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The Pensions Regulator Annual Report and Accounts 2016-2017

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Annual Report and Accounts 2016-2017

The Pensions Regulator

The Pensions Regulator's Annual Report and Accounts 2016-2017

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Contents

Chairman's foreword

Over the last year we have witnessed seismic shifts in the political landscape and continuing change in the pensions sector. In a climate of increased uncertainty, it is important for The Pensions Regulator to be clear in its messages, and to continue to act more quickly and more decisively.

The pensions industry has had to continue to adapt to unprecedented levels of change. We do not yet know what impact exiting the European Union will have for the wider economy or for the schemes that we regulate, while greater freedom and choice for retirement savers and continued low interest rates have had an impact on all pension schemes.

During the past 12 months, the legislative and regulatory framework for defined benefit (DB) schemes, along with our involvement with a number of high-profile cases, has attracted a significant amount of attention. The most notable instance of this was in February when we announced a £363m settlement in the BHS case, our largest to date. As an organisation, we have engaged openly and positively with the debate about DB regulation and the appropriateness of our powers, provided wide-ranging responses to the Work and Pensions Select Committee and worked closely with our sponsor department, the Department for Work and Pensions (DWP), on its DB green paper.

We have also been vocal on both the benefits and the risks of master trust schemes, which have become increasingly important as a result of automatic enrolment (AE). Following Royal Assent in April 2017, the Pensions Schemes Act 2017 gives us tough new powers to authorise and supervise master trusts, which will provide reassurance to savers that their contributions will be kept in secure, well-managed schemes.

Given the scale of the changes we are facing, it is important that we take the right approaches to regulation. Over the past year we have been looking in depth at issues including the way we analyse data, how we prioritise the allocation of our limited resources and how we use our powers. As well as asking searching questions of ourselves, we have also sought the views of our external stakeholders. Having completed this work, we expect to spend the coming months explaining and implementing changes to the way we regulate.

We are already being quicker and bolder in the use of our powers, with an increased focus on basic duties where non-compliance can be an indicator of broader governance failings. During the past year we have issued our first fines for failure to complete an annual governance statement as well as for scheme returns. We are also testing powers not used previously for example our first two successful criminal prosecutions were carried out in April, just after the period covered by this Annual Report, resulting in fines for failures to comply with our information-gathering powers.

'We are already quicker and bolder in the use of our powers'

Turning to the work of the Board, I am delighted that Nicola Parish has joined us as Executive Director of Frontline Regulation, which is already helping the Board to make sure that The Pensions Regulator (TPR) has the frontline capability and resource it needs. Graham Mayes and Tony Brierley have stood down following completion of terms as non-executive directors, and I thank them for the support they have provided. I look forward to working closely with our new non-executive directors Kirstin Baker CBE and Robert Herga, as well as Margaret Snowdon OBE, who has been in post since May 2016, and with David Martin, who has been re-appointed.

I want to say a special thank you to two departing Executive Board members, Charles Counsell OBE and Andrew Warwick-Thompson. Charles' leadership, as Executive Director of Automatic Enrolment, has been pivotal to the success of AE, and I am pleased that this was recognised with an OBE in the New Year Honours list. Andrew has proved a highly effective Executive Director of Regulatory Policy, raising our profile within the pensions industry and contributing actively to the development of policy and the fight against scams. I wish them well as they move on to CEO roles with the Money Advice Service and the Central Local Government Pension Scheme respectively.

Finally, in what has been at times a very challenging year, I would like to pay tribute to the unstinting work of teams across TPR, whether they are involved in casework, shaping regulatory policy and guidance and communicating with our regulated community, or in the vital support functions that enable the other teams to do their jobs and keep the organisation ticking over. Everyone has played their part in helping the organisation to deliver effectively against the objectives given to us by Parliament and, ultimately, to achieving better outcomes for people saving into work-based pension schemes.

Mark Boyle

Mark Boyle
Chairman, The Pensions Regulator
20 June 2017

Chief Executive's report

In what has been a very busy year for all of us at TPR, I am delighted to report that our skilled and professional staff have remained focused on the job in hand and delivered a number of notable achievements.

In the last year, we have recovered over £650m for DB pension schemes (including settlements in the BHS and Coats cases) as a result of our case teams' efforts, taking the total amount recovered during TPR's existence to well over £1bn. Settlements like these are invariably extremely complex and highly sensitive, and require expertise, dedication and robust negotiation. They represent just one aspect of our approach to enforcement, which in 2016-2017 saw us expand the powers we use to include criminal prosecutions for non-provision of information and fines for failings in basic scheme administration by trustees. And by now, a total of over 500,000 employers have put more than seven million workers into a pension scheme due to our work helping the country's smallest employers to meet their AE duties.

While we've been reaching out to employers – whether over the negotiating table, where millions of pounds of savers' money is at stake, or sending 'nudge' emails to a garage owner who's never heard of automatic enrolment before – we've also been engaging with trustees. As part of our 21st century trustee initiative, we published a discussion paper, seeking the views of the pensions industry on ways we could improve standards of scheme governance and administration. We know there are many highly experienced and skilled trustees, and some schemes are managed very effectively. However, too many occupational pension scheme members and sponsors are at risk of poor stewardship, and our education and communications campaign, supported by targeted enforcement action where necessary, will continue through 2017.

The number of members of defined contribution (DC) schemes has outstripped those in DB for the first time this year. Driven by automatic enrolment, we are determined to make sure that these members are enrolled into schemes that are well-governed. Our new DC code of practice, which came into force in July last year, clearly sets out our expectations of trustees and what is required of them to comply with legislation, and we have continued to work with employers, providers, the DWP and the Financial Conduct Authority (FCA) to achieve consistent quality standards and levels of member protection across all work-based DC pensions.

We view authorised master trusts as the lynchpin of a sustainable and safe occupational DC schemes' market and welcomed the Pension Schemes Act, which gives us powers to supervise and authorise master trusts. We need to ensure a level playing field for the protection of consumers investing in contract-based and trust-based multi-employer pension plans, and it is clear that market forces alone would not have achieved this outcome.

'2016-2017 saw us expand the powers we use'

We have issued targeted information and guidance to the various parts of our regulated community, spanning all areas of the business. This included new materials for trustees and savers for our Scorpion scams campaign, investment guidance for trustees, help for public service scheme managers on completing their annual benefits statements, and practical, how-to guides to accompany the DC code. We also published a new report in November of last year on DB schemes which, for the first time, gave a complete picture of the universe of DB schemes. And at several points in the year, we provided input to the development of policy and legislation with the DWP, on issues including the master trust legislative framework and the DB green paper.

Throughout the year we have continued to engage with, and play an active role in, the European pensions and regulatory institutions and forums of which we are a member. In doing so, we aim to further UK pensions and regulatory interests, while also providing an opportunity to share best practice.

With the help of PwC, we have spent much of the year talking to our external stakeholders and staff, exploring in detail what they think of us, including what we do well and what they would like to see us do differently. This has culminated in a series of findings and recommendations for our direction as an organisation, which will be made public in the coming weeks. I am grateful to everyone who has taken part and we will be saying more about how we intend to implement these recommendations during 2017-2018.

I've always believed that our people are our greatest asset, and these types of achievements are the result of an organisation-wide effort by those on the front line and in supporting roles, such as HR, Finance and IT. And I was delighted to see that, once again, we scored very highly in our staff engagement survey. We aim to offer a supportive and motivating environment, where people can move and develop across the organisation, and it is very heartening to see that our staff value this investment in them so highly. This is particularly encouraging at a time when our staff numbers have increased by 13% in the last year with most increases coming in our frontline and intelligence departments. You can read more details about our performance on page 14.

Finally, I would like to thank our Chairman, Mark Boyle, and all our hard-working staff at TPR for their support and professionalism in helping me steer through some turbulent waters over the past year. I believe we have the right team in place to take our organisation forward and help us become a clearer, quicker and tougher regulator, equipped to meet the challenges of the next five to ten years.

Lesley Titcomb
Chief Executive, The Pensions Regulator
20 June 2017

About us

Who we are and what we do

TPR is the UK regulator of work-based pension schemes. We work with trustees, employers, and business advisers of occupational pension schemes in the private and public sectors, to help them understand their legal duties and the standards we expect. We also work with employers and their advisers to ensure compliance with AE duties.

Our statutory objectives are set out in the Pensions Act 2004. These are:

- to protect the benefits of members of occupational pension schemes
- to protect the benefits of members of personal pension schemes where direct payment arrangements are in place
- to reduce the risk of situations arising which may lead to compensation being payable from the Pension Protection Fund (PPF)
- in relation to our functions for DB scheme funding only, to minimise any adverse impact on the sustainable growth of an employer
- to maximise employer compliance with employer duties and the employment and safeguards introduced by the Pensions Act 2008
- to promote, and to improve understanding of, the good administration of work-based pension schemes

Performance

Performance summary

As a maturing organisation with a widening remit, we have been strengthening our resources in our frontline regulatory teams and commissioning stakeholder engagement work to better understand external perceptions and how we should be developing in the future. This has started to shape our thinking of where we should focus our efforts and resources, and what success means for TPR over the course of the next few years.

In 2016-2017, we have continued to place a strong emphasis on education, growing and developing our communication channels, tailoring our messages to our audiences, and helping our regulated community understand and comply with their duties.

We have also been quick to change tack and enforce where our education and enablement tools are not working, and have challenged ourselves to target the right areas, bringing swifter resolutions to our casework, and using our wide range of powers to ensure good outcomes for members.

'We have challenged ourselves to bring swifter solutions to our casework'

Automatic enrolment

Over half a million employers have met their workplace pension duties, with over seven million employees now enrolled in a qualifying scheme. This has been achieved through our continued communication with employers, providers, intermediaries and the general public, which included a national advertising campaign, in conjunction with the DWP.

We have met the challenges of re-enrolment and the sheer volume of small and micro businesses starting their duties, and have developed strategies to meet this increase in scale, such as linking our data with HMRC and extending the contract with our main outsourced partner to 2021.

On the enforcement front, we have seen tribunals and the High Court rule in our favour, while we have continued to exercise powers including Compliance Notices (CNs), Fixed Penalty Notices (FPNs) and Escalating Penalty Notices (EPNs).

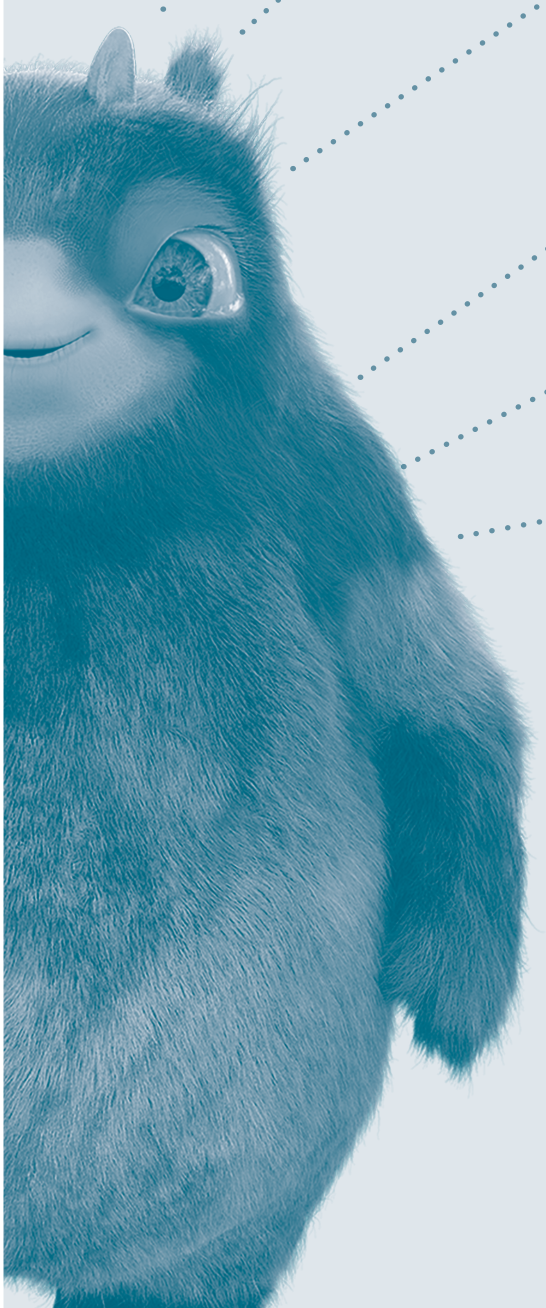
Automatic enrolment
Activity in the last year

342,945
phone calls, emails and letters were answered at the Birmingham contact centre
(previous year: 257,010)

>500,000
employers have completed their declaration of compliance to date

3,175,513
outbound campaign letters were sent out
(previous year: 1,480,947)

Workie
continued to raise awareness about the need for employers to provide a pension for their staff



85%
customer satisfaction following contact with our customer service centres in Brighton and Birmingham

47,153
cases (previous year: 7,800)

14,707
fines were issued

266
AE meetings and speaking events were attended

Scheme-based regulation

We have strengthened our enforcement activities over the year, increasing the headcount in our frontline teams and issuing fines for failure to complete the chair's statement and scheme returns. We also defended a judicial review application in the Silentnight avoidance case, and secured our first criminal convictions for refusal to comply with legal notices we issued, requiring the recipients to provide us with information.

We pursued a number of DB avoidance cases, the highest profile being BHS, where our actions led to a £363m cash settlement and member benefits being secured outside the PPF. Another case involving a large cash injection was the Coats Group case, where we negotiated a £255m settlement, helping to safeguard the benefits of 24,000 members and a full guarantee from Coats for the schemes' liabilities. These settlements brought the overall value of recoveries into DB schemes which stem from the intended use of our DB power to over £1bn since 2005.

In May, we published our annual funding statement, setting out our analysis of market conditions and demonstrating that the majority of DB schemes should be able to maintain their existing recovery plans.

We continued to engage with DB schemes throughout the year, and in December, we made good on our commitment to supporting trustees of all scheme sizes by publishing a quick guide to integrated risk management for smaller schemes. This was followed in March of this year by new investment guidance, which included examples of approaches to consider when investing scheme assets and tips on getting the most for scheme advisers.

In relation to pension scams, and as Chair of Project Bloom, we worked with partners on Scams Awareness Month in July 2016, and in March 2017 launched a refreshed Scorpion campaign, with online scam-spotting tools, a five step guide, and videos alerting them to typical scammer tactics. We successfully prohibited two individuals for acting as trustees in the 5G case where we had concerns about their activities. We also welcomed the government's consultation on measures to disrupt pension scam activities, which was a direct result of our work.

