Pension Protection Fund

Annual Report & Accounts 2020/21

Protecting our members in uncertain times

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Annual Report & Accounts 2020/21

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Section 1
Overview

“When Woolworths collapsed it was such a stressful situation, thinking that the large investment I’d made in my pension and my future might be wiped out completely.

“When the PPF stepped in it was a relief to know that my investment was safe. They gave me back a sense of security.

“The website has answered all the ‘little questions’ I’ve had and the Benefit Modeller is really useful and easy to use, with lots of choices.

“It’s meant I haven’t had to always phone them but on the odd occasion I do, they’re always very helpful.”

Helen Randles
PPF member

Overview of the PPF

What we do and why it matters

Our purpose is to protect the future of millions of people throughout the UK who belong to Defined Benefit (DB) pension schemes. When these schemes fail, we're ready to help.

We do this by paying our members, by charging a levy and by investing sustainably. Our work has a real impact on people's lives, so whatever we do, we strive to do it well, with integrity and with their future in mind.

How we're funded

We raise the money we need to pay Pension Protection Fund (PPF) benefits and the cost of running the PPF in four ways:

- Assets from pension schemes transferred to us 41.5%
- The return we make on our investments 23.9%
- The levy we charge on eligible pension schemes 23.1%
- Recovered assets we secure from insolvent employers 11.5%

Split of funding sources at 31 March 2021

Our responsibilities

Pension Protection Fund (PPF)
The PPF is a public corporation, set up by the Pensions Act 2004, and run by an independent Board. We report to Parliament through the Secretary of State for Work and Pensions.

When an employer becomes insolvent and its pension scheme can't afford to pay its promised pensions, we compensate scheme members for the pensions they have lost.

We take over responsibility for paying compensation[1] once we've assessed that a scheme can't afford to buy benefits from an insurance company which are equal to, or more than, the PPF would pay.

Before the PPF, members of these schemes could have faced significant financial uncertainty and hardship.

Fraud Compensation Fund (FCF)
Funded through a separate levy on all occupational DB and defined contribution (DC) pension schemes, the FCF funds compensation for members of eligible work-based pension schemes where the employer is insolvent and whose schemes have lost out financially as a result of dishonesty. This is a separate fund from the PPF.

Financial Assistance Scheme (FAS)
We also run FAS on behalf of the Government. FAS is funded by the taxpayer. We pay financial assistance to people who were members of certain DB pension schemes which are ineligible for compensation from the PPF – in particular, those schemes that began winding up between January 1997 and April 2005.

1 See page 209 for details about PPF compensation.

The value of the PPF

Setting new stands for innovation, assurance and service.

1. Our strategic priorities 2019-22
   Sustainable funding in volatile times
   Built for innovation
   Brilliant service for our members and schemes
   The best of the financial and public service cultures
   Clear value for money

2. Our ICARE values
   Integrity: Doing the right thing
   Collaboration: Working as one
   Accountability: Owning our actions and their outcomes
   Respect: Valuing every voice
   Excellence: Being our best

Chair’s statement

Arnold Wagner stepped down as Chair of the PPF at the end of his tenure, on 30 June 2021. Here he shares his reflections on the 2020/21 year.

“I remain tremendously proud of how everyone at the PPF, in every area of our work, has pulled together with an unwavering focus on what we are here to do.”

This is our second annual report since the COVID-19 pandemic began. One of the things I mentioned in my foreword last year was the PPF’s responsibility to reassure those who depend on us. This is why we are here – to give people confidence and peace of mind that their financial future is protected by the compensation that the PPF provides.

The Government is still providing significant support to businesses and individuals and we will have to wait and see how the economy will transition as and when that support is eventually withdrawn. There is a risk, of course, that more company insolvencies will occur. However, I am pleased to report that the defined benefit pension scheme members who we protect can rest assured that the PPF remains financially strong and that it can be relied upon to continue to fulfil its mission.

I wrote last year of my pride in the efforts of everyone in the PPF in responding so quickly and so effectively to the pandemic and its implications for our members and stakeholders. One year on, I remain tremendously proud of how everyone at the PPF, in every area of our work, has pulled together with an unwavering focus on what we are here to do. This has ensured the best possible service for our members and levy payers. My thanks go to Oliver Morley, all the members of his executive team and each member of the PPF Board, for their leadership, hard work and dedication over this very challenging year.

