Annual report and accounts 2011-2012

The Pensions Regulator

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2011-2012

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Chair's foreword

This last year has witnessed the continuation of the difficult economic climate and has placed considerable pressure on the funding of DB pension schemes.

Long dated index-linked gilt yields are at an all time low due to a combination of economic and market factors. Several asset classes performed poorly over the year. As a result, despite significant deficit repair contributions over the last three years, schemes have struggled to achieve improvements in scheme funding levels. While always keeping focused on protecting member benefits, we have sought to apply the defined benefit (DB) funding regime with flexibility and with due account to affordability.

Looking more to the future, in 2011-2012 we began our **Employer Compliance Regime (ECR)** communications programme in earnest. The regulator has a key role to play in increasing both participation and confidence. We have a multi-channel and multi-audience based approach designed to improving the understanding of the new duties. We recognise that getting automatic enrolment right, actively promoted, and minimising opt-outs is of the utmost importance.

We know from our surveys of the market that the majority of employers will choose defined contribution (DC) schemes for automatic enrolment. Accordingly, in the DC area, the regulator is keen to drive up standards. Therefore, we published the **'Six principles of design and management of a good DC scheme'** and we followed this up with an extensive dialogue with the pensions industry on how these features can best be met.

The features focus in particular on the design and governance of the default fund, appropriate investment decisions, value for money and transparency of charges. We have made clear that we believe six key principles need to be in place in the vehicles that deliver workplace pensions for the world of automatic enrolment.

I want to finish by acknowledging and thanking the thousands of trustees who carry so much of the burden of ensuring the protection of member benefits. We are committed to working together with them and the entire regulated community to meet our collective goal of protecting the interests of members of all work-based pensions schemes.

Michael O'Higgins
Chair,
The Pensions Regulator
18 June 2012

Chief executive's report

In March 2012, our stakeholders were significantly more confident in our ability to deliver against our strategic objectives, and our staff were significantly more engaged in our journey, than in April 2011. These are key indicators, I believe, that reflect well on the way we are going about our business, setting out our stall for the challenges ahead, and explaining our approach.

Each of our three lines of business had notable achievements in 2011-2012:

Our DB teams dealt with an increasingly large and complex caseload. We dealt with over 2,000 direct engagements with schemes in our case teams: this included high profile litigation – for example in the **Nortel** and **Lehmans** cases – and positive outcomes for members and the **Pension Protection Fund (PPF)** on other high profile avoidance, recovery and resolution cases. They also completed a great deal of preparatory work – working closely with the industry – for the first of our planned annual funding statements, which was published just after the period covered by this report. This explained how we wished to engage with schemes on the funding issues for schemes with valuation dates during this period of economic turbulence, and set the context for a more proactive approach to engagement with schemes on triennial valuations.

Our **DC, governance and administration teams** developed a strategic framework for DC regulation, encouraging all schemes used for automatic enrolment to focus on their delivery of good outcomes for members. They pressed home the messages on improving administration standards right across the industry, with notable success.

While doing this, they also focused on improving the quality of our independent Trustee register and intervened decisively to prevent occupational schemes from being used to 'liberate' pensions. The publicity created by our high profile interventions on unauthorised pension access vehicles, and the associated campaign activity we generated, we hope will have prevented many members from getting trapped by arrangements seeking to exploit their vulnerability. We also intervened in cases involving inadequate or improper trustee behaviour. This included replacing unfit trustees, and in certain cases, prohibiting them from any future roles as trustees. Some of these cases have been passed to other prosecuting authorities, if we believe criminal sanctions may be justified.

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In our Employer Compliance directorate, we continued to focus on preparing industry for the onset of automatic enrolment duties in October 2012: we signed a contract with Capita to deliver bulk compliance processes (communications and enforcement); we delivered high quality guidance and enablement tools; we engaged across all parts of the industry to assess and prompt the required preparatory work including direct engagement with over 400 large employers, the main software providers and pension providers; and we demonstrably raised levels of awareness and understanding of the new duties in our targeted intermediary audiences with a sustained and effective communications campaign.

The bandwidth of activity between us and central government also increased dramatically this year as we handled – among other things – a Work and Pensions Select Committee (WPSC) enquiry, a National Audit Office (NAO) review, the Red Tape Challenge, the Hutton Review of Public Sector Pension Schemes, and a host of other initiatives from various departments.

While focused on the domestic agenda, we have engaged in a very active way in EIOPA (European Insurance and Occupational Pensions Authority), the new European Union (EU) level authority for pensions and insurance supervision. It has been a very significant year on this front, with a number of pensions initiatives emanating from the European Commission, including the review of the IORP (Institutions of Occupational Retirement Provision) Directive, the framework directive for occupational pension schemes in the EU. We have worked hard to ensure that the key elements of the UK pension system are understood in this dialogue, and that EIOPA's advice includes options that would work in the UK context, if sensitively implemented. These are important issues for us, and the risks of a poorly implemented European agenda remain significant.

Perhaps more so than in previous years, we have needed to adapt and respond to events and deliver significant new pieces of work not anticipated in our Corporate plan. The need to react to the effect of the low interest rate environment on DB schemes, and the change to the staging profile for employers' automatic enrolment duties meant that the development programmes for DB and automatic enrolment work changed shape significantly in mid year. The decision of the NAO, and the WPSC to review our activities in DC (both) and automatic enrolment (WPSC) required us to divert resources to the engagement with these organisations.

The extent of the reactive work has had an impact on our ability to deliver everything in our 2011-2012 plan. Our planning assumptions have also been tested by the difficult operating environment. We have – in common with the entire public sector – been subject to constrained recruitment and tight controls on public expenditure which has resulted in us operating over the year, on average, with almost 20% fewer staff than planned in the budget. This has reduced our resilience in the face of the unplanned events. Overall, as a result of the under-staffing described, and the delay to our planned automatic enrolment schedule, we have spent significantly less this year than we planned (£30.1 million against our Corporate plan budget of £42.1 million – excluding capital expenditure[1]). In a sign of the organisation's ability to regroup and reform however, now some of the restrictions have been lifted through delegated authority, we have filled 185 roles, and recruited and integrated 165 people to the organisation: a significant achievement that sets us much better for 2012-2013.

[1] These figures exclude £8.5 million spent on outsourced services related to the Employer Compliance Regime.

The combination of unplanned calls on our resources, and lack of resource has meant that some key aspects of our **Corporate plan** for 2011-2012 have not been delivered, and response times in some of our key regulatory processes have been affected. For example, we had intended to develop further our thinking on how we might respond to the changes in the DB landscape, based on our enhanced understanding of DB scheme risk profiles. The bulk of this work has now shifted to 2012-2013, as our DB teams have been under-resourced, and casework was prioritised. Similarly, in the DC line, our plans for supporting DC trustees, our approach to the regulation of multi-employer DC schemes and our work with the **Financial Services Authority (FSA)** on exploring the regulation of workplace personal pensions have all progressed more slowly because of the difficulties imposed by the restrictions on recruitment and resourcing.

While we have – in general – maintained customer satisfaction scores within reasonable parameters by focusing on the most urgent cases and enquiries, our response times to non-urgent queries, and some recovery plans, has increased. The details are outlined in our reported customer satisfaction KPIs, in the section on **Better Regulation** (page 31).

Through these challenges, our teams right across the business; those involved in both development work and in the front-of-house activities, have worked quite exceptionally hard to minimise the effects of the reduced staffing levels on our outputs and effectiveness. It is a huge tribute to their dedication and professionalism that, in a period of real pay cuts and increased pension contributions, so many of them have responded to our challenges by working even harder, demonstrating the strength of their engagement with our work, and providing the tangible proof of the exceptionally high staff engagement scores in our annual staff survey. I am hugely grateful to all of them.

We have been conscious that where possible, the effect of lower resource levels should not be felt by those we regulate. We seek always to minimise the burden of our regulatory activity. In this regard, I am encouraged by the consistently high scores given us by our regulated community for compliance with the principles of **Better Regulation** (see our KPI, page 35). We remain fully committed to our approach of **'Educate, enable and enforce'** and to ensuring that all our actions are proportionate, accountable, consistent, transparent and targeted. This year, I am particularly pleased that we improved even further our scores on transparency – a result, I am sure, of our efforts to publicly explain decisions on our more complex and controversial cases.

Communicating our intent, our approach and our requirements to those we regulate, their advisers and stakeholder bodies is an important part of what we do. We believe it is the most cost effective approach to our task, and pays direct dividends in budgetary terms. In a world where most people want to do the right thing, a clear understanding of the regulator's position is likely to mean we need to make fewer scheme-specific or employer-specific interventions. For this reason, this year we have continued to invest in our digital communications infrastructure – our website, and our abilities to communicate directly with trustees, employers and their advisers through digital channels. We have also developed very popular webinars to communicate key messages about automatic enrolment and scheme funding, as cheaper alternatives to road shows and workshops.

It is encouraging that our core stakeholder groups have this year indicated a high level of confidence in our general approach. On scales of one to seven, they scored us between 2.5 and 3.1 (where one is full confidence) across our three lines of business. DB regulation scored the highest, with Employer compliance and DC scores – while good – reflecting perhaps the relative maturity of our frameworks in those areas. We will work hard to ensure stakeholders continue to have a good understanding of our plans and approaches, and we will seek to improve these scores further, as our operations mature in our new lines of business.

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Our stakeholders have told us in this survey that they would like a more responsive regulator, responding more quickly on recovery plans and enquiries, and one that is more transparent, and obviously consistent in our dealings with schemes. We are listening, and within our budgetary constraints, have set out plans to improve customer response times in our Corporate plan for 2012-2013. We will continue to work on our transparency, looking to be clear in advance about our plans, and explaining our casework decision-making wherever possible.

And again in line with our stakeholder feedback, this year we have placed increasing focus on our relationship with fellow regulatory authorities and particularly the FSA. In a world where both EU and UK regulatory landscapes are changing shape, we will work closely with the FSA and its successor bodies to ensure regulation remains as coherent as possible to those we regulate. In particular, we will ensure the regulation of DC provision is clearly articulated. This year, we laid much of the groundwork for that task, and have stayed engaged with the FSA's plans for their demerger, anticipating the consequences for our engagement across many areas.

All in all, it has been a challenging year and I am hugely proud of the effort and enthusiasm that all of our teams have demonstrated. Despite the challenges, as an organisation we have achieved a lot and I would like to finish by thanking all of our staff and members of the board for their ongoing work and dedication. 2012 sees the launch of automatic enrolment, the biggest change to work place pensions in generations: our challenge continues to grow but I am confident of our ability to meet it.

Bill Galvin

Chief executive,
The Pensions Regulator
18 June 2012

Introduction

Statutory objectives

The Pensions Regulator ('the regulator') is the regulator of work-based pensions, established under the Pensions Act 2004 as a non-departmental public body.

Our objectives, as set out in the Pensions Act 2004 and Pensions Act 2008, are to:

- Protect the benefits of members of work-based pension schemes
- Promote, and improve understanding of the good administration of work-based pension schemes
- Reduce the risk of situations arising which may lead to compensation being payable from the PPF and
- Maximise employer compliance with the employer duties and the employment safeguards introduced by the Pensions Act 2008.

We are funded via a Grant-in-Aid from the Department for Work and Pensions (DWP). Some of this funding is recovered from eligible schemes via the general levy. The set-up and operating costs of the Employer Compliance Regime (ECR) are being met by the DWP. The Pensions Regulator is financially accountable to the Secretary of State for Work and Pensions.

Our regulatory approach

We seek to ensure that people responsible for providing access to and managing work-based pensions fulfil their obligations. We work with trustees, employers, pension specialists and business advisers, providing guidance and education to make clear what is expected of them and enabling them to achieve high standards.

Our approach is to educate, enable and enforce. We seek to educate trustees in their duties via the use of tools such as the Trustee toolkit and enable the regulated community via the publication of regulatory guidance, codes of practice and statements. While supporting the regulated community in meeting their responsibilities, we use our enforcement powers where appropriate against those that do not fulfil their obligations. When we use our major powers, decisions are taken by the Determinations Panel, whose constitution ensures it is separate from the case teams. This enables it to make impartial decisions, based on the evidence before it.

The law provides us with a governance framework and a wide range of discretionary powers. As a risk-based regulator, our aim is to identify key issues, set priorities, plan and execute specific regulatory activities based on our assessment of the risks in meeting our statutory objectives.

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Better regulation

Since the launch of the regulator in April 2005, we have been risk-based and aligned with the principles of good regulation ie to be proportionate, accountable, consistent, transparent and targeted. Full details of our work in this area can be found on page 31.

All public bodies must operate within tight expenditure constraints and we are fully committed to delivering efficiency savings in line with the Comprehensive Spending Review (CSR) 2010 settlement. As an organisation we have been asked to prepare and implement plans for a 25% reduction in our levy funded core cost base over the course of the four years. (The 25% reduction excludes budget allocated to carry out our new duties in the Pensions Act 2008.)

2011-2012 was the first year of the four year spending period covered by the current CSR. Expenditure in 2011-2012 was significantly lower than budgeted due to Government spending controls and their impact on our ability to recruit staff, take forward a number of planned activities and procure key goods and services needed to support the achievement of objectives. Our full Financial review is outlined on page 60.

In the second half of 2011-2012, the NAO undertook a value for money review on our regulation of DC schemes. The NAO is expected to produce its report in the summer of 2012. We will give careful consideration to the recommendations.

Reducing our overall burden on the environment also remains an important consideration. Full details of our achievements in this area can be found in our Sustainability report on page 101.

Pension reform

Automatic enrolment is the core employer duty of the pensions reform programme, and is set to commence in 2012. The full extent of the duties is set out in the Pensions Act 2008 and secondary legislation. These reforms mean that employers will have to automatically enrol their eligible jobholders into a qualifying scheme and make contributions on their behalf.

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

We published our strategy for delivering successful automatic enrolment in February 2012. Our detailed Compliance and enforcement strategy and policy will be published in summer 2012.

Europe

The importance of Europe on the UK pensions landscape continues to grow. 2011 saw the launch of the **European Insurance and Occupational Pensions Authority (EIOPA). EIOPA** has significantly enhanced powers compared to its predecessor (**CEIOPS – Committee of European Insurance and Occupational Pensions)** including the ability to draft regulatory technical standards and implement technical standards, to issue guidelines and recommendations and to take individual decisions addressed to competent authorities or financial institutions.

Over the course of the year, a number of pensions initiatives have emanated from the **European Commission**. This follows the launch of the Green Paper in 2010 on **'Adequate, sustainable and safe pensions systems in Europe'**. The most significant initiative has been that of the review of the **IORP Directive**, the framework directive for occupational pension schemes in the **EU**. The **European Commission** issued a **Call for Advice (CfA)** on the **IORP Directive** to **EIOPA** asking specific questions encompassing a number of different areas. **EIOPA** responded in February 2012 with advice to the Commission on all areas of the **IORP Directive** including funding, governance, scope and disclosure. **EIOPA**'s advice was of a technical nature. The decision on how to proceed will be undertaken after impact assessment by the **European Commission** and subsequently at the **European Council of Ministers** and in the **European Parliament**.

The Pensions Regulator, as a member of **EIOPA**, has contributed to the response to the **CfA** so as to ensure that key elements of the UK pension system are understood and retained. The regulator's role has been to provide objective and technical input to **EIOPA**. We have also worked with our government partners and stakeholders throughout the review period to ensure they have a full understanding of the proposals.

Any changes in the **Directive**, particularly to funding requirements, could have far reaching consequences in the UK. The advice contains options around a new EU wide method for valuing schemes assets and liabilities which reflect the diverse arrangements of pensions within the EU but set out a common framework, termed the **Holistic Balance Sheet**. The starting basis for the advice was the rules for insurers (Solvency 2) as this was the benchmark given to **EIOPA**, but a key difference for Solvency 2 is that the **Holistic Balance Sheet** allows schemes to account for all security mechanisms including the support of employers in funding arrangements. We have worked hard to ensure that key elements of the UK pension system are understood. **EIOPA** has now begun work on an impact assessment on the funding advice to ensure that the impacts are measured and understood and the regulator is playing a full part in this work.

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Government partners

Department for Work and Pensions (DWP)

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

Working with the DWP, we are fully committed to reducing the overall burden of regulation through the Government's Red Tape Challenge. We are helping the DWP to identify and implement opportunities for reducing avoidable burdens on schemes and employers.

The Financial Services Authority (FSA)

The FSA is responsible for the regulation of providers of work-based personal pensions. The FSA's regulation sometimes extends to the product characteristics of work-based personal pensions.

We are committed to working with the FSA and its successor bodies the Financial Conduct Authority (FCA) and the Prudential Regulatory Authority (PRA) to ensure the regulation of DC provision remains appropriate.

A key element of this will be mitigating the potential for regulatory arbitrage in the regulation of DC schemes. We will work with FSA and its successor bodies to ensuring that the benefits of members are protected, high standards in administration are achieved and that our respective interventions are coherent and complimentary.

Her Majesty's Revenue & Customs (HMRC)

HMRC is an important government partner for the regulator as it holds data on pension schemes that support the regulator in carrying out its functions in relation to employer and scheme registration and scheme information management.

We are committed to reducing the overall regulatory burden on schemes and to lighten it have developed a data sharing capability whereby HMRC sends to the regulator data on newly registered schemes. This has led to an increase in the identification and registration of newly established schemes. The regulator's new system automatically selects the appropriate schemes to contact and informs them about registration.

Co-operation with other UK regulatory bodies

As part of our preparation for automatic enrolment, our Compliance and enforcement team has been working with other regulators in order to consider and establish opportunities for the sharing of data, best practice, and strategic issues.

