The Pensions Regulator

Annual report and accounts

2008-2009

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

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Contents

The Pensions Regulator

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 commenced operations in April 2005 superseding the Occupational Pensions Regulatory Authority (Opra), 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

The Pensions Act 2004 set out specific objectives for the newly-established Pensions Regulator:

* to protect the benefits of members of work-based pension schemes;
* to promote good administration of work-based pension schemes; and
* to reduce the risk of situations arising that may lead to claims for compensation from the Pension Protection Fund (PPF).

A fourth statutory objective was added under the Pensions Act 2008:

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

Unlike our first three statutory objectives, the current costs for the work undertaken by the regulator in respect of the setup cost of the Employer Compliance Regime (ECR) are being met by the DWP and not by the general levy.

1 Chair's foreword

In presenting our Annual Report and Accounts for 2008-2009 we reflect on a year which has seen the world economy and the UK move into the most difficult economic conditions seen since the Second World War. Our activity has inevitably been shaped to a large extent by the reaction of our regulated community to the challenges they continue to face.

There is no doubt, however, that the UK's occupational pension funds entered this year in better shape than they might have done, following the positive behavioural changes driven by the 2004 Pension Act and implementation of the current scheme funding system.

We saw year-on-year improvements in targeted funding levels before the credit crunch began to bite – *Scheme funding: an analysis of recovery plans and clearance applications*, published in December 2008, showed technical provisions up from 107% to 119% of schemes' PPF Section 179 (s179) liabilities for September 2006 to September 2007. This was accompanied by real increases in funding levels, with schemes on aggregate moving from 86% to 90% of their targeted funding levels.

This past year we have sought to reassure our regulated community that the regulatory framework is flexible, robust and effective through the economic cycle. In this effort we have been well supported by the regulated community, our partners and stakeholders.

Our regulatory approach takes account of the long-term nature of pension liabilities. Throughout the year we continued to stress the role of the employer covenant in providing the security that allows pension scheme funding levels and recovery plans to flex with economic conditions, where the employer is robust enough to underwrite the risk, and has the appetite to do so. Pension liabilities are not flexible, but where employers and trustees recognise the true nature of the liability, and work together to secure members' interests for the long term, the regulatory system recognises the alignment of interest in ensuring the continuing health of a viable employer.

The management of this balance is difficult and we are sensitive to the severe pressures faced by employers, trustees and members. We have focused on targeted and open communications to assist trustees and sponsors in the key decisions they must make to guide schemes through the downturn.

We continue to prioritise education and enablement as our key regulatory tools, backed by our ability to enforce where necessary. We use the powers we have in a risk-based and proportionate way. During the year, we have seen a small but significant increase in the number of cases where we have intervened decisively, as a result of behaviours that caused concern. We set out in a statement, *Alert to risks in the economic downturn*, the need to be vigilant to such risks and explained the responsibilities of our regulated community, and how they should engage with us if they have concerns about the behaviours of others. The Pensions Act 2008 amended our anti-avoidance powers to enable us to continue to protect members' benefits in an evolving marketplace.

The long-term drivers of change in the UK pension landscape continue to influence the shape of occupational pension provision. Our *Corporate strategy*, published this year, sets out how our focus areas will adjust with the changes in the market. We have focused this past year on key Defined Contribution (DC) challenges such as the decumulation stage of a DC scheme, the issue of voluntary employer engagement in contract-based schemes, and the production of guidance on governance and administration issues (such as conflicts of interest and record-keeping). This work in these focus areas will deepen in the year ahead, and we look forward to publishing our first DC trust-based landscape. This will join our Defined Benefit (DB) landscape publication the *Purple Book* which is published annually with the Pension Protection Fund (PPF): taken together these will provide a complete overview of the occupational pensions landscape in the UK. This landscape is set to change further following the Pensions Act 2008 and the planned introduction of auto-enrolment from 2012. Our new statutory role is to maximise employer compliance with the new duties and we are on track to deliver a system which makes it as easy as possible for employers to comply, consistent with our risk-based regulatory approach.

Our commitment to our principles of better regulation and to open dialogue with our stakeholders continues to guide our regulatory activities. Our formal and informal stakeholder surveys reassure us that we strike the appropriate balance between a proportionate and targeted regulatory regime and our objective to secure members' benefits for the long term. At the same time we recognise the difficulties and threats to schemes in the current environment. The pressures on the regulator are likely to increase in line with them. But I take comfort from the strength of the team led by chief executive Tony Hobman and from the experience and guidance given by the non-executive directors of the regulator. I would like to record my warm gratitude to them and of course to the tens of thousands of trustees together with their advisers who are facing these testing times.

David Norgrove

David Norgrove
chair, the Pensions Regulator
17 June 2009

2 Chief executive's report

In the course of the past year, we have made important strides in our long-term endeavour to set and raise standards in the occupational pensions industry, and I am encouraged by the progress in our key areas of focus.

Responding to the downturn

As we progressed through the year, we responded to the economic downturn by asking some important questions about our operational approaches and priorities, ensuring that our guidance and support enabled our regulated community to deal with the urgent issues facing them. For a small organisation, this has meant some reshaping of our plans and teams, and I believe that we have demonstrated that we can be flexible and responsive in a changing environment.

Against the background of falling asset prices and increased deficits, our approach has been to reassure trustees and employers and to communicate openly how we will help them through this recession. We have also made it clear that the current scheme funding regime is flexible enough in principle and in practice. Our immediate operational focus has been to review the capacity of our operational processes, to ensure they can cope both with the prevailing conditions and with the anticipated requirements from our regulated community for guidance and advice.

One of our first responses was to work with our regulated community to assess direct exposure to so-called 'toxic assets'. We were encouraged by the limited exposure to such assets, and also by low reported levels of involvement in derivative trades with counterparties in difficulty.

As the economic downturn continued, we embarked on a period of busy and sustained two-way communication with the industry. In October 2008 we issued a statement to trustees that set out our general position in relation to current market conditions, pointing out the relevant advice in our current codes and guidance. In February 2009 we issued a statement to employers who sponsor final salary pension schemes about the impact of current economic conditions, making it clear that where a sponsoring company is under pressure there is potential to renegotiate previously agreed plans to repair pension deficits. We also noted that a longer recovery plan might be appropriate, with ten years remaining a trigger for closer regulatory scrutiny but not an enforced target for all recovery plans.

We will sustain these levels of communication throughout the downturn, and look forward to a series of workshops across the UK this summer as we reinforce our expectation that trustees will set realistic funding targets and make prudent assumptions on the key issues.

Maintaining our regulatory approach

The dramatic changes in our operating context will not distract us from longer-term aims as we seek to understand and influence trends and behaviour in the UK pensions market.

Our regulatory approach is based on an operational strategy to '**Educate**, **Enable**', and to '**Enforce**' where it is appropriate and proportionate to do so. In this context, we were encouraged that the use of our website and in particular the *Trustee toolkit* continued to rise, with membership of the *toolkit* reaching 30,000. We consider this endeavour to be more, not less, important during the downturn, a theme we will return to as we strive to improve governance and administration in the UK pensions industry even in difficult times.

Our clearance process is an example of our ability to educate and influence the market. We have seen dramatic shifts in the levels of clearance applications as we embed our approach and regulatory system in this area, with the 68 clearances granted in 2008-2009 amounting to only half the number granted in 2007-2008. However, there was a marked increase in complexity in the cases brought to us.

Implementing effective risk-based regulation

In 2007 the National Audit Office (NAO) concluded that we had made progress in establishing risk-based regulation, and this year the *Better Regulation Executive* and the NAO will review how we have implemented the *Hampton* vision: our aim is again to demonstrate our commitment to the risk-based approach, as we target resources on areas which pose the greatest risk, ensuring our actions are proportionate, consistent, accountable and transparent.

With increasing efficiency, these principles are becoming embedded into our daily operations. Through reducing data collection burdens and introducing pre-populated scheme returns, for example, we have continued to improve the way we work, by doing more for less.

As a risk-based regulator, we recognise the need to learn and improve as we refine our approach in light of our regulatory experience and the economic context. This report details some of the important steps forward that we have taken over the past year, both before and during the downturn, including:

* improved understanding of the clearance process leading to a proportionate decrease in the number of applications;
* a 25% reduction in the number of schemes in wind-up (94% of all schemes now having two-year wind-up proposals), and the consultation on and subsequent launch of record-keeping guidance;
* the publication in December both of the first edition of the *Orange Book*, our detailed analysis of recovery plans and clearance, and of the *Purple Book* (jointly with the PPF);
* improvements in the levels of governance in the areas on which we have focused, such as conflicts of interest, relations with advisers and understanding of DC risks;
* a set of clear statements highlighting our position to trustees and scheme sponsors in the light of the economic turmoil;
* an overall improvement in longevity assumptions, following a robust debate on longevity in scheme funding plans and the publication of revised proposals in September 2008; and
* a revision of our approach to the regulation and monitoring of risks and standards in the register of professional trustees.

In addition, we have made good progress in building our capacity to deliver our new statutory objective to maximise employer compliance with the new duties under the Pensions Act 2008. Our intention is to make this system as straightforward as possible for employers to engage with. Our current focus is to put in place the necessary operational capacity and to target our communications on the intermediaries that employers rely on for help and advice, ensuring they are able to advise employers in the run-up to 2012.

Working in partnership

In the past year we have continued to play a key role in European debate through our membership of the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) and our chairing of its Occupational Pensions Committee. This engagement is important as we seek to embed best practice across the UK, assess the regulatory responses to the downturn as experienced across a range of EU states, and engage with the European Commission's Solvency II consultation, an issue of critical importance to the UK. I would like to thank our domestic stakeholders for their positive contributions in this area in recent months.

Working in partnership is one of our four core organisational values with which we endeavour to maximise the potential and quality of experience for those who interact with the regulator. Matched with *providing excellent customer service*, *achieving worthwhile results*, and *being professional in all we do*, I am confident that we have built the right balance in the regulator between the way that we approach our work and the technical expertise that we bring to bear in order to meet the challenges ahead.

I would also like to thank all the members of our board, our dedicated staff and our partners for their support over the past year in these challenging times, and to make clear my appreciation to all those managing pension schemes in the UK: we recognise the pressure they face and their commitment to securing members' benefits for the long term.

Tony Hobman
chief executive, the Pensions Regulator
17 June 2009

3 The pensions environment and the 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.

Profile of occupational scheme membership

As at 31 March 2009, membership of private sector occupational DB schemes stood at 8.60 million, and membership of private sector occupational trust-based DC schemes stood at 1.54 million. There were a further 6.62 million memberships of private sector hybrid schemes which have both DB and DC scheme members.

The 2008 Annual Survey of Hours and Earnings (ASHE) from the Office for National Statistics states that there are 3.18 million memberships of contract-based (group personal, group stakeholder and group self-invested personal) DC pension schemes. This amounts to a total figure of 19.94 million members of workplace private pension provision in the UK, all of whom fall, to a greater or lesser extent, within the remit of the Pensions Regulator.[1]

Membership of occupational pension schemes (with more than one member) in the private sector remains concentrated in a small number of large schemes. As at 31 March 2009, 89% of members were in 1,722 schemes with more than 1,000 members. Furthermore, 63% of members were found in just 288 schemes with more than 10,000 members. As at 31 March 2009 there were some 53,697 occupational DC schemes registered with the regulator. As of the same date there were 6,634 DB schemes registered, with a further 1,973 hybrid schemes.

[1] The regulator also has some regulatory responsibilities in relation to certain aspects of public sector schemes.

Profile of occupational scheme membership *continued...*

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

Table 1

Number of live private sector memberships by registered benefit type as at 31 March 2009

	DC	DB and Hybrid
Open	1,151,000	8,128,000
Closed	203,000	6,342,000
Paid up	95,000	509,000
Winding up	90,000	245,000
Total	1,539,000	15,224,000

Source: Figures taken from the regulator's Score database as at 31 March 2009

Table 2

Number of live private sector schemes by registered benefit type as at 31 March 2009

	DC	DB and Hybrid
Open	41,775	2,276
Closed	3,263	3,654
Paid up	6,092	1,482
Winding up	2,567	1,195
Total	53,697	8,607

Source: Figures taken from the regulator's Score database as at 31 March 2009

DB schemes

DB remains the most common form of private pension provision by membership in the UK. In December 2008, we published the third *Purple Book*[2] jointly with the PPF, providing an analysis of data on pension scheme funding. The data and analysis in the *Purple Book* 2008 relates to 93% of the DB pension schemes eligible for PPF compensation and 97% of their estimated total liabilities.

The *Purple Book* shows that the aggregate funding position (total assets minus total liabilities) on a s179 basis had deteriorated from a surplus of £74.2bn (a funding level of 109.7%) at 31 March 2007 to a deficit of £5.1bn (a funding level of 99.4%) at 31 March 2008. This data reflects the risks faced by schemes up to March 2008, and will be updated this autumn.

The PPF 7800 index provides an estimated funding position, on a s179 basis, of around 7,800 predominantly private sector DB pension schemes, and is updated monthly. This index estimates that the aggregate funding position of these schemes had worsened to a deficit of £242bn at the end of March 2009.

Aggregate figures from the second year of recovery plans were published in December 2008 (*Scheme funding: an analysis of recovery plans and clearance applications*), covering the period from September 2006 to September 2007, before the economic downturn. The results showed an increase in the weighted average level of technical provisions from 107% to 119% of PPF (s179) liabilities. The average technical provisions funding level also increased, from 86% to 90%, whilst average recovery periods reduced from 7.7 to 7 years.

DC schemes

There are some 53,697 occupational DC schemes registered with the regulator, with a significant majority of these schemes (92%) having fewer than 12 members. In addition, there is a large number (1,973) of hybrid schemes which offer DC benefits.

Approximately 41% of all trust-based DC scheme members are attached to a hybrid scheme. This puts trustees of hybrid schemes in the position of having to manage two effectively separate schemes with different rules and membership profiles.

With many employers, workplace contract-based provision (group personal pensions, group stakeholder pensions and group self-invested personal pensions) is the only form of provision open to new members.

As outlined above, the 2008 ASHE shows 3.18 million members of workplace contract-based provision, highlighting an increase on previous years (3.16 million and 3.17 million for 2006 and 2007 respectively).

[2] See **www.thepensionsregulator.gov.uk/pdf/PurpleBook2008.pdf**

Profile of occupational scheme membership *continued...*

Pension reform and our role

The Pensions Act 2008 introduced a number of changes to the UK workplace pension system from 2012, including the requirement to automatically enrol eligible employees into qualifying pension provision and the fourth statutory objective for the regulator to maximise employer compliance with the new employer duties and certain employment safeguards. Three parties are working together to implement the reforms – the Department for Work and Pensions (DWP), the Personal Accounts Delivery Authority (PADA) and the regulator.

Our role is to build an effective approach to maximise employer compliance. During the year we have made good progress in designing and developing the Employer Compliance Regime (ECR), establishing a programme with appropriate governance to deliver the Regime. In September we appointed a new Executive Director to lead the development.