Turning to DC scheme regulation, 2016 saw our new code of practice come into force. This sets out the standards that trustees need to meet to comply with the law. We also published a trusteeship and governance discussion paper as part of our 21st century trustee initiative, seeking the views of our regulated community on what good looks like. Our response, which we published in December 2016, clarified how we intend to take this initiative forward.

'The overall value of recoveries into DB schemes totals over 1bn since 2005.'

Scheme-based regulation
Activity in the last year

56,115
phone calls, emails and letters were answered at the Brighton contact centre
(previous year: 55,569)

2.8m
people made almost **5.5m** visits and looked at over **38.5m** pages on our website

223
publications (either new or updated content) were produced generating more than **380,000** downloads

16,381
Trustee toolkit module passes (up 136.5% against a target of 12,000)

over 1bn
in settlements for the overall value of recoveries into DB schemes stemming from the use of our DB powers since 2005

536
the number of times our trustee appointment powers were exercised in 2016-2017

10
s89 Regulatory intervention reports published
(previous year: 4)

95%
% of master trust members in schemes with assurance

The Pensions Scheme Act 2017 has given us new powers to authorise and supervise master trusts, giving consumers and employers confidence that the master trust market is a safe place to invest their pension contributions. During the year, we added a number of master trusts to our list of those that had achieved independent assurance, and also came down hard on those that failed in their duties, issuing our first fines to master trusts that failed to produce a chair's statement.

Ahead of the introduction of our new master trust powers, we continued to liaise with the industry on our proposed approaches, and worked with the DWP on the development of master trust legislation, which received Royal Assent after the period of this report.

We engaged with public service pension boards and managers, resulting in 100% of schemes registering with us, as required by law. We also issued and collected the first scheme returns for public service schemes, and have started to gather more information about record-keeping through those returns. This will help us target our interventions more precisely on those failing in their duties, and ensure compliance with the commission ban.

To read our regulatory intervention reports, visit: **www.tpr.gov.uk/section-89**

Engagement and awareness-raising

Activity in the last year

TPR was mentioned in
3,928
pieces of national, local and trade media coverage

10,863 followers
up 26% from last year's total of 8,621

7,657 likes
>890% from last year's total of 773

7,399 members
up 6% from last year's total of 6,958

40
new videos are currently posted on our YouTube channel

28,624
views for our blog (part year)

350
meetings and speaking events were attended or delivered by TPR staff including senior management

Investing in our people and capabilities

This year's staff survey clearly demonstrates that our people are highly committed to TPR's goals, understand how their work contributes to those goals, and that we are an organisation that respects individual differences and prizes diversity. This year, we published a three year People strategy to share our ambitious plans for supporting and developing our staff. Under that, we have already:

- delivered a revised recruitment approach to grow the organisation to embrace new challenges
- embedded a revised performance management system that strengthens the correlation between organisational goals and personal performance
- rolled out a 360 feedback exercise with coaching for our senior team
- revised our HR policies, delivering them with supporting training to ensure consistency of understanding and approach
- introduced a new time and attendance management system which helps monitor the work-life balance and wellbeing of our staff
- recruited our first TPR apprentices
- partnered with the Employers Network for Equality and Inclusion and Stonewall to strengthen our diversity offer and
- collaborated on an organisation-wide project on remote working

We are delighted that we're continuing to make a lot of internal appointments and promotions while maintaining our attraction to external candidates, and have worked hard to refine our talent management, development and succession planning. We also launched a number of initiatives to help everyone at TPR, regardless of role, play an active part in shaping our future. These included creating a new employee forum as well as more informal employee engagement initiatives and methods of communicating.

To get the best out of our people, they need the right equipment to do their job. We've invested in our technology with laptop upgrades for all staff, meaning they can work flexibly and smartly. We've also moved our infrastructure to the Cloud, making us more efficient and resilient, and better able to respond to crisis events.

We're very proud of all our people at TPR, and were delighted that AE Executive Director Charles Counsell and actuary Andrew Young were both awarded OBEs in the 2017 New Year's Honours for their services to pensions – a well deserved recognition of their contribution to the industry and government policy over the years. Our customer service team also gained external recognition when it was awarded the Customer Contact Association Global Standard Award in 2016.

Investing in our people and capabilities
Activity in the last year

79%
engagement score in staff engagement survey
(1% uplift from 2015-2016)

13%
increase in overall staff levels

74
learning events were run in-house last year
(compared to 64 in 2015-2016)

Performance analysis

How we measure our performance

We measure our regulatory performance against our statutory objectives and priorities, as set out in our Corporate Plan. As it is difficult to judge our performance by a set of metrics alone, we have detailed our broader achievements in the previous Performance summary section, outlining our key activities and successes.

The measures we define in this section are based on our priorities for the 2016-2017 year, which were set out in our 2016-2019 Corporate Plan (published April 2016). The Board adopts key performance indicators (KPIs) and associated targets annually, which are set in response to our assessment of the key risks to achieving our statutory objectives through our corporate priorities. They are principally collated through management information, which we share with our Board and the DWP on a quarterly basis.

In addition to KPIs, we have adopted a set of key outcome indicators (KOIs) as a means of highlighting our role in the overall context of providing good retirement outcomes. These measures demonstrate trends over a longer term and indicate whether our involvement as part of a wider pensions framework is delivering better outcomes.

Analysis of performance: KPIs

In the main, we have hit our targets or narrowly missed them, which reflects our ongoing commitment to set deliberately stretching targets. We achieved 15 out of our 18 KPIs (green), with two missed by a small margin (amber) and one missed significantly (red). We also outlined four measures for development of KPIs, our consideration of which are covered over the following pages (grey). We designate the outcome of a KPI as green, amber, red or grey as follows:

Green denotes a KPI where the target was achieved.

Amber denotes a KPI where the target was marginally missed. The result was likely to be within the margin of error for the target or, in the case of a KPI target with multiple parts, the majority or average of parts were achieved.

Red denotes a KPI where the target was missed by a significant degree.

Grey denotes our consideration of measures under development.

KPIs 2016-2017

The KPI analysis below is ordered according to the corporate priorities we set in our 2016-2019 Corporate Plan.

1. Successfully implement automatic enrolment	
1.1 The proportion of **employers who are aware of their duties** shortly before they come into effect	
Target	95%
Analysis	**Amber:** The employers who were aware of their duties dipped below our target this year to 93%. However, at 93% this represents near-universal awareness and we do not consider this to be a lead indicator of likelihood of compliance. In particular, we have not observed an associated decline in levels of understanding of duties, which remain above 80%.
1.2 The proportion of **employers who understand their duties** shortly before they come into effect	
Target	80%
Analysis	**Green:** Despite a dip in awareness, understanding of duties has remained above target for the year at 83%.
2. Protect consumers from poorly governed master trusts	
2.1 Percentage of DC master trusts that are AE schemes declare compliance with the **requirement to issue a chair's statement** in the scheme return	
Target	100%
Analysis	**Green:** After compliance activity in four cases, all (100%) master trusts have issued a chair's statement.
2.2 Percentage of DC master trusts that are AE schemes declare compliance with the **charge control requirements** in the scheme return	
Target	100%
Analysis	**Green:** 100% of master trusts have declared compliance with the charge control requirements, and we have identified no breaches with these requirements.

2.3 We will **proactively engage with master trusts** that represent a high proportion of the total membership	
Target	Engagement with 50% of active DC master trust schemes that cover approximately 95% of master trust memberships.
Analysis	**Green:** We have engaged with 64% of master trusts, covering 98% of the membership this year to assess their governance and controls and clarify our expectations of these schemes.
3. Effectively regulate defined benefit schemes	
3.1 We are currently developing our **case management information** capability and intend to set a new measure this year of the number of cases where positive scheme funding case outcomes have been achieved	
Target	Baseline measure to be determined in-year
Analysis	**Grey:** We developed our in-house capability this year for setting appropriate case strategies linked to outcomes, and tracking these outcomes through the case life to its closure. We will continue to develop these metrics to ensure our case resources are being applied effectively. We have developed a broader KPI for 2017-2018 to measure our engagement with risk in DB schemes, based on our approach to assessment and case selection which includes scheme funding, avoidance and clearance cases. We have also developed KPI measures for the speed of decision making and the escalation to use of our powers in DB enforcement in keeping with our revised priorities for 2017-2018.
3.2 Through our case interventions we will **cover a proportion of PPF risk**. This measure of PPF risk is based on the size of PPF scheme deficits and the probability of sponsoring employer insolvencies occurring.	
Target	Engagement with schemes which account for 35% of PPF risk (for tranche 10 valuations).
Analysis	**Green:** We engaged with 36.5% of PPF risk for schemes in this tranche of valuations.
4. Effectively regulate public service pension schemes	
4.1 A high proportion of public service schemes that have the **three key components of good governance and administration** in place	
Target	75%
Analysis	**Green:** All (100%) of public service schemes are now registered schemes, with 98% confirming they have a pension board in place. By the year end 82% confirmed they publish information on their pension board in line with our guidance.

4.2 Public service schemes that require a **record-keeping plan** have one in place	
Target	100%
Analysis	**Red:** This was an ambitious target, set at 100% and in the context of new remit over the public service schemes at the point at which it was set. Out of 208 public service schemes, 13 schemes were required to put in place a record-keeping plan. We have evidence that 11 schemes have a plan in place (85%). We have run out of time in our engagement with the remaining schemes to meet this aim within the year. However, we expect to receive evidence of the remaining two schemes' plans in the first quarter of 2017-2018. Our target for this year includes a focus on driving up the quality of these plans.
5. Maintain confidence in the pensions market	
5.1 We are currently developing our **case management information** capability and intend to set a new measures this year on case outcomes	
Target	Baseline measure to be determined in year
Analysis	**Grey:** We have been setting appropriate case strategies linked to outcomes, and tracking these outcomes through the lifecycle of a case through to its closure. We will continue to develop these metrics to ensure that our case resources are being applied effectively. We have developed a broader KPI for 2017-2018 to measure our engagement with risk in DB schemes, based on our approach to assessment and case selection which includes scheme funding, avoidance and clearance cases. We have also set a KOI on confidence for 2017-2018 based on our survey work with members and the Money Advice Service.
6. Improve the quality of scheme governance	
6.1 A high proportion of members are in DC schemes that have **appointed a chair of trustees**	
Target	95%
Analysis	**Green:** 99% of members are in DC schemes that have appointed a chair of trustees after a considerable drive by TPR to ensure schemes are compliant with their basic duties.
6.2 A high proportion of employers **make contributions to their respective scheme before they become significantly late**	
Target	94%
Analysis	**Green:** 99.9% of employers made contributions to their respective scheme before they became significantly late.

6.3 A high proportion of scheme members will be in schemes that have provided their **scheme funding valuation** to us in line with the requirements	
Target	97%
Analysis	**Green:** 99.9% of DB members are in compliant schemes which represent 99.6% of schemes. We have run a significant campaign against non-compliant schemes this year, and continue to take enforcement action against the remaining few non-compliant schemes.
6.4 A high proportion of scheme members will be in schemes that have provided their **scheme returns** to us in line with the requirements	
Target	99.5%
Analysis	**Green:** 99.8% of schemes have provided their scheme returns this year. We have taken a zero tolerance approach to non-compliance with these requirements and continue to take enforcement action where schemes are not submitting statutory information to us.
6.5 The number of **Trustee toolkit passes**	
Target	12,000
Analysis	**Green:** A total of 16,381 module passes in-year, driven through targeted Trustee Knowledge and Understanding campaigns and by improving the user experience on tablets.
7. Extend our regulatory influence	
7.1 With the growing number of stakeholders, government partners and employers we interact with, we will look to define a measure next year that demonstrates the **effectiveness of our influence**	
Target	Baseline measure to be determined in-year
Analysis	**Grey:** We explored this measure this year with our external research agency Britain Thinks, gaining useful insight into our approach and impact amongst different stakeholder groups. We concluded that it was not possible to identify a single definition of 'regulatory influence', and that a single numerical indicator without the additional context of different stakeholder responses could be misleading and counter-productive. On this basis, we have not set a specific indicator in this area, but will continue to engage with our stakeholders on our intended future direction, and will use this ongoing dialogue to help us target future stakeholder engagement and test our influence.

8. Increase member engagement with pensions	
8.1 At this stage we do not intend to identify and set specific performance indicators under this priority. Instead we will rely on outcome indicators to provide measures of overall performance. We will cover our work and successes in this area in our Annual Report and Accounts at the end of each business year.	
Target	N/A
Analysis	**Grey:** We have undertaken a member engagement survey in-year with the Money Advice Service to determine member engagement with pensions. We have also undertaken research with Britain Thinks to assess what further role TPR should play in member engagement, the findings of which we will make public in 2017-2018. Alongside this, we have continued to work with other agencies on initiatives such as the Pensions Dashboard and our pension scams Scorpion campaign to raise awareness amongst members of the need to actively engage in their retirement planning and provision.
9. Develop our people	
9.1 Our employee engagement score as per our independent survey	
Target	75%
Analysis	**Green:** Our staff engagement score this year is 79%. This is an improvement on last year's result. We set a high target in this area against other industry sectors. This continuing improvement demonstrates the commitment of our staff to the purpose and challenges of this organisation.
10. Be an effective and efficient regulator	
10.1 Our customer satisfaction with our **contact centre services**	
Target	85% (includes Brighton and Birmingham call centres)
Analysis	**Green:** We hit our target with 85% customer satisfaction across our in-house and outsourced AE contact centre services.
10.2 Our customer satisfaction with our **online services**	
Target	76%
Analysis	**Green:** 77% customer satisfaction across all our online services alongside a significant increase in the usage of our services.

10.3 The **quality, availability and performance of our online services** exceeds benchmarked industry standards	
Target	▸ Quality = 6 ▸ Availability = 99.9% ▸ Performance = 8 As determined by SiteMorse (our independent assessor)
Analysis	**Amber:** ▸ Quality: 7.6 ▸ Availability: 96% ▸ Performance: 7 We hit the 'Quality' target for our online services, and indeed won a award for its quality. However, the methodology used by our independent assessor to evaluate the performance and availability of our services changed, and was inconsistent with our contractual service levels agreed with our outsourced provider. In particular, the revised methodology included a focus on overseas availability of the website, which is not a key requirement for our online offering. We did not amend our KPI in-year on the basis of this change, but have reported the original targets as being marginally missed. We intend to continue with our contractual service levels going forward and its evaluation methodology.

10.4 Our spending is within our **budget**	
Target	Budget within a 5% tolerance at year end
Analysis	**Green:** We were within our budget tolerance this year, 4.4% with an under-spend of 3.5m (including capital expenditure) as detailed in the financial sections of this report. This was achieved through co-ordinated vacancy planning with our HR and finance teams, as well as good contingency planning.

