

The Pensions
Regulator 

Annual report and accounts

2007-2008

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

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Contents

The Pensions Regulator – Statutory objectives	page 3
1 Chair's foreword	page 4
2 Chief executive's report	page 6
3 The pensions environment and the regulated community	page 8
4 Management commentary	page 16
4a The context of our activities in 2007-2008	page 17
4b A review of our activities during the year	page 20
<i>Theme 1</i> Strengthen DB scheme funding	page 21
<i>Theme 2</i> Improve the governance of work-based pension schemes	page 26
<i>Theme 3</i> Understand and address the risks to DC schemes	page 31
<i>Theme 4</i> Deliver effective risk-based regulation	page 34
5 Accountability and governance	page 46
6 Financial review	page 60
7 Statutory accounts and notes to the accounts	page 70

The Pensions Regulator

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

The regulator commenced operations in April 2005 superseding the Occupational Pensions Regulatory Authority (Opra). The regulator is funded by grant-in-aid from the Department for Work and Pensions (DWP). Its running costs are recovered through the general levy on pension schemes.

Statutory objectives

The Pensions Act 2004 gives the regulator four statutory objectives:

- * to protect the benefits under occupational pension schemes of, or in respect of, members of such schemes
- * to protect the benefits under personal pension schemes of, or in respect of, members of such schemes
- * to reduce the risk of situations arising which may lead to compensation being payable from the Pension Protection Fund (PPF), and
- * to promote, and to improve understanding of, the good administration of work-based pension schemes.

Footnote

The members of personal pension schemes within this statutory objective are:

- (a) the members who are employees in respect of whom direct payment arrangements exist, and
- (b) where the scheme is a stakeholder pension scheme, any other members.

1 Chair's foreword

I am pleased to present the Pensions Regulator's Annual report and accounts for 2007-2008. The period of this report covers the final full year of our medium term strategy. Our focus during this time has been to establish the regulator, address the key challenges we faced and, over the past year, to sustain progress. I am pleased to be able to report that we have indeed sustained our momentum building on the solid foundations of our first two years of operation.

As a risk-based regulator we have continued to work towards strategies, policies and processes to ensure that we are focused on those areas of greatest risk and that we are able to respond in an appropriate and proportionate manner. Our continuing priorities have been education and enablement first with enforcement as a last resort.

The past year began with the publication of a statement outlining our approach to the regulation of Defined Contribution (DC) schemes. Our focus on the five key risks and overall approach has been well received. Over the rest of the year we continued to work closely with the industry to develop a suite of guidance on subjects such as winding up, conflicts of interest and longevity.

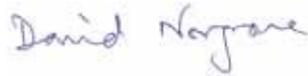
Having issued a reminder to trustees around our existing guidance we then consulted on changes to our clearance guidance. This produced a healthy debate on the best way to balance the need to protect members' benefits and the PPF without unduly stifling legitimate commercial activity. We believe that the final revised guidance that we published has struck that balance correctly.

A notable achievement was the delivery of the final core modules of the *Trustee toolkit*, giving all trustees free access to a flexible online learning programme that covers the full scope of what the law requires them to know.

We continue to use our powers in a risk-based and proportionate way with the potential threat of powers usually being sufficient to drive positive outcomes. But last summer saw the first use of one of our major powers when we issued two Financial Support Directions (FSD) in relation to *Sea Containers*. This case, together with our decision to appoint independent trustees to the *Telent* scheme, sent a clear message to the market that, where it is appropriate to do so, we will use the full range of powers available to us.

Looking ahead, the coming year will see the result of the DWP consultation on proposed changes to our anti-avoidance powers to ensure that they remain appropriate to address risks in an evolving pensions market. We will continue with our focus on DC risks and the particular challenges facing small schemes and the development of our new role in relation to maximising employer compliance with the duties proposed in the current Pensions Bill. During 2008-2009 we will also be consulting on our high-level strategy for the coming years.

The past year has, in many respects, been about more than just sustaining momentum. It has been about continuing to build capacity and capability to deal with risks in a constantly evolving environment. I would like to thank chief executive Tony Hobman and the rest of the talented and hard-working team that he leads for delivering so much over the past year.

A handwritten signature in black ink that reads "David Norgrove". The signature is written in a cursive, slightly slanted style.

David Norgrove
chair, the Pensions Regulator
24 June 2008

2 Chief executive's report

The past year has seen the regulator building on the sound foundations that we successfully laid over our first two years of operation. I am pleased to report that by the end of our third year in operation we have completed all of the steps necessary to build the capacity and capability required to successfully discharge our current statutory functions. We have continued to perform well against our key performance indicators, with improvements against many of the benchmarks set last year, while continuing to deliver good value for money to the levy payers who fund our work.

This report documents what we have achieved and delivered over the past year. In particular I would like to highlight:

- * the successful launch of the online scheme return and *Exchange* service
- * delivery of all of the remaining core *Trustee toolkit* modules
- * successful consultations on our approach to governance and revised clearance guidance
- * the endorsement of our risk-based approach to regulation in a National Audit Office (NAO) value-for-money review
- * emerging evidence from our analysis of recovery plans of the positive impact we are having on scheme funding
- * the good progress we have made in identifying and addressing the key risks to DC schemes.

In November last year DWP ministers announced that we would take responsibility for maximising employer compliance with the new duties in the current Pensions Bill as well as regulating the personal accounts scheme. This has meant building a team to help work on the development of the legislation and setting up a new programme to design and deliver the necessary operational capacity. By the end of the year we were well on the way to embedding the necessary capacity and governance structures to see us through the initial phases of this work.

We have also continued to engage more broadly with Government and other key stakeholders on a range of issues. This included contributing to the review of the *Myners principles* and developing and publishing a joint statement with the Financial Services Authority (FSA) on our approach to regulating contract-based DC schemes. We also reviewed and updated our existing Memoranda of Understanding with the FSA and PPF. We have also built a good relationship with the Personal Accounts Delivery Authority (PADA).

The regulator continues to play an important influencing role in relation to European pensions issues through our membership of Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) and our chairing of its Occupational Pensions Committee.

We are pleased to have ended the year with increasing evidence of the positive impact we are having – whether it be scheme funding, trustee training or scheme governance standards. We fully recognise, however, the importance of meeting the challenges that lie ahead as we take forward our remit on both DB and DC schemes and continue to gear ourselves up to take on our new statutory objective in relation to employer compliance with the new duties in the Pensions Bill.

I would like to thank all of the members of our board, our staff and partners for their continuing commitment and energy in helping us to deliver another strong performance against our business plan for the year.



Tony Hobman

chief executive, the Pensions Regulator
24 June 2008

3 The pensions environment and the regulated community

It is important to view our work in context. Work-based pensions are part of a wider landscape which also comprises the basic state pension, the state second pension (SERPS/S2P) and individual personal pensions. We regulate work-based (ie employer sponsored) pension schemes. These comprise both trust-based and personal arrangements. Occupational schemes are governed by trustees; group personal pensions (GPPs) are an individual contract between the employee and the provider (typically an insurance company) although payments of contributions are made through the employer. We have no role in regulating most occupational pensions provided to public sector employees.

Profile of occupational scheme membership

Membership of occupational pension schemes (with more than one member) in the private sector remains concentrated in a small number of large schemes. At 31 January 2008, 87% of members are found in just 1,636 schemes with more than 1,000 members. Further, 62% of members are found in just 253 schemes with more than 10,000 members.

Currently membership of Defined Benefit (DB) and hybrid schemes combined stands at 14.3 million. Membership of trust-based DC schemes, by contrast, is 1.8 million. It should be noted here that hybrid schemes incorporate both DB and DC members. In addition, information from the Association of British Insurers (ABI) suggests there are around 3 million members of contract-based (group personal) DC pension schemes.

Table 1

Number of live private sector memberships by registered benefit type as at 31 January 2008

	DC	DB and Hybrid
2-999 members	669,548	1,418,703
1,000 + members	1,132,399	12,879,634

Source: Figures taken from the regulator's Score database as at 31 January 2008

Table 2

Number of live private sector schemes registered by benefit types as at 31 January 2008

	DC	DB and Hybrid
2-999 members	69,371	7,889
1,000 + members	210	1,426

Source: Figures taken from the regulator's Score database as at 31 January 2008

The changing environment

The decline in DB provision remains an important trend in the sector. There is evidence of significant use of benefit reductions or increases in member contributions for existing members of DB schemes – an indication of the willingness of employers to continue to offer these benefits if they can find ways to reduce the potential risks. (Source: *Occupational pension schemes survey 2004 and 2005, Government Actuary's Department*).

Our estimates show that 45% of private DB memberships remain in open schemes as recorded on the regulator's pension scheme database (*Score*) as at 31 January 2008.

Table 3

Private occupational DB scheme memberships by scheme status

	DB private sector memberships	% of total
Open	3,668,804	44.4
Closed	4,053,695	49.1
Paid up	322,255	3.9
Winding up	216,660	2.6
Total	8,261,414	100

Source: Figures taken from the regulator's *Score* database as at 31 January 2008

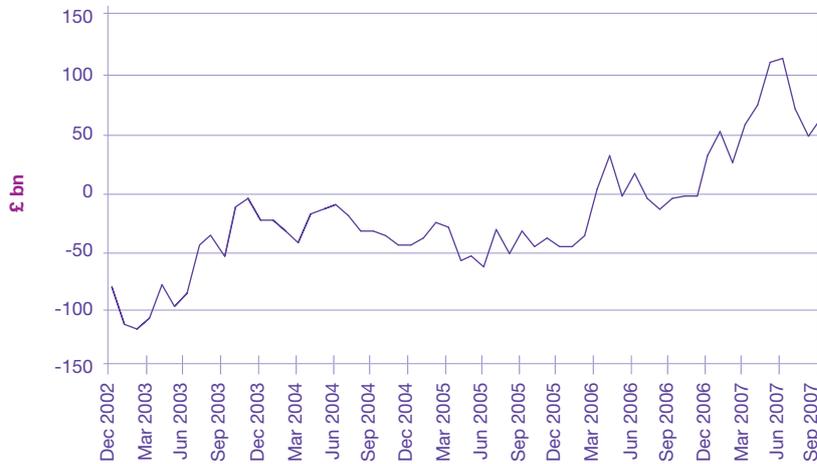
The level of scheme underfunding

A key focus for our objectives in relation to protecting both members' benefits and the PPF is the improvement of the level of funding in DB schemes. This means that we need to have a good understanding of which DB schemes pose the largest risks to scheme members and to the PPF. This understanding is driven primarily by data on funding levels and deficits along with credit rating data on the sponsoring employer. (See below for an explanation of the various ways in which scheme funding can be expressed).

In December 2007, we published the second *Purple Book* (<http://www.thepensionsregulator.gov.uk/pdf/purpleBook2007.pdf>) jointly with the PPF providing an analysis of data on scheme funding. For the purpose of that study, PPF actuaries also produced FRS17 and full buy-out estimates of the funding position of schemes as at 30 March 2007. We have stated that we will use the s179 valuation (alongside FRS17), as one of the triggers for considering whether a scheme's Part 3 valuation merits examination by our scheme funding team. Measures of funding levels are subject to variation over time depending on market conditions and demographic expectations (notably predicted longevity). Variations in deficit levels over time (on a s179 basis) in the sample of schemes used in the *Purple Book* are shown in the chart opposite.

Figure 1

Estimated aggregate assets less aggregate liabilities of pension schemes in the data set on s179 basis



Source: the Pension Protection Fund

Note: the s179 assets and liabilities have been adjusted for changes in market conditions only. Any deficit reduction contributions from schemes have been included and adjusted from their respective valuation date in the same way as assets and liabilities.

Schemes with deficits are required to send us recovery plans. We are still receiving the first significant tranche of these plans. Aggregate figures from the first wave of plans were published in the autumn of 2007. These figures showed that:

- * average technical provisions were coming out close to the FRS17 accounting standard and above s179 levels
- * more than 80% of schemes were producing recovery plans no longer than 10 years in length, with an average plan length of 7.5 years
- * due regard was being paid to the regulator's code of practice on scheme funding, with schemes acknowledging the principle of reasonable affordability in their plans to eliminate deficits.

The funding of schemes can be expressed in a variety of ways including:

<p>Full buy-out</p>	<p>The cost of insuring a pension scheme in the private market. The discount rate applied to liabilities would be more prudent in general than the discount rate applied to section 179 and MFR valuations. The benefit assumed in private insurance is usually non-capped and thus could be greater than PPF coverage.</p>
<p>FRS17</p>	<p>In November 2000, the UK Accounting Standards Board released a new financial reporting standard ('FRS17'). This sets out the accounting treatment for retirement benefits such as pensions and medical care during retirement.</p>
<p>Technical provisions</p>	<p>Legislation requires schemes to hold sufficient assets to cover their 'technical provisions' (essentially the ongoing scheme-specific funding target for each scheme). The level of a scheme's technical provisions can generally be expected to fall within a range between the value of its liabilities in accordance with the employer's accounting standard (either FRS17 or IAS19) and the value placed on its PPF level of compensation benefits for levy purposes (s179). The precise point in the range will vary between schemes depending on, for example, the maturity of the scheme and the strength of the employer covenant.</p>
<p>Section 179 (s179) valuation</p>	<p>To calculate the risk-based pension protection levy, the PPF board must take account of scheme underfunding. To obtain a consistent basis for determining underfunding, schemes can complete a PPF valuation (section 179). This valuation will be based on the level of assets and liabilities for the scheme. The liabilities will be based on the scheme benefits taking into account key features of the levels of compensation paid by the board of the PPF as set out in Schedule 7 of the Pensions Act 2004.</p>

DC schemes

The DC landscape is becoming increasingly complex, with most UK pension schemes including some element of money purchase, ranging from DC-only schemes to DB schemes with money purchase additional voluntary contributions (AVCs). Traditionally, most DC provision has been through relatively small occupational schemes which are the employer's only pension arrangement, and hence there are some 69,851 occupational DC schemes registered with the regulator.

