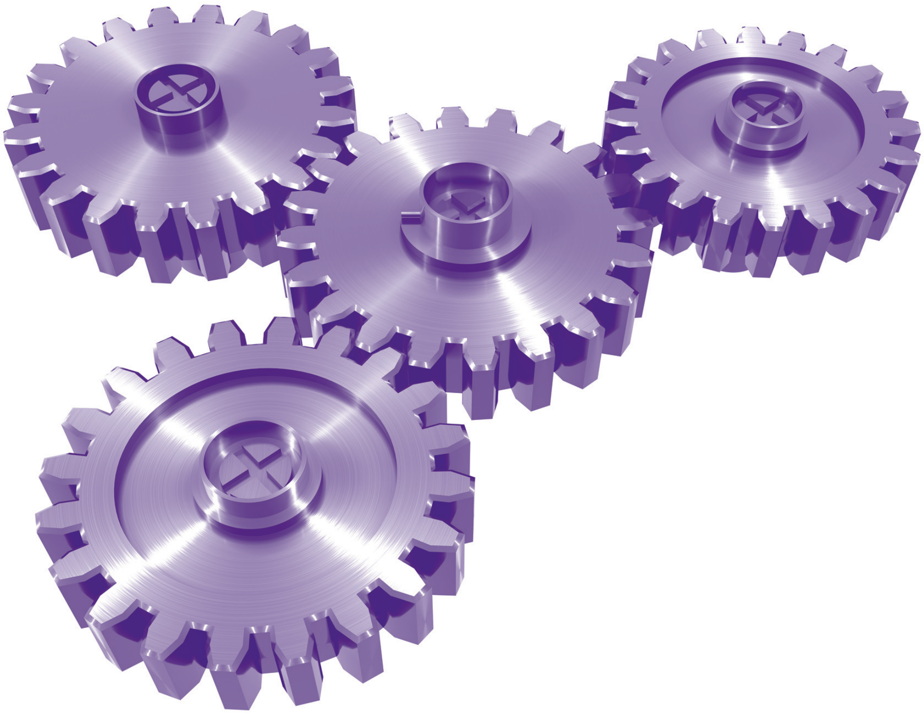
Annual report and accounts 2009-2010



The Pensions Regulator

The Pensions Regulator

Annual report and accounts

2009-2010

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Accounts presented to Parliament pursuant to paragraph 27 of Schedule 1 of the Pensions Act 2004.

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Contents

Our statutory objectives

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

We began operations in April 2005 funded by Grant-in-Aid from the Department for Work and Pensions (DWP) with running costs recovered through a General levy on pension schemes.

Statutory objectives

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

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

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

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

The costs for work undertaken by the regulator in respect of the set up cost of the Employer Compliance Regime (ECR) are being met by the DWP. No cross-subsidy with the General levy funding stream takes place.

Chair's foreword

The past 2 years have seen huge pressures on our system of private pensions. Defined benefit (DB) schemes have swung from surplus to huge deficit and back again, and there have been large losses in the value of defined contribution (DC) pension funds.

The pressures on DB schemes fall on company managements, employees and shareholders, and of course on scheme trustees. DB funding has been, and continues to be, a major focus for us at the regulator.

Our role has been to provide guidance to companies and trustees on how they might respond to funding shortfalls, and then to discuss particular cases with them, and, if necessary, to intervene more directly. We have emphasised the flexibility in the funding regime, while making it clear that funding targets must be set prudently. Discussions can be robust. Generally, the results have so far appeared to strike an appropriate balance between security for benefits and the need to maintain the strength of the employer.

We see education and enablement as the primary ways to reach our objectives. We use a range of tools, including workshops, leaflets, consultation documents, guidance and e-learning modules for our **Trustee toolkit** (the 'toolkit'). Where these fail we are determined to ensure that those we regulate follow the rules and we are very prepared to use our enforcement powers when we need to. In most cases the threat of use of our powers is itself enough to achieve an acceptable outcome, but when it is not we have continued to use our powers firmly and proportionately.

The framework put in place by the Pensions Act 2004 has been vital to the protection of member benefits during the past 2 years and the regulator has played its part in that. Of course I also recognise that the difficulties are not over. The challenges faced by individual schemes will continue to confront trustees, companies and the regulator.

Meanwhile, we continue to prepare for the new pensions arrangements introduced by the Pensions Acts of 2007 and 2008, and in particular our role with respect to the duty on employers to auto-enrol their employees into a qualifying pension scheme.

One task is to build a compliance regime that will make sure employers meet their new duties from 2012, but we need to move progressively into the new regime. In the past year our DC campaign has aimed to raise standards, improve member choices, and encourage employers to be more engaged with pensions. We have been working to raise standards of governance and administration across the board.

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We continue to engage closely in European discussions that could have major effects on pensions in the UK. In doing all this, and more, we have sought to improve our efficiency, reducing back office costs for example. We have made significant savings by bringing scheme return and levy activities in-house, and helped levy payers as well as ourselves by moving data collection online. These efforts will continue.

The **Better Regulation Executive (BRE)** and **National Audit Office (NAO)** undertook an independent review into our risk-based approach to regulation in summer 2009. The report concluded that we have thoroughly embedded the **Hampton Principles**: to be transparent, accountable, proportionate, consistent and targeted; at both operational and strategic levels.

That positive review is a tribute to the staff and to the Board, both executive and non-executive, and I would like to thank them warmly for all they have contributed in the past year. It is also of course particularly a result of the strong leadership provided by Tony Hobman, CEO of **Opra (The Occupational Pensions Regulatory Authority)** for 3 years, and of the regulator for the first 5 years of our existence. We wish him well.

And finally I would wish, as ever, to acknowledge the work done by tens of thousands of trustees who, mostly unpaid, carry so much of the burden of ensuring the safety of member benefits. Our pensions system depends on them, and will continue to do so for many years to come.

David Norgrove

David Norgrove
Chair,
The Pensions Regulator
23 June 2010

We see education and enablement as the primary ways to reach our objectives.

Chief executive's report

For the full year 2009-2010, Tony Hobman was CEO of The Pensions Regulator. In May 2010, he moved to head the new Consumer Financial Education Body (CFEB). 2009-2010 presented the regulator with many challenges, as the industry looked for guidance and support on issues such as the continuing impact of the financial downturn, and preparing schemes for automatic enrolment. Tony's leadership and direction shaped our response to these challenges.

Our statutory objectives, set within the Pensions Acts of 2004 and 2008, provide clear scope and focus for our activities. Our risk-based interventions sit under five strategic themes that are derived directly from these statutory objectives. These themes are to:

- improve the governance and administration of work-based pension schemes;
- reduce risks to DB scheme members;
- reduce risks to DC scheme members;
- prepare for the onset of automatic enrolment (planned for 2012); and
- maintain our ongoing focus on better regulation.

Improving governance and administration

Good governance is core to delivering durable and appropriate pension arrangements. It is the key to ensuring that members will ultimately receive the benefits they are due.

In 2009 we launched a regulatory campaign aimed at raising standards and supporting better management of risk in pension schemes. We placed a particular focus on internal controls and record-keeping. As part of the campaign a series of governance workshops were run for trustees and these received very positive feedback.

The **toolkit** has remained the key tool for trustee education. In 2009 we revised the **Trustee Knowledge and Understanding (TKU) code of practice** placing an explicit requirement on trustees to use the **toolkit** unless they can find an alternative learning programme. We have also continued to refine the ways we reach out to our regulatory community – in particular by introducing bite-sized e-learning modules in recognition of the time constraints many trustees of smaller schemes face.

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Reducing risks to DB scheme members

Fluctuations in financial markets over the last 2 years have had a significant impact on pension schemes. Adverse conditions led to an aggregate deficit of £200.6bn at 31 March 2009 (on a s179 basis) before recovering to an aggregate surplus of £0.3bn at 31 March 2010.

In June 2009, we set out our position on the importance of prudent funding targets for pension schemes and stated that where sponsors face short-term cash constraints, flexibility is available within recovery plans. We have continued to run a scheme funding system based around the principles of prudent funding targets and, where appropriate, flexibility in the structures by which deficits are managed. Every scheme in deficit must submit a recovery plan to the regulator. We pay particular attention to the level of prudence in valuation assumptions as we review these plans, and intervene where we consider assumptions to be inappropriate.

The pensions market has continued to evolve, with an increase in activities aimed at reducing corporate pensions risk. In 2009 we emphasised the importance of being vigilant to the impact on members' interests of these activities. We have published new guidance and a **code of practice** on **risk transfers** and introduced a new module to the **toolkit** on **buy-ins**.

We devote considerable resources to ensuring schemes are adequately protected through events that impact on their corporate sponsor – our clearance regime and our work on recoveries from insolvent parents can be high profile, but critical to supporting members and the PPF.

Reducing risks to DC scheme members

Much of our activity on DC has been focused in 2 areas: the requirement on schemes to facilitate informed member choices at retirement and the importance of employer engagement.

Our DC focus included a review of the retirement literature in a sample of schemes and, for the first time, we published analysis of the DC trust-based landscape.

We are currently reviewing, in collaboration with partners and government departments, the risks to members of DC schemes, how these might change with the introduction of automatic enrolment and what regulatory mitigations would be appropriate. Our aim remains an effective and proportionate regulatory regime that recognises the increased importance of DC pensions and the likely growth in future DC memberships.

Preparing for 2012

The forthcoming pension reforms place a duty on the regulator to maximise employers' compliance with their automatic enrolment duties.

In order to fulfil this extended remit we have been designing and building our regulatory capacities to deliver an **Employer Compliance Regime (ECR)** for automatic enrolment. Given the increased scale of the employer interaction we are currently tendering for commercial partners that can help us manage the volume.

In addition, the process of communicating with the regulated community about their forthcoming duties has begun. The initial focus is on intermediaries and employer representatives and included a refresh of our website with a specific focus on information relevant to each audience: employers, individuals, pension professionals and trustees.

Better Regulation

All of our work is delivered with the objective of minimising so far as appropriate the burden on schemes and maximising the effectiveness of regulation.

Our risk-based regulatory approach is designed to focus on those risks with the greatest impact on members' interests. The **2009 report** published by the **Better Regulation Executive** said the regulator has been successful in identifying and addressing risks to pension schemes proportionately, allocating resources to the most serious issues.

The proposed changes to the system of financial supervision in Europe could have a profound impact on the UK pensions landscape. The transposition of the **European Committee for Pensions (CEIOPS)** into the **European Insurance and Occupational Pensions Authority (EIOPA)** will grant it significant powers to develop binding rules and to request data from national regulatory authorities.

We are also expecting the **EU Commission** to launch a Green Paper later in 2010 which will be open to public consultation, taking an holistic approach to the financial and social role of pension systems across Europe including occupational schemes. We have continued to work with our domestic partners to ensure that the position of the UK pensions industry is represented in the plans for the changing European landscape.

We have undertaken all our work with a sharp focus on efficiency. This year saw the completion of the in-sourcing of scheme return and levy activities, which significantly reduced our cost base. Cost savings have also been made through our approach to procurement and purchasing.

I would like to add my thanks to Tony Hobman for his work since the creation of the regulator in 2005. I would extend this thanks to all the members of the Board, staff and our partners both private and public.

Bill Galvin
Acting chief executive,
The Pensions Regulator
23 June 2010

All of our work is delivered with the objective of minimising so far as appropriate the burden on schemes and maximising the effectiveness of regulation.

The pensions environment and our regulated community

Work-based pensions are part of a wider landscape which also includes the basic state pension, the State Second Pension (SERPS/S2P) and individual personal pensions.

We regulate work-based (ie employer-sponsored) pension schemes. These comprise both trust-based and personal arrangements. Occupational schemes are governed by trustees, while group personal pensions (GPPs) are an individual contract between the employee and the provider (typically an insurance company) although payments of contributions are made through the employer, who will often choose the provider and may be involved in structuring the product.

Profile of occupational scheme membership

As at 31 March 2010, membership of private sector occupational DB schemes stood at approximately 8.3 million and membership of private sector occupational trust-based DC schemes stood at approximately 1.5 million. There were a further 6.1 million memberships of private sector hybrid schemes which have both DB and DC scheme members.[1]

The 2009 Annual Survey of Hours and Earnings (ASHE) from the Office for National Statistics states that there are 2.9 million memberships of contract-based (group personal, group stakeholder and group self-invested personal) DC pension schemes. Membership of occupational pension schemes (with more than 1 member) in the private sector remains concentrated in a small number of large schemes. As at 31 March 2010, 88% of DB members were in 863 schemes with more than 1,000 members. Furthermore, 63% of members were found in just 138 schemes with more than 10,000 members.

As at 31 March 2010, there were around 47,500 occupational DC schemes registered with the regulator. As of the same date, there were around 6,300 DB schemes registered, with a further 1,800 hybrid schemes.

[1] Figures taken from the regulator's Score database as at 31 March 2010.

Tables 1 and 2 below provide further details on numbers of schemes and their memberships.

Table 1
Number of live private sector occupational pension memberships by registered benefit type as at 31 March 2010

	DC	DB and Hybrid
Open	1,068,027	7,326,986
Closed	203,284	6,102,717
Paid up	105,719	755,938
Winding up	122,610	240,861
Total	1,499,640	14,426,502

Source: Figures taken from the regulator's Score database as at 31 March 2010

Table 2
Number of live private sector occupational pension schemes by registered benefit type as at 31 March 2010

	DC	DB and Hybrid
Open	35,892	1,918
Closed	4,070	3,484
Paid up	5,418	1,605
Winding up	2,112	1,092
Total	47,492	8,099

Source: Figures taken from the regulator's Score database as at 31 March 2010

DB funding

DB remains the most common form of pension provision by membership and assets.

In January 2010, we published the fourth **Purple Book**[2] jointly with the PPF, providing an analysis of data on pension scheme funding. The data and analysis in **The Purple Book 2009** relates to 97% of the DB pension schemes eligible for PPF compensation and 99% of their estimated total liabilities.

The Purple Book 2009 shows that the aggregate funding position (total assets minus total liabilities) on a s179 basis had deteriorated from a surplus of £12.3 billion (a funding level of 101.5%) at 31 March 2008 to a deficit of £200.6bn (a funding level of 79.5%) at 31 March 2009. This data reflects the risks faced by schemes up to March 2009, and will be updated this autumn.

However, the PPF 7800 index provides an estimated funding position, on a s179 basis, of around 7,400 predominantly private sector DB pension schemes, and is updated monthly. This index estimates that the aggregate funding position of these schemes had improved to a surplus of £0.3bn at the end of March 2010. This is the first time the index has shown a surplus since the end of June 2008.

Aggregate figures from the second year of recovery plans were published in November 2009 (**Scheme funding: an analysis of recovery plans and clearance applications**), covering the period from September 2007 to September 2008; the data predates the market activity in late 2008 and early 2009. This represents 4,931 schemes, who were due to submit financial valuations in this period.

The results showed a decrease in funding on a s179 basis, schemes on aggregate moving from 101.5% to 79.5% funding on this basis, whilst average unweighted recovery periods increased from 7.3 to 8 years.

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[2] See www.thepensionsregulator.gov.uk/docs/purple-book-2009.pdf

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Economic conditions

The scheme analysis published in November 2009 was based on valuations carried out in more turbulent economic times (September 2007 to September 2008) than those experienced by the first 2 tranches of scheme valuations we received in 2005-2006 and 2006-2007.

The statistics indicate that schemes are working with sponsors to use the flexibility of the recovery plan regime. Both recovery plan lengths and back-end loading[3] have increased for schemes in tranche 3 (in some cases backed by additional forms of security such as contingent assets).

In June 2009 we set out our position on the importance of prudent funding targets for pension schemes and stated that where sponsors are in difficulty, flexibility is available in recovery plans. This was supported by a series of nationwide funding workshops in which we outlined our approach to scheme funding valuations and the importance of the employer covenant through the economic downturn.

Following these workshops, we summarised our approach to scheme funding valuations and the importance of the employer covenant in a statement to the regulated community. This message was reinforced with a series of online case studies that provide further insight into the important task of setting funding targets and agreeing recovery plans.

The PPF 7800 index of overall funding levels (on a s179 basis) indicates that the average funding level increased from 101% to 109% from 31 March 2006 to 31 March 2007. Subsequent to this, the index fell to 97% at 31 March 2008, and 76% at 31 March 2009. The index has seen an improvement to 100% as at 31 March 2010.

The measurement of the liability on a s179 basis and resultant deficit or surplus, in our view, may give a good indicator of the financial position of schemes but is not necessarily a prudent level of funding for the whole liability of an employer's DB scheme. Technical provisions are the scheme-specific funding standard which must be set prudently and take into account the employer covenant on a scheme specific basis.

The strength of the employer has a key part in setting prudent funding levels and our goal in 2009-2010 has been to ensure trustees and advisers continue to focus on proper consideration of the employer covenant in setting prudent funding targets and appropriate recovery plans.

The results of our **Perceptions tracker survey 2009** question 'understanding of the new DB scheme funding arrangements' shows that 58% of trustees, 81% of professional advisers and 67% of employers had a good or very good understanding of the new DB scheme funding arrangements. Understanding of DB funding increased slightly for professionals compared to 2008, and remained static for employers and lay trustees. In addition our **Governance survey 2009-2010** shows that 71% of trustees considered the collective understanding of their trustee board on how the scheme is funded to be very good.

Pension reform

Workplace pensions are undergoing significant reforms. The Pensions Act 2007 and the Pensions Act 2008 introduced a number of changes to the workplace pension system, the most significant of which are a duty on employers to automatically enrol eligible job holders into a pension scheme and the foundation of the **National Employment Savings Trust (NEST)**.