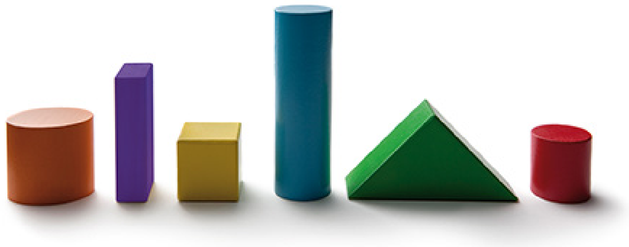
This has included working with the Gangmasters Licensing Authority, Department for Business Innovation and Skills, Regulated Information Services, National Minimum Wage, and regulators based in Northern Ireland.

In addition to this the team has attended forums such as the National Fraud Liaison Group, Local Authority Investigation Officers Group and the City of London Crime Prevention Group to enhance knowledge of the strategic landscape.

Co-operation with regulators in other countries

We work closely with regulators from other countries in protecting retirement incomes in an era when many sponsoring employers have a global presence. This has included working closely with our transatlantic colleagues and on a number of cases. In 2009 we signed a Memorandum of Understanding (MoU) enabling the sharing of market intelligence with the US Pensions Benefit Guarantee Co-operation (PBGC). This enables us to develop shared understanding in an increasingly globalised market, whilst reflecting the strict domestic controls which protect restricted information collected in the performance of regulatory functions.

We are also committed to sharing best practice with regulators from other countries. We work closely with all international regulators in our role as a member of the OECD Working Party on Private Pensions (WPPP) and the International Organisation of Pension Supervisors (IOPS). We have also held detailed engagement with regulators who have specific expertise of relevance to the regulator, including Chile who has a strongly DC dominated market, and we currently have a secondee from New Zealand lending their experience of automatic enrolment.



The pensions landscape

We regulate work-based pension schemes. These comprise both trust-based occupational pension schemes and personal pensions where there is a direct payment arrangement. Occupational schemes are governed by trustees, while group personal pensions (GPPs) are an individual contract between the employee and the provider (typically an insurance company).

Profile of occupational scheme membership

Scheme type, membership numbers and membership status:

As at 31 March 2012:

- membership of private sector occupational DB schemes stood at approximately 8.1 million
- membership of private sector occupational trust-based DC schemes stood at approximately 1.4 million
- there were a further 6.4 million members of private sector hybrid schemes, (of which approximately 1.0 million are DC members and approximately 5.4 million are DB members), and
- the **Office of National Statistics (ONS) annual survey of Hours and Earnings** shows that there are 2.5 million members of work based personal pension schemes.

There are 2.4 million DC trust members (both members of DC schemes and DC members of hybrid schemes[2]). 43% are active, 54% are deferred; and 3% are pensioners[3].

There are 13.5 million DB members (both members of DB schemes and DB members of hybrid schemes). 16% are active, 46% are deferred; and 38% are pensioners.

Concentration

As at 31 March 2012, there were around 41,400 occupational DC schemes registered with the regulator. As of the same date there were around 5,790 DB schemes registered, with a further 1,700 hybrid schemes.

However membership of occupational pension schemes (with more than one member) in the private sector remains concentrated in a small number of large schemes. As at 31 March 2012:

DB

- 88% of memberships were in 842 schemes with more than 1,000 members, and
- furthermore, 63% of memberships were found in just 134 schemes with more than 10,000 members.

DC

- 74% of members were in 186 schemes with more than 1,000 members, and
- just 6% of members were in the 83% of schemes with fewer than 4 members.

Tables 1 and 2 on page 18 provide further details on numbers of schemes and their members.

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

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

Table 1
Schemes: Number of live private sector schemes by registered benefit type as at 31 March 2012

Status	Defined benefit (DB)	Defined contribution (DC)	Hybrid	Grand total
Open	914	31,036	132	32,082
Closed	2,672	4,003	1,112	7,787
Paid up (Frozen)	1,536	4,739	321	6,596
Winding up	675	1,628	134	2,437
Grand total	**5,797**	**41,406**	**1,699**	**48,902**

Source: Figures taken from the regulator's scheme return data as at 31 March 2012

Table 2
Memberships: Number of live private sector memberships by registered benefit type as at 31 March 2012

Status	Defined benefit (DB)	Defined contribution (DC)	Hybrid	Grand total
Open	2,364,639	1,048,835	1,468,378	4,881,852
Closed	4,836,571	194,960	4,517,073	9,548,604
Paid up (Frozen)	711,347	86,992	396,933	1,195,272
Winding up	171,295	68,253	59,136	298,684
Grand total	**8,083,852**	**1,399,040**	**6,441,520**	**15,924,412**

Source: Figures taken from the regulator's scheme return data database as at 31 March 2012

Strategic theme 1: Improving governance and administration

Operational activities

While education and enablement has remained our focus in this area, where this has not produced the appropriate outcomes, we have instigated the use of powers. Over the year we used our powers 498 times on trustee appointments and 29 times on governance cases (these cases include independent trustee appointments, vesting orders and demands for information).

This year we saw an increase in unauthorised pension access[4] cases. In response, we increased the number of regulator investigations in this area. We used our powers 37 times on unauthorised pension access cases. We have published details of two of our investigations.

We have continued to monitor the proportion of schemes which wind up within the regulator's target time of two years. These results are based on the date at which the scheme started wind up. Of those schemes which started wind up in Quarter 1 2009-2010, over 80% completed wind up within two years.

In addition we have developed our working relationship with the FSA and HMRC on pensions liberation and in February 2012 we published a joint statement warning against the risks that was supported by a media campaign. We have also worked closely and shared intelligence with the Financial Crime Information Network (FIN-NET).

An area that continues to be important to us is the manner in which trustees approach scheme investment decisions and the impact this has on member benefits and the PPF. To assist understanding of such issues we have published details of an investigation in this area.

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4 The term 'unauthorised pension access' (also known as 'pensions liberation', 'pension release unlocking' or 'pension loans') describes the process by which people improperly release their pension funds before retirement and convert them partly or entirely into cash. The member may be left with little or no pension savings for retirement and may be liable to pay charges to HMRC.

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Communications

In December 2011 we published six principles for good design and governance of workplace defined contribution (DC) pension provision. This sets the standards we want to see in DC schemes.

In April 2011 we published a guide setting out five simple steps to help trustees of smaller pension schemes understand their responsibilities and to improve standards of administration in their scheme.

We undertook research into governance of hybrid schemes and published a statement in October 2011 to help trustees and their advisers understand the risks in hybrid pension arrangements. We also added additional questions to our scheme return (for DB and hybrid schemes) to allow us to understand and monitor hybrid schemes more effectively.

We published a statement to help trustees to better understand the importance of identifying their scheme's statutory employer and how they should set about doing this. This was supported by a new online bite sized module in the **Trustee toolkit** to help trustees understand what was required of them in this task.

Internal controls

In October 2011 we issued a statement on the role of DC trustees that emphasised the need for strong internal controls. Internal controls are a legal requirement and have featured in our dialogue with industry on the six DC principles. A strong internal control framework is one of the key elements underpinning a good member outcome.

We are also in discussion with the accountancy profession about how pensions may be incorporated into the **Audit and Assurance Faculty (AAF)** assurance framework to demonstrate whether trustees have sound administration and accounting procedures.

Record-keeping

We have continued to work to ensure that the necessary record-keeping standards (in line with our guidance) are met and we continue to monitor the industry response to our guidance with annual surveys. Our case managers actively take record keeping issues into account in assessing schemes on governance and administration issues. In addition, we have reinforced our position on record-keeping through a record-keeping workshop, stakeholder liaison and media engagement. Overall awareness of our record-keeping guidance has risen to 95% as measured by our **Record-keeping survey**.

Trustee register

We have continued to monitor the effectiveness of the **Trustee register** and completed a refresh of membership. We have annual review meetings with trustees on the register and have ongoing discussions with a small number of firms about their performance.

Trustee toolkit

The **Trustee toolkit** has had a major refresh to ensure the content is up-to-date and relevant to the needs of trustees, and also to improve the user experience. This included increasing the choices relating to scheme size and type when registering so that every learner benefits from a more tailored programme and the addition of downloadable **toolkit** resources to enable trustees to learn offline if they prefer.

This was supported by a full campaign to promote the refreshed **toolkit** to existing and non-registered trustees, reaching 35,000 individuals. The **Trustee toolkit** remains an important learning tool for trustees and 91% of schemes are now aware of it – up from 88% in 2010-2011. Nine in ten users said they found it useful.

Below we outline how we have performed against our **Key performance indicators (KPIs)** as set out in our **Corporate plan 2011-2014**:

KPI	Outcome
The proportion of schemes in the **Scheme governance survey** that outsource administration functions to a third party have a service level agreement in place to ensure that the regulator's record-keeping requirements are met.	The proportion of trustee boards which outsource administrative functions that have a service level agreement to ensure that the regulator's record-keeping requirements are met has stayed broadly similar in Q4 2011-2012 (68%) as Q4 2010-2011 (67%), with the target of 74% missed. While there has been no improvement in the specific KPI measure, good progress in this area is evidenced by the results of our recent **record-keeping survey**: 66% of members are now in schemes where common data is measurable according to the regulator's requirements, an increase from 33% in 2011 and 20% in 2010. This improvement supports our view that the regulator's record-keeping targets are achievable, and we will continue to pursue improvements.
The proportion of small schemes in the **Scheme governance survey** that have a mechanism in place for identifying and managing risks.	There has been a statistically significant improvement in this KPI measure, and our target has been achieved. The proportion of small schemes having a risk management mechanism improved from 56% in Q4 2010-2011 to 66% in Q4 2011-2012. This improvement reflects the prominence of this in our statement on the role of trustees in DC schemes. This has been a difficult segment for the regulator to influence, and this improvement is encouraging, though clearly there is considerable room for further progress.
The number of trustees who have successfully completed modules of the **Trustee toolkit.**	There has been a 16% reduction in **Trustee toolkit** module completions in 2011-2012 vs 2010-2011. Our target for this KPI has not been attained. Sustained communications campaign activity is a key factor to encouraging module completion. Extended work on the preparatory activities on our approach to regulating DC pension provision resulted in us conducting selective communications rather than sustained campaign activity across our strategic themes. The **Trustee toolkit** was refreshed and relaunched in March 2012. In the final quarter of 2011-2012, we began to see the impact of the refreshed **toolkit** with new registrations up 25% between February and March 2012. With targeted campaign activity throughout 2012-2013, we anticipate that module completions will continue to rise. We retain this KPI and the same ambitious targets in our **2012-2013 Business plan**.

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Strategic theme 2: Reducing risks to DB scheme members

Tranche 5 recovery plans

Every scheme is required to undertake a full scheme valuation once every three years. Where assets do not equal or exceed liabilities they are required to submit a recovery plan to the regulator for review. We received 1,752 recovery plans for schemes with valuation dates between 22 September 2009 and 21 September 2010 (tranche 5). Of these, 786 required additional review by the regulatory case teams or extra action related to late valuations. There are 381 tranche 5 recovery plans still under review. During the year we completed regulatory review on 1,354 recovery plans, which represent 77% of the recovery plans received.

Technical provisions as a proportion of Section 179 were 112.5% on average for tranche 5 (compared to 101.8% for schemes submitting valuations the previous year). Assets as a proportion of Technical Provisions (TPs) were on average 78.8 % for tranche 5 (compared to 71.1% in tranche 4).

Schemes with a very weak employer covenant

Cases involving schemes with a very weak employer covenant have remained a priority. Fifty such cases were identified and progressed through our case management system. Many of these cases have been proactively managed to satisfactory funding outcomes, for example through the identification of adequate group support or contingent assets. Four led to enforcement cases being launched.

We made public reports (s.89 Pensions Act 2004) on this type of case where we had considered enforcing wind-up (Uniq and Polestar). These reports explain our overall approach so that the wider regulated community can understand the important questions for schemes in this situation.

We have continued to work with the PPF on this segment of schemes through quarterly governance meetings, regular reporting and general case communication.

Clearance and avoidance cases

In 2011-2012 we investigated a number of high profile clearance and avoidance cases. Our anti-avoidance powers enable us to drive outcomes on key cases through Determination Panel decisions, agreed settlement or other litigation rulings. Over the course of the year we produced several s.89 notices to explain how action was considered and taken in relation to potential avoidance cases and how settlement was reached. We believe that making our assessment public will help schemes, their advisers and the regulated community better understand our requirements.

Proactive investigations

In addition to these cases, we undertook 211 proactive risk assessments in our risk assessment team in 2011-2012 where we had reason to believe there were situations leading to risk to pension scheme members' benefits. 70% of these activities were escalated to the DB case teams for further investigation. Many of these related to open cases but 43 new enquiries and eight ongoing cases were opened as a result of this proactive work in this period.

Overall risk assessment volumes have grown by 25% over the course of the year. The rise demonstrates the value of intelligence and early warning to the regulator.

Statutory employers and withdrawals from multi-employer schemes

We have continued to work with trustees and employers who were managing withdrawal of employers from a multi-employer scheme. There was no overall increase in the case load in this area during the year.

Communications

We are in the process of working with Government partners and other stakeholders to develop a revised strategy for our regulatory approach to DB schemes. As part of this strategy we have committed to publish an annual statement on our views of acceptable approaches to valuation.

We spent the last quarter of this financial year analysing the tranche of schemes with valuation dates between September 2011 and September 2012, and talking to stakeholders about their views on the economic situation and how schemes should approach it.

We published the first of our annual statements in April 2012. This statement was aimed at trustees and employers of DB pension schemes who are undertaking their scheme valuations with effective dates in the period September 2011 to September 2012. It sets out the regulator's views on acceptable approaches to the valuation process in the current economic environment.

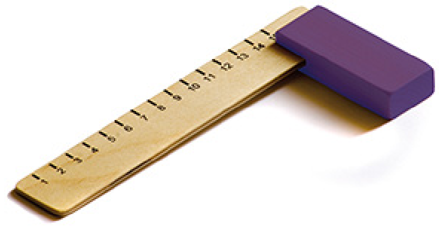
continued over...

...continued **Investment governance and compliance with Communications**

Below we outline how we have performed against our KPIs as set out in our **Corporate plan 2011-2014**:

KPI	Outcome
Continued prudence in aggregate funding targets as measured by **TPs** as a percentage of s.179.	As a percentage of s.179, TPs for schemes submitting recovery plans in 2011-2012 were between 107% and 113%, with the target of 110% achieved in all four quarters except the first quarter. This was higher then the range of 104% to 108% seen in 2010-2011. This measure reflects, in aggregate, the extent to which technical provisions are set at a level to protect the **PPF**. The change to the calculation basis for s.179, and other factors, mean that it is only of indicative value.
Reduction in the proportion of schemes triggering further investigation[5] in their second valuation, than their first. The baseline measure from which we target a reduction is 42%, based on tranche 1 versus tranche 4.	We achieved our target: cumulatively over the year 33% of schemes triggered on more bases in the second valuation than the first, against a target of 42%. These had second valuations in less benign economic conditions – this measure gives an indication of how successfully trustees managed to stay within our trigger parameters in more difficult circumstances.
The proportion of schemes in the **Scheme governance survey** that have reviewed their employer covenant in the past 12 months.	The proportion of trustee boards reviewing the employer covenant regularly remains high at 80%, down a little from 82% last year. While this downward movement is not statistically significant, it does mean our target of 87% was not achieved. Figures are highest among large and medium schemes, small schemes fall a long way below target: among small schemes the figure stands at 69%, 87% among medium and 84% among large schemes. During the six years we have used this measure, compliance has been consistently high with figures ranging between 77% and 84%. This year's result sits firmly in the centre of this range. Given the high ratings for this measure, it is unsurprising that we have not seen an overall improvement. Moreover we accept that one in five schemes may have good reason for not reviewing their covenant annually, and we will not be retaining this KPI in our **2012-2013 Business plan**.

[5] There are four primary triggers in recovery plans (recovery plan length, back-end loading, technical provisions and investment out-performance).



Strategic theme 3: Reducing risks to DC scheme members

Preparatory approach

The majority of our activity in 2011-2012 has been on the continued development of a significant programme of work to review, and reassess our regulatory approach for DC schemes. This programme is developing our strategic approach to the regulation of the complex and rapidly growing DC market to enable it to deliver good outcomes for DC scheme members.

We have worked closely with the pensions industry and other key stakeholders to develop our DC approach. This has included a programme of rolling industry secondments to ensure that up-to-date DC expertise feeds into our work.

Communications

In December 2011 we published **'Six principles for good design and governance of workplace DC schemes'**. This was followed in February 2012 by our strategy for maximising employer compliance with new automatic enrolment duties and supporting the pensions industry to deliver DC schemes, with the characteristics necessary for good outcomes. In this we set out how we aim to:

- encourage the market to deliver schemes that encompass our six principles for good design and governance of DC schemes
- take a segmented approach to regulating the DC landscape, recognising that some segments are more likely than others to deliver good outcome to members.

In developing our principles and strategy, we consulted widely with the regulated community on both the demand and supply side. This included an industry dialogue exercise, a stakeholder engagement event and a series of high level meetings with the CEOs of pension providers.

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...continued Communications

In addition, we published a statement on the role of the DC trustees which emphasised the importance of them monitoring that the default strategy of their scheme is appropriate for their membership. As part of this, we held discussions with providers and fund managers about ensuring default strategies are appropriate to members.

We raised our concerns about the fairness of **Active Member Discounts (AMDs)** which improved awareness of our concerns around the issue among providers.

