

# **Business plan 2006-2007**

This business plan covers the financial  
year April 2006 to March 2007

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## 1.0 Chair's and chief executive's foreword

This document sets out our annual plan for the financial year 2006-07.

In April 2005 the Pensions Regulator commenced operations, having been established under the Pensions Act 2004. It is an executive non-departmental public body, accountable to the Secretary of State for Work and Pensions. The Act gives the regulator four objectives:

- to protect the benefits of members of occupational pension schemes;
- to protect the benefits of members of work-based personal pension 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.

Our first year of operations, 2005-06, was one of transition. Key achievements in 2005-06 included:

- building the new regulator. We have made good progress in embedding new ways of working, including organisational change and new risk-based processes;
- establishing new processes for clearing and investigating corporate transactions involving employers with defined benefit schemes;
- developing a framework for the regulation of the funding of defined benefit schemes;
- drafting and consulting on 11 codes of practice, some with supporting guidance, of which three have been issued, four are laid before Parliament due to come into force in May 2006, and the remaining four are being revised following consultation. These codes of practice give practical guidelines to trustees and others;
- developing a framework for trustee knowledge and understanding and issuing the first modules of our e-learning programme to enable trustees to obtain the required knowledge and understanding; and
- issuing our first major consultation document on our approach to scheme funding.

Further information on the regulator in 2005-06 will be in our annual report.

Our focus in future years is defined by our medium term strategy. This sets out our principal challenges over the next three years as being:

- to strengthen the funding of defined benefit schemes;
- to improve the governance of work-based pension schemes; and
- to reduce the risks to members of work-based defined contribution pension schemes.

This plan provides a relatively brief summary of the nature and relevance of these challenges. More detail on them and our approach to regulation, is set out in our medium term strategy.

Our focus will be aligned to our four strategic themes for 2006-07, the first three of which seek to address directly, the key challenges we identify within our medium term strategy. The fourth theme relates to the way in which we discharge our responsibilities for good governance, maintain our links with key stakeholders and develop our operational capability overall so as to support the delivery of risk-based regulation. Each theme translates our objectives into more specific indicators of success against, which the outcomes the regulator intends to secure in 2006-07 can be aligned.

Under themes one, two and three, the outcomes we are aiming for in 2006-07 are closely aligned to the key performance indicators set out in the medium term strategy. The outcomes under theme four are closely aligned with our strategic risk framework (see 2.5 below). We have identified more specific performance indicators for the measurement of achievement against each outcome, and have identified the principal activities for 2006-07 that should contribute to the achievement of those outcomes.

The outcomes and performance indicators in the business plan drive the 2006-07 detailed operational planning for the regulator, which is now complete. All the regulator's activities for the coming year, both business as usual and developmental, are aligned against the relevant performance indicator and articulated in our operational plans. The activities are covered in greater detail within these plans than here in the business plan and include more numerical indicators such as timeframes by quarter, deliverables, targets and volumes.

Our first 12 months of operation have given us a strong platform on which to build as we face up to the undoubted challenge of the year ahead.

Our 2006-07 business plan shows how we will deploy our resources and what we are seeking to achieve as a result. As ever our overriding goals are to achieve worthwhile regulatory outcomes and to do so in a way that is efficient in its use of resources and which ensures we work in close partnership with the regulated community.

David Norgrove

Tony Hobman

Chair

Chief executive

## **2.0 Strategic themes, outcomes and activities**

The four themes are set out below.

In subsequent pages each theme is considered in detail as well as tables which show:

- the outcome from the regulator's medium term strategy, which is relevant to each theme (for themes 1 to 3);
- performance indicators against which our progress in 2006-07 towards these medium term outcomes can be measured; and
- the key activities in 2006-07 which will support our achievement of the themes.

How we intend to measure whether each outcome has been achieved is articulated through a series of performance indicators.

### **Theme 1: Strengthen scheme funding**

Medium term outcome:

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

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

### **Theme 2: Improve the governance of work-based pensions**

Medium term outcome:

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).

### **Theme 3: Understand and address the risks to DC schemes within the risk-based regulatory environment**

Medium term outcome:

Trustees and others involved in running defined contribution (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 those risks.

### **Theme 4: Deliver effective risk-based regulation relevant to our environment and stakeholders**

Short term outcomes:

- the regulator has the right people, in the right numbers, with the right skills, knowledge and behaviours in the right place at the right time. A high commitment culture and an engaged workforce is built and maintained;
- the regulator's customers/market understand what the regulator expects of them and buy into the new regulatory approach;
- regulated community consider the Pensions Regulator's risk-based regulation to be effective and in line with better regulation task force (BRTF) principles;
- relationships with Government partners, the Pension Protection Fund (PPF), other regulators, the European Commission (EC) and other external stakeholders are effective and maintained; and
- operational systems and processes to support organisational requirements, corporate governance and management controls are fit for purpose. Operational readiness is achieved.

## 2.1 Theme 1: Strengthen scheme funding

For a number of reasons many defined benefit pension schemes have in recent years developed funding deficits. These are substantial: estimated at £90-130 billion measured on an FRS17 basis.<sup>1</sup>

The outcome we are seeking in the medium term is that schemes will have effectively implemented the scheme specific framework, which replaces the minimum funding requirement (MFR). This will mean that schemes will be fully funded to the level of their technical provisions on the basis of prudent assumptions specific to the scheme, or will be on a well-defined and achievable course towards reaching this level. We therefore expect that schemes will become progressively better funded over time.

We fully recognise the need to be sensitive to those sponsoring employers who cannot readily afford to eliminate their deficits. The best protection of members' benefits is usually an ongoing scheme with an ongoing employer. Furthermore, we recognise that there may be other influences within the market, affecting assets or liabilities that could push schemes off course.