Our work continues apace to build a compliance regime that aims to ensure that employers meet their new duties from 2012. We are working closely with the DWP, the industry and all our stakeholders and partners to ensure that we design an effective compliance system while minimising additional burdens on employers. Our initial focus will be on a programme of targeted communication campaigns, which will begin later this year.

We are now working on designing an enforcement strategy that sets out our approach for using our powers. Overall, our approach continues to be one of **Educate, Enable** and then **Enforce** with our efforts focused on areas of greatest risk. We track the effectiveness of our interventions and areas of risk through case information, surveys and aggregate analysis of regulatory returns among others.

[3] Paying over 50% of deficit in second half of the recovery plan.

Management commentary

The context of our activities in 2009-2010 Our Corporate plan 2009-2012 (published in April 2009) sets out our strategic direction and the outcomes we aim to achieve. This Annual report responds to this plan and addresses 5 key themes as illustrated in figure 1 below.

Figure 1
How our Corporate plan themes support and link to our statutory objectives

<table>
<tr><th></th><th>Reduce risks to the PPF</th><th>Promote good administration</th><th>Protect members' benefits</th><th>Maximise employer compliance</th></tr>
<tr><td rowspan="5">Strategic themes</td><td colspan="4">Improving governance and administration</td></tr>
<tr><td colspan="3">Reducing risks to DB scheme members</td><td></td></tr>
<tr><td></td><td colspan="2">Reducing risks to DC scheme members</td><td></td></tr>
<tr><td></td><td colspan="3">Preparing for 2012</td></tr>
<tr><td colspan="4">Better Regulation</td></tr>
</table>

The first 3 themes directly address the key outcomes the regulator seeks to effect on behaviours and activities in the pensions environment. The fourth theme addresses our preparation for our additional employer compliance objective, established under the Pensions Act 2008. The final theme deals with our ongoing commitment to being customer-focused and risk-based, aligned with the principles of better regulation: to be transparent, accountable, proportionate, consistent and targeted.

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A review of our activities during the year In this section we review our challenges and achievements under each of the 5 themes set out in our Corporate plan 2009-2012. We highlight key trends and issues that we believe are significant.

Strategic theme 1: Improving governance and administration

Our key objectives

- To continue to promote good practice in relation to key aspects of governance and administration (eg record-keeping, wind-up, member communication, conflicts of interest);
- To continue to develop best in class education programmes to influence our core trustee audience (eg the toolkit) and to explore options for extending this approach to other audiences; and
- To ensure that trustees understand and comply with the Myners Principles.

In 2009 we launched a campaign aimed at encouraging good governance and administration and better management of pension scheme risks. In this we made clear that trustees responsible for running pension schemes need to be sure that:

- they have the right skills, and they get the right people to help them run their pension scheme;
- they have the right processes in place to manage scheme risks.

As part of the campaign, we also ran a series of workshops designed to ensure that the regulated community is clear about how we expect them to apply the principles of good governance and administration as they relate to internal controls and record-keeping.

We also set out our renewed focus on governance and administration aiming to improve standards across the industry by:

- consulting on new proposals for record-keeping;
- consulting on updated guidance on winding up pension schemes;
- providing updated guidance on internal controls;
- publishing a revised scope and guidance for TKU; and
- publishing bite-sized e-learning for trustees on risk management and record-keeping.

Record-keeping

Good administration is vital to every scheme and robust, clean, high-quality data is central to the overall effectiveness of all schemes. It is the basis for the core activities of accurately calculating members' benefits and scheme liabilities.

In January 2009 we published 'good practice' guidance for measuring the presence of member data items which are important in the administration of a pension scheme. The guidance set out some simple tests which could be applied to key data fields which are important in the administration of pension scheme member records – classified into common and conditional data.

Take-up of the initial guidance – which set out the common data which schemes were required to hold – fell below the levels expected. Only 19% of members belonged to schemes which had measured the fundamental common data.

As a result of this, we published a consultation setting out more precise standards for member records and, where credible plans are not put in place to address poor record-keeping, we will require improvement. We intend to carry out data audits of schemes to assess progress and encourage compliance. We will enforce changes where sufficient progress has not been made towards the targets set.

In 2009-2010 we contacted a sample of schemes to see if they were taking concrete steps towards implementing our guidance. 17 out of the 20 schemes contacted had done this, indicating some progress.

Scheme wind-up

Lengthy wind-up creates uncertainty for members on the size of their final benefits and potentially creates increased costs. We published formal guidance in this area in June 2008. Our guidance provides suggestions of good practice to help trustees and others meet the 2-year time frame in relation to winding up occupational pension schemes. It concentrates on complex areas that can frequently delay the wind-up, rather than looking at every activity involved in the process. We have also developed e-learning modules as part of the toolkit to help promote Trustee Knowledge and Understanding, covering the key elements of wind-up and the PPF assessment period.

We updated this guidance in June 2010. The guidance was aimed at those with some experience or knowledge of the wind-up process – trustees, administrators, insurers and professional advisers. The toolkit provides a learning tool for those with limited knowledge of the wind-up process.

Since April 2008, we have had an increased focus on schemes in wind-up. During this time we have established individual portfolios on some of the largest pension providers in the UK, ensuring that their approach to schemes in wind-up has maximised the chances of swift resolution and therefore minimal risks to members' benefits. This has allowed us to identify some of the systemic issues that affect schemes in this situation and the parties that are responsible for different aspects of the wind-up process. As a result of this focus, and the response from the pensions industry, the incidences of schemes taking longer than 2 years to wind up has reduced from 46% as at March 2008 to 32% as at March 2010. We continue to work with the DWP, the PPF, Her Majesty's Revenue and Customs (HMRC), and the pensions industry as a whole to ensure that members' benefits are protected from the detrimental effects of wind-up delays.

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Conflicts of interest

Conflicts arise in the trustee governance model because many trustees have a stake in the scheme or its sponsoring employer. If not managed effectively, decisions may be taken that put the interests of scheme members at risk, or that may subsequently prove to be invalid. Our aim is to help trustees identify, monitor and manage conflicts to avoid such consequences.

Following publication of our guidance on **conflicts of interest** in October 2008 there has been a significant increase (from 45% to 60% in 2009 as measured in the **Governance survey 2009-2010**) in the proportion of schemes agreeing that they believe their board has appropriate processes in place to manage conflicts of interest. This increase is being driven by large and medium schemes where 73% believe they now have appropriate processes in place. The increase has not been seen among small schemes however where 45% of trustee boards believe they have appropriate processes in place. We remain committed to maintaining standards in this area and will continue to monitor it through the **Governance survey 2009-2010**.

Conflicts of interests are routinely assessed by the case teams within the risk and funding team (RaFT) and the pensions administration and governance (PAG) team as part of progressing a case. The regulator has the power to appoint independent trustees where it is clear that the conflict is so great that it is affecting the effective stewardship of the scheme and decisions are being taken by the trustee board that may have a detrimental effect on scheme members. It is unusual, however, for the regulator to have to use its powers specifically in this regard as schemes are inclined to appoint an appropriate independent trustee themselves rather than have the regulator do this via the formal route of enforcement.

Internal controls

Robust internal controls are at the heart of good governance, and this is why we are placing so much emphasis on clarifying our expectations of trustees in this area. We published **revised internal controls guidance** for consultation in February 2010, alongside new bite-sized e-learning modules which provide an overview of the topic.

The revised guidance, which provides assistance with the key governance areas of Trustee Knowledge and Understanding, conflicts of interest, record-keeping, employer covenant, and investment, applies to all schemes but pays particular attention to trustees of smaller schemes where there is a recognised need for greater support.

Both the e-learning modules and the guidance reinforce the key message in the code of practice – that trustees must have processes in place to identify and manage the most critical risks in their scheme. This remains a challenging area; our **Governance survey 2009-2010** shows that only 48% of trustees strongly agreed that their trustee board had effective internal controls to manage risks. Good standards of internal controls will continue to be a priority area for the regulator.

Investment governance

The regulator has chosen not to be involved in prescribing investment decisions in the majority of situations. Nevertheless, we work to help ensure that members are offered suitable options and defaults and that they are equipped to make the right choices.

We continue to chair the **Investment Governance Group (IGG)**, established in 2008 following a review by the **National Association of Pension Funds (NAPF)** and government consultation on the **Myners Principles**.

The encouragement of better engagement with investment governance and the raising of standards of practice form part of the terms of reference of the **IGG**. Revised investment governance principles, case studies, best practice examples and guidance should have the effect of raising standards of investment governance across scheme types. However, the **IGG** is an industry-led group and the role of the regulator is to facilitate this group and not provide content.

Trustee Knowledge and Understanding

The regulator's **Trustee toolkit** has continued to prove popular, with over 19,718 lay trustees among over 35,000 registered users. The overall picture is that the **toolkit** has increasingly become a key resource for trustees. Our revised **TKU code of practice** is now in effect. The code sets minimum requirements for trustees to help ensure pension schemes are run effectively.

Following consultation, we found widespread support for the TKU regime, demonstrating how it has become embedded in trustee activities since implementation in 2006. Most respondents acknowledged the positive change it has made to the way trustees approach their responsibilities.

The learning requirements, set out in the code, which have been in force for over 2 years have been updated and the key changes are:

- in order to know the essential elements of the scheme's trust documentation, trustees will be required to read it all thoroughly; and
- it is more explicit that the regulator expects trustees to use the **toolkit** unless they can find an alternative learning programme.

The guidance supporting the code has also been subject to a review. The most significant change is that there is a reduced requirement on trustees of small (12-99 members) fully insured DC schemes.

We set ourselves a stretching target of **toolkit** module completions (5,300 module completions per quarter) in 2009-2010. We did not achieve the target in quarters 1 to 3 but over the year we learned how better to inform the trustee community about the role of the **toolkit** and as our ability to communicate directly with trustees increased, so did the number of completions, with the target achieved in quarter 4. We will continue to encourage trustees to complete the **toolkit** modules that are appropriate for their scheme and to seek appropriate additional training wherever they see fit.

We have continued to develop best in class education programmes to influence our core trustee audience (eg **Trustee toolkit**). 88% of trustees are now aware of the **toolkit** and the proportion of schemes using the **toolkit** continues to grow.

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Bite-sized learning

We have continued to explore options for extending our approach to other audiences and we have begun to publish free online learning resources including quick and easy bite-sized modules as well as our **toolkit**. These bite sized modules have to date focused on explaining why accurate and complete data is important for pension scheme trustees and highlighted the key principles and internal controls involved in managing risk. There were 3,000 users of our bite-sized e-learning module in 2009-2010.

Regulatory impact
Casework during the period led to recoveries of £35m of previously misappropriated scheme funds. This was as a result of working in conjunction with the Serious Fraud Office (SFO), HMRC and the Financial Services Authority (FSA) as well as regulator-appointed independent trustees. These working relationships have proved to be beneficial not only with regard to individual investigations but at a strategic level also.
Strategic relationships with other regulators resulted in co-ordinated operational enforcement action. During the year an arrest warrant and search of multiple business and residential addresses was carried out further to a joint investigation by the FSA and the regulator.
The case teams are increasingly dealing with cases that have originated from whistleblowing reports. The continued willingness to report incidents of inappropriate scheme governance or administration is recognition that we are equipped to respond to these efficiently and effectively, and the process for contacting us in these circumstances is widely understood.
Whistleblowing reports resulted in emergency suspensions of incumbent trustees together with the appointment of appropriate independent trustees from the regulator's register. These actions safeguarded scheme assets in excess of £31m.
Throughout the period the case teams continued to pursue approximately £200m of scheme funds in active cases that have not yet been resolved.

Good administration is vital to every scheme and robust, clean, high-quality data is central to the overall effectiveness of all schemes.

Strategic theme 2: Reducing risks to DB scheme members

Our key objectives

- To protect members' benefits by continuing to operate the scheme funding regime effectively, taking account of the wider economic climate;
- To continue to ensure that trustees and employers understand the scheme funding system;
- To continue to ensure that employers, advisers and trustees complete the corporate transaction process in line with legislative and code requirements; and
- To continue to monitor and respond to market transitions and ensure that trustees are aware of risks to members' interests.

Scheme funding

Schemes have to produce a valuation every 3 years. If they have a deficit they have to produce a recovery plan and submit it to the regulator for examination. The first full cycle of valuations under the new Act was for completions between 2005-2008. Recovery plans can be submitted up to 15 months later. During the year we opened in excess of 2,200 cases relating to recovery plans in which the case teams assessed the level of technical provisions and the length of the recovery plan.

In November 2009 we published **Scheme funding: an analysis of recovery plans and clearance applications**, which analysed recovery plans with an effective date of 22 September 2007-21 September 2008. This is the third year we have published the report. The 3 tranches of scheme valuations have been conducted in very different economic circumstances. This analysis explores some of the effects that the downturn, and other factors such as longevity improvements, have had on scheme funding.

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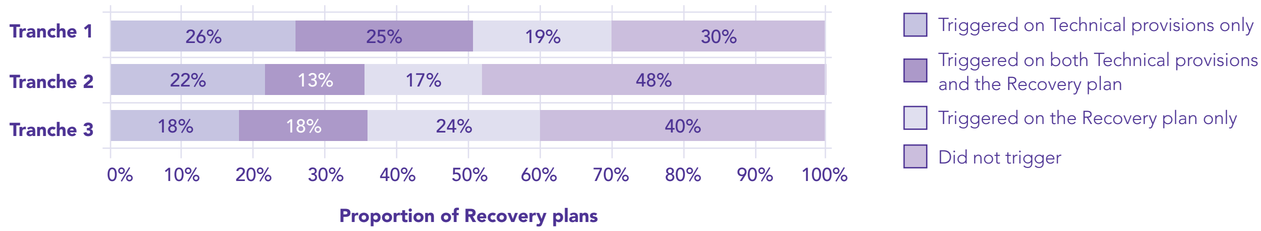
The results showed that:

- Unweighted recovery plan lengths had increased from 7.3 to 8 years;
- There was a decrease in funding level on a s179 basis, schemes on aggregate moving from 101.5% to 79.5% funding on this basis;
- More schemes were triggering[4] for further analysis in the third year compared with the second (60% compared with 52%), though this was still below the figure in the first tranche (70%) as shown in figure 2 below. This increase coincides with the deterioration of economic conditions for those schemes with valuation dates in Tranche 3. Given the market conditions observed in and after October 2008, after the effective date of part 3 valuations for Tranche 3, it is likely that there will be more recovery plans that trigger in Tranche 1 of the second triennial cycle[5]; and
- Funding targets – the statistics in this report show that there has not been an increase in the number of schemes triggering only on technical provisions (funding targets) over the last 2 tranches.
- Longevity assumptions had strengthened, with average unweighted assumed age at death for a 65-year-old male increasing from 85.7 in Tranche 1, 86.5 in Tranche 2 and 87.0 in Tranche 3.

Figure 2
Proportion of recovery plans triggering
(Mutually exclusive and unweighted figures)



[4] The primary triggers are as follows: there is a trigger for technical provisions. This trigger is set at a point between the value of FRS17 liabilities and the value of s179 liabilities. The precise point is scheme specific and dependent on both the scheme maturity and the employer covenant. Additionally, there are 3 triggers for recovery plans. The first is where the period of the recovery plan is longer than 10 years; the second is where a recovery plan appears to be excessively back-end loaded; and the third trigger is where the investment return assumption over the life of the plan appears to be inappropriate.

[5] The first triennial consists of 3 tranches. Tranche 1 is for dates from 22 September 2005 to 21 September 2006; Tranche 2 is for dates from 22 September 2006 to 21 September 2007; and Tranche 3 is for dates from 22 September 2007 to 21 September 2008. The second starts from 22 September 2008.

Clearance and anti-avoidance

We continued to work to mitigate the risks to members' benefits and the PPF that can arise from corporate activity. We work hard to ensure the principles that underpin our regulatory approach are well and widely understood, as individual cases can be complex and the public presentation skewed by difficulties in presenting information that is commercially sensitive. During the year, we have engaged with key stakeholders on a number of funding and clearance related initiatives, including amendments to anti-avoidance powers, a **statement** on **scheme funding** and **the employer covenant**, our **Recovery plan** publication and **The Purple Book**.

We carried out research to track understanding of our powers in this area. In 2009 our **Perceptions tracker survey** showed that among trustees, employers and their advisers 57% had a good or very good understanding of the regulator's powers and stance in relation to clearance, anti-avoidance and recovery plans. This represented an improvement in this measure compared to 2008 among employer audiences and a slight increase in the understanding of trustees.

Pragmatism and proportionality remained the key principles on the revision of our anti-avoidance powers as detailed in our new **code of practice** on **material detriment**. The new code, which became live in summer 2009, set out where the regulator expects to issue contribution notices on the basis of the 'material detriment test' and it is unlikely to affect the majority of sponsoring employers.

The amendments to the anti-avoidance powers in the 2008 Pensions Act allow us to protect better the benefits of scheme members and the PPF. The legislation provides safeguards for those acting responsibly towards their pension scheme. The code provides greater certainty for the industry. The clearance process is unaffected by these changes. The clearance process aims to provide applicants with certainty that, subject to appropriate consideration of the impact of transactions on related pension schemes, the regulator will not use its powers to issue a **Contribution Notice**[6] (CN) or **Financial Support Direction**[7] (FSD) in respect of the transaction as detailed in the clearance application.

There has been an overall reduction in the number of clearance applications in the financial year 2009-2010: however, the complexity of applications has increased. We are increasingly engaged in cross border insolvencies and complex restructurings, where the position of the pension scheme as creditor is complex due to the increasing complexity of sponsoring companies' financial affairs.