This report shows the many ways in which PPF colleagues have adapted to ensure we continue to serve all our stakeholders throughout the crisis and to maintain their confidence in the PPF. Please read this report and see, in more detail, what has been achieved. I will highlight just a couple of points here.

We have made some significant achievements in diversity and inclusion (D&I), becoming a Disability Confident Leader and publishing our ethnicity pay gap and ethnicity representation targets. This is a work in progress and there is, of course, much more to do. However, everyone in the PPF should be pleased with the progress made and the commitment to not rest there. D&I is a strategic focus for the PPF not only because it is right in principle but also because it contributes to our success.

I'd like to congratulate Sara Protheroe, our Chief Customer Officer and Executive Director, who was awarded an OBE in 2020 for services to pensioners. This accomplishment is testament to Sara's commitment to our members and her success in continuously improving their experience of the PPF.

As I leave the PPF at the end of June after over 10 years on the Board, the last five as Chair, a lot has changed over that decade. It is the people in the PPF who, through their passion and dedication to the PPF's purpose, have made it possible for the organisation to adapt and to continue to deliver positively for all our stakeholders. They have made my time as a Board member, and as Chair, a privilege and a pleasure. I will remember it with deep gratitude.

I am delighted that Kate Jones, our current Senior Independent Director, has been appointed to become Chair of the PPF and I wish Kate every success.

Arnold Wagner
Chair of the Board, 2016-2021

I am proud to have the opportunity to lead the PPF through the next important phase of its evolution as we look to our future, building on the strong results delivered in the challenging 2020/21 year. On behalf of the Board I'd like to thank Arnold Wagner for his leadership and significant contribution to the PPF over the last 10 years.

Our priority remains to offer the very best protection to those who rely on us, while working with our levy payers, government, partner organisations and other critical stakeholders to constantly improve, innovate, and set new standards.

The 2021/22 financial year brings an opportunity to look ahead as we develop the strategic plan to take us forward for the next three years to ensure we can confidently deliver for those who need us now and in the future, whatever challenges they face.

Throughout my five years on the PPF Board I have been impressed with the dedication and care shown by our employees. I look forward to working closely with our Board, executive team and employees to continue to protect the futures of all who depend on us.

Kate Jones
Chair of the Board, from July 2021

Section 2
Performance report

“I worked for Visteon in Enfield for 21 years and contributed to a company pension throughout that time. When the company became insolvent and told me they didn’t have any money left it was such a worry. I thought I would have to fight them in court and be involved in years of litigation.

“The PPF stepped in and immediately eased my anxiety over the situation. They gave me peace of mind and it was comforting to know they would be there to help me.

“What they promise you, they deliver.

“As a legitimate and trustworthy organisation I know my payment will arrive in my bank account every time. I’ve never had a problem.

“I will always be grateful to them for coming to my aid. They really were the light at the end of a dark tunnel.”

Joe Adu-Mante
PPF member

Chief Executive’s review

“Our investment performance coupled with our rigorous risk management has put the PPF in a robust position to face the inevitable claims resulting from the pandemic.”

This is our second annual report since the COVID-19 pandemic began. Although it has continued to be very difficult on an individual level for many of us, I’m pleased to report that the PPF remains strong across the business.

With better general market conditions, our investment team has delivered excellent performance, which when coupled with our rigorous risk management over the long term, has put the PPF in a robust position to face the claims resulting from the pandemic.

We have recognised the immense pressures businesses are under like all our stakeholders, and put in place ways to make paying the levy easier and more affordable. More and more levy payers are engaging with us directly through our consultations and other forums, helping us to improve the way we work with them and the service we provide.

That pressure has applied to our members too. Our Member Services team has worked extremely hard to make sure our members continued to experience outstanding service, and to answer their concerns. We’re glad to say the legal position on FCF has been clarified and a way forward to fulfil claims is in the process of being put in place.

Our people, some of whom are pictured in these pages, have all gone above and beyond to contribute to our mission, while getting through this very challenging year. Our purpose is to work hard for our members, and I have been so impressed with the effort made by so many to carry on with this goal.

The belief that the PPF can reflect the best public service ethos and a financial services culture has been reflected in the report on our D&I journey in the last year. We continue to work hard to make the PPF a great place to work for everyone.