Schemes are only required by law to start the valuation and recovery plan agreement process at the first triennial valuation after September 2005, and generally have 15 months to complete the process. Relatively few schemes will have completed this process within the plan period. Before then, we will be seeking to influence, guide and educate trustees and employers about their new duties and what we expect of them. We will also be keen to help trustees and employers tackle problems and develop robust funding plans and recovery plans that do not necessitate regulatory intervention. In doing so, we will wish to engage with those schemes that pose the highest risk to members' benefits and to the PPF.

Our regulatory framework for the clearance of corporate transactions whose employers have defined benefit schemes also contributes to reducing these risks and strengthening scheme funding.

By focusing on improving and strengthening scheme funding, we will be contributing to the Pensions Regulator's objectives of protecting members' benefits and reducing the risk of situations that lead to calls on the PPF.

Where performance indicators are measured by surveys, please see Appendix A for further detail.

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<sup>1</sup> Source: *The Pensions Regulator estimates (made in August 2005) based on Mercer HRC Retirement Financial Management Statistics (April 2005)*

<b>Strengthen scheme funding</b>		
<b>Medium term outcome</b>	<b>Performance indicators</b>	<b>Activities</b>
<p>DB schemes will have completed scheme specific funding valuations, and those with deficits will have agreed recovery plans. These will be based on:</p> <ul style="list-style-type: none"> <li>• prudent assumptions for valuing the assets needed to cover the liabilities as they fall due; and</li> <li>• an appropriate recognition within the recovery plan of the risks to members, taking account of what is reasonably affordable for employers.</li> </ul>	<p>Trustees have an understanding of the requirements of the scheme funding framework as measured by the annual perceptions tracker survey.</p> <p>Employers, trustees and their advisers (auditors, actuaries, IFAs, lawyers, third party administrators, professional trustees) have an improved understanding of the regulator's powers and stance in relation to clearance and anti-avoidance powers as measured by the annual perceptions tracker survey.</p> <p>The regulator will have established and maintained active contact with those schemes in the FTSE 100 companies and all large schemes whose valuation is due during the period of this business plan.</p> <p>Customers are satisfied with the contact they have had with the Scheme Specific Funding and Corporate Risk Management (clearance) teams as measured by the corporate risk management and scheme specific funding tracker surveys, both of which report monthly, with an aggregate score of overall service not falling below six out of 10 (the SSF tracker survey will start later in the 06-07 year as the customer base increases).</p> <p>Teams in this area have the right staff with the right skills to deal with and understand corporate transactions, solvency issues and company legislation:</p> <ul style="list-style-type: none"> <li>• 80 per cent, or above, of staff are appraised as effective in their annual reward discussion; and</li> </ul>	<p>Take actions to influence trustees, employers and their advisers to implement the new scheme funding framework in a way that is consistent with our understanding of what is needed to protect members and the PPF, by:</p> <ul style="list-style-type: none"> <li>• communicating the regulator's approach to scheme funding through a published regulator's statement and associated communications, workshops etc (starting 1st quarter 06-07 and ongoing); and</li> <li>• working with individual schemes preparing their valuations to encourage the development of a shared understanding (starting 1st quarter 06-07 and ongoing).</li> </ul> <p>Develop and implement the processes for filtering schemes needing attention, reviewing recovery plans and taking action where trustees and employers fail to agree (ongoing across 06-07).</p> <p>Establish regular contact with the FTSE 100 companies and large multi employer schemes (complete 2nd quarter 06-07).</p> <p>Develop and implement operational policy and procedures for dealing with MFR transitional cases.</p> <p>Working with the PPF, review case experience and undertake environmental scanning so as to develop a greater understanding of future risks to the PPF and to members' benefits (ongoing across 06-07).</p> <p>Review developments in scheme funding (ongoing across 06-07) and put strategies in place to respond to developments, eg the secondary market for pension liabilities (complete 2nd quarter 06-07).</p>

<b>Strengthen scheme funding</b>		
<b>Medium term outcome</b>	<b>Performance indicators</b>	<b>Activities</b>
	<ul style="list-style-type: none"> <li>the percentage of vacancies to the required workforce at any point during the year is below 10 per cent for Corporate Risk Management team and below 20 per cent for Scheme Specific Funding team.</li> </ul>	<p>Continue to provide rapid and effective clearance processes, and develop a process for identifying high-risk transactions that haven't come for clearance (ongoing across 06-07).</p> <p>Establish approval and withdrawal arrangements for multi-employer schemes (complete 1st quarter 06-07).</p> <p>Develop the relevant codes and guidance and supporting e-learning products so that trustees are better able to negotiate effectively with employers and work within the new regulatory framework (ongoing across 06-07).</p> <p>Determinations Panel to set a prudent level of funding for schemes, where necessary, where an agreement between the trustees and employers has not been reached (starting 3rd quarter 06-07 and ongoing).</p>

## **2.2 Theme 2: Improve the governance of work-based pensions**

Well-governed pension schemes are likely to be better administered, have greater awareness of financial risk, and therefore properly represent the interests of scheme members. By improving governance we will be contributing to the longer term achievement of all our objectives. It is, however, particularly relevant to our statutory objective of promoting and improving understanding of the good administration of work-based pension schemes.

In the coming year we will seek to improve the knowledge and understanding of trustees through support, access to e-learning and codes of practice. In addition, the regulator seeks to influence scheme advisers. As well as strengthening the ability of existing trustees, our goal is to do this in a way that helps sustain the future supply of trustees. We will also work to improve the guidance available to trustees in relation to key issues such as conflicts of interest and look to improve the quality of disclosure to members.