Table 3
Corporate Risk Management (CRM) activity summary

CRM activity	2008-2009	2009-2010
The issue of a clearance statement in relation to a s38 Contribution Notice	72	55
The issue of a clearance statement in relation to a financial support direction	67	37
Clearances refused	0	0

Please refer to pages 92 and 93 for a more detailed breakdown of the use of delegated powers.

We have only refused clearances in 3 instances since the regulator was set up. The clearance process operates such that:

(i) applications for clearances likely to be refused are unlikely to be submitted, as early conversations with the applicants can outline our concerns; and

(ii) applications will often undergo modifications through the clearance process, to make the outcome more secure for the pensions scheme. This means clearances are unlikely to be formally refused.

We are determined to ensure that those we regulate follow the rules, and we are prepared to use our powers where it is appropriate and proportionate to do so. The use of our powers has sent strong and clear signals to the market, and we believe that the deterrent effect of our regulatory powers serves as an effective instrument in driving positive market behaviour. We have seen evidence of this in our experience of handling many hundreds of clearance cases and enquiries, and in discussions with trustees, employers and advisers.

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[6] A Contribution Notice requires payment of a specified sum into a DB scheme. This power has been in place since April 2005.

[7] A Financial Support Direction requires financial support to be put in place for the scheme. These powers have been in place since April 2005.

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Risk transfers and market transitions

There have been a number of developments in the market focused on reduced corporate pensions risk, with the emergence of new business models and the increase in transfers of risk in various bundled and unbundled forms. We welcome innovation but this should not create undue risks for scheme members or the PPF. In 2009 we made clear the importance of being vigilant to these risks to members. This includes the risk of individual transfer incentive exercises where we believe there is evidence of inappropriate tactics to encourage members to take transfers. There may be individual circumstances that lead some individual members to make a transfer decision based on sound rationale and advice – but in general it is unlikely to be in members' interests to transfer out of a DB scheme. We are working closely with the FSA to ensure conduct in this area adequately protects members.

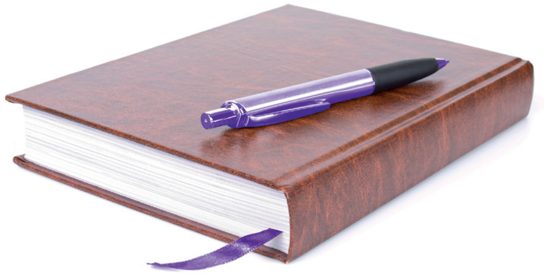
In 2009 we published a new code of practice, **Circumstances in relation to the material detriment test** setting out the circumstances in which the regulator expects to issue a CN as a result of being of the opinion that the material detriment test is met. This was accompanied by high-level guidance and illustrative examples of the new material detriment test and code. We also updated our **clearance and abandonment guidance** for accuracy.

In line with our commitment to educate and enable a new module to the **toolkit**, **Buy-ins and partial buy-outs**, was published to provide guidance to those considering transferring pensions risk to insurers.

In January 2010 we also published a statement – **Understanding and managing the risks of securities lending** – on the practice of security lending, seeking to help trustees understand this specific investment practice and how to manage the risks involved for schemes. This included specific questions that trustees should consider and address with fund managers and custodians.

Regulatory impact
More than 88% of the approximately 2,500 cases assessed by the regulatory teams relate to scheme specific funding. These cases are generated by the legislative requirement for schemes to submit a statement of funding principles and recovery plan.
The volume and the complexity of the funding caseload has significantly increased. There has been a 66% increase in pre-emptive approaches from trustees concerning difficulties meeting the 15 month deadline to submit the statement of funding principles and recovery plan. This necessitates the regulator mediating discussions between trustees and employers, both in relation to the true level of the liability and the means of funding that liability. Our response is not usually to be prescriptive in the first instance.
100% of all deficit schemes whose valuations were due to be finalised in 2009-2010 either submitted a recovery plan to the regulator or were contacted by our customer support team if in deficit within one month of their submission due date.
In addition to the statutory reporting requirements of scheme specific funding and the voluntary submissions such as clearance, the regulator also proactively engages with individual schemes. This is as a direct result of the work we undertake to identify individual or systemic risks that affect schemes, their sponsors or the industry as a whole. Examples of changes in behaviour or industry developments can include: • liability management products; • credit ratings; • M&A activities; • share issues; • the domestic and international markets; and • sector specific performance.
The year-on-year reduction in clearances granted demonstrates a continuation of the industry's understanding of circumstances in which seeking clearance is appropriate; no clearance applications were refused during the year. Scrutiny of the areas in the above list underpins the proactive aspect of casework.
Where the regulator is concerned that there has been an act, or a failure to act, that has had a detrimental affect on a scheme, it will give consideration to the use of its moral hazard powers (Contribution Notice and Financial Support Directions). During the period, the regulatory teams requested the Determinations Panel consider the issuance of a Contribution Notice. The volume of these 'anti-avoidance' cases in 2009-2010 was more than the total of the previous 2 years combined. This is further evidence of the effect of the economic downturn on the potential for behaviour which threatens members' benefits and the resultant increase in the regulator's caseloads.

More than 88% of the approximately 2,500 cases assessed by the regulatory teams relate to scheme specific funding.



Strategic theme 3: Reducing risks to DC scheme members

Our key objectives

- Improve trustee understanding and promote action to address retirement option risks;
- Improve trustee understanding and action to address member communication risks; and
- Improve employer, adviser and trustee understanding and action to address risks to DC scheme members.

We set out our strategy on DC in 2007, with 5 priority areas and initial interventions focused on educating and enabling. This year we continued to focus on education and enablement, but targeted greater scrutiny in areas where there are persistent problems. 2009 saw us launch a DC campaign on the importance of informed member choices at retirement and greater employer engagement.

The DC campaign included a number of products:

- Retirement choices leaflet
  To help trustees ensure high standards in pre-retirement literature we updated our **member leaflet** on **retirement choices**. The leaflet describes the range of options available to a member approaching retirement, including annuity types and other alternatives. It was one of the most popular downloads from our website, with over 57,000 downloads to March 2010.
- Review of retirement literature
  We have previously issued guidance to trustees on good practice in retirement options and we carried out a review of a sample of schemes to assess standards of pre-retirement literature and processes. There were over 37,000 downloads of this up to March 2010.

- **DC trust landscape**
  We published our first analysis of the DC trust-based landscape, **DC trust: A presentation of scheme return data**. This complements **The Purple Book** on DB schemes to give the most comprehensive view of the trust-based pensions landscape to-date.
- **Guide for employers: talking to your employees about pensions**
  We also published help for employers on what they could discuss with their members, to allay concerns about having such conversations. This was downloaded over 16,000 times to March 2010.

As a result of the changes already seen in the DC landscape and the likely further growth in DC scheme members arising from forthcoming workplace pensions reforms, we have begun a full review of our approach to regulating DC schemes, across both trust-based and contract-based schemes. We are considering how the risks to members might change in shape and severity, and how these risks could be potentially mitigated.

The objective is to deliver a new strategy for how the regulation of DC risks can be enhanced in the changing market place. Much of the work for this was undertaken in 2009-2010 with the project expected to report in 2010.

The work within the governance theme is also aimed at driving improvements in standards of DC schemes, for example in the areas of record-keeping, wind-ups and investment governance.

Retirement options

Operational and policy staff worked together in the review of retirement literature which provided valuable insight into current practice in this area and has highlighted that levels of compliance and good practice vary widely across the DC market. For example:

- It is a legal requirement to inform members with DC benefits of the **Open Market Option (OMO)** and 98% of schemes met this requirement, with the option being taken up by 23% of members.
- 6% of schemes were non-compliant to a material degree and were passed to our casework teams for further investigation.

We published a report 'A review of retirement information for DC members' in October 2009. Following the publication of the report, a letter was sent to 4,500 schemes, highlighting the findings of our investigation and encouraging trustees to review the pre-retirement literature sent out to their members. To date, there have been over 33,000 downloads of the report on the literature review.

Results of the **Governance survey** indicated that 71% of trustees informed members of the OMO and we want to see continued improvements in member communications at retirement, given the importance of the decisions that members need to take at this stage of the scheme lifecycle.

Member communication

Our DC campaign also focused on member communications. As part of this campaign we jointly published with the FSA, an information leaflet for employers – **Guide for employers: talking to your employees about pensions**. The leaflet set out questions that employers may be asked by their employees about pensions and suggests answers and other sources of information that employees can refer to. The leaflet did not increase the responsibilities on employers but encouraged them to look at the activities they can do voluntarily, at little or no cost, to help their employees to get greater value from the scheme.

We produced this in the belief that more engaged and confident employers can better support employees in planning for their retirement, whether they offer trust-based or contract-based schemes. To date there have been over 10,000 downloads of the **Guide for employers: talking to your employees about pensions** leaflet.

The recent **Governance survey** indicates that 84% of trustees and 77% of members assess that schemes have communicated well or very well. Our focus is on member understanding and the outcomes derived from this communication.

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Updating our DC risks strategy

Our current strategy for addressing the risks of DC schemes was developed following a consultation exercise in 2005. As a result of the growth in the DC market and DC product development, eg the **Group Self Invested Personal Pension (SIPP)** market and master-trusts, and the likely growth in DC membership arising from the work-place pension reforms, we wanted to ensure that we have in place a regulatory framework that reflects this changing landscape.

We therefore commissioned an external agency to work with us in a comprehensive review of the risks to members of DC schemes and what mitigations would be appropriate. We have held informal consultations with a range of external stakeholders to gather evidence for this review and we are working closely with the DWP, the FSA and HM Treasury to identify how the risks to DC members may change in shape and severity. Using this information and analysis we have undertaken a review of DC risks and we will be consulting further with interested parties during 2010, seeking to build a consensus on how to ensure an effective and proportionate regulatory regime for DC.

This will build on our existing framework and we are pleased to note an increase in the overall awareness of current risks to DC schemes, with 80% of members, trustees, employers and professionals indicating, in the **Governance survey 2009**, that they had a good understanding of the risks to members of DC schemes. This is their perception of their understanding and we are testing further how this relates to member outcomes.

Regulatory impact
The case teams made referrals to the Determinations Panel that resulted in the suspension of trustees on more than 100 DC schemes.
Further to the wind-up work described under **Improving governance and administration** on page 16, we have noted an improvement in the time it takes DC schemes to wind up. 76% of DC schemes are now winding up within 2 years with increases being observed month by month. This is a clear sign that, in the vast majority of cases, DC wind-ups can and should be complete within 2 years. We are gathering further data from the industry to assist us in removing any blockages to the schemes not winding up in 2 years. The regulator continues to work with Government and non-Government stakeholders to ensure this performance is sustained and further improved.

Strategic theme 4: Preparing for 2012

Our key objectives

- To manage key risks to the Employer Compliance Regime (ECR) programme (including project delivery and its impact on the regulator's objectives);
- To deliver all of ECR's projects for 2009-2010 within budget; and
- To ensure that stakeholders have confidence in the design of ECR.

The Pensions Act 2008 and secondary legislation laid earlier this year introduced a number of changes to the UK pension system including requiring employers automatically to enrol eligible staff into a qualifying scheme from 2012.

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

In order to fulfil the extended remit given to us, we have been designing and building our regulatory capacities to deliver the ECR for auto-enrolment.

We will continue to apply our risk-based approach to regulation across workplace pensions. Our risk-based approach is about ensuring that we target resources in line with risks to members. The overriding principle will remain to be to **Educate, Enable** and **Enforce** where it is appropriate and proportionate to do so. If an employer has not complied despite our efforts to help them do so, we will have access to a range of new powers including compliance notices, financial penalties and ultimately criminal prosecution.

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The workplace pension reforms will have an important effect on the market as several millions of people will be newly saving or saving more. The extension of automatic enrolment as a joining mechanism is likely to mean, in particular, that many more people save into DC pensions. This will present challenges of scale and complexity in our core regulatory processes.

In 2009-2010 we sought to put the right foundations in place for 2012: our DC campaign was designed to raise standards, improve member choices, and encourage employers to get engaged with pensions. Our recent campaign on good **governance and administration** was aimed at raising standards and support better management of pension scheme risks.

In 2009-2010 we began designing and building an ECR for automatic enrolment that will be effective and proportionate. Whilst registration will be an extra piece of work for employers, we will design a process which will minimise the burden. We have already tested a template of the registration form with a small number of employers. They felt comfortable completing the data requested and their feedback on the form was that it was simple and straightforward to work with.

We also began procurement to find an external partner to work with us on the delivery of business services.

We know that effective communications with employers will be vital in informing employers about their duties. In 2009-2010 we have focused on ensuring we have the infrastructure and capabilities in place to achieve the challenging communications goals that begin in 2010-2011.

Delivery milestones

100% of level 1 project milestones were completed on time and within tolerance. We have delivered all ECR project work for 2009-2010 within budget.

Stakeholder satisfaction

In 2009-2010 we designed a survey to establish and then measure improvement against a stakeholder satisfaction baseline. This is now in place and active engagement with key industry and employer stakeholders has been maintained throughout 2009-2010.

The preliminary results of this indicate that most stakeholders have a fairly high confidence in the regulator's ability to successfully maximise employer compliance. Many stakeholders acknowledged that they do not yet have enough information about ECR to make a firm judgement.

Key concerns raised in the research were as follows:

- whether the regulator has sufficient resourcing for the scale of the task;
- whether communications will provide sufficient technical and practical detail that can be understood by, and provide reassurance to, all audiences; and
- whether the regulator will establish a strong and positive profile, especially among new audiences.

This initial survey has established a baseline against which we shall measure future performance in this area.

With our new role, we now have to reach a new much bigger audience – over one million employers and their advisers, on top of the tens of thousands of trustees and the hundreds of thousands of professional pension advisers who we already interact with now.

We know that employers and providers alike will need plenty of time to build the necessary changes into their future business planning. In 2009-2010 we have been building the foundations of our communications campaign which will start in 2010. The initial focus will be on intermediary and employer representatives.

In March 2010 we launched new information for employers to help them get ready for workplace pension reforms via a refresh of our website. Pages have been reviewed and refreshed to ensure that the website is user-friendly and specifically tailored to provide information most relevant to each audience: employers, individuals, pension professionals and trustees. For example a trustee can go straight to a dedicated page showing relevant information about their role and responsibilities. The same applies for professionals, employers and individuals.

Strategic theme 5: Better Regulation

Our key objectives

- To improve our capabilities and the channels we use to engage with and communicate to those we regulate;
- To continue to deliver risk-based regulation in line with the **Hampton Principles**;
- To continue to reduce burdens to our customers; and
- To maximise the effectiveness of regulation.

Better Regulation Hampton Review

The **Better Regulation Executive (BRE)** and **National Audit Office (NAO)** undertook an independent review of the effectiveness of our risk-based approach to regulation in summer 2009.

The report concluded that the regulator has embedded the **Hampton Principles** at both operational and strategic levels – and identifies examples of good practice across the range of areas. The report highlights what they perceived as a number of key strengths at the regulator, these were:

- a pragmatic approach – responsive to changing economic circumstances and business needs;
- a risk-based approach integrated in the culture of the organisation;
- good stakeholder relations and a willingness to consult meaningfully and transparently with the pensions community;
- effective systems for identifying and addressing risks to pension schemes proportionately, allocating resources to the most serious issues on the basis of an assessment of these risks;
- a learning culture within the organisation; and
- a clear and developing evidence base as the foundation for regulation.

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While we are delighted to receive recognition for the progress we have made, the report also identifies 3 issues[8] for the regulator to focus on in order to meet the **Better Regulation** criteria more fully. These issues are addressed in the work programmes outlined in this report. We are working hard to ensure our strong performance against the **Better Regulation** agenda continues in the years to come.

Stakeholder views on our delivery against the Better Regulation principles

Our **Governance survey** included questions to help us understand how customers and stakeholders see us in relation to the **Hampton Principles**.

Table 4
Proportion of stakeholders who 'strongly agree' or 'agree' with the following statements about The Pensions Regulator (excluding 'don't knows')

	2007	2008	2009
We are a trusted source of information	84%	91%	91%
Our actions are proportionate to the risk posed	51%	50%	54%
We are focused on the most important risks to members' benefits	63%	69%	69%
We explain clearly why decisions have been made	49%	60%	65%
We are consistent in our approach to enforcing pension scheme regulation	57%	61%	64%
We are proactive in reducing risk to scheme members' benefits	57%	66%	65%

There was a general increase but no significant change in our delivery against the **Hampton Principles**. Overall though, there has been a significant improvement in relation to transparency (explaining why decisions are made).

Image of The Pensions Regulator

In our survey we also ask our stakeholders a number of questions about our services and the way we undertake them. As with previous years, we are pleased that we continue to be rated highly as a trusted source of information and that respondents also gave high approval ratings to our guidance and codes of practice.

Table 5
Proportion of stakeholders who 'strongly agree' or 'agree' with the following statements about The Pensions Regulator (excluding 'don't knows')

	2007	2008	2009
Professional	83%	89%	90%
Credible	78%	86%	86%
Informative	77%	89%	92%
Educative	76%	88%	88%
Protective	64%	80%	77%
Respected	65%	77%	77%
Independent	64%	73%	71%
Transparent	46%	56%	62%

[8] Reaching smaller schemes and employers, communicating our approach to the regulation of trust-based DC schemes and communicating our approach to our responsibilities for regulating employer compliance under the Pensions Act 2008.

Regulatory impact

Our risk-based regulatory approach and message is unchanged, but the activity levels and the nature (complexity) of our engagement is evolving. We have been able to maintain high levels of operational delivery as a consequence of considerable improvements in efficiencies and processes. Our operational approach can be best summarised as '**Educate, Enable** and **Enforce**'. Examples of our activities in these 3 areas over the past year are set out below.