In general, we have worked hard to improve the organisation’s underlying capability and agility. We have strengthened and enhanced our risk management during this crisis. We’ve also made a great deal of progress on our IT transformation strategy, ensuring our IT estate is appropriate, stable and scalable and provides value for money.

As we move into the third and final year of our current Strategic Plan we’ll build on all this work. It is of course sad that we will be doing so without Arnold Wagner, whose sage advice and exceptional work as Chair of the PPF Board will be much missed. A huge thank you to Arnold from all his colleagues, and we look forward to working with his successor, Kate Jones.

Oliver Morley
Chief Executive

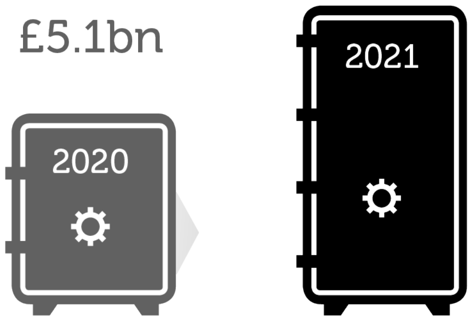
Key figures

We use these measures to monitor our activities.

PPF reserves[1]

£9.0bn

£5.1bn



1 See page 110.

Investment return

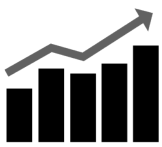
3.2%
2021

5.2%
2020

Return on growth assets

17.6%
2021

-4.9%
2020



Probability of success

83% 2020

95% 2021

Cost per member per year

£53 2021

£57 2020

Actuarial liabilities[1]

£28.5bn 2021

£28.7bn 2020

Customer satisfaction score

98%

Members in PPF assessment

at 31 March 2021

102,394

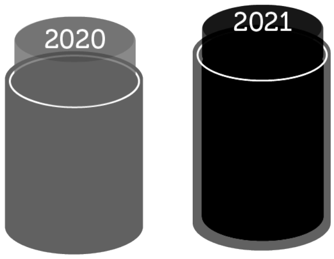
Number of employees

at 31 March 2021

446

Funding ratio

113.4% **127.3%**



Assets under management

£38bn
2021

£36bn
2020

PPF levy collected

£630m
2021

£567m
2020

PPF members

In payment	179,572	288,042
Deferred	108,470	

FAS members

In payment	79,000	145,938
Deferred	66,938	

PPF benefits paid

£1bn
2021

£860m
2020

Strategic Plan and priorities

We have now completed two years of our 2019-22 Strategic Plan, 'Setting new standards for innovation, assurance and service'.

We remain at a key moment in our evolution, facing significant economic uncertainty. We are at the crossroads between the financial and public sector, small scale and large scale, innovation and well-established quality services.

We believe that to be the best we can we need to set, and follow, the best practice across the industries in which we operate. We are setting ourselves new standards and sharing what we do more widely.

This means having a clear funding and investment strategy that meets the demands of key stakeholders. It requires us to maintain high standards of customer service, but also to build a reputation for innovation and efficiency.

We aim to provide a compelling proposition as an employer – getting our values, work/life balance and remuneration right, and promoting diversity in ways that outperform some of those who compete with us for talent.

Our five strategic priorities are the areas we need to focus on to successfully achieve our mission, and help address and mitigate the challenges we face over the three-year period of this plan.

Performance against our 2020/21 Business Plan

	Planned Activity/Milestone	Performance	Comment
	Sustainable funding in volatile times		
1	**We will complete the second stage of changes in order to prepare our approach for reaching our funding horizon.**	✓	Achieved. See page 30.
	We will determine, prioritise and implement modelling requirements to support the next evolution of our funding strategy.	✓	
2	**We will demonstrate a robust and effective approach to responsible investment by:**	✓	Achieved. See pages 67-72.
	▪ Pursuing risk management approaches to mitigating environmental, social and governance (ESG) and climate-related financial risk exposure within our investments, focusing on liquid markets and real assets;	✓	Achieved. See pages 67-72.
	▪ Participating in the Principles of Responsible Investment annual reporting assessment; and	✓	Achieved. See pages 67-72.

