

Annual Report and Accounts 2017-2018



The Pensions Regulator's Annual Report and Accounts 2017-2018

Report presented to Parliament pursuant to Section 11(5) of the Pensions Act 2004.
Accounts presented to Parliament pursuant to paragraph 27 of Schedule 1 of the Pensions Act 2004.

Ordered by the House of Commons to be printed on 12 July 2018.

HC 1162

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ISBN: 978-1-5286-0509-0

CCS: CCS0618820230 07/18

Printed on paper that is 80% recycled content, chlorine free and manufactured from sustainable forests.

Printed in the UK by the APS Group on behalf of the Controller of Her Majesty's Stationery Office.

Any enquiries related to this publication should be sent to us at: customersupport@tpr.gov.uk.
This document is available to download from our website at: www.tpr.gov.uk and at:
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Chairman's foreword

This last year has been one of evolution, both at The Pensions Regulator (TPR) and in the wider pensions world. We have become a more visible and proactive regulator, changing the way we work to be clearer with those we regulate, quicker to act where our expectations are not being met, and tougher on those that do not act in the interest of members.



We have publicised our activities at events, through the media, and through direct communication with those we regulate, and I have been proud to talk about the wide range, quantity and quality of work we do. We are determined to drive the best outcomes for workplace pension savers and demonstrate our performance in achieving these in pursuit of our statutory objectives.

You may not realise it from some of the media coverage of TPR, but we are far more than just a defined benefit (DB) regulator. Our broad remit includes the regulation of defined contribution (DC) schemes, the authorisation and supervision of DC master trusts, ensuring public service schemes are well run, fighting scams, and delivering automatic enrolment (AE) by making sure employers put their staff into a pension and pay the right contributions.

Our new powers in relation to master trust schemes will create a safer and more sustainable DC market, protecting the 10 million pension savers in these schemes, and we have been working closely with the industry on how authorisation and subsequent supervision will work. Our goal is to ensure that those responsible for the running and governance of master trusts understand the requirements and are ready to apply for authorisation in October. The publication of our code of practice at the end of March 2018 marked another important step towards establishing a market with stronger safeguards and in which pension savers can have confidence.

It is important to acknowledge that the reason behind the surge in master trust activity has been the success of automatic enrolment (AE). Around 9.5 million employees UK wide have been put into a pension, by more than one million employers, many of whom are small businesses, some with just one or two members of staff. The roll out of AE has been hugely successful but we are now focused on the challenges ahead – and I would like to thank Darren Ryder for stepping in so effectively and smoothly into the shoes of Charles Counsell, who left us during the year to become the chief executive of the Money Advice Service.

In September 2017 we launched '21st century trusteeship – Raising the standards of governance', a campaign aimed at trustees, employers and advisers. It focuses on the fundamentals of good governance. Driving up standards of governance is one of our priorities, and we are focusing on making our expectations clearer and taking action where we find evidence of poor governance.

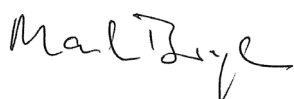
I've been very pleased with the positive reception this campaign has received, and that the original discussion paper prompted the creation of the Professional Trustee Standards Working Group and the resulting set of standards and accreditation it has produced for professional trustees. We know from our research that professional trustees on pension boards have a positive effect on governance and administration across thousands of schemes, and I feel confident that these standards will support employers and trustee boards to appoint high-quality professionals.

We welcomed the 'Protecting defined benefit pension schemes' white paper that the Department for Work and Pensions (DWP) published in March of this year, as its proposals will enable us to be even clearer about what we expect from employers in relation to scheme funding and tougher where a scheme is not getting the funding it needs. We particularly appreciate the focus on the greater clarity needed on the existing funding standards and planned improvements to our scheme funding, information gathering powers and anti-avoidance powers. We will now work closely with government to develop the white paper's proposals, including criminal sanctions, to ensure they are proportionate, effective and work in practice and will be talking to a wide range of stakeholders to ensure our revised DB funding code gives the right support for employers and trustees.

This year, we sought views from our regulated community about the way we work, in particular the way our remit intersects with that of the Financial Conduct Authority (FCA). In the spring of this year, we held a series of events, asking for input to our joint strategy, which outlines how we will work together over the next five to ten years to tackle the risks we see facing the pensions industry. We will publish a joint regulatory strategy later this year that will set out how TPR and the FCA are taking a more joined up approach to tackling the challenges of pensions regulation today.

Finally, a few more thanks. To Tony Raymond for stepping up as acting executive director of regulatory policy, analysis and advice after Andrew Warwick-Thompson left to head up LGPS Central. To Lesley Titcomb who will continue to drive forward the significant programme of change she has been leading to make The Pensions Regulator clearer, quicker and tougher. Although we have announced that Lesley will leave us when her four year terms expires next February, I know that she will continue to provide the energetic leadership that has brought the effective results we report.

Also to our committed non-executive directors, who have supported the executive team on specific pieces of work including business cases and regulatory interventions. And to the whole TPR team, for the commitment and drive they have to meet our objectives – I feel very privileged to work with such skilled and dedicated people who are totally committed to making workplace pensions work.



Mark Boyle

Chairman, The Pensions Regulator
13 June 2018

Chief Executive's report

This has been a challenging year for TPR, but it has also been a successful one, and I feel confident that we have emerged a stronger and more capable regulator as result. We are transforming the culture of the organisation and are taking a clearer, quicker and tougher approach. We have changed the way we regulate, scanning the landscape, looking for risks and focusing on where our resources can be deployed best. This means that we can be a more vocal and visible regulator, able to intervene quickly and offer our opinion on a wider range of topics.

When we became aware of the possible takeover of GKN, we wrote to both GKN and Melrose and met with representatives of both companies setting out clearly our concerns about the potential impact upon the pension schemes. Our efforts, reinforcing those of the trustees, led to improved protections for the scheme in the event of the completion of a takeover.

There have been a number of 'firsts', that have resulted from testing and flexing our powers – we issued our first fine to a public service pension scheme, first criminal prosecutions for wilful non-compliance with AE, first spot checks on employers, and the first use of a court order to order scammers to repay the money to their victims. We are working closely with other regulators and government partners to amplify our impact and achieve the most we can with the resources we have – for example, we embedded a member of staff as a subject matter expert with the City of London Police to investigate pension scams.

The government's DB white paper addressed a number of issues relating to the funding and regulation of DB schemes. The collapse of Carillion and BHS has highlighted the need to ensure that the legislative framework for DB remains robust and formed the focus of hearings by the Work and Pensions Select Committee in 2017-2018. We have given evidence to the hearing on Carillion and will be responding to the findings and recommendations.

We actively seek to learn lessons from such cases to better protect members of pension schemes. In the past our regulatory balance was not always right – at times we should have intervened more quickly to ensure employers were paying more into pension schemes.

However, TPR is now a very different organisation than it was five years ago. We are clearer about our expectations of the people who run pension schemes and of employers as they continue to meet their pension duties. And we are quicker to take tough action designed to improve the outcomes of retirement savers, including criminal prosecutions, fines, improvement notices and scam investigations.

In response to Carillion, and in particular the contagion risk, we reviewed associated, dependent or supplier companies that participate in DB, DC and public service schemes, making use of the intelligence available to us to target schemes for high, medium and low intensity regulatory engagement covering liabilities of £85.5bn and more than 800,000 members. Under our new regulatory approach, we expect to take similar action in future where we identify risks in different business sectors or segments of the pensions landscape.

AE has become the norm, with over 9.5 million employees enrolled by over one million employers to date and all existing employers with staging dates having gone through the process. And to maintain and raise public awareness we launched a new TV advertising campaign with the DWP with the message that while you work, your pension is working for you.

As well as acknowledging our successes so far, we are also focused on meeting the challenges, including helping new employers with instant workplace pensions duties and ensuring all employers know about the phased increase in contributions under AE. As expected, we have seen an increase in the number of times we have fined employers for non-compliance, in line with the steep rise in the number of employers reaching their staging dates, but those numbers are still very small in the context of the vast majority of employers doing the right thing by their staff.

In July, last year, we published a review of the way we work, called 'Protecting workplace pensions', which set out the research findings and identified opportunities for change. We spoke to over 150 of our stakeholders, including trustees, employers and other regulators, conducted research with a further 70, and sought the views of our own staff. We have looked at the challenges ahead, for example the continuing shift in provision from DB to DC, the UK's exit from the EU, and the implementation of the new Pension Schemes Act 2017, and combined that with the lessons we have learned from ten years of TPR operation.

Known as TPR Future, the programme resulting from this work is designed to deliver a sustainable approach to regulation across DB, DC, public service schemes and our AE responsibilities. We have now completed a wholesale review of how we regulate and have designed a new regulatory model for TPR. We are piloting, testing and refining different approaches which are being incorporated into our day-to-day regulatory work. For example, we have undertaken two thematic reviews on compliance with late payment reporting and DC value for member requirements and we have begun to use a new proactive approach with a number of small DB schemes.

We are improving our insight and using a wider range of tools. All schemes will experience some form of regulatory oversight at ever increasing levels of intensity, depending on the risk they pose. This will improve our ability to intervene sooner, and regulate a wider range of trustees and employers more efficiently. Many people we work with in the pensions industry have already noted this shift in approach, and given us positive feedback about the changes so far.

As you will see from the performance report later, we have achieved a lot with the limited resources we have, achieving 18 of the 19 stretching key performance indicator (KPI) targets we set at the beginning of the year. Our outcome indicators continue to show encouraging trends in the pension market in terms of the confidence and participation in workplace pensions, and the increasing role that workplace pension income plays in retirement.

I would like to thank all of my colleagues for such a successful and productive year. It is very gratifying to see that our staff survey results exceed public sector benchmarks and have shown that TPR people are highly engaged and committed to their jobs and the objectives of our organisation.

We have recruited for a number of senior posts, including Directors for Automatic Enrolment and Interim Transformation, new heads of department for our frontline teams, and a new Executive Director of Regulatory Policy, Advice and Analysis, as well as grown our resources in our frontline teams. I am also pleased to report that we have met our aim to bring in new and diverse staff through secondments and internships.

I am personally very grateful to our Chairman, Mark Boyle, the Board as a whole, the executive team and all TPR staff for their continued support, expertise and commitment to TPR over the past year. I feel confident that our work to re-focus the organisation means that we have the right people working in the right areas, to achieve better outcomes for workplace pensions.



Lesley Titcomb

Chief Executive, The Pensions Regulator
21 June 2018

Introduction



Who we are and what we do

TPR is the independent UK regulator of work-based pension schemes. We are an arms-length public body sponsored by the Department for Work and Pensions (DWP). 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 safeguards introduced by the Pensions Act 2008
- ▶ to promote, and to improve understanding of, the good administration of work-based pension schemes.

Performance summary

Here we provide an overview of our performance over the last year, in line with the risks and priorities we determined in last year's corporate plan and in pursuit of the statutory objectives given to us by Parliament. We identify and analyse risk on a continuous cycle. This helps us determine the priorities and activities at the beginning of each financial year, along with further mitigations we may take in year if we see significant movement of those risks. We set these out in our corporate plan¹ each year.

¹ www.tpr.gov.uk/corporate-plan-2018

The changes in risks over time reflect the changes in the external regulatory and pensions landscape, and we monitor these on an ongoing basis to determine how our remit and approach may need to evolve to respond. We published our risk view for the past year along with our priorities in our corporate plan 2017-2020. We identified five key risk themes going into 2017-2018:

- ▶ Sub-scale schemes
- ▶ Poor standards of stewardship
- ▶ Disorderly scheme failures
- ▶ Poor data integrity and security
- ▶ Economic and market outlook

We took actions or influenced, in response to these risk themes over the course of the year. As a growing and maturing organisation with a widening remit, and in response to the changing pensions, economic and political landscapes and the nature of the risks we face, we have been working closely with our internal and external stakeholders to shape The Pensions Regulator of the future. We have strengthened our resources in our frontline regulatory teams, been continually improving our regulatory approaches, testing new approaches in year and demonstrating our clearer, quicker, tougher approach.

We identified poor standards of stewardship as a key risk theme and have increased our focus on setting clear expectations. We have moved to action quickly where our concerns are not being resolved and exercised our powers where necessary, publishing information on our regulatory interventions and the outcomes, to provide further clarity and transparency. We also identified disorderly scheme failures as a risk theme and have adopted a proactive approach to working with master trusts, as well as designing a pre-authorisation process help them meet the standards we expect under the new regime. In addition, we have significantly increased our proactive interventions with the DB schemes that present the biggest risks to our statutory objectives.

Poor data and security also pose a risk to schemes. We have worked closely with public service pension schemes to help them improve their record-keeping plans as well as producing guidance for all schemes on record-keeping and cyber security.

We faced considerable challenges this year, especially in responding to the heightened interest and changing risk landscape in DB pensions. We set more stretching KPIs on DB schemes in our 2017-2020 corporate plan and these were met. High-profile corporate failures such as that of Carillion have once again put the pensions protection framework for DB in the spotlight, culminating in the publication of the DB white paper and work and pension select committee hearings, in both of which we played an active role. The new plans we made in year in response to the rapidly changing pension and risk landscape, such as our joint strategy work with the FCA and analysis and our work based on the clarity of the Brexit transition period, tested the commitments we made at the beginning of the year. However, we have still delivered on our intentions for 2017-2018 outlined in our corporate plan and responded to risks in year as they have arisen.

Our corporate priorities for 2017-2018 were derived from these risks and are highlighted below. We set KPIs as measures against these priorities with stretching targets for the year and achieved 18 of the 19 KPIs set for 2017-2018.

