Corporate Plan 2016-2019

April 2016

The Pensions Regulator

Contents

Foreword

As the regulator of UK occupational pension schemes we oversee an industry that is changing the way people engage with saving for later life.

As focus increases on the mechanisms for entry into and exit from workplace pensions, so too does the level of scrutiny applied to the pension products that are available to the public at these crucial stages of life. This means that people need a better understanding of the impact of scheme quality, durability and value for money on eventual pension payments.

Our regulatory reach now extends beyond trustees to the vast majority of employers. This challenges us to be innovative in our regulatory approach and puts the effectiveness of the underlying legislative framework for pension schemes in the spotlight. We work closely with government partners and other regulators to ensure that this framework delivers appropriate levels of protection while not placing an undue burden on schemes and those who run them.

Our statutory objectives are set by Parliament and guide our regulation of a market that is expanding under automatic enrolment (AE) and evolving as new and flexible forms of saving, and access to those savings, are made available. These flexibilities present opportunities and risks for schemes and members, as the quality of scheme governance is tested and members increasingly make active decisions about their retirement. Ensuring that the industry is able to act on such decisions, and that they are well-informed, are significant challenges for us.

Although employer participation is increasing under AE, the overall number of defined contribution (DC) schemes has, in fact, decreased. This has created a concentration of members within a small number of very large schemes and redrawn the pensions landscape. Our new regulatory approach reflects our increasing focus on this section of the market and this plan details our next steps in overseeing this form of provision.

The priorities in this Corporate Plan are informed by our statutory objectives and the changing landscape of risks within which we and those we regulate operate. These priorities reflect our assessment of how these risks will affect savers and schemes, both now and in the future.

People need a better understanding of the impact of scheme quality on eventual pension payments.

Our activities will take place against a backdrop of ongoing funding constraints. The recent Spending Review saw us commit to reducing our scheme regulation budget by 17% in the coming four years and our AE regulation spending by a significant amount over the next five years. This requires us to think carefully about how we allocate our resources and, in particular, the balance of our approaches to education, enablement and enforcement. In spite of this challenge, we are confident that we have the resources necessary to perform our role.

Our vision and values

This year we revisited our vision and values.

Our vision is to be a strong, agile, fair and efficient regulator. Through this we seek to gain the respect of employers, trustees and other stakeholders. Together with our partners in the pensions industry, in government and among employers, we will drive up standards of trusteeship and improve savers' understanding of their situation to create better outcomes in their later life. We are committed to making our organisation a great place to work and doing all we can to support our people to reach their full potential.

This vision informs the application of our resources in a way that recognises our statutory objectives and reflects the external risks as we see them. We hold certain values to be central to the delivery of this vision, including that we are, and are seen to be:

- committed to the pursuit of good outcomes for workplace savers
- bold and impartial in our decision-making
- alert and responsive to emerging risks and opportunities
- supportive of our people
- united as one team

Mark Boyle
Chair
April 2016

Lesley Titcomb
Chief Executive
April 2016

Introduction

We work with trustees, employers, and business advisers of occupational pension schemes in the private and public sectors, to help them understand their legal duties and the standards we expect.

We also work with employers and their advisers to ensure compliance with AE duties.

Our statutory objectives are set out in the Pensions Act 2004, amended by the Pensions Acts 2008 and 2014. These are:

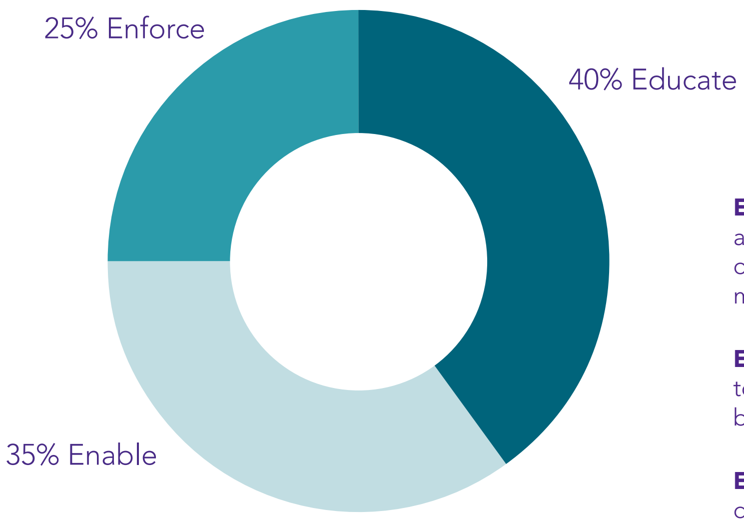
- to protect the benefits of members of occupational pension schemes
- to protect the benefits of members of personal pension schemes where direct payment arrangements are in place
- to reduce the risk of situations arising which may lead to compensation being payable from the Pension Protection Fund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

Our approach is to educate, enable and enforce where appropriate.