Many of the problems that are drawn to our attention through whistleblowing relate to problems of governance and our risk-based response to these should contribute to improving governance in schemes overall and help us identify where further guidance is needed more generally.

Where performance indicators are measured by surveys, please see Appendix A for further detail.

<b>Improve the governance of work-based pensions</b>		
<b>Medium term outcome</b>	<b>Performance indicators</b>	<b>Activities</b>
<p>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).</p>	<p>Self assessment of trustee knowledge and understanding by trustees shows improvement on the last annual governance survey results (interviews held between January and March 2006):</p> <ul style="list-style-type: none"> <li>• how assets are invested (24 per cent are very well equipped);</li> <li>• provisions of the scheme rules (28 per cent are very well equipped);</li> <li>• how schemes are funded (DB schemes only) (36 per cent are very well equipped); and</li> <li>• role of scheme trustees (43 per cent are very well equipped).</li> </ul> <p>Self assessment of standards of governance by trustees shows improvement on the last annual governance survey results (interviews held between January and March 2006):</p> <ul style="list-style-type: none"> <li>• the board of trustees works as an effective unit (74 per cent strongly agree);</li> <li>• the board of trustees conducts effective negotiations with the employer (70 per cent strongly agree);</li> <li>• the board of trustees understands roles and responsibilities (68 per cent strongly agree);</li> <li>• the board of trustees follows good governance practice (67 per cent strongly agree);</li> <li>• the board of trustees regularly reviews investment strategy (62 per cent strongly agree);</li> </ul>	<p>Develop strategy for governance and take forward those elements identified as having sufficient priority, probably with a consultation paper on our approach. This will pull together all the Pensions Regulator’s work on governance (complete 4th quarter 06-07).</p> <p>Conduct further environmental scanning to ascertain the extent and nature of governance issues and to broaden the baseline for measuring trustee knowledge and understanding (1st quarter to 3rd quarter 06-07). This would include:</p> <ul style="list-style-type: none"> <li>• setting up trustee audience research panels/consumer panels;</li> <li>• conducting the annual governance survey (complete 4th quarter 06-07).</li> </ul> <p>Refine and implement operational policy and procedures to address significant risks to good scheme administration and governance.</p> <p>In particular, appoint independent trustees or prohibit trustees where appropriate, and maintain our trustee register to ensure that an adequate supply of appropriately skilled independent trustees is available through our register (ongoing across 06-07).</p> <p>Where appropriate, develop and review relevant codes and guidance in light of survey results and the Pensions Regulator’s experience (breaches, whistleblows, etc), and consider whether new codes are needed.</p> <p>Deliver e-learning covering the basic knowledge and understanding required by trustees, and review alignment of existing guidance with the new products (starting 2nd quarter 06-07).</p>

<b>Improve the governance of work-based pensions</b>		
<b>Medium term outcome</b>	<b>Performance indicators</b>	<b>Activities</b>
	<ul style="list-style-type: none"> <li>• the board of trustees actively monitors service providers and professional advisers (55 per cent strongly agree);</li> <li>• the board of trustees reviews the scheme rules at regular intervals and updates these as required (55 per cent strongly agree);</li> <li>• the board of trustees has identified potential risks (47 per cent strongly agree);</li> <li>• the board of trustees has internal controls to manage risks (45 per cent strongly agree);</li> <li>• the board of trustees ensures a high standard of member communications (36 per cent strongly agree); and</li> <li>• the board of trustees has appropriate processes in place to manage conflicts of interest (35 per cent strongly agree).</li> </ul> <p>Please also see the following PI aligned under theme 4:</p> <p>Level of satisfaction with the regulator's products (codes and guidance) shows improvement on the 2005 annual perceptions tracker survey results:</p> <ul style="list-style-type: none"> <li>• The Pensions Regulator is a trusted source of information (gross agreement: 74 per cent);</li> <li>• The Pensions Regulator providing codes of practice (gross 'good' rating: 51 per cent);</li> <li>• The Pensions Regulator providing guidance - notes, at a glance guides etc (gross 'good' rating: 48 per cent).</li> </ul>	<p>Work with the Department for Work and Pensions and the accounting profession, including the Pensions Research Accountants Group (PRAG), to review and develop the regulation and guidance in respect of information provided by scheme trustees in their annual reports and accounts (complete 3rd quarter 06-07).</p>

### **2.3 Theme 3: Understand and address the risks to DC schemes within the risk-based regulatory environment**

In terms of regulatory scope, our responsibilities arise in respect of trust-based DC arrangements and work-based group personal pensions and stakeholder pensions.

DC arrangements involve a number of different risks from those faced by members of DB arrangements.

The key risks relate to the complex administration needed to deliver the right benefits while keeping costs down, the effective investment of the default fund and members' understanding of what they are entitled to and how to exercise choice. In general, the administration of DC arrangements is complex for both members and providers and this has direct consequences for our regulatory response.

The extent to which trustees, their advisers, employers and providers are involved in mitigating risk, varies according to the type of scheme, but our regulatory strategy will need to engage with all these groups.

This theme contributes to the achievement of the Pensions Regulator's statutory objectives of protecting the benefits of members of occupational and work-based personal pensions, and of ensuring the good administration of pension schemes.

The Pensions Regulator will design and implement a risk-based strategy for DC risks and develop interventions designed to mitigate the key risks identified and to do so in a way which makes most effective use of our resources. The focus of this strategy will be on building understanding within the industry of the risks and the steps they should be taking to mitigate them. Scheme-level interventions will be taken only as far as is justified by the risk to members' benefits.

Addressing risks to members of DC schemes will involve working in partnership with the Department for Work and Pensions (DWP) – developing thinking on encouraging improved understanding and take-up of private pensions – and the Financial Services Authority (FSA) – the sale and disclosure requirements on group personal pensions and stakeholder pensions are regulated by the FSA – as well representative groups within the industry. This is very much a shared agenda.