In recent years we have seen many larger employers closing their DB scheme to new entrants and either opening a new DC section within their existing scheme (a form of hybrid) or introducing a new DC scheme alongside their DB scheme. This trend means that though the number of DC schemes is falling, the number of DC members is rising.

As well as the shift from DB to trust-based DC we have also seen a substantial growth in contract-based provision. Contract-based DC schemes can be grouped into group personal pensions, group stakeholder pensions or, since April 2006, self-invested personal pensions. For many employers these are the only form of provision available to new employees. According to ABI data, over 4 million new members joined such plans between the first quarter of 2002 and the second quarter of 2007, a growth of 800,000 new members per year. A survey in 2007 indicated that over 60% of employers would set up an arrangement of this type if they were starting pension provision for the first time (*Fidelity International, Viewpoint, January 2007*).

Figure 2
 Contract-based schemes 2002-2007
New single premium individual pension sales

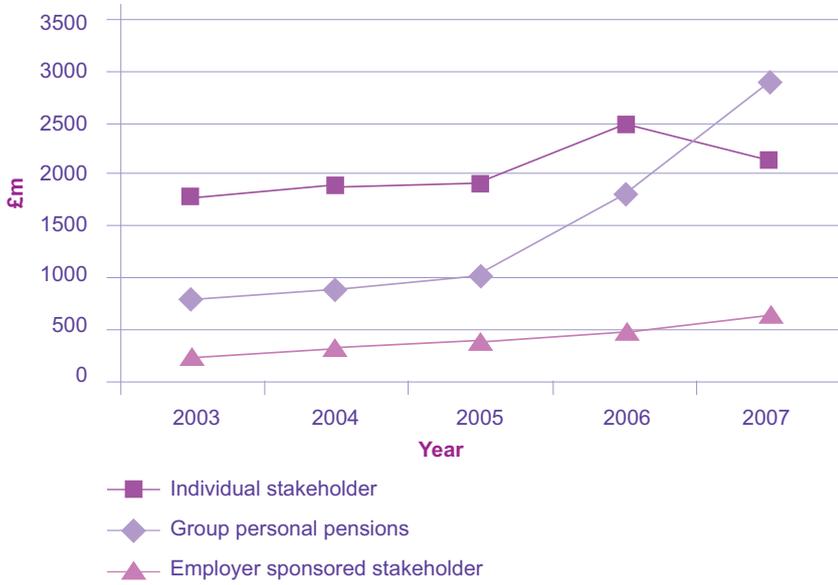
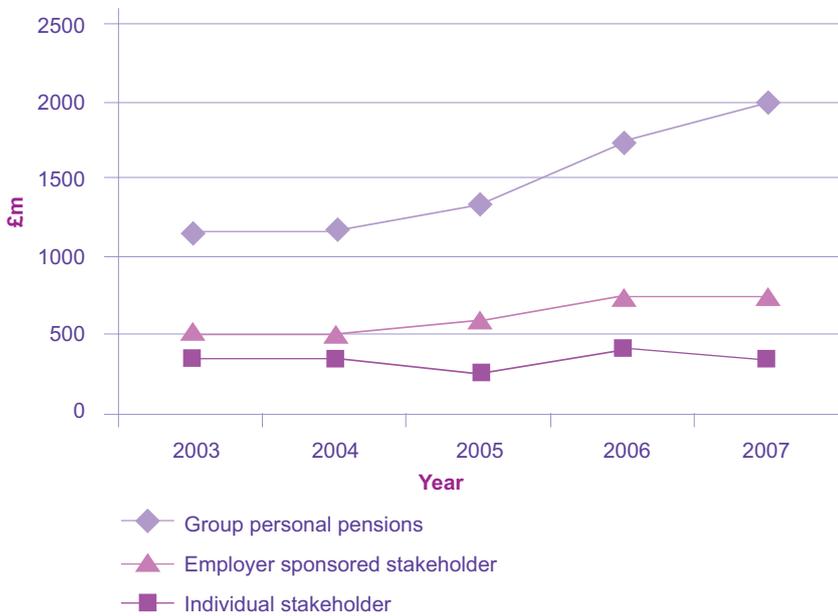


Figure 3
 Contract-based schemes 2002-2007
Real regular premium individual pension sales



The nature of this evolving landscape means that we need to be alive to the challenges associated with:

- * trustees who are responsible for both DB and DC members and whose efforts may be disproportionately focused on the challenges of DB, rather than the different but still important risks affecting DC members
- * the way that contract-based schemes are run, bearing in mind that our statutory objectives apply to work-based personal and stakeholder pensions as well as occupational schemes.

A major influence on the landscape moving forward will be the planned introduction, from 2012, of the requirement on employers to auto-enrol employees into the new personal accounts scheme, or an alternative qualifying scheme. The membership of existing schemes, most of which are DC, is likely to give added impetus to the challenge of ensuring that such schemes are well run.

4 Management commentary

4a The context of our activities in 2007-2008

Our *Medium term strategy*, published in April 2006, set out our view of the pensions environment and the key challenges we faced in our first three years. The strategy provided the framework within which we set our *Business plan for 2007-2008*, and our objectives for the past year have continued to be focused on delivering against the four themes identified in our strategy.

Figure 4

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

	Statutory objectives		
	Promote good administration	Protect members' benefits	Reduce risks to PPF
MTS core themes		Strengthen DB scheme funding	
		Improve governance	
		Reduce risks to DC scheme members	
		Deliver effective risk-based regulation	

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

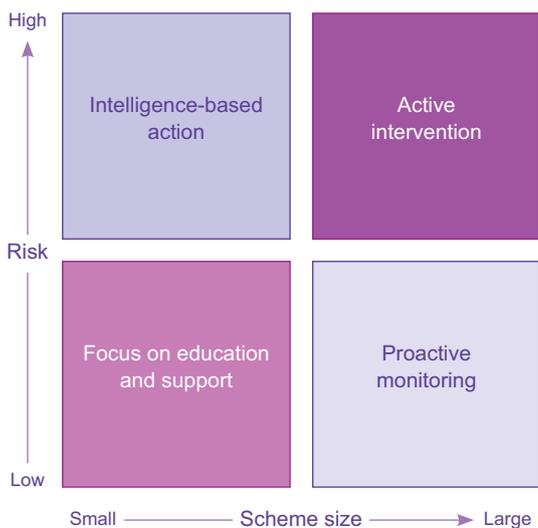
Our approach to risk-based regulation

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

The model we have developed as our ‘risk and intervention’ framework is shown in Fig. 5. This takes into account our assessment of both the level of risk posed by a scheme and the potential impact on scheme members should the risk materialise. Alongside our risk and intervention model, we have also developed our key risks landscape model which categorises risk type aligned with our strategic themes. We use this approach to map risks against our regulatory response and policy developments, and then prioritise them according to our intervention model guidelines.

Figure 5

The risk and intervention model



Large schemes (circa 1,426 DB and hybrid, 210 DC as at 31 March 2008)

There are likely to be a few hundred schemes in active intervention, having individual case management. While the immediate risk is seen to be acceptable, it is prudent to proactively monitor these large schemes.

Small schemes (circa 7,889 DB and hybrid, 69,371 DC as at 31 March 2008)

For low-risk small schemes the emphasis is on education and support. Intelligence-based action is taken where we believe that scheme-specific intervention is advisable, examples being fraud, gross mismanagement or generic problems with an individual trustee.

Our operational approach can be best summarised as **‘Educate, Enable, Enforce’**. We use our powers when it is appropriate to do so – but only as a last resort. Our experience over the past three years confirms that the existence of our powers, and their potential use, is often a sufficient deterrent which helps us in delivering successful outcomes. We have seen evidence of this in our experience in handling many hundreds of clearance cases and enquiries and in discussions with trustees, employers and advisers on recovery plans. Examples of our activities in these areas over the past year are set out below.

Educate

- * Our free, interactive web-based training resource, the *Trustee toolkit* has been widely welcomed by the industry and has received praise from users. At the end of March 2008 there were 23,500 registered users of the toolkit. Our latest research found that 95% rated the toolkit as ‘good/very good’¹. Research, together with our latest *Governance survey*, has also shown a clear link between use of the toolkit and improved standards of scheme governance.
- * We have continued to publish guidance to help trustees and advisers to understand their responsibilities and how to discharge them. We make all of our codes and guidance available via our website which receives an average of 80,000 visits per month. Our *Perceptions tracker* research indicated that 92% of respondents were satisfied or very satisfied with our guidance.
- * We ran scheme funding workshops for practitioners to increase understanding of the scheme funding regime. These proved to be very popular and highly rated by the many hundreds of trustees, advisers and others who attended.

Enable

- * We seek to be as open and approachable as possible. We continued to handle around 100 clearance enquiries every month. Evidence suggests that in more straightforward cases and where applicants have previous experience, the system is becoming largely self-regulating.
- * Through proactive contact with schemes we are able to help them handle scheme-specific risks and to ensure they are able to comply with regulatory duties efficiently and effectively (eg on recovery plans and scheme returns). We carried out over 500 outbound telephone calls a month as part of our ongoing proactive contact strategy.

Enforce

- * We are prepared to use our powers where appropriate.
- * We have been involved in the appointment of 52 independent trustees and 456 member and third parties (member and third party appointments are generally made to enable members to secure their own benefits, often due to ill health; to secure death benefits; or to allow a representative to act on behalf of a member based overseas).
- * In the past year, we have issued our first Financial Support Directions.
- * We appointed independent trustees with exclusive voting rights to a pension scheme whose sponsoring employer was taken over.
- * At any one time, we may be considering use of our powers in a number of cases; however in most of these cases the potential use of our powers has proved sufficient to secure a satisfactory outcome.

¹ 95% figure relates to *Perceptions tracker survey 2008*

Perceptions of our approach

In order to maximise our effectiveness it is important for us to understand how our approach is being perceived across the regulated community. To this end we carry out regular research among our external customers and stakeholders.

Over the past year the results have shown that we continue to be seen as:

- * a trusted source of information
- * focused on the most important risks to members' benefits, and
- * proactive in reducing risks.

Encouragingly, over three-quarters of those questioned in our *Perceptions tracker survey* felt that if we did not exist, the risks to members' benefits would increase.

Our key stakeholders have reported that they have continued to be impressed with our progress over the past year. In particular, they highlight our continuing work on clearance, the *Trustee toolkit* and our secondee programme as evidence of our credibility and professionalism. We were also pleased to have been short-listed as a finalist for the *Better Regulation Executive-sponsored Better Regulation Award* at the 2007 National Business Awards.

4b A review of our activities during the year

In the following section, we review the key challenges we have faced and our achievements under each of these themes. Where appropriate, we highlight key trends and issues that have emerged as our evidence base and analytical capacity has developed. Our four themes reinforce and complement each other in the achievement of our statutory objectives and outcomes.

Theme 1

Strengthen DB scheme funding

Our key performance indicator

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

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

To help achieve this we said we would ensure that:

- * the valuation process is adopted and completed in line with legislative and code requirements and that trustees fulfill their role in this process
- * scheme specific technical provisions are calculated in a prudent manner and recovery plans are appropriate
- * appropriate mitigation is offered to minimise detriment to schemes involved in corporate transactions
- * trustees negotiate with employers and take and act upon professional advice.

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

Scheme funding

The underfunding of DB pension schemes poses a risk to scheme members and the PPF. The triennial valuation process whereby DB schemes prepare recovery plans when appropriate completed its first full year of operation in 2007-2008.

Our focus, as a risk-based regulator, has been those recovery plans that represent the highest risk to our objectives. To do this we have developed a series of triggers and risk assessment tools to select those plans that receive more detailed attention.

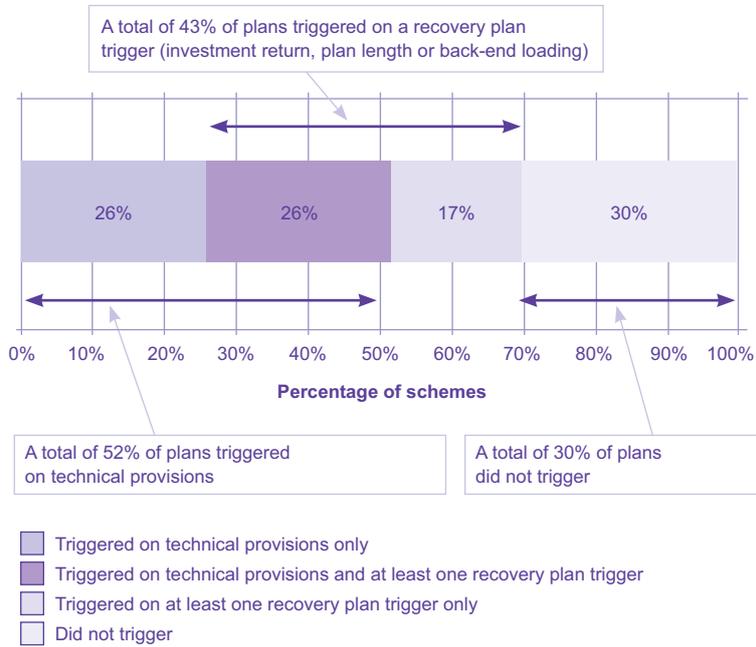
During the year we received over 1,900 recovery plans and have closed our files on over 1,800. At the date of this report we have not yet found it necessary to use any of the powers available to us but there are a number of cases which are in the early stages of the powers process.