Our regulatory approach

Our approach is to educate, enable and enforce where appropriate. This principle informs our responses to the risks that we see in the market, and the interactions we have with our regulated community. As we will seek to educate in the first instance, the majority of our activities are focused on setting out the legislative requirements and best practice for our regulated community via a comprehensive and tailored programme of communications.

The application of total cost by strategic activity within our regulatory teams



Educate: Communications, campaigns and activity such as messaging key audiences on the risks of scam activity to help protect member benefits

Enable: Providing tools such as the Trustee toolkit, codes and guidance to promote good behaviours and reduce risks to schemes

Enforce: Use of powers to target those who do not meet their legal obligations

We have a range of powers that we use flexibly, reasonably and appropriately to put things right and keep schemes and employers on the right track.

Enforcement action may be appropriate where we encounter wilful or persistent non-compliance, where our earlier efforts to produce compliance with the law have not had the desired effect, or where we uncover evidence of malpractice.

Our approach to risk

As a risk-based regulator our approach is based on an assessment of risks and informed by our statutory objectives.

We judge risks in terms of the threat they pose, the extent to which we can mitigate them and our risk appetite. This means we will not seek to intervene in all situations but will prioritise by risk, cost and perceived benefits in a way that is targeted, proportionate and takes into account our statutory objectives. When we intervene we choose the most appropriate course of action from our suite of educating, enabling and enforcement tools.

Find out more about our risk appetite at **www.tpr.gov.uk/risk-appetite**.

The pensions landscape

The pensions landscape in the UK is undergoing a major transformation in terms of its overall size and the types and numbers of schemes available.

Automatic enrolment has led to a vast increase in membership of DC schemes. As expected, employers have been putting their staff into DC contract-based and trust-based pensions (mainly master trusts) rather than setting up new DB arrangements. Our remit extends to trust-based DC schemes only – DC contract-based schemes are regulated by the FCA.[1]

Defined contribution

35,710
DC & hybrid schemes

£270bn
in assets

7m
members
4.6m active

Public service

13m
members
5m active

£226bn
in assets

220
PS schemes

Defined benefit

12m
members
1.8m active

6,460
DB & hybrid schemes

£1,298bn
in assets

Emerging risks

As the pensions landscape changes, so do the risks.

In addition to many of the prevailing risks we are addressing (such as pension scams), we have identified some key emerging risk areas. These are driven by developments in the UK and global economy; the ongoing expansion and development of the DC pensions market, and AE; as well as technological changes and the behaviours of some of the key actors.

Economic and market outlook
The outlook for the economy and the equity and bond markets introduce risks to DB sponsors and trustees of all schemes in terms of their investment strategies.

Quality of governance and administration
While there are some risks in the largest schemes, the lower quality of governance and administration in small, existing schemes, as well as some large public service schemes, could pose a risk to good member outcomes.

DC market development
DC memberships have increased rapidly, while the number of schemes has dropped. This market consolidation has the potential to benefit savers as well as magnify any negative consequences.

Small and micro employers
The profile of employers automatically enrolling their employees is changing dramatically. Smaller employers are less likely to meet their duties on time and so could leave people without the pension they are due.

Cyber crime
Pension schemes hold a great deal of personal and financial information, so are attractive to cyber criminals. This makes them more likely to be subject to malware attacks or ransomware scams.

Economic and market outlook

Economic and financial markets affect pension scheme performance and, in the case of DB schemes, employer support and affordability. The UK economy has been slowly recovering from the financial crisis of 2008 and its recessionary aftermath, seeing the economic growth rate peak at around 3% in 2014 and fall to 2.1% in 2015. The Office for Budgetary Responsibility's current forecasts suggest a growth rate of 2% for 2016. The environment remains challenging for many businesses and 2015 saw the highest number of profit warnings issued by UK quoted companies since 2008.[2]

Much depends on the sectors in which businesses operate, with production industries such as manufacturing and extraction industries, which are disproportionately represented in the DB landscape, showing lower growth relative to service sector industries.

At the end of March 2016 the FTSE All-Share Index was around 7% below its level a year earlier, while the spot yield on the 20-year UK nominal gilt was only marginally higher than it was 12 months before, following some volatility during this period. Market expectations at the end of March 2016 relative to the last five years, combined with official economic forecasts, suggest that schemes and sponsors will need to be prepared for the prevalence of low interest rates and modest growth conditions for some time.

In a low return or volatile market, some schemes may be tempted to take significant risks.

