

The Pensions
Regulator 

Annual report

17 December 2004 to 31 March 2005

Foreword

The Pensions Regulator launched on 6 April 2005, only four months after the Pensions Act 2004 received Royal Assent. New wider powers brought an immediate flow of work to the regulator, which was ably carried out with no major problems and to the benefit of pension scheme members – a tribute to staff at the Pensions Regulator, the Department for Work and Pensions, and also to all those in the pensions world who offered help and advice in the creation of the new organisation.

The work done then and since, together with the appointment of a strong team of executive and non-executive directors, should give people confidence that the regulator is increasingly well equipped to achieve its objectives of protecting members' benefits and reducing the risk of claims on the Pension Protection Fund.

The blueprint on which the Pensions Regulator is founded, has at its heart a risk-based, flexible and proportionate approach to protecting members' benefits and driving up standards of governance and administration. It also encompasses four key organisational values – being professional; working in partnership; providing excellent customer service and achieving worthwhile results.

This model served as the basis for initial but highly productive board discussions on our strategic priorities for the year ahead. We look forward to detailing in next year's annual report how the executive team and the staff of the Pensions Regulator have taken this work forward in support of our statutory objectives – a challenge we do not underestimate, but relish nevertheless.



Tony Hobman
chief executive



David Norgrove
chair

The Pensions Regulator

The Pensions Regulator was established under provisions of the Pensions Act 2004 (the Act). It is an executive non-departmental public body, accountable to the Secretary of State for Work and Pensions. The Act 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; and
- to promote, and to improve understanding of, the good administration of work-based pension schemes.

Whilst the organisation commenced operations on 6 April 2005, it was brought into being by a Commencement Order¹ with effect from 17 December 2004. This report provides a summary of activity during the period 17 December 2004 to 31 March 2005 and a statement on the accounts.

The Pensions Regulator supersedes the Occupational Pensions Regulatory Authority (Opra) which was dissolved with effect from 5 April 2005. Under the provisions of the Act, the Pensions Regulator inherits Opra's assets and liabilities, as well as residual duties and powers.

However, the Pensions Act 2004 also gives the new regulator a significantly wider range of powers. This has necessitated a major programme of work, under the governance of the Department for Work and Pensions (DWP), to design and build business processes for the new organisation, and to plan and implement the transition and hand-over of key business processes from Opra.

During the period covered by this report, whilst the Pensions Regulator had legal existence, it was not operational and had no funds of its own: its activities were encompassed within the Pensions Regulator programme which was funded directly by the DWP within a formal governance and control structure.

The funding, design, integration and delivery of the development activity required to ensure the Pensions Regulator met the requirements of the Pensions Act 2004 was the overall responsibility of the Pensions Regulator programme's Joint Protection Steering Group. Additional control structures below the steering group provided change control management, business sponsorship and delivery accountability, as appropriate.

For this reason, and under an accounts direction issued by the Secretary of State for Work and Pensions on 2 August 2005, the requirement to produce accounts under the Pensions Act 2004 is satisfied by the inclusion in this report of a narrative statement, confirming that there were no financial transactions or balances to report for the period.

¹ SI 2004/3350 The Pensions Act 2004
(Commencement No 1 and Consequential and Transitional Provisions) Order 2004

Board appointments

Section 2 of the Act sets out the membership of the board as follows:

- The chair (to be appointed by Secretary of State)
- The chief executive
- At least five other persons appointed by Secretary of State after consulting with the chair
- At least two of the members must be executive, but non-executive members must be in the majority

Chair

David Norgrove was appointed as chair of the Pensions Regulator by the Secretary of State for Work and Pensions on 1 January 2005 following an open and competitive selection process.

David Norgrove's career, spanning both the public and private sectors, 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. Whilst at Marks & Spencer, he was chair of the pension fund trustees from 2000 until his retirement in 2004.

Chief executive

Tony Hobman, chief executive of Opra, was appointed by the Secretary of State for Work and Pensions on 1 July 2004 as chief executive designate of the Pensions Regulator, becoming chief executive with effect from 6 April 2005.

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 Opra – this appointment expired on 5 April 2005 with the dissolution of Opra.