Analysis of performance: KOIs

Our KOIs are demonstrating encouraging trends in participation and income in retirement.

We have adopted a baseline for our confidence measure this year through our member engagement survey (in collaboration with the Money Advice Service), and will be tracking the trend against this going forward. The baseline from the survey indicates that the majority of pension savers are confident in the security of their money for retirement.

On our DB entitlement KOI, the number of pensioner members in schemes has increased in line with an ageing demographic. However, we have seen also an increase in PPF membership in line with expectations.

The drop in the Section 179 (s179) funding ratio this year broadly reflects market conditions. Over the last five years, we have seen improvements in funding ratios on an ongoing basis. Additionally, the PPF have noted that over the last three years, there has been a significant fall in the number of new schemes entering assessment.

We have also consulted on our 21st century trustee standards this year and will be setting a baseline measure against the standards once published, in the coming year.

continued over...

KOI 1: Participation	
Outcome	Increasing participation and amount of savings in workplace pensions
Link to our statutory objective	Relates to all our statutory objectives
Measure	The percentage of eligible employees who are participating in workplace pensions
Source	Office for National Statistics (ONS) Annual Survey of Hours and Earnings (ASHE)
Trend	Increasing year on year
KOI 2: Income in retirement	
Outcome	Increasing income in retirement and the proportion of income from workplace pensions
Link to our statutory objective	Relates to all our statutory objectives
Measure	The proportion of total income in retirement from occupational pensions
Source	DWP pensioners income series
Trend	Increasing year on year
KOI 3: Confidence	
Outcome	Increasing confidence in workplace pensions
Link to our statutory objective	Relates to all our statutory objectives
Measure	Members are confident in the security of their retirement benefits
Source	TPR/Money Advice Service (MAS) Survey
Trend	Baselined in-year, with the majority of pension savers confident in the security of their money for retirement

KOI 4: DB entitlement	
Outcome	Members of DB schemes receiving their promised benefit entitlement
Link to our statutory objective	To protect the benefits of members of occupational pension schemes
Measure	Pensioner members in receipt of PPF compensation/ total DB pensioner members
Source	TPR DB landscape and PPF Purple Book publications
Trend	Remained relatively static
KOI 5: PPF protection	
Outcome	The continued protection of the PPF
Link to our statutory objective	To reduce the risk of situations arising which may lead to compensation being payable from the PPF
Measure	PPF funding ratio – ie average funding ratio of schemes in a PPF assessment period
Source	PPF Purple Book publication
Trend	In line with market conditions over the last five years, on average DB schemes have seen a reduction in their PPF funding ratio. This trend extends to the schemes in a PPF assessment period on which this indicator is based, where it has been consistent with the whole population of DB schemes.
KOI 6: Trustee competence	
Outcome	Increasing capability and competence of trustees and others who govern pension schemes
Link to our statutory objective	To promote, and to improve understanding of, the good administration of work-based pension schemes
Measure	Profiling the levels of knowledge, skills and competence of those responsible for the governance of occupational pension schemes
Source	TPR trustee research
Trend	No trend data currently available. 21st century trustee evaluation criteria to set baseline in 2017-2018.

Financial summary

We formally agree our annual budget with the DWP each year and the table below sets out how we have performed against our budget over the previous two years. The actual expenditure in 2016-2017 was lower than budget. This was mainly as a result of lower spend on our change and IT projects portfolio, and also not requiring various reserves set aside primarily to mitigate against low employer compliance for the AE duties.

Actual expenditure v budget

	2016-2017			2015-2016		
	Actual	**Budget**	**Variance**	Actual	Budget	Variance
Total TPR*	**74.8**	**78.5**	**3.7**	62.8	74.3	11.5

* All figures exclude capital expenditure

Further information on our 2016-2017 expenditure and financial results of our duties in respect of the collection of levies and penalty notices can be found in the Financial review on pages 81 to 84.

Going concern

The statement of financial position at 31 March 2017 shows net liabilities of £5.6m. This reflects the inclusion of liabilities falling due in future years which, to the extent that they are not to be met from other sources of income, may only be met by future grants or Grants-in-Aid from the DWP, as our 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.

Sustainability

This sustainability report conforms to the public sector requirements in the Government Financial Reporting Manual.

It is an extended version of the sustainability section in the DWP's annual report and accounts.

Further explanation of the data used is held both in the DWP's records and on our website. This data is also included in the DWP's annual sustainability report.

Overview of performance

In line with the Greening Government Commitment, we remain committed to sustaining a carbon emissions reduction of at least 25% baselined against 2009-2010. This was achieved by the target date of 2014-2015 when judged on emissions per FTE and this year we have made further reductions.

Our targets and achievements relate to our sole occupancy in Brighton. Further sustainability data can be found at: **www.tpr.gov.uk/sustainability**

Greenhouse gas performance commentary

Staffing levels have increased over the last year, with an average annual FTE increase from 503 in 2015-2016 to 527 in 2016-2017. This has not, however, had a significant impact on our total CO2e emissions, which have decreased by 8% relative to 2015-2016. CO2e emissions per FTE have decreased by 13%: from 1.15 tonnes per FTE in 2015-2016 to 1.01 in 2016-2017, although we have experienced increases in both water consumption, and waste to landfill.

continued over...

Sustainability continued...

Waste performance commentary

We promote the recycling of all paper, card, tins, plastic and glass, and continue to raise awareness and understanding of the importance of recycling through our internal sustainability programme called PLANET.

Sustainable procurement

Sustainability continues to be an important part of our procurement process, and we undertake a detailed impact assessment of the positive or negative impacts on the sustainability criteria of all projects. We use our individual and aggregated buying power to encourage suppliers to make their products and services sustainable.

We also strive to reduce costs to the organisation over the lifetime of particular products, specifically relating to energy usage and the use of sustainable materials.

We will continue to comply with level 3 of the government's flexible procurement framework and aim to achieve level 4 where possible.

Lesley Titcomb

Lesley Titcomb
Chief Executive, The Pensions Regulator
20 June 2017

Accountability

Governance statement

Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal controls that support the achievement of our statutory objectives and functions, and for reviewing their effectiveness. My review is informed by the work of the internal auditors, our in-house enterprise risk management team, our regulatory assurance function, the Audit and Risk Assurance Committee, those responsible for the development and maintenance of the internal control framework, and the plans that we have in place to address weaknesses and ensure continuous improvement. It is also informed by comments made by the external auditors in their annual audit completion report.

Overview

We are operationally independent of government, and overseen by a Board of executive and non-executive members. Our plans, finances and key appointments are subject to the approval of the Secretary of State. As Accounting Officer, my responsibilities include ensuring the propriety and regularity of our public finances, keeping proper records, and safeguarding our assets. These are set out in Managing Public Money, published by Her Majesty's Treasury (HMT). I am accountable (through the DWP Principal Accounting Officer) to Parliament.

Having reviewed the evidence provided from risk management and internal controls, and from the internal audit opinion, I am satisfied that we have maintained a sound system of internal controls during the 2016-2017 financial year. Where control issues arose over the year they have been, or are in the process of being, mitigated.

There was one serious incident which resulted in a data loss. This was in respect of a set of TPR Board papers which were lost by an attendee of the Board. While the papers were not recovered, there have been no adverse consequences.

We are currently in the process of implementing secure electronic access to Board and Committee papers to minimise future information security risks.

Board

Board structure

We are subject to legislative requirements regarding the composition, powers, functions, committee structure and responsibilities of our Board. The Board is accountable to Parliament through ministers and is supported by a secretariat.

The Board structure at the end of the reporting period comprised the Chairman, six non-executive directors, the Chief Executive and four executive directors. Board members' appointment dates, terms of office, committee membership and web links to their biographies are set out on pages 54 to 56. After the year end, Charles Counsell OBE resigned from the Board with effect from 19 May 2017, as did Andrew Warwick-Thompson with effect from 14 July 2017. Recruitment is underway at time of writing.

The appointment of Margaret Snowdon OBE as Non-executive Director had been announced by the Secretary of State for Work and Pensions in January 2016 and took effect on 9 May 2016. In December 2016 the Secretary of State announced the appointment of Kirstin Baker CBE and the re-appointment of David Martin, both starting on 1 February 2017. On 1 August 2016, Nicola Parish was appointed as Executive Director for Frontline Regulation and thereby appointed to the Board.

In February 2017, the Chair of the Determinations Panel, Andrew Long, announced the appointment of two new Panel members. The new members, Pauline Wallace and John Swift, took up their posts in March, and existing member Catharine Seddon was re-appointed.

Reports from the separate committees and their activities are included from page 48 onwards.

Responsibilities of the Board

The key responsibilities of the Board are set out in the Board's Code of Conduct and Standing Orders which can be viewed at: **www.tpr.gov.uk/board**

The Board publishes and regularly reviews these documents, which also cover aspects such as the terms of reference of the Board committees and the management of conflicts of interest. It has an ongoing system for managing any conflicts of interest that may arise, involving a minuted check at the start of each meeting. As TPR is an arm's length body, the Board has taken into account the principles of the government's Corporate Governance Code (updated in April 2016) as part of its own governance framework, and those of Managing Public Money. In respect of the provisions of the Corporate Governance Code and of Managing Public Money that are applicable to TPR, there have been no departures.

Board meetings from 1 April 2016 to 31 March 2017

In the year from 1 April 2016 to 31 March 2017, there were nine Board meetings, five Audit and Risk Assurance Committee meetings, two Remuneration Committee meetings and two Committee of Non-executive members meetings.

At the February 2017 Board meeting, the Determinations Panel chairman discussed the Panel's role and work. In addition there were two strategy 'away day' discussion meetings, in May and November 2016, at which the Board received briefings on operational and market developments and discussed strategic issues.

Throughout the year, our Chief Executive and the Chief Executive of the PPF continued to attend the meetings of each other's Boards as observers.

Board evaluation

The Board monitored implementation of the fine tuning recommendations from the external Board effectiveness review of March 2015, and was satisfied that good progress has been made to embed the recommendations.

In addition, in 2016, the chair of the Audit and Risk Committee undertook an internal effectiveness review of the Board and its committees, which made a number of further recommendations which are being implemented and reviewed as part of our continuous improvement.

Role of the Board Chairman and Chief Executive

The roles of the Chairman and Chief Executive are set out in the joint framework agreement between TPR and the DWP.

In addition to being Accounting Officer, the Chief Executive has executive responsibility for ensuring that our statutory objectives and functions are exercised efficiently and effectively, for leading partnership arrangements with government, for working with key stakeholders, and – as an executive member of the Board – contributing to and reviewing our strategic direction.

The Chief Executive's performance is reviewed by the Chairman as the line manager for the role. The Chief Executive's objectives are set by the Chairman in conjunction with the Remuneration Committee, which approves them. The Chief Executive's contract includes scope for a bonus. The Remuneration Committee considers any nomination from the Chairman and decides on that element of performance-based remuneration annually.

As Accounting Officer, the Chief Executive also has a reporting line to the DWP's Permanent Secretary.

Board committees

Terms of reference for each of the Board's sub committees are set out in the Board's standing orders.

The duties of the Committee of Non-executive members are to keep under review the question of whether our internal financial controls secure the proper conduct of our financial affairs, and to determine the remuneration of the Chief Executive. As provided for under section 8 of the Pensions Act 2004, this Committee has two standing sub committees: an Audit and Risk Assurance Committee and a Remuneration Committee. A report of the activities of those committees is included in the Committee reports section on pages 48 to 60.

We are required by Section 9 of the Pensions Act 2004 to establish and maintain a committee called the Determinations Panel ('the Panel'). The Panel exercises certain regulatory functions on our behalf. A report of the activities of the Panel during 2016-2017 is on pages 57 to 60.

DWP stewardship

As Accounting Officer, the Chief Executive's line of accountability is through the DWP. The DWP, through the nominated partner, receives reports on performance, finance and risk, has regular accountability review meetings, and attends our Audit and Risk Assurance Committee. The partnership arrangement is set out in a published joint framework agreement.

An independent assessment by the partnership team, as part of their wider assessment of all the DWP's arms' length bodies and their partnership arrangements, was carried out during the year. The DWP awarded TPR with an overall assessment of medium risk to realisation of DWP objectives (low likelihood, high impact). This rating reflected the DWP's view of the categories assessed and the effectiveness of our current controls and reporting frameworks.

Executive Committee

The corporate governance systems of the Board and its committees are further supported by the Executive Committee. Operational management and business planning functions are co-ordinated by the Executive Committee to ensure that we can deliver our strategies and objectives as set out in the Corporate Plan. The Executive Committee has oversight of corporate performance and governance, manages risk, engages with stakeholders and provides a point of escalation for issues arising from our Directorates. The Executive Committee considered and followed up a report following a review of its effectiveness and has updated its terms of reference.

At the end of 2016-2017, Executive Committee membership comprised the Chief Executive (as chair), and the Executive Directors for Automatic Enrolment, Regulatory Policy, Frontline Regulation and Finance and Operations. The Executive Committee meets weekly.

Control framework

Our system of internal controls was in place during the year ended 31 March 2017 and up to the date of approval of the Annual Report and Accounts. It accords with HMT guidance and supports the achievement of our objectives, while safeguarding public funds and departmental assets. It 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. Our commitment to value for money underpins our planning and control systems. The control system has evolved to ensure that we are compliant with our legal obligations, with the requirements on government spending, and to track and monitor service delivery in the most affected areas.

Internal controls

Key components of the internal controls are:

- codes of conduct and supporting training materials, where appropriate, for Board members, staff and contractors, which set out expectations of behaviour, and the policy framework for declaring and managing conflicts of interest, ensuring data protection and information security, and countering the risk of fraud
- standing orders and terms of reference for the Board and its committees, and a set of general, financial and regulatory delegations, and terms of reference for the Executive Committee
- a corporate planning system linking strategic and operational objectives, subject to regular review by the Executive Committee, and with quarterly reporting to the Board and the DWP
- an annual budget agreed by the Board and the DWP, linking into the business planning cycle and risk appetite, which includes a set of financial protocols outlining the relationship between levy-funded activities and those relating to automatic enrolment
- management reporting through the Executive Committee on a set of agreed measures designed to reflect the performance of the organisation and to monitor KPIs
- detailed business processes, a consistent standard of documentation, and clear lines of accountability and escalation in respect of regulatory decisions and actions taken
- a process for managing change and the resources dedicated to change projects
- a programme of internal audits and a system for progressing implementation of audit recommendations and reporting progress to the Audit and Risk Assurance Committee
- a formal complaints procedure to deal with complaints made against TPR about the way in which we have carried out, or failed to carry out our role
- a new regulatory assurance function which provides objective assurance in relation to the quality of regulatory work and decisions, and therefore to the achievement of our statutory objectives

We manage our outsourced suppliers, including Capita as our AE outsourced supplier, in line with our governance structure. This includes strategic, operational and programme boards, management committees and service delivery teams who are responsible for working with the supplier to ensure that they operate in line with the contractual obligations through an operational control framework.