In September 2007 we published *Recovery plans: an initial analysis*. This analysis utilised a dataset of 1,292 recovery plans submitted to us up to the end of July 2007 based on valuations with effective dates during the last quarter of 2005 and the first quarter of 2006. The analysis was published in response to requests from the pensions industry and in order to maintain transparency over what we have seen from the recovery plans submitted to us thus far.

As might be expected, our key findings revealed that there was a great deal of diversity across schemes reflecting the scheme specific nature of the funding regime. Our initial analysis revealed a number of key findings:

- * Around a third of plans did not trigger on any basis and required no action by the regulator.
- * Of the 70% of recovery plans that did trigger, a large proportion needed only minimal action on our part (such as requesting further information or seeking a clarification from trustees).
- * In only a small percentage of cases (10%) had action been escalated to a point where regulatory intervention may have been required. We would expect many of these to be resolved by agreement.

Figure 6
Percentage of recovery plans triggering



Bars may not sum to 100% due to rounding.

Base: 1,292 schemes at 30 July 2007

Note: The triggering statistics presented here are representative of recovery plans as initially submitted to the regulator.

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

Trustee knowledge and understanding

The DB environment is particularly dependent on the quality of the work that trustees perform. To assist trustees in understanding their responsibilities the regulator has during the course of the past year published a series of guidance notes which supplements existing material, covering topics including:

- * dispute resolution
- * winding up
- * longevity issues.

This guidance has been supplemented by a variety of trustee training provided by the adviser community. The regulator's *Trustee toolkit* has also proved popular, with around 13,000 lay trustees among its 23,500 currently registered users. Research carried out during the year to assess the effectiveness of the toolkit suggests that, as at March 2008, 68% of trustees in large DB schemes (1,000 plus members) have used or are using the toolkit. In addition, we have run a series of popular workshops for trustees and advisers and over the last year 600 attendees benefited from this training.

Employer covenant

The strength of the employer covenant is central to a scheme specific funding approach and provides the support for the difference between the technical provisions and the full cost of scheme benefits. In addition the covenant is a key component in determining the reasonable affordability of the recovery plan.

Over the past year we have seen some initial plans where we have felt it necessary to challenge the objectivity of the assessment of covenant strength.

Abandonment

We published guidance on abandonment in May 2007 following an earlier consultation exercise during 2006. The guidance outlined how trustees should deal with a proposal involving the abandonment of a pension scheme. It underlined the importance of the employer covenant and potential impact on the scheme when the link with an employer of substance is broken.

Mortality

Evidence on continued improvements in mortality above expectations has been emerging for some time. Given this evidence, statements by the actuarial profession and our own experience of the first recovery plans and scheme returns, we issued draft guidance building on our current approach for the scrutiny of mortality assumptions. We are currently considering the responses we received to our consultation and expect to publish the final version later this summer.

Clearance

We continued our work helping to mitigate the risks to members' benefits and the PPF that can arise from corporate transactions. The principal activity of our corporate risk management (CRM) team is the clearance process. The aim of this process is to provide applicants with certainty that, subject to the appropriate consideration of the impact of transactions on related pension schemes, the regulator will not use its powers to issue Contribution Notices or Financial Support Directions in respect of the transaction as detailed in the clearance application.

This year has seen consultation on and publication of our updated clearance guidance which has drawn on the lessons of the last three years.

The CRM anti-avoidance team proactively seeks to identify and take action in cases where we believe employers have sought to avoid their pension liabilities. This year saw the first use of our power to issue a Financial Support Direction (FSD) following the withdrawal of an appeal to the Pensions Tribunal. Two FSDs were made against *Sea Containers* in respect of two pension schemes.

During 2007-2008, there were a significant number of highly leveraged transactions involving companies with large DB schemes. The regulator worked closely with the trustees and the companies involved in these transactions.

The table below provides a summary of key activity areas during 2007-2008 compared with the previous year. It should be noted that while the overall number of enquiries has fallen, the nature of the enquiries has become more complex.

Table 4
CRM activity summary

Clearances granted/withdrawals approved	2007-2008	2006-2007
Clearances granted	143	149
Clearances refused	0	1
Enquiries received	494	874

We also carry out research to track understanding of our powers in this area as well as satisfaction among those who have dealings with us. In 2007, our *Perceptions tracker survey* reported that among trustees, employers, and advisers just under two-thirds had a good or very good understanding of the regulator's powers and stance in relation to clearance, anti-avoidance and recovery plans.

We use an ongoing external monitor that reports monthly to track satisfaction with the service provided by CRM. This survey commenced in July 2006 and the mean scores for 'overall satisfaction with service received' are consistently high, with the average over the period July 2006 to March 2007 being 8.1 out of 10.0. The team is also judged to be responsive and professional with good appreciation of the applicant's requirements.

Theme 2

Improve the governance of work-based pension schemes

Our key performance indicator

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

To help achieve this, we said that we would:

- * promote good governance of schemes by encouraging improvement of the knowledge and understanding of trustees, employers and their advisers and its translation into behaviours
- * reduce the time schemes take to wind up.

Good governance is at the heart of a well-run pension scheme and is the one theme that underpins all our statutory objectives. In April 2007 we published a discussion document setting out our strategic approach to improving the governance of work-based pensions. We confirmed that our focus, in line with our regulatory approach more widely, would be on educating and enabling, with a pivotal role for trustees supported by advisers and with intervention as a last resort. We identified seven priority areas on which we would concentrate, and reviewed the implications of these for contract-based schemes:

- * trustee knowledge and understanding
- * conflicts of interest
- * monitoring the employer covenant
- * relations with advisers
- * administration
- * processes for investment choice and
- * governance during wind-up.

We were pleased with the response we received to our proposals, which indicated broad support for our approach. It confirmed that our focus was correct and that we should be looking to provide best practice guidance, working alongside other regulators as appropriate. Our response to that consultation, published in October 2007, set out our work programme to enable us to deliver against those priorities.

During the second half of the year we made good progress against many of these commitments, including:

Trustee Knowledge and Understanding

In previous years we established the Trustee Knowledge and Understanding (TKU) framework, including the code of practice and associated scope guidance, so that trustees could identify the knowledge and understanding necessary to run their schemes effectively.

In May 2007, we published the final module of our *Trustee toolkit* which completes the whole scope of learning requirements. This gives all trustees access to the learning they need to be able to comply with these legislative requirements.

As well as seeing increasing take-up of the toolkit, we were pleased to observe that reaction to it remained extremely positive. Further, we were reassured by independent qualitative research that demonstrated that trustees' knowledge and confidence improves by using the toolkit and that this leads to improved governance.

As part of the joint approach by the regulator, the PPF and DWP to speed up the winding up of pension schemes, we built a suite of stand-alone modules to help trustees who are faced with having to wind up their schemes. The first two, to do with winding up a DB scheme where the employer is solvent, and winding up a DC scheme, were published during the year. The last one, dealing with a DB scheme where the employer is insolvent, has been produced with detailed input from the PPF, and was published at the beginning of May 2008.

In addition to the work on the toolkit, and the extra modules, we continued to work with the Pensions Management Institute (PMI), the Financial Services Skills Council and others to promote the availability of accredited lifelong learning qualifications which cover the required scope of knowledge and understanding.

Conflicts of interest

In February 2008 we published a consultation document setting out how we expected conflicts, potential or otherwise, to be handled. We were very encouraged by the level of attention this paper received from the industry as well as the number of supportive comments and suggestions received. The consultation period ended on 30 May 2008 and we received a pleasing number of responses from a broad range of industry stakeholders. We are aiming to publish guidance in the summer of 2008.

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

Scheme wind-up

We continued to work very closely with both the DWP and PPF in response to concerns raised by Government over the time taken by some occupational pension schemes to wind up.

In March 2008, and in collaboration with the PPF and the DWP, we issued a draft regulatory statement. This set out our commitment to working together and our respective expectations, as well as how we will provide support and when and how we will intervene in relation to schemes in wind-up.

Along with the regulatory statement, we also issued good practice guidelines to enable all relevant parties to avoid delays in scheme wind-ups. The guidance was developed after taking into account views from a number of industry professionals on the issues that can cause delays in scheme wind-up and what it was appropriate for the regulator to provide good practice guidelines on. It covered a number of areas such as administration, communication and member tracing. It was planned to be a dynamic document and will be updated on a regular basis taking into account experience and further information received from industry.

Both the statement and the good practice guidance were issued for consultation. Both documents also acknowledge that to avoid delays in scheme wind-ups it is paramount that some action is taken in relation to the good administration of schemes while they are ongoing. For example, the quality of record keeping is critical to the success of an expeditious scheme wind-up and our guidance makes it quite clear that adequate records should be maintained as a matter of course, regardless of scheme status.

We expect to publish the response to the consultation during the summer of 2008.

Governance of contract-based schemes

Our statutory objectives apply to work-based personal and stakeholder pensions as well as occupational schemes. Contract-based schemes have a different legal structure from occupational schemes, and the risks to the regulator's objectives also differ. In contract-based schemes many of the ongoing risks associated with the scheme are mitigated by the FSA. We report on some of the actions we have taken in relation to contract-based schemes in the section on Theme 3 on pages 31 and 32.

In respect of the other commitments – relations with advisers, good scheme administration and processes for investment choice – work is ongoing. We have been consulting with industry and stakeholders, and expect to publish web-based material on these matters during the coming year. We will also be chairing an industry-wide steering group looking at how the industry can continue to take forward and further improve upon the recommendations set out in the *Myners review* of institutional investment in the UK.

Governance survey

In our report on the 2007 survey (published in July 2007), we were pleased to note the evidence of improvement in the three areas of governance on which we had focused most heavily: trustee knowledge and understanding, conflicts of interest, and monitoring the employer covenant.

The results of our 2008 survey, which are being published alongside this report, show that on the whole, trustees continue to take good governance very seriously and have in place many of the mechanisms needed to maintain good standards.

Trustees' collective understanding of their role has improved with 65% having a very good understanding in 2008 compared to 59% in 2007. There has also been a small increase in the proportion rating their collective understanding of how scheme assets are invested as very good (59% in 2008 compared to 56% in 2007).

Table 5

2007 and 2008 *Scheme governance surveys* extract

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

Issues responded to (%)	2008	2007
How the scheme's assets are invested	59	56
Provisions of the scheme rules	39	39
How the scheme is funded (DB only)	66	67
Role of scheme trustees	65	59

While there have been continuing small improvements in several areas there has been a decline in others. For instance, there was a 9% decline in the number of trustee boards who 'actively monitor service providers and professional advisers' and a 6% decline in the number who 'review the scheme rules at regular intervals and update these as required'. We will be looking at whether there is any further work we need to do in these and other areas over and above that which is already planned.

Theme 2: Improve the governance of work-based pension schemes *continued...***Figure 7**

The proportion of trustees who 'strongly agreed' that their trustee board...	2008 (%)	2007 (%)
Works together as an effective unit	74	72
Is able to conduct effective negotiations with the employer in relation to scheme funding requirements (DB only)	61	66
Understands its roles and responsibilities in relation to the scheme	72	70
Regularly reviews its investment strategy	68	65
Actively monitors service providers and professional advisers	41	52
Reviews the scheme rules at regular intervals and updates them as required	50	56
Has identified potential risks to the scheme	46	46
Has appropriate internal controls to manage risks	48	51
Ensures a high standard of member communications	33	33
Has appropriate processes in place to manage conflicts of interest	48	46

Footnote to figures above: Don't know responses excluded

In relation to small schemes, however, overall levels of governance are generally lower than those of large schemes. For example there is:

- * less formal assessment of trustee learning and time off for training among small schemes
- * a formal Trustee Knowledge and Understanding (TKU) policy among over half of large but only a quarter of small schemes
- * a general belief by trustees that conflicts of interest are managed effectively but actual implementation of measures is more mixed especially among small schemes.

As a result we are increasingly focusing on small schemes. In addition to publishing the support materials outlined earlier in this section we also intend to undertake a review of the TKU code and scope – with a key objective of ensuring that trustees in smaller schemes continue to embrace the legal requirements and use our code and guidance to support their activities.

Theme 3

Understand and address the risks to DC schemes

Our key performance indicator

Trustees and others involved in running DC schemes (such as providers, administrators and employers) will have a clear understanding of the significant risks inherent in such arrangements, especially in relation to administration, member awareness and investment, and how they should be mitigating them.