Equity and bond markets will affect all types of funds. DB liabilities have been increasing at a faster rate than asset returns, mainly because of a significant fall in gilt yields relative to yields at the time of triennial valuations.

As DB schemes mature, they have to hold assets to meet liabilities as they fall due, so schemes will look to reduce the volatility of these assets over time. However, in a low return or volatile market, some schemes may be tempted to take significant investment risks, at the same time as sponsors become more constrained, and therefore have less capacity to underwrite investment risk.

These same conditions also pose risks to members of DC schemes where the modest growth environment may have a negative impact on returns, or greater risks may be taken in pursuit of returns. In default funds there is potential for levels of risk-taking to diverge from the risk appetite of the membership. Management of short-term volatility is therefore important to help discourage any potential increases in employees opting out of AE.

Quality of governance and administration

Good governance and administration are essential if members are to receive value for money in their pension investments. Schemes must communicate appropriately with their members during their period of membership, and ensure they receive the correct benefits.

Good governance and administration are crucially important in pensions as we know that levels of member understanding and engagement are particularly low.[3]

In terms of private workplace pensions, our scheme administration research, which is due to be published in the next few months[4] has highlighted that administration is viewed as a lower priority than other elements of running a scheme.

Inadequate governance and administration not only increase the risk of poor member outcomes but place member assets at risk. For instance, the actions or inactions of trustees can lead to the loss of pension savings through scams or the misappropriation of assets.

The risks in smaller schemes may arise because trustees lack the awareness, expertise and resources to administer the scheme effectively and keep up with legislative changes. Some of the least prepared schemes are small ones that are not open to new members, and therefore have low motivation to invest time and money in the scheme or secure good advice. By contrast, larger schemes are typically well-run and well-resourced and more able to pay attention to scheme administration, with good systems, reporting and controls.[5]

Larger schemes are typically well-run with good systems, reporting and controls.

There are also significant governance and administration challenges for public service pension schemes, which represent approximately 13 million members and 28,000 employers. Our research[6] suggests that many public service schemes have not achieved the standards of governance and administration necessary for ensuring the best chance of achieving good member outcomes.

We are particularly concerned about low standards of record-keeping, communications and internal controls. Only 45% of public service schemes have measured themselves against the requirements of the record-keeping regulations and only 27% have undertaken a data cleansing exercise as a result.

DC market development

Since 2009, membership of DC occupational schemes has almost trebled to over 7 million[7]. This growth is split between master trusts (71%) and other DC-only schemes (29%). The number and DC membership of hybrid schemes has remained consistent over this time.

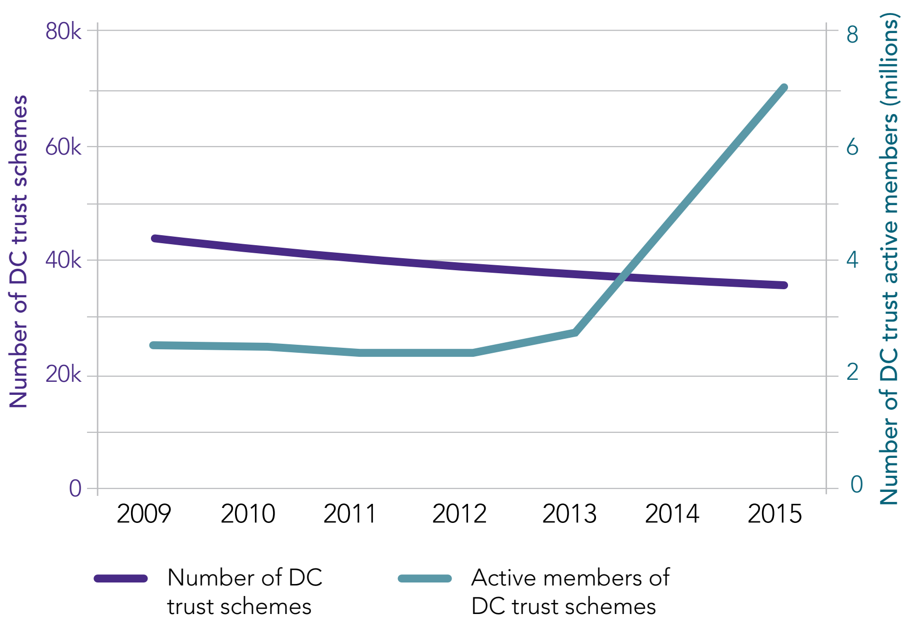
The roll out of AE has driven the substantial rise in DC membership and an increase in newly-created master trusts (some of which now have over 1 million members).