Educate

- The **toolkit** continues to be welcomed by the industry and praised by users. There are over 35,000 registered users of the **toolkit** in addition to nearly 3,000 users of our bite sized e-learning module. Our research shows a satisfaction rating of 96% amongst those who have used the toolkit.
- We continue to publish codes of practice, guidance and leaflets to help trustees and advisers to understand and discharge their responsibilities. We make all our codes of practice and guidance available on our website which receives on average 45,486 visits per month and an average of 250,104 pages viewed monthly.
- We ran a series of scheme funding workshops explaining our approach to scheme funding in the downturn and governance and administration workshops. Over 1,200 trustees, employers and actuaries attended these workshops.
- We ran multi channel campaigns in 2009 covering **scheme funding in the downturn**, **DC risks** and **governance and administration**. The latter was focused on the dispersed audience of trustees in DC schemes and included press, adverts, web, direct e-marketing and workshops.

Enable

- We continue to handle on average 27 clearance enquiries every month.
- Through proactive contact with schemes, on issues such as completing recovery plans and scheme returns, we are able to help them handle scheme-specific risks and to ensure that they comply with regulatory duties. We continue to use our outbound telephone campaign capacity as part of our ongoing proactive contact strategy.
- We have issued a number of statements providing additional guidance to trustees and employers on the impact of the economic downturn.
- We have refreshed our website to ensure it is user-friendly and specifically tailored to provide information most relevant to each audience: employers, individuals, pension professionals and trustees.
- In conjunction with our work to educate and enable the regulated community, substantial moves have also been made to strengthen relationships with industry providers and advisers. The recent national workshops which focused on principles of good governance were targeted in the first instance at those advising and providing services to trustees of DB and DC schemes.

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Regulatory impact continued...

Enforce

- Valuable relationships with other industry regulators such as the **Financial Reporting Council, Solicitors Regulation Authority**, the **FSA** and the **Charities Commission** continue to grow in importance and effectiveness. This enables referrals to these organisations when the regulator becomes aware of behaviour inconsistent with professional codes of conduct or protecting members' benefits.
- There has been a 92% increase in the number of cases put forward to the Determinations Panel from the previous financial year. In conjunction with the rise in the number of cases referred to the Determinations Panel, there has been a rise in the level of complexity of these cases. Prior to 2009 2010, the regulator had only prohibited 1 trustee: during the last year alone, 4 individual trustees and 4 corporate trustees were prohibited. This demonstrates the increase in behaviour requiring strong regulatory intervention; some of which can be attributed to the decline in economic conditions.
- For example, those cases in which a s42 PA04 Contribution Notice clearance statement was issued, would not have occurred without the existence and perceived threat of the s38 PA04 power to issue a contribution notice. In addition, of the approximately 2,200 scheme funding cases in this period, none have involved the exercise of the s231 PA04 power regarding setting the level of deficit repayments and the period of time in which they are to be paid but its existence undoubtedly affects the outcome of cases: parties know failure to reach an appropriate agreement could result in the regulator imposing an outcome.

Management and development of our resources

In delivering our business objectives our overriding aim is to achieve worthwhile regulatory outcomes, and to do so in ways that make the best use of our resources.

We are committed to the cross-government smarter government initiatives and efficiency priorities targeted at reducing back office costs. In particular, over the last 3 years, the in-sourcing of scheme return and levy activities, plus the move to online services has significantly reduced our cost base.

We remain committed to ensuring value for money in carrying out our operations, and we set targets so that our underlying costs will continue to reduce through our programme of efficiency measures.

Our technical infrastructure and processes

Throughout 2009-2010 we have continued to exploit technology to deliver business benefits in operational efficiency, regulatory effectiveness, and minimising the burden on schemes through a number of initiatives.

Smarter procurement has led to cost avoidance of around £0.2m on annual licenses, realised over the next three years, plus some initial non recurring savings. In addition, non recurring savings of around £0.1m were gained through purchasing exercises across IT hardware and development, and discounts of around 30-40% to day rates were secured from major consulting firms on several major projects.

The virtualisation of our servers has led to significant savings in our IT spend of approximately £0.3m per annum, which relates to a reduction in maintenance contracts and support staff as well as lower energy consumption from our server. In addition, we achieved £0.4m avoidance on capital expenditure which would be required with a replacement programme.

There are also small non-cash releasing savings from projects such as the implementation of an electronic purchase-to-pay system. The depreciation policy has been revised as a result of asset lives extending beyond the current 3-year depreciation period, in particular around the capitalisation of software development.

Our people

As a small regulator, with a large field of influence, we depend on our abilities to identify and mitigate the most important risks, it is essential that we continue to recruit and retain high calibre people able to deliver our challenging and motivating objectives. We do this by offering jobs that make a real difference, work opportunities that provide personal and professional growth and competitive salaries and benefits. We support our staff with opportunities for learning and development in technical and interpersonal skills, and this year we especially invested in leadership and management development ensuring that we have highly capable people and project leaders.

We delivered an in-house management programme, covering essential people and resource management, and several business leaders developed their leadership skills by attending external leadership programmes. We worked with the **University of Brighton** to deliver an accredited programme covering corporate knowledge and interpersonal skills and 13 staff graduated this year.

Through our secondment programme, 35 secondees or 'on loan' staff from private firms and other Government bodies were with us during the year and we filled 59 permanent posts. We are pleased to report that our overall staff engagement index (measured by our annual **staff survey**) rose by a further 4 points to 86% this year. We have continued to work closely with our recognised trade union, the **Public and Commercial Services Union (PCS)** and held regular meetings with them during the year. We also continued to deliver on our commitment to diversity and equality in line with our published **Single Equality Scheme**.

The regulator takes the issue of sickness absence seriously to ensure that our productivity, staff engagement and duty of care as an employer are not adversely affected. Absence levels are reported to our Board on a quarterly basis against an agreed target.

After the probationary period, and providing the reporting procedures are followed, staff are paid full normal pay for 6 months in any period of 12 months. Further sick leave on half pay is paid up to a maximum of 12 months in any period of 4 years.

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

- 2009-2010 – 2.8% (2,111 days) against our target which was 3.3% (CIPD benchmark based on all sectors 2008-2009)
- 2008-2009 – 3.4% (2,608 days) against our target which was 3.5% (CIPD benchmark based on all sectors 2007-2008)

The public sector benchmark covering both years was 4.3%.

Scheme return and levy collection

The scheme return collects information needed for the register of pension schemes and to enable effective regulation and the provision of scheme data to the PPF and DWP. It is designed to provide an in-depth source of data for the regulator from which we can build an accurate picture of the schemes we regulate. We recognise the regulatory burden imposed by the scheme return and any new data requests must be justified through our 'data panel' as providing benefit which clearly outweighs the burden it might impose. Additionally, through our web-based scheme return system, **Exchange**, we have sought to reduce burden by simplifying the submission process and maximising the use of pre-populated forms to limit data entry.

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Since the successful implementation of **Exchange** in December 2007, further enhanced with registration, winding-up and voluntary certificate submission during 2008-2009, we have continued to expand the system's functionality this year. **Exchange** now contains additional capabilities which allow users to:

- submit notifiable event, breach of law (whistle blowing) and section 72a (winding up) reports;
- pay the General levy and the PPF Administration levy by debit card or direct debit; and
- submit recovery plans with supporting documentation;

In addition, a number of small changes were made to data requested and validation rules.

All eligible DC schemes have now received at least 1 scheme return notice from the regulator (a maximum 3 year cycle applies to small DC schemes) and eligible DB schemes have now completed 3 annual scheme return cycles using **Exchange**.

Following the successful scheme return collection for DB schemes in 2008-2009 (with 99.8% of scheme memberships submitted by the 31 March deadline), we are pleased to report that this year we surpassed this high level with 99.99% completed by the deadline, allowing the PPF to calculate its risk-based levy and the regulator to invoice for the General and PPF Administration levies. The scheme return collection for DC schemes was also successful this year with 99.1% of scheme membership completed by 31 March 2010.

European and international activities

This year has seen a continuing and deepening relationship with all key European institutions.

As the largest occupational pensions market in the European Union (EU), and mindful of the 2012 reforms, we seek to ensure that the UK's voice carries the weight and depth that the maturity and strength of its market demands.

We worked proactively with both Government and commercial stakeholders around the European Commission's pensions and solvency public consultation, and hearing to ensure that the case against reading across the insurance Solvency 2 directive to occupational pensions was heard. While there are a number of different views across Europe on this issue, we continue to ensure that the UK approach to scheme funding is understood and that pensions are treated in a manner appropriate to their nature. However, solvency and pensions continues to be an ongoing risk as EU developments continue.

In addition we continued to play a key role on pensions-related committees in the EU. These determine the technical advice to the **EU Commission** and so form part of the policy and law making process within Europe. In this capacity we have carried on our active role in the **Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS)**. In 2009 our chief executive was elected to the main decision making body of **CEIOPS**, the Managing Board.

Our main focus of work in **CEIOPS** has been within the **Occupational Pensions Committee (OPC)** in which we have undertaken work on cross-border definitions, mapping pensions provision and outsourcing among others. We have also led the pensions contribution on the **Financial Stability Committee** and in the **Peer Review process**, whereby regulators assess their performance against the implementation of the **Budapest Protocol**.

Next year will see the start of a new system of financial supervision in Europe; with a new body (the **European Systemic Risk Board**) charged with collecting national data and with existing level 3 committees (including **CEIOPS**) having a significant increase in powers. Under these proposals **CEIOPS** will become the **European Insurance and Occupational Pensions Authority (EIOPA)**, with powers to develop binding rules and to request data from regulatory authorities, so as to move towards more converged and harmonised markets.

We are also expecting the **EU Commission** to launch a Green Paper later in 2010 which will be open to public consultation, taking a holistic approach to the financial and social role of pension systems across Europe including occupational schemes.

In this rapidly changing context, our strategy has been to influence debate on selected key issues at all levels as early as possible, influencing key opinion-formers and decision-makers. Our objective is to educate and inform debate and our partners on the UK regulatory approach, and to protect the interests of the UK pensions industry. We take a leading role on behalf of the UK, working closely with the FSA, DWP and HM Treasury.

As part of this proactive engagement strategy, we have sustained a leading influence on the Financial Stability debate across the EU and the Organisation for Economic Co-operation and Development (OECD). We also seek to promote best practice around data collection, interpretation and presentation, which is aligned with UK interests. In addition we continue to take a leading role in monitoring the development of cross border pension provision across the European Economic Area (EEA), both through CEIOPS and continuing dialogue with industry participants.

We have entered into a dynamic and fast moving phase of the framework in the EU as the new supervisory structure starts to shape up, and we are working to ensure as far as we are able that occupational pensions is adequately represented in the new arrangements. We remain alive to the risks to our scheme specific funding framework caused by the existence of insurance directives, coupled with convergence and harmonisation pressures, which give weight to initiatives that do not sit well with current UK arrangements. We also continue to build a wide framework of support for the regulator's approach in the international arena. This gives us leverage in the European debate and adds to our evidence base of appropriate regulation that the regulator can deploy.

International committees

In 2009, a Memorandum of Understanding (MoU) was signed between the regulator, the PPF and the American Pension Benefit Guaranty Corporation. The MoU has enabled the sharing of market intelligence and development of shared policy understanding in an increasingly globalised market. In addition we have continued to engage on pensions issues in key international organisations, namely the International Organisation of Pensions Supervisors (IOPS) and the OECD. This enables us to share, influence and learn from international best practice regarding regulation.

Other pensions regulatory activities

Customer support contacts

All activities within customer support continue to be closely measured against service level targets.

Between 1 April 2009 and 31 March 2010:

- A total of 21,213 calls were answered by our customer support team dealing with regulatory enquiries, of which 90.20% were answered within 20 seconds (service level target 80%). The abandonment rate was 3.5% (service level target <5%) This compares with 24,163 calls during 2008-2009. Although we are seeing reducing volumes of phone calls, the calls we are left with are more complex and as a result we are seeing an increase in the overall call handling time – which is up 19% since August.
- We received in excess of 15,000 regulatory general and technical enquiries via email, letter and fax. The service level target of responding within 5 working days was met in 90.4% of cases.

Late and non-payment of contributions

3,284 reports have been received on late and non-payment of contributions to personal pensions and occupational pension schemes between the period of 1 April 2009 and 31 March 2010. Approximately £174,000 in outstanding contributions has been secured with our intervention in working with trustees, providers and employers.

The Trustee Register

We are required by law to compile and maintain a register of independent trustees that satisfy certain conditions and this register is used to appoint independent trustees to schemes. These appointments are usually made to ensure that the scheme is properly administered and the members' benefits protected when the employer is insolvent. In 2009 we reviewed how we assess the conditions for inclusion on the register of independent trustees and published a consultation document on proposed new criteria.

After 4 years of operating the register, we are proposing a number of changes to the criteria we use to assess whether applicants have sufficient relevant experience, sound administrative and accounting procedures, and adequate indemnity insurance cover. Whilst technical in nature, the proposed changes are designed to improve standards across the trustees on the register.

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Register of stakeholder schemes

We have a statutory duty to maintain a register of stakeholder pension schemes. This register is published on our website to assist employers and individuals when choosing a scheme provider. During 2009-2010, we received very few reports involving employers who were not providing their staff with access to a pension scheme. Where reports were received, contact was made with the employer and actions were put in place to rectify the situation.

Notifiable events

Notifiable events are defined by the Pensions Act 2004 and regulations, which put in place a reporting framework designed to help the regulator focus on triggers that could potentially lead to serious risks to pension schemes. There are now 10 types of notifiable events. In total, 495 events were reported during the year (compared to 660 in 2008-2009).

Whistleblowing reports

A total of 542 whistleblowers' breach of law reports were received, compared to 532 in 2008-2009.

Proactive education and support

In 2009-2010 we have developed our capability to support our customers proactively on a range of topics. Approximately 1,597 proactive contacts were made.

Our environment

The organisation is now committed to implementing a sustainability policy and 3-year action plan. Our target is to reduce carbon emission from energy use by 10% in 2010-2011 compared to 2009-2010 and build on this in 2011-2013.

Community activity

Staff organised several events during the year which raised approximately £1,775, donated to a variety of local and national charities.

Table 6
Key publications published during the year

Key publications published during the year	
April 2009	**Corporate plan** published Statement issued on risk in the downturn
May 2009	Response to consultation on the draft 'material detriment' test code of practice (DB campaign)
June 2009	Statement issued on prudent funding targets Guidance and code of practice issued on risk transfers (DB campaign)
July 2009	**Annual Report and Accounts 2008-2009** published TKU consultation published (DC campaign) Member leaflet on retirement choices published (DC campaign) **Analysis of the DC trust-based landscape** published (DC campaign) Statement on higher standards for DC schemes (DC campaign)
September 2009	Leaflet for employers on talking to employees about pensions published (DC campaign)
October 2009	DC pre-retirement literature review published (DC campaign)
November 2009	**Analysis of recovery plans and clearance cases** published (the **Orange Book**) Pension scheme governance survey published Statement on scheme governance published (All Governance and Administration campaign)
December 2009	Revised internal controls guidance published for consultation Bite sized e-learning modules go online New TKU code of practice comes into effect Consultation on independent trustee review published (All Governance and Administration campaign)
January 2010	**The Purple Book** published (joint annual publication with the PPF) **Better Regulation Executive (BRE)** and **National Audit Office (NAO)** review of The Pensions Regulator published (All Governance and Administration campaign)
February 2010	Consultations on record-keeping and winding up published (Governance and Administration campaign)
March 2010	**Corporate plan** published

Table 7
Annual website usage as at 31 March 2010

	2008-2009	**2009-2010**
Number of users visiting the site	179,011	230,976
Number of visits they made	796,650	558,156
Number of pages viewed during those visits	2,839,438	3,053,071
Number of people subscribed to our news-by-email service at the end of the reporting period	12,972	15,517[9]

[9] Note this figure is as of May 2010.

Accountability and governance

Board structure

Sections 1 and 2 of the Pensions Act 2004 ('the Act') set requirements for the composition of the Board. The current Board structure, meeting with the requirements of the Act, comprises the Chair, 6 non-executive members, the Chief executive and 4 Executive directors. 2 non-executive members were appointed to the Board during the year, in June 2009, to fill the 2 vacancies referred to in the **2008-2009 Annual report and accounts**. Board members' appointment dates, terms of office, and committee membership are detailed on page 41.

In 2009-2010, the Audit Committee chair, who is also Senior Independent Director, received a non-pensionable annual allowance of £24,190. The 5 further non-executive members each received a non-pensionable annual allowance of £21,006. The executive Board members are members of the regulator's staff and receive salaries and pensions. Further details of the remuneration of all Board members are given in the **Remuneration report** on pages 55 to 61.

Details of Board appointments and committee membership

Name	Date appointed	Date term expires	Committee membership
David Norgrove Appointed as chair	1 January 2005	1 January 2011[10]	Non-executive (chair)
Non-executive members			
Laurie Edmans	8 February 2005	7 February 2011[11]	Audit, remuneration[12], non-executive
Alan Pickering	8 February 2005	7 February 2013[13]	Remuneration (chair), non-executive
Chris Swinson[14]	8 February 2005	7 February 2013[15]	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[16]
Bruce Rigby	1 June 2009	31 May 2013	Audit, non-executive[17]
Executive members			
Tony Hobman Appointed as chief executive	6 April 2005 (confirmed) 1 July 2004 (designate)	31 March 2012[18]	
Stuart Weatherley	1 April 2007	31 March 2010 [19]	
June Mulroy	7 June 2005	31 May 2011[20]	
Graham Brammer	15 September 2008	14 September 2012	
Bill Galvin[21]	13 October 2008	12 October 2011	

[10] Reappointed on 1 January 2008 for 3 years.
[11] Reappointed on 8 February 2008 for 3 years; retiring on 30 June 2010.
[12] Part year.
[13] Reappointed on 8 February 2009 for 4 years.
[14] Also Senior Independent Director.
[15] Reappointed on 8 February 2009 for 4 years.
[16] Each for part year.
[17] Each for part year.
[18] Left on 14 May 2010 to become CEO of the Consumer Financial Education Body (CFEB)
[19] Reappointed from 1 April 2010 for 3 years
[20] Reappointed in 2008 for 3 years.
[21] Became Acting CEO of the regulator on 17 May 2010.