Our intention is to build a compliance approach that is as straightforward as possible for employers. This approach will be consistent with our existing risk-based approach and will focus on educating and enabling with enforcement action to be taken where appropriate to achieve our objective. To this end, we put in place our plans to maximise awareness of new employer duties and how to comply with them. We will use a programme of targeted communication campaigns, beginning in 2010.

As part of the commercial process we published an Official Journal of the European Union contract notice ('OJEU') in January 2009. This is a legal requirement to launch a major procurement process. This process is expected to last at least 15 months.

Throughout the year, we continued to work closely with the DWP on the development of the legislation required to support the compliance regime and we will continue to work closely with the DWP, PADA, the industry and all our stakeholders and partners to ensure that we design an effective compliance approach.

4 Management commentary

4a The context of our activities in 2008-2009

Our business objectives for 2008-2009 were set within the framework of our *Medium term strategy*, published in April 2006. This was the fourth and final year covered by the strategy, which addressed four key themes as illustrated in figure 1 below.

The first three themes directly address the key outcomes the regulator seeks to effect on behaviours and activities in the pensions environment. The fourth theme, outlined below, relates to the way in which we discharge our responsibilities, maintain our links with stakeholders and develop our operational capacity.

Through our core values of *providing excellent customer service, achieving worthwhile results, being professional in all we do* and *working in partnership* we endeavour to improve confidence in work-based pensions by protecting members' benefits and encouraging high standards and good practice in running pension schemes.

Figure 1
How our *Medium term strategy* themes support and link to our statutory objectives

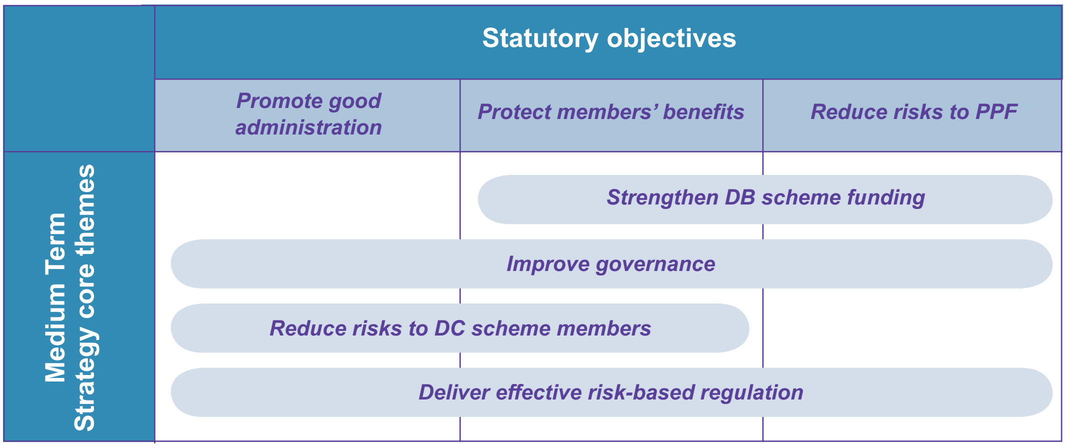

Chart description:
Figure 1 shown above illustrates how our four Medium term strategy themes support and link to our statutory objectives. Our three statutory objectives are to:

* *Promote good administration;*
* *Protect member's benefits; and*
* *Reduce risks to PPF.*

Theme 1: to 'Strengthen DB scheme funding' relates to our objectives for 'Protect members' benefits' and 'Reduce risks to PPF'.

Theme 2: to 'Improve governance' relates to all our statutory objectives.

Theme 3: to 'Reduce risks to DC scheme members' relates to our objectives to 'Promote good administration' and 'Protect members' benefits'

Theme 4: to 'Deliver effective risk-based regulation' relates to all our statutory objectives.

Our approach to risk-based regulation

Our risk-based approach requires us to be proactive and flexible. We prioritise and target our resources according to the degree of perceived risk. In assessing risk, we work proactively with others to gather data about schemes. We also undertake our own research to help us identify developing trends and their implications for pension schemes. We then categorise the schemes we regulate according to the risks they pose to members and the types of intervention that will be appropriate and practicable in each case.

The model that we have developed as our risk and intervention framework is shown in figure 2. Identified risks are ranked within this framework and an appropriate mitigation strategy developed, involving education, enablement, or enforcement. Schemes are classified into four high-level categories for action:

* **Active intervention**
  All schemes in this quadrant are considered high risk, based on their size and our knowledge of events or circumstances.
* **Intelligence-based action**
  This applies when an event which increases the risk of a loss for members occurs in a smaller scheme, requiring the collection of further intelligence to determine whether the overall risk level merits active intervention.
* **Proactive monitoring**
  It is prudent to take this approach where a scheme is large enough to pose a significant potential risk to our objectives.
* **Focus on education and support**
  Schemes in this quadrant have not triggered any specific enforcement actions, and we therefore focus on providing education, mitigating risks through responses to queries or whistleblowing reports as they come to our attention.

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Our approach to risk-based regulation *continued...*

Figure 2

Our risk and intervention model

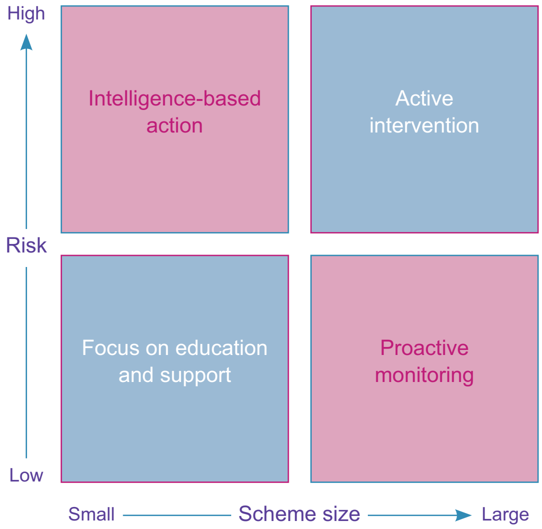


Chart description:
Figure 2 illustrates our risk intervention model and shows the following risk to scheme size ratios:

* *Active intervention (medium to high risk for medium to large scheme)*
* *Intelligence-based action (medium to high risk for small to medium scheme)*
* *Proactive monitoring (low to medium risk for medium to large scheme)*
* *Focus on education and support (low to medium risk for small to medium scheme)*

Alongside our risk and intervention model we categorise risks according to our four strategic themes. We use this approach to prioritise risk and develop regulatory responses.

4b A review of our activities during the year

In this section we review our challenges and achievements under each of the four themes set out in our *Medium term strategy*. We highlight key trends and issues that have emerged as our evidence base and analytical capacity have developed. Our four themes reinforce and complement each other in the achievement of our statutory objectives.

Theme 1
Strengthen DB scheme funding

Our key performance indicator

DB schemes will have completed scheme specific funding valuations, and those with deficits will have agreed recovery plans. These will be based on:

* prudent assumptions for valuing the assets needed to cover the liabilities as they fall due; and
* appropriate recognition in recovery plans of the risks to members, taking account of what is reasonably affordable for employers.

To help achieve this, we said we would ensure that:

* trustees, employers and their advisers understand the scheme funding arrangements and their role in this process;
* all schemes due to have completed the valuation process will have done so in line with requirements; and
* scheme funding arrangements lead to an increase in the funding of schemes, thereby showing the regulator has effected improvement through its interventions.

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

Scheme funding

The underfunding of DB pension schemes poses a risk to scheme members and the PPF. Our continuing focus, as a risk-based regulator, has been upon those schemes submitting recovery plans that represent the highest risk. We have developed a series of triggers and risk assessment tools to select those plans that require more detailed attention.

The triennial valuation process whereby DB schemes prepare recovery plans when appropriate completed its second full year of operation in 2008-2009. During the year we received over 1,800 recovery plans. We closed our files on just under 2,000, including a proportion of plans carried over from 2007-2008. Where we believe that funding targets or recovery plans are unacceptable, we work with employers and trustees to make changes.

100% of all schemes whose valuations were due to be finalised in 2008-2009 either submitted a recovery plan to the regulator or were contacted by our customer support team within one month of their submission due date. Customer support ran outbound campaigns throughout the year in order to identify reasons for non-submission of recovery plans. These campaigns covered 100% of schemes who had not already submitted a recovery plan.

As outlined on page 13, in December 2008 we published *Scheme funding – an analysis of recovery plans and clearance applications*, which analysed recovery plans with an effective date of September 2006-September 2007. This compared the situation with that reported in a similar analysis published in the previous year. The results showed that:

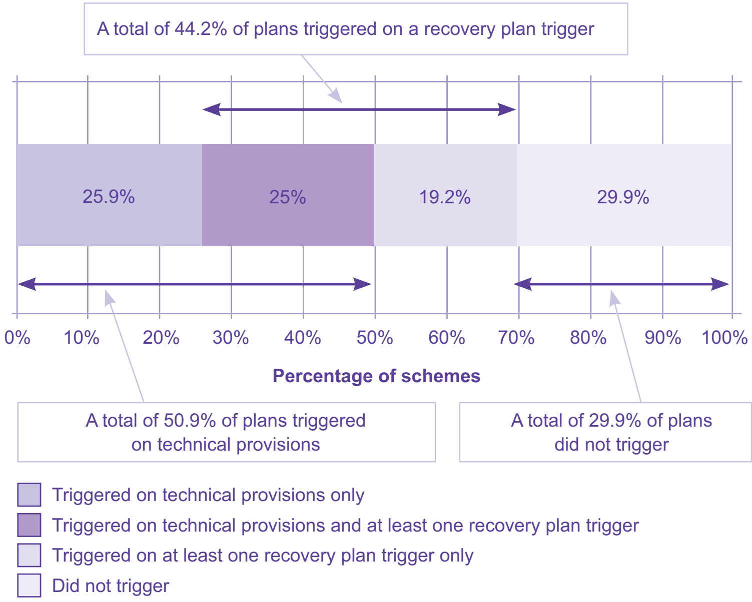
* unweighted recovery plan lengths had fallen from 7.7 to 7 years;
* technical provisions had increased from 107% to 119% of s179 liabilities, a rise that was accompanied by increases in technical provision funding levels, schemes on aggregate moving from 86% to 90% funding on this basis;
* fewer schemes were triggering in the second year compared with the first (51% compared with 70%), as shown in figure 3 on page 21; and
* longevity assumptions had strengthened, with average assumed age at death for a 65-year-old increasing for men from 85.3 to 86 years for current pensioners, and 86.5 years to 87.6 years for future pensioners aged 45.

Figure 3

Percentage of recovery plans triggering for tranches 1 and 2.

(Figures are mutually exclusive and unweighted)

Tranche 1: 2005-2006



Tranche 2: 2006-2007

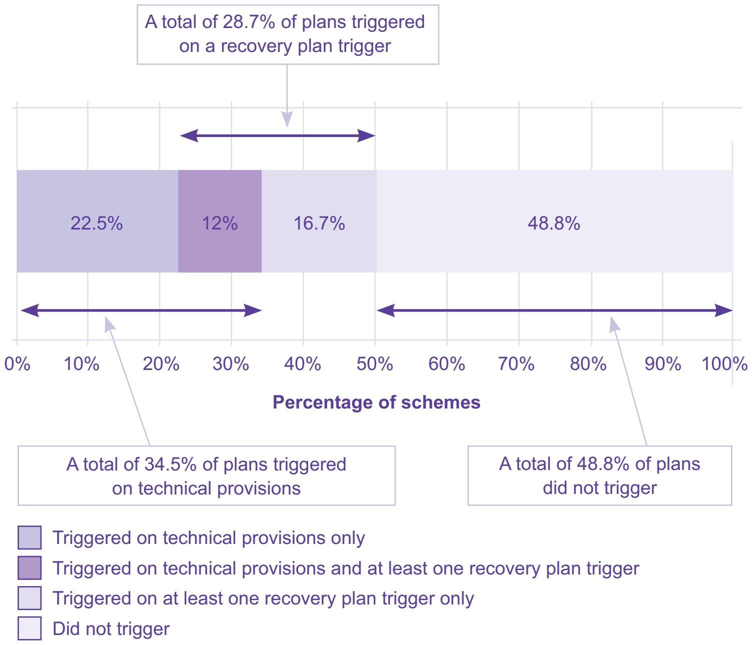


Chart description:

Figure 3 shown above illustrates the percentage of recovery plans triggering in tranche 1 and 2. Valuations described cover the periods 22 September 2005 – 21 September 2006 (tranche 1) and 22 September 2006 – 21 September 2007 (tranche 2). The data is split into four groups: those that did not trigger; those that triggered on technical provisions only; those that triggered on technical provisions and at least one recovery plan trigger; and those that triggered on at least one recovery plan trigger only. Only a minority of plans did not trigger in relation to the valuation parameters submitted (39% of the whole sample). That said, the proportion of plans not triggering rose from 30% to 49% from tranche 1 to tranche 2. The greatest reduction is in schemes that triggered in technical provisions and at least one recovery plan trigger, which fell from 25% in tranche 1 to 12% in tranche 2.

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

Economic conditions

The above analysis was based on scheme valuations carried out in economically benign circumstances (September 2006 to September 2007). With the deterioration of economic conditions depleting asset values and increasing pension scheme deficits, later valuations will clearly reflect the changed context.

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. The index had fallen to 97% at 31 March 2008, and 76% at 31 March 2009.

In October 2008 and February 2009 we set out our general position to trustees and employers facing depleted asset values and increased pension scheme deficits in the current economic climate. We reassured employers that the current scheme funding regime is flexible enough to cope with the impact of the downturn, and that we will continue to regulate funding on a scheme-specific basis.

Clearance

We continued to work to mitigate the risks to members' benefits and the PPF that can arise from corporate transactions. During the year we have engaged with key stakeholders on a number of funding and clearance related initiatives, including guidance on transfer values, our recovery plan publication and the *Purple Book*.

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 or Financial Support Direction in respect of the transaction as detailed in the clearance application.

The level of clearance activity has continued on a downward trend. We believe that a significant factor here is increasing industry understanding of our requirements as well as declining merger and acquisition activity.

Table 3
Corporate Risk Management (CRM) activity summary

	2008-2009	2007-2008
Clearances granted	68	143
Clearances refused	0	0
Enquiries received	291	494

We carried out research to track understanding of our powers in this area. In 2008, our *Perceptions tracker survey* showed that among trustees, employers and their advisers just under two-thirds had a 'good' or 'very good' understanding of the regulator's powers and stance in relation to clearance, anti-avoidance and recovery plans.

Mortality

Evidence of continued improvements in longevity above expectations has been emerging for some time. Given this evidence, statements by the actuarial profession, and our own experience of the first recovery plans and scheme returns, we issued draft guidance last year on our approach to the scrutiny of mortality assumptions. Following the issue of this draft guidance, and after discussions with stakeholders, such as the CBI and the NAPF, we published our final guidance setting out good practice in choosing mortality assumptions in September 2008. This coincided with the start of the new valuation cycle (from September 2008 for recovery plans in December 2009).