We have also refreshed the DC section of the **Trustee toolkit** to make it easier to use and to better reflect the specific needs of DC scheme trustees. Full details of this can be found on page 20.

Operational activities

Operational activities relating to DC schemes have primarily been to **educate** and **enabl**e the market. Work undertaken in the enforcement space by our case teams has focused on our governance and administration strategic theme. Activities have included appointing trustees and requiring information from schemes. Our activities are set out on page 107.

We have continued to track performance in the areas of charges, governance and administration standards and decumulation decisions through our annual **Scheme governance survey**.

We are working closely with the industry to define the features that underpin the **'Six principles for good design and governance of workplace DC schemes'**. These features are likely to focus on the accountability for the design and governance of the default options, appropriate investment decisions, value for money and transparency of charges. This will help set the standards we expect to be met over the long term. As part of our industry dialogue over the principles, we explained to providers that we want to see products developed for automatic enrolment that meet these six principles.

Below we outline how we have performed against our KPIs as set out in our **Corporate plan 2011-2014**:

KPI	Outcome
100% of DC programme milestones completed on time and within tolerance (subject to accepted change controls).	90% of milestones were completed on time and within tolerance. This has been a successful year where, through research and consultation, we have formally designed our high-level approach to the regulation of DC schemes. We will continue to build our capacity to deliver the programme. The 10% of milestones not achieved related primarily to difficulties in filling vacancies to deliver the programme.
Trustee boards' collective understanding of the charges incurred by the members of the scheme.	Trustee boards' collective understanding of the annual management charge, total expense ratio and portfolio turnover rate has decreased from 44% last year to 30% this year as measured by the **Scheme governance survey**, and our target was not achieved. Our experience of working to improve **Trustee knowledge and understanding (TKU)** suggests that this fall is partially due to trustee boards only now recognising that there is a gap in their knowledge of this area. This is an observable pattern when we target new areas of learning in our regulated community. We have engaged with pension providers to make clear that we want the products being developed for automatic enrolment to deliver value for money. As a result of the concerns raised by the regulator over transparency of costs, the **NAPF** has launched a **'Making pension charges clearer'** working group with which we have been liaising and we will monitor and respond to their activity at an appropriate stage. Our focus this year has been on developing the six principles of design and governance of DC pension provision, one of which focuses on value for money, rather than seeking to shift trustee understanding in the shorter term. We are retaining this KPI in our **2012-2013 Business plan**.
Increase the proportion of schemes that state their default funds are established to reflect the profile of the scheme membership (as measured by our **Scheme governance survey**).	The proportion of schemes that measure the extent to which default funds are established to reflect the profile of the scheme membership fell from 79% in the previous year to 71% this year with our target for this KPI not achieved. Although the DWP issued guidance in this area, and we made a general statement on DC trusteeship which included a focus on default funds, these did not prove sufficient to alter behaviour. Further proactive communications would have been helpful here but we were unable to carry them out due to limitations in our budget and resources. Design of default funds is an integral part of the **'Six principles of design and management of a good DC scheme'** that we have set out. Therefore, we will facilitate the development of standards with relation to default funds through this approach. As we will be taking forward our work on default funds as part of our longer term work on the six principles, we are not retaining this as a KPI in 2012-2013.

Strategic theme 4: Preparing for 2012

Preparatory activities

In the year 2011-2012 we continued to focus on preparing for the onset of employer duties which commence in October 2012.

The agreement of a contract for services with **Capita** was completed following a major procurement exercise. Since awarding the contract in October, we have worked in partnership with **Capita** on the delivery of the services which they will manage. These services include the implementation of the **ECR** customer support service centre in Birmingham, the hosting and management of the automatic enrolment elements of the regulator's website and the delivery of automatic enrolment communications.

In 2011-2012 we began our automatic enrolment communications programme in earnest. We have a multi-channel and multi-audience based approach. This included tailored communications campaigns to key audience groups including employers, trustees, accountants, independent financial advisers (IFAs), payroll and business software providers and human resource professionals.

Employer communications

One of our primary communication focus areas over the year has been employers. We have made real progress in improving the understanding of the new duties by the largest employers and helping them to mobilise their implementation teams for reforms. We wrote to over 2,900 of the largest organisations 18 months ahead of their particular duty date. These organisations employ about a third of the UK workforce (around 10 million employees).

Over the year we have had direct contact with employers to support them in understanding their duties and the challenges they may face. This included meetings with over 400 of the largest employers in the country and webinars to help employers assess their workforce, which have had 600 participants.

In addition, we published detailed guidance documents covering all aspects of workplace pension reform legislation. These are designed to be used by employers with experience of providing pensions as well as advisers and intermediaries who are knowledgeable about pensions provision. This guidance has been updated through the year in line with legislation changes.

We also published a short overview of the new duties for employers and made available online interactive tools designed specifically to help smaller employers, and those without existing knowledge or experience of pensions. This includes a tool enabling employers to look up their indicative staging date by inputting their PAYE reference, as well as a tool to calculate pension contributions.

Trustee communications

Trustees have remained a focus and in 2011-2012 we issued a checklist that provides trustees with an overview of what they might need to do to ensure that their scheme is ready to be used for automatic enrolment. We also held webinars to cover **'Automatic enrolment and the role of trustees'** and **'Assessing your workforce'**.

Other communications

Professionals who support employers and trustees in relation to their automatic enrolment obligations will play a key role in supporting them with their new duties.

In 2011-2012, we wrote to 9,000 independent financial advisers, 31,000 accountants and 97,000 HR professionals advising them of their role in workplace pensions reform.

We released software guidance to business software organisations including the 500 or so payroll software providers, to help them implement changes to their products, better enabling them to support employers. This was followed by an open letter to the payroll software industry urging them to approach employers ahead of automatic enrolment.

We also published our **DC and automatic enrolment strategy** which we supported with a full launch event.

Levels of awareness among all our initial key audience segments are high. Our employer and intermediary tracking survey on awareness, understanding and activity relating to workplace pensions reforms shows that:

- awareness of the reforms among large employers (250 plus employees), who will be staged in first, between October 2012 and February 2014 was high, 88% in March 2012
- among medium-sized employers (those with between 50 and 249 employees) who will be staged between April 2014 and April 2015, around four fifths (80%) were aware of the new pensions requirements. This has increased from about two thirds (68%) in spring 2011
- among small employers (5 to 49 employees), 47% are aware of the reforms, compared to 43% in spring 2011
- a quarter (25%) of micro employers – those with one to four employees – were aware of the reforms, compared to 21 % in spring 2011
- awareness among trustees has increased from 79% to 91%
- awareness among accountants has increased from 62% to 83%
- awareness among IFAs has remained high at 91%.

While awareness amongst small and micro employers is still relatively low, we believe this is as a result of the fact that the duties do not apply to them until 2015 and as a result we have not yet started to target this audience.

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Below we outline how we have performed against our KPIs as set out in our **Corporate plan 2011-2014**:

KPI	Outcome
Deliver all 2011-2012 project milestones on time and within tolerance.	All Level 1 and 2 milestones were delivered in line with **ECR** project control throughout the year.
Measure the extent to which our stakeholders have confidence in the regulator's preparations for the **Employer Compliance Regime (ECR)**.	Confidence in the regulator's ability to prepare for automatic enrolment has increased generally among stakeholders, with the average response in a survey we conducted being 'I have fairly high confidence in the regulator's preparations but have one or a few concerns'. We have been working closely with stakeholders, particularly those representing key intermediaries such as accountants, to use their channels to communicate our messages, and the interactive tools launched last summer were promoted by a number of our stakeholders. Stakeholder feedback on the events, speeches and guidance that we have delivered has been positive.
Increase the percentage of the intermediary audiences who are aware of the 2012 reforms.	Average awareness among intermediaries of automatic enrolment was 88%, having increased from 79% in Q4 2010-2011. By audience the results are as follows: • Accountants: increased from 62% to 83% • Trustees: increased from 79% to 91% • IFAs: decreased slightly (but not statistically significantly) from 96% to 91% During late June and July 2011, we began our communications campaigns to IFAs, accountants and trustees. In total we have now written (either by email or post) to approximately 25,000 IFAs and 70,000 accountants to make them aware of the new employer duties and to alert them that they need to commence preparations for automatic enrolment.

Strategic theme 5: Better regulation

Good regulation

We are committed to the principles of good regulation: to be **proportionate, accountable, consistent, transparent** and **targeted**.

Proportionality	In deciding whether to use our powers, we ensure we consider the circumstances surrounding the breach of the law including the risk of harm to our objectives and the seriousness of any breach, and apply the most appropriate remedy.
Accountability	As a public body, we continue to be accountable for our conduct and operations to Parliament, our stakeholders and the general public. We have a complaints procedure in place.
Consistency	We carry out our work in a fair and reasonable manner by using a similar approach in like cases to achieve similar ends. We ensure that we assess our risks and use our enforcement options in a consistent way where appropriate.
Transparency	We will remain committed to being as transparent as we can within the constraints placed upon us by legislation and the need to maintain commercial confidentiality. We publicise and where appropriate consult on our strategy, policies and guidance, as well as our compliance activities and enforcement outcomes.
Targeting	We direct our compliance activity at the most serious risks. We engage with other regulators to coordinate our action where we can do so; thereby avoiding duplication and burden on employers and third parties.

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To help ensure our activities remain fully compliant with these principles at all times during the year we provided training for all employees on how to apply them on a day-to-day basis. We also reorganised our legal resources, under a new position of head of legal services, who has lead responsibility for public law issues.

Stakeholder perceptions of the regulator remain high (as measured by our annual **Perceptions tracker survey**) with stakeholders viewing that our actions are proportionate to the risk posed and that we explain clearly why decisions affecting occupational pension schemes have been made. We believe that the publication of determination notices and s.89 reports on key cases and our efforts to provide clear guidance and information has improved our rating.

We continue to work with our partners across government including the **DWP, FSA, HMRC** and **HMT** on a range of issues including on our strategy for delivering successful automatic enrolment and our work on the **Red Tape Challenge**. In addition we have developed a joint scheme registration process with **HMRC** which has led to the identification and registration with the regulator of a number of schemes. The new system automatically selects the appropriate schemes to contact and despatches an automatic email, with links to the registration portal.

Gone away schemes

Investigations into 'gone away' schemes (schemes that are no longer in contact with the regulator) have continued with the aim of minimising the risk of fraud, theft and members' benefits being unprotected. We have begun investigations on the entire stock of 'gone away' cases. Of these we have closed 71% of our enquiries, which equates to 75% by membership. The number of schemes that remain 'gone away' at the end of 2011-2012 was 1,235.

Efficiencies

We have been asked to prepare plans for a 25% reduction in our levy cost base over the course of four years to 2014-2015. Detailed plans have been developed to identify the ways they will be achieved and include a combination of process efficiencies; leveraging opportunities to work more closely with other Government departments; improving procurement; and exploiting economies of scale. We are also reviewing the way in which we carry out our core regulatory processes. The senior management team is accountable and committed to progressing these plans and regularly reviews this programme of work to ensure it is on track to achieve the necessary cost reductions.

We achieved a number of efficiency savings in the year. In our procurement activities we reduced our supplier base by 29% in 2011-2012 and achieved total savings of over £650,000. We also implemented an email notification solution to achieve savings within our levy operations. Overall expenditure was significantly below budget mainly due to spending controls introduced across Government in 2010-2011.

This year we had aimed to achieve the automation of the process for the initial assessment of DB recovery plans after their receipt at the regulator. This project proved more complex than anticipated and has run over its anticipated cost of £212,000. Although the project was due for completion in March 2012, at the time of writing this report, it remains unfinished. We plan to complete the project in 2012-2013 and we shall report on its conclusion in next year's **Annual report**.

Customer service

Our customer support operations related to the Employer compliance regime with automatic enrolment began taking enquiries in May 2011 first in our Brighton office and then this was extended in January to our Birmingham office. We have continued to strive to provide a high-quality service to customers.

The **Scheme Information Management (SIM)** team received 27,669 telephone calls during 2011-2012, which were related to scheme returns and levy, this is 37% increased compared to 2010-2011. 74% of calls were answered within 20 seconds and 6.7% were abandoned. 33,521 enquiries were received via email and letter, this is a 21% increase compared to 2010-2011. 72% of contacts were responded to within 10 working days.

The **Customer support team** received 10,657 telephone calls during 2011-2012 which were related to regulation and automatic enrolment, this is a 30% decrease compared to 2010-2011, however the complexity of calls has increased. 91.6% of calls were answered within 20 seconds and 3.5% were abandoned. 10,815 enquiries were received via email and letter, this is a 10% increase compared to 2010-2011. 89.4% of contacts that fall within 10 working days service level were responded to within service targets, and 90.9% that fall within the 20 day service level met service targets.

Online services and digital marketing

Over the year we published new content on the website aimed at our employer audience to help them prepare for automatic enrolment. Engagement online remains strong with some of the highest unique visitors (monthly) to the website since measurement commenced. For employers new to automatic enrolment, the interactive tools have been accessed 22,000 since launch in the summer. The detailed guidance aimed at a more knowledgeable employer audience has achieved almost 129,000 downloads since launch in May. We also developed our capacity to deliver online webinars and three were delivered to a combined audience of almost 2,500.

We also continued to publish our key corporate and statistical publications, which were accessed in excess of 4,300 times.

We undertook search engine optimisation to ensure that our website content surfaced higher on search listings. This generated a 246% increase in search engine traffic and ensured that the regulator was in the top three positions in **Google** on 'auto enrolment' searches. This is important, as the regulator is the provider of definitive guidance and directions on how to comply.

Our news-by-email subscription list grew from 10,194 to 18,254 and these contacts when used in combination with email addresses gleaned from our scheme registry, enabled us to send 248,497 emails to individual users over the year. This enabled us to contact the regulated community directly on such issues as our DB funding statement, our automatic enrolment guidance and other issues.

The result of our online customer survey over the year were very positive with 84% of users believing the site was 'very good' or 'good', 79% finding all or most of most of what they wanted and 95% feeling they were likely to revisit. The high level of web customer satisfaction is attributed to the bespoke audience content now available on the website.

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Regulatory burden

We are committed to reducing our burden on customers and have devised a telephone survey to receive customer feedback on regulatory burden. We are analysing these responses to gain insight into areas of burden and to develop a baseline of regulatory burden so we can seek improvements against this baseline.

We are fully committed to the Government's **Red Tape Challenge** and its work to reduce the overall burden of regulation. We are working with the **DWP** to identify and implement opportunities for reducing avoidable burdens on schemes and employers and reducing the unnecessary regulatory burden on schemes.

Human resources

As a small organisation, with an extensive field of influence and impact, we depend on our ability to identify and mitigate the most important risks. We are able to offer jobs that make a real difference and provide personal and professional growth together with competitive salaries and benefits. We ensure our staff continue to have the opportunity to learn and develop, and we work together to harness our core knowledge, expertise and skills. It is essential that we continue to recruit and retain high calibre and appropriately skilled individuals who are able to deliver our challenging objectives.

Through our secondment programme, we welcomed 23 secondees or 'on loan' staff from private firms and other government bodies during the year. We also filled 185 vacancies either internally, through the civil service or from external market. All recruitment was compliant with Cabinet Office rules including the pay and contractor restrictions introduced as part of the efficiency programme in summer 2010.

Overall staff engagement, as measured by our **annual staff survey**, remains high. We have worked to enhance people management skills across the organisation through our **'Managing people'** project with focuses on leadership and performance management tools delivered through interactive workshops with our managers.

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

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

- 2011-2012
  2.9% against our target of 3.4%, which is based on the **Chartered Institute of Personnel and Development (CIPD)** average rate for all employment sectors (2010-2011). The public sector average rate was 4%
- 2010-2011
  2.8 % against our target of 3.4%, which is based on the **CIPD** average rate for all employment sectors (2009-2010). The public sector average was 4.2%.

Sustainability

CO_2 emissions from gas, electricity and business travel compared to 2010-2011 were reduced by 8.6% over the year.

We have been tasked to deliver a 25% reduction in CO_2 by 2014-2015 against a 2009-2010 baseline. Cumulatively in 2010-2011 and 2011-2012 we have achieved an 18.1% reduction against a 2009-2010 baseline. A further 6.9% reduction is required over the next two years to achieve 25% reduction by 2014-2015.

Our full **Sustainability report** can be found on page 101.

Below we outline how we have performed against our KPIs as set out in our **Corporate plan 2011-2014**:

KPI	Outcome
Maintain strong ratings measured in our **Perceptions tracker survey** across the collective results on the **Hampton Principles.**	Our audiences' perceptions of the regulator according to the **Hampton Principles** has improved from 67% in 2010-2011 to 72% at the end of 2011-2012, with our target met. The increase is driven by improvements in those saying that 'the regulator's actions are proportionate to the risk posed' and 'the regulator explains clearly why decisions affecting occupational pension schemes have been made'. These improvements are most likely to be owing to good coverage of the publication of determinations notices and section 89 reports, as well as the positive reception for our warning against unauthorised pension access. Our efforts to provide clear and reliable guidance and information that are more transparent in explaining the approach we have taken in individual cases appear to be well received by stakeholders.
To maintain an average of no more than 40 debtor days.	During the year, two new levy-related systems were developed and the change in processes had the impact of impairing our ability to meet the average debtor days target of 40 days. The out turn of 41 days is considered a good result under the circumstances and establishes a robust platform for future reduction in debtor days.
Reduce the number of outstanding 'gone away' scheme investigations.	The number of schemes that remain gone-away at the end of 2011-2012 was 1,235. This was 65 cases short of our target of 1,170. Although we achieved the commencement of all 'gone away' investigations by the end of the year, the completion rate has been lower than we expected due to external investigations proving more challenging than we anticipated. In the fourth quarter we began to benefit from efficiencies in reducing the time taken to complete the investigation process. The focus of this KPI was 2011-2012 and we will not be retaining it as a KPI in 2012-2013.