To help achieve this we said that we would:

- * provide further education and guidance, developed in partnership with the industry and other regulatory bodies, to cover the five key risks, tailored to the relevant audiences.

When the regulator was established, our primary focus was necessarily on DB schemes since these covered the majority of pension scheme members and presented an immediate challenge in terms of their funding position. Not only did these schemes have the greatest need for action, they also presented the greatest immediate risk to members. We have, however, paid increasing attention to members with DC benefits. In particular, in April 2007 we published a statement on *How the Pensions Regulator will regulate defined contribution schemes in relation to risks to scheme members*. This drew on responses to a consultation paper we issued with the same title in November 2006. The paper highlighted the five key areas where we wish to see improvements:

- * Member understanding
- * Administrative practices
- * Investment practices
- * Charges
- * Retirement options.

The NAO review of the Pensions Regulator supported the increasing emphasis on DC schemes, noting that:

'They present very different risks to members and many have very different governance arrangements to final salary schemes. Since employers are increasingly shifting provision from final salary to money purchase schemes this will be an important and challenging area for the Pensions Regulator in the future.'

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

The regulator's aim on work-based schemes with DC (money purchase) benefits is to use our approach of education and enablement to reduce the risks to members' benefits and promote and improve understanding of good administration. We will consider using our powers to intervene where there are potential fraud implications, or, as a last resort, where other attempts to get the matter rectified have failed.

As reported in our DC update published in January 2008, we are now part way through our programme focusing on our objective to protect members' benefits in DC schemes and promote and improve understanding of good administration.

We have commissioned research and used the evidence from this to inform our approach on DC. Our growing evidence base is now underpinned by:

- * in-depth qualitative research into work-based DC schemes carried out on our behalf by an independent agency
- * analysis of the DC scheme returns and information amassed from surveys conducted by other organisations.

In accordance with our commitment to working in partnership with other organisations in order to ensure that initiatives to address DC risks are practical and proportionate, we have:

- * worked closely with the FSA, establishing an ongoing series of bi-partite meetings and we have updated and extended the memorandum of understanding between our two organisations to reflect our collaborative approach in areas of mutual interest
- * continued working with our DC consultation working group. Members of this group, together with other volunteers from within the pensions industry, attended workshops and other meetings during the year
- * participated in the *Open Market Option Review Working Group* investigation into exercise of the open market option led by the DWP and HM Treasury and we are working with the FSA, the Pensions Advisory Service (TPAS) and the DWP to help deliver the measures put forward in last autumn's Pre-Budget Report.

Guidance, TKU and publications

In the past year we have published the following guidance:

- * *Voluntary employer engagement in work-place contract-based pension schemes*, which is relevant to employers seeking to increase their role in the stewardship of contract-based schemes, as we believe that it is in members' interests for employers to make arrangements for their GPPs to be regularly reviewed.
- * *Guide to the regulation of work place contract-based pensions* was published jointly with the FSA. This set out how the regulator and FSA regulate in this area and provided clarity over our respective roles and responsibilities.
- * We issued *How a DC scheme works* as a module of the *Trustee toolkit*.

Our next steps are to develop further guidance on the key areas of member understanding, investments and administration that will help people build on existing good practice. During 2008-2009 we will be issuing:

- * guidance, good practice examples and case studies to promote the value of good member communication
- * guidance on investment, specifically covering the matters that need to be considered when appointing an investment manager, choosing a provider or selecting funds sample wording for trustees to help them explain issues relating to fund choice; and the importance of obtaining 'value for money'.

In addition, over the coming year, we plan to continue to:

- * consider with others how standards of administration on DC schemes may be raised
- * analyse and report on information contained in future DC scheme returns
- * issue supplementary e-learning for trustees in relation to winding up trust-based DC schemes
- * liaise with other bodies, such as the FSA, with an interest in improving member understanding, including the implementation of the money guidance service proposed by the *Thoresen Review*
- * target our efforts to promote effective risk management and internal controls for DC schemes.

Theme 4

Deliver effective risk-based regulation

Our key performance indicator

The perceptions of our performance held by the regulated community and other stakeholders; the effectiveness of our management and development of our resources; and the efficient and effective delivery of regulatory and other business outputs not covered by themes 1-3.

To help achieve this we said that we would:

- * further enhance and strengthen our position as an authoritative and proportionate risk-based regulator
- * reduce the regulatory burden by demonstrating 'value for money'.

Our annual *Perceptions tracker survey* is an essential tool by which we measure our performance against several baseline targets. This is the third year in which we have carried out the survey. Full findings from all of the surveys are available on our website <http://www.thepensionsregulator.gov.uk/onlinePublications/factsandfigures.aspx>.

Views on our consistency with 'better regulation principles'

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

Table 6

Extract from the *Perceptions tracker survey on compliance with 'better regulation principles'*

Perceptions tracker survey extract	2007	2006
% who agree that the Pensions Regulator is consistent in its approach to enforcing pension scheme regulation	57	51
% who feel that we explain clearly why decisions affecting pension schemes have been made	49	49
% who feel that our actions are proportionate to the risk posed	51	43
% who feel that we are focused on the most important risks to members' benefits	63	61
% who believe that we work well with Government to ensure that regulation is appropriate	40	52
% who feel that we are proactive in reducing serious risk to scheme members' benefits	57	55

We welcome these broadly positive results which also show that the underlying level of negative perceptions about the regulator remain very low. We do acknowledge, however, that we have further to go in demonstrating transparency within the constraints placed on us by legislation and the need to maintain commercial confidentiality.

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

Satisfaction with the Pensions Regulator

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

Table 7

Extract from the *Perceptions tracker survey* on satisfaction with the regulator

Perceptions tracker survey extract	2007	2006
% of respondents who believed that if the Pensions Regulator did not exist, the risk to members' benefits would increase**	79	78
% who regard us as a trusted source of information	84	78
% of respondents rating our provision of guidance as either very or fairly effective**	81	74
% of respondents rating our provision of codes of practice as either very or fairly effective**	88	82

**excl. 'don't know' responses

The management and development of our resources

We continue to develop our resources with a focus on achieving improved value for money and reducing the regulatory burden.

Our technical infrastructure and our processes

During 2007-2008 we implemented the automation of scheme return collections which substantially reduced the cost of the returns, helped to minimise the administrative burden on schemes, and also increased our response rates to 99% on time completion for DB schemes (see below).

We successfully delivered an important systems change project using a small focused team to ensure that critical regulator systems were integrated and sustainable, and to deliver e-learning products to support system users.

We continued to invest a great deal of effort in developing our service and performance capabilities, including the introduction of a facilities helpdesk, and we achieved substantial savings by rationalising our IT contracts. Notably, we have made significant improvements in costs, services, capability and capacity of our IT infrastructure with a mix of both in-house and outsourced services. We will continue to improve the provision of IT services to the business to achieve industry best practice and demonstrate value for money.

We successfully implemented a new financial ledger which further enhanced our financial controls and governance, and significantly reduced the levels of outstanding levy debt from over £10m (pre-2007-2008) to less than £0.5m. The levy finance team is in the process of bringing all levy collection and accounting processes in house to ensure a streamlined service along with risk reduction. During the year we also achieved cost savings through negotiating new value for money facilities and consultancy contracts.

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

The management and development of our resources

Our service capability

We have enhanced our capacity and capability to deliver more targeted and effective communication and marketing campaigns. This is enabling us to deliver targeted messages and information across the regulated community in a far more segmented and effective manner. This has already resulted in increased traffic to our website, a significant increase in subscribers to our 'news by email' service and continuing increases in registration for the *Trustee toolkit*.

Research and customer feedback have demonstrated how popular our website is with users. We continue to enhance the user experience across the site, with more content being supplied to meet the needs of specific customer segments.

Our customer support function is set up to deliver proactive outbound campaigns and to handle significant inbound contact with customers. We handle over 5,000 contacts per month, ranging from enquiries and late payment of contributions to making member trustee appointments. We expect this volume of customer contact will grow with more emphasis on proactive outbound-focused activities.

We have embedded our customer relationship management system, which allows a full history of contacts to be maintained. This supports the business in responding to customers and identifying trends, helps us in planning for the future.

Our call-recording tool supports the measurement of the customer experience together with our ability in handling the vast range of knowledge required by the workforce in dealing with day-to-day regulatory enquiries around a range of subjects.

Our people

During the past year we have continued to attract high quality people. Through targeted advertising and through our well-regarded industry secondment programme, we recruited 88 people to permanent roles and sourced 11 secondees from private firms and other government organisations.

We are pleased to report that our overall staff satisfaction measure (as measured by our annual staff survey) is at 73%. We give a high priority to the provision of information to, and the consultation with, our workforce. We have continued to work closely with our recognised trade union, the Public and Commercial Services Union (PCS) and held regular meetings with them throughout the year.

Board and management team minutes are available to all staff and we use various staff engagement and communication channels such as an online staff magazine and monthly briefings from our executive team.

Our work on improving the performance of our people continued and we delivered a wide range of learning opportunities across the year. We invested over £0.5m in staff development opportunities ranging from mentoring and industry placement opportunities, to working in partnership with the University of Brighton on the development and delivery of a tailored business skills diploma. Our first cohort of 18 students graduated in June 2007 and the next cohort are currently undertaking their studies.

During the year we have also raised the profile of 'valuing diversity' within the organisation and, working closely with the PCS, published our *Equality Scheme* and implemented the first year of our diversity action plan, which included the roll-out of a dignity at work policy and awareness sessions for all staff.

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

The delivery of regulatory and other business outputs

Scheme returns and levy collection

The scheme return collects information needed for the register of pension schemes and is designed to provide an in-depth information database for the regulator from which we can build an accurate picture of the schemes we regulate.

The scheme return content and submission process has evolved extensively over the past year. Our main drivers have been the need to minimise the burden on schemes in supplying data and to improve our internal processes and data management. The culmination of these changes was the successful implementation of our new online web-based scheme return system *Exchange* in December 2007.

Against a background of substantially increased volumes we set ourselves the demanding target of 95% (by scheme membership) of all DB submissions to be completed by 31 March to allow the PPF to calculate its risk-based levy and for the regulator to invoice for the general and administrative levies. We are pleased to report that we exceeded this target with a 99% (by scheme membership) response rate. The response from DC schemes (72% by membership) also exceeded our expectations given that this was the first year that most had been asked to complete a scheme return.

Further enhancements are planned during 2008-2009 to provide an increased range of functions within *Exchange*, along with improved workflow automation internally. We continue to work closely with the PPF regarding future developments of *Exchange* and its associated processes.

Deregulatory review

DWP's *Deregulatory review* was published in October last year. It was designed to identify areas where legislative restrictions could be eased to encourage better funded, more sustainable pensions provision for employees in the future. Over the past year we have:

- * been part of an advisory group which was established to help the DWP carry out the review
- * continued to work with DWP and industry on a number of the recommendations made by the review. In particular, we have been commenting on how risk-sharing schemes might form a growing part of the pensions landscape in the future, and the regulatory impact such a development would have.

We have also been considering how we can move further towards principles-based regulation, particularly in the area of pension disclosure. For example, we have recast our clearance guidance in a more principles-based format.

Europe and international activities

IORP Directive

The Institutional Occupational Retirement Provision (IORP) Directive, is now in its third year of operation. Within the regulator, implementation of the IORP Directive has influenced the set-up and operation of scheme specific funding and the notification process for cross-border schemes. The UK, as a home state regulator, has authorised 28 schemes in total, which have members across some 13 host states.

The Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS)

The size, maturity and depth of the UK pensions sector means that the UK has an important role to play in influencing policy and law within Europe. Technical advice to the European Commission is provided by participation in the CEIOPS committee structure. A key working party in this structure is that of the Occupational Pensions Committee (OPC) since this group comprises occupational pensions specialists and deals with key EU pensions matters. The chief executive of the regulator has been elected to chair this working group for three years.

This year, the OPC presided over the publication of a key report '*Initial review of key aspects of the implementation of the IORP directive*' which fed back to the Commission the experience of member states of their implementation issues. A separate report – the Solvency Sub Committee report – provided a very detailed fact-find of all the means by which states calculate their technical provisions and how their legal frameworks work to protect their members by means of, for example, employer covenant and/or guarantee institutions.

International committees

The UK plays a leading role in the International Organisation of Pensions Supervisors and the OECD, which are crucial forums in which experience of regulation is shared. They enable us to learn from international experience. They show that the UK's approach provides a leading example of risk-based regulation and that in areas such as data collection, has a far simpler data collection regime than is operated elsewhere.

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

Other pensions regulatory activities

Customer support contacts

All activities within our customer support team continued to be closely measured against service level targets. During 2007-2008, a significant amount of work was completed to equip the team to handle a broader range of communication channels and regulatory activities. This resulted in improved effectiveness and efficiencies while maintaining good performance. Across 2007-2008, the team:

- * answered a total of 22,952 calls. 93% of these were answered within 20 seconds (against a service level target of 80%)
- * dealt with over 5,000 regulatory enquiries via email, letter and fax. 95% of these were dealt with within our target of five working days
- * handled 11,978 technical queries. 92% of these were dealt with within our target of 20 working days.

Late and non-payment of contributions

9,693 reports have been received on late and non-payment of contributions to personal pensions and occupational pension schemes. £1.3m in outstanding contributions has been secured following our intervention with trustees, providers and employers.