	Planned Activity/Milestone	Performance	Comment
	▪ Reporting on our activities and progress, in line with the Task Force on Climate-related Financial Disclosures (TCFD)'s guidelines.	✓	Achieved. See pages 67-72.
3	**We will maintain probability of success of at least 90 per cent, subject to macroeconomic conditions.**	✓	Achieved. See page 28.
	Built for innovation		
4	**We will consider further opportunities for investment insourcing, where we can demonstrate the portfolio is best managed and supported internally.**	✓	Achieved. See page 28.
5	**We will emulate the Financial Conduct Authority (FCA)'s standards for IT business continuity and disaster recovery. We will follow best industry practice in our security strategy by obtaining industry recognised certification. We will continue the implementation of cloud services for appropriate services providing more scalability, stability and a platform for innovation.**	✓	Achieved. See page 37.

	Planned Activity/Milestone	Performance	Comment
6	**We will improve the service and efficiency in our Member Services operation by:** ▪ 65 per cent of member services transactions being completed online, including 25 per cent of retirements; and	✓	Achieved. See page 38.
	▪ Implementing at least five initiatives to increase automation and efficiency.	✓	Achieved. See page 38.
	We will complete the training of pensions administrators on both the FAS and PPF payroll critical processes, implementing a rotation plan to ensure that new skills and knowledge are kept alive.	✓	Achieved. See page 40.
	We will reduce average handling time in the contact centre by one minute.	X	Given the circumstances, we decided not to attempt to meet this target. See page 46.
	Brilliant service for members and schemes		
7	**PPF and FAS members' satisfaction with the service they receive is at 90 per cent or above.**	✓	Achieved. See page 40.

	Planned Activity/Milestone	Performance	Comment
8	**Levy payers' satisfaction with the service they receive is at 80 per cent or above.**	✓	Achieved. See page 47.
9	**We will complete feasibility studies into the introduction of electronic levy invoicing and a facility for levy payers to estimate the value of their invoices.**	✓	Achieved. See page 48.
10	**We will collect 95 per cent of the outstanding uncontested 2020/21 levy by 31 December 2020.**	✓	Achieved. See page 47.
11	**We will complete the process of increasing compensation in line with the Court of Justice of the European Union *Hampshire* judgment for 90 per cent of those members who are affected, i.e. those who are receiving less than half of their accrued benefits.**	X	We've increased payments to the vast majority of capped members using the *Hampshire* methodology. We were unable to go any further pending the outcome of the legal challenge. See pages 34-35.

	Planned Activity/Milestone	Performance	Comment
12	**We will continue to work with the Department for Work and Pensions (DWP) and other bodies to ensure there is clarity over FCF's role in relation to scam schemes.**	✓	Achieved. See page 35.
	The best of financial and public services culture		
13	**We will score at least 85 per cent of our employees agreeing with the statement "In my experience, the PPF actively encourages diversity in all its aspects", with a particular focus on how that question is answered by those in under-represented groups.**	✓	Achieved. See page 55.
14	**We will roll out appropriate checks to confirm fitness and propriety in addition to training that focuses on the culture and conduct elements of the Senior Managers and Certification Regime (SMCR).**	✓	Achieved. See page 52.

	Planned Activity/Milestone	Performance	Comment
	Clear value for money		
15	**We will implement the investment operations' new target operating model and the new investment performance measurement system.**	✓	Achieved. See page 59.
16	**We will execute the conclusion of the value for money review.**	✓	Achieved. See page 59.
17	**We will deliver investment performance consistent with targets set by the Board of the PPF (the Board) and consistent with our long-term investment objectives within our strategic risk budget.**	✓	Achieved. See pages 26-30.

Sustainable funding in volatile times

PPF funding position
Our funding ratio as at 31 March 2021 is 127.3 per cent. This is an increase of 13.9 percentage points year on year.

We have £38.0 billion in invested assets, an increase of £1.9 billion year on year. Our PPF reserves have increased from £5.1 billion to £9.0 billion.

Our investment performance was very strong. We have more than made up for the drop in reserves we reported last year, which was a result of markets' reactions to the emerging COVID-19 crisis in the last few weeks of 2019/20. Our reserves mean that we have £9.0 billion over and above what we estimate is needed to pay every current member and their dependants their full compensation for life. These reserves help protect us against future risks.

Claims were relatively low, both in terms of number and value. We didn't experience an increase in claims due to the COVID-19 crisis in the year, thanks to government support for businesses (see page 34). There were 39 new claims in 2020/21, up from 38 the previous year, with a value of £271 million.