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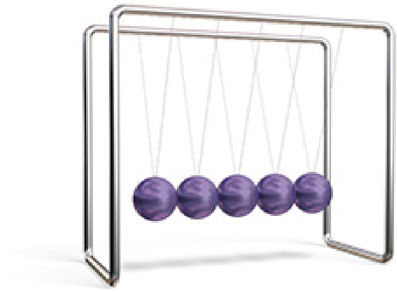
Below we outline how we have performed against our KPIs as set out in our **Corporate plan 2011-2014**:

KPI	Outcome
Maintenance of customer satisfaction as measured by our customer and website satisfaction research.	The proportion of people rating their contact with **Scheme Information Management (SIM)** as 'very good' or 'excellent' was 75%. For **Customer support** the result was 76%. These results compare favourably with targets of 80% and 79% respectively against a backdrop of increased call volumes and complexity as well as the introduction of an enquiry handling service for automatic enrolment. Website satisfaction stood at 78% versus target of 76%. We will retain these KPI targets for 2012-2013.
Deliver 10% carbon emission reductions against 2010-2011 levels.	We propose to reduce our CO_2 emissions by 25% by 2014-2015 from a baseline set in 2009-2010. So far we have managed a cumulative reduction of 18.1% and are well placed to achieve an overall 25% reduction of CO_2 emissions in the timescale envisaged notwithstanding that our reduction for 2010-2011 was slightly below target at 8.6% compared to a 10% expectation.
Measure employee engagement via employee engagement survey.	The 74% score for the **'Engagement Index'** (comprising seven elements including commitment, satisfaction and advocacy) reflects a positive result across all of the engagement questions, particularly relating to employees views about how they would speak about the organisation and their commitment to the organisation. Comparisons to external benchmarks are also generally very positive. These positive scores were achieved in spite of the organisation having gone through a period of significant structural change and being subject to spending restraints, training and recruitment restrictions and a pay freeze. This was a baseline score and we are retaining this measure as a KPI – with an improvement target in 2012-2013.



Governance statement

Overview

The statutory objectives, functions and governance arrangements for the regulator are laid out primarily in the Pensions Act 2004 ('the Act'), with a further objective added by the Pensions Act 2008. The Act provides that the regulator is operationally independent of Government, and is overseen by a Board of executive and non-executive members.

The regulator's plans, finances and key appointments are subject to the approval of the Secretary of State for Work and Pensions. The Chief executive is the regulator's Accounting Officer, accountable (through the DWP) chief Accounting Officer) to Parliament for regularity and propriety.

Board

Board structure

Sections 1 to 3 and Schedule 1 of the Act set requirements for establishment of the regulator and composition of the Board. The current Board structure, meeting with the requirements of the Act, comprises the chair, 5 non-executive members and a vacancy, the chief executive and 3 executive directors and a vacancy. There were a number of Board membership changes over the year. Board members' appointment dates, terms of office, committee membership and biographies are in the annexes to this statement at pages 48 to 50.

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Responsibilities of the Board

As required by the Act, and under the framework document agreed between the regulator and the DWP, the key responsibilities of the Board can be summarised as follows:

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

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

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

The Board publishes and regularly reviews its **Code of conduct** and its **Standing Orders**, which also cover aspects such as the terms of reference of the Board committees and the management of conflicts of interest (**www.tpr.gov.uk/about-us/the-board**). As an arm's length body, the Board has taken into account the principles of the Government **2011 Corporate governance code** in its own governance framework.

Board meetings from 1 April 2011 to 31 March 2012

In the year from 1 April 2011 to 31 March 2012, there were eight meetings of the **Board**, six meetings of the **Audit committee**, three meetings of the **Remuneration committee** and three meetings of the **Non-executive committee**. In addition, two 'away day' meetings were held in July and in December 2011, at which the Board received extensive briefings on operational and market developments, and discussed strategic issues, as part of the process of developing and reviewing the regulator's plans. Throughout the year, the chairs or chief executives of the Boards of the **PPF** and of the regulator continued to attend the meetings of each other's Boards as observers. At the February 2012 Board meeting, the chair of the **Determinations Panel** discussed with Board members the Panel's role and work.

Board evaluation

An internal review of its effectiveness was undertaken during the year and discussed by the Board in September 2011. In general, members were content with the way the Board operated and its effectiveness. The Board has been following through the recommendations arising from the review, which include further development of Board objectives and strategy, **Senior Management Team (SMT)** performance measures, relationships with stakeholders, risk management, quality of Board papers, diversity of Board composition, and the management of significant regulatory cases. The **Chair** has held individual appraisal discussions with each non-executive director during spring 2012.

Role of the Board Chair

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

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

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Board committees

Committee of non-executive members

As required under section 8 of the Act, the Board has a committee of non-executive members. The committee, as permitted by section 8 sub-paragraphs (7) and (8) of the Act, continued to have 2 standing subcommittees: an audit committee to which it delegated its function at section 8(4)(a), and a remuneration committee to which it delegated its function at section 8(4)(b).

The committee of non-executive members is required by section 8(5) to prepare a report on the discharge of its functions for inclusion in the regulator's **Annual report**. These functions are set out in section 8(4):

- the duty to keep under review the question of whether the regulator's internal financial controls secure the proper conduct of its financial affairs
- 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.

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

A report of the activities of the committee of non-executive members during 2011-2012 is on page 52.

Audit committee

Terms of reference for the Audit committee have been agreed by the Board and the committee of non-executive members, covering both the statutory function delegated from the committee of non-executive members and additional areas of responsibility delegated by the Board. These are published and form an appendix to the Board's code of conduct.

A report of the activities of the Audit committee during 2011-2012 is on page 52.

Remuneration committee

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

A report on the activities of the Remuneration committee during 2011-2012 is on page 53.

Determinations Panel

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

A report of the activities of the **Determinations Panel** during 2011-2012 is on pages 54 to 57.

Chief executive as Accounting Officer

The chief executive is the Accounting Officer for the regulator. Responsibilities as Accounting Officer include propriety and regularity of the public finances and keeping proper records, and are set out in the **Non-Departmental Public Bodies Accounting Officers Memorandum** issued by **HM Treasury** and published in **'Managing Public Money'**.

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

Senior management team

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

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

SMT membership consists of the chief executive (chair), executive directors, head of corporate and international affairs, head of customer communications, and head of risk. The corporate secretary and head of legal services also attend. SMT meets weekly, reviewing key control metrics in accordance with priority risk areas. One meeting a month normally focuses on change management. Ad hoc meetings of **SMT** and Board members occur as required to manage important items out of the standard cadence.

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Risk and control framework

The system of internal control has been in place at the regulator for the year ended 31 March 2012 and up to the date of approval of the **Annual report and accounts**, and accords with Treasury guidance. It is built on an ongoing process designed to identify the risks to the achievement of the regulator's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically, through the regulator's management system.

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

Internal controls

Key components of the system of internal control are:

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

The performance of the chief executive and executive directors is reviewed by the Remuneration committee in determining their remuneration for the year. Details of the remuneration of all Board members are given in the **Remuneration report** on page 62.

Risk profile, assessment, and management of risk

The **SMT** devotes considerable attention to identification and assessment of strategic, financial and operational risks, in consultation with the **Audit Committee** and internal auditors.

These risks stem chiefly from (i) the environment in which the regulator operates, current macro-economic conditions presenting a series of difficulties for long-term savings; (ii) the changes in the regulatory landscape engendered by the 2008 Pensions Act, bringing many new employers, providers, their advisers and representatives within the regulator's ambit; and (iii) the operational challenges arising from managing a broadened range of internal processes, and in managing key external service providers, in an environment of increasingly constrained resourcing in the public sector.

The regulator's capacity to handle risk is determined by the flexibility in its plans, resources and operational capability that allows it to react to unanticipated events. We have brought together our front end risk assessment capabilities (**Triage**) with our strategic research and analysis function to create an integrated risk department to better support the regulator in the identification, quantification, and escalation of risks. The **Risk function** does not own business risks but provides insight, evidence and challenge to support the regulator's decision-making. We keep a register of risks as they emerge and mitigations to help address them and monitor the efficacy of those mitigations.

The **Corporate** and **Business plans** set out its priorities and a resource envelope, but in-year adjustments can be made: the regulator has the ability to refocus priorities, and adjust trigger levels for interventions and so manage workload to a finite capacity (though with corresponding shifts in risk profile). This is an important factor in the regulator's capacity to manage risk, as much of its work is characterised by unpredictable levels of complexity and volume of casework.

This has allowed us to identify and respond to new trends over the year, which brought new activity to our attention, such as the increase in unauthorised pensions access cases in which we have increased the number of regulator investigations in this area and used our powers 37 times on cases.

Operational risk capacity

The regulator's capacity to handle operational risk is determined by the quality of decision-making in its frontline staff, and the robustness of its procedures. We maximise this capacity through significant investment in frontline staff, who are responsible for risk assessment of individual cases and interactions.

A risk-rating process is embedded in the regulator's operational procedures, with associated rules on escalation. While not designed to remove all risk of poor-quality decision-making, operational processes aim to ensure that decision-making on cases is taken at the appropriate level in the organisation.

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Financial contingency

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

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

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

Information security

In accordance with the regulator's responsibilities under the **HMG Security Policy Framework and Data Protection Act 1998**, the regulator has in place arrangements to provide for information security. It is the regulator's established practice to let the **Information Commissioner's Office (ICO)** know of data protection related incidents whether or not these may rate as significant, or there may be a reporting requirement. I can confirm that during the year 2011-2012 we brought one incident to the **ICO's** attention, but the **ICO** did not consider this incident of sufficient seriousness to require their action.

Internal audit

Based on the internal audits completed as part of the internal audit programme for the year, the internal auditors concluded that with the exception of the control weaknesses identified in their individual reports the regulator has adequate and effective systems over governance, risk and control, which provide reasonable assurance regarding the effective and efficient achievement of the regulator's objectives. A programme of internal audits was agreed by the **Audit committee**, and was undertaken and reported to the committee during the period of this statement.

Assurance ratings received were two fully effective ratings, three effective, three partially effective and one ineffective (the latter arising from an audit commissioned to assess the efficacy of start-up and developmental processes, which has resulted in the issues being identified and addressed). As its report on page 52 sets out, the **Audit committee** formed the view that the monitoring and reporting systems in place to give the **Senior Management Team** an appropriate level of control over the processes and management of processes within the organisation were broadly effective. Where gaps were identified, appropriate actions were effectively put in place.

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

Responsibilities of SMT members

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

Audit committee and Board review

The **Audit committee** has reviewed the risk register on a quarterly basis. As its report on page 52 sets out, through its enquiries the committee has endorsed management's assessment of key risks, and has concluded that effective and thorough monitoring and reporting systems were in place to give the **Senior management team (SMT)** an appropriate level of control over the management of risk

In addition, annually the full Board reviews the risks, changing the top level risks if necessary, reviews the risk appetite, and reviews risk management strategies and contingency plans in the light of **Audit committee** experience. In this financial year the Board review took place in July 2011.

End of year review of effectiveness by the chief executive

As **Accounting Officer**, I have responsibility for maintaining a sound system of internal control and reviewing its effectiveness. My review is informed by the work of the internal auditors, the **Audit committee**, the managers who have responsibility for the development and maintenance of the internal control framework, and the plan in place to address weaknesses and ensure continuous improvement of the system. It is also informed by comments made by the external auditors in their management letter and other reports.

An internal incident highlighted some gaps in processes for managing certain types of incoming electronic information. This was reported to the **Information Commissioner's Office**, which decided to take no further action, and to the **DWP**. Actions are in hand to prevent recurrence through updating procedures and processes. A project focussed on automation of delivery of internal processes (budgeted for 3% of the regulator's total change expenditure) came in significantly over budget and missed the seasonal window for its delivery. As a result it has been put on hold for subsequent delivery and audited. It has highlighted issues in change management processes, which are in the process of being addressed.

The two areas outlined above were the most significant control issues that arose over the year and have been, or are in the process of being, fully mitigated. There were no other significant control failures or data losses.

Bill Galvin

Chief executive,
The Pensions Regulator
18 June 2012

Details of Board membership

Board appointments and committee membership

Name	Date appointed	Date term expires	Committee membership
Michael O'Higgins Appointed as chair	1 January 2011	31 December 2013	Non-executive (chair)
Non-executive members			
Alan Pickering CBE	8 February 2005	7 February 2013	Remuneration (chair), non-executive
Chris Swinson OBE	8 February 2005	7 February 2013	Audit (chair), non-executive
Tony Brierley	9 July 2008	8 July 2012	Audit, non-executive
Isabel Hudson	1 June 2009	31 May 2013	Remuneration, non-executive
Bruce Rigby	1 June 2009	31 May 2013	Audit, non-executive
Executive members			
Bill Galvin Appointed as chief executive	17 January 2011	16 January 2014	
Stuart Weatherley	1 April 2007	31 March 2013	
June Mulroy	7 June 2005	31 May 2011	
Charles Counsell	1 July 2011	1 July 2014	
Stephen Soper	11 May 2011	30 April 2013	

Alan Pickering – Reappointed from 8 February 2009 for 4 years
Chris Swinson – Reappointed from 8 February 2009 for 4 years
Bill Galvin – Acting chief executive from May 2010
Stuart Weatherley – Reappointed from 1 April 2010 for 3 years
June Mulroy – Reappointed from 1 June 2011 then stepped down on 14 March 2012
Charles Counsell – Interim executive director from January 2011
Stephen Soper – Interim executive director from February 2011

Details of Board attendance

Member	Number of meetings			
	Board	Audit committee	Remuneration committee	Non-executive committee
Michael O'Higgins	8	N/A	N/A	3
Alan Pickering CBE	8	N/A	3	3
Chris Swinson OBE	7	4	N/A	2
Tony Brierley	8	5	N/A	3
Isabel Hudson	7	N/A	3	2
Bruce Rigby	8	5	N/A	3
Bill Galvin	8	N/A	N/A	N/A
June Mulroy	6	N/A	N/A	N/A
Stuart Weatherley	8	N/A	N/A	N/A
Charles Counsell	8	N/A	N/A	N/A
Stephen Soper	8	N/A	N/A	N/A

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Board members

Chair

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

Michael is a non-executive director of HM Treasury, chair of the Treasury Group Audit Committee, chair of Investec Structured Products Calculus VCT plc and a non-executive director of Oxford Medical Diagnostics plc. He is also chair of the charity Centrepoint. Previously, Michael was a managing partner with PA Consulting, leading its Government and IT consulting groups, latterly as a director on its International Board. Prior to that, he was a partner at PriceWaterhouse, worked at the Organisation for Economic Co-operation and Development in Paris and held academic posts at the University of Bath, the London School of Economics, Harvard University and the Australian National University. He is currently a visiting Professor of Economics at the University of Bath.

Non-executive directors

Alan Pickering CBE is chairman of BESTrustees and is a trustee of six of that firm's clients. He was with Watson Wyatt between 1992 and January 2009.

Before that, he spent 20 years with the Electrical, Electronic, Telecommunications and Plumbers Union where he gained considerable experience in many aspects of employee relations, pensions and personal finance. He is chairman of the Plumbing Industry Pension Scheme, having been closely involved with the development of many other industry-wide schemes. Early in 2012, he was appointed independent chairman of the Royal Mail Statutory Pension Scheme.

In 2005, he became a trustee of the Life Academy (Pre-Retirement Association), assuming the charity's chairmanship in November 2006.

Alan was a member of the Occupational Pensions Board from 1991 to1997, serving as its deputy chairman during 1993. He was chairman of the National Association of Pension Funds from 1999 to 2001 and from 2001 to 2004, he served as chairman of the European Federation for Retirement Provision.

In 2001, Alan led a review into the simplification of private pension provision. His report 'A simpler way to better pensions', was published in July 2002.

Chris Swinson OBE A chartered accountant, Chris was formerly senior partner of BDO Stoy Hayward.

He served as a council member of the Institute of Chartered Accountants in England and Wales and was president from 1998 to 1999. He is Comptroller and Auditor General of Jersey.

Tony Brierley is a solicitor and has spent over 20 years in the private equity and venture capital industry. He was formerly general counsel and company secretary of 3i Group plc, the UK's largest quoted international private equity business. As a member of 3i's Management Committee, he was responsible for the group's legal, compliance, company secretarial and internal audit functions worldwide. He now has a portfolio of commercial and public sector non-executive positions, including as a non-executive director of City of London Group plc, a trustee of the 3i group pension plan, a governor of Nottingham Trent University and a member of the court and council of the Royal College of Art.

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

She is currently a non-executive director of QBE, a top 20 global non-life insurer, where she has been on the main Board since 2005. She also chairs the fundraising committee of the disability charity, Scope and is a member of the With Profits Committee of Standard Life. In February 2010, she was appointed a non-executive director on the Board of the Phoenix Group. Isabel holds the role Executive Chairman of NHBC and is on the Board of MGM Advantage.

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

Chief executive

Bill Galvin became chief executive of The Pensions Regulator in January 2011 (and prior to this was acting chief executive from May 2010).

In October 2008 Bill was appointed executive director for strategic development at The Pensions Regulator.

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

In August 2010, Bill was appointed a non-executive director for The Pensions Advisory Service (TPAS).

Executive directors

Stuart Weatherley is the executive director for business support operations, covering finance, human resources, information technology, procurement, scheme return and levy, practice management group, change management and facilities at The Pensions Regulator.