Table 8
Attendance at meetings from 1 April 2009 to 31 March 2010

Member	Number of meetings			
	Board	Audit committee	Remuneration committee	Non-executive committee
David Norgrove	11	n/a	n/a	3
Laurie Edmans	10	4	1	3
Alan Pickering	11	n/a	4	3
Chris Swinson	9	4	n/a	2
Tony Brierley	11	5	n/a	3
Isabel Hudson	8	n/a	3	2
Bruce Rigby	9	3	n/a	3
Tony Hobman	11	n/a	n/a	n/a
June Mulroy	11	n/a	n/a	n/a
Graham Brammer	8	n/a	n/a	n/a
Bill Galvin	11	n/a	n/a	n/a
Stuart Weatherley	11	n/a	n/a	n/a

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Between 1 April 2009 and 31 March 2010, there were 11 meetings of the Board, 5 meetings of the Audit Committee, 4 meetings of the Remuneration Committee and 3 meetings of the Non-executive Committee.

Responsibilities of the Board

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

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

Board meetings

The full Board met monthly during the year from 1 April 2009 to 31 March 2010 except for August. In addition, 2 'away day' meetings were held in July and December 2009 at which the Board received extended briefings on operational and market developments, and discussed strategic issues, as part of the process of developing and reviewing the regulator's plans.

Throughout the year, the Chairs of the Boards of the PPF and the regulator have continued to attend the meetings of each other's Boards regularly, as observers. The Boards of the PPF and the regulator held joint meetings in October 2009 and in March 2010 to discuss strategic issues. The October meeting also included the Determinations Panel.

Committees of the Board

As required by the Pensions Act 2004, the Board has established a committee of Non-executive members. With the agreement of the Board, the Committee has established two standing sub-committees: the Audit Committee and the Remuneration Committee. Their remit and activities are summarised below.

Board evaluation

In 2009-2010, the Board undertook an internal review of its effectiveness, which was completed and discussed by the Board in April 2010. The Board will follow through the recommendations arising out of the review; these include bringing stakeholder relations more to the fore. During 2009-2010 the Board followed through recommendations arising from the 2008-2009 review; these included greater consideration of people issues, and extending the remit of the Remuneration 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 pages 55 to 61.

Board members

Chair

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

Non-executive directors

Laurie Edmans CBE has had a long career in financial services. Formerly deputy Chief executive of a mutual life insurer and Chair of the industry body on pensions, he now has a portfolio of commercial and public interest roles. These include chairing the Safe Home Income Plans group, deputy Chair of MGM Assurance, treasurer of the Family and Parenting Institute, and trusteeship of a pension scheme, the Pensions Policy Institute and of the Quest School for Autistic Children. He was previously a non-executive Board member of the Occupational Pensions Regulatory Authority (Opra).

He has been appointed to the Board of NEST and will, as a consequence, retire from the regulator's Board at the end of June 2010.

Alan Pickering CBE is Chair of BESTrustees and is a trustee of 4 of that firm's clients. He was with Watson Wyatt between 1992 and January 2009. Before that, he spent the previous 20 years with the Electrical, Electronic, Telecommunications and Plumbers Union where he gained considerable experience in many aspects of employee relations, pensions and personal finance. He is Chair of the Plumbing Industry Pension Scheme, having been closely involved with the development of many other industry-wide schemes. In 2005 he became a trustee of the Life Academy (Pre-Retirement Association), assuming the charity's chairmanship in November 2006. He was a member of the Occupational Pensions Board (OPB) from 1991 to 1997, serving as its deputy Chair during 1993. He was Chairman of the National Association of Pension Funds (NAPF) from 1999 to 2001. And from 2001 to 2004 he served as Chair of the European Federation for Retirement Provision. In 2001 he led a review into the simplification of private pension provision. His report, A Simpler Way to Better Pensions, was published in July 2002.

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

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

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Isabel Hudson has had an extensive career in financial services in the life, non-life and pensions industries in a number of senior roles including M&A and as Finance director. She has worked both in the UK and in continental Europe. More recently she was an Executive director of Prudential Assurance UK before leaving to set up Synesis Life, one of the new pension buy-out insurers, which was sold at the end of 2008. She is currently a Non-executive director of QBE, a top 20 global non-life insurer, where she has been on the main Board since 2005. She also chairs the Business Development Board of the disability charity, Scope and is a member of the With Profits Committee of Standard Life. In February 2010, she was appointed a Non-executive director on the Board of the Phoenix Group.

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

Chief executive

Tony Hobman has held a number of senior appointments within the financial services arena. He spent 20 years with Barclays Bank, holding a number of key roles in marketing, project and change management, and customer service. In 1996 he joined ProShare as Head of investor services and was promoted to Chief executive in 1999. From 2000 to 2001 he was Chief executive of Money Channel plc. In 2002 he was appointed as Chief executive of the Occupational Pensions Regulatory Authority (Opra) and in July 2004 Chief executive designate of The Pensions Regulator. In April 2005 he began work as the first Chief executive of the regulator.[22] In January 2010, Tony was additionally appointed to be an Electoral Commissioner.

Executive directors

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

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

Graham Brammer is the Executive director of Employer Compliance Regime (ECR). He has worked in a number of senior positions within Barclays Group over a number of years. He was appointed as Board Director of UK retail banking in 2006, responsible for UK operations. He has previously served as a Non Executive Director of the Estates Board of HM Revenue and Customs.

Bill Galvin is the Executive director for Strategic Development at the regulator. Bill became Acting CEO of the regulator on 17 May 2010. Bill was formerly in the Department for Work and Pensions (DWP), where he led on pensions protection policy. Prior to joining DWP, he worked as a strategy consultant at IBM Consulting and in strategy and marketing for IBM Global Services.

[22] Left on 14 May 2010 to become CEO of the Consumer Financial Education Body (CFEB)

Report of the activities of the Committee of Non-executive members of The Pensions Regulator in 2009-2010

Functions of the Committee of Non-executive members

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

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

(a) the duty to keep under review the question of whether the regulator's internal financial controls secure the proper conduct of its financial affairs;

(b) the duty to determine under paragraph 8(4)(b) of schedule 1 of the Act, subject to the approval of the Secretary of State, the terms and conditions as to remuneration of any chief executive appointed under paragraph 8(4)(a) of that schedule.

Activities of the Non-executive Committee in 2009-2010

The Committee, as permitted by section 8 sub-paragraphs (7) and (8), continued to have 2 standing sub-committees: an Audit Committee to which it delegated its function at section 8(4)(a), and a Remuneration Committee to which it delegated its function at section 8(4)(b).

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

The Committee itself met 3 times during the period of this report, to receive reports, to review the terms of reference of the Remuneration Committee, to take stock of developments in the previous year and issues envisaged over the year ahead, to review actions taken since the previous review of Board effectiveness, and to agree the process for appraisal for non-executives and for the Board effectiveness review.

Details of membership of the Committee and its sub-committees, and attendance records, are on page 41.

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

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Report of the activities of the Audit Committee in 2009-2010

Terms of reference for the Audit Committee were agreed by the Board and the Committee of Non-executive members, covering both the statutory function delegated from the Committee of Non-executive members and additional areas of responsibility delegated by the Board. The Audit Committee met on 5 occasions in 2009-2010 and provided regular feedback to the Board.

The Committee:

- reviewed the **Annual accounts** for the regulator for the period 2008-2009 and recommended their approval to the Board;
- approved an internal audit strategy for the year;
- advised the Executive Management Team on the approach to management of strategic risk and kept the risk schedule under review;
- reviewed Board expenses and hospitality information for publication;
- reviewed the external audit management report for 2008-2009;
- approved the external audit strategy for 2009-2010;
- received reports from the internal auditors reviewing areas of the business as agreed under the internal audit strategy; and
- monitored the implementation of recommendations made in those reports.

Membership of the Audit Committee increased over the year, following the appointment of additional non-executive board members. Membership was as follows:

Chris Swinson (chair) – April 2009 to March 2010
Laurie Edmans – April 2009 to March 2010
Tony Brierley – April 2009 to March 2010
Bruce Rigby – July 2009 to March 2010

For the year 2009-2010, the Committee met in April 2010 to review the draft **Statement on internal control** and in June 2010, to review the **Statement on internal control** and the regulator's **Annual report and accounts**, and to recommend that the Board should approve the **Annual report and accounts**.

Board expenses

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

Strategic risk management

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

Internal audit strategy for 2009-2010

The Committee agreed a programme of internal audits for the year, covering major areas of the business assessed as providing priority topics for internal audit during this year. Progress was kept under review during the year, and the Committee was able to review all of the audit reports prior to its approval of the **Annual report and accounts** and the **Statement on internal control**. The Committee noted that 3 audit reports gave a full assurance and the remaining 5 gave an effective level of assurance.

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

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

Report of the activities of the Remuneration Committee in 2009-2010

Terms of reference for the Remuneration Committee are agreed by the Board and the Committee of Non-executive members, covering both the statutory function delegated from the Non-executive Committee and additional responsibilities delegated by the Board. Following the Board effectiveness review for 2008-2009, the Committee was given an additional non statutory role, in addition to its ongoing reward-related focus. This additional role is to keep under review the regulator's **human resource strategy** and to 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 Remuneration Committee met on 4 occasions in 2009-2010 to review:

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

Membership of the Remuneration Committee changed over the year, due to a change in non-executive board members, as follows:

Alan Pickering – April 2009 to March 2010 (chair);
Laurie Edmans – April 2009 to August 2009
Isabel Hudson – September 2009 to March 2010

Whilst the Committee's core focus remained reward-related issues, the Committee's consideration of the organisation's strategic human resource approaches more widely has been helpful to confirm their appropriateness to the Committee, and to provide feedback to the Board. Through its discussions, including with management, the Committee formed the view that effective and thorough approaches were in place to give the Executive directors an appropriate level of support.

Executive Management Team

The Executive board members, chaired by the Chief executive, met regularly through the year (normally twice a month) as an Executive Management Team to:

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

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Report of the activities of the Determinations Panel in 2009-2010

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

The Panel has a Chair appointed by the regulator. The chair then nominates at least 6 other members who must then be appointed by the regulator. 7 members have been so appointed: **Duncan Campbell, Olivia Dickson, Geoffrey Fitchew, Dianne Hayter, Michael Maunsell, Suzanne McCarthy** and **Daniel Taylor**. The Panel conducts its hearing meetings, and makes its decisions, following procedures decided upon by the Panel and published in 2006, and subsequently updated in 2008.

These procedures ensure that every regulatory decision is made after a full and impartial consideration, the Panel needing to be satisfied that the evidence put forward supports the decision it is being asked to make. If the Panel is not so satisfied, in accordance with the standard of proof applying to their determinations, (normally on the balance of probabilities) then it has the responsibility to refuse to make the decision asked for.

The cases coming before the Panel are prepared by the regulatory teams and incorporated into a warning notice which is sent to all parties having an interest in the decision under consideration and giving each party a full opportunity to respond, and to make their own case, if they wish. The papers, including the warning notice, the supporting documents and the responses are then submitted to the Panel. The Panel for a specific case is a sub-committee of members, which is supported by the Panel's clerk and the Panel's administrative support staff.

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

During the year the Panel has been asked to make determinations in 24 cases. The schemes concerned in these cases were DB, DC and hybrid (containing an element of both DB and DC). In all except 3 cases the determinations were made on consideration of the papers; for 3, the Panel held an oral hearing. The majority of applications were granted; further detail is in the table opposite on page 49.

There were 5 special procedure hearings during the year. This is an emergency procedure allowing action to be taken quickly when the regulator considers that the scheme funds, or members' interests, would otherwise be at immediate risk. A special procedure decision must be fully reviewed soon after the initial hearing, with all parties having been given an opportunity to make representations on the decision made.

The number of cases which were sent to the Panel by the regulatory arm of the regulator and considered by the Panel has increased substantially since the previous year.

One Contribution Notice case is in this schedule; it is the first of a number of such applications under the 2004 Pensions Act's powers that the Panel expect to be dealing with; at the time of writing the report further cases are underway.

Report of the activities of the Determinations Panel in 2009-2010 continued...

Determination requested	Number of cases	Outcome
Appointment of independent trustee (IT)	6	Appointments made in all cases. 3 were made by way of special procedure. 1 hearing (a special procedure) involved 7 schemes. Appointments were made to all 7 schemes, although this number was amended at compulsory review. 1 case was heard as an oral hearing. 1 case was subsequently referred to the Tribunal, and dismissed by the Tribunal shortly after the end of the year.
Vest in, assign and transfer of property	5	Granted; in 4 of these cases the application was heard in conjunction with an application to appoint an independent trustee.
Extension to Cash Equivalent Transfer Value (CETV)	1	Granted.
Suspension of trustees	5	The hearings involved applications for suspension and for further suspension of trustees. 2 hearings were by special procedure. Of the 5 applications, 3 were granted (of which 1 was partially granted) and 2 were not granted.
Prohibition of trustees	2	Granted.
Termination of appointment of independent trustee	1	This case was a compulsory review of the appointment of an independent trustee to a number of schemes (see **Appointment of independent trustee** above). The independent trustee appointment was terminated for some of these schemes.
Enabling remaining trustees to enact business	2	Granted.
Removal from the Trustee Register	1	Granted.
Contribution notice	1	This case was heard at the very end of March 2010 as an oral hearing and at the time of print had not passed all deadlines for completion.

During the year the Panel has continued their development and training programme. Panel members attended a DB funding workshop and had training on scheme specific funding. Training was also given to regulator staff about how the Panel operates. In November the Panel held a 2 day training event, which included sessions on decision making, fact finding and assessment of evidence. In October the Panel also attended a joint Board meeting with board members from the regulator and the PPF.

John Scampion CBE
Chair, Determinations Panel
April 2010

Complaints against the regulator

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

Stage 1: The complaint is investigated by the Corporate secretary.

Stage 2: If unresolved, the complaint is reviewed by the Chair of the regulator.

Stage 3: If still unresolved, the complaint can be referred to the regulator's Independent complaints adjudicator (ICA).

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

In 2009-2010, there were 23 responses to complaints at 1 or more of these 3 stages, which related to 19 formal complaints, and which included 2 responses to complaints initially received in 2008-2009 (1 at stage 1 and 1 at stage 3). No complaints received during 2009-2010 remained under investigation as at 31 March 2010 (20 formal complaints were received in 2008-2009.)

At stage 1, we received and responded to 17 new complaints; at stage 2 we received and responded to 5 complaints; and at stage 3, the independent complaints adjudicator (ICA) responded to one further complaint. Of the 2 complaints considered by the ICA during the year, neither was upheld.

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

Regular reports on complaints are made to senior management and these are acted on as appropriate. For example, standard reminder letters were redrafted to explain why the regulator was following up old levy payment debts.

The ICA reviewed complaints handling in 2009, as also referenced in her report on page 51, making recommendations which have been implemented as appropriate. The Corporate governance internal audit in early 2010 focused particularly on complaints handling, and gave a 'full' level of assurance to the processes which are in place.

Report of the Independent complaints adjudicator for The Pensions Regulator 2009-2010

During my first full year as the Independent complaints adjudicator, I conducted an independent investigation into 2 complaints in this financial year. They can be summarised as follows:

Complaint 1

This complaint related to issues regarding the complainant's deferred pension, which he claimed had been significantly reduced. Having been through the internal process he contacted me to make 4 key complaints:

- The Chair of the regulator had lied to the complainant;
- The Chair of the regulator had showed lack of faith in his handling of the complaint;
- Resources put into the investigation of the complaint were inadequate; and
- Regulator personnel refused to meet with the complainant.

After conducting a full investigation into the complaint including a comprehensive review of all the relevant documentation, my findings were as follows:

- There had been some delay in the initial handling of the complaint which had inconvenienced the complainant.
- Because of the legislation within which it operates, the regulator was not able to deal with all the elements of the complainant as certain issues fell outside his remit.
- Adequate resources had been allocated to the complaint.
- The escalated complaint was responded to appropriately although the response from the chair to the complainant could have been fuller. While accurate, it did not provide any supporting material to substantiate its claims.
- Any decision to meet with the complainant would not be considered standard procedure. I accepted that the decision of the regulator personnel was reasonable, given the circumstances relating to the complaint.

I did not uphold any element of the complaint and made some operational recommendations to the regulator, which were taken forward.

Complaint 2

This complaint related to the appointment of trustees to the complainant's pension fund. Having been through the internal processes within the regulator's office, the complainant raised the following issues with me in his letter of complaint:

- The initial response to his complaint was inadequate and did not address the points raised;
- The response from the regulator did not address the complainant's concerns; and
- The Chair of the regulator refused the complainant's request to meet.

After conducting a full investigation into the complaint including a comprehensive review of all the relevant documentation, my findings were as follows:

- The complainant had been provided with a detailed response at each stage. This was supported by the response from the chair in a separate letter.
- It was clear that the complainant continued to disagree with the conclusions of the regulator's office and this may have influenced his perception of the service that he had received.
- While the complainant stated that the chair had refused to meet with him, there was no record of a request for such a meeting.