We aim to consult on our approach to addressing the risks to members of DC schemes in the second or third quarter of 2006-07.

Where performance indicators are measured by surveys, please see Appendix A for further detail.

<b>Understand and address the risks to DC schemes within the risk-based regulatory environment</b>		
<b>Medium term outcome</b>	<b>Performance indicators</b>	<b>Activities</b>
<p>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 those risks.</p>	<p>Feedback on the consultation on DC risks indicates we have identified correctly the key risks and proposed an appropriate plan to mitigate those risks.</p> <p>The regulator has enhanced its risk-based processes to more effectively address DC risks. This will include:</p> <ul style="list-style-type: none"> <li>• Issuing consultation document on our proposed approach to risk-based processes;</li> <li>• Codes relevant to DC: <ul style="list-style-type: none"> <li>○ Reporting breaches of the law</li> <li>○ Reporting late payment of contributions to personal pensions</li> <li>○ Reporting late payment of contributions to occupational money purchase schemes</li> <li>○ Member-nominated trustees and directors</li> <li>○ Trustee knowledge and understanding</li> <li>○ Reasonable periods for the purposes of the Occupational Pension Schemes (Disclosure of Information) Regulations 2006</li> <li>○ Early leavers - reasonable periods</li> <li>○ Internal controls; and</li> </ul> </li> <li>• Documentation and implementation of the policies and procedures for dealing with events on DC schemes by customer support, triage and pensions administration and governance teams.</li> </ul> <p>Self assessment by trustees shows they are aware of the general risks facing DC schemes, as measured by the annual governance survey.</p>	<p>Refine our DC strategy by conducting environmental scanning to identify and where possible quantify the risks facing DC schemes, including awareness by trustees of the changes required by pensions simplification on A Day 2006 (ongoing across 06-07).</p> <p>Issue a consultation paper on our strategy for addressing DC risks (2nd quarter to 3rd quarter 06-07).</p> <p>Implement DC risks strategy (ongoing across 06-07). Supported by:</p> <ul style="list-style-type: none"> <li>• communications to promote industry understanding (ongoing across 06-07);</li> <li>• risk-based interventions as appropriate; and</li> <li>• partnership developed with the FSA and other industry bodies to address DC risks (ongoing across 06-07).</li> </ul> <p>Research and consider scheme amalgamation issues and consider options for refining our regulatory approach (complete 4th quarter 06-07).</p> <p>Work in partnership with the DWP to inform the design of any new pension arrangements, from a regulatory perspective, as a result of the Pensions Commission's Second Report (ongoing across 06-07).</p>

**2.4 Theme 4: Deliver effective risk-based regulation relevant to our environment and stakeholders**

The intensity with which we regulate categories of individual pension schemes will be based primarily on the risk that they pose to our statutory objectives. This is in order, first, to maximise effectiveness of our resources, given the practical limits of our operational capacity. Second, it is to help us strike the right balance between meeting our objectives and not putting unnecessary burdens on well-run pension schemes. Effective risk-based regulation must be cost effective both for the schemes we regulate and for the regulator itself.

Given our statutory obligations to it, we will continue to work closely with the PPF and to adhere to our memorandum of understanding and associated agreements. We will also seek to maintain and build links with other stakeholders.

We intend to regulate consistently with the Better Regulation Task Force’s principles of good regulation.

To be able to deliver effective risk-based regulation we need effective arrangements to ensure that we have the right staff with the right skills and for governance, covering aspects such as risk management and performance measurement.

This theme will contribute to the achievement of all four of the Pensions Regulator’s statutory objectives.

Where performance indicators are measured by surveys, please see Appendix A for further detail.

<b>Deliver effective risk-based regulation relevant to our environment and stakeholders</b>		
<b>Outcome</b>	<b>Performance indicators</b>	<b>Activities</b>
The regulator has the right people, in the right numbers, with the right skills, knowledge and behaviours in the right place at the right time. A high commitment culture and an engaged workforce is built and maintained.	<p>An increased proportion of staff deemed as fully effective for their roles.</p> <p>Percentage of vacancies to the planned workforce, by executive function, at any point during the year is below 15 per cent.</p> <p>Improved levels of staff morale as measured by the six monthly staff survey and over 50 per cent of staff rate their satisfaction as good or above.</p>	<p>Embed and sustain the flexible and mixed resourcing model – see also 5.1 below (ongoing across 06-07).</p> <p>Ensure timely recruitment of skilled and motivated staff (ongoing across 06-07).</p> <p>Embed and sustain the regulator’s performance development approach to all staff throughout 2006-07 – see also 4.1 below (ongoing across 06-07).</p> <p>Pilot Business Skills Advanced Diploma training programme (1st to 4th quarter 06-07).</p>