The risk from new claims remains high: some insolvencies due to the COVID-19 crisis will be inevitable so we're expecting claims to materialise over the coming year. Nevertheless, our low-risk, long-term funding strategy means we're prepared to meet this risk and remain robust in the face of uncertainty.

Investment performance
We've had an exceptional year of investment performance. Across our growth (non-hedging) assets, which constitute around 60 per cent of the portfolio, we delivered a return of 17.6 per cent (£3.7 billion). Our current long-term investment strategy is designed to produce annual returns of just under three per cent, so the 2020/21 return represents around five years of 'expected' returns in a single year, continuing the pattern of strong long-term investment returns seen over the medium term.

Performance was broadly based, with the Equity, Private Equity, Absolute Return, Emerging Market Debt and Hybrid (UK buy and hold credit) asset classes making particularly significant contributions to the Fund. Alongside exceeding our absolute return targets, it was also pleasing to see our strong performance when viewed against external asset class benchmarks. This outperformance was delivered through dynamically managing our strategic asset allocation, alongside proactively increasing our funding to idiosyncratic managers and strategies in response to a fast-changing market. What we have not done is to alter the low-risk profile of the portfolio. We operate with a highly diversified set of assets and with a relatively low four per cent risk budget. The returns generated should be viewed very much in the context of this low-risk approach.

Our liability-driven investment (LDI) strategy, which represents the other 40 per cent of the portfolio, continues to protect the Fund from adverse changes in inflation and interest rates. This year marked a significant milestone, with the remaining parts of the LDI book being insourced. This final act represents the culmination of a five-year journey, which has seen the establishment of an industry-leading LDI team and delivered savings in the region of £60 million for our members.

For the first time in seven years, UK bond yields rose during 2020/21, which had the effect of reducing the value of both our LDI (hedging) assets and the Fund's liabilities. This means that the Fund's overall return, at 3.2 per cent, represents both the strength of the returns on our non-hedging assets and the decline in value of our hedging assets, matching the movement in our liabilities. This combination of strong investment returns and lower liabilities means that our investment activities have made a significant positive contribution to the Fund's funding position in 2020/21 as they have over the past three and five years.

Probability of success

Our Probability of success (PoS) is the main way we measure our progress towards our funding target. We estimate this quarterly, using the Long Term Risk Model (LTRM).

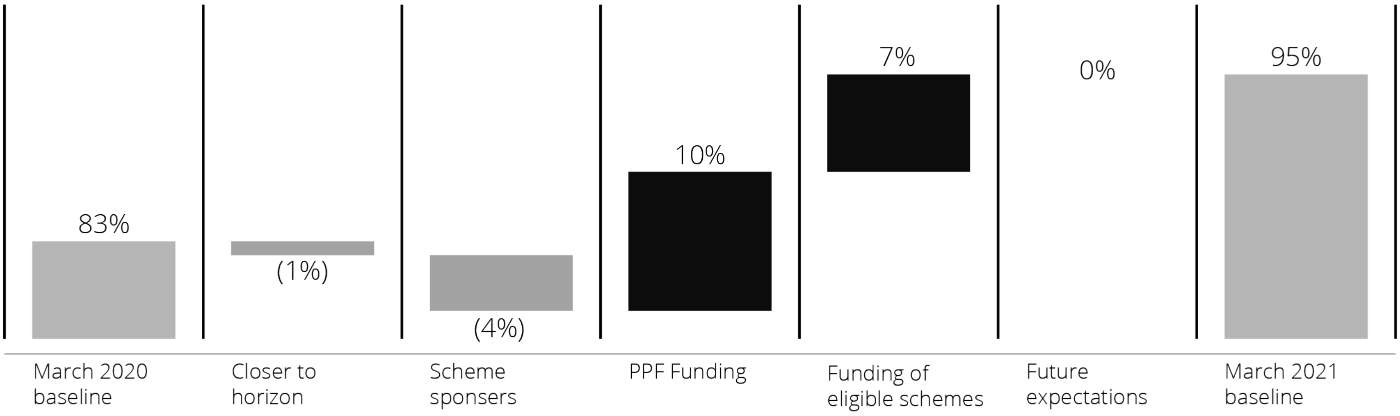
The PoS started the year at 83 per cent. This reflected depressed markets at the bottom of the COVID-19-driven market fall, impacting both our own reported funding and a fall in the funding position of the schemes whose members we protect. It also reflected our view that the COVID-19 pandemic would be likely to increase the levels of claims on the Fund due to the worsening position of scheme sponsors.