Members of the Executive Committee take shared responsibility for executive decision-making and for recommendations made to the Board. In addition, each member of the Executive Committee and each of the other directors have internal controls in place for their area of responsibility and have given me formal assurance that these have been operating effectively throughout the year. The Board was provided with detailed, quality information including executive directors' reports and new quarterly management information reports.

Whistleblowing

There is a policy for staff whistleblowing which applies to all employees and sets out how any concerns or issues can be raised by our staff. Where employees feel unable to report issues internally, they can contact the chair of the Audit and Risk Assurance Committee, or the DWP partnership division directly.

We are committed to ensuring that each employee is aware of our policy and how to raise any concerns. We include details of our staff whistleblowing policy in our corporate induction programme for new staff and we also issue regular reminders to all employees. I am satisfied that there is an effective framework in place to deal with staff whistleblowing.

There have been no staff whistleblower events that met the threshold for further investigation or disclosure in this report.

Regulatory assurance

A regulatory assurance strategy was agreed in December 2016 and a team was set up to implement the function. Six regulatory assurance reviews of our regulatory work and decisions to assess whether risks are being identified, mitigated and managed effectively were completed during the year. Those reviews resulted in changes which have enabled more effective and efficient approaches to case management.

Risk management

We deal with two fundamental risk types in discharging our statutory objectives:

- strategic risks in the external pension landscape, and
- risks which are more operational in nature and, if left to crystallise, would significantly affect our ability to deliver our corporate priorities within the Corporate Plan

The risk appetite statement is a key element of our governance and reporting framework. It is set by the Board, reviewed annually, and demonstrates how we balance risk and reward in pursuit of achieving our objectives.

The TPR Executive Risk Committee is responsible for weighting risks in terms of threat and control, and for proposing a set of the main risks to the Audit and Risk Assurance Committee for their consideration. Supporting risk committees have been established across our directorates to ensure that effective risk management capabilities also operate at a working level.

The annual review of the effectiveness of our enterprise risk management approach (autumn 2016) concluded that the TPR Executive Risk Committee continued to fulfil its stated purpose and remit, with no areas of significant concern.

Crystallised risks

While no operational risks of notable magnitude crystallised over the past year, there were significant cases regarding failure of large DB sponsors, therefore a strategic risk, the risk of a failure of a major scheme, did crystallise. This risk had been identified and tracked within our strategic risk dashboard and our mitigation plans were considered effective in limiting the impact.

Risk modelling

We use models to enhance the effectiveness and efficiency of our regulatory activities and internal operations. In doing so, we acknowledge the risks that come with their use, and the need to identify and manage these risks in way that is proportionate to the model's complexity and intended use.

Our business-critical modelling activities are governed through our internal model risk framework. We have reviewed and updated our framework to ensure our models are subject to robust levels of governance and quality assurance, through our implementation of the recommendations of the Macpherson Review and HMT's Managing Public Money guidance.

Information security

In accordance with our responsibilities under the HMG security policy framework and the Data Protection Act 1998, we have arrangements in place to provide for information security, including provisions for cyber security. We continue to hold ISO 27001:2013 certification over our information and data.

We have not had the need to advise the Information Commissioner's Office (ICO) of any data protection-related incidents.

Internal audit

A programme of internal audits was undertaken and reported to the Audit and Risk Assurance Committee during the period of this statement. This programme covered a number of areas within TPR:

- Frontline regulation
- Cyber security threat assessment
- Core financial controls
- Horizon scanning
- Automatic enrolment: fines and penalties
- IT disaster recovery

Report classifications received this year were:

- Unsatisfactory assurance – 0
- Limited assurance – 0
- Moderate assurance – 5
- Substantial assurance – 1

Based on the spread of findings arising from the work completed, the internal auditors identified that improvements were required to aspects of business continuity arrangements (including IT disaster recovery).

While there have been significant improvements in our business continuity framework since last year, it was noted that the testing of the IT disaster recovery capabilities did not extend to ensuring that recovered systems could be used for 'business as usual' activities within the timeframes set out in the business continuity plan. A plan is in place to rectify this.

Furthermore, the developed business continuity plans had not been approved. Whilst it was recognised that these documents are live and should be expected to be revised as circumstances change, there is an expectation that they would be periodically approved.

Outside these areas, internal audit did not identify any control failures within the business and operational processes that were significant in aggregate to the system of internal control. As such, an overall opinion of **'Moderate assurance'**, whereby some improvements are required to enhance the adequacy and effectiveness of the framework of governance, risk management and control, was given.

Conclusion

Having reviewed the evidence and internal audit opinion, I am satisfied that we have maintained a sound system of internal controls during the 2016-2017 financial year. Control issues that arose over the year have been, or are in the process of being, addressed. There were no significant control failures or data losses.

To my knowledge, and that of the Board, there is no relevant audit information of which the auditor is unaware. I have taken appropriate steps to become aware of and report to the auditors any relevant audit information.

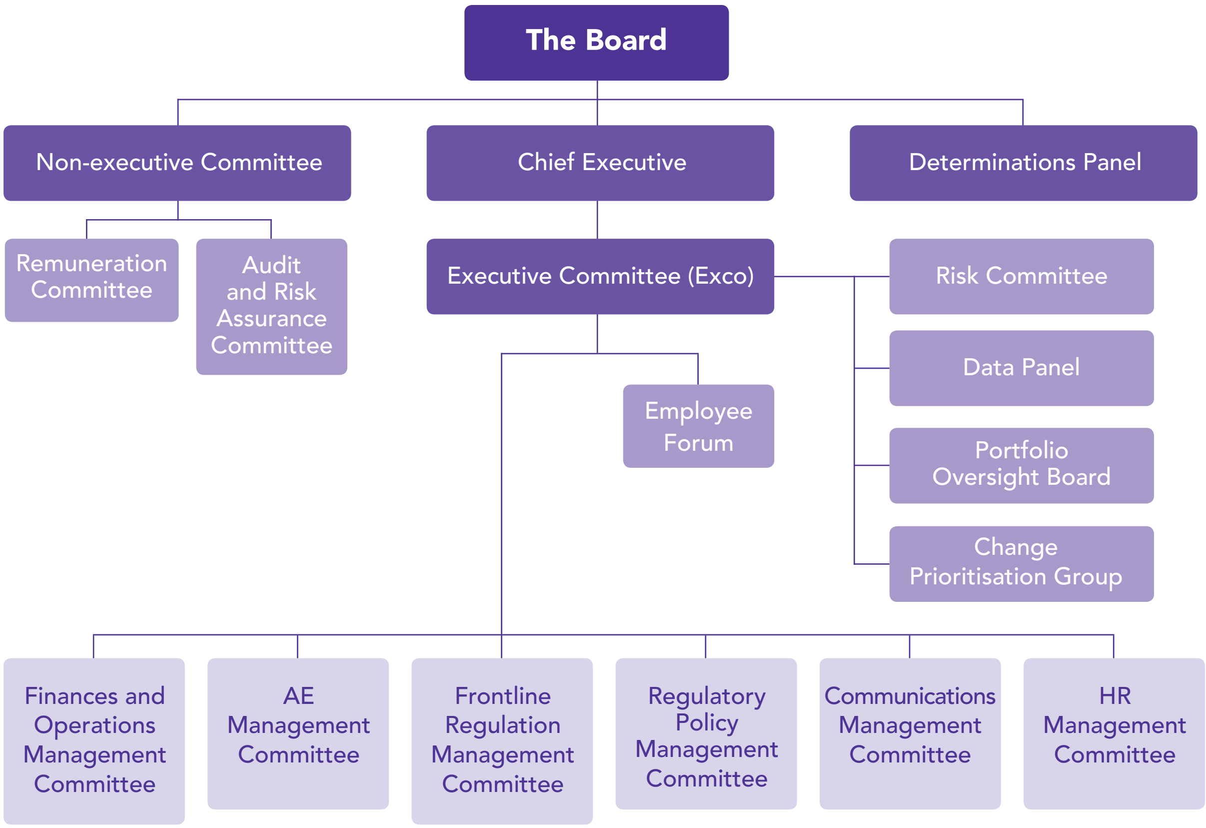
I can confirm that we received no ministerial direction under the Ministerial Code 2015 during the financial year 2016-2017.

Lesley Titcomb

Lesley Titcomb
Chief Executive, The Pensions Regulator
20 June 2017

Committee reports

Main committee structure (as at March 2017)



For further detail about the Board, see: **www.tpr.gov.uk/about-us/the-board.aspx**

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

Membership of the Committee of Non-executive members consists of TPR's Non-executive Chair, Mark Boyle, and each of the TPR Board Non-executive directors – all of whom are appointed to these roles by the Secretary of State.

Mark Boyle and four Non-executive directors, Tilly Ross, Sarah Smart, David Martin and Ann Berresford, were in post throughout.

Tony Brierley came to the end of his second full term of appointment in July 2016, after serving a total of eight years, including three as Chair of the Audit and Risk Assurance Committee, whilst Graham Mayes, came to the end of his term of appointment in January 2017. Ann Berresford's term of appointment comes to an end after the end of this reporting year. Ann has served as Chair of the Remuneration Committee throughout the year.

Two new non-executive directors joined during the year: Kirstin Baker CBE in February 2017 and Margaret Snowdon OBE in May 2016. Robert Herga's appointment was announced during the year, with a start date in July 2017, after the end of the year.

Attendance is shown in the Board membership and attendance tables on pages 54 to 56.

The Committee met twice formally during the period of this report, in May and November 2016. Members also met just after the reporting period, on 4 April. In addition, members agreed by email to changes in sub-committee membership, and to the appointment of Sarah Smart as Senior Independent Director.

Committee discussions included a range of appointments and staff matters such as progress with non-executive member recruitment, and senior management succession planning. The Committee reviewed Board agenda planning, including timing and content of regular reporting by executive directors, and reviewing the approach to reporting on major cases. The Committee also reflected on TPR's strategy development, on progress in meeting KPIs, on handling conflicts of interest, and on the programme of briefing and discussion sessions for non-executives with staff members.

Reports follow from the standing sub-committees: the Audit and Risk Assurance Committee and the Remuneration Committee.

Report of the activities of the Audit and Risk Assurance Committee

The Audit and Risk Assurance Committee had five meetings in 2016-2017 and provided feedback to the Board after each meeting.

Subjects considered by the Committee

During the year the committee:

- reviewed the external audit management report for 2015-2016
- reviewed the annual accounts for the period 2015-2016 and recommended their approval to the Board
- approved the external audit strategy and plan for 2016-2017
- reviewed the internal audit management report for 2015-2016
- approved the internal audit plan for 2016-2017
- received reports from the internal auditors reviewing areas of the organisation
- monitored the implementation of recommendations made in earlier internal audit reports
- noted that a new internal audit contract would take effect from 2017-2018, following on from the provision in place for four years, through to the end of 2016-2017
- reviewed management's initial proposals for the proposed internal audit strategy for 2017-2018
- considered, with senior management, TPR's approach to risk management and kept the risk register under review
- reviewed the effectiveness of TPR's enterprise risk management approach
- arranged with senior management for TPR's risk appetite assessment to be considered by the full Board
- discussed the developing internal work on assurance mapping
- was updated on the establishment of an internal regulatory assurance function
- considered the system of authorities delegated by the Board and their use
- reviewed Board and Determinations Panel members' expenses and hospitality information for quarterly publication

- is following up recommendations from an internal review of Board and committee effectiveness, including incremental developments around induction and ongoing training and development

The Committee also met in May and June 2017 to review:

- the internal auditors' annual opinion for 2016-2017
- the draft governance statement for 2016-2017
- the Annual Report and Accounts 2016-2017, together with the internal and external auditors' reports for the year
- the updated proposals for internal audit strategy for 2017-2018 from management and the incoming internal auditors

After completing these reviews, the Audit and Risk Assurance Committee recommended to the Board approval of the elements of the Annual Report and Accounts within its remit.

Risk assurance

The Committee undertook a quarterly review of TPR's top risks, based on management processes and inputs, to identify, prioritise, monitor, manage and mitigate operational and strategic risks throughout the organisation. It questioned management about the ratings given to risks, considered the effectiveness of mitigations and considered the changes and trends in risks.

The Committee also considered a report on progress with risk appetite work during the year. As a result of its work, the Audit and Risk Assurance Committee:

- noted that the internal control system is designed to manage rather than eliminate risk, and so provides reasonable rather than absolute assurance of effectiveness, having evolved to comply with government spending requirements and to track and monitor service delivery in key areas
- endorsed management's assessment of key risks through identification, prioritisation, monitoring and reporting systems, concluding that effective and thorough monitoring and reporting systems were in place to give the executive team an appropriate level of control over the management of risk
- noted that of the six internal audits undertaken, and which identified opportunities for improvement, the classification of five were moderate assurance and one was substantial assurance

The Committee was satisfied that good progress was being made in implementing agreed internal audit recommendations, and concluded that:

- the monitoring and reporting systems in place gave senior management an appropriate level of control over processes
- that management of processes within the organisation was broadly effective, and
- that where gaps were identified, appropriate actions were effectively put in place

The Committee noted the Head of Internal Audit's conclusion that some improvements are required to enhance the adequacy and effectiveness of the framework of governance, risk management and control.

2016-2017 internal audit services

As in previous years, internal audit services were provided by auditors whose services have been procured via a DWP framework agreement. The Committee:

- agreed a programme of internal audits for the year, covering major areas assessed as priority topics for review, investigation and audit
- kept progress under review during the year and reviewed each of the internal audit reports before its June 2017 review of the Annual Report and Accounts, including the governance statement, and their subsequent recommendation to the Board for approval
- closely monitored the progress of the implementation of previous audit recommendations each quarter

Board and Determinations Panel expenses

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

Chair's meetings

During the year, the Chair attended a range of further meetings to support the Committee's work. These included discussions with DWP about the work of the Committee, with the DWP's Group Head of Internal Audit on internal audit resourcing requirements, with the Head of Internal Audit and colleagues on internal audit progress, and with the National Audit Office (NAO) on the work of the Committee and on audit themes within the public and regulatory sector.

Membership

Membership from April 2016 to 31 January 2017 was Sarah Smart (Chair), Graham Mayes and Tilly Ross. From 1 February 2017, membership was Sarah Smart (Chair), Tilly Ross and Kirstin Baker CBE.