<b>Deliver effective risk-based regulation relevant to our environment and stakeholders</b>		
<b>Outcome</b>	<b>Performance indicators</b>	<b>Activities</b>
<p>The regulator's customers/market understand what the regulator expects of them and buy into the new regulatory approach.</p>	<p>An increased proportion of the regulator's customers/market consider that the regulator is a trusted source of information, as measured by the annual perceptions tracker survey.</p> <p>Level of satisfaction with the regulator's products (codes and guidance) shows improvement on the 2005 annual perceptions tracker survey results:</p> <ul style="list-style-type: none"> <li>• The Pensions Regulator is a trusted source of information (gross agreement: 74 per cent);</li> <li>• The Pensions Regulator providing codes of practice (gross 'good' rating: 51 per cent); and</li> <li>• The Pensions Regulator providing guidance – notes, at a glance guides etc (gross 'good' rating: 48 per cent).</li> </ul>	<p>Develop strategic relationships with the regulator's key external stakeholders in order to build a clear understanding of their issues, and identify opportunities for working in partnership (ongoing across 06-07).</p> <p>Apply research findings on customer segmentation to ensure that communications and publications are effectively targeted at the appropriate audience (ongoing across 06-07).</p> <p>Publish relevant data from our research and scheme returns so as to inform understanding of pensions issues.</p> <p>Undertake external speaking events and publish codes and guidance to promote understanding (ongoing across 06-07).</p> <p>Refine codes and guidance on the basis of feedback and research into their effectiveness.</p> <p>Help ensure key stakeholders understand current and forthcoming changes in relevant European pensions law (ongoing across 06-07).</p>
<p>Regulated community considers the Pensions Regulator's risk-based regulation to be effective and in line with BRTF principles.</p>	<p>Annual perceptions tracker survey shows increased proportion, as compared to the 2005 results, of respondents who consider the Pensions Regulator to be:</p> <ul style="list-style-type: none"> <li>• Proportionate <ul style="list-style-type: none"> <li>○ Its actions are proportionate to the risk posed (gross agreement: 38 per cent)</li> <li>○ The Pensions Regulator is focused on the most important risks to scheme members' benefits (gross agreement: 63 per cent);</li> </ul> </li> </ul>	<p>Publish medium term strategy and 06-07 business plan (complete 1st quarter 06-07). Business plan 07-08 consulted on and developed (1st quarter to 4th quarter 06-07).</p> <p>Publish explanations of and consultation documents on, our regulatory approaches, eg the final statement on our approach to scheme funding (1st quarter 06-07) and consultation document on our approach to DC risks (complete 2nd quarter 06-07).</p> <p>Ensure that the way we work to mitigate risks to work-based pension schemes is demonstrably proportionate to the risk (ongoing across 06-07).</p> <p>Conduct a review of Notifiable Events to ensure they are targeted and proportionate (complete 2nd quarter 06-07).</p> <p>Publish a wider range of determinations on the regulator's website.</p>

Deliver effective risk-based regulation relevant to our environment and stakeholders		
Outcome	Performance indicators	Activities
	<ul style="list-style-type: none"> <li>• Accountable and transparent               <ul style="list-style-type: none"> <li>○ The Pensions Regulator explains clearly why decisions affecting occupational pension schemes have been made (gross agreement: 50 per cent);</li> </ul> </li> <li>• Consistent               <ul style="list-style-type: none"> <li>○ The Pensions Regulator is consistent in its approach to enforcing pension scheme regulation (gross agreement: 48 per cent); and</li> </ul> </li> <li>• Targeted               <ul style="list-style-type: none"> <li>○ It is pro-active in reducing serious risks to pension scheme members' benefits (gross agreement: 53 per cent)</li> <li>○ It works well with the Government to ensure that regulation is appropriate (gross agreement: 41 per cent).</li> </ul> </li> </ul>	
Relationships with Government partners, PPF, other regulators, the EC and other external stakeholders are effective and maintained.	The regulator meets the performance indicators set out in the service level agreement between the Pensions Regulator and the PPF for levy collection.	<p>Develop and monitor regulatory memoranda of understanding (MOU) with key stakeholders (ongoing across 06-07).</p> <p>Share information about DB schemes with the PPF, relating to the modelling and calculation of the levy and the estimation of future workloads, including early warning of potential cases (ongoing across 06-07).</p>

<b>Deliver effective risk-based regulation relevant to our environment and stakeholders</b>		
<b>Outcome</b>	<b>Performance indicators</b>	<b>Activities</b>
	<p>The regulator provides the level of service to the PPF agreed in the MOU and associated agreements.</p> <p>Feedback from DWP, as the Pensions Regulator's steward, on organisational performance and effective relationships shows that the regulator is meeting its expectations.</p> <p>Feedback shows our relationships are beneficial, as measured by the annual key stakeholder survey.</p>	<p>Work in partnership within the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) and the International Organisation of Pension Supervisors (IOPS) (ongoing across 06-07).</p> <p>Maintain the effective links in place between DWP and the regulator to support the delivery of effective regulation (ongoing across 06-07).</p>
<p>Operational systems and processes to support organisational requirements, corporate governance and management controls are fit for purpose. Operational readiness is achieved.</p>	<p>IT processes, services, systems and skills structure in place to meet the immediate operational needs of the regulator while the culture programme is implemented:</p> <ul style="list-style-type: none"> <li>• Simplified IP Core database implemented;</li> <li>• Tactical business solutions implemented to support case-based practices and regulatory development;</li> <li>• Scheme Return version 4 system implemented;</li> <li>• IT Service Desk in place;</li> <li>• IT Development team in place to support business as usual activities;</li> <li>• IT systems effective and compliant with ISO27001. FAST accreditation (Federation Against Software Theft); and</li> </ul>	<p>Develop and implement new database to hold registrable data provided by schemes and existing legacy databases retired or frozen (complete 3rd quarter 06-07).</p> <p>Deliver IT infrastructure improvements (complete 3rd quarter 06-07).</p> <p>Implement IT Service Desk package to provide a more effective and robust service to the organisation from IT, facilities, HR and finance (complete 2nd quarter 06-07).</p>