Register of stakeholder schemes

We have a statutory duty to maintain a register of stakeholder pension schemes. This register is published on our website for use by employers and individuals in assisting them when choosing a scheme provider. During 2007-2008, we received very few reports involving employers who were not providing their staff with access to a pension scheme. Of the reports received, contact was made with the employer and actions were put in place to rectify the situation.

Notifiable events

Notifiable events are defined by the Pensions Act 2004, which put in place a reporting framework designed to help the regulator focus on triggers that could potentially lead to serious risks to pension schemes. There are 13 types of notifiable events. In total 554 events were reported during the year (640 in 2006-2007). The most common types of events reported were transfer of more than 5% of scheme assets or £1.5m, changes in senior personnel, and decisions to relinquish control of employer.

Whistleblowing reports

513 whistleblower breach of law reports were received, compared to 1,233 in 2006-2007.

Community activity

The regulator, which is based in Brighton, has continued to be active in the local community over the past year. In addition to the business skills course mentioned earlier in this report we have also worked with the University of Brighton to set up a management skills course tailored to the needs of our organisation. We have also worked with several local schools and colleges to provide structured work placement schemes.

Staff organised several events during the year which raised approximately £1,146, donated to a variety of local and national charities reflecting staff concerns.

Environment

We have continued to implement changes to our practices with a view to promoting sustainability and progressively minimising our environmental impact including:

- * acting on our commitment to source our gas and electricity via the Office of Government Commerce which requires suppliers to source 25% of electricity from renewable and sustainable sources
- * reviewing our stationery purchasing to ensure that we used a supplier with robust sustainability credentials
- * implementing a building management system which allows us to better measure and therefore control our energy use.

Theme 4: Deliver effective risk-based regulation *continued...***Table 8**

Key publications

Key publications and web activity during the year	
April 2007	Strategic investment module of <i>Trustee toolkit</i> launched
May 2007	<i>Approach to DC regulation</i> published <i>Governance</i> consultation document published Reminder on clearance guidance issued <i>Corporate plan</i> published
June 2007	Statement issued on use of anti-avoidance powers on <i>Sea Containers</i>
July 2007	<i>Governance survey</i> results published <i>Annual report and accounts 2006-2007</i> published
August 2007	
September 2007	Revised clearance guidance published First analysis of recovery plan data
October 2007	Statement issued on appointment of independent trustees to <i>Telent</i> pension scheme Response to <i>Governance</i> consultation Guidance issued on dispute resolution
November 2007	Confirmation of use of powers on <i>Telent</i>
December 2007	Launch of online scheme return Analysis/data/report: <i>The Purple Book</i> (joint publication with PPF) (annual publication)
January 2008	Best practice guidance on voluntary employer engagement in GPPs issued Statement on issuing of FSD on <i>Sea Containers</i>
February 2008	Consultation on longevity Draft guidance on conflicts of interest issued
March 2008	Joint guidance on winding-up issued with PPF and DWP Revised clearance guidance issued

Website usage	2007-2008	2006-2007
Number of users visiting the site	149,604	128,527
Number of visits they made	1,021,354	926,384
Number of pages viewed during those visits	2,557,888	2,848,864
Most popular pages (after homepage and search)	Stakeholder decision tree Codes of practice Trustee homepage	
Number of people subscribed to our 'news by email' service at end of reporting period	11,140	7,223

5 Accountability and governance

Board structure

Sections 1 and 2 of the Pensions Act 2004 ('the Act') set minimum requirements for the composition of the board. The current board structure, meeting with the requirements of section 1 of the Pensions Act 2004, comprises the chair, five non-executive members, the chief executive and three executive directors. There was one retirement during the year, in February 2008, at the end of a member's term of appointment, leading to one vacancy. The board complied with the requirements of the Act throughout the year. Board members' appointment dates, terms of office and committee membership are detailed in the table below. All members have been appointed to the board by the Secretary of State for Work and Pensions following open competition. Biographical information about each board member can be found on pages 50 and 51.

In 2007-2008, non-executive members received a non-pensionable annual allowance of £10,404. The executive board members are members of the regulator's staff and receive salaries and pensions. Further details of the remuneration of all board members are given in the Remuneration report on page 64.

Details of board appointments and committee membership

Name	Date appointed	Date term expires	Committee membership
David Norgrove <i>Appointed as chair</i>	1 January 2005	1 January 2011 ²	Non-executive (chair)
Non-executive members			
Laurie Edmans CBE	8 February 2005	8 February 2011 ³	Audit, Non-executive Remuneration (from February 2008)
Alan Pickering CBE	8 February 2005	7 February 2009	Audit, Non-executive
Chris Swinson OBE	8 February 2005	7 February 2009	Audit (chair), Non-executive
Caroline Thomson	8 February 2005	7 February 2009	Remuneration (chair), Non-executive
Roger Walsom	8 February 2005	7 February 2008 ⁴	Remuneration, Non-executive
Executive members			
Tony Hobman <i>Appointed as chief executive</i>	1 July 2004 <i>(designate)</i> 6 April 2005 <i>(confirmed)</i>	n/a	
Stuart Weatherley	1 April 2007	31 March 2010	
June Mulroy	7 June 2005	31 May 2008 ⁵	
Charlie Massey <i>(on secondment from DWP)</i>	1 September 2005	31 August 2008 ⁶	

² Reappointed on 1 January 2008 for three years

³ Reappointed on 8 February 2008 for three years

⁴ Retired on 7 February 2008 at end of three year term of office

⁵ Subsequently reappointed to 31 May 2011

⁶ Subsequently returned to DWP in April 2008

Attendance at meetings from 1 April 2007 to 31 March 2008

	Board	Audit committee	Remuneration committee	Non-executive committee
Number of meetings	11	6	4	4
David Norgrove	10	n/a	n/a	4
Laurie Edmans CBE	10	5	1 ⁷	4
Alan Pickering CBE	10	6	n/a	4
Chris Swinson OBE	9	5	n/a	2
Caroline Thomson	8 ⁸	n/a	4 ⁹	3
Roger Walsom	8 ¹⁰	n/a	3	3
Tony Hobman	11	n/a	n/a	n/a
June Mulroy	11	n/a	n/a	n/a
Charlie Massey	11	n/a	n/a	n/a
Stuart Weatherley	11	n/a	n/a	n/a

Responsibilities of the board

As required by the Act, and under the management statement and financial memorandum agreed between the Pensions Regulator and the DWP, the key responsibilities of the board are:

* **Policy**

Overseeing the regulator's strategic direction and making key decisions on policy

* **Governance**

Ensuring the regulator is properly run as a public body and has effective internal controls, and

* **Ensuring** that statutory and administrative requirements for the use of public funds are complied with.

⁷ Extraordinary meeting - conference call 10 March 2008

⁸ Attended part of 3 out of 8 meetings by conference call

⁹ Extraordinary meeting - conference call 10 March 2008

¹⁰ Attended January 2008 meeting in full by conference call

Board meetings

The full board met monthly during the year from 1 April 2007 to 31 March 2008 except for August. In addition, two 'away day' meetings were held in July and December 2007 at which the board received extended briefings on operational and environmental developments, and discussed strategic issues, as part of the process of developing and reviewing the regulator's plans.

Since September 2007 the chairs of the board of the PPF and of the regulator have regularly attended the meetings of the other board, as observers.

The boards of the PPF and of the regulator held a joint meeting in August 2007 to discuss strategic issues; the next meeting is planned for June 2008.

Committees of the board

As required by the Act, the board has established a committee of non-executive members. With the agreement of the board, the committee established two sub-committees: the audit committee and the remuneration committee. The remit and activities are summarised below.

Board evaluation

In 2007 the board commissioned a full external review of its effectiveness, which was completed and reported to the board in December 2007. The board is following through the recommendations of the review; these included, for example, the future appointment of additional members to strengthen the board's expertise in preparation for the Pensions Bill 2007 objective to maximise compliance of the employer duties.

The performance of the chief executive and executive directors is reviewed by the remuneration committee in determining their remuneration for the year. Please refer further to the Remuneration report on page 64.

Board members

Chair

David Norgrove

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

Non-executive directors

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

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

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

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

Roger Walsom was formerly a partner at *Ashurst*, a leading firm of City solicitors, and is currently a consultant to the firm on specific projects. His career has spanned the worlds of commercial and financial services, including mergers and acquisitions, financing, insolvency, insurance, employment and other issues. He is also a non-executive director of *St James's Place plc* and *INVESCO Income Growth Trust plc*. Roger retired, on completion of his term of appointment, in February 2008.

Chief executive

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

Executive directors

Charlie Massey is the executive director of strategic development. The strategic development function relates to strategy, policy and guidance, communications and regulated community learning. Before this, Charlie was a senior civil servant in the DWP, responsible for heading up the division that created the Pensions Regulator and the PPF. He previously worked in the Prime Minister's Strategy Unit where he led projects on drugs and childcare. He has also worked in HM Treasury as well as in a number of roles in the Department of Social Security.

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

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

Annual report of the committee of non-executive members of the Pensions Regulator

Functions of the committee of non-executive members

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

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

- (a) the duty to keep under review the question of whether the regulator's internal financial controls secure the proper conduct of its financial affairs;
- (b) the duty to determine under paragraph 8(4)(b) of schedule 1 of the Act, subject to the approval of the Secretary of State, the terms and conditions as to remuneration of any chief executive appointed under paragraph 8(4)(a) of that schedule.

Activities of the non-executive committee in 2007-2008

The committee, as permitted by section 8 sub-paragraphs (7) and (8), continued to have two sub-committees: an audit committee to which it delegated its function at section 8(4)(a) and a remuneration committee to which it delegated its function at section 8(4)(b).

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

The committee itself met three times during the period of this report to receive reports from its sub-committees, and to consider the implications of the external review of board effectiveness. Overall, the conclusions were positive: that the board was functioning effectively. The report noted the major impact that work on employer compliance with auto-enrolment would have on the organisation for example, and made some recommendations for greater involvement of non-executive members between formal meetings. The recommendations have been accepted and are being taken forward. The committee subsequently met in May 2008 to discuss this report.

Details of membership of the committee and its sub-committees, and attendance records, are on pages 47 and 48.

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

Report of the activities of the audit committee in 2007-2008

Terms of reference for the audit committee were agreed by the board and the committee of non-executive members, covering both the statutory function delegated from the committee of non-executive members and additional areas of responsibility delegated by the board. The audit committee met on six occasions in 2007-2008:

- * to review its terms of reference, and to evaluate its own performance
- * to review the annual accounts for the regulator for the period 2006-2007 and recommend their approval to the board
- * to approve an internal audit strategy for the year
- * to advise the executive management team on the approach to management of strategic risk and to keep the risk schedule under review
- * to review the external audit management report for 2006-2007
- * to approve the external audit strategy for 2007-2008 and
- * to receive reports from the internal auditors reviewing areas of the business as agreed under the internal audit strategy, and to monitor implementation of recommendations made in those reports.

In relation to the year 2007-2008, the committee met in June 2008 to receive a further remaining internal audit report and to review the Statement on internal control and the regulator's Annual report and accounts; and to recommend that the board should approve the Annual report and accounts.

Strategic risk management

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

Further comment on risk management is included in the Statement on internal control on page 72.

Internal audit strategy for 2007-2008

The committee agreed a programme of audits for the year covering 12 areas of the business. Progress was kept under review during the year. One of the audits was deferred for operational reasons.

The committee was able to review, prior to its approval of the Annual report and accounts and the Statement on internal control, all except one of the 11 audit reports. It was noted that two gave a full assurance, eight gave a substantial level of assurance, and one gave a limited level of assurance.

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

Report of the activities of the remuneration committee in 2007-2008

Terms of reference for the remuneration committee are agreed by the board and the committee of non-executive members, covering both the statutory function delegated from the non-executive committee and additional responsibilities delegated by the board.

The remuneration committee met on four occasions in 2007-2008:

- * to review the chief executive's objectives and performance, and his remuneration within the scope set by the Secretary of State under paragraph 8(3)(b), schedule 1 of the Act
- * to review the objectives and performance of the executive directors and to agree their bonus related payments, and
- * to review the remuneration of executive directors

The Remuneration report is on page 64.

Executive management team

The executive board members, chaired by the chief executive, met regularly through the year (normally twice a month) as an executive management team:

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

Other accountability arrangements

Determinations panel – report of activity during the year

Section 9 of the Pensions Act 2004 requires the Pensions Regulator to establish and maintain a committee called the determinations panel – the purpose of which is to exercise on behalf of the regulator certain regulatory functions as set out in the second schedule of the Act. In summary they might be used either where the regulator considers that certain enforcement action needs to be taken in respect of pension schemes, their trustees or employers or where trustees or other interested parties ask that certain actions are taken to safeguard the interests of scheme members.

The panel has a chair appointed by the regulator. The chair then nominates at least six other members who must then be appointed by the regulator. Seven members have been appointed. The panel conducts its meetings and makes its decisions following procedures decided upon by the panel in consultation with the regulator, and published in 2006. They ensure that every regulatory decision is made after a full and impartial consideration of the evidence on which it is based, the panel needing to be satisfied that the evidence supports the decision they are asked to make. If the panel are not so satisfied in accordance with the standard of proof applying to their determinations (normally on the balance of probabilities) then it is their responsibility to refuse to make the decision asked for.