Report on the activities of the Remuneration Committee

The Remuneration Committee met on two occasions in 2016-2017. Its terms of reference include provision for the committee:

- to advise on the pay of the Chief Executive, including bonus and her performance against agreed objectives
- to review the pay and performance of the executive directors within the terms of TPR's pay remit agreed with the Secretary of State, including approval of any annual bonuses to be awarded to them
- to keep under review TPR's reward strategy
- to keep under review TPR's people strategy and to consider emerging strategic people issues, especially in relation to talent attraction, development and retention and long-term human resource planning, with a particular focus on leadership capability, and to update the Board accordingly

The Committee continued to focus on reward-related issues and on the objectives of senior staff. It:

- reviewed the Chief Executive's objectives and directors' objectives for 2016-2017
- approved bonus nominations for the Chief Executive, executive and other directors, and the bonus nomination process for other staff, relating to their previous year's performance
- received an update on the pay remit
- considered an update on implementation of TPR's people strategy, including work in hand to take forward the reward strand of the strategy

Decisions on remuneration were taken in accordance with the current rules on public sector pay, as in previous years.

The Committee reviewed progress with follow up to the annual staff engagement survey, including cross-organisational work. The Committee noted that TPR was retaining the high target of 75% employee engagement as a KPI for 2016-2017.

In addition, the Committee discussed talent management and succession planning, received an update on changes to performance management processes from 2016-2017, and discussed progress with TPR's organisational diversity and inclusion objectives.

The Committee is following up recommendations from the internal review of Board and committee effectiveness, including incremental developments around induction and ongoing training and development.

Membership throughout the year was Ann Berresford (Chair) and David Martin. From 9 May 2016, Margaret Snowdon OBE joined, on her appointment as a TPR non-executive director.

Through its discussions, including with management, the Committee formed the view that effective people approaches have been in place to give the executive team an appropriate level of support.

Details of Board membership

Board appointments and committee memberships are set out opposite. Board members' biographies can be viewed at: **www.tpr.gov.uk/board** A register of Board members' interests is on our website: **www.tpr.gov.uk/docs/register-board-interests.pdf**

Name	Date appointed	Date term expires/expired	Committee membership
Mark Boyle	1 April 2014	31 March 2018	Non-executive (Chairman)
Non-executive members			
David Martin	1 February 2013	31 May 2021	Remuneration, Non-executive
Ann Berresford	1 August 2013	31 July 2017[1]	Remuneration Chair, Non-executive
Sarah Smart	1 February 2016	31 January 2020	Audit and Risk Assurance Chair, Non-executive
Tilly Ross	1 February 2016	31 January 2020	Audit and Risk Assurance, Non-executive
Margaret Snowdon	9 May 2016	8 May 2020	Remuneration, Non-executive (from May 2016)
Kirstin Baker	1 February 2017	31 May 2021	Audit and Risk Assurance, Non-executive (from February 2017)
Executive members			
Lesley Titcomb	2 March 2015	1 March 2019	
Charles Counsell[2]	1 July 2011	19 May 2017	
Andrew Warwick-Thompson[3]	8 April 2013	14 July 2017	
Helen Aston	1 December 2015	30 November 2019	
Nicola Parish	1 August 2016	31 July 2020	
Former non-executive members			
Tony Brierley	9 July 2008	8 July 2016	Non-executive (to July 2016)
Graham Mayes	1 February 2013	31 January 2017	Audit and Risk Assurance, Non-executive (to January 2017)

1 A Berresford's term was due to expire on 31 July 2017 but she left on 30 June 2017.
2 C Counsell's term was due to expire on 1 July 2017 but he resigned and left on 19 May 2017.
3 A Warwick-Thompson's term was due to expire on 31 March 2019 but he has resigned and will now leave on 14 July 2017.

Details of Board attendance

Member	Number of meetings			
	Board	Audit and Risk Assurance Committee	Remuneration Committee	Committee of Non-executive members
Mark Boyle	9/9	N/A	N/A	2/2
David Martin	9/9	N/A	2/2	2/2
Ann Berresford	9/9	N/A	2/2	2/2
Sarah Smart	8/9	5/5	N/A	2/2
Tilly Ross	7/9	4/5	N/A	1/2
Margaret Snowdon[4]	8/9	N/A	2/2	2/2
Lesley Titcomb	9/9	N/A	N/A	N/A
Kirstin Baker[5]	2/2	N/A	N/A	N/A
Charles Counsell	9/9	N/A	N/A	N/A
Andrew Warwick-Thompson	8/9	N/A	N/A	N/A
Helen Aston	9/9	N/A	N/A	N/A
Nicola Parish[6]	6/6	N/A	N/A	N/A
Former member	**Number of meetings**			
	Board	**Audit and Risk Assurance Committee**	**Remuneration Committee**	**Committee of Non-executive members**
Tony Brierley	1/2	N/A	N/A	1/1
Graham Mayes	6/7	5/5	N/A	2/2

4 Margaret Snowdon OBE was appointed as Non-executive Board member on 9 May 2016.
5 Kirstin Baker CBE was appointed as Non-executive Board member on 1 February 2017.
6 Nicola Parish was appointed as Executive Board member on 1 August 2016.

Report on the activities of the Determinations Panel

Legislative framework

TPR is required by Section 9 of the Pensions Act 2004 to establish and maintain the Determinations Panel, whose purpose is to exercise certain regulatory functions which are primarily set out in schedule 2 to that Act.

In summary, these powers may be used either where we consider 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 we undertake serious regulatory action in a transparent way, allowing those affected to understand the reasons for it and the evidence upon which it is based.

Although the Determinations Panel is a committee of TPR, it has a separately appointed membership and legal support. This enables it to make its decisions independently from the case team, considering all the evidence before it and providing each party with reasonable opportunity to present their case. Members of the Determinations Panel are not involved in the investigative process.

Membership

Name	Date appointed	Date term expires/expired
Andrew Long (Panel Chairman)	6 April 2013	5 April 2021
Tony Foster	31 March 2014	30 March 2018
Peter Hinchliffe	14 July 2011	13 July 2019
David Latham	1 April 2014	31 March 2018
Matthew Lohn	13 March 2013	12 March 2017
Elizabeth Neville	14 July 2011	13 July 2019
Catharine Seddon	13 March 2013	12 March 2021
Alasdair Smith	14 July 2011	13 July 2019
John Swift	13 March 2017	12 March 2021
Pauline Wallace	13 March 2017	12 March 2021

TPR appoints a Chairman to the Panel. The Chairman then nominates at least six other members.

I was re-appointed as Panel Chair and my second term of office began on 6 April 2017 for a further four years. Following an open recruitment process, Catharine Seddon was appointed for a further four years from 13 March 2017. At the same time two new Panel members, John Swift and Pauline Wallace, were appointed. Matthew Lohn stepped down from the Panel on 12 March 2017 on the expiry of his term of office.

Procedures

The Panel's procedures, published on TPR's website, ensure that every regulatory decision it makes is reached after a full and impartial consideration. The procedures require the Panel to be satisfied that the evidence put forward supports the decision it is being asked to make. The standard of proof required will be on a balance of probabilities. If the Panel is not satisfied that the standard of proof is met, then it will refuse to make the decision requested. The cases coming before the Panel are prepared by the regulatory teams and incorporated into a warning notice. In standard procedure cases, this is sent to all parties who are considered to be directly affected by the decision under consideration and giving each party a full opportunity to respond, and to make their own case, if they wish.

The papers, including the warning notice, supporting exhibits and the responses, are then submitted to the Panel. Each case has its own sub-committee of Panel members, supported by a clerk as appropriate, and the Panel's administrative support staff.

The Panel then makes its decision on the basis of material already submitted. In cases where there is an oral hearing, all directly affected parties are invited to attend and make written and/or oral representations. The procedures have been designed to ensure that the Panel's determinations are made in a fair, open and impartial manner. They place an expectation on regulatory case teams to investigate fully and explain the grounds of concern with sufficient evidence to support them. Special procedure is an emergency procedure allowing action to be taken quickly and without notification to the directly affected parties. This is put into action when TPR considers that the scheme funds or members' interests would otherwise be at immediate risk. A special procedure decision must be fully reviewed by the Panel at a compulsory review soon after the initial hearing, with all parties given an opportunity to make representations on the initial decision made.

Casework in 2016-2017

During the year, the Panel made 41 determinations and exercised 42 powers. All cases were determined on consideration of the papers. One case was heard by special procedure and the compulsory review for this case, which involved two powers, is planned for the new financial year.

Further details of all the powers exercised are in the table on page 60.

This year has seen a significant increase in case volumes and the Panel has also been asked to consider two powers that it has not exercised before. The first of these is Section 71 (s71) under the Pensions Act 2004, which requires a skilled persons report to be produced. The Panel heard two cases with this power in the year. The second of these is the power to issue a civil penalty under Section 10 (s10) of the Pensions Act 1995. This power has formed the bulk of the cases heard by the Panel this year, and the penalties issued all relate to non-completion of a scheme return, which is a legal duty. Given the high number of these cases the Panel has given careful thought to how it could streamline its ways of working to ensure an efficient and effective process to hear them.

The Panel has welcomed TPR's use of these powers.

Upper Tribunal references of Panel determinations

Any determination made by the Panel can be referred to the Upper Tribunal ('the Tribunal'). Although similar to an appeal, this is called a reference. The Tribunal is the independent judicial body given power to reconsider the original determination. It has its own guidance on how to make a reference. The Tribunal may decide to confirm, vary, revoke or substitute a determination made by the Panel. There are currently three cases with the Tribunal. One is stayed and a second will be heard in 2018. These relate to cases first heard by the Panel between 2010 and 2012. The remaining case was only referred at the end of the financial year. A further two cases were referred to the Upper Tribunal but subsequently withdrawn.

Meetings and Panel training

In February 2017, I attended TPR's Board meeting, where I updated the Board on the work of the Panel, the cases heard to date, cases with the Upper Tribunal, Panel membership and training. The Panel holds quarterly meetings where members discuss a variety of aspects of our work.

Over the past year, these discussions included legal issues relating to prohibitions, master trusts, IT appointments and professional trustee standards, the work of the PPF, and discussions around the use of s10 (PA95) to issue a civil penalty to parties for non-compliance with particular duties. Learning from cases was also highlighted.

Conclusion

The Panel has now existed for 13 years, bringing a robust degree of challenge to TPR's casework as well as impartial decision-making on the exercise of significant regulatory powers. This year has been a particularly busy one for the Panel, with the use of different powers and a significant increase in case volumes, which I have welcomed. The Panel has good administrative support and an appropriate level of membership. I have confidence in the mutual respect that exists between the executive arm of TPR and the Panel, and believe that the Panel will continue to maintain its good reputation.

Determination requested	Number of powers exercised	Outcome
Appointment of independent trustee	1	One independent trustee was appointed to eight connected schemes. This case was heard by special procedure. The compulsory review is planned for early in the next financial year. The case was brought under s7(3)(a, c, d) of the Pensions Act 1995.
Vesting order	1	This power was exercised at the same time as the appointment of the independent trustee above and was brought under s9 of the Pensions Act 1995.
Skilled persons report	2	These cases related to two schemes and were brought under s71 of the Pensions Act 2004.
Prohibition of trustees	3	These cases prohibited eight trustees in total and were brought under s3 of the Pensions Act 1995.
Fines for non-compliance with scheme return	33	These cases fined a total of 62 trustees and were all brought under s10 of the Pensions Act 1995.
Voiding a deed of amendment	1	This case was brought under s67G of the Pensions Act 1995 and related to one scheme.
Extension of a Cash Equivalent Transfer Value (CETV) request	1	This case related to one scheme and was brought under s99(4) of the Pension Schemes Act 1993.

Andrew Long
Chairman, Determinations Panel
April 2017

Remuneration report

The Remuneration Committee

Details of the activities of the Remuneration Committee during the period ended 31 March 2017 are set out in pages 53 to 54.

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 Chairman) 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 TPR and approved by the Secretary of State for Work and Pensions.

Details of service contracts are shown on page 55.

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 on the following page.

Name	Notice period	Early termination payable to employee (Net pay plus accrued bonus if applicable)
Mark Boyle (Chairman)	3 months	3 months
Non-executive members		
Ann Berresford	1 month	1 month
Anthony Brierley[7]	1 month	1 month
David Martin[8]	3 months	3 months
Graham Mayes[9]	1 month	1 month
Tilly Ross	3 months	3 months
Sarah Smart	3 months	3 months
Margaret Snowdon[10]	3 months	3 months
Kirstin Baker[11]	3 months	3 months
Executive members		
Lesley Titcomb (Chief Executive)	6 months from TPR, 3 months from Chief Executive	6 months
Helen Aston	6 months from TPR, 3 months from executive member	6 months
Charles Counsell[12]	3 months	3 months
Nicola Parish[13]	3 months	3 months
Andrew Warwick-Thompson[14]	3 months	3 months

Other than as shown above, TPR would have no other contractual liability upon termination of a Board member's appointment.

7 A Brierley stepped down on 8 July 2016.
8 D Martin was reappointed on 1 February 2017.
9 G Mayes stepped down on 31 January 2017.
10 M Snowdon OBE was appointed on 9 May 2016.
11 K Baker CBE was appointed on 1 February 2017.
12 C Counsell OBE has resigned and stepped down on 19 May 2017.
13 N Parish was appointed 1 August 2016.
14 A Warwick-Thompson has resigned and will step down on 14 July 2017.

Remuneration policy

In accordance with part 1 of schedule 1 to the 2004 Pensions Act, the current and future remuneration of all non-executive members of the board of TPR (including the Chairman) is determined by the Secretary of State for Work and Pensions.

In accordance with part 2 of schedule 1 to the 2004 Pensions Act, remuneration of the Chief Executive is based on recommendations from the Remuneration Committee and approved by the Secretary of State for Work and Pensions.

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

The Chief Executive is eligible for a bonus capped at £17,500. All other executive members of the Board are eligible for an annual bonus capped at the lower of 10% of salary or £12,500. Non-executive members of the Board, the Chairman and the Determinations Panel are not entitled to receive a bonus.

The Chairman is responsible for reviewing annually the performance of the Chief Executive and reporting the results of this review to TPR'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.

Remuneration (including salary) and pension entitlements

The following sections provide details of the remuneration and pension interests of senior management. Pages 64 to 70 are subject to audit.