As a result, members are increasingly in a handful of schemes – 55% of DC scheme members are in the four largest master trusts and there are 69 much smaller open master trust schemes. Total scheme volumes have reduced by a third, to approximately 35,000.

Our research[8] shows that large schemes benefit from economies of scale, tend to be better governed, have better member communications, and provide better value for members.

However, a major failure of a large master trust, having no sponsoring employer to support it, could result in members being forced to meet the administration costs as a result of its disorderly exit from the market. It would also leave potentially large numbers of employers needing to find alternative arrangements to comply with AE. Alternatively, members of small master trust schemes risk becoming trapped in a scheme that attracts insufficient members or assets to be sustainable. Either case could lead to a significant loss of member savings and to confidence in pensions as a whole.

Changes in the DC market



Small and micro employers

The profile of employers automatically enrolling their employees is changing dramatically. Until recently, employers required to enrol their workers were mostly large and medium-sized companies (those with over 50 employees). Over the next three years it will be the turn of the smallest employers to meet their duties, including those with just one or two workers.

At the time of writing, over 90% of small and micro employers who were due to implement AE had met their duties. However, we expect that many will leave it too late to prepare and some will not act at all. We take this very seriously as employees should receive the benefits from their employers' pension contributions that they're legally due.

The risk that employers fail to put their workers into an appropriate scheme (or automatically enrol them) is heightened by a number of factors. Our research[9] shows that, compared to larger businesses, small and micro employers (1-49 staff) are generally:

- less supportive of the principle of offering a pension to staff
- less knowledgeable about pensions
- less likely to have any existing pension provision
- more likely to leave preparation to the last minute

Our research also indicates that selecting a pension scheme is one of the most significant challenges for smaller employers. Their concerns include:

- finding a scheme that will accept them
- ensuring they make the best choice of scheme for their employees
- addressing the risk of challenge from their staff if the scheme is not well run
- making sure that the scheme they choose works with their payroll software

Cyber crime

Cyber crime is on the increase as a result of opportunistic criminals exploiting technology, which poses a major threat to schemes. Pension schemes hold a significant amount of personal and financial information, and are likely to be attractive to cyber criminals.

2014 cyber crime statistics

The ONS estimates there were

2.5 million

incidents of cyber crime in 2014

Source: Office of National Statistics

Developments in technology as well as member demand have led to new opportunities for the pensions industry to use and provide online services, and member transactions may be especially targeted by scammers. Research[10] shows that third party scheme administrators do less testing of internal controls compared to in-house or combined arrangements while reporting comparatively higher incidences of fraud. Such schemes may therefore be at greater risk.

In addition to schemes being targeted for the specific personal and financial data they hold they are, like all organisations, subject to indiscriminate 'malware' attacks. Such attacks typically cause disruption by restricting access to the infected computer system. In some cases the restriction in access is part of a ransomware scam where demands for payment are made in exchange for removing the restrictions. The latest evidence shows that hackers are changing their focus to industries such as finance and local government, where the ransom amounts would be significantly greater than those targeting consumers.[11]

Our priorities

Our assessment of this emerging risk landscape helps us develop our priorities for the next three years. We will continue to review these priorities and may update them as we move through the life of this three year plan.

The ten priority areas listed below relate to the three year period 2016 through to 2019. However, the specific activities we will undertake under each priority principally relate to 2016-2017.

1 Successfully implement AE

We will continue to help small and micro employers meet their AE duties by focusing on the quality of our educational materials and enablement tools for this audience. We will ensure they are relevant and targeted to the changing profile of staging employers by:

- expanding our services to meet the demands of an increased volume of smaller employers
- making better use of technology to collect data and improve its quality
- simplifying and automating our processes as much as possible

We will build our compliance and enforcement capability to meet volumes, and to respond swiftly to cases of wilful non-compliance, while enabling large and medium employers to complete their triennial re-enrolment simply and easily.

2 Protect consumers from poorly governed master trusts

We will guide employers to automatically enrol their staff into multi employer schemes, such as group personal pensions run by FCA-authorised providers and master trusts that have obtained master trust assurance.

Working with the ICAEW, we will develop a revised version of the master trust framework that reflects the requirements of the new DC code which comes into force in July 2016.

Where we have concerns about the governance and administration of particular master trusts, we will engage directly with them to check the skills and experience of their trustees and managers and the sustainability of their business models.

We are engaging with the FCA and government to identify unmitigated risks to members of master trusts and agreeing the necessary steps to safeguard member benefits.

3 Effectively regulate defined benefit schemes

We will continue our risk-based approach to achieve appropriate funding outcomes through proactive and reactive case interventions, and guide trustees and employers through our expectations in current market conditions via the annual funding statement.