Performance in 2017-2018



99.5%

of master trust members are in schemes that understand their new requirements

3.4 million

people made 6.1m visits and looked at over 39m pages on our website

534

the number of times our trustee appointment powers were exercised in 2017-2018

308,000

downloads were generated from the 388 publications we produced

15,889

Trustee toolkit module passes

>£500m

in settlement for British Steel Pension Scheme members in 2017-2018 plus a 33% equity stake in the new company

10

s89 regulatory intervention reports published

Performance in 2017-2018

29,243

views for our blog

TPR was mentioned in

2,795

pieces of national, local and trade media coverage

336

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

14,107

6,596 followers of the company's LinkedIn page
7,511 members of the group LinkedIn page

12,325

followers on Twitter

15,261

'Likes' on Facebook

26

new videos are currently posted on our YouTube channel with a total of 87,853 views

78%

engagement score in staff engagement survey

9.1%

increase in overall staff levels in 2017-2018

134

learning events were run in-house last year

Clearer, quicker, tougher

We committed in our corporate plan to be clearer, quicker and tougher, and have been adopting this approach across the organisation in all the work we do. Some examples of how this approach has been applied include:

► Clearer

We have produced guidance and statements in key areas of concern this year, including a code of practice for master trusts. These have clarified our expectations and set out how we will act if our expectations are not met, such as our quick guide to the chair's statement or 21st century trustee campaign. We are also being clearer in our interactions with schemes and setting out our expectations upfront where we see significant risk or issues.

We are setting out our expectations of stakeholders clearly and are seeing excellent results from this. As an example, in one case, a recovery plan was not agreed between the trustees and sponsoring employer of a large scheme on the balance of deficit repair contributions to the scheme versus dividends to shareholders. We intervened and clearly stated our expectations, resulting in increased contributions into the scheme over a shorter period to recover the deficit and provide greater security to the scheme membership.

► Quicker

Not only are we being clearer with our regulated community we are also developing our approaches and practices to be quicker to respond to risks and reconcile issues in a timely manner. We identify and respond quickly to issues in a number of areas, including compliance with basic duties such as AE, the provision of statutory information to us, and scheme administration. We are also quicker to act where our regulated community needs us to. In one case, we provided clearance for a corporate transaction to mitigate any material detriment to the associated schemes within 24 hours of receiving a signed clearance application, to meet the corporate requirements in this case.

► Tougher

Where our expectations have not been met and we believe it is in the interest of members to do so, we have moved to enforcement quickly and more decisively. We have exercised our powers in many cases that don't make the headlines but have a significant impact in protecting the workplace savers of those schemes, the volumes of which we have published in our compliance and enforcement bulletins. One significant example of pursuing an outcome with the full extent of our powers is where we exercised a fine, penalty notice, improvement notice and third party improvement notices as escalating actions against a master trust over the course of 12 months, to address persistent administrative failings and, ultimately, to protect members' benefits.

We have also strived to achieve the best possible outcomes in a number of high profile cases, for example being tough in our negotiations in agreeing a regulated apportionment arrangement for British Steel. We have also been tough in our willingness to use powers, for example the first prosecution for wilful non-compliance with AE duties in the case of Stotts Tours, and mounting prosecutions in a number of cases for failing to provide TPR with information as required under s72 of the Pensions Act 2004. We have publicised our decision-making processes via press releases and regulatory intervention reports.

Working with banks and trustees on banking reform

We worked closely with the Prudential Regulation Authority on the requirement that UK banks meeting certain size criteria separate their retail and investment banking operations. This is referred to as 'ringfencing' and could have an impact on the banks' ability to support their DB pension schemes.

We have discussed proposed arrangements for ringfencing with Barclays, HSBC, Lloyds, RBS and Santander and their relevant schemes' trustees ahead of the banks' deadline to ringfence their retail arms by 1 January 2019.

We examined the proposals and provided feedback to each of the trustee boards and banks. This resulted in improvements to many of the initial proposals, including increased collateral coverage, improved security provisions and payments being made to schemes sooner. As part of this work, we also engaged with several of the schemes in relation to their triennial funding valuations – securing shorter recovery plans than initially proposed and a fairer balance between proposed dividends and payments to the schemes.

Through our close engagement with banks and trustees on ringfencing, we have achieved good outcomes for bank scheme members.

We publicise our enforcement activities in a variety of ways, including press releases and social media, and in the last year published our first compliance and enforcement bulletin that included the powers used across all our sectors. This publication complements the regulatory intervention reports we publish under section 89 of the Pensions Act and illustrates, through case studies, how we are using the breadth of our regulatory toolkit with employers and trustees.

We also used our s89 powers to publish the names of schemes that failed to complete a scheme return, or an annual governance statement signed by the chair of trustees. These now appear on our website, along with AE fixed and escalating penalties, at: www.tpr.gov.uk/fines

You can read our regulatory intervention reports and quarterly compliance and enforcement bulletins at: www.tpr.gov.uk/enforce

Performance analysis



How we measure our performance

We measure our regulatory performance against our statutory objectives and priorities, as set out in the corporate plan: www.tpr.gov.uk/plan. The measures in this section are linked to the priorities which were set out in our 2017-2020 corporate plan.

Our regulatory performance cannot be wholly judged by a set of metrics, which is why we outline our broader achievements against our corporate priorities as well as setting out our key activities, volumes and achievements.

The Board adopts KPIs and associated targets annually, which are published in the corporate plan. They are set in response to our assessment of the key risks to the achievement of our statutory objectives and corporate priorities. They are principally collated through management information, which we report to 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 and tracking our wider role in the context of providing good retirement outcomes. These measures demonstrate trends over a longer term and indicate whether our involvement in a wider pensions framework is contributing to the delivery of better outcomes. We are in the process of revising our outcome indicators as announced in year, but show the trends of our existing indicators in this report.

Analysis of performance

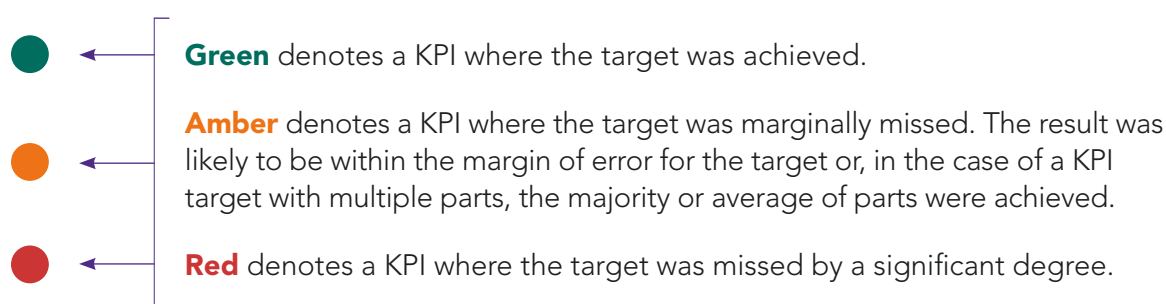
Corporate priorities and key performance indicators outline

The eight corporate priorities we set for 2017-2018 and beyond were:

1. Successfully complete the remaining stages of the roll-out of automatic enrolment
2. Deliver more interventions more quickly where DB schemes are underfunded or avoidance is suspected
3. Protect consumers through the effective regulation of master trusts
4. Drive up standards of record-keeping and data maintenance, including public service schemes
5. Be clearer in our codes, guidance and other interactions with schemes and employers about what we expect of them
6. Drive up standards of trusteeship across all schemes, with a particular focus on chairs and professional trustees
7. Develop and commence implementation and explain publicly our enhanced approach to regulation, to make us more effective and efficient as a regulator
8. Create high performing teams of people across TPR with the skills and capabilities to deliver all of the above

Against each of our priorities we also set relevant KPIs to measure how we performed against our plans for delivery in year. We developed and improved our set of KPIs from previous years to be more relevant and specific to our clearer, quicker, tougher intentions and more operationally driven – so we could better demonstrate our performance and challenge ourselves with stretching targets. We achieved 18 out of our 19 KPIs (green) – one was missed (amber) and none were missed significantly (red).

We designate the outcome of a KPI as green, amber or red as follows:



Corporate priorities and KPI analysis 2017-2018

The analysis below is provided under the corporate priorities we set in our corporate plan and the associated measures we outlined under the priorities.

1. Successfully complete the remaining stages of the roll-out of automatic enrolment

As we have moved through the largest stages by volume of employers complying with their AE duties, we have achieved extremely high levels of compliance, with over a million employers now meeting their workplace pension duties, enabling almost 10 million employees to save into a workplace pension.

We have achieved this through simplifying and targeting our communications, and using enforcement action to achieve compliance where necessary. We have made public examples of employers who wilfully fail to comply with their AE duties and in some cases recklessly provide false or misleading information in an attempt to cover their tracks.

Where employers failed to comply we have used our powers to enforce fines, backdated pension contributions, and in some cases criminal sanctions against companies and people who deliberately avoid giving their staff workplace pensions.




We have also carried out spot checks on employers across the UK, alongside an intelligence-led, co-ordinated approach with government agencies and other data sources, to send the clear message that it is unacceptable to dodge your pension responsibilities – and we take action against those who try to avoid them.

We are continuing to develop our operating model to meet the challenges of re-enrolment and of new employers with instant duties, as well as monitoring and supporting the contribution increases already in place from April 2018 and planned for April 2019.

Example

We made our first prosecutions for wilful non-compliance (s45 Pensions Act 2008) and also the first for providing TPR with false and misleading information (s80 Pensions Act 2004) in AE cases. The cases resulted in early guilty pleas at court and ultimately achieved compliance. The media coverage associated with these prosecutions helps to maximise the prevention and deterrence message as well as reinforcing the high rates of compliance among employers.

 We have met all of our KPI targets under this priority.

KPI: 1.1 The number of employers who submit their declaration to us	
Target	565,000
Result	 Green: 662,978 declarations submitted to us in 2017-2018. This has exceeded our expectations through the small and micro employer stages in the roll-out of AE.
KPI: 1.2 A high proportion of the employer population has a qualifying scheme ultimately in place	
Target	90%
Result	 Green: Ultimate compliance remains well above the target at 96.6%, including the large volumes of small and micro employers who have complied with their duties.
KPI: 1.3 A high proportion of the jobholder population has been ultimately put in a qualifying scheme	
Target	94%
Result	 Green: 99% of the jobholder population have been put in schemes as the last of smallest employers complete their staging, demonstrating the success of the implementation of this government policy so far.

2. Deliver more interventions more quickly where DB schemes are underfunded or avoidance is suspected

We have made significant improvements to our processes and procedures this year to select the right cases based on the risk they present, speed up investigations and decision-making, and achieve the outcomes we expect. This is changing the way we work and the culture at TPR.

We have exercised more of our powers for the first time. We have also been in contact with nearly twice as many high risk schemes before their valuations this year, to clarify our expectations upfront and drive the right outcome in what are very often difficult funding negotiations.

We are pleased to report some high profile successful interactions over the last year which have prompted considerable public scrutiny, and demonstrated the difficult job we have in balancing the other objectives given to us by Parliament with the essential role we play in protecting the benefits of DB scheme members.

continued over...

2. Deliver more interventions more quickly continued...

For example, the restructuring of the British Steel/TATA companies' pensions obligations and the changes to the scheme provided the best outcome for members in this case. However, we have learnt lessons from this case and are in discussions with trustees of other schemes around their member communications where there is uncertainty about the future of the scheme. We are also already responding to the Select Committee's recommendations.

The Upper Tribunal has issued the first substantive judgment supporting TPR's use of our anti-avoidance powers. This case provided useful guidance on the scope of our Financial Support Direction (FSD) powers against companies where it is reasonable for them to provide support in view of their relationship with DB schemes and their employers. We have also seen the first payments into the Nortel Networks UK Pension Plan following the final settlement of the multi-jurisdictional litigation in May 2017. It is expected that the scheme's trustees will eventually be able to secure benefits outside the PPF, concluding many years of work for us, the trustees and the PPF.


We have initiated our powers to set scheme liabilities and deficit repair contributions for the first time. In addition, we have successfully prosecuted 11 people who failed to comply with our information-gathering powers.





We are already working more closely with smaller DB schemes and have discussed our new approaches with industry. We have tested our proactive approaches with small schemes too, providing clear and directive feedback on their funding and pursuing anti avoidance irrespective of its scale.

Our influence over the debate and resulting government policy on changes to the DB funding framework has led to a white paper of proposals to strengthen and improve the protections for DB scheme members, and we will continue to work with government to implement them.

Example

We adopted a new supervisory approach this year in order to assess and deal with risks more quickly, and to maximise the impact of our available resources. Earlier this year, we engaged with a range of schemes across the entire pension landscape. We made use of the intelligence available to us to target schemes for high, medium and low intensity intervention, covering liabilities of £85.5bn and more than 800,000 members. This new approach makes better use of the information and resources we have to target risk and apply the appropriate interventions.

 We met all of our KPI targets under this priority.

KPI: 2.1 The proportion of assessed DB scheme risk we have engaged with during the last three years	
Target	70%
Result	<p> Green: Over the last three years, we have engaged with schemes covering 73% of DB risk. We determine DB scheme risk as the funding and investment risk that may not be supportable by the scheme's sponsoring covenant, by assessing:</p> <ul style="list-style-type: none"> ▶ the level of underfunding in the scheme, taking into account the strength of the employer covenant and scheme maturity compared to the current cash contributions being paid ▶ the additional deficit that could arise from the investment strategy in the future, which may not be supportable by the covenant.
KPI: 2.2 Percentage of scheme funding valuations where we open a case where, within nine months of valuation submission date, we have closed the case or opened a formal investigation into use of powers	
Target	80%
Result	<p> Green: We processed 84% of scheme funding valuations submitted to us within nine months. This was a new KPI with a stretching target and has challenged us to develop our working practices to speed up investigations and time taken to get to decision making points while balancing our resources and workloads, demonstrating how we are getting quicker in addressing issues.</p>
KPI: 2.3 Increase the number of schemes we engage with before their formal valuation	
Target	90% increase
Result	<p> Green: We increased the number of proactive cases we were running in 2017-2018 by 92%. We engaged with the schemes of the greatest concern to us before their valuations and worked with them to ensure an appropriate funding outcome. They are clearer about what we expect and issues get resolved more quickly.</p>
KPI: 2.4 In DB enforcement cases, there are a greater number of the following outcomes during 2017-2018 than in 2016-2017: warning notices issued, cases referred to the Determinations Panel or court, and settled cases where we issue a s89 report	
Target	25% increase in enforcement cases
Result	<p> Green: We increased the number of successful outcomes through the use of our powers by 25% in 2017-2018, and publicised our consideration and the outcome of key cases where it had been necessary to exercise our powers. We were also quick to move to formal use of powers in cases where risks were not being mitigated in line with our expectations, driving the increase in cases and demonstrating that we are being tougher when we need to be.</p>

3. Protect consumers through the effective regulation of master trusts

Master trusts continue to grow as the provision of choice for employers automatically enrolling their staff into a scheme. There are now nearly 10 million members in under 100 master trusts holding £16 billion of savings, which is set to grow as contributions continue and increase. We established our approach to checking compliance for the first phased contribution increase this year.


