 2006 (restated)
Net expenditure for 2005-2006	2,549	(29,923)	(27,374)
General Reserve	(2,529)	2,374	(155)
Government Grant Reserve	2,374	(2,374)	-

	At 31 March 2007 (without applying the new policy)	Impact of adopting the new policy	At 31 March 2007 (Applying the new policy)
Retained deficit for 2006-2007	(2,038)	(29,527)	(31,565)
General Reserve	(4,609)	2,371	(2,238)
Government Grant Reserve	2,371	(2,371)	-

2 Accounting policies

a) Government grants & 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) Notional costs

Certain expenses included in these accounts have not involved actual payments. They include various expenses and notional interest on capital employed (notional interest has been calculated at the Treasury standard rate of 3.5% of the average value of total assets less liabilities). These costs are included in the accounts to ensure that the results reflect the full economic costs of the regulator.

c) Other income and expenditure

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

d) Tangible fixed assets

Fixed assets are valued at current replacement cost which is calculated by applying appropriate Office for National Statistics indices to the historical cost of each asset. Any surplus on revaluation of fixed assets is credited to the General Reserve. Any permanent diminution in the value of a fixed asset on revaluation is charged to the income and expenditure account when it occurs. The regulator is required to remit the proceeds of disposal of fixed assets to the Secretary of State.

e) Intangible fixed assets

The costs of purchasing major software licences are capitalised as intangible fixed assets. The costs of major software development and enhancement including related consultancy costs are capitalised as tangible fixed assets, although ongoing software maintenance costs are written off in the period in which they are incurred.

f) Depreciation

The threshold for treating expenditure on single items of tangible and intangible fixed assets as capital expenditure is £1,000. Depreciation is provided on fixed 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	– 3 years
– major software licences	– 3 years
– software development and enhancement	– 3 years

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

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

g) Operating leases

Rent payable under operating leases is charged to the income and expenditure account 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.

h) Pension arrangements

The majority of past and present employees are covered by the provisions of the *Principal Civil Service Pension Scheme* (PCSPS) which is a defined benefit scheme and is unfunded and non-contributory, except in respect of dependants' 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 5, certain employees can opt for a stakeholder pension.

i) Early retirement costs

Compensation payments are charged to the income and expenditure account. Obligations relating to those former members of staff aged 50 or over are provided for until their normal date of retirement.

j) 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.

3 Other income

	Year ended 31 March 2007 £'000	Period from 6 April 2005 to 31 March 2006 (restated) £'000
DWP payment for gathering data about hybrid pension schemes:	**57**	-
Charges made for providing a levy collection service:		
- PPF contribution towards running costs	**60**	190
- PPF payment for Scheme return form change for PPF	**7**	-
- PPF contribution towards Scheme return 4 development	**50**	-
	174	190

4 Board members

The chairman 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 chairman was appointed on a part-time basis from 1 January 2005 for a period of three years. His salary is set by the Secretary of State in line with senior civil servants, and he is a member of the *Principal Civil Service Pension Scheme*. Other part-time (non-executive) board members are also appointed for periods of between one and four years. The part-time board members were entitled to receive a monthly non-pensionable fee of £850 in 2006-2007 (2005-2006: £833) and out of pocket expenses.

Details of the remuneration and pension benefits of the chairman and all other members of the board are given in the Remuneration report on page 70. The total costs for the chairman and part-time board members are as follows and these costs are included within other operating charges (Note 6):

	Year ended 31 March 2007 £'000	Period from 6 April 2005 to 31 March 2006 £'000
Salary/fees	**160**	161
Social security costs	**14**	15
Other pension costs (chair only)	**17**	18
	191	194

Included above are fees waived in favour of a board member's employer totalling £11,458 (2005-2006: £11,458), plus £2,005 irrecoverable VAT.

5 Staff costs including pensions

	Year ended 31 March 2007 £'000	Period from 6 April 2005 to 31 March 2006 £'000
Employees		
Salaries and wages	**9,421**	7,872
Social security costs	**797**	672
Other pension costs	**1,796**	1,429
	12,014	9,973
Newcastle staff	**-**	3
Temporary staff	**6,823**	4,504
Redundancy and early retirement costs	**388**	517
	19,225	14,997
The average number of staff employed, including temporary staff	**No**	No
Employees	**252**	230
Temporary staff	**73**	58
Total	**325**	288

Details of the remuneration and pension benefits of the board of the regulator are given in the Remuneration report on page 70. The staff costs 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 defined benefit 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 2003, and details can be found in the resource accounts of the *Cabinet Office: Civil Superannuation* (**www.civilservice-pensions.gov.uk**). A further valuation commenced in March 2007 with findings to be presented to the Cabinet Office for employer consultation at the end of 2007.