I did not uphold any element of this complaint.

Review of complaint handling

After being in post for 6 months, I conducted a review of complaint handling within the organisation reviewing 4 key areas; access, handling, outcome and review, and comparing these with industry best practice. As a result, a number of my recommendations have been accepted and are now being implemented.

Ros Gardner
Independent complaints adjudicator
April 2010

Freedom of Information

The regulator is bound by the provisions of the Freedom of Information Act 2000 (FoIA). The Act applies to all recorded information held, and gives individuals and organisations the right to request information held by a public authority.

In the period 1 April 2009 to 31 March 2010, the regulator received 51 requests for information under the FoIA, and 10 subject access requests under the Data Protection Act 1998. This compares with 27 FoIA requests and 1 subject access request received in the previous year. In 37 FoIA cases we disclosed some or all of the information requested. In 9 cases we were not able to disclose the information requested, whilst work continued on 5 cases at the end of the financial year.

We received 2 requests to review our decision not to disclose information. Our review concluded that our decision had been correct, and no further action was taken by the requester. Where information is withheld, there is a right of appeal to the Information Commissioner. No such cases were referred to the Commissioner during the period of this report.

A substantial number of the requests received in this period focused on salaries, expenses and benefits, and on regulatory cases. They also covered aspects such as regulatory action and pension schemes, and requests relating to our procurement, organisation and procedures.

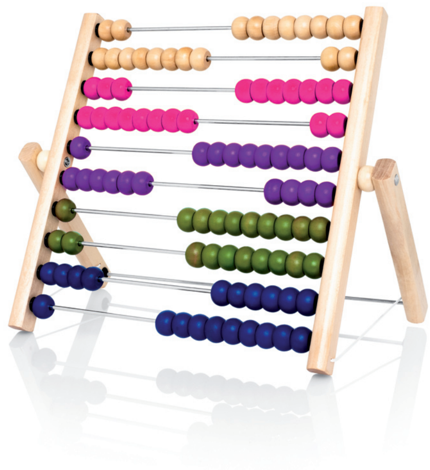
Along with the duty to provide information, the FoIA also provides exemptions to that duty. Because the regulator has been given strong powers to insist that trustees provide information about schemes, those powers are balanced by restrictions upon the ways in which the information provided may be used. Under section 82 of the Pensions Act 2004 much of the information we gather falls within the definition of 'restricted information'.

The Act makes it a criminal offence for restricted information to be released. Information that comes within this definition is exempted from disclosure under FoIA section 44. Each request is, however, considered on a case-by-case basis and the regulator has a policy of releasing as much information as it is legally able to.

In considering what can be disclosed, we take into account the provisions on disclosure contained in the Pensions Act 2004 and the Data Protection Act 1998. If applicable, we would then apply the relevant exemptions.

In some cases we may decide to release the information in the form of a summary or collection of information so framed as not to enable information relating to any particular person or organisation to be ascertained from it. This would only be in cases where it is appropriate for that information to be disclosed to the public in general and not just the applicant.

The regulator's publication scheme is available on our website and we have a disclosure log where we publish information which has recently been released under the FoIA. The regulator also publishes expenses details on our website for each quarter for all board members. This includes expenses incurred for travel, accommodation, meals etc, as well as any hospitality given to others.



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 HM 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 67 to 90.

The regulator is funded by two Grant-in-Aid (GIA) payments from the DWP. The regulator's 'business as usual' is funded by a GIA which is recovered though the General levy. The Employer Compliance Regime (ECR) is funded through GIA which is funded by the DWP. Expenditure on activities is accounted for separately to prevent cross subsidy.

The accounting policies under which Income and Expenditure are recognised are set out in note 1 to the accounts. 2009-2010 is the first year that the regulators' accounts have been published under International Financial Reporting Standards.

In the period ended 31 March 2010, the regulator had net expenditure of £39.3m. This includes £11.4m 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 £27.4m for the regulator's 'business as usual' activities and £11.2m from the DWP for ECR activities.

Staff costs increased £1.4m across the organisation. Primary drivers reducing the regulator's costs by £300k relate mainly to the reduction in restructuring costs which is partially offset by the full year impact of 2008-2009 recruitment. The increase of £1.7m across ECR was the effect of the increased staff numbers and full year impact of 2008-2009 recruitment.

Other operating charges have increased by £2.2m across the organisation. £1.2m relates to an increase on ECR driven by legal services and professional advice in respect of the procurement of an external supplier, and the extra costs associated with increased staff numbers. £1m relates to an increase on the regulator driven by professional service costs associated with increased activity within the DC landscape, and also advice on a number of ongoing cases. In addition, general office costs have risen due to higher utility bills and the result of a rent review.

There have been no significant events occurring since period end.

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Property, plan and equipment (PPE) and intangible fixed assets

The regulator occupies only short leasehold property and does not have any finance leases. Rent payable for accommodation has been charged to operating charges (note 18 to the accounts).

PPE are valued at current replacement cost as detailed more fully in note 9 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 2010, by volume, the regulator paid 81% of invoices in line with this policy.

Going concern

The statement of financial positions at 31 March 2010 shows net liabilities of £2.9m. This reflects the inclusion of liabilities falling due in future years which, to the extent that they are not to be met from the regulator's other sources of income, may only be met by future grants or GIA from the DWP, as the regulator's sponsoring department. This is because, under the normal conventions applying to Parliamentary control over income and expenditure, such contributions may not be issued in advance of need.

Levies account

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

During the year ended 31 March 2010, the regulator invoiced and collected levies on behalf of the DWP (the General levy and PPF Administration levy) which will be reported in the audited financial statements of that organisation. The following un-audited results summarise key facts and figures in respect of levy activity undertaken during the period. These figures do not feature in the audited accounts of the regulator.

During the year, the regulator invoiced £63.9m net of which £21.8m relates to the PPF administration levy, £42.2m relates to the General levy and £0.02m related to PPF. There were also credit notes and waivers of £(0.08)million relating to Opra levies.

The opening debt position as at 1 April 2009 was £4.2m of which £2.3m was under 30 days. Closing debt position as at 31 March 2010 was £2.5m of which £1.7m was under 30 days. £1m relates to the PPF Administration levy, and £1.8m to the General levy. There are also outstanding credit notes and waivers of £ (0.14) m relating to PPF and £(0.14) m relating to Opra levies. Schemes are currently being contacted to apply for a refund.

The regulator collected £65.7m during the year. £65.9m of cleared funds had been transferred to the DWP during the financial year of which £0.3m related to prior year. £0.1m of the collections related 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 task. This work will continue with a view of seeking prompt payment of levy. Our current cumulative debtor days are 40 days.

Prior to onward transmission to the DWP or the PPF, the regulator places levies received and unallocated cash receipts in respect of levies on overnight deposit. Any interest earned is paid over to the relevant recipient along with levy payments. Total interest earned in 2009-2010 was £5K, all of which had been paid over at 31 March 2010.

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 2009-2010 was £31.5k, plus an additional £8k relating to the audit for the restatement of the 31 March 2009 financial statements to International Financial Reporting Standards.

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 regulator's auditors are aware of the information.

David Norgrove
Chair,
The Pensions Regulator
23 June 2010

Bill Galvin
Acting chief executive,
The Pensions Regulator
23 June 2010

The Remuneration report

The Remuneration Committee

Details of the activities of the Remuneration Committee during the period ended 31 March 2010 are set out on page 47.

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 current (initial) Chief executive is 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 will be determined by the Secretary of State based on recommendations from the Remuneration Committee of the regulator.

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

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

All Executive members of the Board (including the Chief executive) are eligible for an annual bonus payment to a maximum of 20% of base salary based on performance. 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 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.

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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 are determined by the regulator and approved by the Secretary of State for Work and Pensions.

Details of service contracts are shown below.

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

Name	Notice period	Early termination payable to employee (net pay plus accrued bonus if applicable)
David Norgrove (chair)	3 months from employee, 6 months from employer	Maximum of 6 months' pay
Non-executive members		
Laurie Edmans	1 month	1 month
Alan Pickering	1 month	1 month
Chris Swinson	1 month	1 month
Anthony Brierley	1 month	1 month
Bruce Rigby	1 month	1 month
Isabel Hudson	1 month	1 month
Executive members		
Tony Hobman (chief executive)[23]	3 months from employee, 6 months from employer	Maximum of 6 months' pay
Stuart Weatherley	3 months	3 months
June Mulroy	3 months	3 months
Graham Brammer	3 months	3 months
Bill Galvin	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.

Isabel Hudson and Bruce Rigby were appointed on 1 June 2009.

[23] Left on 14 May 2010 to become CEO of the Consumer Financial Education Body (CFEB)

Remuneration and pension entitlements

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

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

Remuneration

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. C Swinson 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 £700 C Swinson £200 A Brierley £200 B Rigby £100 I Hudson	LM Edmans, A Pickering, C Swinson, A Brierley, I Hudson (start 1 June 2009), Bruce Rigby (start 1 June 2009)
£105-£110k (Chair)		D Norgrove

The total amount paid to Non-executive directors (including the Chair) during the period was £309k. 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.

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

Chair's pension benefits

	Accrued pension at age 60 as at 31 March 2010 and related lump sum (£'000)	Real increase in pension and related lump sum at age 60 (£'000)	CETV at 31 March 2009 (£'000)	CETV at 31 March 2010 (£'000)	Real increase in CETV (£'000)
D R Norgrove (Chair)	40-45 plus lump sum of 0	0-3.5 plus lump sum of 0	725	785	59

Executive members

Salary 2009-2010	**Performance-related** 2009-2010	**Salary** 2008-2009	
£210-215k	Up to 20%	£210-215k	A H Hobman (Chief executive)[24]
£165-170k	Up to 20%	£145-150k	J Mulroy (Business Delivery executive)
£130-135k	Up to 20%	£125-130k	S Weatherley (Business Support executive)
£145-150k	Up to 20%	£65-70k[25]	B Galvin[26] (Strategic Development executive)
£170-175k	Up to 20%	£75-80k[27]	G Brammer (ECR executive)

The above figures for 2009-2010 include salary earned and performance-related pay for the period, final approval of which has not currently been agreed and lies with the Secretary of State for Work and Pensions.

The regulator is working closely with the DWP to ensure that all performance-related bonuses are in line with HM Treasury guidelines, which may include restrictions on the level of bonus awarded.

24 Left on 14 May 2010 to become CEO of the Consumer Financial Education Body (CFEB).
25 Figure quoted is for the period 13 October 2008 to 31 March 2009. The full year equivalent is £120-125k.
26 Became Acting CEO of the regulator on 17 May 2010.
27 Figure quoted is for the period 15 October 2008 to 31 March 2009. The full year equivalent is £140-145k.

Executive members' pension benefits	Accrued pension at age 60 as at 31 March 2010 and related lump sum (£'000)	Real increase in pension and related lump sum at age 60 (£'000)	CETV at 31 March 2009 (£'000)	CETV at** 31 March 2010 (£'000)	Real increase in CETV (£'000)
A H Hobman (Chief executive)	10-15 plus lump sum of 30-35	0-2.5 plus lump sum of 5-10	199	254	41
B Galvin (Strategic development executive)	5-10 plus lump sum of 0	0-3.5 plus lump sum of 0	52	91	31
J Mulroy (Business Delivery executive)	20-25 plus lump sum of 0	0-3.5 plus lump sum of 0	399	491	59
S Weatherley (Business Support executive)	5-10 plus lump sum of 0	0-2.5 plus lump sum of 0	66	107	34
G Brammer (ECR executive)	5-10 plus lump sum of 0	0-3.5 plus lump sum of 0	19	57	32

**The CETV includes prior civil service pensions
The pension entitlement of the chief executive is based on the Inland Revenue's earnings cap of £123,600.

Pension benefits are provided through the **Principal Civil Service Pension Scheme**. Employees who were covered by the scheme prior to 1 October 2002 may be in 1 of 3 statutory based 'final salary' defined benefit schemes (**Classic, Classic plus** and **Premium**).

Classic and **Classic plus** were closed to new entrants on 1 October 2002. Employees joining the Civil Service between 1 October 2002 and 31 July 2007 will be members of the **Premium** scheme. The schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under **Classic, Classic plus** and **Premium** are increased annually in line with changes in the **Retail Prices Index**. From 31 July 2007, new entrants may choose between membership of **Nuvos or joining a good quality 'money purchase' stakeholder arrangement with a significant employer contribution (Partnership pension account)**.

Employee contributions are set at the rate of 1.5% of pensionable earnings for **Classic**, 3.5% for **Premium**, **Classic plus** and **Nuvos**. Benefits in **Classic** accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to 3 years' pension is payable on retirement. For **Premium**, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service.

Unlike **Classic**, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). **Classic plus** is essentially a variation of **Premium**, but with benefits in respect of service before 1 October 2002 calculated broadly in the same way as in classic. **Nuvos** is a career average pension scheme. Benefits are accrued at the rate of 2.3% of pensionable earnings for each year of service. There is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum).

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

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

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Cash Equivalent Transfer Values

A **Cash Equivalent Transfer Value** (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme.

A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The CETV figures, and from 2003-2004 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the **Civil Service** pension arrangements and for which the CS Vote has received a transfer payment commensurate with the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the **Institute and Faculty of Actuaries**.

Real increase in CETV

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

Determinations Panel

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

Salary 2009-2010	**Members**
£5-£10k	S McCarthy
£10-£15k	G Fitchew, M Maunsell, D Hayter, O Dickson,
£15-£20k	D Taylor
£20-£25k	D Campbell
£30-£35k	J Scampion (chair)

Members of the Determinations Panel may be removed from office at any time by the chair of the Panel with the approval of the regulator. The chair can be removed from office at any time by the regulator. Members who wish to leave the Panel are required to give the chair 2 months' notice and the chair is required to give the regulator 3 months' notice. Any compensation payment would be made in line with contractual obligations with reference to these notice periods.

David Norgrove
Chair,
The Pensions Regulator
23 June 2010

Bill Galvin
Acting chief executive,
The Pensions Regulator
23 June 2010

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**.

David Norgrove

David Norgrove
Chair,
The Pensions Regulator
23 June 2010

Bill Galvin
Acting chief executive,
The Pensions Regulator
23 June 2010

Statement on internal control

Scope of responsibility

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

Our commitment to value for money continues as we deliver year-on-year reductions in cost whilst improving service delivery. These efficiency savings will be recycled into our increased annual budget for 2010-2011 which we will use to equip our operational processes to reflect the prevailing conditions.

The regulator is accountable to the DWP, within a framework set out in a Management Statement and Financial Memorandum (framework document) which is reviewed annually and principally clarifies the requirements for reporting progress against our business plan.

The DWP receives reports on performance, finance and risk, primarily through regular accountability review meetings.

The purpose of the system of internal control

The 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 system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the regulator's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the regulator for the year ended 31 March 2010 and up to the date of approval of the Annual report and accounts, and accords with Treasury guidance.

Capacity to handle risk

The regulator has taken a positive approach to risk management and has adopted a risk management approach which I believe is appropriate to its role and remit. The Executive Management Team (EMT) devotes considerable attention to identification and assessment of strategic and operational risks, in consultation with the audit committee and internal auditors. This is supported by a risk adviser who ensures the risk schedule is kept up to date and provides training for those involved in the assessment of risk. The system of internal control consists of:

- An ongoing process designed to identify and prioritise the risks to the achievement of the regulator's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.
- Codes of conduct for board members, staff and contractors, setting out expectations of behaviour, and the policy framework for declaring and managing conflicts of interest, ensuring data protection and information security, countering the risk of fraud, and providing for a system of whistleblowing.
- Clear standing orders and terms of reference for the Board and its committees and for the Executive Management Team and project management committees, and a schedule of financial and regulatory delegations of authority, approved by the Board and reviewed at least once per annum.
- A business planning system linking strategic, operational and personal objectives, subject to regular review by the Executive Management Team and quarterly reporting to the Board and DWP Steward, using agreed performance indicators.
- An annual budget and quarterly forecasts, agreed by the Board, developed through using priority based budgeting methodology, linking into the business planning cycle.
- Regular reporting to the Board of developments across the business, and consultation with board members on key policy issues, including 2 'away days' per annum to ensure the Board has sufficient time for strategic review and planning.

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- 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 set of financial protocols outlining the relationship between levy funded activities and those relating to the Employer Compliance Regime which are reviewed twice a year.
- A programme of internal audits and a system for progressing implementation of audit recommendations and reporting progress to the Audit Committee.

During the year, a comprehensive review was undertaken of our financial and regulatory delegations. Alongside this regular process, the Board received and ratified a report on the use of all delegated powers to date.

The risk and control framework

Our approach to risk management is outlined on our corporate intranet and this sets out the background to risk management, roles and responsibilities and the regulator's approach to strategic risk management.

The approach adopted includes a risk management policy document, guidance document, closed risks register, schedules of strategic risks, and recording of mitigating actions. Risk schedules and mitigating actions are reviewed quarterly by the leadership team of relevant business leaders and the executive management team prior to the Audit Committee.

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

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

As at 31 March 2010, there were 9 strategic risks identified in the risk schedule. These 9 risks are allocated an executive owner who is responsible for:

- Identifying or proposing action to mitigate the risk
- Making recommendations as to the impact of mitigating actions on the inherent risks
- Reviewing the risks open each quarter
- Signing off any closed risks during each quarter

Some of the risks are generic to any organisation like the regulator such as those relating to resource management, systems, controls and governance. In addition, there are some specific risks relating to our core business or to the pensions landscape. These cover our risk-based approach to regulation, our relationship with key government and other non-government stakeholders and our ability to ensure we are prepared for 2012 and the roll out of auto-enrolment.