Mortality assumptions will not be an additional trigger. Rather, they will be considered only after a case is escalated for further scrutiny on existing triggers, for example recovery plan length or technical provisions.

Transfer values

Transfers of DB benefits are relatively uncommon in practice, principally because the risk-reward profile of the transfer value in a money purchase arrangement is not usually attractive to most DB members. Nevertheless, there are situations where it may be desirable for a member to take a transfer.

In September 2008 we published guidance to assist trustees in calculating transfer values in DB schemes. It is now the responsibility of trustees to take the decisions on which the calculation of cash equivalent transfer values (CETVs) is based, as set out in legislation. Previously, the calculation had to be certified by the scheme's actuary.

There is a risk that incentives to encourage members to transfer will be increasingly used in the current financial climate, and such options may be actively proposed as potential solutions by advisers. Our guidance on inducement offers is clear: trustees and employers must give full and proper information to members in a transfer incentive exercise. Where we suspect that the guidance is not being followed, or that there is other poor practice associated with the transfer exercise, we will look at the dealings of that employer and scrutinise their scheme.

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

Amendments to anti-avoidance powers

The Pensions Act 2008 amended our powers to further enable us to protect members' benefits and the PPF, and to ensure our powers remain appropriate to address new material risks, including risks from new business models, as they emerge.

These powers include:

* A new ground for issuing a Contribution Notice (CN), a material detriment test (where acts or failures to act are materially detrimental to the likelihood of members receiving their accrued benefits), which has been added as an alternative test to our existing anti-avoidance powers. In addition 'otherwise in good faith' was removed from one of the limbs of the existing test for issuing a Contribution Notice;
* Provisions for CNs to be issued after a transfer of two or more members where the legislation tests have been met. The new legislation confirmed that a Financial Support Direction (FSD) or CN can be issued as a result of a series of acts or failures to act, rather than a single act or failure;
* A new alternative test that could trigger a FSD, which considers whether resources across a group are sufficient to support the scheme. This brings the test for an FSD in line with how the support may be provided;
* The power to appoint trustees where it is in the interests of the generality of the members, and where it is reasonable to do so (and not only in cases where it is necessary to do so); and
* A new s231 trigger which enables us to use scheme funding powers where we believe that technical provisions have been set imprudently, not only on the grounds that the recovery plan is inappropriate or that there is a failure in the process.

Theme 2
Improve the governance of work-based pension schemes

Our key performance indicator
There will be year-on-year improvements in the extent to which trustees demonstrate knowledge and understanding of the governance requirements for their schemes, as evidenced by surveys of knowledge and understanding and key aspects of governance.

To help achieve this, we said that we would:

* establish and consult on standards for effective record-keeping;
* reduce the time schemes take to wind up; and
* develop, consult on and publish good practice guidance in a number of key areas.

All published guidance is available on our website at:
www.thepensionsregulator.gov.uk/guidance/index.aspx

Theme 2 Improve the governance of work-based pension schemes *continued...*

Trustee knowledge and understanding

The regulator's *Trustee toolkit* has continued to prove popular, with over 15,000 lay trustees among nearly 30,000 registered users. The overall picture is that the *Trustee toolkit* has increasingly become a key resource for trustees. Where there are lower levels of uptake, such as within small DC schemes, we are investing in direct communication to these schemes to increase uptake in 2009-2010.

In 2008 we consulted on a refreshed trustee knowledge and understanding framework. This fulfils a promise to review the code of practice and the scope of our guidance after two years of operation. We found that the framework was much appreciated by trustees and that the proposed revisions were, in the main, regarded as helpful and appropriate. These changes, in addition to updating, generally tidying up wording and removing repetition, reflected:

* the importance of good administration;
* the forthcoming introduction of registration and auto-enrolment requirements;
* buy-out issues, including abandonment and inducement; and
* pension scheme wind-up and appropriate preparatory steps.

The revised code of practice will be subject to approval by Parliament and the Northern Ireland Assembly during 2009.

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.

Experience from schemes in wind-up shows that the quality of record-keeping can be poor and costly to remedy; indeed, in many cases, the poor quality of scheme records is not identified until a scheme commences wind-up and the pension liabilities are greater then expected. We therefore said that we would pay particular attention to helping ensure that overall standards of record-keeping improve, as well as working in partnership with others to promote the sharing of good practice.

Following informal discussions with the regulated community, we issued a formal consultation document in July 2008. This was followed by the publication of final guidance in January 2009 which was designed to help those responsible for record-keeping and administration to put in place good practices for measuring member data. This guidance also gives advice on assessing the risks of incomplete or inaccurate data. We are now developing benchmark indicators against which to review progress.

Scheme wind-up

Generally the outcome for members will be improved if the winding up of a scheme is completed expeditiously. Following collaboration with the PPF and Financial Assistance Scheme (FAS), we have published a joint statement on how schemes in wind-up will be regulated. This was subsequently followed by the publication of our formal guidance in June 2008.

Our guidance provides suggestions of good practice to help trustees and others meet the two-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 *Trustee toolkit* to help promote trustee knowledge and understanding, covering the key elements of wind-up and the PPF assessment period.

Our outbound campaign for schemes entering wind-up continued to be successful, and 94% of the 2,426 schemes we contacted had a two-year plan for winding up in place. In addition there was an overall 25% reduction in the number of schemes in wind-up.

We will continue to monitor and take action when appropriate to ensure that key activities of wind-ups are completed in two years, and that existing wind-ups complete their key activities as soon as possible and certainly within two years.

Conflicts of interest

Conflicts of interest may arise in the trust structure of occupational pension schemes. It is vital that trustees identify, monitor and manage conflicts appropriately as the consequences of not doing so can be severe.

Following extensive consultation during the first half of the year we published formal guidance in October 2008. This guidance is built around five key principles: understanding, identifying, evaluating and managing conflicts of interest, and developing an appropriate conflicts of interest policy. It encourages the formalisation of policies and procedures to help trustees manage actual, potential or perceived conflicts, including those relating to scheme advisers.

Our 2009 *Governance survey* showed an increase in those trustees who ‘strongly agreed’ that they had appropriate processes in place to manage conflicts of interest, indicating that the guidance has been positively embedded into internal practices.

Theme 2 Improve the governance of work-based pension schemes *continued...*

Internal controls

In November 2008 we launched the internal controls code of practice and guidance review. This considered how we can help trustees to improve their ability to deal with risk, identifying features that are recurrent and a regular part of running a scheme, and those that are events-based.

In November 2008 we commissioned an online survey to gauge industry views on a series of questions relating to our internal controls code and guidance, generating 100 responses. In early 2009 we ran an external workshop to explore the views of the regulated community, and in particular where further value can be added. Both feedback from this event and survey results indicated good levels of satisfaction for the code and guidance, but a strong case was made for more practical guidance.

The overall framework and proposals for taking this work forward will be considered by the management team during 2009. Subject to approval of recommendations, attention will focus on improving our internal controls guidance material, and access to related information, for completion later this year.

We were reassured to note that the proportion of trustees who strongly agree that they have effective and appropriate internal controls to manage risks has continued to increase year-on-year.

The Governance survey

The Pensions Regulator *Governance survey* is an annual exercise conducted among pension scheme trustees which is designed to monitor the standards of scheme governance of occupational pension schemes in the UK. The Pensions Regulator's database of registered schemes is used as the sample source. From this a representative survey sample is selected to be approached.

In our report on the 2008 survey we were pleased to note the evidence of improvement in the three areas of governance on which we had focused most heavily: trustee knowledge and understanding, conflicts of interest and monitoring the employer covenant.

Table 4

2008 and 2009 *Governance survey*

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

Issues responded to (% 'very good')	**2009**	**2008**
How the scheme's assets are invested	56%	59%
Provisions of the scheme rules	42%	39%
How the scheme is funded (DB only)	70%	64%
Role of scheme trustees	56%	64%

As illustrated in table 4, overall in 2009, there has been an increase in the number of trustees who consider their understanding of how the scheme is funded to be 'very good' (70% in 2009 vs 64% in 2008), and a slight increase in the proportion rating their understanding of the provisions of the scheme rules as 'very good' (42% in 2009 vs 39% in 2008). This is offset by a slight decrease in the understanding of how the scheme assets are invested (56% in 2009 vs 59% in 2008) and a larger drop in the understanding of the role of scheme trustees (56% in 2009 vs 64% in 2008).

Theme 2: Improve the governance of work-based pension schemes *continued...*

Table 5

2008 and 2009 *Governance survey*

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

Issues responded to (% 'very good')	**2009**	**2008**
Works together as an effective unit	69%	72%
Is able to conduct effective negotiations with the employer in relation to scheme funding requirements (DB only)	70%	57%
Understands its roles and responsibilities in relation to the scheme	67%	71%
Regularly reviews its investment strategy	54%	66%
Actively monitors service providers and professional advisers	51%	40%
Reviews the scheme rules at regular intervals and updates them as required	44%	49%
Has identified potential risks to the scheme	43%	44%
Has appropriate internal controls to manage risks	56%	47%
Ensures a high standard of member communications	29%	33%
Has appropriate processes in place to manage conflicts of interest	56%	45%

The *Governance survey* has shown an increase in the proportion of trustees who considered the collective understanding of their trustee board to be 'very good' in certain areas. Specifically there has been a 13% increase in trustees who rate their ability to conduct effective negotiations with the employer in relation to scheme funding requirements as 'very good' (70% in 2009 vs 57% in 2008) and an 11% increase in those having processes in place to manage conflicts of interest (56% in 2009 vs 45% in 2008).

While there have been improvements in several areas other aspects have shown a decline. For instance, there has been a 12% decline in those trustees who rated their trustee boards as 'very good' in regard to reviewing investment strategy regularly (54% in 2009 vs 66% in 2008).

In recent months we have reminded trustees that high standards of professionalism amongst those responsible for running and advising pension schemes remain of critical importance in the current economic climate.

In our October 2008 statement to trustees about current financial pressures, we encouraged trustees and members to review their pension fund carefully in the light of current circumstances to see if they need to make any changes at the present time to the funds in which they are invested, their level of contributions or their target retirement dates. We will continue to monitor the situation closely, and we will be looking at whether there is any further work to be done in these or other areas over and above that already planned.

Theme 3
Understand and address the risks to DC schemes

Our key performance indicator

There will be year-on-year improvements in the extent to which trustees, employers and advisers understand and address the key risks facing DC schemes.

To help achieve this, we said that we would:

* promote more effective communication by pension schemes with their members;
* encourage schemes to implement good practice in relation to administration;
* help trustees and employers communicate effectively with members on investment choices;
* work with the FSA to improve transparency of charges; and
* work with others to improve the tools and information available to members to help them in making choices on retirement.

Theme 3: Understand and address the risks to DC schemes *continued...*

2008 saw us deliver important guidance for managing the risks inherent in DC schemes. This focused on the risks during the decumulation stage of a DC scheme, the governance issues of voluntary employer engagement and managing conflicts of interest, and the importance of high-quality member communications and record-keeping. Our market research suggests that understanding of DC risks remains relatively stable, but we would hope to see a significant uplift in this measure over the next 12 months. This will primarily be due to our major second-quarter DC risks campaign which will target DC schemes specifically. The campaign is expected to commence in July 2009.

In November 2008 we launched *Pensionwise*, our direct marketing campaign. This is aimed at employers with trust-based DC schemes, and offers them a specially designed section of the website which provides straightforward information on DC schemes, employers' responsibilities and their relationships with trustees, as well as links to other useful websites. The campaign has been promoted through direct mail to schemes, in the pensions and business press, and through e-marketing and events, and will continue to be promoted during 2009-2010.

DC scheme members bear a greater share of the risks than employers. In February 2009 *Aon Consulting* calculated that a member paying 10% of a £25,000 salary into a defined contribution scheme planning to retire at 65 would only receive an annual salary for life of £10,900 in January 2009, compared with £17,100 forecast in September 2007. That equates to a 30-36% drop in pension value for those aged 55-65.

As a result of members having more responsibility for the level of their eventual pensions, our focus on DC in the downturn has been on member understanding and processes. In October 2008 and February 2009 we set out our general position to trustees and employers facing depleted asset values and increased pension scheme deficits in the current economic climate. For DC schemes, we encouraged review of investments, contributions and target retirement dates. We also highlighted that trustees should have clear and appropriate processes for members approaching retirement and should refer to our guidance on member communication.

We have continued to work closely with the FSA in areas in which we have joint responsibility. In 2008-2009 this included an employer guide to promoting pensions, a retirement choices leaflet and contributions to the '*Moneymadeclear*' programme – **www.moneymadeclear.fsa.gov.uk** – including the pension transfer leaflet.

Administration

On 23 July 2008 we issued a consultation document which outlined the importance of good record-keeping and explained a proposal to measure the presence of some of the most important items of member data. The longer-term outcomes we were seeking in respect of DC schemes were to secure good standards, including accurate and timely payment of contributions, regular reconciliation, accurate and timely payment of benefits (annuities and transfers) and accurate and timely disclosure of information.

The consultation period ended on 15 October 2008, and was followed by the publication of final guidance in January 2009 which helps those responsible for record-keeping and administration to put in place good practices for measuring member data. The guidance also gives advice on assessing the risks of incomplete or inaccurate data. We are now developing benchmark indicators against which to review progress.

The continued focus on administration as part of the record-keeping programme of work helped to maintain a high standard of scheme administration, as measured by the 2009 *Governance survey*. This indicated that a high proportion of trustees ‘strongly agreed’ that they had processes in place to manage the scheme’s administration to ensure an acceptable level of service.

Theme 3: Understand and address the risks to DC schemes *continued...*

Investment choices and charges

The regulator is not involved in prescribing investment decisions. 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 have been undertaking this through a number of channels including continuing to chair the *Investment Governance Group* (IGG), established last year in the wake of a review by the *National Association of Pension Funds* (NAPF) following the government consultation on the *Myners Principles*. The IGG is the new industry and government forum which has been set up to implement an industry-led framework for the application of the *Myners Principles* and encourage the spread of best practice for investment decision-making and governance. The group is chaired by Bill Galvin, executive director of strategic development at the Pensions Regulator, and has been set up specifically to look at the investment governance risks that affect DC, DB, small schemes and local government pension schemes. The group will produce, in 2009-2010, best practice for large DB schemes on investment governance.

Additionally in 2008-2009 we continued to keep under review the evidence base on the level of charges borne by members in different types of provision. It is possible that the economic downturn has led to people focusing on other risks ahead of charges. However, we plan to investigate the extent to which there may be an underlying issue through quantitative research.

Retirement options

We published our *Member retirement options* guidance in May 2008, which highlighted our view that schemes should have an appropriate process in place to help members (or dependants) who want to convert money purchase funds into income. This guidance emphasised, in particular, the importance of the open market option (OMO). We have commissioned a project specifically around OMO and scheme retirement literature which will give us a better understanding of the issues and further actions required.