5 Staff costs including pensions *continued...*

For 2006-2007, employers' contributions of £1,785,928 were payable to the PCSPS (2005-2006: £1,418,924) at one of four rates in the range 17.1% to 25.5% of pensionable pay, based on salary bands. In 2005-2006, the four salary bands were in the range 16.2% to 24.6%. The scheme's actuary reviews employer contributions every four years following a full scheme valuation. The contribution rates reflect the benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Employees joining after 1 October 2002 can opt to open a partnership pension account, a stakeholder pension with an employer contribution, and employer contributions of £9,603 (2005-2006: £9,942) were payable to one or more of a panel of three appointed stakeholder pension providers. Employer 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 £910 (2005-2006: £706), 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.

There were no outstanding or prepaid contributions at 31 March 2007.

6 Other operating charges

	Year ended 31 March 2007 £'000	Period from 6 April 2005 to 31 March 2006 £'000
Board chair - includes expenses	**133**	132
Part-time board members' fees*	**57**	64
Part-time board expenses**	**1**	1
Consultancy, contracted out and other professional services	**6,492**	6,684
Training and recruitment costs	**1,213**	891
Staff travel and expenses	**379**	295
Depreciation ***	**1,138**	1,065
General office expenses including accommodation expenses	**1,545**	1,974
Redundant property costs	**-**	(297)
Dilapidations costs	**63**	(99)
Computer systems development and maintenance	**930**	499
Operating leases including rent	**654**	850
Devaluation of fixed assets	**61**	287
Auditor's remuneration	**29**	39
	12,695	12,385

* This amount includes irrecoverable VAT of £2,005 charged by the employer of a board member who has waived her fees in favour of her employer (2005-2006: £2,000).

** This amount includes tax due to the Inland Revenue on expenses incurred of £926 (2005-2006: £266).

*** Depreciation is net of the reduced charge due to revaluations during the period (Note 8).

Costs in the year ended 31 March 2007 included exceptional costs of £6.0m (2005-2006: £4.877m) relating to the continuation of the *culture change programme* to establish the regulator and provide it with the personnel, systems and procedures necessary to fulfil its wide-ranging remit. The costs are largely included in consultancy. The activities of the programme are described in section 4 of the Annual report. Initial costs of the *culture change programme* were borne directly by the DWP. The income for the *culture change programme* is shown in Note 13 and is equivalent to the costs incurred during the period.

7 Tax on interest receivable

	Year ended 31 March 2007 £'000	Period from 6 April 2005 to 31 March 2006 £'000
UK Corporation Tax at 19% (2005-2006: 19%) on interest receivable	**33**	29

8 Fixed assets

	Leasehold improvements	Furniture & equipment	IT hardware & software	IT software (intangible)	Total
	£'000	£'000	£'000	£'000	£'000
Cost:					
At 31 March 2006	1,281	924	1,094	201	3,500
Additions in period	12	91	367	707	1,177
Disposals in period	-	-	(224)	(98)	(322)
Revaluations	19	(14)	(47)	-	(42)
At 31 March 2007	1,312	1,001	1,190	810	4,313
Depreciation:					
At 31 March 2006	183	219	605	119	1,126
Charge for period	187	199	494	290	1,170
Disposals in period	-	-	(224)	(98)	(322)
Reduction in charge arising on revaluations	3	(5)	(30)	-	(32)
At 31 March 2007	373	413	845	311	1,942
Net book value at 31 March 2006	1,098	705	489	82	2,374
Net book value at 31 March 2007	939	588	345	499	2,371

The net book value of assets disposed of during the period was nil.

9 Debtors

	At 31 March 2007		At 31 March 2006	
	£'000	**£'000**	£'000	£'000
Debtors:				
Central government	**26**		5,188	
Other	**80**		172	
		106		5,360
Prepayments:				
Other		**386**		499
Other debtors - staff loans		**22**		16
		514		5,875

10 Creditors – amounts falling due within one year

	At 31 March 2007 £'000	At 31 March 2007 £'000	At 31 March 2006 £'000	At 31 March 2006 £'000
Taxation on interest receivable		**33**		29
Deferred income		**59**		119
Amounts due to suppliers		**1,994**		945
Accruals:				
Central government	**206**		111	
Other	**1,973**		3,417	
		2,179		3,528
		4,265		4,621

Central government accruals includes £2,342 due to the PPF, £155,269 due to the DWP and £40,252 due to the Government Actuary's Department.

Deferred income due in less than one year comprises rent rebates received (see Note 2(g)).

Deferred income due in greater than one year comprises only rent rebates.