This level of concentration in the master trust market meant we felt it important to work with the DWP to highlight the risks posed and subsequently strengthen the framework around master trusts. We have worked closely with government on the regulations over the last year that will support our implementation of the new remit given to us by Parliament to authorise and supervise master trusts. Over the last year, we have therefore been establishing the resources, systems and practices we will need for authorisation and ongoing supervision, as well as producing and consulting on a code of practice and guidance for schemes, and supporting the market through these changes.



We have been in contact with every master trust this year to ensure they understand the new requirements, are putting the necessary plans in place, and will be ready to take action as the new legislation comes into effect. In the meantime, we have continued to maintain the existing assurance framework for master trusts and signpost employers to schemes with assurance so they can comply with their automatic enrolment duties.

Where master trusts have not been exercising the appropriate governance and administration we expect we have pursued corrective action, in one instance issuing fines and improvement notices to those involved to resolve persistent failings where members' benefits had been put at risk.

Example

We have been working with our stakeholders and are managing the potential risks of disorderly exits from the master trust market that may arise through the introduction of the new authorisation and supervisory regime in the legislation. In response, we have designed a readiness review for schemes, helping them to prepare for authorisation in advance of the opening of the window for formal applications for master trust authorisation in October.

 We met all of our KPI targets under this priority.

KPI: 3.1 Members are in master trusts that understand their new requirements	
Target	99.5%
Result	 Green: 99.5% of members are in master trusts that have confirmed to us that they understand their new requirements.
KPI: 3.2 Master trust strategies for authorisation are risk-assessed by us and we have engaged with those who will be exiting the market	
Target	100%
Result	 Green: We have adopted an intelligence-led approach to identify and classify the master trusts that will be subject to authorisation. We have engaged with all the schemes identified and started the process of working with them on their intention and capability to achieve authorisation.

4. Drive up standards of record-keeping and data maintenance, including in public service schemes

We published record-keeping guidance in 2017 to continue to drive up standards across all schemes. We have also been developing our risk identification processes to identify and target schemes where there are considerable and consistent failings.

We have focused on improving the quality of public service schemes’ record-keeping plans, with close and proactive engagement with the largest schemes, and have taken action where we discovered failings. We issued the first fine to a public service scheme this year, demonstrating that we will take enforcement action where standards are not met, regardless of scheme type.

We have also been developing our DC risk framework to better segment and target schemes with tailored approaches to address key risks in this market. In addition, we have been developing our strategy towards improving the administration of all schemes – this area will remain a key focus for us going forward.

We have piloted an orphan schemes policy this year with the intention of resolving the governance issues for these schemes and providing the best outcomes for their members.


We welcome the introduction of the pensions dashboard and have been working closely with stakeholders to influence the design and ensure we play a key role in the successful implementation of this new platform for members.

Example

Our industry liaison team has been delivering bespoke presentations to employers, scheme managers and pension boards, and working closely with schemes on case-by-case bases. When responding to the 2017 Public service governance survey, 43% of schemes reported that ‘improved engagement by TPR’ had contributed to improvements in their governance and administration, and was the third most frequently cited reason for improvement.

 We met our KPI target under this priority.

KPI: 4.1 Public service schemes we engage with that require a record-keeping plan have a robust plan in place

Target	90%
Result	 Green: 95% of schemes that we directly engaged with through our regulatory interventions put a robust record-keeping plan in place. We set ourselves a stretching target this year and we have seen a noticeable improvement in the quality of improvement plans submitted. We will take enforcement action where necessary to ensure all schemes maintain and deliver a plan that meets our expectations going forward.

5. Be clearer in our codes, guidance and other interactions with trustees and employers about what we expect of them

We have adopted a programme of continuous improvement in our frontline teams to develop our approaches to casework and standard practices that clearly set out our expectations of trustees and employers. We have also been developing our communications strategy, our people, and the tools we use to better convey our expectations and get our messages to the right audiences. We have been integrating our customer journeys and communications campaigns into our enforcement work to provide an end-to-end, joined up approach for our regulated community to follow. Our new website (to be launched later in 2018) will reflect and reaffirm this journey which sets out our expectations and the consequences of not meeting them.


Our scams awareness campaign is complemented by our multi-agency approach, which we have continued to lead on, identifying and enforcing against fraudsters with the use of search warrants and co-operation with the police. These cases, including one where scammers were ordered to pay back nearly £14m to their victims, received a lot of publicity, amplifying our messages to trustees and consumers about the risks posed by pension scammers. We have also worked with government on setting policy in this area, leading to changes in the law, such as the cold-calling ban to better protect consumers.

This year's DB annual funding statement sets clearer expectations of trustees and sponsoring employers who are valuing and funding their scheme's deficit, in particular giving direction to different segments of the population. We have also stated our policy on the actions we will take where information we request is wilfully or recklessly ignored, following up with enforcement action where appropriate.

Our continued focus on schemes maintaining basic governance standards has led to high rates of scheme return and valuation submissions. It is important that all schemes comply with their duty to provide us with statutory information, and failure to do this can highlight wider scheme governance problems. We have taken enforcement action against those who do not comply with these and other basic duties, such as paying contributions on time.



Example

We had four successful prosecutions under Section 77 of the Pensions Act 2004 for failure to provide information we formally requested. Where individuals, including trustees, fail to provide information we require we will hold them to account, and they may even receive a criminal record.

 We hit one KPI target and did not achieve our full intentions on one KPI under this priority.

continued over...

5. Be clearer in our codes, guidance and other interactions continued...

KPI: 5.1 Trustees and employers are clear on our expectations of them (we take a baseline measure in Q1 and re-measure in Q4)	
Target	In year improvement
Result	<p> Amber: We determined in year that a perceptions survey measure for this KPI would not be appropriate. This was due to a high degree of cognitive bias amongst the survey sample we identified when attempting to set a baseline. Instead we decided to adopt an activity based measure based on the plans we set at the start of the year, to drive clearer expectations. These were:</p> <ol style="list-style-type: none"> 1. A clearer, more directive annual funding statement 2. 21st century trusteeship campaign 3. Guidance review started 4. A programme of research to understand perceptions of the 21st century trustee campaign and initial impact 5. 21st century trustee operational implementation scoped, designed and planned <p>Three out of the five activities were completed in year. The guidance review was not started due to resource pressures and conscious re-prioritisation, and our operational implementation moved within the scope of our TPR Future programme, which is expected to be completed in 2018-2019.</p>
KPI: 5.2 A high proportion of employers make contributions to their respective scheme before they become materially late	
Target	94%
Result	<p> Green: 96.8% of employers make the right contributions at the right time. Where we receive reports of mis-payments we will follow up to ensure they are rectified.</p>

6. Drive up standards of trusteeship across all schemes, with a particular focus on chairs and professional trustees

We launched our 21st century trustee campaign this year which has driven engagement with our content and messages, increased interaction with our online content, and meant more Trustee toolkit module passes. We also published our description of a professional trustee, which has paved the way for new standards and accreditation in this area.

We have continued to place particular focus on compliance with basic duties, speeding up our identification, processing and decision-making in instances where our expectations have not been met. We expect information to be provided to us on time and to the required standard and have enforced against those who fall short of this expectation.

We have supported and educated trustees on a wide range of governance and administration issues over the course of 2017-2018, producing quick guides on topics including improving scheme data, and producing a compliant chair's statement. We have also provided a range of tools to help trustee assess the knowledge and skills of the board and with business planning.





Where we have needed to get tough to achieve the outcomes we expect we have done so – issuing fines for failure to complete a chair's statement, or ones of insufficient quality. We have also used improvement notices and penalty notices where our expectations have not been met – for example, we used our fining power for failure to produce audited accounts for the first time this year. We have also clarified our expectations where we formally request information under our investigation powers by publishing our enforcement policy, and enforcing against those who fail to provide the information.

In the few instances where trustees are not deemed fit and proper, we have removed them. In one case, assets had been misappropriated by fraudulent breaches of trust. We took the individuals to court and were granted orders requiring assets to be restored to the schemes. Our compliance and enforcement bulletins throughout the year have set out the powers we have used, and demonstrate the breadth and scale of our enforcement activity.

Example

We have increased our criminal investigation activity this year, successfully enforcing information provision through the criminal courts when necessary and starting a number of complex fraud and money laundering investigations where members' benefits are threatened by dishonest behaviour.

 We have met all our KPI targets under this priority.

KPI: 6.1 A high proportion of scheme members are in schemes that have provided their valuations to us in line with the requirements	
Target	97%
Result	 Green: 99% of members are in schemes that have provided their valuations to us in line with the requirements.
KPI: 6.2 Where recovery plans are not received in line with requirements, the case is either closed or escalated for use of powers within 12 months	
Target	95%
Result	 Green: In 96% of cases, we either closed or escalated for use of powers within 12 months. This represents a significant increase in the speed in which we process these types of cases.
KPI: 6.3 A high proportion of scheme members are in schemes that have provided their scheme returns to us in line with the requirements	
Target	99.5%
Result	 Green: 99.9% of members are in schemes that have provided their scheme returns to us in line with the requirements
KPI: 6.4 The number of Trustee toolkit module passes	
Target	>13,000
Result	 Green: 15,899 Trustee toolkit modules were passed this year. This is a significant increase beyond our target and reflects the success of our 21st century trustee campaign in driving up levels of trustee engagement.

7. Develop and commence implementation of, and explain publicly, our enhanced approach to regulation, to make us more effective and efficient as a regulator

We formally launched the design (second) phase of the TPR Future programme in July 2017 with the publication of the 'Protecting workplace pensions' report. We continued to engage with our stakeholders who had helped us establish the programme in the discovery phase. The design phase is now complete and our implementation phase has begun, with delivery expected over the next 18 months.

We have designed a new regulatory operating model for expanding the range and effectiveness of our interventions and regulatory approaches, as well as a new long-term, horizon-scanning approach which is now operational. We have also been trialling new intelligence-led ways of identifying risk, testing thematic approaches in the areas of value for members and accuracy of pension contributions, and have designed new proactive and supervisory approaches and interventions.

We joined up with the FCA this year to engage with stakeholders and produce a joint pensions strategy and consultation for the first time – our response will be published later in 2018.

Example

In our value for members thematic review, we took a sample of 100 small and micro schemes and requested the value for members section of their chair's statements to help us better understand how trustees in this sector are approaching this requirement. Where we discovered non-compliance with the mandatory chair's statement requirements, we took enforcement action.

We did not set a KPI against this priority this year but did baseline the work for our next corporate plan.

KPI: 7.1 We will determine success measures through establishment of the implementation plan in 2017-2018. This work may impact on existing KPIs and determine new ones under our other corporate priorities.

Target	Baseline measure to be determined in year
Result	We concluded the design phase and began the implementation phase of this programme towards the end of this year. Our corporate plan for 2018-2021 included revised outcomes, performance measures for this programme, and changes to other KPIs resulting from our TPR Future work.

8. Create high performing teams of people across TPR with the skills and capabilities to deliver all of the above

This year we have continued to grow, attracting high calibre external candidates in addition to developing and retaining high performing in-house talent. We recruited a number of key senior posts, including Directors of Transformation and Automatic Enrolment, a new Head of Master Trusts and Regulatory Transactions and a new Executive Director of Regulatory Policy, Advice and Analysis.

Our recruitment challenge has been significant given the expansion of our remit and frontline resources, and we have filled roles quickly with the right candidates. We have also seen growth and delivery against our aim to bring in new and diverse staff through secondments, loans, interns and apprenticeships.

We have continued to deliver against our People Strategy to ensure we value, develop and retain our staff. Our high staff engagement rate of 78% beat our target and is considerably higher than the public sector benchmark of 70%. The staff report section of this document sets out our key people statistics.

A significant development has been the delivery of two online learning support tools: for our managers, providing on the spot modular management development and through a new learning hub for all staff. As well as providing links and a booking tool for development events, this learning hub also gives every staff member a personal training and CPD record.

The rate of change across a number of programmes, including TPR Future, led to the development of an expanded Organisation Design and Delivery service and a campaign of internal development events and responses. This has included the creation of a transformer network, involving all our people managers and change readiness and awareness training. We also help our people maintain a healthy work life balance through smart and flexible working practices and have provided the technology they need to support this. We are also pleased to report a further reduction in sickness rates to 2.3%.

We have researched and delivered a new job evaluation system, and reviewed our total reward package, resulting in the addition of a new travel benefit.

We value staff diversity and equal opportunities. Our first gender pay report this year revealed a gender differential of 10% in favour of men against a national average of 18%. We also commissioned our first diversity report from Stonewall, have affirmed our Time to Change pledge and achieved a level 1 Disability Confident award to demonstrate our commitment to employment, retention, training and career development of disabled employees.

The new employee forum, created as a result of feedback in last year's staff survey, has become embedded into the organisation this year, providing a clear channel for staff to raise concerns and ideas for discussion and action, and for management to share information about organisational change projects.

Our focus for this priority is an energised and motivated workforce that is ready for and capable of meeting the challenges ahead.

Example

We have risen to our recruitment challenge this year by filling 241 posts, which was significantly above our forecast, without expanding the HR team. We have also filled a number of senior appointments at TPR this year. We have done all this through a creative and innovative approach to resourcing, covering direct recruitment, apprentices, secondments and loans from partner organisations, and contracts only where essential. 79% of posts were filled within three months from 'approval to fill' to start date.