Theme 4
Deliver effective risk-based regulation

Our key performance indicator

The regulator maintains and improves on its position as an authoritative and proportionate risk-based regulator, whilst increasing operational efficiency and reducing the regulatory burden on schemes.

To help achieve this, we said that we would:

* ensure that we meet the requirements of the new *Regulator's compliance code*;
* continue to operate in an open and transparent way so that the reasons behind our decisions are clearly understood;
* continue to automate our processes wherever possible, for example by exploiting our web-based capability to streamline our scheme return and levy collection processes; via greater automated testing of systems; and by placing forms online where possible;
* improve the efficiency with which we operate our IT systems;
* introduce further innovation in the way that we manage and analyse data, for example through workflow automation and the faster retrieval and display of information; and
* build our capabilities and capacity to communicate effectively in a more targeted way with key audience segments.

Our risk-based regulatory approach and message is unchanged, but the activity level and the impact of our response is evolving. We have been able to maintain high levels of operational delivery as a consequence of considerable improvements in efficiencies and processes.

Theme 4: Deliver effective risk-based regulation *continued...*

Regulatory impact

Our operational approach can be best summarised as **'Educate, Enable, Enforce'**. 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.

Examples of our activities in these three areas over the past year are set out below.

Educate

* The *Trustee toolkit* continues to be widely welcomed by the industry. Numbers of users continue to grow at a steady pace and it is a valued tool for trustees. At the end of March 2009 there were nearly 30,000 registered users of the *toolkit*. The *Perceptions tracker 2008* found that Trustee Knowledge and Understanding (TKU) is a key strength of the regulator, and 95% of respondents thought the *Trustee toolkit* was 'useful' or 'very useful'. Our evaluation of the *toolkit* by independent researchers, which we published in September, found users' experiences were overwhelmingly positive; it had both made a difference to the knowledge of users and led to improvements in the way schemes were run as a result. We are committed to keeping the *toolkit* up to date.
* We have continued to publish guidance 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 79,694 visits per month and is rated by 91% of users as being 'useful' or 'very useful'.
* We built on our successful programme of scheme funding workshops which we ran in 2007, and will be rolling out a further series in June 2009.
* We have developed a *direct communications* capability that allows us to use our scheme data to deliver targeted messages to key audience segments (such as sponsoring employers, trustees, or administrators).

Enable

* We seek to be as open and approachable as possible. Through proactive contact with schemes we are able to help them handle scheme-specific risks and to ensure that they comply with regulatory duties effectively and efficiently (for example on recovery plans and scheme returns). We carry out over 500 outbound telephone calls a month as part of our ongoing proactive contact strategy.
* As outlined previously we have seen dramatic shifts in the levels of clearance applications as we embed our approach and regulatory system in this area, with the 68 clearances granted in 2008-2009 amounting to only half the number granted in 2007-2008. However, there was a marked increase in complexity in the cases brought to us.
* We issued a number of statements providing additional guidance to trustees and employers on the impact of the economic downturn.

Enforce

* Over the course of the year we were involved in 47 independent trustee appointments and 586 member and third party appointments. Member and third party appointments are generally made to enable members to secure their own benefits (often due to ill health), to secure death benefits, or to allow a representative to act on behalf of a member based overseas.
* We have continued to work with and support other regulators and law enforcement agencies in their investigations as appropriate.
* At any one time we may be considering the use of our powers in a number of cases; however, in most cases to date the potential use of our powers has proved sufficient deterrence to secure a satisfactory outcome.
* Where the regulator considers that certain enforcement action needs to be taken in respect of a pension scheme, the Determinations panel will ensure that every regulatory decision is made after a full and impartial consideration. The actions of the Determinations panel are detailed on pages 59 to 60 of this report.

Our annual *Perceptions tracker survey* is an essential tool by which we measure our performance against several baseline targets. This is the fourth year in which we have carried out the survey.

Theme 4: Deliver effective risk-based regulation *continued...*

Views on our consistency with Better Regulation principles

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

Table 6

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

	2008	2007
We are a trusted source of information	92%	84%
Our actions are proportionate to the risk posed	58%	51%
We are focused on the most important risks to members' benefits	74%	63%
We explain clearly why decisions have been made	68%	49%
We are consistent in our approach to enforcing pension scheme regulation	71%	57%
We are proactive in reducing risk to scheme members' benefits	70%	57%
We work well with government to ensure that regulation is appropriate	54%	40%

We were pleased to note levels of increased public perception. We recognise however that we face significant challenges in the current economic conditions, and our strong reputation as a professional and respected regulator will be key to meeting these.

We will be subject to an external *Hampton Implementation Review* in June 2009.

Satisfaction with 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 7
Proportion of stakeholders who 'strongly agree' or 'agree' with the following statements about the Pensions Regulator (excluding 'don't knows'):

	2008	2007
Professional	92%	85%
Credible	87%	79%
Informative	90%	78%
Educative	90%	77%
Protective	83%	66%
Respected	79%	67%
Independent	77%	66%
Transparent	61%	48%
Has a light touch	45%	35%

Theme 4: Deliver effective risk-based regulation *continued...*

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.

Over the past year we have sought to achieve continuous improvement in our operational effectiveness, efficiency, and quality of customer service. Being an adaptive and flexible organisation enables us to reduce the regulatory burden on those we regulate and work with, and is also consistent with our risk-based regulatory approach.

We continue to manage our finances transparently and diligently, with clear protocols to delineate the dual funding streams separating costs of work to meet our first three statutory objectives, from costs for the work undertaken by the regulator in respect of the setup cost of the Employer Compliance Regime (ECR). During 2008, we benchmarked our support services with peers in the public and private sectors. In terms of efficiency, service quality and costs we compare well with peer performance and going forward will continue to benchmark, review and learn as necessary.

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 2008-2009 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.

We have continued to drive innovation in our IT process, delivering advanced service capabilities for the organisation whilst delivering significant cost avoidance and demonstrating value for money. This resulted in savings in maintenance contracts, support staff and power usage amounting to approximately £300k annually, while approximately £400k of capital spend has been avoided. The efforts to reduce our carbon footprint continue to be a significant focus in our adoption of appropriate technologies.

Our in-house development team has piloted a number of software initiatives targeted at delivering more effective customer interactions. A single web application has been developed which provides staff with information from across data sources in one easy-to-use interface. We have continued to deliver enhancements to our scheme return online capabilities, further reducing administrative burdens for schemes and improving return rates in comparison to last year. The regulator's Information Technology department was awarded the title *'IT Department of the Year'* by *Computing Magazine* in November 2008.

Our people

It is essential that we continue to recruit and retain high calibre people able to deliver our challenging objectives. We do this by offering competitive salaries and attractive benefits, work opportunities that provide personal and professional growth, and jobs that make a real difference. We support our staff with opportunities for learning and development in technical, leadership and interpersonal skills. This year we have invested in two key development programmes: one for our customer support teams in service excellence, and another for staff to gain up-to-date business management skills. Both are accredited learning programmes.

Through targeted advertising and our secondment programme, we recruited 49 people to permanent roles and sourced 31 secondees from private firms and other government bodies. We also facilitated external placements for 12 staff in industry and other government bodies including the Australian Prudential Regulation Authority (APRA), our Australian counterpart.

We have also responded rapidly to changing business requirements, mobilising a high performing programme team of approximately 50 people to deliver on the ECR development and implementation. To lead on this important activity we recruited an additional executive director from the financial services sector. During the year we also merged our two funding teams into one new business unit (the *Risk assessment and funding team*). In the summer we reviewed the skills and capabilities needed going forward for our *Strategic development* executive function. We appointed a new director to the function, restructured the teams and introduced new capabilities in customer insight and analysis, digital marketing, and stakeholder and media relations.

We are pleased to report that our overall staff engagement index (measured through our annual staff survey) rose by 3 points to 81% 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.

Theme 4: Deliver effective risk-based regulation *continued...*

The delivery of regulatory and other business outputs

Scheme return and levy collection

The scheme return collects information needed for the register of pension schemes. 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.

Since the successful implementation of the online web-based scheme return system *Exchange* in December 2007, we have continued to expand the system's functionality to enable more online processes whilst the data requirements of the regulator and the PPF evolve. *Exchange* now contains additional capabilities which allow users to:

* register new schemes with the regulator;
* apply for waivers against the general levy;
* notify the regulator that schemes have been wound up; and
* complete and submit scheme returns for Personal Pension schemes.

A campaign was conducted to inform trustees of all pension schemes about the use of *Exchange*. The campaign reached all registered pension schemes on a regular basis throughout the year.

We have also added online capabilities to meet PPF process requirements, so users can now:

* submit deficit reduction certificates to the PPF;
* submit contingent asset certificates to the PPF; and
* notify the PPF of block transfers to other pension arrangements.

Following the successful scheme return collection for DB schemes in 2007-2008 (with 99% of scheme memberships submitted by the 31 March deadline), we are pleased to report that we exceeded even this high achievement, with 99.8% completed by the deadline. This allowed the PPF to calculate its risk-based levy and the regulator to invoice for the general and PPF administration levies.

Data quality

We have also improved the relevance and quality of the data held in the register of pension schemes. This has been achieved by:

* introducing an internal data panel to ensure that requests for new data through the scheme return process are weighed in terms of their business criticality against the additional resulting burden; and
* cleaning the employer data by removing duplicate records and making use of other data sources. More then 450,000 duplicate employer records, the result of older legacy data imported into *Score*, our scheme return database, have been eliminated. In addition, over 1,000 ‘gone-aways’ have been resolved and over 6,000 scheme addresses corrected.

Internal processes have also been enhanced to improve the efficiency and effectiveness of services as well as improving the customer experience. This has been achieved through better adviser front-end systems and improved automation of workflow.

Further enhancements are planned during 2009-2010 to add more functionality to *Exchange* and improve our in-house efficiency.

Theme 4: Deliver effective risk-based regulation *continued...*

European and international activities

We continue to play a key role on pensions-related committees in the European Union (EU). These determine the technical advice to the EU Commission and so form part of the policy and law making process within the EU. In this capacity we will carry on our active role in the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS). The chief executive chairs the Occupational Pensions Committee and we also participate in the Financial Stability Committee.

The size, maturity and depth of the UK pensions sector means that the UK continues to play an important role in influencing policy and law within Europe. We continue to host the greatest number of cross-border schemes, the notification process for which was set up as a result of the provisions contained in the European framework directive (the IORP directive).[3] This directive provides a basic framework for the provision of occupational pensions and has also influenced the setup and operation of scheme-specific funding.

We have intensified our work in the European arena as a result of the current financial turmoil and its cross-border implications. Given the diversity of national approaches, we ensure that our colleagues in Europe understand the UK's trust-based occupational provision and its place in providing for individuals in retirement, and that all policy developments take our own domestic characteristics into account.

This year saw considerable work around a number of European issues arising both from the directive and how it has been implemented, and from the wider supra-national issues such as those of financial stability, supervisory convergence and pensions accounting.

The UK led the drafting team on the *Market Developments Report* (published by CEIOPS), which shows modest growth in the number of cross-border arrangements over the previous 12 months, and also contributed to other European workstreams on issues such as outsourcing and social and labour law.

During the second half of the year, considerable co-operation with the European Commission was required to provide them with a picture of the impact of the economic downturn on occupational schemes and to demonstrate how schemes differ from traditional financial products such as those offered by banks.

The issue with the potential for the largest impact on the UK occupational pensions sector was the suggestion that funding requirements, similar to those which will apply to insurance schemes under the Solvency II directive, should be applied to all occupational pension schemes. This would have required schemes to move from a funding position based on technical provisions to funding provision based on solvency buffers. We worked together with our sponsoring departments and with our commercial stakeholders to ensure that the impact of any proposal of this nature was understood by the EU Commission, and we also worked on a joint response to the consultation that followed. We intend to continue our high-level engagement in the forthcoming 12 months.

[3] Directive 2003/41EC – Activities and Institutions of Occupational Retirement Provision.

International committees

We play a similar leading role on pensions issues in key international organisations, namely the International Organisation of Pensions Supervisors (IOPS) and the Organisation for Economic Co-operation and Development (OECD). This enables us to share, influence and learn from international best practice regarding regulation.

Other pensions regulatory activities

Customer support contacts

All activities within customer support continue to be closely measured against service level targets. During 2008-2009 a significant amount of work has been completed to multi-skill our workforce in handling a broader range of communication channels and regulatory activities. This has resulted in improved effectiveness and efficiencies whilst maintaining good performance in concluding customer responses in a timely manner. The improved and more flexible resourcing model has allowed continued proactive outbound communication campaigns without an increase in staffing levels. Between 1 April 2008 and 31 March 2009:

* A total of 24,163 calls were answered by our customer support team dealing with regulatory enquiries, of which 94.2% were answered within 20 seconds (service level target 80%). The abandonment rate was 2.6% (service level target < 5%). This compares with 22,952 calls during 2007-2008;
* We received in excess of 3,500 regulatory general enquiries via email, letter and fax compared to in excess of 5,000 in 2007-2008. The service level target of responding within five working days was met in 95% of cases; and
* Technical enquiries received have totalled 11,786 compared to 11,978 in 2007-2008. The service level target of responding within ten working days was achieved in 95.1% of cases.

In 2008-2009, the market research company, GfK, were commissioned to carry out a report into the quality of service received by customers when they contacted the regulator. The survey was completed through a series of telephone and online interviews with customers. This revealed that customers felt that they were ‘satisfied’ or ‘very satisfied’ with the service they received in 89% of cases, a 1% increase on the previous year’s result. 69% of customers stated that they were ‘very satisfied’ with the service they received, a 14% increase.

Late and non-payment of contributions

4,874 reports have been received on late and non-payment of contributions to personal pensions and occupational pension schemes between 1 April 2008 and 31 March 2009. Approximately £174,000 in outstanding contributions has been secured with our intervention in working with trustees, providers and employers.

Theme 4: Deliver effective risk-based regulation *continued...*

Other pensions regulatory activities *continued...*

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 2008-2009, 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.

Trustee register

The regulator's role includes compiling and maintaining a trustee register of professional trustees, from which it makes professional trustee appointments. The trustee register's primary purpose is as a procurement tool for the regulator. Following concerns over the actions of a small number of trustees on our independent trustee register, we have revised our approach to the regulation and monitoring of risks and standards in this area and this will remain a priority in 2009-2010.

Notifiable events

Notifiable events are defined by the Pensions Act 2004, which put in place a reporting framework designed to help the regulator focus on triggers that could potentially lead to serious risks to pension schemes. There are 13 types of notifiable event. In total 660 events were reported during the year (compared to 554 in 2007-2008). The events most frequently reported were transfer of more than 5% of scheme assets or £1.5m, changes in senior personnel, and changes in auditor or actuary.

Whistleblowing reports

532 whistleblowers' breach of law reports were received, compared to 513 in 2007-2008. Whilst we have not seen a significant increase in whistleblowers' breach of law reports, we continue to remain vigilant and have encouraged trustees, employers, advisers, managers and administrators to do the same and to contact us if they have concerns.