Our work with government and European partners will help to ensure the current and future challenges to DB benefit provision are met within a flexible and efficient regulatory framework.

4 Effectively regulate public service pension schemes

We will drive improvements to historical governance issues in public service pension schemes by identifying risks and working with these schemes. We will address the quality of governance and administration in key risk areas such as record-keeping, internal controls and communications. We will tailor our educational tools to this audience and work closely with public sector partners to improve standards.

5 Maintain confidence in pensions

We will continue to support safe and secure pensions by mitigating the detrimental impact of scams through securing assets and disrupting scam activity. We are currently leading Project Bloom; a taskforce including the government, other regulators, financial services bodies and criminal justice agencies to combat scams; and are raising awareness with trustees and scheme members via our 'scorpion' campaign.

Where appropriate, we will use our powers to protect members and their benefits. We will target employers who seek to evade their pension liabilities and responsibilities, bringing cases to successful conclusions.

We will apply the full range of our powers appropriately to the risks, testing the extent and application of powers we have previously not used. We will continue to publish case outcomes and our considerations of them to demonstrate clearly where behaviours will not be tolerated.

6 Improve the quality of scheme governance

We will educate and enable those running pensions to meet the challenges of 21st century governance by setting out what effective and contemporary trusteeship looks like and developing tools and guidance to support them.

This will include enforcing the requirement on schemes to provide us with timely and accurate information. In addition, we will take action on non-compliance with new DC requirements for a chair's statement and implementing charge controls, and enforce the ban on member-borne commission fees.

Our new DC code will outline the standard we expect and we will help trustees meet those standards through providing supporting guidance. We will seek to reduce regulatory burdens by removing or consolidating our previous guidance.

7 Extend our regulatory influence

We will continue to develop our external voice to reach our growing number of stakeholders with clear messages and to engage on policy issues and the development of appropriate standards. Our communications strategy will support trustees and employers and promote compliance through a continued education programme across our regulated community.

We will strengthen relationships with our key government partners and key stakeholders in the UK while seeking to influence European institutions on regulations that affect the UK pensions system.

8 Increase member engagement with pensions

We will focus on improving savers' understanding of pensions and, if necessary, facilitate the creation of a pensions dashboard and other tools such as pensions passports in partnership with the FCA and government partners.

We will continue to support pension freedoms, by helping the industry focus on timely and appropriate advice and guidance for members and effective transfer mechanisms.

9 Develop our people

We will demonstrate our values through effective performance management and development of staff, focusing on instilling and demonstrating our vision and values at every level of the organisation. By continuing to focus on people management and performance, we will maximise the productivity, success and wellbeing of our people.

10 Be an effective and efficient regulator

We will use data, information and technology to improve our performance through better segmentation of schemes, communications and data collection mechanisms. Through upgraded core IT systems, website development, a clear data strategy, and the adoption of smart-working techniques, we will enhance our existing capabilities and invest in the future provision of pension regulation.

In addition to these priorities there are many regulatory and support functions that we continue to perform. Some of these are required by law, others are ongoing activities needed to operate effectively and execute our functions. Our recent restructure (see page 25 for more details) will ensure we have the right people in the right place for the effective governance of our organisation and the delivery of our statutory objectives.

Evaluation

We measure our impact in a number of ways. In addition to Key Performance Indicators (KPIs), for 2016-2019 we will be adopting Key Outcome Indicators (KOIs).

Due to the long term nature of retirement saving and the many stakeholders involved, it is not straightforward to quantify our influence on the overall outcomes of retirement provision. KOIs will help evaluate our effectiveness in addition to our specific KPIs.

For the purposes of this Corporate Plan we have listed our KPIs alongside our priorities. We will report on our KOIs and KPIs in our Annual Report and Accounts from 2016-2017 onwards.

We will continue to adapt our KPIs to respond to the changing landscape and our new regulatory duties, which have driven us to revise our priorities, so that our indicators of performance remain relevant and directly attributable to us.

The regulatory activity outlined in this Corporate Plan involves setting priorities that will enable us to achieve our statutory objectives while recognising the changing pension landscape.

Key Outcome Indicators

Our KOIs are specific measures that have observable and measurable characteristics or changes that will represent the achievement of a desired outcome. Our regulatory performance is set in the context of the broader outcomes which the government seeks to achieve, such as providing a decent income for people of pension age and promoting saving for retirement.

We have adopted a range of KOIs to help us draw conclusions over a longer timeframe on whether our regulatory interventions are having a positive influence on the wider public policy intent and in achieving our statutory objectives. These follow on the next page.