✓ We have met all our KPI targets under this priority

KPI: 8.1 Our employee engagement score as per our independent survey

Target	75%
Result	<p>✓ Green: Our employee engagement score remained high this year at 78% and is eight percentage points above the public sector benchmark. The 'Shaping our future together' initiative which began last year focused on areas for improvement indicated by the 2017 survey: decision-making, continuous improvement, employee consultation and communication. Staff opinion on each of these remained stable in the 2018 survey. Analysis shows that the key drivers of employee engagement, and those having the biggest impact on engagement levels within TPR, are feeling invested in, developed, informed, connected and prepared for the future, plus relationships with managers and inclusion and wellbeing.</p>

KPI: 8.2 A targeted proportion of advertised vacancies are filled with internal staff, demonstrating that we attract, retain and allocate the right skills in the organisation

Target	20%
Result	<p>✓ Green: We filled 47% of advertised roles with internal staff, in most cases against competition from external candidates. This demonstrates the learning and development culture at TPR, talent management, and the calibre of staff we recruit and retain.</p>

KPI: 8.3 Increased attendance at a limited set of core training modules each year for senior leaders. Our leadership and people management capability has developed

Target	70%
Result	<p>✓ Green: 75% of those who were eligible to complete the programme took part.</p>

Key outcome indicators (KOIs)

The results for our KOIs reflect expected but encouraging trends in retirement outcomes. Participation in workplace pensions as well as income in retirement generated from pensions continues to increase.

Funding ratios of schemes eligible for the PPF have increased significantly this year, bucking a declining trend. Not only is this favourable for the fund itself and the schemes benefitting from its protection, it broadly reflects market conditions and mirrors that of the DB universe overall.

The aggregate funding level (total assets divided by total liabilities) of the schemes in PPF assessment as at 31 March 2017 was 85%, compared with 91% for the universe. This funding level of schemes in assessment is up from 68% at 31 March 2016. The improvement in funding from 2016 is in part due to additional expected recoveries in respect of two large schemes. More information can be found in the PPF Purple Book publication on their website.

The number of pensioner members has remained relatively static over the last five years as the liabilities in schemes crystallise and are paid in line with the demographic. The proportion of those benefitting from the PPF is increasing and will increase further, but is in line with expectations.

As at 31 March 2017, 129,661 members were in receipt of PPF compensation, up from 121,059 as at 31 March 2016. Spouses and other dependants account for 15% of those members currently in receipt of compensation, which is unchanged from last year.

We adopted a baseline for our confidence measure through our member engagement survey with the Money Advice Service last year. The survey we conducted among pension savers this year indicates that the majority continue to be confident in the security of their money for retirement.

We are developing new outcome indicators for 2018-2019 based on the revised outcomes we launched this year in our corporate plan via TPR Future. We expect to be able to confirm measures for these revised outcomes in the autumn and will publish the results in next year's annual report and accounts.

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	Confidence remains stable from previous year

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	Minor increase this year from a relatively static position from previous years
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	Significant increase this year from a declining position in previous years
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. We are developing new measures in 2017-2018 to demonstrate the trend of all regulated entities meeting minimum standards.

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 2017-2018 was £0.1m higher than budget (an overspend that was pre-agreed with the DWP). This was mainly due to higher costs incurred in our enforcement cases and higher use of professional services to support TPR Future, although these were partially offset by not calling upon certain AE reserves set aside at the beginning of the year and lower overall spend on our change projects.

Further information on our 2017-2018 expenditure and a report on our duties in respect of the collection of a variety of pension levies and penalty notices can be found in the Financial review on pages 89 to 94.

Actual expenditure v budget

	2017-2018			2016-2017		
	Actual	Budget	Variance	Actual	Budget	Variance
Total TPR*	83.5	83.4	(0.1)	74.8	78.5	3.7

* All figures exclude capital expenditure

Going concern

The statement of financial position at 31 March 2018 shows net liabilities of £5.1m. 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 can be found 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% against our baseline in 2009-2010. This was achieved by the target date of 2014-2015 when judged on emissions per FTE. Last year further reductions were made and this year we have made further reductions on the absolute and normalised bases.

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

Greenhouse gas performance commentary

There has been an increase in staffing levels over the last year with an average annual FTE increase from 532 in 2016-2017 to 609 in 2017-2018.

This has not, however, had a significant impact on our total CO₂e emissions, which have decreased by 11% relative to 2016-2017. CO₂e emissions per FTE have decreased by 22%: from 1.01 tonnes in 2016-2017 to 0.78 tonnes per FTE in 2017-2018. Water consumption has reduced by 11% relative to 2016-2017 and waste sent to landfill has significantly decreased from 74.1 tonnes in 2016-2017 to 39.8 tonnes in 2017-2018, a reduction of 46%.

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.

Single use plastic cups have been removed from all staff tea points and the use of 'keep cups' to replace single use coffee cups is promoted through the staff forum and intranet.

A new staff engagement sustainability programme will be introduced in the coming year.

Sustainable procurement

Sustainability continues to be an important part of our approach to procurement, 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

Chief Executive, The Pensions Regulator
21 June 2018

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 and our corporate governance team who are responsible for the monitoring and testing of our internal control framework through TPR's assurance framework. I also have visibility of the internal reporting on the development and maintenance of the assurance and the plans that we have in place to address weaknesses in our internal control framework to 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, the assurance framework and from the internal audit opinion, I am satisfied that we have maintained a sound system of internal control during the 2017-2018 financial year. Where control issues arose over the year they have been, or are in the process of being, mitigated.

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 two executive directors. Board members' appointment dates, terms of office, committee membership and web links to their biographies are set out on pages 64 to 65 along with details of recent changes to Board membership.

Details of the Determinations Panel membership are set out on page 66.

Reports from the separate committees and their activities are included from page 58 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/about-us/the-board.aspx

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 of the DWP, 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 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 review 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 page 58 onwards.

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 – see pages 66 to 69 for a report of its activities.

Board meetings from 1 April 2017 to 31 March 2018

In the year from 1 April 2017 to 31 March 2018, there were nine Board meetings, five Audit and Risk Assurance Committee (ARAC) meetings, two Remuneration Committee meetings and two Committee of Non-Executive Members' meetings.

At the February 2018 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 2017, at which the Board received briefings on operational and market developments and discussed strategic issues.

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

Board evaluation

The Board monitored the good progress made in implementing the recommendations from the 2016 internal effectiveness review of the Board and its committees, carried out by the chair of the Audit and Risk Committee. These included:

- ▶ developing a matrix of Board members' skills and experience, to assist with non-executive director recruitment planning and to enable executive directors to exploit the full breadth of their experience
- ▶ annual in-depth reports to the Board from the committees to supplement their regular updates
- ▶ providing further opportunities for non-executive directors to contribute outside of Board meetings

The Board also agreed to the principle of conducting an external effectiveness review every three years. A provider will be appointed to carry out the next external Board evaluation in the summer of 2018.

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, and her 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.

DWP partnership

As Accounting Officer, the Chief Executive's line of accountability to Parliament 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 assurance assessment by the partnership team, as part of their wider assessment of all of the DWP's arms length bodies and their partnership arrangements, was carried out during the year. The DWP concluded we posed a medium risk to the realisation of its objectives – meaning there was a low likelihood of this occurring, but it would have a significant 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 make sure we 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 has updated its terms of reference in response to a review of its effectiveness in 2016.

At the end of the year, Executive Committee membership comprised the Chief Executive (as chair), the Executive Director of Frontline Regulation, the Executive Director for Finance and Operations, the Interim Executive Director for Regulatory Policy Analysis and Advice, the Director for Automatic Enrolment, and the Interim Director of Transformation. The Executive Committee meets weekly.

Control and assurance framework

Changes made by HMT to the Audit Committee Handbook² required audit committees to reassure their Boards that they have a robust operational control framework in place. To support the ARAC in their role, we started work to review and enhance TPR's assurance framework.

The ARAC formally agreed an assurance framework objective and we began to develop a framework that complemented and enhanced TPR's enterprise risk management approach, giving a clear view of assurance levels over our operational risks. We are still in the process of implementing and embedding the new framework to inform our internal audit programme, strengthen the evidence for external audit reviews, and augment the work of the Regulatory Assurance function.

Our system of internal controls was in place during the year ended 31 March 2018 and up to the date of approval of this 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 and in line with TPR's risk appetite, 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.

Where weaknesses in controls are identified through assurance activities, action plans are put in place to address them and are actively monitored through the assurance framework.

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https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/512760/PU1934_Audit_committee_handbook.pdf

Internal controls

Key components of the internal controls fall under three main areas: Operational, Financial and Regulatory.

Operational

- ▶ Codes of conduct and supporting training materials, where appropriate, for Board members, staff and contractors. These 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 programme of internal audits and a system for progressing implementation of audit recommendations and reporting progress to the ARAC.
- ▶ 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.

We reviewed and updated our fraud policy to include fraud, anti corruption and bribery, and will roll out this new policy this financial year. Our Senior Leadership Team undertook equality training and specific training on bullying and harassment.

We worked with our DWP stewardship team to carry out an assessment of our compliance with the Cabinet Office's Code of Good Practice and we were satisfied that we had robust corporate governance controls in place as set out in the code.

We completed a gap analysis of the work required to achieve compliance with the General Data Protection Regulation's (GDPR) due to come into force on 25 May 2018. We implemented a compliance risk register and a detailed action plan to address the gaps identified and we are actively tracking progress on the activities.

Financial

- ▶ A corporate planning and reporting 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.
- ▶ Management reporting through the Executive Committee on a set of agreed measures and key performance indicators designed to reflect the performance of the organisation.
- ▶ A process for managing change and the resources dedicated to change projects.

Regulatory

- ▶ Detailed business processes, a consistent standard of documentation, and clear lines of accountability and escalation in respect of regulatory decisions and actions taken.
- ▶ A 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 strategic suppliers in line with our governance structure. For our largest supplier 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.

During the year, we identified the following operational weaknesses within our control system:

- ▶ We can only manually transfer current TPR telephony to alternative lines or numbers should we be required to work from our recovery site. We are looking at technical solutions that will mean there is automatic transfer.
- ▶ Weaknesses were identified in our physical data handling controls when logging the movement of physical information from one location to another. Those processes are being reviewed and tightened where necessary.
- ▶ We identified a weakness in the monitoring and management of a Cabinet Office spending control. We are currently reviewing our processes and where appropriate will strengthen the controls.

Any weaknesses identified have mitigations agreed and being acted upon and monitored. Over the course of the year the Board was provided with detailed, high quality information including executive directors' reports and quarterly corporate performance reports. The ARAC also receives a formal assurance report at each meeting which sets out in detail the key assurance activities undertaken by TPR. The report covers all types of assurance activities and is not limited to internal and external audit.

Whistleblowing

There is a policy for staff whistleblowing that 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 ARAC, 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. During the reporting period, three staff whistleblower events met the threshold for further investigation and disclosure in this report. However, no control failures were identified through these investigations. We will be reviewing our policies in line with best practice next year as part of our ongoing assurance activities.

Regulatory assurance

Six standard reviews to assess whether risks are being identified, mitigated and managed effectively in our regulatory work were completed during the year. There have been an additional six unplanned reviews. Unplanned reviews explore the historical position of cases to understand our engagement with schemes and also to identify whether there are any significant concerns with the quality of case work and decision making. As these reviews are high-level and specific to a particular scheme or employer group, they are not given an assurance rating but instead include observations about the effectiveness of the casework.

We also carry out biannual thematic reviews of our regulatory work, giving us an objective view of the overarching risks. These identify recurring themes that have been identified by the regulatory assurance reviews during the previous six months, and can be about positive regulatory practice or areas of concern. The reports have identified a total of 11 themes during this period including an absence of detailed case strategies and clear regulatory outcomes for some casework, delays occurring in some cases where external parties have not adhered to an agreed timetable to undertake actions and also delays in progressing cases including following up on actions by external parties. Such delays contribute to the overall case length.

We also identified the absence of a comprehensive view of schemes linked to an employer because our case recording convention on a 'scheme by scheme' basis does not enable information relating to an employer or employer group to be easily identified. There is also an inability to trace records relating to some cases, so that matters falling outside the scope of a case or enquiry are not always linked to all of the cases or enquiries for affected schemes.

The mitigations we have put in place to manage these risks include new operating procedures and KPIs for case progression, guidance on case strategies and case closures, and management information to track their progress. We have also introduced case strategy summaries and decision and action logs for all cases.

The regulatory assurance team has fed a series of recommendations into the TPR Future programme which will help to further inform its review of processes across casework and strengthen the effectiveness of this programme. The reviews and reports have made our regulatory work more efficient and effective, and we are continuing to monitor the implementation of the recommendations.

Risk management

TPR undertakes a risk-based approach to regulation and we consider two fundamental, overarching risks to meeting our statutory objectives:

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

Details of the risks and challenges we consider most significant can be found in our corporate plan: www.tpr.gov.uk/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 our statutory objectives.

In setting our overarching strategic approach, the Board commissions a regular systematic horizon-scanning exercise, examining trends and potential disruptors that may impact TPR in the short and longer term. Furthermore, this exercise is used to inform our understanding of regulatory risks, corporate planning and the application of regulatory approaches.

TPR's Risk Committee is responsible for weighting risks in terms of threat and control, and for proposing a set of the top risks, with proposed mitigations, to the ARAC 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.

We use an enterprise risk management (ERM) approach which we review annually. The scope of the review encompasses four key areas and focuses on where our ERM approach can be considered successful and where further improvements should be made.

The four areas which form this review are:

- ▶ an assessment of the implementation of ERM tools and framework
- ▶ a view of ERM within TPR in comparison with approaches with other government and arms length bodies
- ▶ an evaluation of how effective ERM has been to the business in terms of its application, and
- ▶ proposals for enhancement and growth of ERM across TPR

The review is based on interviews with executives, directors and risk practitioners within TPR, risk specialists in other organisations and overlaid with the opinions and views of the ERM team.

This year's review (autumn 2017) concluded that the TPR Risk Committee continues to fulfil its stated purpose and remit, and our ERM approach continues to improve, building on the work of previous years.