At team level, managers are encouraged to build risk mitigation actions into their team plans.

Our operational risk management processes are embedded in our management system, include both regular and exception management information (MI) reporting to the Executive Team and subsequently the Board, based on our control objectives and established trigger points. In particular, the executives receive monthly MI reporting on financial and people information and case volumes and progress. Our operational plans are updated and reported on quarterly, highlighting any risks of delivery against our strategic objectives. All our operational risks are reviewed regularly to ensure that the executives retain an appropriate level of understanding of operational risks across the organisation.

During 2009-2010 the organisation developed an updated set of values, seeking input from Board members, the regulator's advisory group and external stakeholders on the revision. The final version was approved by the Board in December.

Security

In accordance with our responsibilities under the Data Protection Act 1998, the regulator has in place various robust and specific arrangements to ensure information security. The Director of Support is nominated as the Senior Information Risk Officer and an information management forum exists to maintain a cohesive approach to information management. The forum meets at least monthly and ensures adherence to all security policies and reports to the Board on a quarterly basis.

Our corporate induction sets out our information management policy which is published on our intranet. From 2010, all staff are required to undertake an online information management and security training package annually and on joining the regulator.

We have in place 3 security policies compliant with ISO27001:2005 that apply to all staff and managers covering physical, environmental and system security. There is also a high-level security statement. Physical security includes an ID card access system, 24/7 site security, and unauthorised access monitoring.

A dedicated System Security Policy (SSP) is maintained that is specific to the Government Service intranet (GSi) accreditation. The SSP is written to DWP guidelines and is reviewed annually.

All projects that have an involvement with other government departments and include information systems are subject to Risk Management and Accreditation Documentation Set (RMADS).

All workstations are locked down to prevent unauthorised use of USB devices. Authorised USB memory sticks are provided for use on the system. Devices are encrypted to approved standards (AES 256).

All laptops are subject to regular audit, virus checking and have centrally controlled encryption compliant with FIPS140.2

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the department who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board, the Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

A programme of internal audits was agreed by the Audit Committee and reported to the Committee during the period of this statement. Assurances received were either effective, or in the case of our financial controls, payroll and governance, full assurance.

A process is in place to ensure that the agreed management responses to internal audit recommendations are monitored by the Executive Management Team, progressed and implemented effectively, and progress regularly reported to the Audit Committee. The Committee was satisfied that good progress was made over the year in achieving that implementation. The Audit Committee also regularly reviewed, and was satisfied by, the operation of the risk management system.

Bill Galvin
Acting chief executive,
The Pensions Regulator
23 June 2010

The Certificate and report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements of The Pensions Regulator for the year ended 31 March 2010 under Schedule 1 of the Pensions Act 2004. These comprise the Net Expenditure Account, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Taxpayers' Equity and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Board, Chief Executive Officer and auditor

The Board and Chief Executive as Accounting Officer are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit 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 am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Opinion on Regularity

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

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of The Pensions Regulator's affairs as at 31 March 2010 and of its net expenditure, changes in taxpayers' equity and cash flows 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 Chief executive's report, the Pension environment and the regulated community, 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 are not in agreement with the accounting records; or
- I have not received all of the information and explanations I require for my audit; or
- the Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General
National Audit Office, 157-197 Buckingham Palace Road,
Victoria, London SW1W 9SP
7 July 2010

Financial statements

Net Expenditure Account for the year ended 31 March 2010

	Note	Year ended 31 March 2010 £'000	Year ended 31 March 2009 £'000
Expenditure			
Staff costs	5	**(24,474)**	(23,035)
Depreciation and Amortisation	6	**(719)**	(1,259)
Other expenditure	6	**(14,218)**	(11,509)
		(39,411)	(35,803)
Income			
Other income	8	–	1,277
		–	1,277
Net expenditure		**(39,411)**	(34,526)
Notional cost of capital	1.2	**89**	68
Interest receivable		**13**	131
		102	199
Net expenditure after cost of capital charge and interest before taxation		**(39,309)**	(34,327)
Taxation	7	**(4)**	(26)
Net expenditure on ordinary activities after taxation		**(39,313)**	(34,353)

The accounting policies and notes on pages 72 to 90 form part of these accounts.

Statement of financial position as at 31 March 2010

	Note	At 31 March 2010 £'000	At 31 March 2009 £'000	At 1 April 2008 £'000
Non current assets				
Property, plant and equipment	9	**701**	980	1,382
Intangible assets	10	**727**	584	746
Total non current assets		**1,428**	1,564	2,128
Current assets				
Trade and other receivables	13	**699**	723	590
Cash and cash equivalents	14	**280**	679	818
Total current assets		**979**	1,402	1,408
Total assets		**2,407**	2,966	3,536
Current liabilities				
Trade and other payables	15	**4,427**	3,712	4,346
Provisions	16	**148**	768	237
Total current liabilities		**4,575**	4,480	4,583
Non current assets plus current assets less current liabilities		**(2,168)**	(1,514)	(1,047)
Non current liabilities				
Provisions	16	**568**	489	402
Other payables	15	**132**	191	250
Total non current liabilities		**700**	680	652
Assets less liabilities		**(2,868)**	(2,194)	(1,699)
Reserves				
Revaluation reserves		**197**	100	73
General reserve		**(3,065)**	(2,294)	(1,772)
		(2,868)	(2,194)	(1,699)

Authorised for issue by The Pensions Regulator at a meeting on 9 June 2010.

David Norgrove
Chair,
The Pensions Regulator
23 June 2010

Bill Galvin
Acting chief executive,
The Pensions Regulator
23 June 2010

Statement of Cash Flows for the year ended 31 March 2010

	Note	**Year ended 31 March 2010 £'000**	Year ended 31 March 2009 £'000
Cash flows from operating activities			
Net Expenditure after cost of capital and interest		**(39,309)**	(34,327)
Adjustments for cost of capital, interest and depreciation		**731**	1,225
(Increase)/Decrease in trade and other receivables	13	**24**	(133)
Increase/(Decrease) in trade and other payables	15	**680**	(685)
Increase/(Decrease) in provisions	16	**(541)**	618
Taxation		**(27)**	(35)
Net cash outflow from operating activities		**(38,442)**	(33,337)
Cash flows from investing activities			
Purchase of property, plant and equipment	9	**(201)**	(206)
Purchase of intangible assets	10	**(387)**	(495)
Net cash outflow from investing activities		**(588)**	(701)
Cash flows from financing activities			
GIA to cover ongoing operations TPR		**27,446**	25,976
GIA to cover ongoing costs of ECR		**11,185**	7,923
GIA received from DWP for TPAS		**3,435**	2,289
GIA paid from the regulator to TPAS		**(3,435)**	(2,289)
Net cash inflow from financing activities		**38,631**	33,899
Net increase/(decrease) in cash and cash equivalents in the period	14	**(399)**	(139)
Cash and cash equivalents at the beginning of the period		**679**	818
Cash and cash equivalents at the end of the period	14	**280**	679

The accounting policies and notes on pages 72 to 90 form part of these accounts.

Statement of Changes in Taxpayers' Equity for the year ended 31 March 2010

	Revaluation Reserve £'000	General Reserve £'000	Total Reserves £'000
Balance at 1 April 2008	73	(1,772)	(1,699)
Changes in taxpayers' equity for 2008-2009			
Net gain/(loss) on revaluation of property, plant and equipment	27	–	27
Non cash charges – cost of capital	–	(68)	(68)
Retained surplus/deficit	–	(34,353)	(34,353)
Total recognised income and expense for 2008-2009	27	(34,421)	(34,394)
GIA received from DWP	–	33,899	33,899
Balance at 31 March 2009	100	(2,294)	(2,194)
Changes in taxpayers' equity for 2009-2010			
Net gain/(loss) on revaluation of property, plant and equipment	97	–	97
Non cash charges – cost of capital	–	(89)	(89)
Retained surplus/deficit	–	(39,313)	(39,313)
Total recognised income and expense for 2009-2010	97	(39,402)	(39,305)
GIA received from DWP	–	38,631	38,631
Balance at 31 March 2010	197	(3,065)	(2,868)

The accounting policies and notes on pages 72 to 90 form part of these accounts.

Notes to the Accounts

1 Basis of Preparation

These financial statements have been prepared in accordance with the 2009-2010 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.

In the current year, the following new and revised Standards and Interpretations have been adopted and have affected the amounts reported in these financial statements.

- IAS 1 (revised 2007) Presentation of Financial Statements (effective 1 January 2009)
  An amendment to IAS 1 Presentation of Financial Statements released in September 2007 redefines the primary statements and expands on certain disclosures within these.
- IFRS 8 Operating Segments (effective 1 January 2009)
  Replaces the segmental reporting requirements of IAS 14 Segment Reporting. The key change is to align the determination of segments in the financial statements with that used by management in their resource allocation decisions.

At the date of authorisation of these financial statements, it is not expected that adoption of Standards and Interpretations which are in issue but are not yet effective will have a material impact on the financial statements of The Pensions Regulator.

In addition, the FReM for 2010-2011 includes other changes, of which one is expected to affect the regulator being the removal of Cost of Capital charging (see note 1.2). This will affect the Net Expenditure Account (which for 2009-2010 currently includes a credit for £89,000) and the Statement of Changes in Taxpayers' Equity (where that sum is reversed).

1.1 Accounting Convention

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

a) Government grants and Grant-in-Aid

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

b) 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.

c) Property, plant and equipment

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

d) Intangible assets

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

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

e) Depreciation

The threshold for treating expenditure on single items of property, plant and equipment and intangible assets as capital expenditure is £1,000. Depreciation is provided on property, plant and equipment and intangible assets at rates calculated to write down the cost or valuation (less any estimated residual value) of each asset evenly over its expected useful life as follows:

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

*During 2009-2010, the regulator conducted a review of its depreciation rates to ensure assets were charged over the expected useful economic life of the assets, this resulted in hardware and software development and enhancements being charged over a revised 5 years (3 years 2008-2009). The impact of this change in accounting estimate is a £115k reduction in charge for the year to the net expenditure account.

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

continued over...

1.1 Accounting Convention continued...

f) Operating leases

Rent payable under operating leases is charged to the net expenditure account on a straight line basis over the term of the lease. Amounts received as inducements to enter into operating leases are treated as deferred income (rent rebates), and are recognised to reduce the operating lease costs over the same period as the corresponding lease.

g) Early retirement costs

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

h) Provision for liabilities

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

i) 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 net expenditure account for assets carried at cost, and treated as a revaluation decrease for assets carried at revalued amount.

j) 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.

k) Reserves

General reserve
The General reserve is used to record all future liabilities. Grant-in-Aid received from the regulator's sponsoring organisation and the total costs included in the net expenditure account are transferred to this reserve.

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

1.1 Accounting Convention continued...

l) Critical accounting judgements and key sources of estimation uncertainty

The regulators' accounting policies are set out in note 1 to these financial statements. The Board are required to exercise judgement, estimates and assumptions in the application of these policies. Actual results could differ from these estimates. Information about such judgements and estimation is contained in the accounting policies or the notes to the accounts, and the key areas are summarised below.

Critical judgements in applying the accounting policies

IT software internally generated

In identifying what software development work should be capitalised under IAS 38 internal procedures have been developed which include an ongoing review to ensure accuracy and consistency of capitalised amounts as disclosed in note 10.

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 period. 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.

m) Operating segments

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

The Employer Compliance Regime (ECR) is funded through a separate Grant-in-Aid stream from the DWP and as such, it is critical that resources are charged and treated separately and to the correct funding stream. All ECR related work is separately recorded on separate ledgers and strict protocols are adhered to avoid cross subsidy. Reporting is provided to the Executive Team and Board on both ECR and BAU expenditure.

1.2 Capital charge

A charge, reflecting the cost of capital utilised by the regulator, is included in the net expenditure account. The charge is calculated at the real rate set by the HM Treasury, currently 3.5%, on the average carrying amount off all assets/less liabilities, except for:

Property, plant and equipment and intangible assets where the cost of capital is based on opening values, adjusted pro rata for in year:

- Additions at cost
- Disposals as valued in the opening **Statement of financial position** (plus any subsequent capital expenditure prior to disposal)
- Impairments at the amount of the reduction of the opening **Statement of financial position** value (plus any subsequent capital expenditure)
- Depreciation of property, plant and equipment and amortisation of intangible assets

continued...

1.3 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 5, certain employees can opt for a stakeholder pension.

2 First- time adoption of IFRS

	General reserve £'000	Revaluation reserve £'000
Reconciliation of UK GAAP reported taxpayers' equity to IFRS		
Equity at 31 March 2008 under UK GAAP	(1,623)	54
Adjustments for:		
2007-2008 staff benefits holiday accrual - IAS 19 - Employee Benefits	(130)	-
Treatment of impairment under IFRS	(19)	19
Equity at 1 April 2008 under IFRS	(1,772)	73
Equity at 31 March 2009 under UK GAAP	(2,206)	109
Adjustments for:		
2008-2009 staff benefits holiday accrual - IAS 19 - Employee Benefits	(97)	-
Treatment of impairment under IFRS	9	(9)
Equity at 1 April 2009 under IFRS	(2,294)	100

	£'000
Reconciliation of UK GAAP reported net expenditure to IFRS	
Net expenditure for 2008-2009 under UK GAAP	(34,463)
Adjustments for:	
Reversal of 2007-2008 staff benefits holiday accrual - IAS 19 - Employee Benefits	130
2008-2009 staff benefits holiday accrual - IAS 19 - Employee Benefits	(97)
Treatment of impairment under IFRS	9
Net Expenditure for 2008-2009 under IFRS	(34,421)

3 Analysis of net expenditure and assets by segment

	ECR £'000	TPR £'000	Total £'000
2009-2010			
Gross expenditure	(11,431)	(27,971)	(39,402)
Income	–	–	–
Notional cost of capital	18	71	89
Net expenditure	**(11,413)**	**(27,900)**	**(39,313)**
Total assets	**239**	**2,168**	**2,407**
2008-2009			
Gross expenditure	(8,441)	(27,257)	(35,698)
Income	–	1,277	1,277
Notional cost of capital	7	61	68
Net expenditure	**(8,434)**	**(25,919)**	**(34,353)**
Total assets	**679**	**2,287**	**2,966**

4 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 Chair was reappointed on a part-time basis from 1 January 2008 for a period of 3 years. His salary is set by the Secretary of State in line with senior civil servants, and he is a member of the Principal Civil Service Pension Scheme.

Other part-time (non-executive) board members are also appointed for periods of between 1 and 4 years. Part time (non-executive) board members are entitled to a monthly non-pensionable fee of £1,751 in 2009 2010 (2008-2009: £884) and out-of-pocket expenses. C Swinson received a monthly non-pensionable fee of £2,016 in 2009-2010.

Details of the remuneration and pension benefits of the Chair and all other members of the Board are given in the **Remuneration report** on pages 55 to 61. The total cost for the Chair and part-time board members are as follows and these costs are included within other operating expenditure (Note 6).

	Year ended 31 March 2010 £'000	Year ended 31 March 2009 £'000
Salary/fees	**268**	180
Social security costs	**24**	16
Other pension costs (Chair only)	**17**	17
	309	213

5 Staff numbers and related costs

	ECR Year ended 31 March 2010 £'000	TPR Year ended 31 March 2010 £'000	Total TPR Year ended 31 March 2010 £'000
2009-2010			
Employees			
Salaries and wages*	2,042	10,849	12,891
Social security costs	149	958	1,107
Other pension costs	258	1,977	2,235
	2,449	13,784	16,233
Temporary staff**	4,114	4,122	8,236
Severance and early retirement costs	–	170	170
Subtotal	**6,563**	**18,076**	**24,639**
Less recoveries in respect of outward secondments	–	(165)	(165)
Total net costs	**6,563**	**17,911**	**24,474**

	ECR Year ended 31 March 2009 £'000	TPR Year ended 31 March 2009 £'000	Total TPR Year ended 31 March 2009 £'000
2008-2009			
Employees			
Salaries and wages*	1,358	10,537	11,895
Social security costs	86	951	1,037
Other pension costs	114	2,078	2,192
	1,558	13,566	15,124
Temporary staff**	3,185	3,705	6,890
Severance and early retirement costs	–	1,077	1,077
Subtotal	**4,743**	**18,348**	**23,091**
Less recoveries in respect of outward secondments	–	(56)	(56)
Total net costs	**4,743**	**18,292**	**23,035**

* Salaries and Wages as at 31 March 2010 includes staff holiday accrual £181k (£97K 31 March 2009)

** In addition £337k of cost have been capitalised for 2009-2010 (£396k 2008-2009).
They have been included in additions to Internally developed IT software in Note 10.

5 Staff numbers and related costs

2009-2010

The average number of staff employed, including temporary staff

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

2008-2009

The average number of staff employed, including temporary staff

	ECR 31 March 2009 no.	TPR 31 March 2009 no.	Total TPR 31 March 2009 no.
Employees	12	247	259
Temporary staff	21	38	59
Staff engaged on capital projects	–	15	15
Total	**33**	**300**	**333**

Staff paid over £100,000 in addition to directors

Salary range £'000	**2009-2010** FTE	2008-2009 FTE
100-105	1.7	0.7
105-110	1.0	0.4
115-120	1.7	0.2
175-180	–	1.0
190-195	–	1.2
195-200	2.0	–
225-230	0.2	0.9
230-235	1.0	0.1

Details of the remuneration and pension benefits of the Board of the regulator are given in the Remuneration report on pages 55 to 61. The staff costs above include the costs of the Chief executive and the full time members of the Board.

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

continued over...