Executive members

Officials	Salary (£'000)		Bonus payments (£'000)[15]		Benefits in kind (to nearest £100)		Pension benefits (to nearest £1,000)[16]		Total (£'000)	
	2016-2017	2015-2016	**2016-2017**	2015-2016	**2016-2017**	2015-2016	**2016-2017**	2015-2016	**2016-2017**	2015-2016
L Titcomb[17] (Chief Executive)	205-210	205-210	15-20	N/A	–	–	–	–	220-225	205-210
C Counsell[17] (Executive Director, AE)	140-145	140-145	10-15	10-15	–	–	–	11,000	155-160	165-170
A Warwick-Thompson (Executive Director, Regulatory Policy)	140-145	140-145	5-10	10-15	–	–	56,000	56,000	205-210	210-215
H Aston (Executive Director, Finance and Operations)	125-130	40-45	10-15	N/A	–	–	50,000	10,000	190-195	50-55
N Parish (Executive Director, Frontline Regulation)	95-100[18]	N/A	N/A	N/A	–	N/A	37,000	N/A	130-135	N/A

15 Bonuses relating to 2015-2016 performance but paid in 2016-2017.
16 The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) plus (the real increase in any lump sum) less (the contributions made by the individual). The real increases exclude increases due to inflation or any increase or decreases due to a transfer of pension rights.
17 L Titcomb and C Counsell OBE chose not to be covered by the Civil Service pension arrangement during the year.
18 N Parish was appointed 1 August 2016. Full time equivalent £140-145k.

Pay multiples

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

The banded remuneration of the highest-paid director in the organisation in the financial year 2016-2017 was £220-225k (2015-2016: £205-210k). This was 4.9 times (2015-2016: 4.6) the median remuneration of the workforce, which was £45k (2015-2016: £45k).

In 2016-2017, no employees (2015-2016: nil) received remuneration in excess of the highest-paid director. Remuneration ranged from £12k to £220-225k (2015-2016: £18k to £205-£210k).

The decrease in the lowest salary is due to the introduction of our Apprentice scheme in 2016-2017.

Total remuneration includes salary, non-consolidated performance-related pay and benefits in kind. It does not include severance payments, employer pension contributions and the cash equivalent transfer value of pensions.

Salary

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

Benefits in kind

The monetary value of benefits in kind covers any benefits provided and treated by HM Revenue & Customs (HMRC) as a taxable emolument.

Bonuses

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

Remuneration

Non-executive members

Non-executive part-time members of the Board receive non-pensionable remuneration as set out in the table below.

	2016-2017			2015-2016		
	Salary (£'000)	**Total benefits in kind**	**Total** (£'000) (to nearest £100)	**Salary** (£'000)	**Total benefits in kind**	**Total** (£'000) (to nearest £100)
M Boyle (Chairman)	£60-65k	£900	£60-65k	£60-65k	£2,200	£60-65k
B Rigby[19]	–	–	–	£10-15k	£800	£10-15k
A Brierley[20]	£0-5k	£100	£0-5k	£20-25k	£200	£20-25k
G Mayes[21]	£10-15k	£400	£10-15k	£15-20k	£300	£15-20k
D Martin	£15-20k	£300	£15-20k	£15-20k	£300	£15-20k
A Berresford	£15-20k	£800	£15-20k	£15-20k	£1,200	£15-20k
T Ross	£15-20k	£200	£15-20k	£0-5k	–	£0-5k
S Smart (Chair of Audit and Risk Committee, Senior independent director)	£20-25k	£600	£20-25k	£0-5k	–	£0-5k
M Snowdon[22]	£15-20k	£100	£15-20k	N/A	N/A	N/A
K Baker[23]	£0-5k	–	£0-5k	N/A	N/A	N/A

19 B Rigby stepped down on 31 December 2015. Full year equivalent £15-20k.
20 A Brierley stepped down on 8 July 2016. Full time equivalent £15-20k.
21 G Mayes stepped down on 31 January 2017. Full time equivalent £15-20k.
22 M Snowdon OBE was appointed on 9 May 2016. Full time equivalent £15-20k.
23 K Baker CBE was appointed on 1 February 2017. Full time equivalent £15-20k.

None of the non-executive members received pension benefits in the current or prior year.

The total amount paid to non-executive directors (including the chairman) during the period was £175-180k. The monetary value of benefits in kind covers any benefits provided by the employer and treated by HMRC as a taxable emolument. The benefits shown above represent the payment of expenses for travelling to Board meetings. The remuneration of the chairman and non-executive members is non-pensionable.

Executive members' pension benefits

Executive members[24]	**Accrued pension at pensions age as at 31/3/17 and related lump sum** (£'000)	**Real increase in pension and related lump sum at pension age** (£'000)	**CETV at 31/3/16** (£'000)	**CETV at 31/3/17** (£'000)	**Real increase in CETV** (£'000)
A Warwick-Thompson (Executive Director, Regulatory Policy)	10-15 plus lump sum of 0	2.5-5 plus lump sum of 0	149	202	39
H Aston (Executive Director, Finance and Operations)	20-25 plus lump sum of 0	2.5-5 plus lump sum of 0	161	189	14
N Parish (Executive Director, Frontline Regulation)	20-25 plus lump sum of 0	0-2.5 plus lump sum of 0	207	231	15

24 The Chief Executive and the Executive Director for Automatic Enrolment chose not to be covered by the Civil Service pension arrangement during the year.

Taking account of inflation, the CETV funded by the employer has decreased in real terms.

None of the executive members received employer contributions to a partnership scheme in the current or prior year.

Pension benefits are provided through the Civil Service pension arrangements. From 1 April 2015, a pension scheme for civil servants was introduced – the Civil Servants and Others Pension Scheme, or Alpha, which provides benefits on a career average basis with a normal pension age equal to the member's State Pension Age (or 65 if higher). From that date, all newly appointed civil servants and the majority of those already in service, joined Alpha. Before that date, civil servants participated in the Principal Civil Service Pension Scheme (PCSPS). The PCSPS has four sections: three providing benefits on a final salary basis (Classic, Premium or Classic plus) with a normal pension age of 60, and one providing benefits on a whole career basis (Nuvos) with a normal pension age of 65.

These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under Classic, Premium, Classic plus, Nuvos and Alpha are increased annually in line with pensions increase legislation. Existing members of the PCSPS who were within 10 years of their normal pension age on 1 April 2012 remained in the PCSPS after 1 April 2015. Those who were between 10 years and 13 years and five months from their normal pension age on 1 April 2012 will switch into Alpha sometime between 1 June 2015 and 1 February 2022. All members who switch to Alpha have their PCSPS benefits 'banked', with those with earlier benefits in one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave Alpha. (The pension figures quoted for officials show pension earned in PCSPS or Alpha – as appropriate. Where the official has benefits in both the PCSPS and Alpha the figure quoted is the combined value of their benefits in the two schemes.) Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

Employee contributions are salary-related and range between 3% and 8.05% of pensionable earnings for members of Classic (and members of Alpha who were members of Classic immediately before joining Alpha) and between 4.6% and 8.05% for members of Premium, Classic plus, Nuvos and all other members of Alpha. Benefits in Classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial 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.

Classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per Classic and benefits for service from October 2002 worked out as in Premium. In Nuvos, a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with pensions increase legislation. Benefits in Alpha build up in a similar way to Nuvos, except that the accrual rate is 2.32%. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 8% and 14.75% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of providers. 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 0.5% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of Classic, Premium and Classic plus, 65 for members of Nuvos, and the higher of 65 or State Pension Age for members of Alpha. (The pension figures quoted for officials show pension earned in PCSPS or Alpha – as appropriate. Where the official has benefits in both the PCSPS and Alpha, the figure quoted is the combined value of their benefits in the two schemes, but note that part of that pension may be payable from different ages.)

Further details about the Civil Service pension arrangements can be found at: **www.civilservicepensionscheme.org.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 figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from lifetime allowance tax which may be due when pension benefits are taken.

Real increase in CETV

This reflects the increase in CETV that is funded by the employer. It does not include 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 chairman is £900 per day and for the other members is £692 per day.

Salary (2016-2017)	**Members**
£30-35k	A P Long (Chairman)
£20-25k	C Seddon
£15-20k	T Foster
£5-10k	E L Neville, D Latham, P Hinchliffe and M A Smith
£0-5k	M Lohn

Members of the Determinations Panel may be removed from office at any time by the chairman of the Panel with the approval of TPR. The chairman can be removed from office at any time by TPR. Members who wish to leave the Panel are required to give the chairman two months' notice, and the chairman is required to give TPR three months' notice.

Off-payroll engagements

For all off-payroll engagements as of 31 March 2017, for more than £220 per day and that last for longer than six months:

Number of existing engagements as at 31 March 2017	4
of which, the number that have existed for:	
less than one year at time of reporting	2
between one and two years at time of reporting	2
between two and three years at time of reporting	0
between three and four years at time of reporting	0
four or more years at time of reporting	0

For all new off-payroll engagements, or those that reached six months in duration, between 1 April 2016 and 31 March 2017, for more than £220 per day and that last for longer than six months:

Number of new engagements, or those that reached six months in duration, between 1 April 2016 and 31 March 2017	10
Number of the above which include contractual clauses giving the department the right to request assurance in relation to income tax and National Insurance obligations	10
Number for whom assurance has been requested	10
of which:	
number for whom assurance has been received	10
number for whom assurance has not been received	0
number that have been terminated as a result of assurance not being received	0
number that have existed for four or more years at time of reporting	0

For any off-payroll engagements of Board members, and/or, senior officials with significant financial responsibility, between 1 April 2016 and 31 March 2017:

Number of off-payroll engagements of Board members and/or senior officials with significant financial responsibility, during the financial year.	0
Total number of individuals on-payroll and off-payroll that have been deemed 'Board members and/or senior officials with significant financial responsibility', during the financial year. This figure should include both on-payroll and off-payroll engagements.	14

Staff report

Staff numbers and related costs

	AE £'000	Levy £'000	Total TPR £'000
2016-2017			
Salaries and wages*	9,162	18,134	27,296
Social security costs	1,030	2,040	3,070
Other pension costs	1,826	3,614	5,440
	12,018	23,788	35,806
Temporary staff	697	974	1,671
Subtotal	**12,715**	**24,762**	**37,477**
Total net costs	**12,715**	**24,762**	**37,477**

	AE £'000	Levy £'000	Total TPR £'000
2015-2016			
Salaries and wages*	7,809	18,024	25,833
Social security costs	748	1,726	2,474
Other pension costs	1,535	3,543	5,078
	10,092	**23,293**	**33,385**
Temporary staff	537	1,267	1,804
Subtotal	**10,629**	**24,560**	**35,189**
Total net costs	**10,629**	**24,560**	**35,189**

A summary of the above costs is included in Note 3 to the Financial statements. In addition to the above staff costs TPR incurred consultancy costs of £623k (2015-2016: £209k).

*Salaries and wages for 2016-2017 includes staff holiday accrual £464k (2015-2016: £272k) for Levy and £239k for AE (2015-2016: £124k).

The Pensions Act 2004 includes employment with TPR under the Superannuation Act 1972 and all employees, including the Chief Executive, are entitled to membership of the PCSPS, including family benefits. The PCSPS is an unfunded multi-employer DB salary-related scheme and TPR is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2012 and details can be found in the accounts of the Cabinet Office: Civil Superannuation: **www.civilservice.gov.uk/pensions**

For 2016-2017, employer contributions of £5,321k were payable to the PCSPS (2015-2016 £4,962k) at one of four rates in the range 20.0% to 24.5% (2015-2016: 20.0% to 24.5%) of pensionable pay, based on salary bands. The scheme's actuary reviews employer contributions every four years following a full scheme valuation. The salary bands and contribution rates were revised for 2015-2016 and will remain unchanged until 2016-2017. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £115k (2015-2016: £116k) were paid to one or more of a panel of appointed stakeholder pension providers. Employer contributions are age-related and range from 8% to 12.5% from 1 October 2015 (2015-2016: 8% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £4k (0.5%) from 1 October 2015 (2015-2016: £4k, 0.5%) of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

No individuals retired early on ill-health grounds in the current or prior year; the outstanding pensions contributions as at 31 March 2017 equates to £642k (31 March 2016: £581k) are included within current liabilities in Note 11.

Average number of persons employed

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

2016-2017

Number of staff	AE	Levy	Total TPR
Employees	136	373	509
Temporary staff	5	13	18
Total	**141**	**386**	**527**

2015-2016

Number of staff	AE	Levy	Total TPR
Employees	121	359	480
Temporary staff	5	18	23
Total	**126**	**377**	**503**

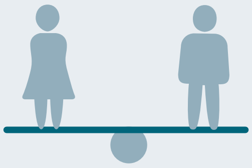
Reporting of Civil Service and other compensation schemes – exit packages

Comparative data for previous year in brackets

Exit package cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band
<£10,000	– (–)	3 (7)	**3 (7)**
£10,001-£25,000	– (–)	3 (5)	**3 (5)**
£25,001-£50,000	– (–)	4 (2)	**4 (2)**
£50,001-£100,000	– (–)	1 (3)	**1 (3)**
Total number of exit packages by type	**– (–)**	**11 (17)**	**11 (17)**
Total resource cost/£'000	– (–)	278 (461)	**278 (461)**

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

Staff information



Gender

50/50

We had an overall gender balance of 50% female to 50% male, with a spread of genders across all job groups. Of our managers and senior managers, 45% and 44% respectively were female.

Age

72%

72% of our workforce are aged between 31 and 50. The average age of the workforce is 41.

Executive balance

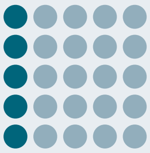
>60%

The percentage of female executive directors increased to 60% in 2016-2017 compared to 50% female executive directors in 2015-2016. The percentage of female directors and other employees remains unchanged at 50% in 2016-2017.

Sickness

3%

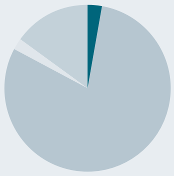
There was a slight reduction in working time lost due to sickness; from 3.5% to 3% (CIPD 2016 all organisations average; 2.8% and public sector average; 3.7%): **https://www.cipd.co.uk/Images/absence-management_2016_tcm18-16360.pdf**



Working patterns

11%

11% of our workforce are part-time.

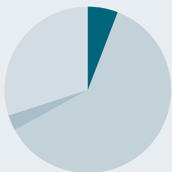


Disability

3%

3% of our workforce declared themselves as having a disability.

80% Not disabled | **15%** Not specified | **2%** Did not disclose

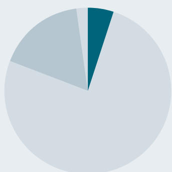


Sexual orientation

6%

6% of staff declared they were gay, lesbian or bisexual.

61% Heterosexual | **30%** Not specified | **3%** Did not disclose

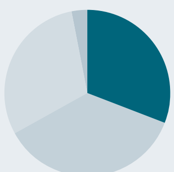


Race

5%

5% of our workforce declared that they are from black, Asian or ethnic minority groups. 76% declared that they are of white origin.