**Deliver effective risk-based regulation relevant to our environment and stakeholders**

Outcome	Performance indicators	Activities
	<ul style="list-style-type: none"> <li>• IT Infrastructure library framework in place.</li> </ul> <p>Additional IT development and technical support resources and skills in place to manage new services, systems and infrastructure handed over from the culture change programme.</p> <p>Business continuity, IT security and IT resilience initiatives in place to reduce business risks to acceptable levels.</p> <p>Funding secured from DWP is sufficient to deliver business plans, and actual expenditure is managed within agreed funding.</p> <p>Accounts are produced and certified by external audit in time for publication in July each year.</p> <p>Provide and maintain accommodation and facilities, and maintain standards in line with building regulations, health and safety directives and legislation.</p> <p>The Pensions Regulator's strategic risk model and performance measurement processes are embedded and sustained.</p>	<p>Deliver, maintain and operate levy collection processes so that General Levy, Fraud Compensation Levies and PPF Levies are collected in line with agreed specifications (ongoing across 06-07).</p> <p>Produce and agree budgets in conjunction with the definition of the individual operational business plans.</p> <p>Ensure the Pensions Regulator has sufficient cash resources to meet liabilities as they fall due and optimise return on cash balances.</p> <p>Procure goods and services of the appropriate quality, on suitable terms and at a price that represents good value for money (ongoing across 06-07).</p> <p>Rationalise facilities resource to meet business needs and to address demands of sole occupancy of Napier House (1st to 3rd quarter 06-07).</p> <p>Deliver training for all the Pensions Regulator staff to meet requirements of health and safety legislation (complete 3rd quarter 06-07).</p> <p>Disability Discrimination Act compliance achieved (complete 1st quarter 06-07).</p> <p>Embed and sustain a robust approach to identifying and addressing strategic risks – see also section 2.5 below (ongoing across 06-07).</p>

<b>Deliver effective risk-based regulation relevant to our environment and stakeholders</b>		
<b>Outcome</b>	<b>Performance indicators</b>	<b>Activities</b>
	<p>Delivery through the Pensions Regulator's culture change programme of satisfactory products on time, on budget and with business sign-off.</p>	<p>Embed and sustain the relevant management controls to support effective operational planning and measurement of performance indicators (ongoing across 06-07).</p> <p>Report on our performance indicators (PIs) and publish our performance against our PIs in our annual report (ongoing across 06-07).</p> <p>Conduct a review of the regulatory risk framework.</p> <p>Implement new processes for the case management of schemes that reflect the risks posed to scheme members.</p> <p>Deliver knowledge management that ensures the knowledge and information to support case management and the development of new codes is in place.</p> <p>Develop customer contact processes and review the contact channel (eg web, telephone) appropriate to different customer/stakeholder groups.</p> <p>Ensure that the right workforce to meet the regulator's needs is in place by attracting and utilising a high-calibre workforce, developing and rewarding capability and developing a high commitment culture.</p> <p>Deliver efficient core operations (the collection, storage and use of data about companies, schemes and trustees) that ensure the collection of core data about schemes and companies for levy, scheme returns, Pension Tracing Service etc.</p> <p>Develop commercial off-the-shelf solutions for the regulator's systems including IT, managed services etc.</p> <p>Maintain effective governance of the culture change programme in line with Office of Government Commerce methodology and best practice (ongoing across 06-07).</p>

## 2.5 Performance measurement and risk management

A set of outcomes under each theme has been identified for the coming year. These have been selected on the basis that their achievement is entirely or at least substantially within the regulator's control and that they will play a key role in enabling the organisation to meet its objectives. They do, however, rely in some cases on the non-occurrence of unfavourable external events. Such events would pose a significant risk to the achievement of our outcomes.

In conjunction with the outcomes, we have established a set of performance indicators which will measure achievement of these across all parts of the business.

As part of its corporate governance framework, the regulator has identified nine strategic risks that could stop us achieving our statutory objectives. They are:

- risk-based regulatory strategic approach doesn't work;
- customers/market don't understand what the regulator expects of them;
- customers/market don't buy into new regulatory approach;
- breakdown of relationship with Government partners, PPF, other regulators and the EC;
- failure to achieve necessary level of operational readiness;
- failure of operational systems and processes to support organisational requirements;
- failure to have the right people, in the right numbers, with the right skills, knowledge and behaviours in the right place at the right time;
- failure to build and maintain a high commitment culture with an engaged workforce; and
- corporate governance and management controls are not fit for purpose.

A system of managing, measuring and reporting these strategic risks was implemented during the third quarter of 2005 and will continue to be refined during this financial year.

## 3.0 Resources

### 3.1 Funding and expenditure

The regulator is funded by a levy on pension schemes via the Department for Work and Pensions (DWP).

In each year, a planned level of resource expenditure and an associated level of cash funding is agreed between the regulator and the DWP to meet the expected level of activity and any requirements for capital expenditure (principally arising from replacement policies on IT equipment and fixtures and fittings).

Typically there will be timing differences and therefore not an exact match between levy collected in a year and the level of funding agreed for that year, but a balance will be achieved taking one year with another.

The Pensions Regulator's budget for 2006-07 is £27.9m (cash requirement £26.3m) broken down as follows:

	£m
Running costs (staff)	18.7
Running costs (non-staff)	9.2
Total resource requirement	27.9
Non-cash items	(0.9)
Net movements in working capital	0.5
Cash items already provided for	1.4
Base cash requirement	28.9
Funded by b/f cash	(2.6)
Cash requirement from DWP	26.3

A more detailed budget can be found in Appendix D.

The increase in responsibilities under the Pensions Act 2004 necessitated a major programme of work for the regulator to design and build processes for the new organisation and to plan and implement the transition and handover of key business processes from Opra. This work is funded separately. The regulator will administer this programme, which is due to be completed during 2006-07. The provisional budget for programme activity during 2006-07 is £8.7m.

### **3.2 Levy collection**

The regulator collects various levies on behalf of the Secretary of State for Work and Pensions and the Pension Protection Fund (PPF).