He is an accountant (CIMA) with broad experience of financial and commercial operations in industry at senior management and main board level.

He has also spent many years in management consultancy with PriceWaterhouse, working with blue chip and public sector organisations managing change programmes and advising on strategy development and business improvement.

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...continued Executive directors

Charles Counsell is the executive director for **employer compliance** at The Pensions Regulator (having been interim ECR executive director from January 2011 and was an attendee of the Board). Prior to this he held the role of programme manager for this stream of work.

Charles was at the regulator in 2005, and since 2008 has been involved with the design and delivery of the Employer Compliance Regime.

For nearly 20 years, Charles has been running major business change programmes. As well as his work in the public sector, Charles has run major programmes of change in the financial services and automotive industries. Many of these programmes have been international, including work in South Africa, the United States, the Middle East, and in Europe.

Stephen Soper is the executive director for **defined benefit (DB) regulation** at The Pensions Regulator (and prior was interim DB executive director from February 2011 and was an attendee of the Board). In this role, he is responsible for both policy and operational decisions made about current and future DB regulation.

Stephen previously held the position of head of risk and funding at the regulator where he was responsible for mitigating risks to member benefits, overseeing all DB casework.

Stephen joined the regulator following over 23 years' working in multinational financial services organisations, focusing on banking and insurance.

A **Chartered Banker (ACIB)**, Stephen began his career at **RBS** within the **International Banking Division** and subsequently worked at the **Allied Dunbar Group, Zurich Financial Services, Eagle Star** and **Aon**. He has held various executive positions including **Commercial Bank Treasurer, Board Director, COO** of a UK bank, **Restructuring Director**, and **Group Change Director**.

Accountability reports

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

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

The Committee met three times during the period of this report. Considerations included Board effectiveness, the regulator's remuneration, the regulator chair's objectives, the regulator's strategies, recent developments, and future plans.

Details of membership of the committee and its subcommittees, and attendance records, are on pages 46 to 47 – **'Details of Board appointments'** and **'Attendance at meetings'** tables.

Reports from each of the sub-committees, the **Audit committee** and the **Remuneration committee**, follow.

Report of the activities of the Audit committee

The **Audit committee** met on six occasions in 2011-2012 and provided regular feedback to the Board. The Committee:

- reviewed the annual accounts for the regulator for the period 2010-2011 and recommended their approval to the Board
- reviewed the external audit management report for 2010-2011
- reviewed the internal audit management report for 2010-2011
- approved the internal audit strategy for 2011-2012
- approved the external audit strategy for 2011-2012
- advised the **Senior Management Team (SMT)** on the approach to risk management and kept the regulator's risk register under review
- reviewed Board and Determinations Panel expenses and hospitality information for publication
- received reports from the internal auditors reviewing areas of the business as agreed under the internal audit strategy
- monitored the implementation of recommendations made in those internal audit reports.

Membership throughout the period was as follows: Chris Swinson OBE (Chair), Tony Brierley and Bruce Rigby.

For the year 2011-2012, the committee also met in April 2012 to review the draft **Governance statement** and final internal audits for the year, and in June 2012 to review the regulator's **Annual report and accounts**, together with the internal and external auditors' reports for the year, and to recommend that the Board should approve the **Annual report and accounts**.

Board and Determinations Panel expenses

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

Risk management

The committee reviewed the regulator's risk register 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 risks, and took the view that effective and thorough monitoring and reporting systems were in place to give the senior management team an appropriate level of control over the management of risk.

Internal audit strategy for 2011-2012

The committee agreed a programme of internal audits for the year, covering major areas of the business assessed as providing priority topics for internal audit during this year. Progress was kept under review during the year, and the committee was able to review all of the audit reports prior to its approval of the **Annual report and accounts** and review of the **Governance statement**. During the year, additional audit work was also undertaken.

The committee noted that two audit reports gave a full assurance, three gave an effective level of assurance, three gave a partially effective level of assurance and one gave an ineffective level of assurance.

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

As a result of its analysis of the internal audit work, the committee formed the view that the monitoring and reporting systems in place to give the SMT an appropriate level of control over processes and management of processes within the organisation were broadly effective, and that where gaps were identified, appropriate actions were effectively put in place.

Report of the activities of the Remuneration committee

The Remuneration committee met on three occasions in 2011-2012 to review:

- executive remuneration arrangements and objectives for 2011-2012
- Senior Management Team members' objectives for 2012-2013
- the chief executive's remuneration
- staff remuneration arrangements
- additional duties allowances
- strategy for HR, and
- people and performance management.

Membership throughout the period was: Alan Pickering CBE and Isabel Hudson.

Whilst the Committee continued to focus on reward-related issues, it has also reviewed and agreed the organisation's strategic human resource strategy. Through its discussions, including with the regulator's management, the Committee formed the view that effective and thorough human resource approaches have been in place to give the Senior Management Team an appropriate level of support.

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

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

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...continued Report of the activities of the Remuneration Committee

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

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

The Chair is responsible for reviewing annually the performance of the chief executive and reporting the results of this review to the regulator's Remuneration Committee. The Remuneration Committee decides the amount of any performance related bonus payments due under the terms of the chief executive's contract. Final decisions on performance-related bonus awards lie with the Secretary of State for Work and Pensions.

Report of the activities of the Determinations Panel

Legislative framework

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

Membership

The Panel has a chair appointed by the regulator. The chair then nominates at least six other members, who must then be appointed by the regulator. At the start of the period there were six such members: Duncan Campbell, Olivia Dickson, Michael Maunsell, Suzanne McCarthy, Geoffrey Fitchew[6] and Daniel Taylor. In July 2011, five new Panel members were appointed by the regulator: Dame Elizabeth Neville, Peter Hinchliffe, Anthony Stern, Andrew Long and Alasdair Smith. Shortly after the period of this report, in April 2012, the second full term of appointment for Duncan Campbell, Olivia Dickson and Michael Maunsell came to an end.

[6] Sadly, Geoffrey Fitchew died in April 2011.

Procedures

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

The cases coming before the Panel are prepared by the regulatory teams and incorporated into a warning notice which is sent, in standard procedure cases, to all parties who are considered to be directly affected by the decision under consideration and giving each party a full opportunity to respond, and to make their own case, if they wish. The papers, including the warning notice, the supporting exhibits and the responses, are then submitted to the Panel. The Panel for a specific case is a subcommittee of members, which is supported by a clerk as appropriate and the Panel's administrative support staff.

The Panel then makes its decision allowing no further representation to be made by the regulatory teams or by any other party. In those cases where an oral hearing has been applied for, and granted, all parties are invited to give evidence or make representations. The procedures have been designed to ensure that the Panel's determinations are made in a fair, open and impartial manner. They place an expectation on regulatory case teams to investigate fully and explain the grounds of concern with sufficient evidence to support them.

Special procedure is an emergency procedure allowing action to be taken quickly and without notification to the directly affected parties. This put into action when the regulator considers that the scheme funds, or members' interests, would otherwise be at immediate risk. A special procedure decision must be fully reviewed by the Panel at a compulsory review soon after the initial hearing, with all parties given an opportunity to make representations on the initial decision made.

Consultation on proposed revisions to procedures

The Panel first published its procedures in 2006 and minor revisions were made effective in July 2008. After six years of operation the panel is proposing to revise its procedures to reflect the experience to date. A full consultation has begun on those revisions one of the purposes of which is to benefit from the experience practitioners have had during the period. We consulted on the principle of changing the procedures in the autumn of last year and following some responses the Panel have discussed the draft and this has been issued for detailed consultation (on the regulator's website) just into the new financial year, on 3 April 2012.

Casework in 2011-2012

During the year, the Panel has been asked to make determinations in 23 cases. The schemes concerned in these cases were DB, DC and hybrid (containing an element of both DB and DC). In two cases, the Panel held an oral hearing. The remaining 21 cases were determined on consideration of the papers. There were seven special procedure hearings during the year which dealt with 13 cases[7]. All the applications were granted, although not in the exact terms of the application in every instance. Further details are in the table on page 57.

Although the number of cases sent to the Panel by the regulatory arm of the regulator and the number considered by the Panel was the same as the previous year, the size, complexity and serious nature of the breaches continues to rise. This is demonstrated by the number of cases accepted by the Panel and heard on a special procedure basis. These cases related to scheme governance failings, lack of trustees' knowledge and understanding in respect of investment of scheme assets, conflict of interests and pension reciprocation.

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7 A vesting order and trustee appointment are made at the same time.

Upper Tribunal references of Panel determinations

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

One of the two Contribution Notice (CN) cases and the two Financial Support Direction (FSD) cases referred to the Tribunal from the previous year has not yet been heard. The first Contribution Notice referred to the Tribunal has now been settled. A full hearing did not take place before the Tribunal, because on the facts of this case settlement was reached between the regulator and the parent company and the Panel issued a Contribution Notice for £60,000.The contribution case currently with the Tribunal is subject to an appeal to the Court of Appeal; the substantive Tribunal hearing will then take place.

An FSD case was heard as an oral hearing in 2011-2012 and has subsequently been referred to the Tribunal. The Tribunal has yet to hear this substantive application. The two FSD cases referred to the Tribunal the previous year were referred to the High Court on a point of law as to the status of an FSD issued against an insolvent company. The High Court handed down a judgment stating that where an FSD is issued against a target company by the regulator following an insolvency event, the costs of complying with it would rank as an expense of the administration or liquidation. In law, the expense must therefore be paid before any distributions to preferred creditors, floating charges and unsecured creditors. This was appealed; the Court of Appeal confirmed the findings of the High Court. The Tribunal procedure has been stayed until the Supreme Court determines the status of an FSD in insolvency.

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

Meetings and Panel training

In February 2012 I attended the Board meeting, where I updated the Board on the work of the Panel, and in particular the past year where new issues had been raised in some of the cases brought to the Panel.

The Panel arranged a two day training event for its members in March 2012, which covered a broad range of topics relevant to its work, including comparative adjudication; public law principles and their application; and decision-making and recording, with scenarios derived from issues arising in past cases. This training seminar was also an opportunity for knowledge sharing between new Panel members and from those about to leave after completing two full terms as Panel Members.

The Panel holds regular, approximately quarterly, meetings where members discuss a variety of topics. Over the past year, these discussions have included updates on the Trustee register, the employer compliance regime, defined contribution schemes, and the Determinations Panel's procedures.

Determination requested	Number of cases	Outcome
Financial Support Direction (FSD)	1	This case was heard as an oral hearing. The case has since been referred to the Upper Tribunal. The FSD was made to five parties on behalf of the pension scheme with a deficit of approximately £62m.
Prohibition of trustee	1	This case was heard as an oral hearing. This was an application to prohibit three individuals from acting as trustees.
Suspension of trustee	2	These cases related to the suspension of a corporate trustee. The first application was heard as a standard procedure and the second application was heard as a special procedure and upheld at compulsory review.
Appointment of trustee	9	Six cases were heard as a special procedure and in four of the cases were upheld at compulsory review. Compulsory reviews for the remaining two cases will be held in the new financial year. Two cases were heard as a standard procedure and one case was heard at the same time as the application for a variation order.
Vesting order[8]	9	Six cases were heard as a special procedure and in four of the cases were upheld at compulsory review. Compulsory reviews for the remaining two cases will be held in the new financial year Two cases were heard as a standard procedure and one case was heard at the same time as the application for a variation order.
Variation order	1	This case was a variation of a previous trustee appointment and required an additional trustee to be appointed in order to have two trustees who could also be formal signatories.

John Scampion CBE
Chair,
Determinations Panel
April 2012

[8] A vesting order is made at the same time as the trustee appointment.

Freedom of Information, Data Protection, and Complaints – Annual report

Freedom of Information and data protection

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

In the period 1 April 2011 to 31 March 2012, 47 information requests were made under the Freedom of Information Act 2000 (FoIA), and five subject access requests (SARs) under section 7 of the Data Protection Act 1998 (DPA). This compares with 36 FoIA requests and one subject access request in the previous year. We also provided a response to one information request outstanding at the previous year end.

Most requests related to regulatory action taken by the regulator. There were also a number of requests relating to information held on either the Independent trustee register or the Stakeholder Pensions register and also on how much money the regulator spends.

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

In 22 responses to FoIA requests, we disclosed some or all information requested and in 17 were not able to disclose any information. In three instances, we did not hold the information that was requested. A further four requests were withdrawn and two requests remained outstanding (but within the statutory time limit) as at 31 March 2012.

We also received two requests for internal review of our decision not to disclose information. In both cases, the original decision not to disclose information was upheld.

Under FoIA, there is a further right of appeal to the Information Commissioner's Office (ICO), however at the time of writing, we have not been advised by the ICO of any referrals.

In this year, we received a response from the ICO about a complaint lodged there that remained under consideration there at the end of the previous year. This was the first complaint made to the ICO about the regulator's handling of an FoIA application. The ICO did not uphold the complaint.

Two complaints were made to the ICO regarding the alleged failure of the regulator to comply with SARs made under the DPA. The ICO considered the complaints and were satisfied that the regulator had complied with DPA requirements.

Complaints

In 2011-2012, at Stage 1, we received 24[9] new complaints. As at 31 March 2012 we had responded to 19, with three outstanding. Of the remaining two, one complaint was sent anonymously and one was withdrawn. At the start of the year there had also been two outstanding complaints, which we responded to in this period. By comparison, 20 new formal complaints were received in 2010-2011.

Half of the complaints (12) related to the way regulatory investigations had been carried out in specific schemes. We also received complaints relating to the scheme levy, information contained in Determination Notices, our observer role on an external body, requests for hard copy guidance and technical problems with Exchange (the regulator's online service for schemes to provide scheme information).

Of the 19 new Stage 1 complaints responded to, one was upheld in full, three were partially upheld and 14 not upheld; the further complaint was not within the regulatory remit of the regulator. In the case of the two complaints outstanding from the previous year, one complaint was upheld and one was not upheld.

We received three Stage 2 complaints in this period, compared to five the previous year. Of the two responded to, neither was upheld differently from the decision made at Stage 1; one remained outstanding as at 31 March 2012.

The Independent Complaints Adjudicator (ICA) retired at the end of December 2011 and, after liaison with the Parliamentary Ombudsman, the regulator then moved from a three stage internal formal complaints process to a two stage process. This allows for swifter access to the Parliamentary Ombudsman for complainants (the next stage once the regulator's internal complaints process has been exhausted). In relation to the two Stage 2 complaints, neither requested a Stage 3 review. In the previous financial year, the ICA handled five complaints.

[9] Of these 24 complaints, we have counted as 'one' where 31 letters were received in relation to one scheme where the regulator had appointed an Independent Trustee (IT). The letters were broadly similar in content, having largely followed a template format.

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 71 to 100.

The regulator is funded by Grant-in-Aid (GIA) payments from the DWP. The Levy's activities relating to PA04 and PA08 are funded by a GIA which is recovered through the General Levy. The Employer Compliance Regime (ECR) is funded through a GIA which is funded by the DWP. Expenditure on activities is accounted for separately to prevent cross subsidy.

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

In the period ended 31 March 2012, the regulator had net expenditure of £38.6m. This includes £15.5m which is directly attributable to ECR. The net expenditure has been transferred to the general reserve and is offset through contributions from the DWP of £22.8m for the regulator's Levy activities and £12.2m from the DWP for ECR activities.

Payroll staff costs have increased by £2m to £18.5m compared to 2010-2011 expenditure levels. Non-payroll staff costs have decreased by £2.4m across the organisation, of which £0.6m is in respect of Levy and £1.8m in respect of ECR. Ongoing spending controls implemented across government during 2010-2011 is the primary reason for the reduction in expenditure along with a switch from higher cost temporary staff to permanent staff to meet operational requirements. Other operating charges have increased by £7.2m across the organisation, a £8.8m increase for ECR offset by a £1.6m decrease for Levy. The increase in ECR is a result of the commencement of the contract with a commercial partner in October 2011 to deliver the requirements for automatic enrolment. The reduction in Levy is mainly the result of the reduction in consultancy and professional services of £2.1m offset by increased recruitment costs of £0.4m.

There have been no significant events occurring since period end.

Property, plant and equipment and intangible assets

The regulator occupies only short leasehold property and does not have any finance leases. Rent payable for accommodation has been charged to operating leases (Note 5 to the accounts). All non-current assets are valued at current replacement cost as detailed more fully in Notes 7 and 8 to the accounts.

Payments to suppliers

The regulator is committed to the prompt payment of bills for goods and services received. Payments are normally made as specified in contracts. If there is no contractual provision or understanding, invoices are deemed to be due to be paid within 30 days of the receipt of the goods or services, or presentation of a valid invoice or similar demand, whichever was later. During the period ended 31 March 2012, by volume, the regulator paid 83% of invoices in line with this policy.

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

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

Going concern

The balance sheet at 31 March 2012 shows net liabilities of £5.2m. This reflects the inclusion of liabilities falling due in future years which, to the extent that they are not to be met from the regulator's other sources of income, may only be met by future grants or Grants-in-Aid from the DWP, as the regulator's sponsoring department. This is because, under the normal conventions applying to Parliamentary control over income and expenditure, such contributions may not be issued in advance of need.

Levies account

The Pensions Act 2004 does not require the regulator to prepare a levies account.

During the year ended 31 March 2012, the regulator invoiced and collected levies on behalf of the DWP (the General levy and the Administration levy and Fraud compensation levy for the PPF, which will be reported in the audited financial statements of that organisation). The following un-audited results summarise key facts and figures in respect of levy activity undertaken during the period. These figures do not feature in the audited accounts of The Pensions Regulator.