As part of our ERM approach we undertake regular reviews and assessments of the effectiveness of our mitigation strategies against all our risks. While the overall risk profile has remained relatively stable we have seen notable movement within our key/strategic risks which is reflective of both changes in the external regulatory and pensions landscapes and of how our remit and approach has evolved to respond to these changes (eg implementation of a new target operating model (TOM) as part of TPR Future). Examples of such movements over the past year include:

- ▶ Reduction in threat profile of the risk around a failure of a trust-based scheme or provider, recognising that business failures will occur, such as in the case of Carillion and Toys R Us. However, whilst major growth in volume of members in master trusts increased the impact of an uncontrolled failure of a systemically significant scheme, our work through improving knowledge of the market, strengthening of powers and our relationship with schemes enabled us to exert more control over those exiting the market and ensure any exit is controlled.
- ▶ Tolerance of the risk around the market's ability to absorb change in recognition that the degree of threat had diminished over time as the market has proven itself very resilient to change. Furthermore the legislative timetable is highly pressured because of Brexit negotiations.
- ▶ De-escalation of the AE centric risk relating to behaviours of small and micro employers following continued high levels of both on-time compliance and an increased confidence from the positive behaviour and attitudes of employers.
- ▶ Escalation of risk pertaining to substandard administration of pension schemes associated with both fraud (eg cyber crime to pensioner existence fraud) and error (eg benefits being delayed or paid into the wrong accounts) resulting from weaknesses in scheme administration standards.
- ▶ New risk reflecting the performance of DC schemes, in particular concerns regarding the variable quality and performance of investment strategies (specifically their default funds which pick up the vast majority of AE members). This combined with potential poor trustee decision-making and greater transparency, could undermine confidence in AE and pension savings.

Crystallised risks

This year, there have been instances where significant operational risks have occurred, however none of these were unforeseen. These risks had been identified and tracked within our risk registers and our mitigation plans were considered effective in limiting the residual impact.

Business continuity incident

Our staff were unable to connect to the TPR domain, via the Napier House direct access network, for two days. However, remote access was available and our business continuity procedures proved effective in managing this risk in a controlled way, limiting the degree of operational disruption. This incident highlighted a number of further improvements to the business continuity management processes which are being implemented in 2018-2019.

continued over...

Crystallised risks continued...

Capita data centre failure

Capita, who are our AE outsource bulk provider, experienced a major, multi-client incident as a result of a power outage in their West Malling data centre. This resulted in service problems over three consecutive days, although most services were restored within two days. The issue was also reported in the national press. While a comprehensive set of mitigations were in place to limit the impact of this risk on our regulated community, there was a significant increase in the number of 'expressions of dissatisfaction' for this period (but no comparable increase in formal complaints). We commissioned an independent review after the event and have begun to implement a number of additional controls as a result.

Risk modelling

We use models to enhance the effectiveness and efficiency of our regulatory activities and internal operations (eg our AE volumetric model is designed to provide assumptions on AE caseloads and the resources required to meet that work). In doing so, we acknowledge the risks that come with their use, and the need to identify and manage them 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 it 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 and new obligations under the General Data Protection Regulation (GDPR), 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 reported the loss of a physical case file to the Information Commissioner's Office. This was fully investigated in line with our policy and procedures and one data subject affected was also informed. We did not recover the case file. We continue to review our data handling procedures and strengthen them where necessary.

Internal audit

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

- ▶ Automatic enrolment/Capita IT Systems and change control
- ▶ Cyber security
- ▶ Project governance and processes
- ▶ Policy evidence and research
- ▶ Ethics, code of conduct and culture

Of the five audits undertaken, four were rated 'green-amber' while one audit, relating to our cyber security arrangements, received an overall amber rating.

Health and safety

We regard the attainment of high standards of health and safety as a benefit to both TPR and our people. It is, therefore, our policy to make continual improvements in health and safety to minimise the risk of accidents and reduce the risk of personal injury and damage to property and the environment. In particular, we will:

- ▶ provide and maintain safe and healthy working conditions, taking account of statutory requirements
- ▶ provide information, instruction, training and supervision to enable employees to perform their work safely
- ▶ make available all necessary safety devices and protective equipment and supervise their use
- ▶ promote a positive health and safety culture within the organisation by consulting and involving employees and their representatives

We recognise the commitment required by our people to ensure that the Health and Safety Policy is effective and we expect them to take reasonable care of themselves, and others, and to co-operate in the implementation of this policy. The Health and Safety policy and associated documents will be reviewed on an ongoing basis and updated as necessary to ensure that it is effective in its aims.

Conclusion

Having reviewed the evidence and internal audit opinion, I am satisfied that we have maintained a sound system of internal controls during the 2017-2018 financial year. Control issues that arose over the year have been, or are in the process of being, addressed, and there were no significant control failures or significant 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 2017-2018.



Lesley Titcomb

Chief Executive, The Pensions Regulator
21 June 2018

Statement of the Board and Chief Executive 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

The Permanent Secretary in his role as Principal Accounting Officer (PAO) of the DWP has appointed the Chief Executive as Accounting Officer of TPR. Her relevant responsibilities as Accounting Officer, including propriety and regularity of the public finances and for the keeping of proper records, are set out in the Non-Departmental Public Bodies Accounting Officers' Memorandum issued by HMT and published in 'Managing public money'.

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 judgments required for determining that it is fair, balanced and understandable

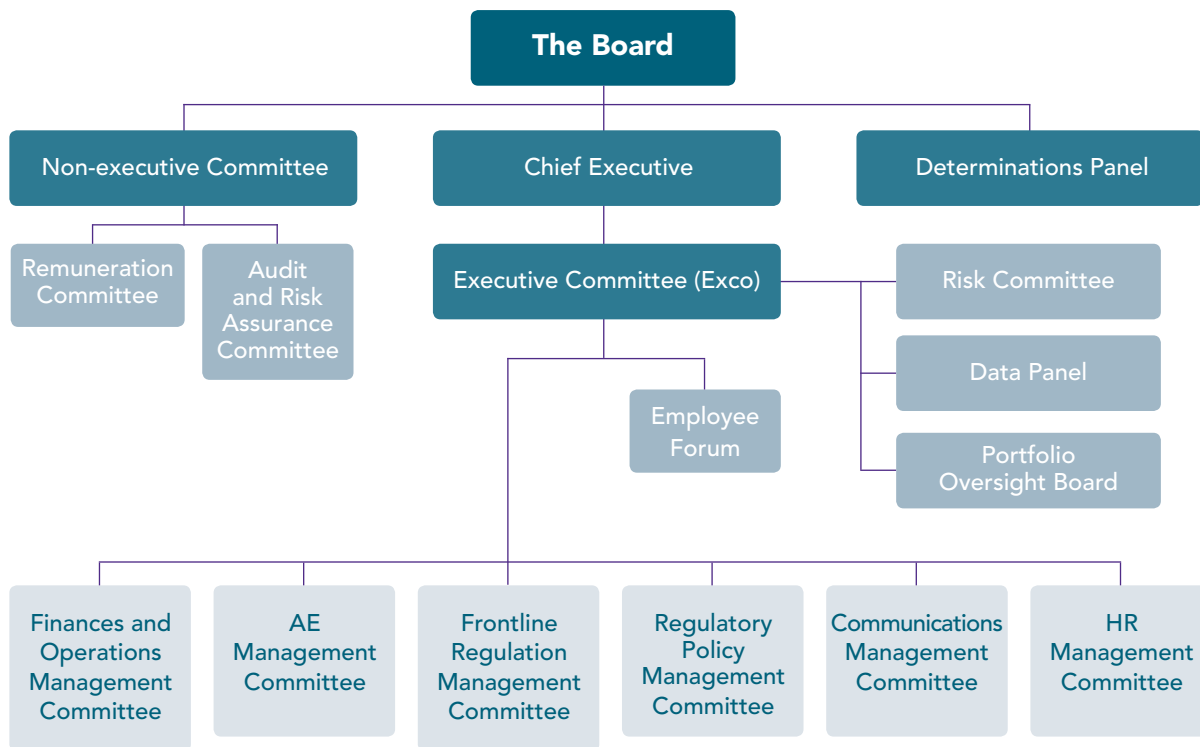


Lesley Titcomb

Chief Executive, The Pensions Regulator
21 June 2018

Directors' reports

Main committee structure (as at March 2018)



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 the TPR Board non-executive directors – all of whom are appointed by the Secretary of State.

Mark Boyle was in post throughout. His re-appointment as Chair, from 1 April 2018 to 31 March 2021, was announced by the DWP in January 2018.

Five non-executive directors, Tilly Ross, Sarah Smart, Margaret Snowden OBE, David Martin, and Kirstin Baker CBE were in post throughout.

One non-executive member, Ann Berresford, came to the end of her term of appointment during the year. Ann served as Chair of the Remuneration Committee until she left on 30 June 2017.

One non-executive director joined during the year – Robert Herga – on 1 July 2017.

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

Attendance is shown in the Board membership and attendance tables on pages 64 to 65.

The Committee met twice formally during the period of this report, in May and November 2017. Members also met in April 2017 for a senior management succession planning discussion in addition to a three day TPR-wide induction programme for recently appointed members.

The Committee's discussions covered a range of appointments and other staff matters, including senior management moves and recruitment. The Committee reviewed Board agenda planning, and discussed regulatory policy developments and timing for regular reporting by executive directors. It also covered whether non-executive directors could provide valuable input into regulatory casework and in external events, membership of the sub-committees, and the programme of briefing and discussion sessions for non-executives with TPR teams, along with TPR's strategy development and progress with the TPR Future project.

Committee members were also involved in activities outside of their attendance at Board and Committee meetings, including on a limited number of specific cases, investment business cases and policy development.

Report of the activities of the Audit and Risk Assurance Committee

The ARAC had five meetings during the year and provided feedback to the Board verbally and in writing after each meeting. In autumn 2017, the ARAC decided to move to a pattern of four meetings a year, enabling its activities to feed better into reporting to the full Board and to do so at more regular intervals across the year. The number of meetings will reduce to four a year from early summer 2018.

Subjects considered by the ARAC

During the year, the ARAC:

Risk

- ▶ 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 for TPR's risk appetite assessment to be considered by the full Board

Assurance

- ▶ contributed to the developing internal work on assurance mapping
- ▶ was updated on the work of the internal regulatory assurance function

Internal audit

- ▶ reviewed the internal audit management report for 2016-2017
- ▶ approved the internal audit plan for 2017-2018
- ▶ received reports from the internal auditors reviewing areas of the organisation
- ▶ monitored the implementation of recommendations made in earlier internal audit reports
- ▶ agreed the finalised proposals for the internal audit strategy for 2017-2018
- ▶ reviewed proposals for the three year internal audit strategy and for the 2018-2019 plan from management and internal auditors

External audit

- ▶ reviewed the external audit management report for 2016-2017
- ▶ approved the external audit strategy and plan for 2017-2018
- ▶ reviewed the annual accounts for the period 2016-2017 and recommended their approval to the Board
- ▶ 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
- ▶ arranged an internal committee effectiveness review

The ARAC also met in June 2018 to review:

- ▶ the final internal audits for 2017-2018 and the internal auditors' annual opinion for 2017-2018
- ▶ the draft governance statement for 2017-2018
- ▶ the annual report and accounts 2017-2018, together with the internal and external auditors' reports for the year
- ▶ the annual HR risks and liabilities report

Following completion of those reviews, the ARAC recommended to the Board approval of the elements of the annual report and accounts within its remit.

Risk assurance

The ARAC 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 ARAC considered how its risk appetite work had progressed during the year. As a result of its work and the reports that it considered, it:

- ▶ noted that the internal control system is designed to manage rather than eliminate risk and so provides reasonable rather than absolute assurance of effectiveness. It has 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. It concluded 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 and
- ▶ noted that of the five internal audits undertaken, and which identified opportunities for improvement, four received a classification of green/amber and one of amber

The ARAC was satisfied that good progress was being made in implementing agreed recommendations from all assurance activities, including internal audit. It concluded that the monitoring and reporting systems in place gave senior management an appropriate level of control over processes, that the management of processes within the organisation was broadly effective, and that where gaps were identified, these were addressed by the relevant team.

The ARAC noted the Head of Internal Audit's annual opinion that there is an adequate and effective system of governance, risk management and internal control to address the risk that management's objectives are not fully achieved.

Internal audit services

As in previous years, internal audit services were provided by auditors whose services have been procured via a DWP framework agreement. Internal audit services are used to supplement the assurance activities provided by either internal teams or other external providers.

The ARAC agreed a programme of internal audits for the year, covering major areas assessed as priority topics for review, investigation and audit. It reviewed each of the internal audit reports before its June 2018 review of the annual report and accounts, including the governance statement, and the subsequent recommendation to the Board for approval.

The ARAC closely monitored the progress of the implementation of previous audit recommendations each quarter.

Internal committee effectiveness review

A self assessment of the ARAC's effectiveness was carried out with both members and regular attendees invited to provide feedback. The National Audit Office (NAO) ARAC effectiveness checklist was used as a guide to focus responses on appropriate areas.

The responses showed that the committee had progressed and performs well, comparing favourably with other similar committees. There is clearly greater clarity and understanding of its purpose and remit with more appropriate focus, scrutiny and challenge of the top TPR risks. Recommendations being implemented include:

- ▶ Using the Board skills matrix to inform recruitment strategy taking into account any requirement for specialist skills and how best these might be provided
- ▶ ARAC members to have twice yearly informal meetings
- ▶ ARAC Chair to discuss assurance mapping objectives with the Executive Committee

Board and Determinations Panel expenses

The ARAC 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 additional meetings to support the ARAC's work. These included discussions with the DWP's partnership team, with the DWP's Group Head of Internal Audit, with the head of internal audit and colleagues, and with the NAO on the work of the ARAC and on audit themes within the public and regulatory sector.

Membership

Membership of the ARAC throughout the year 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 2017-2018. Its terms of reference enable the committee:

- ▶ **on appointment and any contract extension:** to advise the Secretary of State in relation to the pay of the Chief Executive including base salary, bonus and any other components, under the terms of their contract, and in relation to pay levels for relevant comparable public and private sector roles
- ▶ **annually:** within the terms of TPR pay remit agreed with the Secretary of State, and in consultation with the Chair, to review the pay and performance of the Chief Executive and executive directors including approval of any pay award or 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 2017-2018
- ▶ 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 job evaluation and reward project

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

The committee reviewed how work resulting from the annual staff engagement survey was progressing, including cross-organisational work. It also discussed talent management and succession planning, and received updates on employment law developments and on progress with TPR's organisational diversity and inclusion objectives.

David Martin was a member of the committee throughout the year. From 1 July 2017, when Ann Berresford stepped down as Chair, Margaret Snowden took on this role and Robert Herga joined, on his appointment as a TPR non-executive director.

Through its discussions, including with management, the committee concluded that the executive team have an appropriate level of support from the rest of the business.