Board appointments *...continued*

Non-executive members of the board

Following an open and competitive selection process, non-executive members of the board were appointed as follows:

David Norgrove - as chair	(1 January 2005 - 1 January 2008)
Laurie Edmans	(8 February 2005 - 7 February 2008)
Alan Pickering	(8 February 2005 - 7 February 2009)
Chris Swinson	(8 February 2005 - 7 February 2009)
Caroline Thompson	(8 February 2005 - 7 February 2009)
Roger Walsom	(8 February 2005 - 7 February 2008)

Executive directors

Following an open and competitive selection process, three interim executive directors were appointed:

Mark Eade	(business support - from 25 February 2005)
June Mulroy	(delivery - from 28 February 2005)
Richard d'Souza	(strategic development - from 28 February 2005)

A further open selection process was held after the period of this report and three permanent executive directors were appointed on 7 June 2005.

Board activity

During this period, formal board meetings were held on 8 February and 8 March 2005. The board agreed standing orders and delegations of authority and established the following committees:

- a non-executive committee
- an audit committee
- a remuneration committee

None of these committees met during the period of this report.

Non-executive committee

The non-executive committee is established under section 8 of the Pensions Act 2004. The committee's functions are to:

- review the regulator's internal financial controls; and
- determine the terms and conditions of remuneration of the chief executive.

The committee is also required to prepare a report on the discharge of its functions for inclusion in the Pensions Regulator's annual report. For the purposes of this report, the committee has not reported formally, as there were no financial transactions in the period. The committee consists of all non-executive members of the board. The non-executive committee agreed to delegate the first of the above functions to the audit committee, and the second to the remuneration committee.

Audit committee

The audit committee was established as a sub-committee of the non-executive committee, to advise the non-executive committee and the board on:

- the strategic processes for risk management, internal control and governance and the Statement on Internal Control;
- the accounting policies, the accounts and the annual report of the organisation, including the process for review of the accounts prior to their submission for audit, the levels of error identified, and management's letter of representation to the external auditors;
- the planned activity and the results of both internal and external audit;
- the adequacy of management responses to issues identified by audit activity, including external audit's management letter;
- assurances relating to the corporate governance arrangements for the organisation;
- the effectiveness and independence of the external auditor and internal audit service; and
- proposals for tendering internal audit services or for the purchase of non-audit services from contractors who provide audit services.

The following non-executive members of the board were agreed as members of the audit committee:

Chris Swinson (chair)

Laurie Edmans

Alan Pickering

Board activity *...continued*

Remuneration committee

The remuneration committee was established as a sub-committee of the non-executive committee, with the following terms of reference:

- Following the terms and conditions set by the Secretary of State as to the remuneration of the chief executive, the committee will review and determine any subsequent payments of base salary, bonus and any other components. This should take account of his performance against agreed objectives, pay levels for relevant comparable public and private sector roles, and pay increases awarded to Pensions Regulator staff.

In addition, the committee is asked to:

- determine similarly the pay of the executive directors; and
- monitor the development of the overall Pensions Regulator's reward strategy.

The following non-executive members of the board were agreed as members of the remuneration committee:

Caroline Thompson (chair)

Roger Walsom

During the period, the board also met for a day and a half in March to consider factors influencing the pensions environment, key regulatory risks and to discuss the basis of its year one regulatory strategy.

Determinations panel

Section 9 of the Act requires the Pensions Regulator to establish a Determinations Panel. Following an open and competitive selection process, John Scampion was appointed as chair of the panel for the period of 6 April 2005-5 April 2009. Subsequently, the panel chair organised a similar process to select panel members and the following members were appointed for the period 6 April 2005-5 April 2008:

Michael Maunsell

Duncan Campbell

Daniel Taylor

Suzanne McCarthy

Dianne Hayter

Geoffrey Fitchew

Olivia Dickson

Internal controls

As detailed on page 3, the Pensions Regulator development programme was under the governance of the DWP's programme management framework for the period of this report. The Pensions Regulator itself undertook no financial transactions.

As part of the Pensions Regulator development programme therefore, specifications were drawn up for the internal audit service, and the tender process for appointing an internal auditor was begun, with the appointment subsequently made in the following financial year.

During the period, the executive team began development of a risk management framework. Details of this framework, together with the overall approach to internal control subsequently adopted for live running, will be covered in the report and accounts for the period 2005-2006.

The executive team also reviewed, in consultation with the DWP, the draft letter appointing the chief executive as accounting officer, and a draft management statement and financial memorandum, governing the Pensions Regulator's relationship with DWP in its stewardship capacity, and setting out reporting requirements in relation to accounts, business plans, performance monitoring and annual reports.