The cases coming before the panel are prepared by the regulatory teams and incorporated into a warning notice sent to all parties having an interest in the decision under consideration, giving each party a full opportunity to respond and to make their own case if they wish. The papers, including the warning notice, the supporting documents and the responses, are then submitted to the panel, normally a sub-committee of three members sitting with an independent barrister and clerk, together with their administrative support staff. The panel then make their decision in a wholly disinterested way allowing no further representation to be made and no access to them by either the regulatory teams or by any other party. The only exception to this is where an oral hearing has been agreed when all parties are invited to attend to give evidence or make representations. The process has been designed to ensure that the panel's determinations are made in a fair, open and impartial manner.

continued over...

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

During the year, the panel has been asked to make determinations in respect of 12 DB schemes. The panel heard the cases in 12 hearings. In all except three cases, the determinations were made on consideration of the papers. In relation to the other three cases the determinations were made following an oral hearing.

Determination requested	Number of cases	Outcome
Appointment of independent trustee	4	Appointments made in all cases – one made by way of special procedure
Financial Support Direction	2	Both granted
Winding up a scheme	5	All granted
Vest in, assign and transfer of property	1	Order granted

During the year the panel has continued their development and training programme in four sessions. They have had presentations in relation to Financial Support Directions and Contribution Notices. They have had two presentations from the scheme specific funding team, one of which included a workshop specifically on technical provisions. They also had a presentation on post-appointment regulation of independent trustees.

John Scampion

*chair, Determinations panel
March 2008*

Complaints against the regulator

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

- Stage 1** The complaint is investigated by the corporate secretary
- Stage 2** If unresolved, the complaint is reviewed by the chair of the regulator
- Stage 3** If still unresolved, the complaint can be referred to the regulator's independent complaints adjudicator.

The Pensions Regulator also comes within the jurisdiction of the Parliamentary Commissioner for Administration.

In 2007-2008, we received 12 formal complaints (22 in 2006-2007). As at 31 March 2008 all but four of these complaints had been closed at stage 1. Four complaints were referred by the complainant to our chair and subsequently 1, under stage 3, to our independent complaints adjudicator. One case referred to the independent complaints adjudicator in 2006-2007 was concluded in this period; both complaints were not upheld.

No cases were referred to the Parliamentary Commissioner for Administration during the year.

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

Regular reports on complaints are made to senior management and these are acted on as appropriate, for example where there were delays in correspondence due to new systems and processes. We have carried out reviews and improved those processes and systems to ensure that delays should not happen.

Stage 3 Complaints to the independent complaints adjudicator 2007-2008

**Report of the independent complaints adjudicator
for the Pensions Regulator 2007-2008**

I was asked to conduct an independent investigation into two complaints in the last financial year. They can be summarised as follows:

Complaint One

This concerned a longstanding, complex complaint against a trustee of a self-administering pension scheme who had been appointed by the Pensions Regulator. The complainant had been contesting the trustee's right to reclaim his fees from the scheme funds. The complaint had been the subject of earlier examination by the Pensions Ombudsman and the Appeal Court and neither route had provided any satisfaction to the complainant who had, it transpired, transferred funds unlawfully to the particular pension fund and therefore had no right to any assets from this fund, circumstances which the complainant found difficult to accept. There was therefore no substance to the complaint. In trying to explain this to the complainant, the Pensions Regulator had behaved in an exemplary fashion, providing detailed reasons and showing considerable patience, courtesy and sympathy.

I did not uphold the complaint.

Complaint Two

This concerned a dispute over alleged miscalculations and missed payments of levy dating back a number of years and the alleged subsequent mishandling of the dispute. In stage 2 of their procedures the Pensions Regulator's chairman acknowledged that failings in internal communication combined with a new filing and mailing system resulted in poor customer service. However, the complainant remained dissatisfied, believing the internal investigation had not examined the complaint sufficiently thoroughly and that apologies had been offered too easily. My investigation confirmed the chairman's earlier acknowledgment to the complainant (in his stage 2 letter) that the poor customer service constituted maladministration with the result that the complaint had been partially upheld at that stage. However, it was also clear to me that improvements made as a result of the installation of the new filing and mailing systems, together with the lessons learnt, meant that there was no further complaint to uphold.

I endorsed the chairman's decision to partly uphold the complaint.

Elizabeth Hodder

*independent complaints adjudicator
April 2008*

Freedom of Information

The Freedom of Information Act 2000 (the FoIA) gives individuals and organisations the right to request information from any public authority. In keeping with the spirit of the FoIA, we seek to release information where possible and appropriate. Where we are unable to release the information requested we aim to provide advice and assistance in keeping with the principles of the FoIA.

In the period 1 April 2007-31 March 2008, the regulator received 28 requests for information under the FoIA 2000, and two subject access requests under the Data Protection Act 1998. This compares with 19 Freedom of Information requests and two subject access requests received in the previous year.

In 13 cases we disclosed some or all the information requested.

In 15 cases we were not able to disclose the information requested.

Freedom of Information requests received during the period of this report have in the main focused on regulatory cases. The majority of requests were made by pension scheme members requesting information as to how decisions have been made in connection with their scheme and who made those decisions. A number of the requests were related to determinations made by the regulator. Others concerned levy collection, scheme registration and general requests in relation to finance and expenditure by the regulator.

Much of the information that we gather in undertaking our regulatory function falls within the definition, under the Pensions Act 2004, of 'restricted information'. That Act makes it a criminal offence for restricted information to be released except in limited circumstances. Information that is caught by this definition is exempted from disclosure under FoIA section 44, and this has been the main reason why we are often unable to release information in response to requests. However, each request for information is considered on a case by case basis and where possible the regulator will try to release as much information as it is legally able to.

We received no requests to review our decision not to disclose information.

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

6 Financial review

Form of accounts

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

Results for the period

The financial statements are set out in pages 79 to 81.

The regulator is funded by grant-in-aid from the DWP.

The accounting policies under which income and expenditure are recognised are set out in note 2 to the accounts

In the period ended 31 March 2008, the regulator had net expenditure of £29.4m. The expenditure figures include £1.2m which is attributable to the carry over of the culture change programme. The net expenditure has been transferred to the general reserve and is offset through contributions from the DWP of £30.0m. The expenditure figures include £0.5m which is directly attributable to the commencement of the *Employer Compliance Regime*. This was offset through contributions of £0.5m from the DWP and is non-levy funded. During the year, the effort of the team was focused on three things: providing responses on the new policy being developed by the DWP; starting to establish a design to ensure that the policy could be made operational; and planning the work needed in 2008-2009 and establishing a project team within the regulator to deliver the new *Employer Compliance Regime*.

Staff costs in the period ended 31 March 2008 were £0.1m higher than 2006-2007 due to increased staff numbers and the pay award plus the full-year effect of staff taken on in 2006-2007. Other operating charges have reduced by £2.5m in part due to in-sourcing of the scheme return and the significant investment in the exchange web application, and in part due to efficiencies and renegotiation of contracts in general office expenses and computer maintenance. Training and recruitment costs have decreased in comparison as there was no high level role recruitment.

There have been no significant events occurring since period end.

Tangible and intangible fixed assets

The regulator occupies only short leasehold property and does not have any finance leases. Rent payable for accommodation has been charged to operating charges (note 12 to the accounts). Fixed assets are valued at current replacement cost as detailed more fully in note 9 to the accounts.

Payments to suppliers

The regulator is committed to the prompt payment of bills for goods and services received. Payments are normally made as specified in contracts. If there is no contractual provision or understanding, invoices are deemed to be due to be paid within 30 days of the receipt of the goods or services, or presentation of a valid invoice or similar demand, whichever was later. During the period ended 31 March 2008, by volume, the regulator paid 87% of invoices in line with this policy.

Going concern

The balance sheet at 31 March 2008 shows net liabilities of £1.6m. This reflects the inclusion of liabilities falling due in future years which, to the extent that they are not to be met from the regulator's other sources of income, may only be met by future grants or grants-in-aid from the DWP, as the regulator's sponsoring department. This is because, under the normal conventions applying to Parliamentary control over income and expenditure, such contributions may not be issued in advance of need.

Levies account

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

During the year ended 31 March 2008, the regulator invoiced and collected levies on behalf of the DWP (the regulator's general levy and PPF administration levy) which will be reported in the audited financial statements of that organisation. The following unaudited results summarise key facts and figures in respect of levy activity undertaken during the period. None of these figures features in the audited accounts of the regulator. The total levies due to be invoiced during the year were £53.5m (£34.2m in respect of the regulator's general levy and £19.3m in respect of the PPF administration levy).

During the year, the regulator collected £65.42m in respect of levies, of which £0.22m had not been allocated by levy type at the year end. The £65.20m collected and allocated during the year comprised £47.31m (the regulator's general levy) and £17.14m (the PPF administration levy) due to the Secretary of State and £0.76m (PPF initial levy) and £0.01m (PCB levy refunds) due to the PPF. These collections represented respectively by value 87.3% and 89.7% of the amounts invoiced. As an organisation the regulator has been proactively seeking payment of any outstanding levy payments with an internal credit control team and has also contracted legal services to assist with this. This work will continue with a view to seeking prompt payment of levy.

Prior to onward transmission to the DWP or the PPF, the regulator places levies received and unallocated cash receipts in respect of levies on overnight deposit. Any interest earned is paid over to the relevant recipient along with levy payments. Total interest earned in 2007-2008 was £0.06m of which £0.05m had been paid over by 31 March 2008.

As at 31 March 2008 total levies paid across to either the DWP or the PPF were £64.7m, and at year end the regulator held cash balances still to be paid over to the DWP and the PPF of £0.80m and £0.06m respectively.

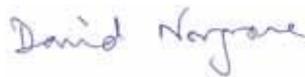
Audit

The Pensions Act 2004 requires the regulator's accounts to be certified by the Comptroller and Auditor General (C&AG). The audit fee for 2007-2008 was £31,403. No non-audit services were provided during the period.

Accounting officer responsibilities

The accounting officer confirms:

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



David Norgrove
chair, the Pensions Regulator
24 June 2008



Tony Hobman
chief executive, the Pensions Regulator
24 June 2008

The Pensions Regulator Remuneration report

The remuneration committee

Details of the activities of the remuneration committee during the period ended 31 March 2008 are set out in section 3 of the Annual report. Section 3 also includes details of the composition of the board of the regulator.

As also shown in section 3, the remuneration committee consists of two non-executive board members, Caroline Thomson (chair) and Roger Walsom, who retired in February and was replaced on the remuneration committee by Laurie Edmans CBE.

Remuneration policy

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

The current (initial) remuneration of the chief executive is determined by the Secretary of State for Work and Pensions in accordance with part 2 of schedule 1 of the Pensions Act 2004. Subsequent remuneration is determined by the Secretary of State based on recommendations from the remuneration committee of the regulator.

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

Additionally the Secretary of State for Work and Pensions determines the fees of the determinations panel for current and future periods.

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

The chair is responsible for reviewing annually the performance of the chief executive and reporting the results of this review to the regulator's remuneration committee. The remuneration committee will decide the amount of any performance-related bonus payments due under the terms of the chief executive's contract.

Service contracts

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

Details of service contracts are given in section 5 of the Annual report.

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

Name	Notice period	Early termination payable to employee (net pay plus accrued bonus if applicable)
David Norgrove (chair)	3 months from employee, 6 months from employer	Maximum of 6 months' pay
Non-executive members		
Laurie Edmans CBE	1 month	1 month
Alan Pickering CBE	1 month	1 month
Chris Swinson OBE	1 month	1 month
Caroline Thomson	1 month	1 month
Roger Walsom (retired 7 February 2008)	1 month	1 month
Executive members		
Tony Hobman (chief executive)	3 months from employee, 6 months from employer	Maximum of 6 months' pay
June Mulroy	3 months	3 months
Charlie Massey	3 months	3 months
Stuart Weatherley	3 months	3 months

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

Charlie Massey returned to the DWP on 7 April 2008.

All of the following information in this section is subject to audit.

Remuneration and pension entitlements

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

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

Remuneration

The following figures are subject to audit.

Non-executive members

Non-executive part-time members of the board receive non-pensionable remuneration of £10,404 per annum.

Salary (in bands of £5,000)	Total Benefits in Kind (to the nearest £100)	Board members
£10-15k (All part-time members of the board)	£200 R Walsom	LM Edmans CBE, A Pickering CBE, C Swinson OBE, C Thomson, R Walsom
£110-115k		D Norgrove (<i>chair</i>)

The total amount paid to non-executive directors (including the chair) during the period was £159,000. The monetary value of benefits in kind covers any benefits provided by the employer and treated by the Inland Revenue as a taxable emolument. The benefits shown above represent the payment of expenses for travelling to board meetings.

The chair's remuneration is pensionable and details of the chair's pension benefits are set out below:

Chair's pension benefits					
	Accrued pension at age 60 as at 31/3/08 and related lump sum (£'000)	Real increase in pension and related lump sum at age 60 (£'000)	CETV at 31/3/07 (£'000)	CETV at 31/3/08 (£'000)	Real increase in CETV (£'000)
D R Norgrove (<i>chair</i>)	30-35 plus lump sum of nil	0-2.5 plus lump sum of nil	652	758	23

The pension entitlement shown above is based on the Inland Revenue earnings cap of £112,800.