Details of Board membership

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

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

Details of Board attendance

Member	Number of meetings			
	Board	ARAC	Remuneration Committee	Committee of Non-Executive Members
Mark Boyle ³	9/9	N/A	N/A	2/2
David Martin ⁴	8/9	N/A	2/2	2/2
Sarah Smart	8/9	4/5	N/A	2/2
Tilly Ross	9/9	5/5	N/A	2/2
Margaret Snowdon OBE	9/9	N/A	2/2	2/2
Lesley Titcomb	9/9	N/A	N/A	N/A
Kirstin Baker CBE	9/9	4/5	N/A	2/2
Robert Herga ⁵	7/7	N/A	1/1	1/1
Helen Aston	9/9	N/A	N/A	N/A
Nicola Parish	9/9	N/A	N/A	N/A
Former member	Number of meetings			
	Board	ARAC	Remuneration Committee	Committee of Non-Executive Members
Ann Berresford ⁶	2/2	N/A	1/1	1/1
Charles Counsell OBE ⁷	1/2	N/A	N/A	N/A
Andrew Warwick-Thompson ⁸	3/3	N/A	N/A	N/A

3 Mark Boyle was re-appointed as Chair by the DWP from 1 April 2018.

4 David Martin was re-appointed as NED by the DWP from 1 February 2017.

5 Robert Herga was appointed as NED by the DWP from 1 July 2017.

6 Ann Berresford's term of office as NED ended on 30 June 2017.

7 Charles Counsell stood down from 19 May 2017 to take up a CEO appointment.

8 Andrew Warwick-Thompson stood down from 14 July 2017 to take up a CEO appointment.

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 set out in schedule 2 of the Act.

These powers may be used either where we consider that enforcement action needs to be taken against pension schemes, their trustees or employers, or where trustees or other interested parties ask us to safeguard the interests of scheme members. The purpose of this arrangement is to ensure that we undertake serious regulatory work in a transparent way, allowing those affected to understand the reasons for it and the evidence we base it on.

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 (2nd term)
Tony Foster	31 March 2014	30 March 2019
Peter Hinchliffe	14 July 2011	13 July 2019 (2nd term)
David Latham	1 April 2014	31 March 2019
Elizabeth Neville	14 July 2011	13 July 2019 (2nd term)
Catharine Seddon	13 March 2013	12 March 2021 (2nd term)
Alasdair Smith	14 July 2011	13 July 2019 (2nd term)
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. The Panel membership currently stands at eight, plus the Chair. The terms of office of David Latham and Tony Foster, whose first terms of office are due to end in March 2018, have been extended for a further 12 months to March 2019. Three more members' terms of office will end in 2019, and recruitment for all five roles will be carried out in 2018 for appointment start in late 2018. This will allow the Panel to retain an experienced membership while recruitment and induction is ongoing.

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 which is sent, in standard procedure cases, to all parties who are considered to be directly affected by the decision under consideration and giving each party a full opportunity to respond, and to make their own case, if they wish.

The papers, including the warning notice, 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 2017-2018

During the year, the Panel made 55 determinations and exercised 93 powers. The majority of cases were dealt with under standard procedures, however four of these cases were determined by an oral hearing. There were also three special procedure cases heard on urgent matters, and their related compulsory reviews. There are two main themes this year. Firstly, there has been a significant increase in the number of cases referred to and determined by the Panel, including substantial numbers of fining cases. Secondly, there is greater complexity of cases heard by the Panel, together with a number of oral hearings for major regulatory cases.

continued over...

Casework in 2017-2018 continued...

The most noteworthy increase in the number of cases heard by the Panel relates to the number of requests received to issue fines for failure to complete a scheme return (under section 10 of the Pensions Act 1995). The peak of these cases was seen by the Panel during the first half of 2017. Given the large volumes received, a streamlined approach was adopted by the Panel to hear the cases, reducing the general arrangement for three panel members to hear a case to two members. This had a positive impact on the cost, timeliness and efficiency of the work. In line with TPR's **clearer, quicker, tougher** approach, the Panel has also seen a number of additional requests to issue fines under section 10 of the Pensions Act 1995, which covers fining for a wide range of breaches.

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. In recent years there had been few references resulting in substantive Upper Tribunal hearings. There are currently four cases with the Tribunal for decision, three of which relate to Panel determinations in 2017-2018 and one from an earlier period.

Meetings and Panel training

In February 2018 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 the Panel has received updates and training in a number of areas, and in particular the main focus has been in relation to the master trust authorisation regime launching later in 2018. The Panel's function will be to assess existing master trusts wishing to continue operating against a range of legislative criteria and authorise them – or not. There are several notable developments in how we have worked with TPR staff and those include policy development work and post case reviews.

Conclusion

The past 12 months have presented new challenges for the Panel, particularly the increase in the number and complexity of cases coming for determination. These are challenges which the Panel welcomes. The Panel is also aware of the increased spotlight and public focus on the work of TPR and how this may cross over to the work of the Panel in the coming year and beyond. The work of the Panel, and how we approach the cases brought to us, is always evolving and this looks set to continue. I believe that the Panel's role as a separate decision maker continues to be a vital one to enable TPR to meet the challenges ahead.

Andrew Long

Chairman, Determinations Panel
April 2018

Type of determination requested	No. of powers exercised	Outcome
Appointment of independent trustee	3	Three independent trustees were appointed to three separate schemes. Each of these cases was heard by special procedure and two of the appointments were upheld at compulsory review. The other case review is to take place early next financial year. Each of the cases were brought under s7(3)(a, c, d) of the Pensions Act 1995.
Vesting order	3	This power was exercised at the same time as the appointment of the three independent trustees above and was brought under s9 of the Pensions Act 1995.
Suspension of trustees	3	This power was exercised at the same time as the appointment of two independent trustees cases above. These cases suspended three trustees in total and were brought under s4(1)(a) of the Pensions Act 1995.
Prohibition of trustees	5	These cases prohibited five trustees in total and were brought under s3 of the Pensions Act 1995.
Fines for non-compliance with scheme return	77	These cases fined a total of 77 trustees and were all brought under s10 of the Pensions Act 1995.
Fine for non-payment of contributions	1	This case fined one trustee and was brought under s10 of the Pensions Act 1995.
Fine for non-compliance with reporting material payment failures to members within a reasonable period	1	This case fined one trustee and was brought under s10 of the Pensions Act.
Fine for not providing audited accounts	4	This case fined a total of four trustees and was brought under s10 of the Pensions Act.
Fine for non-compliance with keeping registrable information up to date	6	This case fined a total of six trustees and was brought under s10 of the Pensions Act.
Revocation (of fines)	2	The Panel revoked the power to fine under s101 Pensions Act 2004, for a total of two trustees.

Remuneration and staff report

The Remuneration Committee

Details of the activities of the Remuneration Committee during the period ended 31 March 2018 are set out on page 63.

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 opposite.

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 opposite.

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 ⁹	1 month	1 month
David Martin	3 months	3 months
Tilly Ross	3 months	3 months
Sarah Smart	3 months	3 months
Margaret Snowdon OBE	3 months	3 months
Kirstin Baker CBE	3 months	3 months
Robert Herga ¹⁰	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 OBE ¹¹	3 months	3 months
Nicola Parish	3 months	3 months
Andrew Warwick- Thompson ¹²	3 months	3 months

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

9 Ann Berresford's term of office ended on 30 June 2017.

10 Robert Herga was appointed by the DWP from 1 July 2017.

11 Charles Counsell OBE resigned and stepped down on 19 May 2017. Darren Ryder has been appointed Director of Automatic Enrolment and is not a member of the Board.

12 Andrew Warwick-Thompson resigned and stepped down on 14 July 2017. David Fairs has been appointed from 2 July 2018.

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 TPR's 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 (subject to audit)

The following sections provide details of the remuneration and pension interests of senior management.

Executive members										
Officials	Salary (£'000)		Bonus payments (£'000) ¹³		Benefits in kind (to nearest £100)		Pension benefits (to nearest £1,000) ¹⁴		Total (£'000)	
	2017-2018	2016-2017	2017-2018	2016-2017	2017-2018	2016-2017	2017-2018	2016-2017	2017-2018	2016-2017
L Titcomb ¹⁵ (Chief Executive)	205-210	205-210	15-20	15-20	–	–	–	–	220-225	220-225
C Counsell ¹⁶ (Executive Director, AE)	20-25	140-145	10-15	10-15	–	–	–	–	35-40	155-160
A Warwick-Thompson ¹⁷ (Executive Director, Regulatory Policy)	40-45	140-145	10-15	5-10	–	–	16,000	56,000	70-75	205-210
H Aston (Executive Director, Finance and Operations)	130-135	125-130	5-10	10-15	–	–	52,000	50,000	190-195	190-195
N Parish ¹⁸ (Executive Director, Frontline Regulation)	140-145	95-100	10-15	N/A	–	–	56,000	37,000	210-215	130-135

13 Bonuses relating to 2016-2017 performance but paid in 2017-2018.

14 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.

15 L Titcomb chose not to be covered by the Civil Service pension arrangement during the year.

16 C Counsell OBE chose not to be covered by the Civil Service pension arrangement during the year and stepped down on 19 May 2017. Full year equivalent £140-145k.

17 A Warwick-Thompson stepped down on 14 July 2017. Full year equivalent £140-145k.

18 N Parish was appointed 1 August 2016. Full time equivalent £140-145k.

Salary

'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 as a taxable emolument.

Bonuses

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

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 2017-2018 was £220-225k (2016-2017: £220-225k). This was 4.7 times (2016-2017: 4.9) the median remuneration of the workforce, which was £47k (2016-2017: £45k). The reduction in the ratio between the highest paid and median employee is due to no change in the highest paid remuneration and a combination of the 1% increase and a change in mix of staff increasing the median remuneration.

In 2017-2018, no employees (2016-2017: nil) received remuneration in excess of the highest-paid director. Remuneration ranged from £12k to £220-225k (2016-2017: £12k to £220-225k).

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.

Remuneration for Board members (subject to audit)

Non-executive members

The following sections provides details of the remuneration and pension interests of TPR's Board and the members of the Determinations Panel.

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

	2017-2018			2016-2017		
	Salary (£'000)	Total benefits in kind (to nearest £100)	Total (£'000)	Salary (£'000)	Total benefits in kind (to nearest £100)	Total (£'000)
M Boyle (Chairman)	70-75	1,400	70-75	60-65	900	60-65
A Brierley ¹⁹	–	–	–	0-5	100	0-5
G Mayes ²⁰	–	–	–	10-15	400	10-15
D Martin	15-20	200	15-20	15-20	300	15-20
A Berresford ²¹	0-5	200	0-5	15-20	800	15-20
T Ross	15-20	100	15-20	15-20	200	15-20
S Smart (Chair of Audit Committee)	20-25	400	20-25	20-25	600	20-25
M Snowdon OBE ²²	15-20	200	15-20	15-20	100	15-20
K Baker CBE	15-20	–	15-20	0-5	–	0-5
R Herga ²³	10-15	–	10-15	–	–	–

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

The total amount paid to non-executive directors (including the chairman) during the period was £185-190k. The monetary value of benefits in kind covers any benefits provided by the employer and treated by HM Revenue and Customs as a taxable emolument. The benefits shown above represent the payment of expenses for travelling to Brighton. The remuneration of the Chairman and non-executive members is non-pensionable.

19 A Brierley stepped down on 8 July 2016. Full time equivalent £15-20k.

20 G Mayes stepped down on 31 January 2017. Full time equivalent £15-20k.

21 A Berresford's term of office ended on 30 June 2017. Full time equivalent £15-20k.

22 M Snowdon OBE appointed on 9 May 2016. Full time equivalent £15-20k.

23 R Herga was appointed by the DWP from 1 July 2017. Full time equivalent £15-20k.

Executive members' pension benefits (subject to audit)

Executive members²⁴	Accrued pension at pensions age as at 31/3/18 and related lump sum (£'000)	Real increase in pension and related lump sum at pension age (£'000)	CETV at 31/3/17 (£'000)	CETV at 31/3/18 (£'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	202	217	11
H Aston (Executive Director, Finance and Operations)	20-25 plus lump sum of 0	2.5-5 plus lump sum of 0	189	219	15
N Parish ²⁵ (Executive Director, Frontline Regulation)	20-25 plus lump sum of 0	0-2.5 plus lump sum of 0	236	281	26

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

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

25 N Parish's CETV has been recalculated for 2016-2017 due to a retrospective correction to the calculation period end date by Civil Service Pensions. Previously stated as £231k.

Pension benefits are provided through the Civil Service pension arrangements. From 1 April 2015, a new 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 were members of 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 DB arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

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

Employee contributions are salary-related and range between 4.6% and 8.05% for members of classic, premium, classic plus, nuvos and 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 the website:
www.civilservicepensionscheme.org.uk

Cash Equivalent Transfer Values (CETV)

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 (subject to audit)

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 for the time they devote 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 (2017-2018) (£'000)	Members
55-60	A P Long (Chairman)
25-30	J Swift
20-25	D Latham
15-20	T Foster, P Wallace
10-15	E L Neville, P Hinchliffe and C Seddon
5-10	M Smith

Members of the Determinations Panel may be removed from office at any time by the Chairman of the Panel with the approval of TPR, and 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 2018, for more than £245 per day and that last for longer than six months:

Number of existing engagements as at 31 March 2018	10
of which, the number that have existed for:	
less than one year at time of reporting	8
between one and two years at time of reporting	1
between two and three years at time of reporting	1
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 2017 and 31 March 2018, for more than £245 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 2017 and 31 March 2018	17
Number of these engagements which were assessed as caught by IR35	17
Number of these engagements which were assessed as not caught by IR35	0
Number that were engaged directly (via PSC contracted to department) and are on the departmental payroll	0
Number that were reassessed for consistency/assurance purposes during the year whom assurance has been requested but not received	0
Number that saw a change to IR35 status following the consistency review	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.	15

Staff numbers and related costs (subject to audit)

	AE £'000	Levy £'000	Total TPR £'000
2017-2018			
Salaries and wages*	10,560	21,533	32,093
Social security costs	1,232	2,511	3,743
Other pension costs	2,137	4,356	6,493
	<u>13,929</u>	<u>28,400</u>	<u>42,329</u>
Temporary staff	419	1,563	1,982
Total costs	<u>14,348</u>	<u>29,963</u>	<u>44,311</u>
	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
	<u>12,018</u>	<u>23,788</u>	<u>35,806</u>
Temporary staff	697	974	1,671
Total costs	<u>12,715</u>	<u>24,762</u>	<u>37,477</u>

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 £2.7m (2017: £0.6m).