Proactive education and support

In 2008-2009 we have developed our capability to support our customers proactively on a range of topics. Approximately 4,800 proactive contacts were made.

Our environment

During the past year we made improvements to our building management system to better control our energy consumption, and introduced an organisation-wide paper reduction and recycling initiative. The organisation is now committed to implementing a sustainability policy and three-year action plan.

Community activity

The regulator, which is based in Brighton, has continued to be active in the local community over the past year. In addition to the business skills course mentioned in this report we have also worked with the University of Brighton to set up a management skills course tailored to the needs of our organisation. We have also worked with local schools and colleges to provide structured work placement schemes. Staff organised several events during the year which raised approximately £2,055, donated to a variety of local and national charities.

Table 8

Key publications during the year	
April 2008	*Corporate plan* published Statement issued on *use of amended powers* Guidance on *multi-employer withdrawals* published
May 2008	Guidance on *retirement options* published Guidance on *relations with advisers* published
June 2008	Guidance on *winding up* published
July 2008	*Governance survey* results published *Annual report and accounts 2007-2008* published *Perceptions tracker survey* results published Statement on *longevity* issued Consultation on *record-keeping*
August 2008	Consultation on *transfer values* Statement issued on GP Noble case
September 2008	Guidance on *longevity* published Guidance on *transfer values* published Guidance on *conflicts of interest* published
October 2008	*Corporate strategy 2009-2012* published Consultation on amendments to *code of practice* on *Trustee Knowledge and Understanding* Draft code of practice on *material detriment* issued Statement issued to trustees on economic conditions
December 2008	Analysis of recovery plans and clearance cases published (the *Orange Book*) and the *Purple Book* published (joint annual publication with the PPF) Consultation on *material detriment*
January 2009	Guidance on *record-keeping* published
February 2009	Statement issued to employers sponsoring DB schemes on economic conditions

Table 9

Website usage during the year	2008-2009	2007-2008
Number of users visiting the site	179,011	149,604
Number of visits they made	796,650	1,021,354
Number of pages viewed during those visits	2,839,438	2,557,888
Number of people subscribed to our 'news by email' service at end of reporting period	12,972	11,140

5 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 section 1 of the Pensions Act 2004, comprises the chair, six non-executive members, the chief executive and four executive directors. An additional executive director was appointed to a new board function during the year, to lead on the employer compliance requirements of the Pensions Act 2008. There was a change in strategic development executive director post-holder during the year. Two non-executive members left the board during the year, one in December 2008, when a member stepped down to devote more time to business activities, and one in February 2009, when a member's term of appointment came to an end. This has led to the recruitment of two new non-executive board members[4]. Board members' appointment dates, terms of office, and committee membership are detailed on page 50.

In 2008-2009 non-executive members received a non-pensionable annual allowance of £10,612. The executive board members are members of the regulator's staff and receive salaries and pensions. Further details of the remuneration of all board members are given in the Remuneration report on page 69.

4 Isabel Hudson and Bruce Rigby were appointed from 1 June 2009.

Board structure *continued...*

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[5]	Non-executive (chair)
Non-executive members			
Laurie Edmans CBE	8 February 2005	7 February 2011[6]	Audit, Non-executive, Remuneration
Alan Pickering CBE	8 February 2005	7 February 2013[7]	Audit,[8] Non-executive, Remuneration
Chris Swinson OBE[9]	8 February 2005	7 February 2013[10]	Audit (chair), Non-executive
Caroline Thomson	8 February 2005	7 February 2009	Remuneration (chair), Non-executive
Ashok Gupta	9 July 2008	8 July 2012[11]	Remuneration, Non-executive
Tony Brierley	9 July 2008	8 July 2012	Audit, Non-executive
Executive members			
Tony Hobman *Appointed as chief executive*	1 July 2004 *(designate)* 6 April 2005 *(confirmed)*	31 March 2012	
Stuart Weatherley	1 April 2007	31 March 2010	
June Mulroy	7 June 2005	31 May 2011[12]	
Graham Brammer	15 September 2008	14 September 2012	
Bill Galvin *(on loan from DWP)*	13 October 2008	12 October 2011[13]	
Charlie Massey *(on secondment from DWP)*	1 September 2005	13 April 2008	

5 Reappointed on 1 January 2008 for three years.
6 Reappointed on 8 February 2008 for three years.
7 Reappointed on 8 February 2009 for four years.
8 On Audit committee until September 2008, then Remuneration chair from February 2009.
9 Also Senior Independent Director.
10 Reappointed on 8 February 2009 for four years.
11 Stood down in December 2008.
12 Reappointed in 2008 for three years.
13 An interim (non-board member) executive director - Chris Dobson - was in post on secondment from DWP, from April to October 2008.

Attendance at meetings from 1 April 2008 to 31 March 2009

	Board	Audit committee	Remuneration committee	Non-executive committee
	Number of meetings			
David Norgrove	12	n/a	n/a	4
Laurie Edmans CBE	12	6	2	5
Alan Pickering CBE	11	3	1	5
Chris Swinson OBE	9	6	n/a	4
Caroline Thomson	5	n/a	3	4
Ashok Gupta	5	n/a	1	2
Tony Brierley	8	3	n/a	4
Tony Hobman	12	n/a	n/a	n/a
June Mulroy	12	n/a	n/a	n/a
Graham Brammer	4	n/a	n/a	n/a
Bill Galvin	5	n/a	n/a	n/a
Stuart Weatherley	10	n/a	n/a	n/a
Charlie Massey	1	n/a	n/a	n/a

Responsibilities of the board

As required by the Act, and under the framework document agreed between the Pensions 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 2008 to 31 March 2009 except for August. In addition, two 'away day' meetings were held in July and November 2008 at which the board received extended briefings on operational and environmental developments, and discussed strategic issues, as part of the process of developing and reviewing the regulator's plans. An additional meeting was held in September 2008 to discuss the regulator's outline business case for the Employer Compliance Regime.

Throughout the year, the chairs of the boards of the PPF and of the regulator have continued to attend the meetings of each other's boards regularly, as observers. The boards of the PPF and of the regulator held joint meetings in June 2008 and in March 2009 to discuss strategic issues.

Committees of the board

As required by the Act, 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. The remit and activities are summarised below.

The chair of the regulator established an appointments committee, under the provisions of the Pensions Act 2004, to nominate a chair of the Determinations panel. The committee met in December 2008, and in March 2009 the board re-appointed John Scampion CBE as chair of the panel for four years, with effect from April 2009.

Board evaluation

In 2008 the board undertook an internal review of its effectiveness, which was completed and discussed by the board in March 2009. The board is following through the recommendations arising out of the 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 page 69.

Board members

Chair

David Norgrove began his career at the Treasury, where he started as an economist. His time there included two years on secondment to the *First National Bank of Chicago*, and he was Private Secretary to Prime Minister Margaret Thatcher from 1985 to 1988. He joined *Marks & Spencer* in 1988, holding various senior positions before being appointed to the Board in 2000. Whilst at *Marks & Spencer*, he was chair of the pension fund trustees from 2000 until his retirement in 2004. In January 2005 he was appointed as the first chair of the Pensions Regulator. He was appointed chair of the *Low Pay Commission* in March 2009.

Non-executive directors

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

Alan Pickering CBE joined *Watson Wyatt* in June 1992 after twenty years with the *Electrical, Electronic, Telecommunications and Plumbing Union*. He is chairman of the *Plumbing Industry Pension Scheme* and in January 2005 became a trustee of the *Life Academy (Pre-Retirement Association)* assuming the charity's chairmanship in November 2006. He was a member of the *Occupational Pensions Board* from 1991 to 1997, its deputy chairman in 1993, and chairman of the *National Association of Pensions Funds* between May 1999 and May 2001. His report *A simpler way to better pensions* was published in 2002.

Chris Swinson OBE was formerly senior partner of *BDO Stoy Hayward*. He served as a council member of the *Institute of Chartered Accountants in England and Wales* and was president from 1998 to 1999. As chairman of the regulation review of the accountancy profession between 1995 and 2000 he managed the development of proposals for regulating the profession, which were then implemented. He currently works as the *Comptroller and Auditor General of Jersey*.

Caroline Thomson has worked in broadcasting for 30 years. She was formerly deputy director of the *BBC World Service* and since 2000 was director of policy and legal functions, and then strategy, and as such she led the BBC's bid for a successful review of its charter. She is now chief operating officer for the BBC. She has responsibility for the BBC's policy, legal, strategy, distribution and property functions and all the BBC's major infrastructure projects including digital switchover. Reporting to the director general, she is a member of the BBC's executive board. Her appointment ended in February 2009.

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Board members *continued...*

Ashok Gupta is an executive director of the *Pearl Group*, the leading consolidator of closed UK life funds. *Pearl Group* was created by *Sun Capital Partners* in 2005, which he joined in early 2004 to help establish its presence in the life insurance sector. He was also a director of the trustee company of the *Pearl Group Pension Scheme*. He has over 25 years' experience in the life insurance industry, including positions as director of group strategy at *CGU* (now *Aviva*), finance director and actuary of *Scottish Amicable* and principal of *Tillinghast Towers Perrin*. He has also built two successful technology-based businesses, one sponsored by *Lloyd's of London*. He has been a council member of the *Faculty of Actuaries*, and is currently also a non-executive director of *Skandia UK*. He stood down from the board in December 2008.

Tony Brierley is a solicitor and has spent over twenty 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, and company secretarial and internal audit functions worldwide. He now has a portfolio of commercial and public sector non-executive positions.

Chief executive

Tony Hobman has held a number of senior appointments within the financial services arena. He spent twenty years with *Barclays Bank*, holding a number of key roles in marketing, project and change management, and customer service. In 1996 he joined *ProShare* as head of investor services and was promoted to chief executive in 1999. From 2000 to 2001 he was chief executive of *Money Channel plc*. In 2002 he was appointed as chief executive of the *Occupational Pensions Regulatory Authority* (Opra) and in July 2004 chief executive designate of the Pensions Regulator. In April 2005 he began work as the first chief executive of the Pensions Regulator.

Executive directors

June Mulroy is the executive director of business delivery. This is the core operational function of the organisation, with responsibility for capturing scheme information, mitigating risks to scheme members' benefits and promoting better administration of pension schemes. An ex-psychologist and chartered accountant, June worked in large corporations and in banking for over 17 years as a dealer/risk analysis specialist and consultant. Recognising the strong element of change management in all her previous roles, she moved into the *NHS* including working at the *Chelsea and Westminster Hospital*. Since then she has worked in Switzerland and Paris, the latter being for the *United Nations* in *UNESCO*.

Stuart Weatherley is the executive director of business support, covering finance, human resources, information technology, 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 executive director of the Employer Compliance Regime (ECR). He has worked in a number of senior positions within the *Barclays Group* over a number of years. He was appointed as board director of UK retail banking in 2006. He has previously served as a non-executive director of the *Estates Board* of *HM Revenue & Customs* and is an associate of the *Chartered Institute of Bankers*.

Bill Galvin is executive director for strategic development. 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*. In DWP, Bill was responsible for (among other things) the policy framework governing the pensions protection regime. In *IBM*, Bill held several roles in strategy and marketing in the services business, leading many initiatives in *IBM*'s transformation to a services-led company. As a strategy consultant, Bill helped some of the largest international companies create and deliver value from mergers and acquisitions. Prior to joining *IBM*, Bill completed an MBA at *Manchester Business School*, and has work and consulting experience in pharmaceuticals, banking and publishing.

Charlie Massey was executive director of strategic development until 13 April 2008 when he returned to DWP. Previously, he was a senior civil servant in the DWP, prior to working in the Prime Minister's Strategy unit, *HM Treasury* and the *Department of Social Security*.

Report of the activities of the committee of non-executive members of the Pensions Regulator in 2008-2009

Functions of the committee of non-executive members

Under section 8 of the Pensions Act 2004 ('the Act'), the Pensions 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 2008-2009

The committee, as permitted by section 8 sub-paragraphs (7) and (8), continued to have two 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 five times during the period of this report, to receive reports from its sub-committees and from the chief executive; to confirm membership of these committees; to agree the required skill sets and recruitment process for new non-executives; and to agree the process for appraisal for non-executives and for board effectiveness.

Details of membership of the committee and its sub-committees, and attendance records, are on pages 50 to 51.

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

Report of the activities of the Audit committee in 2008-2009

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 six occasions in 2008-2009:

* to review its terms of reference, and to evaluate its own performance;
* to review the annual accounts for the regulator for the period 2007-2008 and recommend their approval to the board;
* to approve an internal audit strategy for the year;
* to advise the executive management team on the approach to management of strategic risk and to keep the risk schedule under review;
* to review the external audit management report for 2007-2008;
* to approve the external audit strategy for 2008-2009; and
* to receive reports from the internal auditors reviewing areas of the business as agreed under the internal audit strategy, and to monitor the implementation of recommendations made in those reports.

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

Chris Swinson OBE (chair) – April 2008 to March 2009
Laurie Edmans CBE – April 2008 to March 2009
Alan Pickering CBE – April 2008 to September 2008
Tony Brierley – October 2008 to March 2009

For the year 2008-2009, the committee met in June 2009, 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.

Strategic risk management

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

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

Internal audit strategy for 2008-2009

The committee agreed a programme of audits for the year covering the 12 areas of the business assessed as providing priority topics for internal audit during this year. Progress was kept under review during the year.

The committee was able to review, prior to its approval of the Annual report and accounts and the Statement on internal control, all of the 12 audit reports. It was noted that three gave a full assurance and eight gave a substantial level of assurance, while one was a follow-up audit.

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

Report of the activities of the Remuneration committee in 2008-2009

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.

The Remuneration committee met on three occasions in 2008-2009.

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

Caroline Thomson – chair, April 2008 to February 2009
Laurie Edmans CBE – April 2008 to September 2008, and February to March 2009
Alan Pickering CBE – October 2008 to March 2009; chair from February 2009
Ashok Gupta – July 2008 to December 2008

The Remuneration report is on page 69.

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

Report of the activities of the Determinations panel in 2008-2009

Section 9 of the Pensions Act 2004 requires the Pensions Regulator to establish and maintain a committee called the Determinations 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 six other members who must then be appointed by the regulator. Seven members have been so appointed. The panel conducts its meetings, and makes its decisions, following procedures decided upon by the panel in consultation with the regulator, and published in 2006 and subsequently reviewed in June 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 they are being asked to make. If the panel are not so satisfied in accordance with the standard of proof applying to their determinations (normally on the balance of probabilities) then it is their responsibility to refuse to make the decision asked for.

The cases coming before the panel are prepared by the regulatory teams and incorporated into a warning notice 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, normally a sub-committee of three members sitting with an independent barrister clerk, together with their administrative support staff. The panel then make their decision in a wholly impartial 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, and 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 twelve cases at separate hearings. The schemes concerned in these cases were DB, DC and hybrid (containing an element of both DB and DC). In all except one case the determinations were made on consideration of the papers. In relation to the other case the determination was made following an oral hearing. In one case the application to appoint an independent trustee was refused.