Table: Our KOIs

Outcome indicator	Link to statutory objective	Source
KOI 1. Participation: Increasing participation and amount of savings in workplace pensions	Relates to all our statutory objectives	Derived by the Department for Work and Pensions (DWP) from the Office for National Statistics' (ONS) Annual Survey of Hours and Earnings (ASHE)
KOI 2. Income in retirement: Increasing income in retirement and the proportion of income from workplace pensions	Relates to all our statutory objectives	DWP pensioners income series
KOI 3. Confidence: Increasing confidence in workplace pensions	Relates to all our statutory objectives	We are currently exploring a new measurement source for this indicator
KOI 4. DB entitlement: Increasing number of members of DB schemes receiving their promised benefit entitlement	To protect the benefits of members of occupational pension schemes	The Purple Book publication[12]
KOI 5. PPF protection: The continued protection of the PPF	To reduce the risk of situations arising which may lead to compensation being payable from the PPF	The Purple Book publication[12]
KOI 6. Trustee competence: Increasing the capability and competence of trustees and others who govern pension schemes	To promote, and to improve understanding of, the good administration of work-based pension schemes	TPR data and surveys

Key Performance Indicators

Our KPIs represent targeted measures, identified as key to evaluating performance against our priorities. This year we have also defined 'success factors' against our priorities. These enable us to be clearer on what we are seeking to achieve.

We will continue to develop our methods of measurement so that they remain relevant, as objective as possible, and are the clearest indicators of our performance.

Table: Our KPIs

Priority	Success factors	Key Performance Indicators	2016-2017 Target
1. Successfully implement AE	Employers are aware of and understand their AE duties to enable compliance	1.1 The proportion of employers who are aware of their duties shortly before they come into effect	95%
		1.2 The proportion of employers who understand their duties shortly before they come into effect	80%
2. Protect consumers from poorly governed master trusts	Future trust-based pension provision is delivered by safe and secure schemes	2.1 Percentage of DC master trusts that are AE schemes declare compliance with the requirement to issue a chair's statement in the scheme return	100%
		2.2 Percentage of DC master trusts that are AE schemes declare compliance with the charge control requirements in the scheme return	100%
		2.3 We will proactively engage with master trusts that represent a high proportion of the total membership	Engagement with 50% of active DC master trust schemes (that cover approx 95% of master trust memberships)

Priority	Success factors	Key Performance Indicators	2016-2017 Target
3. Effectively regulate defined benefit schemes	DB members receive the benefits they are entitled to in retirement	3.1 We are currently developing our case management information capability and intend to set a new measure this year of the number of cases where positive scheme funding case outcomes have been achieved	
		3.2 Through our case interventions we will cover a proportion of PPF risk. This measure of PPF risk is based on the size of PPF scheme deficits and the probability of sponsoring employer insolvencies occurring[13]	Engagement with schemes which account for 35% of PPF risk
4. Effectively regulate public service pension schemes	The standards of good governance and administration are known, understood, and appropriately followed by all scheme types	4.1 A high proportion of public service schemes that have the three key components of good governance and administration in place	75%
		4.2 Public service schemes that require a record-keeping plan have one in place	100%
5. Maintain confidence in pensions	New and existing members of occupational pension schemes believe that they will be provided with a fair, safe, and secure pension in retirement	5.1 We are currently developing our case management information capability and intend to set a new measure this year on case outcomes	

Priority	Success factors	Key Performance Indicators	2016-2017 Target
6. Improve the quality of scheme governance	The standards of good governance and administration are known, understood, and appropriately followed by all scheme types	6.1 A high proportion of DC members are in schemes that have appointed a chair of trustees	95%
		6.2 A high proportion of employers make contributions to their respective scheme before they become significantly late	94%
		6.3 A high proportion of scheme members will be in schemes that have provided their scheme funding valuation to us in line with the requirements	97%
		6.4 A high proportion of scheme members will be in schemes that have provided their scheme returns to us in line with the requirements	99.5%
		6.5 The number of Trustee toolkit module passes	12,000
7. Extend our regulatory influence	Our regulatory effect is maximised with the resources available to us	As measured by KPI 6.3 and 6.4	
	We reach and effectively influence our stakeholders	7.1 With the growing number of stakeholders, government partners and employers we interact with, we will look to define a measure next year that demonstrates the effectiveness of our influence	