During the year, the regulator invoiced £68.2m of which £42.8m relates to the General Levy, £21.5m relates to the PPF administration levy and £3.9m related to the Fraud Compensation Levy for the PPF.

The opening debt position as at 1 April 2011 was £226k of which £27k was under 30 days. Closing debt position as at 31 March 2012 was £308k of which the balance under 30 days was a net creditor of £17k. The closing balance comprises £68k PPF administration levy and £404k to the General Levy offset by credit notes and waivers of £28k relating to the PPF and £136k relating to Opra levies. Schemes are contacted to apply for a refund in these cases.

The regulator collected £68.1m during the year. £67.9m of cleared funds have been transferred to the DWP during the financial year of which £56k related to prior year, and £215k relates to cash received but not transferred at year end.

As an organisation, the regulator has been pro-actively seeking payment of any outstanding levy payments with an internal credit control team and has also contracted with a legal services provider to assist with this. This work will continue with a view of seeking prompt payment of levy. Our current cumulative debtor days are 41 days.

Prior to onward transmission to the DWP or the PPF, the regulator places levies received and unallocated cash receipts in respect of levies on overnight deposit. Any interest earned is paid over to the relevant recipient along with levy payments. Total interest earned and transferred in 2011-2012 was £3k.

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Audit

The Pensions Act 2004 requires the regulator's accounts to be certified by the **Comptroller and Auditor General (C&AG).** The audit fee for 2011-2012 was £34k.

Accounting officer responsibilities

The accounting officer confirms:

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

Michael O'Higgins
Chair,
The Pensions Regulator
18 June 2012

Bill Galvin
Chief executive,
The Pensions Regulator
18 June 2012

The Remuneration report

The Remuneration committee

Details of the activities of the **Remuneration committee** during the period ended 31 March 2012 are set out in page 40 of this **Annual report**.

Remuneration policy

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

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

The current and future remuneration of the other executive members of the Board of The Pensions Regulator is determined by The Pensions Regulator and approved by the Secretary of State for Work and Pensions. Additionally the Secretary of State for Work and Pensions determines the fees of the **Determinations Panel** for current and future periods.

Certain Executive members of the Board are eligible for an annual bonus ranging from 10% to 20% of base salary based on performance (Chief executive: 10%). Non-executive members of the board, the chairman and the **Determinations Panel** are not entitled to receive any bonus from The Pensions Regulator.

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

Service contracts

The length of service contracts is determined by the Secretary of State for Work and Pensions for Non-executive members of the board (including the chair) and the chief executive. The length of service contracts for other Executive members of the Board and for members of the Determinations Panel is determined by the regulator and approved by the Secretary of State for Work and Pensions.

Details of service contracts are shown below.

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

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

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

* Left 14 March 2012
** Left 17 April 2011
*** Appointed to the board on 1 July 2011
**** Appointed to the board on 1 May 2011

Information subject to audit

Remuneration and pension entitlements

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

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

Remuneration

The following figures are subject to audit.

Non-executive members

Non-executive part-time members of the board receive non-pensionable remuneration of £21,006 per annum. Other than C Swinson, audit committee chair, who receives a non-pensionable remuneration of £24,190.

Salary (in bands of £5,000)	Total Benefits in Kind (to the nearest £100)	Board members
£20-25k (All part time members of the board)	£200 A Pickering £100 A Brierley £300 B Rigby £100 I Hudson £700 C Swinson	A Pickering CBE, C Swinson OBE, A Brierley, I Hudson, Bruce Rigby
£55-60k[10] (Chair)	£300	M O'Higgins

The total amount paid to non-executive directors (including the chair) during the period was £165-170k. 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 current chair's remuneration is non-pensionable.

The pension entitlement shown above is based on the Inland Revenue earnings cap of £129,600. The CETV figure includes prior civil service pensions.

10 2 days per week, full time equivalent £140k-£145k

Executive members

	2011-12		2010-11	
	Salary	Performance related*	Salary	Performance related**
B Galvin (Chief executive)	£140-145k	£10-15k	£140-145k	£5-10k
J Mulroy (DC, governance and admin)[11]	£130-135k	£10-15k	£135-140k	£5-10k
S Weatherley (Business support executive).	£110-115k	£10-15k	£110-115k	£5-10k
S Soper (DB regulation executive director[12]	£190-195k	£nil	N/A	N/A
C Counsell (ECR executive)[13]	£105-110k	£nil	N/A	N/A
G Brammer (ECR executive)[14]	£5-10k	£nil	£140-145k	£5-10k
Band of highest paid director's total remuneration	£210-215k		£175-180k***	
Median total remuneration	£39k		£39k	
Ratio	5.4		4.5	

As Stephen Soper and Charles Counsell were not members of the Board in 2010-2011, those details are excluded from the table.

* Bonuses relating to 2010-2011 performance but paid in 2011-2012
** Bonuses relating to 2009-2010 performance but paid in 2010-11
*** The highest paid director for 2010-2011, A Hobman, left the organisation during that year.

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

The banded remuneration of the highest-paid director in the organisation in the financial year 2011-2012 was £210-215k (2010-2011: £175-180k). This was 5.4 times (2010-2011: 4.5) the median remuneration of the workforce, which was £39k (2010-2011: £39k). The reason for the increase in the ratio is the appointment of a new Executive Director who attracted a higher salary due to the specialist knowledge and experience to deliver the requirements of that role.

In 2011-2012 no employees (2010-2011: 2) received remuneration in excess of the highest-paid director. Remuneration ranged from £16k to £210-215k (2010-2011: £16k to £235-240k).

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11 Left the regulator on 14 March 2012. Full year equivalent band is £135-140k.
12 Appointed to the board on 1 May 2011. Full year equivalent band is £210-215k.
13 Appointed to the board on 1 July 2011. Full year equivalent band is £140-145k.
14 Left the regulator on 17 April 2011. Full year equivalent band is £140-145k.

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Executive members' pension benefits

Executive members	Accrued pension at age 60 as at 31/3/12 and related lump sum (£'000)	Real increase in pension and related lump sum at age 60 (£'000)	CETV at 31/3/11 (£'000)	CETV at* 31/3/12 (£'000)	Real increase in CETV (£'000)
B Galvin (Chief executive)	10-15 plus lump sum of 0	0-2.5 plus lump sum of 0	119	154	21
J Mulroy DC, governance and admin (left 14/03/2012)	25-30 plus lump sum of 0	0-2.5 plus lump sum of 0	506	559	35
S Weatherley (Business support executive)	5-10 plus lump sum of 0	0-2.5 plus lump sum of 0	142	189	32
G Brammer (ECR executive – left 17/04/2011)	5-10 plus lump sum of 0	0 plus lump sum of 0	70	72	0
C Counsell (ECR executive – start 01/07/2011)	0-5 plus lump sum of 0	0-2.5 plus lump sum of 0	0	19	16
S Soper (DB regulation executive – start 01/05/2011)	15-20 plus lump sum of 0	2.5-5 plus lump sum of 0	71	106	25

*The CETV includes prior civil service pensions

The pension entitlement of the chief executive is based on the Inland Revenue's earnings cap of £129,600.

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, Classic plus and Premium**). The schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under **Classic, Premium**, and **Classic plus** are increased annually in line with changes in the **Consumer Price Index (CPI)**. From 31 July 2007, new entrants may choose between membership of **Nuvos** or joining a good quality 'money purchase' stakeholder arrangement with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for **Classic**, 3.5% for **Premium**, **Classic plus** and **Nuvos**. Benefits in **Classic** accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to 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**. **Nuvos** is a career average pension scheme. Benefits are accrued at the rate of 2.3% of pensionable earnings for each year of service. There is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum).

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

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

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. **CETV**s 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.

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Determinations Panel

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

Salary (2011-2012)	Members
£0-£5k	A Smith* G Fitchew**
£5-£10k	S McCarthy, O Dickson, D Campbell, D Taylor, A Long***, E Neville****
£10-£15k	P Hinchliffe*****
£20-£25k	M Maunsell
£30-£35k	J Scampion (chair)

* Started 25 July 2011
** Left 30 April 2011
*** Started 14 July 2011
**** Started 14 July 2011
***** Started 25 July 2011

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

Michael O'Higgins
Chair,
The Pensions Regulator
18 June 2012

Bill Galvin
Chief executive,
The Pensions Regulator
18 June 2012

Statutory accounts and notes to the accounts

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

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

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

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

Michael O'Higgins
Chair,
The Pensions Regulator
18 June 2012

Bill Galvin
Chief executive,
The Pensions Regulator
18 June 2012

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 2012 under Schedule 1 of The Pensions Act 2004. The financial statements comprise: the Statement of Comprehensive Net Expenditure, Statement of Financial Position, Statement of Cash Flows, Statement of Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Board, Accounting Officer and auditor

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

Scope of the audit of the financial statements

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

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

Opinion on regularity

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

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of The Pensions Regulator's affairs as at 31 March 2012 and of the net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Pensions Act 2004 and the Secretary of State for Work and Pensions' directions made thereunder.

Opinion on other matters

In my opinion:

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

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General, National Audit Office,
157-197 Buckingham Palace Road, Victoria, London SW1W 9SP
22 June 2012

Financial statements

Statement of Comprehensive Net Expenditure for the year ended 31 March 2012

	Note	2011-2012 £'000	2010-2011 £'000
Expenditure			
Staff costs	4	**21,044**	21,519
Depreciation and Amortisation	5	**529**	566
Other expenditure	5	**17,062**	9,861
Total expenditure		**38,635**	31,946
Interest receivable		**(20)**	(13)
Net expenditure after interest, before taxation		**38,615**	31,933
Taxation	6	**4**	3
Net expenditure after interest and taxation		**38,619**	31,936
Other comprehensive expenditure			
Net (gain)/loss on revaluation of property, plant and equipment		**(2)**	20
Total comprehensive expenditure		**38,617**	31,956

The accounting policies and notes on pages 76 to 100 form part of these accounts.

Statement of Financial Position at 31 March 2012

	Note	At 31 March 2012 £'000	At 31 March 2011 £'000
Non-current assets			
Property, plant and equipment	7	**525**	497
Intangible assets	8	**451**	550
Total non-current assets		**976**	1,047
Current assets			
Trade and other receivables	11	**666**	1,037
Cash and cash equivalents	12	**2,642**	709
Total current assets		**3,308**	1,746
Total assets		**4,284**	2,793
Current liabilities			
Trade and other payables	13	**(8,520)**	(3,409)
Provisions	14	**(62)**	(162)
Total current liabilities		**(8,582)**	(3,571)
Non-current assets less net current liabilities		**(4,298)**	(778)
Non-current liabilities			
Provisions	14	**(840)**	(701)
Other payables	13	**(15)**	(73)
Total non-current liabilities		**(855)**	(774)
Assets less liabilities		**(5,153)**	(1,552)
Tax payers equity		**179**	177
Revaluation reserve		**(5,332)**	(1,729)
General reserve		**(5,153)**	(1,552)

The financial statements on pages 71 to 100 were approved and authorised for issue by the Board on 13 June 2012 and were signed on its behalf by:

Michael O'Higgins
Chair,
The Pensions Regulator
18 June 2012

Bill Galvin
Chief executive,
The Pensions Regulator
18 June 2012

The accounting policies and notes on pages 76 to 100 form part of these accounts

Statement of Cash Flows for the year ended 31 March 2012

	Note	**2011-2012 £'000**	2010-2011 £'000
Cash flows from operating activities			
Net Expenditure after interest		**(38,615)**	(31,933)
Adjustments for non-cash transactions		**536**	587
(Increase)/Decrease in trade and other receivables	11	**371**	(338)
Increase/(Decrease) in trade payables	13	**5,053**	(1,078)
Increase in provisions	14	**39**	147
Cash outflow due to taxation		**(3)**	(3)
Net cash outflow from operating activities		**(32,619)**	(32,618)
Cash flows from investing activities			
Purchase of property, plant and equipment	7	**(287)**	(139)
Purchase of intangible assets	8	**(177)**	(86)
Net cash outflow from investing activities		**(464)**	(225)
Cash flows from financing activities			
GIA to cover ongoing operations Levy		**22,848**	25,309
GIA to cover initial costs of ECR		**12,168**	7,963
GIA received from DWP for TPAS		**(3,212)**	3,984
GIA paid from the regulator to TPAS		**3,212**	(3,984)
Net cash inflow from financing activities		**35,016**	33,272
Net increase in cash and cash equivalents in the period		**1,933**	429
Cash and cash equivalents at the beginning of the period	12	**709**	280
Cash and cash equivalents at the end of the period	12	**2,642**	709

The accounting policies and notes on pages 76 to 100 form part of these accounts.

Statement of Changes in Taxpayers 'Equity for the year ended 31 March 2012

	Revaluation Reserve	General Reserve	Total Reserves
	£'000	£'000	£'000
Balance at 1 April 2010	197	(3,065)	(2,868)
Changes in taxpayers' equity 2010-2011			
GIA received from DWP	–	33,272	33,272
Net gain/(loss) on revaluation of property, plant and equipment	(20)	–	(20)
Comprehensive Expenditure for the year	–	(31,936)	(31,936)
Balance at 31 March 2011	177	(1,729)	(1,552)
Changes in taxpayers' equity 2011-2012			
GIA received from DWP	–	35,016	35,016
Net gain/(loss) on revaluation of property, plant and equipment	2	–	2
Comprehensive Expenditure for the year	–	(38,619)	(38,619)
Balance at 31 March 2012	179	(5,332)	(5,153)

The accounting policies and notes on pages 76 to 100 form part of these accounts.

Notes to the Accounts

1 Statement of accounting policies

These financial statements have been prepared in accordance with the 2011-2012 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the pubic sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the regulator for the purpose of giving a true and fair view has been selected. The particular policies adopted by the regulator for the reportable activity are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

1.1 Accounting Convention

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

a) Property, Plant and Equipment

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

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

b) Depreciation and amortisation

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

Leasehold improvements	– the shorter of 10 years or the remainder of the lease term
Furniture and office equipment	– 5-7 years
Information technology costs (IT costs)	
– information technology equipment	– 5 years
– major software licences	– 5 years
– software development and enhancement	– 5 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.

c) Intangible assets

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

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

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

d) Impairment

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

continued over...

1.1 Accounting Convention continued...

e) Other income and expenditure

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

f) Operating leases

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

g) Financial Instruments

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

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

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

h) Government grants and Grant-in-Aid

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

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

i) Early retirement and severence costs

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

j) Provision for liabilities

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

k) Reserves

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

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

1.1 Accounting Convention continued...

l) Going concern

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

m) Critical Accounting judgements and key sources of estimation uncertainty

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

Critical judgements in applying the accounting policies

IT software internally generated

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

Dilapidations

A dilapidation provision has been put in place for the current lease for the office the regulator occupies in Brighton, on which the lease will expire in 2013. The provision is to make good dilapidations or other damage occurring during the lease periods. This provision is expected to be utilised at the expiry date of the lease.

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

Key sources of estimation uncertainty

There are no significant areas of estimation uncertainty.

1.2 Pensions

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

1.3 Impending application of newly issued accounting standards not yet effective

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

2 Statement of operating costs by operating segment

	ECR £'000	Levy £'000	Total TPR £'000
2011-2012			
Gross expenditure	15,500	23,119	38,619
Income	–	–	–
Net expenditure	15,500	23,119	38,619
Total assets	2,645	1,639	4,284
2010-2011			
Gross expenditure	7,211	24,725	31,936
Income	–	–	–
Net expenditure	7,211	24,725	31,936
Total assets	684	2,109	2,793

The regulator comprises of two distinct operating segments; Levy and the Employer Compliance Regime (ECR). Levy activity relates to the regulation of new and existing DB and DC schemes while ECR supports the development of automatic enrolment.

Levy activity is funded by Grant-in-Aid payments from the DWP which is recovered through the general levy charged on pension schemes in the United Kingdom. ECR is tax-payer funded through a separate Grant-in-Aid stream from the DWP and as such, it is critical that resources are charged and treated separately and to the correct funding stream. All ECR-related work is separately recorded on separate ledgers and strict protocols are adhered to avoid cross subsidy. Reporting is provided to the executive team and board on both ECR and Levy expenditure.

3 Board members

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

Other part time (non-executive) board members are also appointed for periods of between 1 and 4 years. Part time (non-executive) board members are entitled to a monthly non-pensionable fee of £1,751 in 2011-2012 (2010-2011: £1,751) and out of pocket expenses. C Swinson received a monthly non-pensionable fee of £2,016 in 2011-2012 (2010-2011: £2,016)

Details of the remuneration and pension benefits of the chairman and all other members of the board are given in the Remuneration report on pages 62 to 68. The total cost for the chairman and part time board members are as follows and these costs are included within other operating expenditure (Note 5).

	2011-2012 £'000	2010-2011 £'000
Salary/fees	**165**	211
Social security costs	**17**	21
Other pension costs	**–**	12
Part time board expenses	**3**	16
	185	260

4 Staff numbers and related costs

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

	ECR £'000	Levy £'000	Total TPR £'000
2010-2011			
Salaries and wages*	2,097	10,852	12,949
Social security costs	120	995	1,115
Other pension costs	272	2,190	2,462
	2,489	14,037	16,526
Temporary staff**	2,527	2,451	4,978
Severance and Early Retirement costs	–	146	146
Subtotal	5,016	16,634	21,650
Less recoveries in respect of outward secondments	–	(131)	(131)
Total net costs	5,016	16,503	21,519

* Salaries and Wages for 2011-2012 includes staff holiday accrual £175k (2010-2011: £192k) for Levy and £27k for ECR (2010-2011: £13k).