76% White | **17%** Not specified | **2%** Did not disclose



Religion and belief

31%

31% of staff declared a religion or belief, of which 80% declared they were Christian. 36% of staff declared they have no religion.

36% No religion | **30%** Not specified | **3%** Did not disclose

Please note: all figures have been rounded to the nearest whole number.

Statement of the Board and Chief Executive's responsibilities

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

In preparing the accounts, TPR was required to:

- observe the accounts direction issued by the Secretary of State for Work and Pensions, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis
- make judgments and estimates on a reasonable basis
- state whether applicable accounting standards have been followed in accordance with the Government 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

Accounting Officer responsibilities

The accounting officer confirms:

- there is no relevant audit information of which the auditors are unaware
- she has taken all steps she ought to ensure the auditors are aware of all relevant audit information
- she has taken all the steps she ought to establish that TPR's auditors are aware of the information
- that the Annual Report and Accounts as a whole, is fair, balanced and understandable
- that she takes personal responsibility for the Annual Report and Accounts and the judgements required for determining that it is fair, balanced and understandable

Lesley Titcomb
Chief Executive, The Pensions Regulator
20 June 2017

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 2017 under the Pensions Act 2004. The Financial statements comprise the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity and the related notes. These Financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration and Staff Report and the Parliamentary Accountability Disclosures that is described in that report as having been audited.

Respective responsibilities of the Board, Accounting Officer and Auditor

As explained more fully in the Statement of the Board and Chief Executive's Responsibilities, the Board and the Accounting Officer are responsible for the preparation of the Financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the Financial statements in accordance with the Pensions Act 2004. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the Financial statements

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

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

Opinion on regularity

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

continued over...

The Certificate and Report of the Comptroller and Auditor General continued...

Opinion on Financial statements

In my opinion:

- the Financial statements give a true and fair view of the state of The Pensions Regulator's affairs as at 31 March 2017 and of the net expenditure for the year then ended, and
- the Financial statements have been properly prepared in accordance with the Pensions Act 2004 and Secretary of State directions issued thereunder

Opinion on other matters

In my opinion:

- the parts of the Remuneration and Staff Report and the Parliamentary Accountability disclosures to be audited have been properly prepared in accordance with Secretary of State directions made under the Pensions Act 2004, and
- the information given in the Performance Report and the Accountability Report for the financial year for which the Financial statements are prepared is consistent with the Financial statements

Matters on which I report by exception

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

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff, or
- the Financial statements and the parts of the Remuneration and Staff Report and the Parliamentary Accountability disclosures to be audited are not in agreement with the accounting records and returns, or
- I have not received all of the information and explanations I require for my audit, or
- the Governance Statement does not reflect compliance with HM Treasury's guidance

Report

I have no observations to make on these Financial statements.

Sir Amyas C E Morse
Comptroller and Auditor General
National Audit Office, 157-197 Buckingham Palace Road, Victoria, London SW1W 9SP
22 June 2017

Financial review

The funding of regulation is derived from two main sources: a Grant-in-Aid from the DWP which is recoverable from a levy on pension schemes and covers activities relating to the PA04 and the Pensions Act 2008 (PA08), and a separate Grant-in-Aid from general taxation which funds AE expenditure on activities is accounted for separately to prevent cross subsidy.

The accounting policies under which income and expenditure are recognised are set out in Note 1 to the accounts.

Expenditure for year ended March 2017

In the year ended 31 March 2017, we had net expenditure of £74.8m, of which £36.7m relates to levy funded activities and £38.1m is attributable to AE. The net expenditure has been transferred to the general reserve and is offset through contributions from the DWP of £35.1m for TPR's levy activities and £38.1m from the DWP for AE activities.

Payroll staff costs have increased by £2.4m to £35.8m compared to 2015-2016 expenditure due to increasing staff levels during the year. Temporary staff costs have decreased by £0.1m.

Other expenditure increased by £9.7m across the organisation, a £7.7m increase for AE and a £2.0m increase for levy compared to 2015-2016. This increase is mainly driven by the £6.0m increase in costs from business outsourced services relating to the roll out of automatic enrolment, £1.3m increase in case expenditure and £1.8m additional portfolio and technology expenditure.

There have been no significant events occurring since period end.

Property, plant and equipment and intangible assets

Capital expenditure of £1.2m was incurred during the period ended 31 March 2017, of which £0.7m related to property, plant and equipment (PPE) and £0.5m to intangible assets (computer software).

Payments to suppliers

We are 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 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 2017, by volume, we paid 94% of invoices in line with these terms.

Long term expenditure trends

Over the previous five years, total expenditure has increased each year. This has been predominantly due to the introduction of AE, which will continue to drive the increase in cost for 2017-2018 as we support its roll out to small and micro employers. We expect it to reduce for 2018-2019 and increase slightly for 2019-2020.

Long term financial analysis

	Actual 2012-2013	Actual 2013-2014	Actual 2014-2015	Actual 2015-2016	Actual 2016-2017	Budget 2017-2018	Projection 2018-2019
Total TPR*	**48.9**	**54.4**	**60.1**	62.8	74.8	83.4	76.9

* All figures exclude capital expenditure

Other activities

Levies account

The Pensions Act 2004 does not require us to prepare a levies account. During the year ended 31 March 2017, we invoiced and collected levies on behalf of the DWP (the general levy and PPF administration levy) which will be reported in the audited Financial statements of that organisation.

The following results do not feature in our audited accounts:

- During the year we invoiced £64.2m, of which £45.5m related to the general levy and £18.7m to the PPF administration levy.
- The opening debt position as at 1 April 2016 was a balance of £102k, the closing debt position as at 31 March 2017 was £227k.
- We collected and transferred £64.1m to the DWP during the year. There was £51k received and not transferred at the year end.

Levies account summary 2016-2017

Category	Totals
Opening debt at 1 April 2016	£0.1m
General levy invoices	£45.5m
PPF administration invoices	£18.7m
General levy receipts	(£45.5m)
PPF administration receipts	(£18.6m)
Closing debt at 31 March 2017	**£0.2m**

Automatic enrolment penalty notices

During the year ended 31 March 2017, we issued penalty notices under sections 40 and 41 of the Pensions Act 2008. The following results summarise automatic enrolment penalties issued and collected during the year.

These figures do not feature in our audited accounts. We collect and hold penalties on behalf of HM Treasury and transfer the money over to the consolidated fund via the DWP.

The opening debt balance as at 1 April 2016 was £537k and during the year 2016-2017, we issued Fixed Penalty Notices (FPN) and Escalating Penalty notices (EPN) totalling £12.6m, of which £2.1m has been collected – write offs and remissions totalled £869k. Discharged debt during the year totalled £3.6m, leaving the closing debt position as at 31 March 2017 at £6.5m. The closing position includes debt issued towards the latter part of the year for which the debt recovery process is ongoing.

AE penalty notices summary 2016-2017

Category	FPN	EPN	Total
Opening balance	£0.3m	£0.2m	£0.5m
Penalties issued	£5m	£7.6m	£12.6m
Collected	(£1.6m)	(£0.5m)	(£2.1m)
Write offs and remissions[21]	(£0.3m)	(£0.6m)	(£0.9m)
Discharged debt[22]	(£1.7m)	(£1.9m)	(£3.6m)
Closing balance	**£1.7m**	**£4.8m**	**£6.5m**

21 Write-offs are debts that are considered to be irrecoverable because there are no practical means for pursuing the liability. Debt 'remission' is where we decide not to pursue a debt primarily on the grounds of value for money – ie the cost of pursuing it would be greater than the benefit, or is not the most efficient use of limited resources.

22 Discharged debt is where we amend or cancel a debt as further information is received which reduces the liability or confirms that it is not legally due.

During the year, we refunded 188 penalties, totalling £78K.

£1.8m was transferred to the consolidated fund via the DWP during 2016-2017. There was £0.3m received and not transferred at year end.

We proactively sought payment of any outstanding penalties and this work will continue with a view of seeking prompt payment of any penalties due.

Section 10 and chair's statement penalty notices

During the year ended 31 March 2017, we started issuing penalty notices under: (a) Section 10 of the Pensions Act 1995 for failures to provide a scheme return: and (b) Regulation 28 of the Occupational Pension Schemes (Charges and Governance) Regulations 2015 for failures to prepare a chair's statement. These figures do not feature in our audited accounts. We collect penalties on behalf of HM Treasury and transfer the money over to the consolidated fund via the DWP.

Eighty five penalties for breaches in providing a chair's statement totalling £57k were issued (two were subsequently revoked). Fourteen scheme penalties for failing to provide a scheme return were issued, totalling £5k.

Receipts for the year totalled £48k, of which, £47k related to chair's statement penalties and £1k for scheme return penalties. The closing debt balance (£13k) related to 22 penalties that had not reached or had recently entered the early stages of debt management.

From the £48k received, £47k was transferred to the consolidated fund via the DWP. There was £1k received and not transferred at year end.

Section 10 and chair's statement penalty notices summary 2016-2017

Category	Totals
Opening debt at 1 April 2016	–
Fines issued	£62k
Penalties written off	(£1k)
Receipts	(£48k)
Closing debt at 31 March 2017	**£13k**

Lesley Titcomb

Lesley Titcomb
Chief Executive, The Pensions Regulator
20 June 2017

Financial statements and Notes to the accounts

Statement of Comprehensive Net Expenditure for the year ended 31 March 2017

	Note	2016-2017 £'000	2015-2016 £'000
Expenditure			
Staff costs	3	**37,477**	35,189
Depreciation and impairment charges	4	**1,225**	1,365
Other operating expenditure	4	**36,118**	26,278
Total operating expenditure		**74,820**	62,832
Finance income		**(17)**	(15)
Net expenditure after interest, before taxation		**74,803**	62,817
Taxation		**3**	3
Net expenditure for the year		**74,806**	62,820
Other comprehensive expenditure			
Net gain on revaluation of property, plant and equipment	5a	**–**	35
Comprehensive net expenditure for the year		**74,806**	62,855

All income and expenditure is derived from continuing operations.
The Accounting policies and notes on pages 90 to 109 form part of these accounts.

Statement of Financial Position as at 31 March 2017

	Note	At 31 March 2017 £'000	At 31 March 2016 £'000
Non-current assets			
Property, plant and equipment	5a	**2,178**	1,991
Intangible assets	6a	**1,844**	2,052
Total non-current assets		**4,022**	4,043
Current assets			
Trade and other receivables	8	**1,256**	1,178
Cash and cash equivalents	9	**934**	525
Total current assets		**2,190**	1,703
Total assets		**6,212**	5,746
Current liabilities			
Trade and other payables	10	**(11,166)**	(9,106)
Provisions	11	**–**	–
Total current liabilities		**(11,166)**	(9,106)
Total assets less current liabilities		**(4,954)**	(3,360)
Non-current liabilities			
Provisions	11	**(687)**	(638)
Total non-current liabilities		**(687)**	(638)
Assets less liabilities		**(5,641)**	(3,998)
Taxpayers' equity			
General Fund		**(5,641)**	(3,998)
Revaluation Reserve		**–**	–
Total equity		**(5,641)**	(3,998)

The Financial statements on pages 86 to 89 were approved and authorised for issue by the Board on 14 June 2017 and were signed on its behalf by:

Lesley Titcomb

Lesley Titcomb
Chief Executive, The Pensions Regulator, 20 June 2017

The Accounting policies and notes on pages 90 to 109 form part of these accounts.

Statement of Cash Flows for the year ended 31 March 2017

	Note	**2016-2017 £'000**	2015-2016 £'000
Cash flows from operating activities			
Net expenditure after interest		**(74,803)**	(62,817)
Adjustments for non-cash transactions	4	**1,237**	1,379
Increase in trade and other receivables	8	**(78)**	(185)
Increase/(Decrease) in trade and other payables	10	**1,872**	(902)
Increase in provisions	11	**49**	8
Cash outflow due to taxation		**(3)**	(4)
Net cash outflow from operating activities		**(71,726)**	(62,521)
Cash flows from investing activities			
Purchase of property, plant and equipment	5b	**(730)**	(648)
Purchase of intangible assets	6b	**(298)**	(1,080)
Net cash outflow from investing activities		**(1,028)**	(1,728)
Cash flows from financing activities			
GIA to cover ongoing operations of levy		**35,053**	35,149
GIA to cover ongoing operations of AE		**38,110**	29,161
Net financing		**73,163**	64,310
Net increase in cash and cash equivalents in the period	9	**409**	61
Cash and cash equivalents at the beginning of the period		**525**	464
Cash and cash equivalents at the end of the period	9	**934**	525

The Accounting policies and notes on pages 90 to 109 form part of these accounts.

Statement of Changes in Taxpayers' Equity for the year ended 31 March 2017

	Revaluation Reserve £'000	General Reserve £'000	Total Reserves £'000
Balance at 1 April 2015	**19**	**(5,472)**	**(5,453)**
Changes in Taxpayers' Equity 2015-2016			
GIA received from the DWP	–	64,310	64,310
Net gain on revaluation of property, plant and equipment	(35)	–	(35)
Transfers between reserves*	16	(16)	–
Comprehensive expenditure for the year	–	(62,820)	(62,820)
Balance at 31 March 2016	**–**	**(3,998)**	**(3,998)**
Changes in Taxpayers' Equity 2016-2017			
GIA received from the DWP	–	73,163	73,163
Comprehensive expenditure for the year	–	(74,806)	(74,806)
Balance at 31 March 2017	**–**	**(5,641)**	**(5,641)**

*As the historical cost basis for property, plant and equipment was adopted as a proxy for fair value in the prior year, there will be no further gains and losses resulting from revaluations of fixed assets.

The Accounting policies and notes on pages 90 to 109 form part of these accounts.

Notes to the accounts

1 Statement of accounting policies

These Financial statements have been prepared in accordance with the 2016-2017 Government Financial Reporting Manual (FReM) issued by HMT. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of TPR for the purpose of giving a true and fair view has been selected. The particular policies we have adopted are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

1.1 Accounting standards, interpretations and amendments

We have adopted all IFRS, International Accounting Standards (IAS), International Financial Reporting Interpretations Committee (IFRIC) interpretations and amendments to published standards that were effective at 31 March 2017. IFRS 16 has been issued but is not effective until 1 January 2019 and we have not adopted early. We are assessing the impact on our Financial statements.

1.2 Accounting convention

These accounts have been prepared under the historical cost convention.

a) Property, plant and equipment

Property, plant and equipment are stated at fair value. However, from 1 April 2015, as permitted by the FReM, we adopted a depreciated historical cost basis as a proxy for fair value where non-property assets have a short useful life or are of relatively low value. Any permanent impairment in the value of property, plant and equipment on revaluation is charged to the Statement of Comprehensive Net Expenditure. When it occurs, TPR is required to remit the proceeds of disposal of property, plant and equipment to the Secretary of State.