Priority	Success factors	Key Performance Indicators	2016-2017 Target
8. Increase member engagement with pensions	Scheme members take ownership of their retirement outcomes	8.1 At this stage we do not intend to identify and set specific performance indicators for this priority. Instead we will rely on outcome indicators to provide measures of overall performance We will cover our work and successes in this area in our Annual Report and Accounts at the end of each business year	
9. Develop our people	We have an energised and motivated workforce that is capable of meeting the challenges we face	9.1 Our employee engagement score as per our independent survey	75%
10. Be an effective and efficient regulator	We maximise the use of our resources to achieve our statutory objectives and the best value for levy and tax payers	10.1 Our customer satisfaction with our call centre services	85%
		10.2 Our customer satisfaction with our online services	76%
		10.3 The quality, availability and performance of our online services exceeds benchmarked industry standards	Central government benchmark
		10.4 Our spending is within budget	Within 5%

Our structure

To work as efficiently as possible we need an agile and responsive workforce. Last year, we restructured our organisation to make the way we work more transparent to our stakeholders, increase the accountability of senior staff, and make sure we are focusing on the right issues. We created four new directorates, whose remits cover:

Frontline regulation

End-to-end regulatory process. All non-AE cases and enquiries, customer support and a single view of intelligence

Regulatory policy

Data, risk, research, policy, actuarial, investment, legal and business analyst teams developing standards for governance and administration and policy positions

Automatic enrolment

AE cases and enquiries, industry liaison and design and delivery of our employer compliance duties

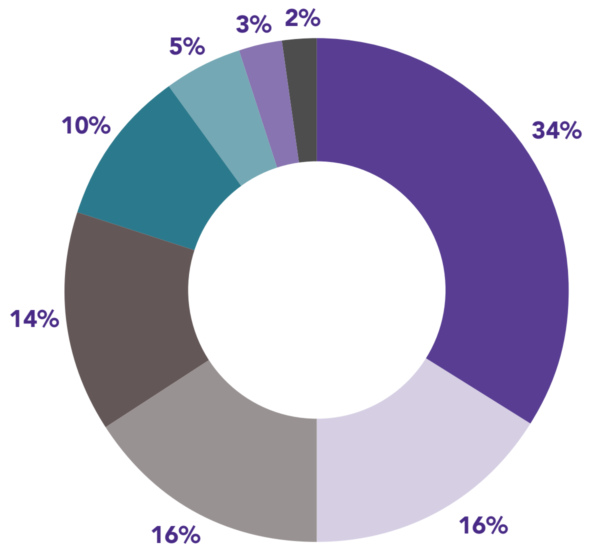
Finance and operations

Support activities, specifically IT, business change, finance, planning and performance, procurement, complaints and information disclosure and facilities management

The HR and Communications directorates report to the CEO as before. For more detail on our organisational structure, see **www.tpr.gov.uk/org-chart**.

We balance our priorities and organisational needs to deliver effective and responsive regulation. Our resources will be divided as follows in 2016-2017:

Resource distribution by directorate for 2016-2017



- Automatic enrolment 34%
- Regulatory policy 16%
- Frontline regulation 16%
- Finance and operations 14%
- IT and business change 10%
- Communications 5%
- Corporate 3%*
- HR 2%

* This includes Corporate Secretariat, the CEO office, PA support for the organisation, and administration support for the Determinations Panel

Diagram based on FTE split by total budget for directorate

Financial summary

Funding

Our funding is derived from two main sources: a grant-in-aid from DWP which is recoverable from a scheme levy relating to Pensions Act 2004 duties, and a separate grant-in-aid from general taxation relating to the AE programme arising from Pensions Act 2008 duties.

The 2015 Spending Review settlement sets out the funding for both our AE and non-AE activities (referred to here as 'levy') over the coming years. We have committed to achieving a 17% reduction to our levy 2015-2016 funding baseline by 2019-2020. On our AE activities, we have identified a significant reduction against our previous planned spend between 2016-2017 and 2020-2021.

We are continuing our investment in IT and business infrastructure as part of the three year strategy we set out in last year's Corporate Plan. This will in part enable us to achieve the savings set out above whilst delivering a modern, fit for purpose IT and business infrastructure.

Our continuing investment in IT and business infrastructure will enable us to achieve savings while updating our systems.

2015-2016 financial results

The table in the next section compares the 2015-2016 forecast expenditure as at February 2016 and the 2015-2016 budget. The categories shown illustrate the major areas of expenditure. The forecast expenditure in 2015-2016 is lower than budget, primarily due to a pause and reprioritisation in our IT investment programme to enable the new senior management team to review and validate the overall plan, and not requiring various provisions and contingencies, particularly in respect of fulfilling our AE duties.