Creditors – amounts falling due after more than one year

	At 31 March 2007 £'000	At 31 March 2006 £'000
Deferred income	**308**	367

11 Operating leases

The regulator occupies an office in Brighton, the lease on which will expire in 2013. Annual commitments for 2007-2008 in respect of leases expiring:

	within one year £'000	within 2 to 5 years £'000	over 5 years £'000
Land and buildings	–	–	670
Other operating leases	11	19	–
Total	**11**	**19**	**670**

12 Provisions for liabilities and charges

	Early Retirement £'000	Redundancy £'000	Dilapidations £'000	Property costs £'000	Total £'000
Balance at 31 March 2006	347	203	151	2,746	3,447
Amount provided/ (released) in period	6	397	63	(111)	355
Utilisation in period	(109)	(203)	–	(2,635)	(2,947)
Balance at 31 March 2007	**244**	**397**	**214**	**-**	**855**

13 Reconciliation of movements in General Reserve

	31 March 2007 £'000	31 March 2006 (restated) £'000
As at 1 April 2006 brought forward	**(155)**	(3,289)
Net expenditure	**(31,565)**	(27,374)
Grant-in-aid to cover ongoing operations	**21,435**	23,215
Grant-in-aid to cover initial costs of establishing the regulator	**6,893**	4,938
Grant-in-aid to cover fixed asset purchases	**1,177**	2,393
Surplus on revaluations in period	**19**	22
Notional interest on capital employed (see Note 2b)	**(42)**	(60)
General Reserve carried forward	**(2,238)**	(155)

14 Capital commitments

Amounts contracted for but not provided in the accounts amounted to nil 31 March 2006: nil).

There were no amounts authorised by the board not contracted for.

15 Financial penalties

In the course of the period no financial penalties were imposed (2005-2006: nil) and penalties collected amounted to £5,274 (2005-2006: £4,000). Under Section 10(9) of the Pensions Act 1995, the regulator is required to pay the Secretary of State any penalties recovered and therefore such penalties are not included in the accounts.

16 Contingent liabilities

There were no contingent liabilities at 31 March 2007 (31 March 2006: nil).

17 Contingent assets

A claim has been made against our legal advisers for failing to implement the break clause on three of the floors at Invicta House. Liability has been admitted and the claim is with their insurers.

18 Notes to the Cash Flow Statement

	Year ended 31 March 2007	Period from 6 April 2005 to 31 March 2006
	£'000	£'000 (restated)
(a) Reconciliation of net expenditure to net cash outflow from operating activities		
Net expenditure on ordinary activities	**(31,746)**	(27,192)
Depreciation	**1,138**	1,065
Devaluation of fixed assets	**61**	287
Increase/(decrease) in debtors	**462**	(481)
Increase/(decrease) in creditors	**(419)**	3,627
Increase/(decrease) in provisions	**(2,592)**	(727)
Net cash outflow from operating activities	**(33,096)**	(23,421)
(b) Analysis of financing		
Grant-in-aid received from the DWP	**22,611**	25,608
Grant-in-aid received for the Culture change programme	**11,793**	39
	34,404	25,647
Applied towards purchase of fixed assets	**(1,177)**	(2,393)
Total Grant-in-aid applied towards revenue expenditure	**33,227**	23,254

(c) Analysis of movements in net funds

	at 31 March 2006	Cash flow	at 31 March 2007
	£'000	£'000	£'000
Cash in hand and at bank	31	274	305
Total	31	274	305

Cash at bank represented the only funds held at 31 March 2007.

19 Related party transactions

The Pensions Regulator is a Non-Departmental Public Body accountable to the Secretary of State for Work and Pensions. The Department for Work and Pensions (DWP) and the Pension Protection Fund (PPF) are regarded as related parties. During the period the Pensions Regulator has had a number of significant transactions with the Department, its executive agencies and other related bodies covering:

a) supply of data gathering services on a full reimbursement basis (DWP)
b) provision of levy collection services (PPF)
c) contribution towards development of the Scheme return 4 service (PPF)

During the period no other related parties, including the Pensions Regulator board members and key management, had undertaken any material transactions with the Pensions Regulator.

20 Financial Instruments

FRS 13, Derivatives and Other Financial Instruments, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the non-trading nature of its activities and the way it is financed, the regulator is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of listed companies to which FRS 13 mainly applies. The regulator has very limited powers to borrow or invest funds. Financial assets and liabilities are generated by day to day operational activities and are not held to change the risks facing the regulator in undertaking its activities.

Liquidity risk

The regulator's net revenue resource requirements are largely 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.

21 Post balance sheet date events

FRS 21, Post balance sheet date events requires disclosure of significant events that have occurred after the financial year end which have an impact on the financial statements. There have been no Post balance sheet date events at the regulator.

The regulator's financial statements are laid before the Houses of Parliament by the Secretary of State of the Department for Work and Pensions.

FRS 21 requires the regulator to disclose the date on which the accounts are authorised for issue. This is the date on which the certified accounts are despatched by the regulator's management to the Secretary of State of the Department for Work and Pensions.

The authorised date for issue is 29 June 2007.

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