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

b) Depreciation and amortisation

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

Leasehold improvements	–	the shorter of 10 years or the remainder of the lease term
Furniture, fixtures and office equipment	–	10 years
IT hardware (telecoms and servers)	–	7 years
IT hardware (other)	–	5 years
IT software	–	5 to 7 years

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

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

c) Intangible assets

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

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

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

d) Impairment

Under IAS 36, individual assets are reviewed for impairment to ensure their carrying amount is not greater than the recoverable amount.

e) Other income and expenditure

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

f) Value added tax

TPR's activities are exempt under the terms of the VAT legislation and therefore input VAT is not recoverable. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase of non-current assets as appropriate.

g) Employee benefits

In accordance with IAS 19 employee benefits, accruals have been made for short-term employee benefits, such as salaries, paid absences and general staff bonuses. Bonuses in relation to senior Civil Service employees are not recognised until payments to individuals have been determined and notified. The holiday accrual is the total leave owed to staff at 31 March 2017.

h) Operating leases

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

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

i) Financial Instruments

Trade and other receivables

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

Cash and cash equivalents

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

Trade and other payables

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

j) Government grants and Grant-in-Aid

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

k) Early retirement and severance costs

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

l) Provision for liabilities

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

m) Reserves

General Reserve

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

Revaluation Reserve

In the prior period, this reflects the unrealised balance of the cumulative indexation and revaluation adjustments to non-current assets. All assets are now held at historic cost which is a proxy for fair value.

n) Going concern

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

o) Segmental analysis

In previous years, TPR has provided a breakdown of assets and liabilities by each reportable segment. However, as this breakdown is not provided regularly to the chief operating decision-maker, its inclusion is optional and this information has been removed in order to streamline the segmental reporting. We now disclose the segmental split of operating costs only.

p) Critical accounting judgements and key sources of estimation uncertainty

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

Critical judgements in applying the accounting policies

IT software internally generated

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

Dilapidations

A dilapidation provision is held for the office TPR occupies in Brighton to cover the requirements of the new lease (expires July 2023). The provision is to make good dilapidations or other damage occurring during the lease periods.

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

Key sources of estimation uncertainty

There are no significant areas of estimation uncertainty.

1.3 Pensions

The majority of past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) which is a DB scheme and is unfunded and contributory, except in respect of dependents' benefits. TPR 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 the Staff report, certain employees can opt for a stakeholder pension.

2 Statement of operating costs by operating segment

	AE £'000	Levy £'000	Total £'000
2016-2017			
Gross expenditure	38,123	36,700	74,823
Income	(9)	(8)	(17)
Net expenditure	**38,114**	**36,692**	**74,806**
2015-2016			
Gross expenditure	28,367	34,468	62,835
Income	(8)	(7)	(15)
Net expenditure	**28,359**	**34,461**	**62,820**

TPR comprises two distinct operating segments: Levy and AE. Levy activity relates to the regulation of new and existing DB and DC schemes while AE supports the delivery of automatic enrolment.

Levy activity is funded by Grant-in-Aid payments from the DWP which is recovered through the general levy charged on pension schemes in the United Kingdom. AE is tax-payer funded through a separate Grant-in-Aid stream from the DWP and resources are charged and treated separately and to the correct funding stream.

All AE-related work is recorded on separate ledgers and protocols are adhered to in order to avoid cross subsidy. Reporting is provided to the Executive Committee and the Board on both AE and Levy expenditure. Corporate overheads are split between AE and Levy based on headcount.

Regular reporting of the assets of each segment is not provided to the Executive Committee and this information is therefore excluded from the Financial statements.

3 Staff costs

	AE £'000	Levy £'000	Total TPR £'000
2016-2017			
Net staff costs	**12,715**	**24,762**	**37,477**
2015-2016			
Net staff costs	10,629	24,560	35,189

Detailed disclosure of the total staff costs for the year and previous year is included within the Staff report section of the Remuneration report, which forms part of this Annual Report.

4 Other operating expenditure

	AE £'000	Levy £'000	Total TPR £'000
2016-2017			
Running costs			
Chairman and part-time Board members' fees and expenses*	74	128	202
Consultancy, contracted-out and other professional services	2,721	6,863	9,584
Business process outsourced services	19,537	–	19,537
Training and recruitment costs	140	1,004	1,144
Staff travel and expenses	204	331	535
General expenses including accommodation expenses	673	1,863	2,536
Rentals under operating leases	322	509	831
Dilapidations costs	–	49	49
Computer systems development and maintenance	1,125	530	1,655
Auditor's remuneration	–	33	33
Loss on disposal of fixed assets	–	12	12
	24,796	**11,322**	**36,118**
Depreciation and impairment charges			
Depreciation	6	551	557
Amortisation	605	63	668
Impairment of fixed assets	–	–	–
	611	**614**	**1,225**
Total	**25,407**	**11,936**	**37,343**

	AE £'000	Levy £'000	Total TPR £'000
2015-2016			
Running costs			
Chairman and part-time Board members' fees and expenses*	50	129	179
Consultancy, contracted-out and other professional services	1,452	4,802	6,254
Business process outsourced services	13,517	–	13,517
Training and recruitment costs	191	794	985
Staff travel and expenses	242	308	550
General expenses including accommodation expenses	494	1,699	2,193
Rentals under operating leases	218	583	801
Dilapidations costs	–	9	9
Computer systems development and maintenance	916	827	1,743
Auditor's remuneration	–	33	33
Loss on disposal of fixed assets	–	14	14
	17,080	**9,198**	**26,278**
Depreciation and impairment charges			
Depreciation	4	491	495
Amortisation	616	138	754
Impairment of fixed assets	36	80	116
	656	**709**	**1,365**
Total	**17,736**	**9,907**	**27,643**

*Includes fees of £177k (2015-2016: £157k), social security costs of £15k (2015-2016: £15k) and expenses of £10k (2015-2016: £7k). Details of the remuneration and pension benefits of the Chair and all other members of the Board are given in the Remueration report in the Financial review.

There is tax due to HMRC on expenses as part of the PAYE Settlement Agreement (payable in August 2017).

5a Property, plant and equipment

2016-2017	Leasehold improvements £'000	Furniture, fixtures and office equipment £'000	IT hardware £'000	Total £'000
Cost or valuation				
At 1 April 2016	1,665	1,017	2,465	5,147
Additions	159	76	519	754
Disposals	(74)	–	(77)	(151)
At 31 March 2017	**1,750**	**1,093**	**2,907**	**5,750**
Depreciation				
At 1 April 2016	927	447	1,782	3,156
Charged in year	125	94	338	557
Disposals	(70)	–	(71)	(141)
At 31 March 2017	**982**	**541**	**2,049**	**3,572**
Carrying amount at 31 March 2016	**738**	**570**	**683**	**1,991**
Carrying amount at 31 March 2017	**768**	**552**	**858**	**2,178**

TPR does not hold any assets under finance leases.

2015-2016	Leasehold improvements £'000	Furniture, fixtures and office equipment £'000	IT hardware £'000	Total £'000
Cost or valuation				
At 1 April 2015	1,586	1,026	2,140	4,752
Additions	106	44	421	571
Disposals	(10)	(3)	(77)	(90)
Revaluations	(17)	(50)	(19)	(86)
At 31 March 2016	**1,665**	**1,017**	**2,465**	**5,147**
Depreciation				
At 1 April 2015	843	395	1,553	2,791
Charged in year	102	85	308	495
Disposals	(9)	(1)	(69)	(79)
Revaluations	(9)	(32)	(10)	(51)
At 31 March 2016	**927**	**447**	**1,782**	**3,156**
Carrying amount at 31 March 2015	**743**	**631**	**587**	**1,961**
Carrying amount at 31 March 2016	**738**	**570**	**683**	**1,991**

5b Cashflow reconciliation

	2016-2017	2015-2016
	£'000	£'000
Capital payables and accruals at 1 April	**31**	108
Capital additions	**754**	571
Less Capital payables and accruals at 31 March	**(55)**	(31)
Purchase of property, plant and equipment as per Statement of Cash Flows	**730**	648

6a Intangible assets

2016-2017	Software under development £'000	Software internally generated £'000	IT software acquired £'000	Total £'000
Cost or valuation				
At 1 April 2016	–	1,621	3,997	5,618
Additions	453	–	8	461
Reclassifications	–	–	–	–
Disposals	–	–	(40)	(40)
At 31 March 2017	**453**	**1,621**	**3,965**	**6,039**
Amortisation				
At 1 April 2016	–	1,419	2,147	3,566
Charged in year	–	55	613	668
Disposals	–	–	(39)	(39)
At 31 March 2017	**–**	**1,474**	**2,721**	**4,195**
Carrying amount at 31 March 2016	**–**	**202**	**1,850**	**2,052**
Carrying amount at 31 March 2017	**453**	**147**	**1,244**	**1,844**

6a Intangible assets continued...

2015-2016	Software under development £'000	Software internally generated £'000	IT software acquired £'000	Total £'000
Cost or valuation				
At 1 April 2015	528	1,621	3,069	5,218
Additions	–	–	417	417
Reclassifications	(528)	–	528	–
Disposals	–	–	(17)	(17)
At 31 March 2016	**–**	**1,621**	**3,997**	**5,618**
Amortisation				
At 1 April 2015	–	1,330	1,382	2,712
Charged in year	–	89	665	754
Disposals	–	–	(16)	(16)
Impairment	–	–	116	116
At 31 March 2016	**–**	**1,419**	**2,147**	**3,566**
Carrying amount at 31 March 2015	**528**	**291**	**1,687**	**2,506**
Carrying amount at 31 March 2016	**–**	**202**	**1,850**	**2,052**

6b Cashflow reconciliation

	2016-2017	2015-2016
	£'000	£'000
Capital payables and accruals at 1 April	**29**	692
Capital additions	**461**	417
Less Capital payables and accruals at 31 March	**(192)**	(29)
Purchase of property, plant and equipment as per Statement of Cash Flows	**298**	1,080

7 Financial instruments

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

The fair values of TPR's financial assets and liabilities for both the current and comparative year do not differ materially from their carrying values.

8 Trade receivables and other current assets

	2016-2017 £'000	2015-2016 £'000
Amounts falling due within the year		
Trade receivables	3	–
Other receivables	289	96
Prepayments	964	1,082
	1,256	1,178

9 Cash and cash equivalents

	2016-2017 £'000	2015-2016 £'000
Balances at 1 April	525	464
Net change in cash and cash equivalent balances	409	61
Balance at 31 March	**934**	**525**
At 31 March, the following balances were held:		
Commercial banks and cash in hand	**934**	**525**

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

10 Trade payables and other current liabilities

	2016-2017 £'000	2015-2016 £'000
Amounts falling due within one year		
Other taxation and social security	879	756
Trade payables	436	144
Capital accruals	247	60
Accruals	9,604	8,146
	11,166	9,106

There are no trade payables and other current liabilities falling due after more than one year.

11 Provisions for liabilities and charges

2016-2017	Early retirement £'000	Severance £'000	Dilapidations £'000	Year end total £'000
Balance at 1 April 2016	–	–	638	638
Provided in the year	–	282	49	331
Provision not required written back	–	–	–	–
Provisions utilised in the year	–	(282)	–	(282)
Balance at 31 March 2017	**–**	**–**	**687**	**687**

Analysis of expected timing of discounted flows

Not later than one year	–	–	–	–
Later than one year and not later than five years	–	–	–	–
Later than five years	–	–	687	687
Balance at 31 March 2017	**–**	**–**	**687**	**687**

2015-2016	Early retirement £'000	Severance £'000	Dilapidations £'000	Year end total £'000
Balance at 1 April 2015	1	–	629	630
Provided in the year	–	461	9	470
Provision not required written back	–	–	–	–
Provisions utilised in the year	(1)	(461)	–	(462)
Balance at 31 March 2016	**–**	**–**	**638**	**638**

Analysis of expected timing of discounted flows

Not later than one year	–	–	–	–
Later than one year and not later than five years	–	–	–	–
Later than five years	–	–	638	638
Balance at 31 March 2016	**–**	**–**	**638**	**638**

Liabilities and provisions

All provisions in the current and prior year relate to levy activities.

Early retirement is related to individuals on early retirement for which TPR is liable, severance covers the cost of restructuring and dilapidations cover the cost of restoring Napier House at the end of the lease.

The dilapidations provision reflects the expected liability at the end of the current lease's expiry in 2023 (following a survey by Carter Jonas LLP).

12 Commitments under leases

Total future minimum lease payments under operating leases are given in the table below for each of the following periods:

	2016-2017 £'000	2015-2016 £'000
Obligations under operating leases for the following periods comprise:		
Buildings:		
Not later than one year	**857**	857
Later than one year and not later than five years	**214**	1,072
Later than five years	**–**	–
	1,071	1,929
Other:		
Not later than one year	**45**	40
Later than one year and not later than five years	**22**	60
Later than five years	**–**	–
	67	100

The existing lease for TPR's office in Brighton expires in July 2023 with a break clause in July 2018. The above disclosures only relate to the current lease.

TPR has no obligations under finance leases.

13 Capital commitments

Contracted capital commitments at 31 March 2017 not otherwise included in these Financial statements:

	2016-2017 £'000	2015-2016 £'000
Intangible assets	**31**	–
	31	–

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

14 Contingent liabilities disclosed under IAS 37

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

From time to time, we will be subject to legal challenge and judicial review of decisions made in the normal course of our business as regulator of workplace pensions. Legal judgements could give rise to liabilities for legal costs but these cannot be quantified as the outcome of proceedings would be unknown and there is therefore considerable uncertainty as to the nature and extent of any subsequent liability.

15 Losses and special payments

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

16 Related party transaction

TPR is a Non-Departmental Public Body (NDPB) accountable to the Secretary of State for Work and Pensions. The DWP and the PPF are regarded as related parties. All transactions with related parties have been completed at arms length. During the period, TPR's transactions with the DWP included payments for the outsourcing of the internal audit function. In total the transactions with the DWP not related to the provision of Grant-in-Aid totalled £31k (2015-2016: £218k).

During the current and previous year, TPR had no transactions with the PPF.

During the current and previous year no other related parties, including TPR 's board members and key management staff, had undertaken any material transactions with TPR.

17 Events after the reporting period

There have been no other subsequent events which require disclosure in these accounts. IAS 10 requires TPR to disclose the date on which the accounts are authorised for issue by the Accounting Officer. This is the date of the Certificate and Report of the Comptroller and Auditor General.