The general levy covers the running costs and capital expenditure of the Pensions Regulator, the Pensions Advisory Service and the Pensions Ombudsman. The estimated general levy due in respect of 2006-07 is £31.6m.

The Pension Protection Fund administration levy covers the running costs and capital expenditure of the Pension Protection Fund. Estimated Pension Protection Fund administration levy due for 2006-07 is £13.1m.

Pension Protection Fund pension protection levies (risk-based and scheme-based) will be collected on behalf of the Pension Protection Fund. These are expected to total £575m in 2006-07. Discussions are currently underway with the Pension Protection Fund with a view to PPF assuming responsibility for collection of these levies; if these discussions are successful, this would materially reduce the total amount of levies that the Pensions Regulator would be responsible for collecting in 2006-07.

In addition, we will collect any levies due in previous years that were outstanding on 31 March 2006. We had collected over 71 per cent of levies due during 2005-06 by 31 March 2006, leaving £54m to be collected in 2006-07.

## 4.0 Developing the Pensions Regulator in 2006-2007

### 4.1 Organisation of the Pensions Regulator

There are three executive functions in the regulator:

- *Develop* executive function is responsible for developing corporate and regulatory strategic responses and anticipating strategic approaches for the regulator, as well as communicating with and influencing the behaviour of the pensions community to achieve better scheme administration.
- *Deliver* executive function is responsible for delivering regulation. It is the key interface between the regulator and its customers. Among its responsibilities are customer support, scheme specific funding, corporate risk management and policy, administration and governance.
- *Support* executive function has the responsibility of providing business-focused support to all the internal customers, enabling the regulator's objectives to be achieved.

The performance indicators and activities in this business plan are underpinned by an operational plan, which sets out in greater detail the main activities of each executive function. Assumptions of our workload are in Appendix B. We keep these under review. If the assumptions in the operational plan or of our workload turned out to be significantly inaccurate, this would lead us to reconsider our resource requirements.

### 4.2 Attracting and developing our workforce

Our priority for the year will be to continue to develop our workforce to ensure that we have the capability to meet our current and future business objectives.

Our principal human resource initiatives are to:

- Continue to develop a flexible and mixed resourcing model that enables the organisation to anticipate and respond quickly and efficiently to emerging strategic and operational risks. This involves ensuring that the organisation is an 'employer of choice' in order to attract high-calibre people. The model includes permanent and secondee posts, together with fixed-term appointments.

As at 31 March 2007 we assume a total number of full-time equivalent (FTE) posts (excluding non-permanent staff working on the culture change programme) of 310.89. This shows an increase of 11 per cent on the FTE workforce as at 31 March 06, reflecting an increase in the deliver function, enabling targeted interventions relating to funding and corporate transactions.

- Put in place an effective long term workforce and succession planning to anticipate and respond to future capability and resource needs.
- Develop a motivated and competent workforce by investing in performance development and significant learning and development programmes, including leadership development, rotation-based ‘on the job’ learning placements, and the achievement of specific business skills.
- Embed through effective leadership:
  - a commitment to continuous performance development and modern human resourcing approaches; and
  - the regulator’s four values of providing excellent customer service, achieving worthwhile results, being professional in all we do and working in partnership with others.

### **4.3 The Pensions Regulator’s culture change programme**

The Pensions Regulator’s culture change programme is a Department for Work and Pensions (DWP) -funded initiative to develop the new regulator. The intention is to improve the way we do business and to increase our efficiency. The programme has workstreams that cover our key business functions and the way in which we work within and between our teams.

As a risk-based and flexible organisation, we are seeking to:

- procure specialist expertise and outsource provision of non-core functions subject to value for money and acceptable strategic risks;
- use risk-based regulation to deliver a proportionate level and type of service to different groups of schemes and companies;
- use flexible working approaches across the regulator that encourage efficiency and prevent silo working;
- ensure objectives, performance measures and risk management are built into all our approaches; and
- develop our staff capabilities and reward those who ‘go the extra mile’.

### **4.4 Corporate social responsibility**

As part of the regulator’s culture change programme in 2005-06, the need was argued for the regulator to consider how it relates to its local community, its environmental impact and its wider social relationships. Corporate social responsibility is the integration of social and environmental concerns into business operations. The Pensions Regulator’s focus remains to fulfil its statutory objectives and the development of its policy on corporate social responsibility reflects this.

The regulator wishes to support the Treasury and Home Office corporate challenge initiative, which reflects a desire from staff that the Pensions Regulator should become more involved with its local community and reduce its impact on the

environment. The Pensions Regulator is also a member of Arts and Business, a not-for-profit organisation whose purpose is to enable business to engage with the arts.

The Pensions Regulator is committed to good environmental practice. We moved to new premises in Brighton early in 2006, and we seek to minimise our environmental impact where practical, such as reducing the use of energy and stationery and increasing recycling rates.

#### **4.5 Freedom of information**

The regulator is committed to compliance with its obligations under the Freedom of Information and Data Protection Acts. It will aim to be transparent and open, subject only to necessary and justifiable exemptions from disclosure of information, and will consult those affected by its actions where possible. Our publication scheme sets out what information the regulator makes available publicly and provides information to the public on how to find that information. The publication scheme is due to be reviewed in 2006 and will be re-submitted to the information commissioner for approval.