** £128k of staff salaries have been capitalised for 2011-2012 (2010-2011: £nil). These are included in software under development in Note 8.

4 Staff numbers and related costs continued...

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

For 2011-2012, employers' contributions of £2,682k (2010-2011: £2,474k) were payable to the PCSPS at 1 of 4 rates in the range 16.7% to 24.3% of pensionable pay, based on salary bands. The scheme's actuary reviews employer contributions every four years following a full scheme valuation. The contribution rates reflect the benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Employees joining after 1 October 2002 can opt to open a partnership pension account, a stakeholder pension with an employer contribution, and employers contributions of £43k (2010-2011: £9k) were payable to one or more of a panel of 3 appointed stakeholder pension providers. Employers' contributions are age-related and range from 3% to 12.5% of pensionable pay, and employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £3k (2010-2011: £1k), being 0.8% of pensionable pay, were payable to the PCSPS to cover the cost of future provision of lump sum benefits on death in service and ill health retirement of these employees.

The outstanding pensions contributions as at 31 March 2012 equates to £290k (31 March 2011 £242k).

Average number of persons employed

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

	ECR 2011-2012 No.	Levy 2011-2012 No	Total TPR 2011-2012 No
Employees	36	255	291
Temporary staff	6	21	27
Staff engaged on capital projects	–	1	1
Total	42	277	319

	ECR 2010-2011 No.	Levy 2010-2011 No	Total TPR 2010-2011 No
Employees	17	240	257
Temporary staff	20	27	47
Staff engaged on capital projects	–	–	–
Total	37	267	304

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

Comparative data for previous year in brackets

Exit package cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band
<£10,000	–	1 (-)	1 (-)
£10,000-£25,000	–	6 (-)	6 (-)
£25,000-£50,000	–	1 (-)	1 (-)
£50,000-£100,000	–	1 (1)	1 (1)
£100,000-£150,000	–	0 (1)	0 (1)
Total number of exit packages by type	–	9 (2)	9 (2)
Total resource cost/£'000		**186 (208)**	**186 (208)**

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

5 Other expenditure

	ECR £'000	Levy £'000	Total TPR £'000
2011-2012			
Running costs			
Chairman and part-time board fees and expenses	44	141	185
Consultancy, contracted-out and other professional services	1,315	1,948	3,263
Business process outsourced services	8,546	–	8,546
Training and recruitment costs	210	699	909
Staff travel and expenses	106	292	398
General office expenses including accommodation expenses	332	2,160	2,492
Dilapidations costs	–	167	167
Computer systems development and maintenance	438	623	1,061
Impairment of non-current assets	–	–	–
Auditor's remuneration	–	34	34
	10,991	**6,064**	**17,055**
Non-cash items			
Loss on disposal of fixed assets	–	7	7
Depreciation	5	254	259
Amortisation	1	269	270
	6	530	536
Total	**10,997**	**6,594**	**17,591**

continued...

5 Other expenditure continued...

	ECR £'000	Levy £'000	Total TPR £'000
2010-2011			
Running costs			
Chairman and part-time board fees and expenses*	59	201	260
Consultancy, contracted-out and other professional services	1,612	4,025	5,637
Business process outsourced services	–	–	–
Training and recruitment costs	9	315	324
Staff travel and expenses	26	186	212
General office expenses including accommodation expenses	255	2,144	2,399
Dilapidations costs	–	160	160
Computer systems development and maintenance	237	584	821
Impairment of non-current assets	–	13	13
Auditor's remuneration	–	35	35
	2,198	**7,663**	**9,861**
Non-cash items			
Depreciation	–	305	305
Amortisation	–	261	261
	–	566	566
Total	**2,198**	**8,229**	**10,427**

* There is tax due to HMRC on expenses incurred of £0.6k 2011-2012 (2010-2011: £0.4k).

6 Tax on interest receivable

	ECR £'000	Levy £'000	Total TPR £'000
2011-2012			
UK Corporation Tax	2	2	4
2010-2011			
UK Corporation Tax	1	2	3

7 Property, plant and equipment – Levy

	Leasehold improvements £'000	Telecoms equipment £'000	Furniture fixtures and fittings £'000	Office equipment £'000	IT hardware £'000	Total £'000
Cost or valuation						
At 1 April 2011	1,148	275	740	9	1,306	3,478
Additions	–	–	25	13	221	259
Disposals	(26)	–	–	(5)	(330)	(361)
Revaluations	21	–	–	–	–	21
At 31 March 2012	**1,143**	**275**	**765**	**17**	**1,197**	**3,397**
Depreciation						
At 1 April 2011	984	275	726	9	987	2,981
Charge in year	83	–	12	–	159	254
Disposals	(26)	–	–	(5)	(328)	(359)
Revaluations	19	–	–	–	–	19
At 31 March 2012	**1,060**	**275**	**738**	**4**	**818**	**2,895**
Carrying amount at 31 March 2011	**164**	**–**	**14**	**–**	**319**	**497**
Carrying amount at 31 March 2012	**83**	**–**	**27**	**13**	**379**	**502**

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7 Property, plant and equipment – Levy continued...

	Leasehold improvements £'000	Telecoms equipment £'000	Furniture fixtures & fittings £'000	Office equipment £'000	IT hardware £'000	Total £'000
Cost or valuation						
At 1 April 2010	1,199	282	739	12	1,537	3,769
Additions	–	–	–	–	139	139
Disposals	–	(7)	–	(3)	(319)	(329)
Revaluations	(51)	–	1	–	(51)	(101)
At 31 March 2011	**1,148**	**275**	**740**	**9**	**1,306**	**3,478**
Depreciation						
At 1 April 2010	856	281	718	12	1,201	3,068
Charge in year	166	1	7	–	131	305
Disposals	–	(7)	–	(3)	(314)	(324)
Revaluations	(38)	–	1	–	(31)	(68)
At 31 March 2011	**984**	**275**	**726**	**9**	**987**	**2,981**
Carrying amount at 31 March 2010	**343**	**1**	**21**	**–**	**336**	**701**
Carrying amount at 31 March 2011	**164**	**–**	**14**	**–**	**319**	**497**

7 Property, plant and equipment – ECR

	Leasehold improvements £'000	Telecoms equipment £'000	Furniture fixtures & fittings £'000	Office equipment £'000	IT hardware £'000	Total £'000
Cost or valuation						
At 1 April 2011	–	–	–	–	–	–
Additions	–	–	–	–	28	28
Disposals	–	–	–	–	–	–
Revaluations	–	–	–	–	–	–
At 31 March 2012	**–**	**–**	**–**	**–**	**28**	**28**
Depreciation						
At 1 April 2011	–	–	–	–	–	–
Charge in year	–	–	–	–	5	5
Disposals	–	–	–	–	–	–
Revaluations	–	–	–	–	–	–
At 31 March 2012	**–**	**–**	**–**	**–**	**5**	**5**
Carrying amount at 31 March 2011	**–**	**–**	**–**	**–**	**–**	**–**
Carrying amount at 31 March 2012	**–**	**–**	**–**	**–**	**23**	**23**

ECR did not own any assets prior to 1 April 2011.

7 Property, plant and equipment – Total TPR continued...

	Leasehold improvements £'000	Telecoms equipment £'000	Furniture fixtures & fittings £'000	Office equipment £'000	IT hardware £'000	Total £'000
Cost or valuation						
At 1 April 2011	1,148	275	740	9	1,306	3,478
Additions	–	–	25	13	249	287
Disposals	(26)	–	–	(5)	(330)	(361)
Revaluations	21	–	–	–	–	21
At 31 March 2012	**1,143**	**275**	**765**	**17**	**1,225**	**3,425**
Depreciation						
At 1 April 2011	984	275	726	9	987	2,981
Charge in year	83	–	12	–	164	259
Disposals	(26)	–	–	(5)	(328)	(359)
Revaluations	19	–	–	–	–	19
At 31 March 2012	**1,060**	**275**	**738**	**4**	**823**	**2,900**
Carrying amount at 31 March 2011	**164**	**–**	**14**	**–**	**319**	**497**
Carrying amount at 31 March 2012	**83**	**–**	**27**	**13**	**402**	**525**
Cost or valuation						
At 1 April 2010	1,199	282	739	12	1,537	3,769
Additions	–	–	–	–	139	139
Disposals	–	(7)	–	(3)	(319)	(329)
Revaluations	(51)	–	1	–	(51)	(101)
At 31 March 2011	**1,148**	**275**	**740**	**9**	**1,306**	**3,478**
Depreciation						
At 1 April 2010	856	281	718	12	1,201	3,068
Charge in year	166	1	7	–	131	305
Disposals	–	(7)	–	(3)	(314)	(324)
Revaluations	(38)	–	1	–	(31)	(68)
At 31 March 2011	**984**	**275**	**726**	**9**	**987**	**2,981**
Carrying amount at 31 March 2010	**343**	**1**	**21**	**–**	**336**	**701**
Carrying amount at 31 March 2011	**164**	**–**	**14**	**–**	**319**	**497**

The regulator does not lease any assets.

8 Intangible Assets – Levy

Intangible assets comprise software licences and software developed in-house

	Software under development £'000	Software internally generated £'000	IT software acquired £'000	Total £'000
Cost or Valuation				
At 1 April 2011	–	1,235	1,280	2,515
Additions	128	–	42	170
Disposals	–	–	(225)	(225)
At 31 March 2012	**128**	**1,235**	**1,097**	**2,460**
Amortisation				
At 1 April 2011	–	845	1,120	1,965
Charge in year	–	189	80	269
Disposals	–	–	(219)	(219)
At 31 March 2012	**–**	**1,034**	**981**	**2,015**
Carrying amount at 31 March 2011	**–**	**390**	**160**	**550**
Carrying amount at 31 March 2012	**128**	**201**	**116**	**445**
Cost or Valuation				
At 1 April 2010	–	1,235	1,237	2,472
Additions	–	–	86	86
Disposals	–	–	(43)	(43)
At 31 March 2011	**–**	**1,235**	**1,280**	**2,515**
Amortisation				
At 1 April 2010	–	656	1,089	1,745
Charge in year	–	189	72	261
Disposals	–	–	(41)	(41)
At 31 March 2011	**–**	**845**	**1,120**	**1,965**
Carrying amount at 31 March 2010	**–**	**579**	**148**	**727**
Carrying amount at 31 March 2011	**–**	**390**	**160**	**550**

8 Intangible Assets – ECR continued...

Intangible assets comprise software licences and software developed in-house

	Software under development £'000	Software internally generated £'000	IT software acquired £'000	Total £'000
Cost or Valuation				
At 1 April 2011	–	–	–	–
Additions	–	–	7	7
Disposals	–	–	–	–
At 31 March 2012	**–**	**–**	**7**	**7**
Amortisation				
At 1 April 2011	–	–	–	–
Charge in year	–	–	1	1
Disposals	–	–	–	–
At 31 March 2012	**–**	**–**	**1**	**1**
Carrying amount at 31 March 2011	–	–	–	–
Carrying amount at 31 March 2012	**–**	**–**	**6**	**6**

ECR did not own any assets prior to 1 April 2011.

8 Intangible Assets – Total TPR continued...

Intangible assets comprise software licences and software developed in-house

	Software under development £'000	Software internally generated £'000	IT software acquired £'000	Total £'000
Cost or Valuation				
At 1 April 2011	–	1,235	1,280	2,515
Additions	128	–	49	177
Disposals	–	–	(225)	(225)
At 31 March 2012	**128**	**1,235**	**1,104**	**2,467**
Amortisation				
At 1 April 2011	–	845	1,120	1,965
Charge in year	–	189	81	270
Disposals	–	–	(219)	(219)
At 31 March 2012	**–**	**1,034**	**982**	**2,016**
Carrying amount at 31 March 2011	**–**	**390**	**160**	**550**
Carrying amount at 31 March 2012	**128**	**201**	**122**	**451**
Cost or Valuation				
At 1 April 2010	–	1,235	1,237	2,472
Additions	–	–	86	86
Disposals	–	–	(43)	(43)
At 31 March 2011	**–**	**1,235**	**1,280**	**2,515**
Amortisation				
At 1 April 2010	–	656	1,089	1,745
Charge in year	–	189	72	261
Disposals	–	–	(41)	(41)
At 31 March 2011	**–**	**845**	**1,120**	**1,965**
Carrying amount at 31 March 2010	**–**	**579**	**148**	**727**
Carrying amount at 31 March 2011	**–**	**390**	**160**	**550**

9 Financial Instruments

Financial Instruments and fair values

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

Liquidity risk

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

Interest rate risk

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

Foreign currency risk

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

Fair values of financial instruments

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

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

	2011-2012		2010-2011	
	Book value £'000	**Fair value £'000**	**Book value £'000**	**Fair value £'000**
Financial assets				
Cash at bank and in hand	2,642	2,642	709	709
Receivables:				
Central Government	–	–	48	48
Other trade	4	4	23	23
Staff	48	48	36	36
Financial liabilities				
Payables:				
Central Government	149	149	327	327
Suppliers	1,037	1,037	664	664
Other	7,349	7,349	2,343	2,343

Payables to central government exclude statutory payables which relate to taxes and social security due to HM Revenue and Customs (HMRC). None of the financial assets have been subject to an impairment.

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

10 Impairments

	ECR 2011-2012 £'000	Levy 2011-2012 £'000	Total 2011-2012 £'000	Total 2010-2011 £'000
Impairment of non-current assets	–	–	–	33
	–	–	–	33

There are no impairments in the current year. (2010-2011: £13k charged to the Statement of Comprehensive Net Expenditure and £20k against a previous increased valuation in the revaluation reserve.)

11 Trade receivables and other current assets

	ECR 2011-2012 £'000	Levy 2011-2012 £'000	Total 2011-2012 £'000
Amount falling due within one year:			
Trade receivables	–	4	4
Other receivables	6	42	48
Prepayments	14	600	614
	20	646	666

Intra-government balances

Central Government trade receivables relate only to 'business as usual' and include no balances with DWP (2010-2011: £41k due from the DWP within Levy and £7k due from the DWP within ECR).

Other than already disclosed all balances due relate to the private sector.

	ECR 2010-2011 £'000	Levy 2010-2011 £'000	Total 2010-2011 £'000
Amount falling due within one year:			
Trade receivables	7	64	71
Other receivables	4	32	36
Prepayments	6	924	930
	17	1,020	1,037

12 Cash and cash equivalents

	ECR 2011-2012 £'000	Levy 2011-2012 £'000	Total 2011-2012 £'000
Balance at 1st April 2011	667	42	709
Net change in cash and cash equivalent balance	1,928	5	1,933
Balance at 31 March 2012	**2,595**	**47**	**2,642**
At 31 March 2012 the following balances were held:			
Commercial banks and cash in hand	10	47	57
Short term investments	2,585	-	2,585
Balance at 31 March 2012	**2,595**	**47**	**2,642**
At 31 March 2011 the following balances were held:			
Commercial banks and cash in hand	11	42	53
Short term investments	656	-	656
Balance at 31 March 2011	**667**	**42**	**709**

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

13 Trade payables and other current liabilities

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

Intra-government payables

Levy payables include Central Government payables of £68k (2010-2011: £93k), which comprise £52k (2010-2011: £65k) due to The Central Office of Information (COI) and £16k (2010-2011: £28k) to HMRC. Central Government payables relating to ECR comprise £60k due to HMRC and £21k due to the DWP. 2010-2011 payables comprise £147k due to COI.

Other than already disclosed all balances owed relate to the private sector.

Accruals and deferred income due in less than one year comprises accruals relating to outsourced services £4,983k (2010-2011: £nil) and rent rebates receivable £59k (2010-2011: £59k).

Deferred income due in greater than one year comprises rent rebates receivable £15k (2010-2011: £73k).

	ECR 2010-2011 £'000	Levy 2010-2011 £'000	Total 2010-2011 £'000
Amounts falling due within one year			
Other taxation and social security	44	337	381
Trade payables	25	656	681
Accruals and deferred income	494	1,853	2,347
	563	2,846	3,409
Amounts falling due after more than one year			
Other payables, accruals and deferred income	–	73	73
	–	73	73

14 Provisions for liabilities and charges

	Early retirement £'000	Severance £'000	Dilapidations £'000	Total £'000
Balance at 1 April 2011	**79**	**125**	**659**	**863**
Provided in the year	14	186	167	367
Provision not required written back	(27)	–	–	(27)
Provisions utilised in the year	(37)	(264)	–	(301)
Balance at 31 March 2012	**29**	**47**	**826**	**902**
Analysis of expected timing of discounted flows				
Not later than one year	15	47	-	62
Later than one year and not later than five years	14	–	826	840
Balance at 31st March 2011	**29**	**47**	**826**	**902**
Balance at 1 April 2010	**180**	**37**	**499**	**716**
Provided in the year	–	125	160	285
Provision not required written back	(35)	(37)	–	(72)
Provisions utilised in the year	(66)	–	–	(66)
Balance at 31 March 2011	**79**	**125**	**659**	**863**
Analysis of expected timing of discounted flows				
Not later than one year	37	125	–	162
Later than one year and not later than five years	42	–	659	701
Balance at 31st March 2011	**79**	**125**	**659**	**863**

Liabilities and provisions

Early retirement is related to individuals on early retirement for which the regulator is liable, severance covers the cost of restructuring during 2011-2012 and dilapidations cover the cost of restoring Napier House at the end of the lease in July 2013.