*Salaries and wages for 2017-2018 includes staff holiday accrual £575k (2016-2017: £464k) for Levy and £288k for AE (2016-2017: £239k).

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 Principal Civil Service Pension Scheme (PCSPS), including family benefits. The PCSPS is an unfunded multi-employer DB salary-related scheme, but 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 2017-2018, employers' contributions of £6,337k were payable to the PCSPS (2016-2017 £5,321k) at one of four rates in the range 20.0% to 24.5% (2016-2017: 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 2019-2020. 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 £153k (2016-2017: £115k) were paid to one or more of a panel of appointed stakeholder pension providers. Employer contributions are age-related and range from 8% to 14.75% of pensionable pay from 1 October 2015. Employers also match employee contributions up to 3% of pensionable pay. In addition, from 1 October, employer contributions of £4k, 0.5% 2015 (2016-2017: £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 2018 equates to £749k (31 March 2017: £642k) 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:

2017-2018

Number of staff	AE	Levy	Total TPR
Employees	130	462	592
Temporary staff	1	16	17
Staff engaged on capital projects	–	–	–
Total	131	478	609

2016-2017

Number of staff	AE	Levy	Total TPR
Employees	136	373	509
Temporary staff	5	13	18
Staff engaged on capital projects	–	–	–
Total	141	386	527

Reporting of Civil Service and other compensation schemes – exit packages (subject to audit)

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	– (–)	2 (2)	2 (2)
£10,001-£25,000	– (–)	4 (3)	4 (3)
£25,001-£50,000	– (–)	3 (5)	3 (5)
£50,001-£100,000	– (–)	– (1)	– (1)
£100,001-£150,000	– (–)	– (–)	– (–)
£150,001-£200,000	– (–)	– (–)	– (–)
Total number of exit packages by type	– (–)	9 (11)	9 (11)
Total resource cost/£'000	– (–)	189 (296)	189 (296)

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in full in the year of departure. Where the department has agreed early retirements, the additional costs are met by the department 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.

*These figures may differ from those disclosed in the 2016-2017 accounts as they include top-up payments that have been made following the quashing at Judicial Review of the 2016 amendments to the Civil Service Compensation Scheme.

Diversity and inclusion

We are committed to valuing diversity, promoting equality of opportunity and creating inclusion both as an employer and as a regulator.

As an employer we demonstrate this commitment by setting equality objectives and monitoring our workforce. Key highlights over the year include:

- ▶ being recognised as a Disability Confident Committed employer to demonstrate our commitment to recruit and retain people with disabilities or health conditions
- ▶ participating in Stonewall's Workplace Equality Index for the first time to benchmark our progress on a lesbian, gay, bi and trans inclusion in the workplace
- ▶ increasing flexible working options for all staff by implementing career breaks guidance and promoting shared parental leave
- ▶ fulfilling our Time To Change employer pledge to demonstrate our commitment to tackle stigma and end discrimination around mental health in the workplace and
- ▶ publishing our gender pay gap report











A copy of our workforce profile can be found at: www.tpr.gov.uk/doc-library/diversity-and-inclusion.aspx and our gender pay gap can be found on our website: www.tpr.gov.uk/doc-library/diversity-and-inclusion.aspx. This work helps us meet our commitments under the Equality Act 2010 and public sector Equality Duty.

We have also taken a number of steps to meet our new commitments, including:

- ▶ training our senior leadership team to understand the Equality Duty
- ▶ developing an equality objective which covers our organisational policies and services and
- ▶ publishing equality objectives and information

Further details on our equality objectives and information can be found on our website: www.tpr.gov.uk/doc-library/diversity-and-inclusion.aspx

Staff information Please note: All figures, except 'Sickness', have been rounded to the nearest whole number

<h3>Age</h3>  <p>We have people of all ages working for us. 72% of our workforce is between 31 and 50. The average age at TPR is 41.</p>	<h3>Disability</h3>  <p>4% of our workforce declared themselves as having a disability.</p>
<h3>Gender</h3>  <p>We maintain a strong overall gender balance of 51% female to 49% male with a spread of genders across all job groups. Gender is currently recorded as male or female but our staff survey data shows a small number of staff identify as transgender or would prefer to self-describe. We have a strong gender balance at Executive level with 75% of our Executive Committee being female. We also have a strong gender balance at Senior Leadership level with 55% being female.</p>	
<h3>Marriage and civil partnership</h3>  <p>45% of our workforce declared themselves as a married or in a civil partnership.</p>	<h3>New parents</h3>  <p>21 women went on maternity leave, 8 people took paternity leave, 7 men took shared parental leave.</p>
<h3>Ethnicity</h3>  <p>7% of our workforce declared they were from a black, Asian and minority ethnic background. 79% declared they were of white origin.</p>	<h3>Religion or belief</h3>  <p>34% of our workforce declared a religion or belief, of which 83% declared they were Christian. 41% declared they have no religion.</p>
<h3>Sexual orientation</h3>  <p>7% of our workforce declared themselves gay, lesbian or bisexual.</p>	<h3>Sickness</h3>  <p>This has reduced from 3% to 2.3% (CIPD 2016 all organisations average: 2.8% and public sector average: 3.7%).</p>
<h3>Working pattern</h3>  <p>11% of our workforce are part time.</p>	

Parliamentary accountability and audit report

The disclosures in this Parliamentary Accountability Report along with the Statement of Accounting Officer's Responsibilities and the Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament bring together the key documents demonstrating TPR's accountability to Parliament in relation to the Annual Report and Accounts.

The Chairman and Chief Executive meet regularly with Ministers and senior officials from the DWP in addition to quarterly accountability review meetings. The Department approves the Corporate Plan and the Board delivers its Annual Report and Accounts to Parliament through the Secretary of State.

The Chief Executive of TPR is also its Accounting Officer. Compliance with Accounting Officer responsibilities is supported through the Board's risk management procedures and through a shared objective for senior management to support the Accounting Officer in fulfilling her responsibilities.

Losses and special payments (subject to audit)

There were no losses or special payments during the current or prior year above the limits prescribed by 'Managing public money'.

Remote contingent liabilities (subject to audit)

There are no remote contingent liabilities to disclose.

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

Opinion on financial statements

I certify that I have audited the financial statements of The Pensions Regulator for the year ended 31 March 2018 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, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Accountability Report that is described in that report as having been audited.

In my opinion:

- ▶ the financial statements give a true and fair view of the state of The Pension Regulator's affairs as at 31 March 2018 and of 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 regularity

In my opinion, in all material respects the income and expenditure 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.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of The Pensions Regulator in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Board and Accounting Officer for the financial statements

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.

continued over...

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

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Pensions Act 2004.

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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- ▶ identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of The Pension Regulator's internal control.
- ▶ evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on The Pensions Regulator's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- ▶ evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

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

Other information

The Board and the Accounting Officer are responsible for the other information. The other information comprises information included in the annual report, other than the parts of the Accountability Report described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters

In my opinion:

- ▶ the parts of the Accountability Report to be audited have been properly prepared in accordance with Secretary of State directions made under the Pensions Act 2004;
- ▶ in the light of the knowledge and understanding of The Pension Regulator and its environment obtained in the course of the audit, I have not identified any material misstatements in the Performance Report or the Accountability Report; and
- ▶ the information given in the Performance Report and 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 Accountability Report to be audited are not in agreement with the accounting records and returns; or
- ▶ I have not received all of the information and explanations I require for my audit; or
- ▶ the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse

Comptroller and Auditor General

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

29 June 2018

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 Pensions Act 2004 (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 2018

In the year ended 31 March 2018, TPR had net expenditure of £83.5m, of which £43.3m related to levy-funded activities and £40.2m was attributable to AE. Our net expenditure has been transferred to our general reserve and is offset by contributions from the DWP of £44.0m for our levy activities and £40.1m from the DWP for AE activities.

Payroll staff costs have increased by £6.5m to £42.3m this year compared to last year due to increasing staff levels (increase in average staff numbers from 509 to 591) during the year. Temporary staff costs also increased by £0.3m.

Other expenditure increased by £1.9m across the organisation, a £0.5m increase for AE and a £1.4m increase for levy, compared to the previous year. This is mainly driven by a £0.9m increase in the cost of the development and maintenance of our computer systems relating to the switch to a cloud-based data platform, £0.5m higher case expenditure and £0.5m increase in costs from business outsourced services relating to the roll out of AE.

There have been no significant events occurring since year end.

Further information on our performance against budget can be found in the Financial summary on page 41.

Property, plant and equipment and intangible assets

Capital expenditure of £0.8m was incurred during the year, of which £0.3m 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 invoices for goods and services received. Payments are normally made as specified in individual contracts. If there is no contractual provision or understanding, invoices are deemed due within 30 days of receipt of the goods or services, or presentation of a valid invoice or similar demand, whichever is later. During the year ended 31 March 2018, we paid 92% of invoices in line with this policy.

Long term expenditure trends

Over the previous five years, total expenditure has increased each year and is planned to increase further over the next two years. The increases to date have been predominantly due to the costs of the phased implementation of AE, the introduction of new powers within levy regulation and associated increased workload and the ongoing transformation of TPR. The AE costs fluctuate over the next two years, reflecting the re-enrolment profile of employers' and expected new company start-up patterns. Additional levy funding has also been agreed to implement our new approach to regulation (TPR Future) and the associated ongoing increase in our resourcing.

Long term financial analysis

(£m)	Actual 2013-2014	Actual 2014-2015	Actual 2015-2016	Actual 2016-2017	Actual 2017-2018	Budget 2018-2019	Projection 2019-2020
Total TPR*	54.4	60.1	62.8	74.8	83.5	88.0	94.9

*All figures exclude capital expenditure

Value for money

As a public sector body, we recognise that we need to secure value for money (VFM) in the administration of TPR. We have highlighted a few examples below to provide a flavour of the types of decisions and ways of working over the last year which demonstrate how we have achieved VFM.

- ▶ We have recruited and trained in-house expertise, including lawyers and actuaries to help support our case management, in addition to procuring external professional services on our cases where appropriate. We have therefore been able to blend the use of in-house expertise alongside support from the external market to best meet our priorities and achieve significant savings from overreliance on the external market.
- ▶ We were investigating automating an existing manual data feed from another government department as a range of benefits could be delivered from the project. However, as part of the business case process the costs and benefit case were vigorously challenged and a range of alternative options were assessed. We concluded that the benefits could be delivered via an alternative, cheaper solution so we are maintaining the existing manual data feed until a more cost effective automated solution is available, thus avoiding an estimated £1m cost.
- ▶ We are improving our horizon-scanning and intelligence work and ensuring that this feeds into the development of the organisation's regulatory strategy, improving how we identify, quantify, prioritise and react to short, medium and long-term risks. We are placing a heightened focus on gathering and maintaining high-quality data from the schemes we regulate to help us with this and to make sure activity is evidence-based. In addition, we expect our new regulatory model to drive more efficient ways of working. This includes learning and adapting, measuring and managing our performance, and improving consistency in what we do.
- ▶ We have made savings of nearly £1m in 2017-2018 through choosing the most efficient and effective procurement routes. In respect of one of our strategic suppliers we maintain a register highlighting market savings and cost avoidance, which included savings of £0.4m in year. We also measure savings in agreed cost versus market pricing through our procurements. During the year there were 21 occasions when a saving was recorded, totalling over £0.5m. The majority of savings was made on an expert services contract against standard rates.

Other activities

Levies account

The Pensions Act 2004 does not require us to prepare a levies account. However, we provide a summary below.

During the year ended 31 March 2018, 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 £68.2m, of which £42.9m related to the general levy, £20.9m to the PPF administration levy and £4.4m to the PPF fraud compensation levy.
- ▶ The opening debt position as at 1 April 2017 was a balance of £0.2m, the closing debt position as at 31 March 2018 was £0.5m.
- ▶ We collected and transferred £67.9m during the year, of which £63.5m relates to the DWP and £4.4m to the PPF. Cash held at bank at 31 March 2018 was £0.3m, of which £0.1m is to be transferred to the DWP/PPF and £0.2m unallocated cash which we are in the process of allocating or returning.

Levies account summary 2017-2018

Category	Totals (£m)
Opening debt at 1 April 2017	0.2
General levy invoices	42.9
PPF administration invoices	20.9
PPF fraud compensation invoices	4.4
General levy receipts	(42.6)
PPF administration receipts	(20.9)
PPF fraud compensation invoices	(4.4)
Closing debt at 31 March 2018	0.5

Automatic enrolment penalty notices

During the year we issued penalty notices under sections 40 and 41 of the Pensions Act 2008. The following results summarise key facts and figures in respect of automatic enrolment penalty activity undertaken during the period.

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

The opening debt balance as at 1 April 2017 was £6.5m and during the year we issued fixed penalty notices (FPN) and escalating penalty notices (EPN) totalling £42m, of which £7m has been collected, write offs and remissions totalled £2.6m. Discharged debt during the year totalled £15.4m. 360 penalties were refunded, leaving the closing debt position as at 31 March 2018 at £23.5m.

AE penalty notices summary 2017-2018

Category	FPN (£m)	EPN (£m)	Total (£m)
Opening balance	1.7	4.8	6.5
Penalties issued	11.5	30.5	42.0
Collected	(4.0)	(3.0)	(7.0)
Write offs and remissions ²⁶	(0.5)	(2.1)	(2.6)
Discharged debt ²⁷	(3.3)	(12.1)	(15.4)
Closing balance	5.4	18.1	23.5

£4.2m was transferred to HMT's consolidated fund via the DWP during the year. £2.7m was received and not yet 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. The closing balance of £23.5m reflects the significant increase in the number of penalty notices issued in 2017-2018 and is in line with the large number of employers hitting their AE staging date during this period. Much of the closing debt has yet to progress fully through TPR's debt recovery process.

- 26 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.
- 27 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 ie where a change of the employer's address has occurred.

Section 10 and chair's statement penalty notices

During the year ended 31 March 2018, we issued penalty notices under: (a) Section 10 of the Pension 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 HMT and transfer them over to the consolidated fund via the DWP.