## Appendix A

### The surveys that will be the information source of various performance indicators

Survey title	Conducted by	Description
Corporate Risk Management tracker survey	In-house (possibly to be conducted by an independent external agency)	<p>Reports monthly.</p> <p>Online (very small-scale) quantitative survey sent to all applicants, non-applicants and PPF colleagues involved in clearance cases, withdrawals and exploratory requests.</p> <p>Quantifiable indicators are overall satisfaction with outcome and service, plus other service factors, eg being pragmatic, understanding business needs, justifying outcome.</p>
Scheme Specific Funding (SSF) tracker survey (planned)	Independent external agent to be confirmed	<p>The SSF tracker survey will start later in the 06-07 year as the customer base increases.</p> <p>Reports monthly.</p>
Governance survey	R S Consulting	<p>Annual survey. First governance survey in field January to March 2006, full results published externally in July 2006. Second governance survey in field February to March 2007, results published July 2007.</p> <p>Minimum of 350 telephone interviews with chairs of the trustees, providing:</p> <ul style="list-style-type: none"> <li>• a measurable overview of the levels of compliance with good practice among different scheme types and sizes, that can be tracked over time;</li> <li>• the ability to measure, track and assess the impact of the Pensions Regulator's codes of practices, guidance and communications;</li> <li>• understanding of the attitudes and behaviour of those responsible for the governance of pension schemes and thereby helping to identify areas of potential risk due to low standards;</li> <li>• the ability to identify issues that may have an impact on risks to members' benefits and will support the development of the Pensions Regulator's targeted regulatory activity in this regard; and</li> <li>• information that will aid the development and monitoring of the Pensions Regulator's trustee knowledge and understanding learning initiatives.</li> </ul>

Survey title	Conducted by	Description
Make It Your Business (staff) survey	In-house	<p>Six-monthly tracking survey. Fieldwork conducted February and August each year, with results available March and September, respectively.</p> <p>Online quantitative survey to all staff. Its purpose is to monitor changes in staff satisfaction and organisational culture at the regulator, and to give staff the opportunity to suggest improvements.</p>
Perceptions tracker survey	MORI	<p>Annual quantitative tracking study, first conducted in 2004 (as Opra). The 2005 study went into field Nov-Dec 2005, and a presentation of results was given March 2006. The 2006 study will go into field during Nov-Dec 2006, with results available March 2007.</p> <p>800+ telephone interviews among key audiences (lay and professional trustees, PS managers/in-house admin, employers, lawyers, actuaries, auditors, IFAs/benefit consultants, and third-party admin) measuring their perceptions of the regulator.</p> <p>Key outcome measures include agreement with statements:</p> <ul style="list-style-type: none"> <li>• Is a trusted source of information;</li> <li>• Actions are proportionate to risk posed;</li> <li>• Is consistent in its approach;</li> <li>• Explains why decisions have been made;</li> <li>• Focuses on most important risks; and</li> <li>• Has sufficient powers to make a difference.</li> </ul> <p>And satisfaction with the regulator providing:</p> <ul style="list-style-type: none"> <li>• Codes of practice; and</li> <li>• Guidance.</li> </ul>
Key stakeholder study	External – provider to be confirmed	<p>Annual study (not yet happened). Currently in process of defining dates, the first key stakeholder study is expected to deliver results summer 2006.</p> <p>Qualitative study among key external stakeholders.</p>

**Workload assumptions**

<b>Type of work</b>	<b>Estimates April 06-April 07</b>
Scheme return	102,000
General queries, complaints and calls to call centre	157,500
New scheme registrations	2,000
Reports of late payment	30,000
Employer/provider visits	20
SSF enquiries	460
Recovery plans	700
SSF active interventions	100
Clearance and withdrawal	500 to 600
CRM enquiries	1,000 to 1,500
Applications and appointments	80
Notifiable events	600
Whistleblowing reports of matters material to the regulator	360
Applications to register	30
Selections for appointments	120 to 150
Informal trustee meetings	30
Cross-border applications	50 to 75

**Service response standards**

<b>Business area</b>	<b>Service standard</b>
<b>Customer Support Contact Centre</b>	To answer 80 per cent of incoming calls in less than 20 seconds
	To have less than five per cent abandoned* calls
	To respond to 90 per cent of emails and written correspondence for general enquiries within five working days of receipt
	To respond to more detailed technical emails and written correspondence within 20 working days of receipt

\* Definition of an abandoned call: a call in which a caller hangs up before receiving an answer from an agent

## Proposed budget for 2006-07

	Budget
	2006-07
	£'000
Salaries	16,969
Staff travel	293
Staff training	530
Board/panel expenses	214
Other personnel	707
<b>Total staff costs</b>	<b>18,713</b>
Accommodation	2,360
Capital expenditure	616
Contracted out services	1,419
Printing and stationery	398
Information and intelligence	133
Postage and telephone	269
Computer	556
IT consultancy	152
Professional fees	790
Other consultancy	955
Miscellaneous	839
Interest	(210)
Depreciation	870
<b>Total non-staff costs</b>	<b>9,147</b>
<b>Total resource requirement</b>	<b>27,860</b>
Less: Depreciation	(870)
Add: Net working capital movement	500
Add: Cash items already provided for	1,400
<b>Base cash requirement</b>	<b>28,890</b>
Funded by b/f cash	(2,590)
<b>Total cash requirement</b>	<b>26,300</b>

## Budget for 2005-06

	Budget
	2005-06
	£'000
Salaries	13,741
Staff travel	450
Staff training	500
Board/panel expenses	100
Other personnel	672
<b>Total staff costs</b>	<b>15,463</b>
Accommodation	2,808
Capital expenditure	1,700
Contracted-out services	1,345
Printing and stationery	400
Information and intelligence	87
Postage and telephone	331
Computer	1,040
IT consultancy	150
Professional fees	310
Other consultancy	857
Miscellaneous	360
Interest	0
Depreciation	1,200
<b>Total non-staff costs</b>	<b>10,588</b>
<b>Total resource requirement</b>	<b>26,051</b>
Less: Non-cash costs	(1,200)
Add: Net working capital movement	757
<b>Total cash requirement</b>	<b>25,608</b>