5 Staff numbers and related costs continued...

For 2009-2010, employers' contributions of £2,250k (£2,168K 2008-2009) were payable to the **PCSPS** at 1 of 4 rates in the range 16.7% to 24.3% of pensionable pay, based on salary bands. The scheme's actuary reviews employer contributions every 4 years following a full scheme valuation. The contribution rates reflect the benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Employees joining after 1 October 2002 can opt to open a **partnership pension account**, a stakeholder pension with an employer contribution, and employers contributions of £40k 2009-2010 (£39k 2008 2009) 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 £2k 2009-2010 (£1k 2008-2009), 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 2010 equates to £230k (31 March 2009 £208k).

6 Other expenditure

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

6 Other expenditure continued...

	ECR Year ended 31 March 2009 £'000	TPR Year ended 31 March 2009 £'000	Total TPR Year ended 31 March 2009 £'000
2008-2009			
Running costs			
Board chair – includes expenses	7	129	136
Part-time board members' fees	14	63	77
Part-time board expenses*	–	2	2
Consultancy, contracted out and other professional services	3,390	3,293	6,683
Training and recruitment costs	95	911	1,006
Staff travel and expenses	20	344	364
General office expenses including accommodation expenses	86	1,603	1,689
Dilapidations costs	–	120	120
Computer systems development and maintenance	111	544	655
Operating leases including rent	–	702	702
Impairment of non-current assets	–	34	34
Auditor's remuneration**	–	41	41
	3,723	**7,786**	**11,509**
Non-cash items			
Depreciation	–	602	602
Amortisation	–	657	657
	–	**1,259**	**1,259**
Total	**3,723**	**9,045**	**12,768**

* There is tax due to HMRC on expenses incurred of £0.8k 2009-2010 (2008-2009: £0.8k).

** Non-audit work during 2008-2009 of £7k related to activity to confirm the regulator's preparedness for adopting International Financial Reporting Standards, which have been adopted in line with HM Treasury directions. During 2009-2010, this work is classified as statutory audit activity and included within the statutory audit costs.

7 Tax on interest receivable

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

	ECR Year ended 31 March 2009 £'000	TPR Year ended 31 March 2009 £'000	Total TPR Year ended 31 March 2009 £'000
2008-2009			
UK Corporation Tax at 21% on interest receivable (2007-2008: 20%)	6	20	26

8 Income

	Year ended 31 March 2010 £'000	Year ended 31 March 2009 £'000
Other income	–	1,277
	–	1,277

A claim was made in an earlier period against our legal advisers for failing to implement the break clause on 3 of the floors at Invicta House. The claim was settled during the financial year 2008-2009. Income relates only to The Pensions Regulator (TPR).

9 Property, plant and equipment

	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 2008	1,340	298	678	35	1,095	3,446
Additions	–	–	1	-	205	206
Disposals	–	(42)	–	(3)	(19)	(64)
Revaluations	(9)	(9)	36	-	(16)	2
At 31 March 2009	**1,331**	**247**	**715**	**32**	**1,265**	**3,590**
Depreciation						
At 1 April 2008	573	194	388	27	882	2,064
Charged in year	191	49	136	4	222	602
Disposals	–	(42)	–	(3)	(19)	(64)
Revaluations	(4)	(5)	27	–	(10)	8
At 31 March 2009	**760**	**196**	**551**	**28**	**1,075**	**2,610**
Net book value at 31 March 2008	**767**	**104**	**290**	**8**	**213**	**1,382**
Net book value at 31 March 2009	**571**	**51**	**164**	**4**	**190**	**980**
Cost or valuation						
At 1 April 2009	1,331	247	715	32	1,265	3,590
Additions	–	–	–	–	201	201
Disposals	–	–	–	(20)	(4)	(24)
Revaluations	(132)	35	24	–	75	2
At 31 March 2010	**1,199**	**282**	**739**	**12**	**1,537**	**3,769**
Depreciation						
At 1 April 2009	760	196	551	28	1,075	2,610
Charged in year	177	50	148	4	95	474
Disposals	–	–	–	(20)	(2)	(22)
Revaluations	(81)	35	19	–	33	6
At 31 March 2010	**856**	**281**	**718**	**12**	**1,201**	**3,068**
Net book value at 31 March 2009	**571**	**51**	**164**	**4**	**190**	**980**
Net book value at 31 March 2010	**343**	**1**	**21**	**–**	**336**	**701**

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

10 Intangible assets

	IT software internally generated £'000	IT software acquired £'000	Total £'000
Intangible assets comprise software licences and software developed in-house			
Cost or Valuation			
At 1 April 2008	502	1,088	1,590
Additions	396	99	495
At 31 March 2009	**898**	**1,187**	**2,085**
Amortisation			
At 1 April 2008	167	677	844
Charge in year	299	358	657
At 31 March 2009	**466**	**1,035**	**1,501**
Net book value at 31 March 2008	**335**	**411**	**746**
Net book value at 31 March 2009	**432**	**152**	**584**
Cost or Valuation			
At 1 April 2009	898	1,187	2,085
Additions	337	52	389
Disposals	–	(2)	(2)
At 31 March 2010	**1,235**	**1,237**	**2,472**
Amortisation			
At 1 April 2009	466	1,035	1,501
Charge in year	190	55	245
Disposals	–	(1)	(1)
At 31 March 2010	**656**	**1,089**	**1,745**
Net book value at 31 March 2009	**432**	**152**	**584**
Net book value at 31 March 2010	**579**	**148**	**727**

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

11 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 for non-financial items in line with the regulator's expected 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 regulators' financial instruments are as follows:

	31 March 2010		31 March 2009	
	Book value £'000	**Fair value £'000**	**Book value £'000**	**Fair value £'000**
Financial assets				
Cash at bank and in hand	280	280	679	679
Receivables: central Government	51	51	132	132
Receivables: Other	45	45	12	12
Receivables: Staff	26	26	29	29
Financial liabilities				
Payables: central Government	153	153	–	–
Payables: Suppliers	479	479	477	477
Payables: Other	3,734	3,734	3,150	3,150

The above figures exclude statutory payables which relate to taxes and social security due to HM Revenue and Customs. 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.

12 Impairments

	ECR Year ended 31 March 2010 £'000	TPR Year ended 31 March 2010 £'000	Total Year ended 31 March 2010 £'000	Year ended 31 March 2009 £'000
Impairment of non-current assets	–	132	132	43
	–	**132**	**132**	43

£94k has been charged to the Income and Expenditure account (see note 6), and £38k allocated against a previous increased valuation in the revaluation reserve.

13 Trade receivables and other current assets

	ECR 31 March 2010 £'000	TPR 31 March 2010 £'000	Total 31 March 2010 £'000
Amount falling due within 1 year			
Trade receivables	–	96	96
Other receivables	1	25	26
Prepayments and accrued income	–	577	577
	1	**698**	**699**

Central Government trade receivables relate only to 'business as usual' and include £48k due from the DWP and £4K due from HM Treasury, none relate to ECR.

	ECR 31 March 2009 £'000	TPR 31 March 2009 £'000	Total 31 March 2009 £'000
Amount falling due within 1 year			
Trade receivables	125	20	145
Other receivables	–	29	29
Prepayments and accrued income	31	518	549
	156	**567**	**723**

	ECR 1 April 2008 £'000	TPR 1 April 2008 £'000	Total 1 April 2008 £'000
Amount falling due within 1 year			
Trade receivables	–	60	60
Other receivables	–	23	23
Prepayments and accrued income	–	507	507
	–	**590**	**590**

14 Cash and cash equivalents

	ECR 31 March 2010 £'000	TPR 31 March 2010 £'000	Total 31 March 2010 £'000
Balance at 31 March 2009	523	156	679
Net change in cash and cash equivalent balance	(285)	(114)	(399)
Balance at 31 March 2010	**238**	**42**	**280**
The following balances at 31 March 2010 were held			
Commercial banks and cash in hand	238	42	280
Balance at 31 March 2010	**238**	**42**	**280**

Cash at bank represents the only funds held at 31 March 2010. All funds are held at HSBC.

	ECR 31 March 2009 £'000	TPR 31 March 2009 £'000	Total 31 March 2009 £'000
Balance at 1 April 2008	–	818	818
Net change in cash and cash equivalent balance	523	(662)	(139)
Balance at 31 March 2009	**523**	**156**	**679**
The following balances at 31 March 2009 were held			
Commercial banks and cash in hand	523	156	679
Balance at 31 March 2009	**523**	**156**	**679**

	ECR 1 April 2008	TPR 1 April 2008	Total 1 April 2008
The following balances at 1 April 2008 were held			
Commercial banks and cash in hand	–	818	818
Balance at 1 April 2008	–	**818**	**818**

15 Trade payables and other current liabilities

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

Accruals include central Government accruals of £153k, which for The Pensions Regulator (TPR) includes £7k due to the **DWP**, £4k to the **National School of Government** and £20k to **HMRC**. Central Government accruals relating to ECR include £7k due to the **DWP**, £13k to the **Serious Fraud Office (SFO)** and £102k to the **Central Office of Information (COI)**.

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

Deferred income due in greater than 1 year comprises rent rebates only £132k.

	ECR 31 March 2009 £'000	TPR 31 March 2009 £'000	Total 31 March 2009 £'000
Amounts falling due within 1 year			
Other taxation and social security	6	20	26
Trade payables	61	416	477
Accruals and deferred income	998	2,211	3,209
	1,065	**2,647**	**3,712**
Amounts falling due after more than 1 year			
Other payables, accruals and deferred income	–	191	191
	–	**191**	**191**

	ECR 1 April 2008 £'000	TPR 1 April 2008 £'000	Total 1 April 2008 £'000
Amounts falling due within 1 year			
Other taxation and social security	–	35	35
Trade payables	–	1,142	1,142
Accruals and deferred income	–	3,169	3,169
	–	**4,346**	**4,346**
Amounts falling due after more than 1 year			
Other payables, accruals and deferred income	–	250	250
	–	**250**	**250**

16 Provisions for liabilities and charges

	Early retirement £'000	Severance £'000	Dilapidations £'000	Year ended 31 March 2010 £'000	Year ended 31 March 2009 £'000	Balance at 1 April 2008 £'000
Balance at 1 April 2009	158	720	379	1,257	639	855
Provided in the year	65	36	120	221	1,150	367
Provision not required written back	–	(28)	–	(28)	(114)	(271)
Provisions utilised in the year	(43)	(691)	–	(734)	(418)	(312)
Balance at 31 March 2010	**180**	**37**	**499**	**716**	1,257	639
Due within 1 year	**111**	**37**	**–**	**148**	768	237
Greater than 1 year	**69**	**–**	**499**	**568**	489	402

	Early retirement £'000	Severance £'000	Dilapidations £'000	31 March 2010 Total £'000
Analysis of expected timing of discounted flows				
In the remainder of the Spending Review period (to 2012)	145	37	–	182
Between 2013 and 2017	35	–	499	534
Balance at 31 March 2009	**180**	**37**	**499**	**716**

Liabilities and provisions

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

17 Capital commitments

Amounts contracted for but not provided in the accounts amounted to nil (31 March 2009: nil)

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

18 Commitments under leases

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

	ECR 31 March 2010	**TPR 31 March 2010 £'000**	**Total 31 March 2010 £'000**	31 March 2009 £'000	1 April 2008 £'000
Obligations under operating leases comprise:					
Buildings					
Not later than 1 year	–	827	827	660	665
Later than 1 year and not later than 5 years	–	1,930	1,930	2,233	2,893
Later than 5 years	–	–	–	–	
	–	**2,757**	**2,757**	2,893	3,558
Other					
Not later than 1 year	–	3	3	3	11
Later than 1 year and not later than 5 years	–	1	1	4	6
Later than 5 years	–	–	–	–	–
	–	**4**	**4**	7	17

All commitments under leases relate to The Pensions Regulator (TPR) only and not to ECR.

The regulator has no obligations under finance leases.

19 Commitment under PFI contracts

The regulator has no obligations under PFI contracts.

20 Other financial commitments

Amounts contracted for but not provided in the accounts amounted to nil (31 March 2009: nil).

21 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.

22 Related party transaction

The regulator is a Non-Departmental Public Body (NDPB) accountable to the Secretary of State for Work and Pensions. The Department for Work and Pensions (DWP), the Pension Protection Fund (PPF) and the Personal Accounts Delivery Authority (PADA) are regarded as related parties. During the period, the regulator's transactions with the Department included payments of DWP secondees working at the regulator. This year the regulator had no transactions with PADA or PPF. However, in total the transactions with the DWP not related to the provision of Grant-in-Aid totalled £137k (2008-2009 £265k). Additionally for 2009-2010, regulator staff were seconded to the DWP which related to receipts of £119K.

During the year the regulator funded Grant-in-Aid payments to The Pensions Advisory Service (TPAS) of £3.4m. The Departmental Steward, on behalf of the Secretary of State, made matching Grant-in-Aid payments to the regulator of £3.4m 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 2010.

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.

23 Third party assets

The regulator does not hold any third party assets.

Appendix 1
Formal exercises of delegated powers

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

Where we do formally invoke our powers, these are either delegated to the Executive or reserved to the Determinations Panel. See page 48 for the report of the activities of the Determinations Panel in 2009-2010. The following tables on pages 92 and 93 outline the delegated powers reported as formally exercised by the regulator's functions.

The following information is not subject to audit.

Formal exercises of delegated powers

Statute reference	Power exercised	April 2008 – March 2009	April 2009 – March 2010
S42 PA04	The issue of a clearance statement in relation to a s38 Contribution Notice	72	55
S46 PA04	The issue of a clearance statement in relation to a financial support direction	67	37
S72 PA04	Demand information and documents for occupational and personal pension schemes	37	35
S288 PA04	Revocation of the authorisation of an occupational pension scheme to accept contributions from European employers	n/a	4
S289 PA04	Revocation of the approval of an occupational pension scheme to accept contributions from specified European employer	n/a	2
Employer debt regulations SI 2005/678 as amended in 2008 by SI 2008/731 and SI2008/1068	Reg 7(1)(a) direction – the power to suspend the trustees' power to enforce the s75 debt for a period	n/a	5
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	n/a	7
Employer debt regulations SI 2005/678 under transitional provisions in reg.2 of SI 2008/731	Reg 7(2)(b) direction – the power to remove the suspension of the trustees' power to enforce the s75 debt, if an approved withdrawal arrangement comes into force	n/a	2
Employer debt regulations SI 2005/678 under transitional provisions in reg.2 of SI 2008/731	Schedule 1A Para 2(1) notice – the power to approve a withdrawal arrangement	n/a	5
Employer debt regulations SI 2005/678 as amended in 2008 by SI 2008/731 and SI2008/1068	Reg 7(3) notice – the power to approve a withdrawal arrangement	n/a	2
Employer debt regulations SI 2005/678 as amended in 2008 by SI 2008/731 and SI2008/1068	Reg 7(1)(c) direction – the power to remove the suspension of the trustees' power to enforce the s75 debt, if an approved withdrawal arrangement comes into force during the period	n/a	1

Formal exercises of delegated powers			
Statute reference	**Power exercised**	**April 2008 – March 2009**	**April 2009 – March 2010**
S7(3)(b) Pensions Act 1995 ('PA95')	Appoint a trustee to schemes: with exclusive powers if required; Order the employer or scheme to pay fees and expenses etc (see s8)	641	854
S79(3)	Appointment of an inspector (for purposes of s72-78 covering provision of information and inspection of premises)	1	1
S99	(inspection) S73-76 Inspect premises and retain documents found (including those on computer)	4	1
S33(4)	Welfare Reform and Pensions Act 1999 – application to extend implementation period	1	1
S100 S78(2)(a)	Obtain a warrant to search premises and seize documents from Magistrates Court	0	1
S23(1) (while s22 applies to scheme) PA95	Appoint an independent trustee: • during an assessment period for PPF • when the scheme is authorised to continue as a closed scheme • when sponsoring employer becomes insolvent	25	38
	Total	**848**	**1,051**

Appendix 2
Glossary of terms

Glossary of terms

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

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

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

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

Hybrid scheme or partial defined benefit (DB) schemes
A scheme that can provide defined benefits (DB) and defined contribution (DC) benefits. 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.

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

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

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

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

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

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

Scheme based levy
See **Pension protection levy** above. Calculated on the basis of section 179 liabilities and the number of members participating in the pension scheme.

continued over...

Glossary of terms continued...

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

Scheme funding position
The difference between the assets and the liabilities of a pension scheme (scheme deficit if negative, scheme surplus of positive)

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

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

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

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

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

Section 179 (s179) valuation
To calculate the risk-based pension protection levy, the PPF board must take account of scheme underfunding. To obtain a consistent basis for determining underfunding, schemes can complete a PPF valuation (section 179). This valuation will be based on the level of assets and liabilities for the scheme. The liabilities will be based on the scheme benefits taking into account key features of the levels of compensation paid by the board of the PPF as set out in Schedule 7 of the Pensions Act 2004.

Scheme winding up/wound up
Winding up describes the process of reaching wind-up from normal ongoing status. After the wind-up is complete (the scheme is wound up), there will be no assets or liabilities left in the scheme, and the scheme will cease to exist as a legal entity. Wind-up involves liquidating the scheme, calculating every member's entitlement and then realising that entitlement through the purchase of an individual, immediate or deferred insurance policy or a transfer to another pensions scheme. The scheme must be wound up in accordance with the scheme rules and any relevant legislation.

Glossary of terms continued...

Technical provisions

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

The Pensions Regulator

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

Trustees

Corporate trustee (non-professional)

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

Member-nominated trustee (MNT)

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

Pensioneer trustee

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

Professional trustee (including corporate)

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

Statutory independent trustee

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

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