The executive team worked with colleagues in the DWP and the Pension Protection Fund, to develop a tripartite memorandum of understanding (MoU). The MoU establishes communication and governance arrangements between the three bodies and was agreed and published in July 2005.

Statement on Accounts

During the period to 31 March 2005, the Pensions Regulator undertook no financial transactions on its own account. The formation activities described in the annual report were financed by the DWP as what the Pensions Act 2004 defines as 'establishment costs'. These establishment costs will be included in the 2004/2005 resource accounts of the DWP which will be certified by the Comptroller & Auditor General and laid before Parliament.

In addition certain members of Opra staff worked on the programme to establish the Pensions Regulator either on a full-time or a part-time basis. The costs of these members of staff are included in the Opra accounts for 2004/2005, which were certified by the Comptroller & Auditor General with an unqualified audit opinion on 11 July 2005 and were laid before Parliament.

Establishment costs

The Pension Schemes Act 1993, as amended by the Pensions Act 2004, empowers the Secretary of State to recover the costs incurred by DWP on the establishment of the Pensions Regulator by means of imposing a General Levy on eligible pension schemes. The Secretary of State intends to recover these establishment costs over a three-year period by including appropriate sums when setting the General Levy for the years 2005/2006, 2006/2007 and 2007/2008.

The establishment costs financed by the DWP included expenditure on:

- creating the human resource infrastructure, including the search and selection of board members (both executive and non-executive), salaries and other remuneration during the formation period, and initial training and induction;
- developing the policy and process infrastructure, including obtaining professional advice on the design and development of risk-based regulatory processes, on the information requirements to support the regulatory approach, on communication with pension schemes and scheme advisers and on interfaces with other public bodies including the Pension Protection Fund (PPF);
- design of the IT infrastructure for the Pensions Regulator and implementation of the external website for the launch; and
- the salaries and other costs of DWP staff on policy design and development, and on project management.

Statement on Accounts *...continued*

In January 2005 the Pensions Regulator contracted to take on a lease on a new building. The assignment of this lease to the Pensions Regulator in accordance with the terms of this contract took place after 6 April 2005. No amounts were payable under the terms of this lease on or before 5 April 2005. Costs of legal and other professional advice in relation to the lease acquisition incurred before 6 April 2005 were met by Opra and were included in the Opra accounts for 2004/2005.

On the dissolution of Opra on 6 April 2005, in accordance with an Order² made under section 300 of the Pensions Act 2004, all property, rights and liabilities of the Authority transferred to the Pensions Regulator and all employees of the Authority became employees of the Pensions Regulator.

² SI 2005/695 The Pensions Act 2004
(Commencement No.3, Transitional Provisions and Amendment) Order 2005

Events after 31 March 2005

The following significant events have taken place since 31 March 2005.

- The transfer of Opra assets and liabilities to the Pensions Regulator on 6 April 2005 including leasehold property, fixtures and fittings, IT hardware, software licenses and IT systems constructed or in the course of construction.
- Commencement of the collection of the General Levy and PPF Administration Levy on behalf of the Secretary of State and the Initial Levy on behalf of the PPF including invoicing of schemes, receipt of payments and onward transmission to the DWP or PPF.
- The Pensions Regulator drawing down grant-in-aid from the DWP to fund its operating costs. The Pension Schemes Act 1993, as amended by the Pensions Act 2004, empowers the Secretary of State to recover these grants by means of the imposition of a General Levy on eligible pension schemes.
- Agreement in principle that the Pensions Regulator will draw down programme funding from the DWP to complete the implementation phase of the Pensions Regulator development programme. In particular, this will cover the development and deployment of further IT systems to meet business requirements and interventions to achieve changes to the culture of the Pensions Regulator.

Any financial transactions and resulting balances arising from these events will be fully disclosed in the Pensions Regulator's accounts for the year ended 31 March 2006.

Accounts to 31 March 2006

The Pensions Regulator's administration accounts to 31 March 2006 will comprise an income and expenditure account for the year, a balance sheet as at 31 March 2006, a cash-flow statement and notes. The accounts will comply with Treasury guidance on non-departmental public body accounts and will meet the accounting and disclosure requirements of the Companies Acts insofar as those requirements are relevant to the Pensions Regulator.

The Pensions Act 2004 requires the Pensions Regulator's accounts to be certified by the Comptroller & Auditor General and laid before Parliament.

We can produce this report in Braille, in large print or on audiotape. We can also produce it in other languages.

On 6 April 2005 the Pensions Regulator replaced Opra as the UK regulator of work-based pensions.

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