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Determinations panel – report of activity during the year *continued...*

In one hearing, dealt with by way of special procedure, two individual trustees and three firms of trustees were suspended and an independent trustee was appointed to the 28 schemes administered by them. Later an independent trustee was appointed to a further 52 DC schemes, making a total of 80 schemes.

There were four 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 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.

Determination requested	Number of cases	Outcome
Appointment of independent trustee	6	Appointments made in five cases - three made by way of special procedure. One hearing involved two schemes and independent trustees were appointed to both schemes. One application refused.
Bulk appointments of independent trustees	2	Eighty appointments made in total at two hearings, 28 by special procedure.
Suspension of trustees	(1) *	Five suspension orders made re two individual trustees and three firms of trustees by way of special procedure. At same time bulk appointments were made to 28 schemes as noted above.
Winding up a scheme	3	All granted.
Vest in, assign and transfer of property	(1) *	Order granted – heard in conjunction with application to appoint an IT by special procedure.
Removal from the regulator's Trustee register	1	Granted.

** Figures in brackets are matters that were heard at the same time as others referred to in the Outcome column.*

During the year the panel has continued their development and training programme in four sessions. They have had further training in relation to the Financial Support Direction and Contribution Notice regulations and the *Trustee toolkit*. They also had a presentation on post-appointment regulation of independent trustees.

John Scampion
chair, Determinations panel
April 2009

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 three-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.

The Pensions Regulator also comes within the jurisdiction of the Parliamentary and Health Service Ombudsman. One additional case was referred to the Ombudsman during the year. Action on this case remains outstanding.

In 2008-2009 we received 20 formal complaints (22 in 2006-2007 and 12 in 2007-2008). Of these, one stage 1 complaint and one stage 3 complaint were still under investigation as at 31 March 2009.

Of the remaining 18 complaints completed as at 31 March 2009, 15 had been closed at stage 1. One complaint was referred by the complainant to our chair (stage 2) and two were referred, under stage 3, to our independent complaints adjudicator (ICA). Of these two complaints referred to the ICA, one case was upheld.

These complaints covered a number of issues, such as concerns about trustees, 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, where there were delays in correspondence due to new systems and processes, we have carried out reviews and improved those processes and systems.

Since the creation of the Pensions Regulator in 2005, Elizabeth Hodder has acted as its independent complaints adjudicator. Mrs Hodder also held the same role within Opra. In 2008, when the contract was coming to an end, it was agreed that this position should be reviewed and a new adjudicator appointed, in view of the length of the earlier contracts. A tendering process was undertaken and as a result Ros Gardner was appointed as the new ICA from 1 October 2008, for a period of four years.

Mrs Gardner brings with her a wealth of experience from the corporate, voluntary and public sectors, and has spent the past eight years working with various government departments and public bodies. In particular she is an independent reviewer of *IDRS* (Independent Dispute Resolution Services) and the Independent Complaints Mediator for the Criminal Records Bureau.

Reports of the independent complaints adjudicators for the Pensions Regulator 2008-2009

I was asked to conduct an independent investigation into one complaint in the last financial year. This is summarised as follows:

This complaint concerned a breach by a trustee who had allegedly not reinvested sums on behalf of the complainant in an insolvent situation. The complainant had sought to pursue the trustee through all possible means but, having failed, felt that the regulator could exercise an overarching influence in finding the trustee and returning the complainant's lost funds.

The substance of the complaint was not a role for the regulator, whose principal function is to concentrate on resources or schemes with the greatest risk to the security of members' benefits. In spite of this, the regulator had done all it could to pursue matters on behalf of the complainant but decided that no further action was justified. The complainant believed that the regulator's unwillingness to take further action reflected a lack of concern for the plight of the individual. But, as I explained to the complainant, individual complaints against individual trustees are outside the remit of the regulator and in explaining this to the complainant the regulator had sought to offer an apology for the interpretation that the complainant would place on their inability to provide any more assistance.

I did not uphold the complaint.

Elizabeth Hodder
independent complaints adjudicator
April 2009

I was asked to conduct an independent investigation into one complaint since my appointment. This is summarised as follows:

The complainant, a scheme member, had requested information about an investigation by the Pensions Regulator. The complainant also complained that there was significant delay in the reply to his request for this information. He involved his MP in this complaint; replies to the MP's queries were also delayed. The complainant's MP had also involved the *Parliamentary and Health Service Ombudsman* (PHSO). The complainant was informed that the information he requested was restricted and would not be available to him. The initial response to the request was correct in that the information the complainant requested was restricted under the Pensions Act 2004, and the Pensions Regulator was unable to provide this information to the complainant.

However, I did find that there were delays in responding to the complainant and his MP. No reasons for these delays were given and, initially, no apology. In one response from the Pensions Regulator, the complainant was informed that the reason for the delay was to make as much information available as possible. This was inaccurate and misleading. It encouraged the complainant to believe that specific information would be made available to him when, in fact, the information remained restricted.

Once the complaint had been escalated, it progressed according to the Pensions Regulator's service standards. The complainant received replies from the corporate secretary and the chair of the Pensions Regulator, both of whom apologised for the delay in processing the request for information. Neither dealt with the concerns regarding the misleading comments on the availability of information. This was at the core of the complaint and had not been fully recognised by the regulator.

I recommended that these aspects of the complaint be upheld and also made further operational recommendations regarding complaint handling.

Ros Gardner
independent complaints adjudicator
April 2009

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 2008 to 31 March 2009 the regulator received 27 requests for information under the FoIA 2000 and one subject access request under the Data Protection Act 1998. This compares with 28 Freedom of Information Act requests and two subject access requests received in the previous year.

In 15 cases we disclosed some or all of the information requested. In 12 cases we were not able to disclose the information requested.

We received one request 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.

Just under a quarter of the requests received in this period focused on regulatory cases. We also received requests regarding regulatory issues and trustees. There were a number of general requests relating to our procurement and HR procedures.

Along with the duty to provide information, the FoIA 2000 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 Pensions Act makes it a criminal offence for restricted information to be released. Information that comes within this definition is exempted from disclosure under FoIA 2000 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 Information Commissioner’s Office introduced a model publication scheme that all public sector organisations had to adopt from 1 January 2009. We have complied with this, and our new model publication scheme is available on our website at:
www.thepensionsregulator.gov.uk/freedomOfInformation/PublicationScheme.aspx

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

6 Financial review

Form of accounts

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

Results for the period

The financial statements are set out in pages 85 to 87.

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 a GIA which is funded by the department. 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 2 to the accounts.

In the period ended 31 March 2009, the regulator had net expenditure of £34.5m. This includes £8.4m 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 £26m for the regulator's business as usual activities and £7.9m from the DWP for ECR activities.

Staff costs in the period ended 31 March 2009 were £3.7m higher than 2007-2008. This is due to increased staff numbers relating to ECR, plus costs related to restructuring. Temporary staff costs are higher due to the ECR programme, and also the use of interim staff during restructuring which has been partially offset by a reduction in permanent staff.

Other operating charges have increased by £2.5m, in part due to the full year impact of ECR and the extra costs associated with increased staff numbers. General office costs have risen due to higher utility bills and as the result of a rent review.

During the year, the regulator reached a settlement of £1.3m from our legal advisers in relation to the break clause of a lease at Invicta House. This is shown as sundry income within the accounts.

There have been no significant events occurring since period end.

Tangible and intangible fixed assets

The regulator occupies only short leasehold property and does not have any finance leases. Rent payable for accommodation has been charged to operating charges (note 11 to the accounts).

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

Payments to suppliers

The regulator is committed to the prompt payment of bills for goods and services received. Payments are normally made as specified in contracts. If there is no contractual provision or understanding, invoices are deemed to be due to be paid within 30 days of the receipt of the goods or services, or presentation of a valid invoice or similar demand, whichever was later. During the period ended 31 March 2009, by volume, the regulator paid 78% of invoices in line with this policy.

Going concern

The balance sheet at 31 March 2009 shows net liabilities of £2.1m. This reflects the inclusion of liabilities falling due in future years which, to the extent that they are not to be met from the regulator's other sources of income, may only be met by future grants or grants-in-aid from the DWP, as the regulator's sponsoring department. This is because, under the normal conventions applying to Parliamentary control over income and expenditure, such contributions may not be issued in advance of need.

Levies account

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

During the year ended 31 March 2009, the regulator invoiced and collected levies on behalf of the DWP (the regulator's general levy and Pension Protection Fund administration levy) which will be reported in the audited financial statements of that organisation. The following unaudited results summarise key facts and figures in respect of levy activity undertaken during the period. These figures do not feature in the audited accounts of the regulator.

During the year, the regulator invoiced £63.2m net of which £20.9m relates to the PPF administration levy, and £42.7m relates to the regulator's general levy. There were also credit notes and waivers of £(0.3)m net relating to the PPF initial levy, and £(0.1)m relating to Opra levies.

The opening debt position as at 1 April 2008 was £14m of which £6m was under 30 days. Closing debt as at 31 March 2009 was £4.2m of which £1.4m relates to PPF administration levy, and £3.1m to the regulator's general levy. There are also outstanding credit notes and waivers of £(0.2)m relating to PPF initial levy and £(0.1)m relating to Opra levies. Schemes are currently being contacted for repayment.

The regulator collected £69.9m during the year. £69.7m of cleared funds have been transferred to the DWP during the financial year, and £0.2m relates to cash received but not transferred at year end.

Levies account *continued...*

As an organisation the regulator has been proactively seeking payment of any outstanding levy payments with an internal credit control team. We have also contracted with a legal services provider to assist with this. This work will continue with a view to seeking prompt payment of levies. Our current debtor days are 43 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 2008-2009 was £75k, all of which had been paid over at 31 March 2009.

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 2008-2009 was £33,500, plus an additional £7k relating to the audit for the restatement of the 31 March 2008 balance sheet 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; and
* he has taken all steps he ought to establish that the Pensions Regulator's auditors are aware of the information.

David Norgrove

David Norgrove
chair, the Pensions Regulator
17 June 2009

Tony Hobman
chief executive, the Pensions Regulator
17 June 2009

The Pensions Regulator Remuneration report

The Remuneration committee

Details of the activities of the remuneration committee during the period ended 31 March 2009 are set out on page 58. Details of the composition of the board of the regulator are given in *Board structure* on page 49.

The remuneration committee currently consists of two non-executive board members: Alan Pickering CBE (chair) and Laurie Edmans CBE. Membership has changed during the year: Caroline Thomson was chair until February 2009 and Ashok Gupta was also a member for part of the year.

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 current (initial) remuneration of the 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. Subsequent remuneration is 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.

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

The 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.

Service contracts

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

Details of service contracts are given on page 50.

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	3 months from employee, 6 months from employer
Non-executive members		
Laurie Edmans CBE	1 month	1 month
Alan Pickering CBE	1 month	1 month
Chris Swinson OBE	1 month	1 month
Caroline Thomson	1 month	1 month
Ashok Gupta	1 month	1 month
Tony Brierley	1 month	1 month
Executive members		
Tony Hobman *(chief executive)*	3 months from employee, 6 months from employer	3 months from employee, 6 months from employer
June Mulroy	3 months	3 months
Graham Brammer	3 months	3 months
Stuart Weatherley	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.

Charlie Massey returned to the DWP on 13 April 2008. Graham Brammer started on 15 September 2008 and Bill Galvin on 13 October 2008.

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 £10,612 per annum. During the year, Chris Swinson undertook 10 days of additional work at the request of the regulator and was paid £5,304 for this work.

Salary *(in bands of £5,000)*	**Total Benefits in Kind** *(to the nearest £100)*	**Board members**
£10-15k (All part-time members of the board)	£100 A Pickering CBE £100 A Brierley	LM Edmans CBE A Pickering CBE, A Brierley C Thomson (left Feb 2009) A Gupta (left Dec 2008)
£15-20k	£1,200 C Swinson OBE	C Swinson OBE (includes 10 days additional work)
£110-115k		D Norgrove *(chair)*

The total amount paid to non-executive directors (including the chair) during the period was £213,000. The monetary value of benefits in kind covers any benefits provided by the employer and treated by the Inland Revenue as a taxable emolument. The benefits shown above represent the payment of expenses for travelling to board meetings. The chair's remuneration is pensionable and details of the chair's pension benefits are set out below.

Chair's pension benefits					
	Accrued pension at age 60 as at 31/3/09 and related lump sum (£'000)	Real increase in pension and related lump sum at age 60 (£'000)	CETV at 31/3/08 (£'000)	CETV at 31/3/09 (£'000)	Real increase in CETV (£'000)
D R Norgrove *(chair)*	35-40 plus lump sum of 0	0-2.5 plus lump sum of 0	694	725	16

The pension entitlement shown above is based on the Inland Revenue earnings cap of £117,600. The CETV includes prior civil service pensions.

Executive members

Salary 2008-2009	Performance related 2008-2009	Salary 2007-2008	
£210-215k	Up to 20%	£185-190k	A H Hobman *(chief executive)*
£145-150k	Up to 20%	£135-140k	J Mulroy *(business delivery executive)*
£125-130k	Up to 20%	£120-125k	S Weatherley *(business support executive)*
£65-70k[14]	Up to 20%	n/a	Bill Galvin *(strategic development executive). On loan from the DWP.*
£75-80k[15]	Up to 20%	n/a	Graham Brammer *(ECR executive)*
£0-5k[16]	Up to 0%	£120-125k	C Massey *(strategic development executive). Seconded from the DWP, left the regulator 13 April 2008.*
£55-60k[17]	Up to 0%	n/a	C Dobson *(strategic development executive). Seconded from the DWP 6 April to 10 October 2008.*

The 2008-2009 salaries figures include accrued performance-related bonuses for all executive directors. C Massey and C Dobson were paid directly by the DWP and their costs were re-invoiced to the regulator.

14 Figure quoted is for the period 13 October 2008 to 31 March 2009. The full year equivalent is £140-145K.
15 Figure quoted is for the period 15 October 2008 to 31 March 2009. The full year equivalent is £165-170k.
16 Figure quoted is for the period 1 April 2008 to 13 April 2008. The full year equivalent is £115-120k.
17 Figure quoted is for the period 6 April 2008 to 10 October 2008. The full year equivalent is £115-120k.

Executive members' pension benefits

Executive members	Accrued pension at age 60 as at 31/3/09 and related lump sum (£'000)	Real increase in pension and related lump sum at age 60 (£'000)	CETV at 31/3/08* (£'000)	CETV** at 31/3/09 (£'000) or date of departure	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 2.5-5	161	199	25
J Mulroy *(business delivery executive)*	20-25 plus lump sum of 0	0-2.5 plus lump sum of 0	328	399	31
S Weatherley *(business support executive)*	0-5 plus lump sum of 0	0-2.5 plus lump sum of 0	29	66	32
B Galvin *(strategic development executive)*	0-5 plus lump sum of 0	0-2.5 plus lump sum of 0	40	52	11
G Brammer *(ECR executive)*	0-5 plus lump sum of 0	0-2.5 plus lump sum of 0	0	16	14
C Massey *(strategic development executive)*	15-20 plus lump sum of 55-60	0 plus lump sum of 0	234	234	0
C Dobson *(strategic development executive, 6 April to* 10 October 2008)	5-10 plus lump sum of 20-25	0-2.5 plus lump sum of 0-2.5	71	80	3

** The figure may be different from the closing figure in last year's accounts. This is due to the CETV factors being updated to comply with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008.*

*** The CETV includes prior civil service pensions.*

Executive members' pension benefits *continued...*

The pension entitlement of the chief executive is based on the HM Revenue & Customs earnings cap of £117,600.