Executive members

Salary 2007-2008	Performance related 2007-2008	Salary 2006-2007	
£185-190k	Up to 20%	£185-190k	A H Hobman (chief executive)
£135-140k	Up to 20%	£130-135k	J Mulroy (business delivery executive)
£120-125k	Up to 20%	£120-125k	C Massey (strategic development executive) Seconded from the DWP
£120-125k	Up to 20%		S Weatherley (business support executive)

The 2007-2008 salaries figures include accrued performance-related bonuses for all executive directors. C Massey is paid directly by the DWP and his costs are re-invoiced to the regulator.

Executive members' pension benefits

Executive members					
	Accrued pension at age 60 as at 31/3/08 and related lump sum (£'000)	Real increase in pension and related lump sum at age 60 (£'000)	CETV at 31/3/07 (£'000)	CETV at 31/3/08 (£'000)	Real increase in CETV (£'000)
A H Hobman (chief executive)	5-10 plus lump sum of 25-30	0-2.5 plus lump sum of 2.5-5	122	168	27
C Massey (strategic development executive)	15-20 plus lump sum of 55-60	0-2.5 plus lump sum of 2.5-5	207	262	14
J Mulroy (business delivery executive)	15-20 plus lump sum of 0	0-2.5 plus lump sum of 0	297	372	29
S Weatherley (business support executive)	0-5 plus lump sum of 0	0-2.5 plus lump sum of 0	n/a	30	29

The pension entitlement of the chief executive is based on the Inland Revenue's earnings cap of £112,800.

Due to certain factors being incorrect in last year's CETV calculator there may be a slight difference between the final period CETV for 2006-2007 and the start of period CETV for 2007-2008. All CETV figures are obtained from a central government department.

In respect of S Weatherley, employees do not accrue defined benefits in the Civil Service pension scheme until they have been members for two years, before which their entitlement on leaving service is to apply for a transfer value to a personal or stakeholder pension.

Pension benefits are provided through the Civil Service pension arrangements. From 1 October 2002, civil servants may be in one of three statutory based 'final salary' defined benefit schemes (*Classic*, *Classic plus* and *Premium*). The schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under *Classic*, *Classic plus* and *Premium* are increased annually in line with changes in the *Retail Prices Index*. From 31 July 2007, new entrants may choose between membership of *Nuvos* or joining a good quality 'money-purchase' stakeholder arrangement with a significant employer contribution (*Partnership pension account*).

Employee contributions are set at the rate of 1.5% of pensionable earnings for *Classic*, and 3.5% for *Premium*, *Classic plus* and *Nuvos*. Benefits in *Classic* accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For *Premium*, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike *Classic*, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). *Classic plus* is essentially a variation of *Premium*, but with benefits in respect of service before 1 October 2002 calculated broadly in the same way as in *Classic*. *Nuvos* is a career average pension scheme. Benefits are accrued at the rate of 2.3% of pensionable earnings for each year of service. There is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum).

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

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

Cash Equivalent Transfer Values

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

Real increase in CETV

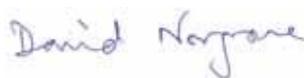
This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation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

Determinations panel

Members of the determinations panel receive a daily allowance in respect of the time devoted by each of them to the work of the panel. The rate for the chair is £650 per diem and for the other members is £500 per diem.

Salary (2007-2008)	Members
£5-10k	G Fitchew, S McCarthy, M Maunsell, D Hayter, O Dickson, D Campbell, D Taylor
£15-20k	J Scampion (<i>chair</i>)

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



David Norgrove
chair, the Pensions Regulator
24 June 2008



Tony Hobman
chief executive, the Pensions Regulator
24 June 2008

7 Statutory accounts and notes to the accounts

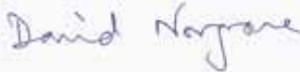
Statement of the board's and chief executive's responsibilities

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

In preparing the accounts, the regulator was required to:

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

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



David Norgrove
chair, the Pensions Regulator
24 June 2008



Tony Hobman
chief executive, the Pensions Regulator
24 June 2008

Statement on internal control

Scope of responsibility

The regulator became operational in April 2005 with its core processes based on those operated by Opra. The regulator's wider range of powers required new processes and associated controls, and by April 2006 the key processes and controls were in place. The areas which had continued under development in 2006-2007, under the auspices of our culture change programme, were completed during 2007-2008.

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

The regulator is accountable to the DWP, within a framework set out in a Management Statement and Financial Memorandum which was initially agreed between the regulator and the Department on 9 December 2005.

The DWP receives reports on performance, finance and risk, primarily through regular review meetings, held in 2007-2008 between myself and a member of the Department's pensions protection and stewardship team. In addition, the chair of the regulator, David Norgrove, has met with the managing director of strategy and pensions, and the chair and myself have also met with the Minister for Pensions Reform.

The *Management Statement and Financial Memorandum* was reviewed in 2007, and principally clarifies the requirements for reporting progress against our business plan.

The purpose of the system of internal control

The system of internal control in the regulator is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control consists of:

- * an ongoing process designed to identify and prioritise the risks to the achievement of the regulator's policies, aims and objectives, to evaluate the likelihood of those risks being realised, and the impact should they be realised, and to manage them efficiently, effectively and economically
- * codes of conduct for board members, staff and contractors, setting out expectations of behaviour, and the policy framework for declaring and managing conflicts of interest, ensuring data protection and information security, countering the risk of fraud, and providing for a system for staff whistleblowing
- * clear standing orders and terms of reference for the board and its committees and for the executive management team and project management committees, and a schedule of financial and regulatory delegations of authority, approved by the board and reviewed at least once per annum
- * a business planning system linking strategic, operational and personal objectives and subject to regular review by the executive management team and quarterly reporting to the board and DWP Steward, using agreed performance indicators
- * an annual budget agreed by the board, developed through close integration with the business planning cycle, subject to monthly management reporting and quarterly review by the board, and with financial controls and a clear system of delegation overseen by the executive director for business support
- * regular reporting to the board of developments across the business, and consultation with board members on key policy issues, including two 'away days' per annum to ensure the board has sufficient time for strategic review and planning
- * detailed business process rules, a consistent standard of documentation, and clear lines of accountability and escalation in respect of regulatory decisions and actions taken
- * a programme of internal audits and a system for progressing implementation of audit recommendations and reporting progress to the audit committee.

The system of internal control has been in place in the regulator for the period ended 31 March 2008 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Statement on internal control continued...

Capacity to handle risk

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

The risk and control framework

Risk management

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

As at 31 March 2008 there were seven strategic risks identified in the risk schedule. The director who was the owner of each strategic risk was responsible for:

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

Some of the risks are fairly generic to any organisation like the regulator, such as those relating to business continuity, staffing or project management. Others were specific to our core business or to changing circumstances. At team level, managers are encouraged to build risk mitigation actions into their workplans, and during the year 2007-2008, a business improvement programme was established, designed to embed a continuous improvement capability across the organisation.

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

Audit committee, 4 April 2007

The committee supported the recommendation to combine Risks 7 and 8 (failure to have the right people in right numbers with right skills, knowledge and behaviours in the right place at the right time; and failure to build a high commitment culture with an engaged workforce) and also agreed that Risks 2 and 3 (customers/markets do not understand the risk based approach; and customers/markets don't buy in to the new regulatory approach) should be considered similarly for merger later in the year.

Audit committee, 3 July 2007

The committee agreed that ownership of Risk 6 (failure of systems and processes to support organisational business requirements) should be re-assigned to the executive director for business support.

Audit committee, 3 October 2007

The committee supported the recommendation to combine Risks 2 and 3.

Audit committee, 16 January 2008

The committee chair recommended that it would be useful to review the system. It had served the organisation well, but had been in operation for around three years, and a review would be useful in view of major *Employer Compliance Regime* developments for personal accounts. It would however be important to retain continuity, so as not to lose the clear and acknowledged benefits of the existing framework.

The audit committee agreed to postpone a risk management internal audit due to the planned review.

Audit committee, 2 April 2008

The committee endorsed the risk schedule and approach during the past year.

Statement on internal control *continued...*

Data security

In accordance with our responsibilities under the Data Protection Act 1998, the regulator has in place various robust and specific arrangements to ensure information security, including a security policy (under ISO27001) that applies to all staff. Other arrangements include secure encryption and confidential storage of data, and the prevention of any unauthorised use of removable media such as unencrypted USB memory sticks and CDs. All removable data on laptops is encrypted and there is a fixed asset register to track the location of items of IT equipment. The regulator has in place encryption standards, and has a standard data wiping process for all obsolete and retired computer equipment. The regulator also operates a clear desk policy, and has on-site shredders and confidential disposal arrangements in place.

Review of effectiveness

As accounting officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review was informed by the work of the internal auditors, and the executive directors and managers within the regulator who had responsibility for the development and maintenance of the internal control framework, and by comments made by the external auditors in their management letter and other reports. I was advised on the implications of the result of my review of the effectiveness of the system of internal control by the board, and the audit committee.

A programme of internal audits was agreed by the audit committee and reported to the committee during the period of this statement. Assurances received were either substantial, or in the case of our financial controls, and our governance processes, full assurance.

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

Significant internal control issues

No significant internal control issues arose during the period to 31 March 2008.



Tony Hobman

chief executive, the Pensions Regulator
24 June 2008

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

I certify that I have audited the financial statements of the Pensions Regulator for the year ended 31 March 2008 under Schedule 1 of the Pensions Act 2004. These comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement and Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Board, Chief Executive and auditor

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

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

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

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

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

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

continued over...

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

Basis of audit opinions

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

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

Opinions

In my opinion:

- * the financial statements give a true and fair view, in accordance with the Pensions Act 2004 and directions made thereunder by the Secretary of State for Work and Pensions, of the state of the Pensions Regulator's affairs as at 31 March 2008 and of its net expenditure for the year then ended;
- * the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Pensions Act 2004 and the Secretary of State for Work and Pensions' directions made thereunder; and
- * information, which comprises the Chief Executive's Report, the pension environment and the regulated community, and the Management Commentary, included within the Annual Report, is consistent with the financial statements.

Opinion on Regularity

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

Report

I have no observations to make on these financial statements.

T J Burr

Comptroller and Auditor General

National Audit Office, 151 Buckingham Palace Road, Victoria, London SW1W 9SS

4 July 2008

Financial statements

Income and Expenditure Account for the year ended 31 March 2008

		Year ended 31 March 2008	Year ended 31 March 2007
	Note	£'000	£'000
Income			
Other income	3	-	174
		-	174
Expenditure			
Staff costs	5	19,351	19,225
Other operating charges	6	10,219	12,695
		29,570	31,920
Net expenditure on ordinary activities		(29,570)	(31,746)
Interest receivable		177	172
Net expenditure for year before notional interest on capital employed		(29,393)	(31,574)
Notional interest receivable on capital employed	2(b)	67	42
Net expenditure for year before tax		(29,326)	(31,532)
Tax on interest receivable	8	(35)	(33)
Net expenditure on ordinary activities after taxation	14	(29,361)	(31,565)
Reversal of notional cost of capital		(67)	(42)
Net expenditure for the financial year		(29,428)	(31,607)

All activities were continuing through the year.

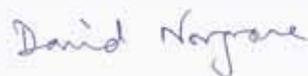
Statement of total recognised gains and losses for the year ended 31 March 2008

		Year ended 31 March 2008	Year ended 31 March 2007
	Note	£'000	£'000
Net expenditure for the financial year		(29,428)	(31,607)
Unrealised gains on revaluation of fixed assets	14	54	19
Total recognised (losses) relating to the year		(29,374)	(31,588)

The accounting policies and notes on pages 82 to 95 form part of these accounts.

Balance sheet as at 31 March 2008

		At 31 March 2008	At 31 March 2007
	Note	£'000	£'000
Fixed assets			
	9		
Tangible assets	2(d)	1,624	1,872
Intangible assets	2(e)	504	499
		<u>2,128</u>	<u>2,371</u>
Current assets			
Debtors	10	590	514
Cash at bank and in hand	19(c)	818	305
		<u>1,408</u>	<u>819</u>
Creditors			
Amounts falling due within one year	11	<u>(4,216)</u>	<u>(4,265)</u>
Net current liabilities			
		<u>(2,808)</u>	<u>(3,446)</u>
Total assets less current liabilities			
		<u>(680)</u>	<u>(1,075)</u>
Creditors			
Amounts falling due after more than one year	11	(250)	(308)
Provisions for liabilities and charges	13	(639)	(855)
Total net liabilities			
		<u>(1,569)</u>	<u>(2,238)</u>
Financed by			
General Reserve	14	(1,569)	(2,238)
		<u>(1,569)</u>	<u>(2,238)</u>



David Norgrove
chair, the Pensions Regulator
 24 June 2008



Tony Hobman
chief executive, the Pensions Regulator
 24 June 2008

Cash Flow Statement for the year ended 31 March 2008

		Year ended 31 March 2008	Year ended 31 March 2007
	Note	£'000	£'000
Net cash outflow from operating activities	19(a)	(28,739)	(33,096)
Interest received		177	172
Tax paid		(35)	(29)
Capital expenditure	9	(933)	(1,177)
Financing	19(b)	30,043	34,404
Increase in cash	19(c)	513	274

The accounting policies and notes on pages 82 to 95 form part of these accounts.