150 penalties for breaches in providing a chair's statement totalling £102k were issued (two were subsequently revoked). Two penalties were issued for breaches in governance standards totalling £55k and 127 penalties were issued for failing to provide a scheme return totalling £61k (13 were revoked).

Receipts for the year totalled £201k, of which, £92k related to chair's statement penalties, £55k for governance standards and £54k for scheme return penalties. The closing debt balance (£24k) related to 41 penalties and are progressing through TPR's debt recovery process.

From the £201k received, £200k was transferred to HMT's consolidated fund via the DWP. There was £1k received and not transferred at year end.

Section 10 and chair's statement penalty notices summary 2017-2018

Category	Totals (£'000)
Opening debt at 1 April 2017	13
Fines issued	218
Penalties written off	(6)
Receipts	(201)
Closing debt at 31 March 2018	24



Lesley Titcomb

Chief Executive, The Pensions Regulator
21 June 2018

Financial statements and Notes to the accounts



Statement of comprehensive net expenditure for the year ended 31 March 2018

	Note	2017-2018 £'000	2016-2017 £'000
Expenditure			
Staff costs	3	44,311	37,477
Depreciation, amortisation and impairment charges	4	1,287	1,225
Other operating expenditure	4	37,931	36,118
Total operating expenditure		83,529	74,820
Finance income		(22)	(17)
Net expenditure after interest, before taxation		83,507	74,803
Taxation		5	3
Comprehensive net expenditure for the year		83,512	74,806

All income and expenditure is derived from continuing operations.
The accounting policies and notes on pages 101 to 117 form part of these accounts.

Statement of financial position as at 31 March 2018

		At 31 March 2018	At 31 March 2017
	Note	£'000	£'000
Non-current assets			
Property, plant and equipment	5a	1,818	2,178
Intangible assets	6a	1,618	1,844
Total non-current assets		3,436	4,022
Current assets			
Trade and other receivables	8	1,090	1,256
Cash and cash equivalents	9	1,714	934
Total current assets		2,804	2,190
Total assets		6,240	6,212
Current liabilities			
Trade and other payables	10	(10,613)	(11,166)
Provisions	11	–	–
Total current liabilities		(10,613)	(11,166)
Total assets less current liabilities		(4,373)	(4,954)
Non-current liabilities			
Provisions	11	(691)	(687)
Total non-current liabilities		(691)	(687)
Assets less liabilities		(5,064)	(5,641)
Taxpayers' equity			
General Fund		(5,064)	(5,641)
Total equity		(5,064)	(5,641)

The Financial statements on pages 97 to 100 were approved and authorised for issue by the Board on 13 June 2018 and were signed on its behalf by:



Lesley Titcomb

Chief Executive, The Pensions Regulator, 21 June 2018

The accounting policies and notes on pages 101 to 117 form part of these accounts.

Statement of cash flows for the year ended 31 March 2018

	Note	2017-2018 £'000	2016-2017 £'000
Cash flows from operating activities			
Net expenditure after interest		(83,507)	(74,803)
Adjustments for non-cash transactions	4	1,393	1,237
Decrease/(Increase) in trade and other receivables	8	166	(78)
(Decrease)/Increase in trade and other payables	10	(342)	1,872
Increase in provisions	11	4	49
Cash outflow due to taxation		(3)	(3)
Net cash outflow from operating activities		(82,289)	(71,726)
Cash flows from investing activities			
Purchase of property, plant and equipment	5b	(326)	(730)
Purchase of intangible assets	6b	(694)	(298)
Net cash outflow from investing activities		(1,020)	(1,028)
Cash flows from financing activities			
Grant-in-aid to cover ongoing operations of levy		43,962	35,053
Grant-in-aid to cover ongoing operations of AE		40,127	38,110
Net financing		84,089	73,163
Net increase in cash and cash equivalents in the period	9	780	409
Cash and cash equivalents at the beginning of the period		934	525
Cash and cash equivalents at the end of the period	9	1,714	934

The accounting policies and notes on pages 101 to 117 form part of these accounts.

Statement of changes in taxpayers' equity for the year ended 31 March 2018

	General Reserve
	£'000
Balance at 1 April 2016	(3,998)
Changes in taxpayers' equity 2016-2017	
Grants from the DWP	73,163
Comprehensive net expenditure for the year	(74,806)
Balance at 31 March 2017	(5,641)
Changes in taxpayers' equity 2017-2018	
Grants from the DWP	84,089
Comprehensive net expenditure for the year	(83,512)
Balance at 31 March 2018	(5,064)

As the historical cost basis for property, plant and equipment and intangible assets are valued at depreciated historical cost as a proxy for fair value, therefore there is no revaluation reserve.

The accounting policies and notes on pages 101 to 117 form part of these accounts.

Notes to the accounts

1 Statement of accounting policies

These financial statements have been prepared in accordance with the 2017-2018 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 adopted by the regulator 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 2018. The following standards are to be introduced in subsequent years:

- ▶ IFRS 9 Financial Instruments (effective for periods beginning on or after 1 January 2018). Among other changes IFRS 9 introduces an expected credit loss model for impairment which will replace the current incurred loss model in IAS 39. An impairment loss may now be recognised prior to a loss event occurring. We have assessed that the impact of IFRS 9 will not be material to the financial statements.
- ▶ IFRS 15 Revenue from contracts with customers (effective for periods beginning on or after 1 January 2018). The standard's core principle is that an entity will recognise revenue when it transfers goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard provides a single, principles based five-step model to be applied to all contracts with customers. We have assessed that the impact of IFRS 15 will not be material to the financial statements.
- ▶ IFRS 16 Leases (effective for the periods beginning on or after 1 January 2019). The new standard replaces IAS 17 Leases and introduces a new single accounting approach for lessees for all leases (with limited exceptions). As a result, there is no longer a distinction between operating leases and finance leases, and lessees will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. We lease Napier House for use as office space which is currently classified as an operating lease. We are awaiting details of HM Treasury's assessment of IFRS 16 in relation to FReM bodies and assessing the impact on the 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. As permitted by the FReM, we use a depreciated historical cost basis as a proxy for fair value as 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.

As permitted by the FReM intangible assets are carried at depreciated historic cost, which is a proxy for fair value as they are considered to have short useful lives or low 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 an estimate of the total leave owed to staff based on a sample of employees.

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. All grant-in-aid is reported on a cash basis in the period in which it is received.

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.

n) Going concern

These accounts are prepared on a going-concern basis. 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

Segmental reporting is applied in line with IFRS 8 to report the split between levy and AE expenditure (as described in Note 2). Segmental reporting is not required for assets and liabilities as this information is not regularly reported to the chief operating decision-maker.

p) Critical accounting judgements and key sources of estimation uncertainty

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

Critical judgements in applying the accounting policies

IT software internally generated: In identifying what software development work should be capitalised under IAS 38, internal procedures have been developed which 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
2017-2018			
Gross expenditure	40,217	43,317	83,534
Income	(9)	(13)	(22)
Net expenditure	40,208	43,304	83,512
2016-2017			
Gross expenditure	38,123	36,700	74,823
Income	(9)	(8)	(17)
Net expenditure	38,114	36,692	74,806

TPR comprises of two distinct operating segments: Levy and AE. Levy activity relates to the regulation of new and existing DB, DC, master trust and public sector 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
2017-2018			
Net staff costs	<u>14,348</u>	<u>29,963</u>	<u>44,311</u>
2016-2017			
Net staff costs	<u>12,715</u>	<u>24,762</u>	<u>37,477</u>

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
2017-2018			
Running costs			
Chairman and part-time Board members' fees and expenses*	66	139	205
Consultancy, contracted-out and other professional services	2,250	7,696	9,946
Business process outsourced services	20,026	–	20,026
Training and recruitment costs	425	694	1,119
Staff travel and expenses	315	297	612
General expenses including accommodation expenses**	513	1,647	2,160
Rentals under operating leases	316	497	813
Dilapidations costs	–	4	4
Computer systems development and maintenance**	1,347	1,560	2,907
Auditor's remuneration	–	33	33
Loss on disposal of fixed assets	–	106	106
	25,258	12,673	37,931
Depreciation and impairment charges			
Depreciation	6	546	552
Amortisation	603	132	735
	609	678	1,287
Total	25,867	13,351	39,218

*Includes fees of £181k (2016-2017: £177k), social security costs of £16k (2016-2017: £15k) and expenses of £8k (2016-2017: £10k). Details of the remuneration and pension benefits of the Chair and all other members of the Board are given in the Remuneration report in the Financial review. There is tax due to HMRC on expenses as part of the PAYE Settlement Agreement (payable in August 2018).

** Cloud computing costs have been reclassified from 'general expenses including accommodation expenses' to 'computer systems development and maintenance'. The total value reclassified for 2016-2017 is £390k (Levy: £242k, AE: £148k).

4 Other operating expenditure continued...

	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**	525	1,621	2,146
Rentals under operating leases	322	509	831
Dilapidations costs	–	49	49
Computer systems development and maintenance**	1,273	772	2,045
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
	611	614	1,225
Total	25,407	11,936	37,343

*Includes fees of £181k (2016-2017: £177k), social security costs of £16k (2016-2017: £15k) and expenses of £8k (2016-2017: £10k). Details of the remuneration and pension benefits of the Chair and all other members of the Board are given in the Remuneration report in the Financial review. There is tax due to HMRC on expenses as part of the PAYE Settlement Agreement (payable in August 2018).

** Cloud computing costs have been reclassified from 'general expenses including accommodation expenses' to 'computer systems development and maintenance'. The total value reclassified for 2016-2017 is £390k (Levy: £242k, AE: £148k).

5a Property, plant and equipment

2017-2018	Leasehold improvements £'000	Furniture, fixtures and office equipment £'000	IT hardware £'000	Total £'000
Cost or valuation				
At 1 April 2017	1,750	1,093	2,907	5,750
Additions	30	49	192	271
Disposals	–	(4)	(1,198)	(1,202)
At 31 March 2018	1,780	1,138	1,901	4,819
Depreciation				
At 1 April 2017	982	541	2,049	3,572
Charged in year	127	97	328	552
Disposals	–	(2)	(1,121)	(1,123)
At 31 March 2018	1,109	636	1,256	3,001
Carrying amount at 31 March 2017	768	552	858	2,178
Carrying amount at 31 March 2018	671	502	645	1,818

TPR does not hold any assets under finance leases.

5a Property, plant and equipment continued...

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.

5b Cashflow reconciliation

	2017-2018	2016-2017
	£'000	£'000
Capital payables and accruals at 1 April	55	31
Capital additions	271	754
Less Capital payables and accruals at 31 March	–	(55)
Purchase of property, plant and equipment as per Statement of cash flows	326	730

6a Intangible assets

2017-2018	Software under development £'000	Software internally generated £'000	IT software acquired £'000	Total £'000
Cost or valuation				
At 1 April 2017	453	1,621	3,965	6,039
Additions	400	–	135	535
Reclassifications	(453)	–	453	–
Disposals	–	–	(453)	(453)
At 31 March 2018	400	1,621	4,100	6,121
Amortisation				
At 1 April 2017	–	1,474	2,721	4,195
Charged in year	–	55	680	735
Disposals	–	–	(427)	(427)
At 31 March 2018	–	1,529	2,974	4,503
Carrying amount at 31 March 2017	453	147	1,244	1,844
Carrying amount at 31 March 2018	400	92	1,126	1,618

6a Intangible assets continued...

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

6b Cashflow reconciliation

	2017-2018 £'000	2016-2017 £'000
Capital payables and accruals at 1 April	192	29
Capital additions	535	461
Less Capital payables and accruals at 31 March	(33)	(192)
Purchase of intangible assets as per Statement of cash flows	694	298

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

	2017-2018 £'000	2016-2017 £'000
Amounts falling due within the year		
Trade receivables	–	3
Other receivables	150	289
Prepayments	940	964
	<u>1,090</u>	<u>1,256</u>

9 Cash and cash equivalents

	2017-2018 £'000	2016-2017 £'000
Balances at 1 April	934	525
Net change in cash and cash equivalent balances	780	409
Balance at 31 March	<u>1,714</u>	<u>934</u>
At 31 March, the following balances were held:		
Commercial banks and cash in hand	<u>1,714</u>	<u>934</u>

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

	2017-2018 £'000	2016-2017 £'000
Amounts falling due within one year		
Other taxation and social security	1,016	879
Trade payables	413	436
Capital accruals	33	247
Accruals and deferred income	9,151	9,604
	10,613	11,166

There is no deferred income due in less than one year or greater than one year at the end of the current year or previous year.

11 Provisions for liabilities and charges

2017-2018	Severance £'000	Dilapidations £'000	Year end total £'000
Balance at 1 April 2017	–	687	687
Provided in the year	210	4	214
Provision not required written back	–	–	–
Provisions utilised in the year	(210)	–	(210)
Balance at 31 March 2018	–	691	691

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	–	691	691
Balance at 31 March 2018	–	691	691

11 Provisions for liabilities and charges continued...

2016-2017	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

Liabilities and provisions

All provisions in the current and previous 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:

	2017-2018 £'000	2016-2017 £'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	3,429	214
Later than five years	214	–
	<u>4,500</u>	<u>1,071</u>
Other:		
Not later than one year	22	45
Later than one year and not later than five years	–	22
Later than five years	–	–
	<u>22</u>	<u>67</u>

The existing lease for TPR's office in Brighton expires in July 2023. The lease had a break clause in July 2018 but both parties have opted not to utilise this. The rent for the period July 2018 to July 2023 is currently under review – the commitment shown is based on the current rent paid. TPR has no obligations under finance leases.

13 Capital commitments

Contracted capital commitments at 31 March 2018 not otherwise included in these Financial statements:

	2017-2018 £'000	2016-2017 £'000
Intangible assets	237	31
	237	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 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 IT service recharges. In total the transactions with the DWP not related to the provision of grant-in-aid totalled £14k (2016-2017: £34k).

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.

16 Events after the reporting period

There were no reportable events after the reporting period.

IAS 10 requires TPR to disclose the date on which the accounts are authorised for issue by the Accounting Officer. The annual report and accounts were authorised by the Accounting Officer for issue on the date of the Comptroller and Auditor General's audit certificate.

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