Pension benefits are provided through the Civil Service pension arrangements. From 1 October 2002, civil servants may be in one of three statutory-based 'final salary' defined benefit schemes (*Classic, Classic Plus* and *Premium*). The schemes are unfunded, with the cost of benefits met by monies voted by Parliament each year. Pensions payable under *Classic, Premium*, and *Classic Plus* are increased annually in line with changes in the *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*, and 3.5% for *Premium, Classic Plus* and *Nuvos*. Benefits in *Classic* accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For *Premium*, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike *Classic*, there is no automatic lump sum, but members may give up (commute) some of their pension to provide a lump sum. *Classic Plus* is essentially a variation of *Premium*, but with benefits in respect of service before 1 October 2002 calculated broadly in the same way as in *Classic*. *Nuvos* is a career average pension scheme. Benefits are accrued at the rate of 2.3% of pensionable earnings for each year of service. There is no automatic lump sum, but members may give up (commute) some of their pension to provide a lump sum.

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

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

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures, and from 2003-2004 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements and for which the CS Vote has received a transfer payment commensurate with the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Real increase in CETV

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

Determinations panel

Members of the Determinations panel receive a daily allowance in respect of the time devoted by each of them to the work of the panel. The rate for the chair is £689 per diem and for the other members is £530 per diem.

Salary (2008-2009)	Members
£5-10k	G Fitchew, S McCarthy, M Maunsell, D Hayter, O Dickson, D Campbell, D Taylor
£15-20k	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 two months' notice and the chair is required to give the regulator three months' notice. Any compensation payment would be made in line with contractual obligations with reference to these notice periods.

David Norgrove
chair, the Pensions Regulator
17 June 2009

Tony Hobman
chief executive, the Pensions Regulator
17 June 2009

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

In preparing the accounts, the regulator was required to:

* observe the accounts direction issued by the Secretary of State, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
* make 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 the Treasury and published in *Managing Public Money*.

David Norgrove
chair, the Pensions Regulator
17 June 2009

Tony Hobman
chief executive, the Pensions Regulator
17 June 2009

Statement on internal control

Scope of responsibility

Having set out general positions to trustees and employers facing depleted asset values and increased pension scheme deficits in the current economic climate, we have aimed to ensure that our own operational processes are designed and equipped to reflect prevailing economic conditions.

This year our *Corporate plan* set out our sustained commitment to value for money as we deliver year-on-year reductions in cost while improving service delivery. These efficiency savings will be recycled into an increased annual budget for 2009-2010, which we will use to equip our operational processes to reflect the prevailing conditions.

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 the Treasury and published in *Managing Public Money*.

The regulator is accountable to the DWP, within a framework set out in a *Management Statement and Financial Memorandum* 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. In addition, the chair of the regulator, David Norgrove, and myself have also met with the Secretary of State and with the Minister for Pensions Reform.

The Management Statement and Financial Memorandum was reviewed in 2008, and principally clarifies the requirements for reporting progress against our business plan.

The purpose of the statement of internal control

The system of internal control in the regulator is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. As a risk-based regulator, we recognise the need to learn continually from our casework and from our contacts with the regulated community and to refine our processes and controls accordingly. Following concerns over the actions of a small number of trustees on our independent trustee register, we have revised our approach to the regulation and monitoring of risks and standards in this area. We have also enhanced our front line contact centre capability to identify and respond to risk, particularly those associated with the downturn, and have ensured a closer alignment of our case management processes across the core regulatory practices. 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 agreed by the board, developed through close integration with the business planning cycle, subject to monthly management reporting and quarterly review by the board, and with financial controls and a clear system of delegation overseen by the executive director for business support.
* Regular reporting to the board of developments across the business, and consultation with board members on key policy issues, including two 'away days' per annum to ensure the board has sufficient time for strategic review and planning.
* Detailed business process rules, a consistent standard of documentation, and clear lines of accountability and escalation in respect of 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.
* A programme of internal audits and a system for progressing implementation of audit recommendations and reporting progress to the audit committee.

The system of internal control has been in place in the regulator for the period ended 31 March 2009 and up to the date of approval of the Annual report and accounts, and accords with Treasury practice.

Statement on internal control *continued...*

Capacity to handle risk

The regulator has taken a positive approach to risk management, and has adopted a risk management approach which it felt was entirely appropriate to its role and remit. The regulator's executive management team devote considerable attention to the identification and assessment of strategic and operational risks, in consultation with the audit committee and internal auditors. A risk adviser assists in keeping the strategic risk schedule under review in consultation with directors and heads of business units, as set out in the following section.

The risk and control framework

Risk management

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

The risk schedule was reviewed and revised during the year.

As at 31 March 2009 there were nine strategic risks identified in the risk schedule. The director who was the owner of each strategic risk was responsible for:

* identifying or proposing actions to mitigate the risk;
* making recommendations as to the impact of mitigating actions on the inherent risks;
* reviewing the risks open each quarter; and
* signing off any closed risks each quarter.

Some of the risks are fairly generic to any organisation like the regulator, such as those relating to business continuity, staffing or project management. Others were specific to our core business or to changing circumstances. At team level, managers are encouraged to build risk mitigation actions into their work plans.

In addition to regular review of the risk schedule throughout the year, the executive management team and the audit committee reviewed the risk management approach and its relevance and appropriateness, and agreed amendments to the risk framework.

A risk management internal audit took place during January and February 2009 and received a full level of assurance.

One matter was reported to the Information Commissioner's Office (ICO). The ICO were content with the steps we had taken to resolve it.

Data 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, including a security policy (compliant with ISO27001:2005) that applies to all staff. Other arrangements include secure encryption and confidential storage of data, and the prevention of any unauthorised use of removable media such as unencrypted USB memory sticks and CDs. All laptop hard drives are encrypted to FIPS140.2 standard and there is a fixed asset register to track the location of items of IT equipment. The regulator has in place encryption standards, and has a standard data wiping process and secure destruction for all obsolete hard drives and retired computer equipment. The regulator also operates a clear desk policy, and has on-site shredders and confidential disposal arrangements in place.

As a result of the increasing complexities arising out of security issues and in order to ensure effective information management and that the regulator meets its legislative requirements, a Senior Information Risk Officer (the executive director for business support) was appointed, and an *Information Management Forum* was created, to establish a cohesive approach to information management in the Pensions Regulator. Terms of reference for the *Information Management Forum* were agreed by the executive management team and reports are provided to the board.

The *Information Management Forum* has, in line with Cabinet Office guidance, provided Information management training to all staff and officers of the organisation, ensuring awareness of new data access, control and transmission policies. A breach policy and log has also been introduced to record any breaches by the regulator of the Data Protection Act 1998.

Statement on internal control *continued...*

Review of effectiveness

As accounting officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review was informed by the work of the internal auditors, by other board members and senior staff within the regulator who had responsibility for the development and maintenance of the internal control framework, and by comments made by the external auditors in their management letter and other reports. I was advised on the implications of the result of my review of the effectiveness of the system of internal control by the board and the audit committee, and plan to address any reported weaknesses and to ensure continuous improvement of the system 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 substantial, or in the case of our financial controls, our strategic risk management processes and our governance processes, full assurance.

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

Tony Hobman
chief executive, the Pensions Regulator
17 June 2009

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

I certify that I have audited the financial statements of the Pensions Regulator for the year ended 31 March 2009 under Schedule 1 of the Pensions Act 2004. These comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement and Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Board, Chief Executive and auditor

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

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Pensions Act 2004 and the Secretary of State for Work and Pensions' directions made thereunder. I report to you whether, in my opinion, the information, which comprises the Chair's foreword, Chief Executive's report, The pensions environment and the regulated community, Management commentary, Accountability and governance, and Financial review included in the Annual Report is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

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

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

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Chair's foreword, Chief Executive's report, The pensions environment and the regulated community, Management commentary, Accountability and governance, and Financial review. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

continued over...

The certificate and report of the Comptroller and Auditor General to the Houses of Parliament *continued...*

Basis of audit opinions

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

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

Opinions

In my opinion:

* the financial statements give a true and fair view, in accordance with the Pensions Act 2004 and directions made thereunder by the Secretary of State for Work and Pensions, of the state of the Pensions Regulator's affairs as at 31 March 2009 and of its net expenditure, recognised gains and losses and cash flows for the year then ended;
* the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Pensions Act 2004 and the Secretary of State for Work and Pensions' directions made thereunder; and
* information, which comprises the Chair's foreword, Chief Executive's report, The pensions environment and the regulated community, Management commentary, Accountability and governance, and Financial review, included within the Annual Report, is consistent with the financial statements.

Opinion on Regularity

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

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General
National Audit Office, 151 Buckingham Palace Road, Victoria, London SWIW 9SS
24 June 2009

Financial statements

Income and Expenditure Account for the year ended 31 March 2009

	Note	Year ended 31 March 2009 £'000	Year ended 31 March 2008 £'000
Income			
Other income	3	**1,277**	–
		1,277	–
Expenditure			
Staff costs	5	**23,068**	19,351
Other operating charges	6	**12,777**	10,219
		35,845	29,570
Net expenditure on ordinary activities		**(34,568)**	(29,570)
Interest receivable		**131**	177
Net expenditure for year before notional interest on capital employed		**(34,437)**	(29,393)
Notional interest receivable on capital employed	2(b)	**64**	67
Net expenditure for year before tax		**(34,373)**	(29,326)
Tax on interest receivable	7	**(26)**	(35)
Net expenditure on ordinary activities after taxation	13	**(34,399)**	(29,361)
Reversal of notional cost of capital		**(64)**	(67)
Net expenditure for the financial year		**(34,463)**	(29,428)

All activities were continuing throughout the year.

Statement of total recognised gains and losses for the year ended 31 March 2009

	Note	Year ended 31 March 2009 £'000	Year ended 31 March 2008 £'000
Net expenditure for the financial year		**(34,463)**	(29,428)
Unrealised gains on revaluation of fixed assets	13	**36**	54
Total recognised gains/(losses) relating to the year		**(34,427)**	(29,374)

The accounting policies and notes on pages 87 to 101 form part of these accounts.

Balance sheet as at 31 March 2009

	Note	At 31 March 2009 £'000	At 31 March 2008 £'000
Fixed assets	8		
Tangible assets	2(d)	**1,531**	1,624
Intangible assets	2(e)	**33**	504
		1,564	2,128
Current assets			
Debtors	9	**723**	590
Cash at bank and in hand	18(c)	**679**	818
		1,402	1,408
Creditors			
Amounts falling due within one year	10	**(3,615)**	(4,216)
Net current liabilities		**(2,213)**	(2,808)
Total assets less current liabilities		**(649)**	(680)
Creditors			
Amounts falling due after more than one year	10	**(191)**	(250)
Provisions for liabilities and charges	12	**(1,257)**	(639)
Total net liabilities		**(2,097)**	(1,569)
Financed by			
General Reserve	13	**(2,097)**	(1,569)
		(2,097)	(1,569)

Authorised for issue by the Pensions Regulator at a meeting on 10 June 2009.

David Norgrove
chair, the Pensions Regulator
17 June 2009

Tony Hobman
chief executive, the Pensions Regulator
17 June 2009

Cash Flow Statement for the year ended 31 March 2009

	Note	**Year ended 31 March 2009 £'000**	Year ended 31 March 2008 £'000
Net cash outflow from operating activities	18(a)	**(33,433)**	(28,739)
Interest received		**131**	177
Tax paid		**(35)**	(35)
Capital expenditure	8	**(701)**	(933)
Financing	18(b)	**33,899**	30,043
Increase/(Decrease) in cash	18(c)	**(139)**	513

The accounting policies and notes on pages 87 to 101 form part of these accounts.

Notes to the Accounts

1 Basis of Preparation

1.1 Basis of accounting

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

2 Accounting policies

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) Notional costs

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

c) Other income and expenditure

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

d) Tangible fixed assets

Fixed assets are valued at current replacement cost which is calculated by applying appropriate Office for National Statistics indices to the historical cost of each asset. Any surplus on revaluation of fixed assets is credited to the General Reserve. Any permanent diminution in the value of a fixed asset on revaluation is charged to the income and expenditure account when it occurs. The regulator is required to remit the proceeds of disposal of fixed assets to the Secretary of State. The costs of major software development and enhancement including related consultancy costs are capitalised as tangible fixed assets, although ongoing software maintenance costs are written off in the period in which they are incurred.

e) Intangible fixed assets

The costs of purchasing major software licences are capitalised as intangible fixed assets.

f) Depreciation

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

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

Leasehold improvements	– the shorter of 10 years or the remainder of the lease term
Furniture and office equipment	– 5 years
Information technology costs (IT costs)	
– information technology equipment	– 3 years
– major software licences	– 3 years
– software development and enhancement	– 3 years

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

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

g) Operating leases

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

h) Pension arrangements

The majority of past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) which is a defined benefit scheme and is unfunded and non-contributory, except in respect of dependants' benefits. The regulator recognises the expected cost of providing pensions on a systematic and rational basis over the period during which it benefits from employees' service by payment to the PCSPS of amounts calculated on an accruing basis. Liability for the payment of future benefits is a charge on the PCSPS. As described more fully in Note 5, certain employees can opt for a stakeholder pension.

i) Early retirement costs

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

j) Provision for liabilities

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

3 Other income

	Year ended 31 March 2009 £'000	Year ended 31 March 2008 £'000
Settlement re: Invicta House	**1,277**	–
	1,277	–

A claim was made in an earlier period against our legal advisers for failing to implement the break clause on three of the floors at Invicta House. The claim was settled during the financial year 2008-2009.

4 Board members

The chairman and other members of the board of the regulator are appointed under the Pensions Act 2004 by the Secretary of State for Work and Pensions. The chairman was reappointed on a part time basis from 1 January 2008 for a period of three years. His salary is set by the Secretary of State in line with senior civil servants, and he is a member of the Principal Civil Service Pension Scheme.

Other part time (non-executive) board members are also appointed for periods of between one and four years. The part time board members were entitled to receive a monthly non-pensionable fee of £884 in 2008-2009 (2007-2008: £867) and out of pocket expenses.