Notes to the Accounts

1 Basis of Preparation

1.1 Basis of accounting

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

2 Accounting policies

a) *Government grants and Grant-in-aid*

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

b) *Notional costs*

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

c) *Other income and expenditure*

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

d) *Tangible fixed assets*

Fixed assets are valued at current replacement cost which is calculated by applying appropriate Office for National Statistics indices to the historical cost of each asset. Any surplus on revaluation of fixed assets is credited to the General Reserve. Any permanent diminution in the value of a fixed asset on revaluation is charged to the income and expenditure account when it occurs. The regulator is required to remit the proceeds of disposal of fixed assets to the Secretary of State.

e) *Intangible fixed assets*

The costs of purchasing major software licences are capitalised as intangible fixed assets. The costs of major software development and enhancement including related consultancy costs are capitalised as tangible fixed assets, although ongoing software maintenance costs are written off in the period in which they are incurred.

f) Depreciation

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

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

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

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

g) Operating leases

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

h) Pension arrangements

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

i) Early retirement costs

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

j) Provision for liabilities

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

3 Other income

	Year ended 31 March 2008 £'000	Year ended 31 March 2007 £'000
DWP payment for gathering data about hybrid pension schemes:	-	57
Charges made for providing a levy collection service:		
- PPF contribution towards running costs	-	60
- PPF payment for Scheme return form change for PPF	-	7
- PPF contribution towards Scheme return 4 development	-	50
	-	174

4 Board members

The chairman and other members of the board of the regulator are appointed under the Pensions Act 2004 by the Secretary of State for Work and Pensions. The chairman was reappointed on a part-time basis from 1 January 2008 for a period of three years. His salary is set by the Secretary of State in line with senior civil servants, and he is a member of the Principal Civil Service Pension Scheme (PCSPS). Other part-time (non-executive) board members are also appointed for periods of between one and four years. The part-time board members were entitled to receive a monthly non-pensionable fee of £867 in 2007-2008 (2006-2007: £833) and out of pocket expenses. Details of the remuneration and pension benefits of the chairman and all other members of the board are given in the Remuneration report on pages 64 to 69. The total costs for the chairman and part-time board members are as follows and these costs are included within other operating charges (Note 6):

	Year ended 31 March 2008 £'000	Year ended 31 March 2007 £'000
Salary/fees	156	160
Social security costs	16	14
Other pension costs (chairman only)	17	17
	189	191

There are no fees waived in favour of a board member's employer (2006-2007: £11,458 plus £2,005 irrecoverable VAT).

5 Staff costs including pensions

	Year ended 31 March 2008 £'000	Year ended 31 March 2007 £'000
Employees		
Salaries and wages	10,547	9,421
Social security costs	909	797
Other pension costs	2,052	1,796
	<u>13,508</u>	<u>12,014</u>
Temporary staff	5,638	6,823
Severance and early retirement costs	205	388
	<u>5,843</u>	<u>7,211</u>
	<u>19,351</u>	<u>19,225</u>
The average number of staff employed, including temporary staff		
Employees	265	252
Temporary staff	63	73
Total	<u>328</u>	<u>325</u>

Details of the remuneration and pension benefits of the board of the regulator are given in the Remuneration report on pages 64 to 69. The staff costs above include the costs of the chief executive and the full-time members of the board.

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

5 Staff costs including pensions *continued...*

For 2007-2008 employers' contributions of £2,056,358 were payable to the PCSPS (2006-2007: £1,785,928) at one of four rates in the range 17.1% to 25.5% of pensionable pay, based on salary bands. The scheme's actuary reviews employer contributions every four years following a full scheme valuation. The contribution rates reflect the benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Employees joining after 1 October 2002 can opt to open a partnership pension account, a stakeholder pension with an employer contribution, and employers contributions of £11,352 (2006-2007: £9,603) were payable to one or more of a panel of three appointed stakeholder pension providers. Employers' contributions are age-related and range from 3% to 12.5% of pensionable pay, and employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £389 (2006-2007: £910), being 0.8% of pensionable pay, were payable to the PCSPS to cover the cost of future provision of lump sum benefits on death in service and ill health retirement of these employees.

The outstanding pensions contributions as at 31 March 2008 equates to £205,639.

6 Other operating charges

	Year ended 31 March 2008 £'000	Year ended 31 March 2007 £'000
Board chairman - includes expenses	134	133
Part-time board members' fees	56	57
Part-time board expenses*	2	1
Consultancy, contracted out and other professional services	4,713	6,492
Training and recruitment costs	973	1,213
Staff travel and expenses	364	379
Depreciation	1,158	1,138
General office expenses including accommodation expenses	1,419	1,545
Dilapidations costs	59	63
Computer systems development and maintenance	602	930
Operating leases including rent	636	654
Devaluation of fixed assets	72	61
Auditor's remuneration	31	29
	10,219	12,695

*This amount includes tax due to the Inland Revenue on expenses incurred of £750 (2006-2007: £926). Costs in the year ended 31 March 2008 included exceptional costs of £1.2m (2006-2007: £6.0m) relating to the continuation of the culture change programme to establish the regulator and provide it with the personnel, systems and procedures necessary to fulfil its wide-ranging remit.

7 Employer Compliance Regime

The year ended 31 March 2008 also included £0.5m of costs to commence the development of the *Employer Compliance Regime* (ECR) which is a component part of the wider *Enabling Retirement Savings Programme* (ERSP). On 16 November 2007, ministers and the DWP confirmed that legislation contained in the Pensions Bill would propose that the regulator should take on the role of maximising employer compliance within its new reforms. Any expenditure on ECR is non-levy funded and is kept separate from funds that support the regulator's current statutory objectives.

8 Tax on interest receivable

	Year ended 31 March 2008 £'000	Year ended 31 March 2007 £'000
UK Corporation Tax at 20% (2006-2007: 20%) on interest receivable	35	33

9 Fixed assets

	Leasehold improvements £'000	Telecoms equipment £'000	Furniture, fixtures & fittings £'000	Office equipment £'000	IT hardware & software £'000	IT software Intangible £'000	Total £'000
<i>Cost:</i>							
At 31 March 2007	1,312	318	650	33	1,190	810	4,313
Transfers	-	-	-	-	131	(131)	-
Additions in period	-	-	4	-	860	69	933
Disposals in period	-	-	-	-	(199)	-	(199)
Revaluations	28	(20)	24	2	(45)	-	(11)
At 31 March 2008	<u>1,340</u>	<u>298</u>	<u>678</u>	<u>35</u>	<u>1,937</u>	<u>748</u>	<u>5,036</u>
<i>Depreciation:</i>							
At 31 March 2007	373	148	243	22	845	311	1,942
Transfers	-	-	-	-	90	(90)	-
Charge for period	191	55	134	4	751	23	1,158
Disposals in period	-	-	-	-	(199)	-	(199)
Reduction in charge arising on revaluations	9	(9)	11	1	(5)	-	7
At 31 March 2008	<u>573</u>	<u>194</u>	<u>388</u>	<u>27</u>	<u>1,482</u>	<u>244</u>	<u>2,908</u>
Net book value at 31 March 2007	<u>939</u>	<u>170</u>	<u>407</u>	<u>11</u>	<u>345</u>	<u>499</u>	<u>2,371</u>
Net book value at 31 March 2008	<u>767</u>	<u>104</u>	<u>290</u>	<u>8</u>	<u>455</u>	<u>504</u>	<u>2,128</u>

The net book value of assets disposed of during the period was nil.

10 Debtors

	31 March 2008 £'000	31 March 2007 £'000
Debtors - Central Government	22	26
- Other	38	80
	<u>60</u>	<u>106</u>
Prepayments - Other	507	386
Other debtors - staff loans	23	22
	<u>590</u>	<u>514</u>

11 Creditors - amounts falling due within one year

	31 March 2008 £'000	31 March 2007 £'000
Taxation on interest receivable	35	33
Deferred income	59	59
Amounts due to suppliers	1,142	1,994
Amount due to HMRC (Tax and NI)	313	-
Accruals - Central Government	614	206
- Other	2,053	1,973
	<u>4,216</u>	<u>4,265</u>

Central Government accruals includes £23,008 due to the PPF, £81,930 due to the DWP, £18,260 due to the Government Actuary Department (GAD), and £491,189 to The Government News Network.

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

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

Creditors - amounts falling due after more than one year

	31 March 2008 £'000	31 March 2007 £'000
Deferred income	250	308
	<u>250</u>	<u>308</u>

12 Operating leases

The regulator occupies an office in Brighton, the lease on which will expire in 2013. Annual commitments for 2007-2008 in respect of leases expiring:

	within 1 year £'000	within 2 to 5 yrs £'000	over 5 years £'000
Land and buildings	-	-	670
Other operating leases	11	6	-
Total	11	6	670

13 Provisions for liabilities and charges

	Early retirement £'000	Severance £'000	Dilapidations £'000	Total £'000
Balance at 31 March 2007	244	397	214	855
Amount provided/(released) in period	13	24	59	96
Utilisation in period	(67)	(231)	(14)	(312)
Balance at 31 March 2008	190	190	259	639

Liabilities and provisions

Early retirement is related to the costs for which the regulator is liable. Severance covers the costs of restructuring. Dilapidations covers the costs for restoring Napier House at the end of the lease.

14 Reconciliation of movements in General Reserve

	31 March 2008 £'000	31 March 2007 £'000
As at 1 April 2007 b/f	(2,238)	(155)
Net expenditure	(29,361)	(31,565)
Grant-in-aid to cover ongoing operations	27,735	21,435
Grant-in-aid to cover initial costs of establishing the regulator	910	6,893
Grant-in-aid to cover initial costs of <i>Employer Compliance Regime</i>	465	-
Grant-in-aid to cover fixed asset purchases	933	1,177
Surplus on revaluations in period	54	19
Notional interest on capital employed (see Note 2b)	(67)	(42)
General Reserve carried forward	<u>(1,569)</u>	<u>(2,238)</u>

15 Capital commitments

Amounts contracted for but not provided in the accounts amounted to nil (31 March 2007: nil). There were no amounts authorised by the board not contracted for.

16 Financial penalties

In the course of the period no financial penalties were imposed (2006-2007: nil) and penalties collected amounted to £8,060 (2006-2007: £5,274). Under section 10(9) of the Pensions Act 1995 the Authority was required to pay the Secretary of State any penalties recovered and therefore such penalties are not included in the accounts.

17 Contingent liabilities

There were no contingent liabilities at 31 March 2008 (31 March 2007: Nil).

18 Contingent assets

A claim has been made against our legal advisers for failing to implement the break clause on three of the floors at Invicta House. Liability has been admitted and the claim is with their insurers.

19 Notes to the Cash Flow Statement

	Year ended 31 March 2008 £'000	Year ended 31 March 2007 £'000	
a) Reconciliation of net expenditure to net cash outflow from operating activities			
Net cash outflow from operating activities			
Net expenditure on ordinary activities	(29,570)	(31,746)	
Depreciation	1,158	1,138	
Devaluation of fixed assets	72	61	
(Increase)/Decrease in debtors	(76)	462	
Increase/(Decrease) in creditors	(107)	(419)	
Increase/(Decrease) in provisions	(216)	(2,592)	
Net cash outflow from operating activities	(28,739)	(33,096)	
	Year ended 31 March 2008 £'000	Year ended 31 March 2007 £'000	
b) Analysis of financing			
Grant-in-aid received from DWP	28,668	22,611	
Grant-in-aid received from Culture change programme	910	11,793	
Grant-in-aid received from DWP in respect of the <i>Employer Compliance Regime</i>	465	-	
	30,043	34,404	
Applied towards purchase of fixed assets	(933)	(1,177)	
Total Grant-in-aid applied towards revenue expenditure	29,110	33,227	
c) Analysis of movement in net funds			
	At 31 March 2008 £'000	Cash flow £'000	At 31 March 2007 £'000
Cash in hand at bank	818	513	305
Total	818	513	305

Cash at bank represented the only funds held at 31 March 2008. All funds are held at HSBC.

20 Related party transactions

The regulator is a Non-Departmental Public Body accountable to the Secretary of State for Work and Pensions. The Department for Work and Pensions (DWP) and the Pension Protection Fund (PPF) are regarded as related parties. During the period, the regulator's transactions with the Department include payment for DWP secondees working at the regulator and IT support services. In total, transactions with the DWP not related to the provision of grant-in-aid totalled £508k. Transactions with the PPF include payment for a PPF secondee working at the regulator and recharges for activities associated with the scheme return. In total, transactions with the PPF totalled £32k. During the period no other related parties, including the regulator's board members, key management staff and PADA, had undertaken any material transactions with the regulator.

21 Financial Instruments

FRS 13, Derivatives and Other Financial Instruments, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the non-trading nature of its activities and the way it is financed, the regulator is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of listed companies to which FRS 13 mainly applies. The regulator has very limited powers to borrow or invest funds. Financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the regulator in undertaking its activities.

Liquidity risk

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

Interest rate risk

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

Foreign currency risk

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

22 Events after the Balance sheet date

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

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

The authorised date for issue is 4 July 2008.

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