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15 Commitments under leases

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

	ECR 2011-2012 £'000	Levy 2011-2012 £'000	Total 2011-2012 £'000	Total 2010-2011 £'000
Obligations under operating leases for the following periods comprise:				
Buildings:				
Not later than one year	–	845	845	845
Later than one year and not later than five years	–	221	221	1,126
Later than five years	–	–	–	–
	–	1,066	1,066	1,971
Other:				
Not later than one year	–	–	–	1
Later than one year and not later than five years	–	55	55	–
Later than five years	–	–	–	–
	–	55	55	1

The regulator has no obligations under finance leases.

16 Capital commitments

Amounts contracted for but not provided in the accounts amounted to £nil (2010-2011: £nil).

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

17 Commitment under PFI contracts and other service concession arrangements

The regulator is not party to any PFI contracts.

18 Other financial commitments

Amounts contracted for but not provided in the accounts amounted to £nil (2010-2011: £nil).

19 Contingent liabilities disclosed under IAS 37

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

20 Losses and special payments

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

21 Related party transaction

The regulator is a Non-Departmental Public Body (NDPB) accountable to the Secretary of State for Work and Pensions. The **DWP**, **the Pensions Advisory Service (TPAS)** and the **Pension Protection Fund (PPF)** are regarded as related parties. All transactions with related parties have been completed at arms length. During the period, the regulator's transactions with the Department included payments of **DWP** secondees working at the regulator. In total the transactions with the **DWP** not related to the provision of Grant-in-Aid totalled £107k (2010-2011: £74k). Additionally for 2011-2012, regulator staff were seconded to the **DWP** which related to receipts of £38k (2010-2011: £89k).

During the year, the regulator funded Grant-in-Aid payments to **TPAS** of £3.2m (2010-2011: £4.0m). The Departmental Steward, on behalf of the Secretary of State, made matching Grant-in-Aid payments to the regulator of £3.2m (2010-2011: £4.0m) to fund the regulator's expenditure on Grant-in-Aid payments to **TPAS**. There were no funds relating to **TPAS** held as at 31 March 2012.

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

22 Third party assets

The regulator does not hold any third party assets.

23 Subsequent events

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

Sustainability report

Introduction

In including this sustainability report, the regulator is conforming to the new public sector requirements laid down in HM Treasury Financial Reporting Manual FReM.

The regulator contributes data to the DWP who produce an annual web report on sustainability. This report is an extended version of the sustainability contribution to the DWP's Annual report and accounts. Further explanation of the data used is held both in the DWP's records and on the regulator's Sharepoint site.

Overview of performance

In line with the Greening Government Commitment[15] to reduce carbon emissions by 25% base lined against 2009-2010 by the target date of 2014-2015, the regulator set an external KPI for 2011-2012 to reduce CO2 emissions from gas, electricity and business travel by 10% vs 2010-2011 levels. Our targets and achievements relate to our sole occupancy at Napier House, Trafalgar Place, Brighton.

15 Greening Government Commitment: http://sd.defra.gov.uk/gov/green-government/commitments

Summary of performance

Summary of performance against Greening Government targets			
Area	**2009-2010 baseline**	**2011-2012 performance**	**Target reduction in total CO^2e tonnes for 2011-2012**
Average annual full time equivalent staffing figure:	337	319	64.92 tonnes
Energy and emissions	**CO^2e tonnes**	**CO^2e tonnes**	
Mains standard grid electricity	677.72	579.09	
Natural gas	43.29	36.98	
Travel and related emissions		**CO2e tonnes**	
Fleet – mileage average inc. car hire	Not available[16]	2.60	
Domestic flights	Not available	18.34	
Rail national/average	Not available	27.98	
Taxi regular	Not available	1.82	
Bus	Not available	0.008	
Waste	**Tonnes**	**Tonnes**	
Waste – whole estate	14.4	8.35	
Water	**M3**	**M3**	
Water – whole estate	7540	6358	

[16] This data is not recorded in a way that enables it to be collected or analysed.

Greenhouse gas emissions

		2009-2010	2010-2011	2011-2012
Non-financial indicators (tCO^2e)	**Scope 1 emissions**			
	Gas	43.29	36.73	36.98
	Total Scope 1	43.29	36.73	36.98
	Scope 2 emissions			
	Electricity: Brown	677.72	605.40	579.09
	Total Scope 2	677.72	605.40	579.09
	Scope 3 emissions			
	Fleet – mileage average inc. car hire	Not available[17]	3.64	2.60
	Taxis	Not available	0.79	1.82
	Domestic air	Not available	7.47	18.34
	Rail	Not available	19.16	27.98
	Total Scope 3	Not available	31.06	50.74
	TOTAL EMISSIONS	721.01	673.19	666.81
Related energy consumption (KWh)	**Scope 1**			
	Gas	235,304	198,290	201,439
	Scope 2			
	Electricity: Brown	1,245,407	1,110,379	1,067,210
	TOTAL ENERGY	1,480,711	1,308,669	1,268,649
Financial indicators (£)	**Scope 1 and 2**			
	Gas	7,624	5,909	8170
	Electricity: Brown	155,872	108,573	119,597
	Water	£35,267[18]	£19,450[19]	£15,272
	Scope 3			
	Fleet – mileage	Not available	2,342	2,708
	Car hire	1,226	2,040	429
	Taxis	Not available	4,011	9,251
	Domestic air/rail	Not available	74,842	118,351

[17] This data is not recorded in a way that enables it to be collected or analysed.

[18] Water cost for 2009-2010 includes VAT.

[19] Water cost for 2010-2011 includes VAT on Q1-3 but not on Q4.

GHG performance commentary

The lease on Napier House expires in July 2013. As our originally planned initiatives involve expenditure, it has not been cost efficient for us to take them forward as it not yet confirmed where the regulator will be located. As a result we have introduced very little in terms of new initiatives this year.

The overall 8.6% achievement of 2011-2012 target has resulted from finalising roll out of virtual PCs, introducing greater control over printing, reducing waste and power use and continuing to manage heating and cooling.

Bearing in mind the constraints, an overall achievement of 8.6% against a 10% target is good. Cumulatively in 2010-2011 and 2011-2012 we have achieved 18.1% reduction against a 2009-2010 baseline. A further 6.9% reduction is required over the next two years to achieve a 25% reduction by 2014-2015.

Waste performance commentary

Waste		2009-2010	2010-2011	2011-2012
Non-financial indicators (tonnes)	Total waste	Not available[20]	Not available	Not available
	Waste to landfill	14.4	11.88	8.35
	Waste recycled/ reused	Not available	Not available	Not available

To date, the regulator has focused on reducing waste to landfill. All our paper, card, tins, plastic and glass waste is recycled. The majority of remaining waste is 'household waste'. We offer large items to local companies for re-use. In 2012-2013, we will be working with our main supplier to raise awareness amongst staff.

[20] This data is not recorded in a way that enables it to be collected or analysed.

Use of finite resources

Water consumption (scope 2)		2009-2010	2010-2011	2011-2012
Non-financial indicators (m^3)	Water consumption	7,540	7,075	6,358

Use of finite resources performance commentary

We recently installed semi waterless urinals throughout the building to reduce water use.

Biodiversity and adaptation plans

The regulator is not required to have a biodiversity action plan as we occupy one city-based site.

Sustainable procurement

The regulator works in line with the 'flexible framework' developed by the business led sustainable procurement task force. Our policy is advertised on our intranet and forms part of the procurement cycle. We follow the guidelines set out in the **'Government Buying Standards Report'**. These areas include changing our paper over to a 100% recycled brand, when the minimum is 70% as set out in the government buying standards guidance.

Sustainability is now a functional part of the procurement process, and a detailed impact assessment form is now available and is used to record the positive or negative impacts on the sustainability criteria of a project.

Actions achieved in line with the 'flexible framework':

Foundation level 1 (2009-2010)	Level 2 (2010-2011)
Overarching sustainability objectives agreed in line with 'flexible framework'	Review and enhancement of the Procurement policy.
Spend analysis services provided by **Spikes Cavell** to reflect 2008-2009 breakdown. This has given the regulator the ability to monitor areas of supplier spend and could allow for potential collaborative working.	Collaborative procurement on behalf of regulator community for further spend analysis services. This exercise was also used to highlight any areas in which savings could be made as a result of similar services being procured by other regulators.
	The procurement team is fully aware of the sustainable procurement principles that are to be followed as part of all procurement processes.

Focus for 2012-2013 is to work towards level 3 criteria that is set out in the 'flexible framework'.

Governance

Energy and water related data is obtained from our supplier and is validated against our own monthly meter readings. Travel data is produced by the regulator's travel supplier; our supplier is the one used by the DWP and is part of a government framework. Work is ongoing with suppliers to continually improve the data systems, and compliance with reporting requirements within the DWP.

Appendix 1
Formal exercises of delegated powers

The regulator uses its powers on a daily basis to support discussions with schemes. In the vast majority of occasions, these powers do not need to be formally invoked, but are successful in influencing behaviour.

Where we do formally invoke our powers, these are either delegated to the Executive or reserved to the Determinations Panel. See page 54 for the report of the activities of the Determinations Panel in 2009-2010. The following tables on pages 108 to 110 outline the delegated powers reported as formally exercised by the regulator's functions.

The following information is not subject to audit.

Statute reference	Power exercised	April 2010-March 2011	April 2011-March 2012
S42 PA04	The issue of a clearance statement in relation to a s.38 Contribution Notice	40	31
S43	Power to issue a Financial Support Direction	–	1
S46 PA04	The issue of a clearance statement in relation to a financial support direction	38	25
S72 PA04	Demand information and documents for occupational and personal pension schemes	27	47
S288 PA04	Revocation of the authorisation of an occupational pension scheme to accept contributions from European employers	4	4
S289 PA04	Revocation of the approval of an occupational pension scheme to accept contributions from specified European employer	5	4
Employer Debt Regulations SI 2005/678 as amended in 2008 by SI 2008/731 and SI2008/1068	Reg 7A(1)(c)/7(2) notice – the power to approve a regulated apportionment arrangement	4	1
Employer Debt Regulations SI 2005/678 under transitional provisions in reg.2 of SI 2008/731	Schedule 1A Para 2(1) notice – the power to approve a withdrawal arrangement	2	–
S7(3)(b) Pensions Act 1995 ("PA95")	Appoint a trustee to schemes: with exclusive powers if required; Order the employer or scheme to pay fees and expenses etc (see s.8)	278	507
S79(3)	Appointment of an inspector (for purposes of s.72-78 covering provision of information and inspection of premises)	5	–
S9	Power to vest or transfer property as consequence of appointing or removing a trustee	3	9
S99	(Inspection) s.73-76 Inspect premises and retain documents found (including those on computer)	1	–
S101	To vary or revoke any determination, orders, notices or directions made, issued or given by the regulator	–	1

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Statute reference	Power exercised	April 2010-March 2011	April 2011-March 2012
S.23(1) (while S.22 applies to scheme) PA95	Appoint an independent trustee • During an assessment period for the PPF • When the scheme is authorised to continue as a closed scheme • When sponsoring employer becomes insolvent	23	5
S.3(1) c	Power to make a prohibition order under section 3 of the PA 1995	–	1
S.4(1)	Power to suspend a trustee under section 4 of the PA 1995	1	2
S.103 PA95, s89 pa04	Regulator may publish a report of the consideration given by it to the exercise of its functions. Report may be in such form and manner as the regulator considers appropriate.	–	5
	Total	**431**	**643**

All powers executed were as part of The Pensions Regulator's casework programme in 2011-2012. The volumes of powers executed across the case types were as follows. The examples of activity are indicative of, but do not represent the entirety of the case work carried out under each type of case.

Case type	Volume of powers	Examples of activity
Clearance	56	Contribution Notice, FSD, Employer debt, Publications
Avoidance	11	Demand for information, Publications, FSD, Contribution Notice
Cross-border	8	Authorisation and approval in relation to a European employer
Exploratory	2	Demand for information
Governance	26	IT appointment, Demand for information, Vesting order
Unauthorised pension access	37	Demand for information, Vesting order, IT appointment
Windup	1	Demand for information
Recovery plan	2	Demand for information, Suspension
Trustee appointment	500	IT appointment

Overall the volume of powers exercised has increased by 45%, this has been mostly driven by an increase in the number of trustee appointments made, which have increased by 81%. This large increase follows a large decrease in the previous year; this volatility is not indicative of any particular trend as the majority of trustee appointments made are a reactive activity in response to normal member retirement patterns and is outside of the control of the regulator.

It is worth noting that all other types of powers have increased, including s.72 powers which have increased by almost 75%, with over 60% of these in relation to unauthorised pension access cases. The only exception to this rule is for clearance powers which continue to decrease, this may be indicative of increased understanding within the industry of the circumstances where clearance is appropriate.

The regulator also published five reports using the s.89 power. This enables the regulator to publish a report of the consideration given by it to the exercise of its functions. This is significant increase on previous years, and it is likely that this power will be used more often by case teams as a tool to educate the regulated community.

Leaving aside appointments under s.7 (3)(a),(b),(c) Pensions Act 1995 ('PA95') which were all in relation to DC schemes, the split of powers across scheme benefit type were as follows:

- 76 of the powers executed by case teams were in relation to DB schemes (52%)
- 47 were in relation to DC schemes (32%)
- 21 were hybrid schemes (15%)
- One power (1%) was executed on a case investigating the general conduct of an independent trustee rather than in relation to a specific scheme.

Appendix 2: Corporate strategy and plan

The Pensions Regulator operates in accordance with the **Corporate strategy 2008-2013** which set out our analysis of the pensions landscape and our framework for determining the key risks that we will need to manage over this period. It identified our 5 strategic themes: improving governance and administration; reducing risks to DB scheme members; reducing risks to DC scheme members; preparing for 2012; and better regulation.

Our objectives for the year 2011-2012 on which we report here, were set out in the **Corporate plan**, published in April 2011, and can be summarised as:

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

This **Annual report** sets out how and whether we met these objectives and the activity undertaken to achieve them.

In early 2012 ,we set out our strategy for maximising employer compliance with the new automatic enrolment duties and for supporting the pensions industry to deliver defined contribution (DC) schemes with the characteristics necessary to enable members to achieve a good outcome. Our **Compliance and enforcement strategy** for the employer duties will be published in summer 2012. This will be followed by our updated strategy for the regulation of DB schemes later in the year.

Appendix 3:
Key publications and web activity during the year

Key publications and web activity during the year	
April 2011	• ‘Five simple steps for trustees to improve scheme administration’ • The Corporate plan 2011-2014 • ‘Scheme record-keeping. A report on the 2011 scheme record-keeping survey’
May 2011	• ECR detailed guidance v1 • ‘A detailed guide to workplace pensions reform for software developers’ v1 • ECR Test data companion v1 • ‘Occupational pension scheme governance: A report on the 2011 Scheme governance survey’
June 2011	• Report under s89 of the Pensions Act 2004. Issued by The Pensions Regulator in relation to the Bonas Group Pension Scheme • Workplace pensions reform ‘5-step action checklist for trustees’ – automatic enrolment • ‘A guide for suppliers: How to do business with The Pensions Regulator’ • ‘Recovery plans: Scheme funding and other security arrangements’
July 2011	• Annual report and accounts 2010-2011 • ‘Discussion paper response: Enabling good member outcomes in work-based pension provision’ • Beginner’s guide to auto enrolment: Automatic enrolment online interactive tools • ‘Identifying your statutory employer’ • Report under s89 of the Pensions Act 2004. Issued by The Pensions Regulator in relation to the Great Lakes UK Limited Pension Plan • ECR detailed guidance v2
August 2011	• Employers’ awareness, understanding and activity relating to workplace pensions reform, 2011
September 2011	• E-learning to help trustees identify statutory employer • ECR Test data companion v1
October 2011	• The role of trustees in DC schemes • Understanding and managing your hybrid scheme

Key publications and web activity during the year	
November 2011	• Report under s89 of the Pensions Act 2004: Issued by The Pensions Regulator in relation to the Polestar Pension Scheme • Determination notice – Jackson Lloyd • DC trust: a presentation of scheme return data • Detailed guidance to workplace pensions reform for software developers v2 • Quick guide to clearance • Quick guide to scheme specific funding, valuation and recovery plans • Quick guide to anti-avoidance powers • Quick guide to determinations • Determination notice – Dalton • Webinar – Automatic enrolment and the role of trustees • 'A quick guide to preparing for automatic enrolment' – updates to 7 steps to leaflet) no longer available • An introduction to workplace pension changes
December 2011	• 'Six principles for good design and governance of workplace DC schemes' • Employers' awareness, understanding and activity relating to workplace pensions reform, autumn 2011 • Open letter: Payroll industry urged to approach employers ahead of automatic enrolment
January 2012	• FSD determination in Box Clever case • Blog: 'Initial decisions are made' • The Purple book • ECR detailed guidance v3 • A detailed guide to workplace pensions reform for software developers v3 • Test data companion v2

continued over...

Key publications and web activity during the year	
February 2012	• 'Delivering successful automatic enrolment' • Blog: 'Planning and preparation' • Report under s89 of the Pensions Act 2004: Governance issues arising from the Hugh Mackay Retirement Benefits Scheme • Blog: 'The working groups first task' • Blog: 'Establishing our position' • Determination notice – Ark
March 2012	• Blog: 'Establishing our employer duties' • Blog: 'Assessing our workforce – part one' • Blog: 'Assessing our workforce – part two' • Report under s89 of the Pensions Act 2004: Issued by The Pensions Regulator (the regulator) in relation to the Uniq plc Pension Scheme • Details of Contribution Notice case • Trustee toolkit relaunch • Webinar: 'A detailed look at assessing your workforce' • '8 tasks to help your client prepare for automatic enrolment' • Webinar: Walkthrough of the refreshed **Trustee toolkit**

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