Details of the remuneration and pension benefits of the chairman and all other members of the board are given in the Remuneration report on pages 69 to 75. The total costs for the chairman and part time board members are as follows and these costs are included within other operating charges (Note 6):

	Year ended 31 March 2009 £'000	Year ended 31 March 2008 £'000
Salary/fees	**180**	156
Social security costs	**16**	16
Other pension costs (chairman only)	**17**	17
	213	189

5 Staff costs including pensions

	ECR Year ended 31 March 2009 £'000	TPR Year ended 31 March 2009 £'000	Total TPR Year ended 31 March 2009 £'000	Year ended 31 March 2008 £'000
Employees				
Salaries and wages	**1,354**	**10,518**	**11,872**	10,547
Social security costs	**86**	**951**	**1,037**	909
Other pension costs	**114**	**2,078**	**2,192**	2,052
	1,554	**13,547**	**15,101**	13,508
Temporary staff*	**3,185**	**3,705**	**6,890**	5,638
Redundancy and early retirement costs	**–**	**1,077**	**1,077**	205
	3,185	**4,782**	**7,967**	5,843
	4,739	**18,329**	**23,068**	19,351

*In addition £396k of costs have been capitalised for 2008-2009 (£502k 2007-2008). They have been included in additions to IT hardware and software in Note 8.

The average number of staff employed, including temporary staff

	No.	**No.**	**No.**	**No.**
Employees	**12**	**255**	**267**	265
Temporary staff	**21**	**45**	**66**	63
Total	**33**	**300**	**333**	328

The year ended 31 March 2008 included £0.2m of staff costs to commence the development of the Employer Compliance Regime (ECR).

Details of the remuneration and pension benefits of the board of the regulator are given in the Remuneration report on pages 69 to 75. 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 Pensions 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.civilservice-pensions.gov.uk**).

5 Staff costs including pensions *continued...*

For 2008-2009 employer's contributions of £2,168k were payable to the PCSPS (2007-2008: £2,056k) at one of four rates in the range 17.1% to 25.5% of pensionable pay, based on salary bands. The scheme's actuary reviews employer contributions every four years following a full scheme valuation. The contribution rates reflect the benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Employees joining after 1 October 2002 can opt to open a partnership pension account, a stakeholder pension with an employer contribution, and employer's contributions of £39k 2008-2009 (2007-2008: £11k) were payable to one or more of a panel of three appointed stakeholder pension providers. Employer's contributions are age-related and range from 3 to 12.5% of pensionable pay, and employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £1k 2008-2009 (2007-2008: £0.4k), 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 2009 equates to £208k (31 March 2008 £206k)

6 Other operating charges

	ECR Year ended 31 March 2009 £'000	TPR Year ended 31 March 2009 £'000	Total TPR Year ended 31 March 2009 £'000	Year ended 31 March 2008 £'000
Board chairman – includes expenses	**7**	**129**	**136**	134
Part-time board members' fees	**14**	**63**	**77**	56
Part-time board expenses*	**–**	**2**	**2**	2
Consultancy, contracted out and other professional services	**3,390**	**3,293**	**6,683**	4,713
Training and recruitment costs	**95**	**911**	**1,006**	973
Staff travel and expenses	**20**	**344**	**364**	364
Depreciation	**–**	**1,259**	**1,259**	1,158
General office expenses inc. accommodation expenses	**86**	**1,603**	**1,689**	1,419
Dilapidation costs	**–**	**120**	**120**	59
Computer systems development and maintenance	**111**	**544**	**655**	602
Operating leases inc. rent	**–**	**702**	**702**	636
Devaluation of fixed assets	**–**	**43**	**43**	72
Auditor's remuneration	**–**	**41**	**41**	31
	3,723	**9,054**	**12,777**	10,219

*There is tax due to HMRC on expenses incurred of £0.008m 2008-2009 (2007-2008: £0.008m).

The year ended 31 March 2008 included £0.3m of non staff costs, the majority of which relates to consultancy expenditure, to commence the development of the Employer Compliance Regime (ECR).

7 Tax on interest receivable

	ECR Year ended 31 March 2009 £'000	**TPR Year ended 31 March 2009 £'000**	**Total TPR Year ended 31 March 2009 £'000**	Year ended 31 March 2008 £'000
UK Corporation Tax at 21% on interest receivable (2007-2008: 20%)	**6**	**20**	**26**	35

8 Fixed assets

	Leasehold improvements	Telecoms equipment	Furniture, fixtures & fittings	Office equipment	IT hardware & software	IT software Intangible	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost:							
At 31 March 2008	1,340	298	678	35	1,937	748	5,036
Additions in period	–	–	1	–	692	8	701
Disposals in period	–	(42)	–	(3)	(19)	–	(64)
Revaluations	(9)	(9)	36	–	(16)	–	2
At 31 March 2009	1,331	247	715	32	2,594	756	5,675
Depreciation:							
At 31 March 2008	573	194	388	27	1,482	244	2,908
Transfers	–	–	–	–	(266)	266	–
Charge for period	191	49	136	4	666	213	1,259
Disposals in period	–	(42)	–	(3)	(19)	–	(64)
Reduction in charge arising on revaluations	(4)	(5)	27	–	(10)	–	8
At 31 March 2009	760	196	551	28	1,853	723	4,111
Net book value at 31 March 2008	**767**	**104**	**290**	**8**	**455**	**504**	**2,128**
Net book value at 31 March 2009	**571**	**51**	**164**	**4**	**741**	**33**	**1,564**

No fixed assets relate to the ECR programme, all are owned by the regulator.

9 Debtors

	ECR Year ended 31 March 2009 £'000	TPR Year ended 31 March 2009 £'000	Total TPR Year ended 31 March 2009 £'000	Year ended 31 March 2008 £'000
Debtors:				
Central government	**125**	**8**	**133**	22
Other	**–**	**12**	**12**	38
	125	**20**	**145**	60
Prepayments: *Other*	**31**	**518**	**549**	507
Other debtors: *Staff loans*	**–**	**29**	**29**	23
	156	**567**	**723**	590

Central government debtors for the Pensions Regulator include £4k due from the Department for Work and Pensions and £4k due from HM Treasury. Central government debtors for the Employer Compliance Regime (ECR) include £125k due from the Department for Work and Pensions.

10 Creditors – amounts falling due within one year

	ECR Year ended 31 March 2009 £'000	TPR Year ended 31 March 2009 £'000	Total TPR Year ended 31 March 2009 £'000	Year ended 31 March 2008 £'000
Taxation on interest receivable	**6**	**20**	**26**	35
Deferred income	**–**	**59**	**59**	59
Amounts due to suppliers	**61**	**416**	**477**	1,142
Amount due to HMRC (Tax and NI)	**–**	**–**	**–**	313
Accruals:				
Central government	**23**	**185**	**208**	614
Other	**971**	**1,874**	**2,845**	2,053
	1,061	**2,554**	**3,615**	4,216

Central government accruals for the Pensions Regulator include £53k due to the Department for Work and Pensions (DWP), £42k due to the Government Actuary Department (GAD), £61k to The Government News Network and £29k to HMRC. Central government accruals relating to the Employer Compliance Regime (ECR) include £20k due to the Department for Work and Pensions and £3k to the Serious Fraud Office (SFO).

continued over...

10 Creditors – amounts falling due within one year *continued...*

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

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

10 Creditors – amounts falling due after more than one year

	ECR Year ended 31 March 2009 £'000	**TPR Year ended 31 March 2009 £'000**	**Total TPR Year ended 31 March 2009 £'000**	Year ended 31 March 2008 £'000
Deferred income	**–**	**191**	**191**	250
	–	**191**	**191**	250

11 Operating leases

The Pensions Regulator occupies an office in Brighton, the lease on which will expire in 2013. Annual commitments for 2009-2010 in respect of leases expiring:

	Within 1 year £'000	Within 2 to 5 years £'000	Over 5 years £'000
Land and buildings	–	660	–
Other operating leases	–	3	–
	–	**663**	**–**

12 Provisions for liabilities and charges

	Early retirement £'000	Severance £'000	Dilapidations £'000	**31 March 2009 Total £'000**	Year ended 31 March 2008 £'000
Balance at 31 March 2008	**190**	**190**	**259**	**639**	855
Amount provided/ (released) in period	**25**	**891**	**120**	**1,036**	96
Utilisation in period	**(57)**	**(361)**	**–**	**(418)**	(312)
Balance at 31 March 2009	**158**	**720**	**379**	**1,257**	**639**

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.

13 Reconciliation of movements in General Reserve

	ECR Year ended 31 March 2009 £'000	TPR Year ended 31 March 2009 £'000	Total TPR Year ended 31 March 2009 £'000	Year ended 31 March 2008 £'000
As at 1 April 2008 b/f	–	**(1,569)**	**(1,569)**	(2,238)
Net expenditure	**(8,429)**	**(25,970)**	**(34,399)**	(29,361)
GIA to cover ongoing operations	–	**25,275**	**25,275**	27,735
GIA to cover initial costs of the regulator	–	–	–	910
GIA to cover initial costs of ECR	**7,923**	–	**7,923**	465
GIA to cover fixed asset purchases	–	**701**	**701**	933
Movement in reserves relating to 2007-2008	**131**	**(131)**	–	–
Surplus on revaluations in period	–	**36**	**36**	54
Notional interest on capital employed (see Note 2b)	**(7)**	**(57)**	**(64)**	(67)
General Reserve carried forward	**(382)**	**(1,715)**	**(2,097)**	(1,569)

14 Capital commitments

Amounts contracted for but not provided in the accounts amounted to nil (31 March 2008: nil).

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

15 Financial penalties

In the course of the period no financial penalties were imposed (2007-2008: nil) and penalties collected amounted to £3k (2007-2008: £8k). Under Section 10(9) of the Pensions Act 1995 the Authority was required to pay the Secretary of State any penalties recovered and therefore such penalties are not included in the accounts.

16 Contingent liabilities

There were no contingent liabilities at 31 March 2009 (31 March 2008: Nil).

17 Contingent assets

There were no contingent assets at 31 March 2009.

18 Notes to the Cash Flow Statement

	ECR Year ended 31 March 2009 £'000	TPR Year ended 31 March 2009 £'000	Total TPR Year ended 31 March 2009 £'000	Year ended 31 March 2008 £'000
a) Reconciliation of net expenditure to net cash outflow from operating activities				
Net expenditure on ordinary activities	**(8,462)**	**(26,106)**	**(34,568)**	(29,570)
Depreciation	–	**1,259**	**1,259**	1,158
Devaluation of fixed assets	–	**43**	**43**	72
(Increase)/Decrease in debtors	**(156)**	**23**	**(133)**	(76)
Increase/(Decrease) in creditors	**1,055**	**(1,707)**	**(652)**	(107)
Increase/(Decrease) in provisions	–	**618**	**618**	(216)
Net cash outflow from operating activities	**(7,563)**	**(25,870)**	**(33,433)**	(28,739)
b) Analysis of financing				
GIA received from DWP	–	**25,976**	**25,976**	28,668
GIA received for the Culture Change Programme	–	–	–	910
GIA received from DWP in respect of ECR	**7,923**	–	**7,923**	465
GIA received from DWP for TPAS	–	**2,289**	**2,289**	–
GIA paid from the regulator to TPAS	–	**(2,289)**	**(2,289)**	–
	7,923	**25,976**	**33,899**	30,043
Applied towards purchase of fixed assets	–	**(701)**	**(701)**	(933)
Total GIA applied towards revenue expenditure	**7,923**	**25,275**	**33,198**	29,110

18 Notes to the Cash Flow Statement *continued...*

	TPR Year ended 31 March 2009 £'000	Total TPR Year ended 31 March 2009 £'000	Year ended 31 March 2008 £'000
c) Analysis of movements in net funds			
Cash in hand at bank	**679**	**(139)**	818
Total	**679**	**(139)**	818

Cash at bank represented the only funds held at 31 March 2009. All funds are held at HSBC.

19 Related party transactions

The regulator is a Non-Departmental Public Body 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. Transactions with PADA related to receipts for a secondee from the regulator. In total, transactions with the DWP not related to the provision of grant-in-aid totalled £265k (2007-2008 £508k), transactions with PPF were nil (2007-2008 £32k), and transactions with PADA £5k (2007-2008 nil).

During the year, the regulator funded GIA payments to The Pensions Advisory Service (TPAS) of £2.3m relating to the period from 1 July 2008 to 31 March 2009. The Departmental Steward on behalf of the Secretary of State made matching GIA payments to the regulator of £2.3m to fund the regulator's expenditure on GIA payments to TPAS. There were no funds relating to TPAS held as at 31 March 2009.

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

20 Financial instruments

Financial instruments and Fair values

FRS 26 Financial Instruments: Recognition and Measurement requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the non-trading nature of its activities and the way it is financed, the regulator is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of listed companies to which FRS 26 mainly applies. The regulator has very limited powers to borrow or invest funds. Financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the regulator in undertaking its activities.

Liquidity risk

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

Interest rate risk

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

Foreign currency risk

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

20 Financial instruments continued...

Fair values of financial instruments

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

2008-2009	Book value £m	Fair value £m
Financial Assets		
Cash at bank and in hand	679	679
Debtors: *Central Government*	133	133
Debtors: *Other*	12	12
Debtors: *Staff*	29	29
Financial Liabilities		
Creditors: *Suppliers*	477	477
Accruals: *Central Government*	208	208
Accruals: *Other*	2,845	2,845

The above figures exclude statutory creditors which relate to taxes and social security due to HM Revenue and Customs. None of the Financial Assets have been subject to an impairment.

Financial Assets and Financial Liabilities

Fair values are assumed to approximate to cost due to the short-term maturity of the instruments.

21 Post Balance sheet date events

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

The regulator's financial statements are laid before the Houses of Parliament by the Secretary of State of the Department for Work and Pensions. FRS 21 requires the Pensions Regulator to disclose the date on which the accounts are authorised for issue. This is the date on which the certified accounts are despatched by the regulator's management to the Secretary of State of the Department for Work and Pensions.

The authorised date for issue is 24 June 2009.

8 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 MFR valuations. The benefit assumed in private insurance is usually non-capped and thus could be greater than 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 retirement benefits such as pensions and medical care during retirement.
Hybrid scheme or partial defined benefit scheme	A scheme that can provide defined benefits and defined contribution benefits. A scheme providing benefits on a defined contribution basis but that is or was contracted out of the state scheme on either a Guaranteed Minimum Pension or Reference Scheme test basis is a common example of a hybrid scheme.
Open scheme	The scheme continues to accept new members and benefits continue to accrue.
Paid up scheme	All contributions to the scheme have stopped and no further pensionable service accrues. Members' benefits for earlier service continue to be held and invested in the scheme.
Pension Protection Fund (PPF)	A statutory corporation run by the Board of the Pension Protection Fund, established under the Pensions Act 2004.
Pension protection levy	This is the annual amount that a pension scheme is charged by the Pension Protection Fund. 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. 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*. Calculated on the basis of section 179 liabilities and the number of members participating in the pension scheme.
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 liabilities of a pension scheme (scheme deficit if negative, scheme surplus if 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 pensioner 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 new 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.

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. A MNT may be a member of the scheme. A 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.

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

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