Budgets and results

The table below compares the overall budget for 2016-2017 with the budget for 2015-2016 as well as the 2015-2016 forecast as at February 2016 for the full year. The budget for 2016-2017 shows an increase of £15.4 million against the forecast spend in 2015-2016. 90% of this increase is in respect of the increasing volume of work relating to AE. The main reasons for the overall £15.4 million increase are:

- salary costs from higher staff levels in 2016-2017, particularly to support the rollout of AE to small and micro employers and the result of IT changes
- professional services and fixed assets arising from the IT and infrastructure investment
- outsourced contract costs associated with (i) the increase in the number of employers required to comply with their AE duties and (ii) other operating costs arising from our investment in IT and infrastructure (some of which were held back from 2015-2016)

Table: High level cost summary

Category	2015-2016 forecast (£000)	2015-2016 budget (£000)	2016-2017 budget (£000)
Income (interest)	(15)	(24)	(24)
Salaries	33,011	34,672	36,540
Non-payroll staff costs	1,869	2,647	1,007
Other staff costs	2,089	2,602	2,066
Consultancy	212	381	85
Professional services	5,282	9,778	8,298
Communications	890	1,128	1,043
Outsourced contracts	14,357	17,243	23,559
Accommodation/general costs	4,188	4,671	4,645
Depreciation	1,258	1,239	1,358
Fixed asset costs	1,033	1,744	950
Total	**64,174**	**76,081**	**79,527**

A comparative summary analysis of the budget for the next three years is shown in the table below. We continue to revisit and update the three year spend profile each year to reflect the latest known plans.

Growth over the first two years is primarily driven by significant planned increases in the cost of the AE roll-out to small and micro employers, volumes for which significantly reduce in 2018-2019 which explains the decrease in cost in that year. The final year also reflects a reduction in the IT and business infrastructure costs as the investment programme reduces to a lower annual investment cost.

Table: Three year cost summary

	2016-2017 (£000)	2017-2018 (£000)	2018-2019 (£000)
Total	79,527	85,379	66,898

Staff numbers

The table below shows the projected average full time equivalent (FTE) staff numbers from 2015-2016 to 2018-2019. The increase in 2016-2017 and 2017-2018 reflects additional staff required to meet the increased activity associated with AE. We will start to reduce staff numbers in 2018-2019 to reflect the reduction in AE while also meeting the 2015 Spending Review challenge.

Table: Average FTE analysis

	Forecast 2015-2016	Budget 2016-2017	Budget 2017-2018	Budget 2018-2019
Total	480	547	607	576

Endnotes

1. 1,000 hybrid schemes contain both DC and DB members, and therefore these schemes are included in both the DB and the DC scheme count. Public service schemes include both funded and unfunded schemes. The asset figure quoted is reflective of funded schemes only. There are around 2,400 contract-based schemes, of which around 500 contain workplace members. There are a total of 4.9 million active members (ONS, ASHE, 03/03/2016), holding approximately £115 billion in assets (ONS Pensions in the national accounts, 01/04/2010). 17,350 employers have automatically enrolled their employees into contract-based schemes.
2. OBR March 2016 growth forecasts: **http://budgetresponsibility.org.uk/publications**
3. Survey of DC pension scheme members: **www.tpr.gov.uk/dc-survey**
4. Record-keeping survey 2016: **www.tpr.gov.uk/research**
5. Occupational pension scheme governance survey 2014: **www.tpr.gov.uk/governance2014** and Trustee landscape quantitative research 2015: **www.tpr.gov.uk/landscape**
6. Public service governance and administration survey 2015: **www.tpr.gov.uk/ps-research**
7. DC Trust scheme return data 2015-2016: **www.tpr.gov.uk/dc-trust-2016**
8. Occupational pension scheme governance survey 2014: **www.tpr.gov.uk/governance2014** and Trustee landscape quantitative research 2015: **www.tpr.gov.uk/landscape**
9. TPR Employer tracker survey: **www.tpr.gov.uk/aware-spring-2015**
10. RSM Pensions Fraud Risk Report: **http://bit.ly/1UmN31D**
11. McAfee 2016 Threats Predictions: **http://intel.ly/1T80ktQ**
12. The Purple Book: **http://bit.ly/1T7rQXV**
13. This target relates to schemes that are required to produce their scheme valuation with effective dates between 22 September 2014 and 22 September 2015 and represents schemes going through their fourth triennial valuation cycle. The liability profile of this tranche will be published in May 2017. This target is based on our expected case selection. In selecting cases, we use a variety of risk indicators and are mindful of all our statutory objectives, including our objective to protect the PPF. In 2016-2017, we expect to engage with schemes which account for 35% of the PPF risk, based on the measure selected for this tranche's demographic.

How to contact us

Napier House
Trafalgar Place
Brighton
BN1 4DW

www.tpr.gov.uk

www.trusteetoolkit.com
Free online learning for trustees

www.pensionseducationportal.com
Free online learning for those running public service schemes

Corporate Plan 2016-2019

The Pensions Regulator