Over the year, our own funding position and the funding of schemes have improved significantly. However, our central assumption is still for an elevated level of claims (see page 34). At 31 March 2021 the PoS was 95 per cent. This is clearly above our target of 90 per cent subject to macroeconomic conditions, and so gives a very good level of confidence in meeting our funding target.

In 95 per cent of the scenarios modelled we have a margin of at least 10 per cent at the funding horizon. Like any complex modelling exercise, our projections are subject to significant uncertainty. This uncertainty remains unusually high, owing to the volatile market conditions affecting the financial strength of the schemes whose members we protect and the potential impact on scheme sponsors when government COVID-19 support packages are withdrawn.

The chart shows the main drivers of the change in the PoS from last year end to this. We've seen large positive impacts from improvements to both our own funding position and that of schemes in the universe of schemes whose members we protect, including from the outcomes of the *Hughes* appeal. However, with more detailed information now available about the impact of the COVID-19 pandemic on the economic health of sponsors and their ability to inject money into schemes, we estimate a negative impact driven by scheme sponsors. We are also one year closer to our chosen horizon than we were a year ago, and so there is one year less to recover from any adverse shocks. This has also led to a negative impact. On balance, our view of the future economy is broadly unchanged from last year, having minimal impact on the PoS.

Probability of success



Enhancing our Long Term Risk Model

In 2020 we upgraded our LTRM software, which we use to estimate our PoS. Since then we've benefitted from the improvements this has made possible. It has enabled us to undertake considerably more model runs than we were previously able to, producing a lot more information about the possible future state of our finances. It has also enabled us, in line with one of our 2020/21 business plan objectives, to make significant enhancements to the LTRM. These enhancements were delivered some weeks later than planned, but now they are available they make our modelling more realistic in a number of important ways and will provide us with very important information as we analyse our future funding strategy during 2021/22.

Understanding and managing the risks we face

Our risk management framework and risk strategy prepared us well for all the uncertainties we faced last year. It meant we had the resilience to respond to the pandemic and continue operations uninterrupted and support our people, members and levy payers throughout.

"Instead of taking seven hours on each of several machines, a run on the replatformed LTRM now takes just around 20 minutes on a single machine, which is a

massive improvement. We can now model many more different risk and funding scenarios than before, freeing up people and time to investigate the underlying drivers and potential mitigating actions.”

Italo Rocha Souza
Senior Actuary

Case Study
Funding boost to a key transport infrastructure asset
In 2020 we acquired a share in the UK’s largest single train fleet, Cross London Trains (XLT). XLT is part of Thameslink passenger rail franchise, which covers the most critical North-South London commuter rail corridor, making it a key transport infrastructure asset in London.

Thameslink is a £7 billion government-funded infrastructure upgrade programme to provide essential congestion relief to London and the South East. Thameslink rail franchise comprises the newest and most modern fleet of electric trains, Desiro City Class 700, manufactured by Siemens. This new generation of electric trains is designed to increase passenger capacity, efficiency and operational reliability. They also help London in its bid to reduce carbon dioxide emissions and encourage rail travel over other means of transport.

“This latest direct investment supports our long-term strategy of investing in key UK infrastructure projects with strong ESG and sustainability credentials.”

Barry Kenneth
Chief Investment Officer

Managing risk in a changing world

Our approach to the management of risk is embedded in our operations through our risk management framework. This covers our systems of governance, our risk appetite and our risk management processes. The processes we use to identify, measure, manage, monitor and report risks, including the use of our risk models, and stress and scenario testing, are designed to ensure risk-based decision-making and effective day-to-day risk management. When, despite this, things go wrong, our risk incident process makes sure that we learn from our mistakes.

Our Risk and Audit Committee has overseen the continual development of our risk management framework to reflect our risk environment and emerging best practice. We have kept our enterprise risks, and their management actions, in constant view, given the quickly changing landscape and made sure that our risk appetite statements remain relevant. This has enabled the Committee to make sure that we're taking appropriate action to manage the risks we have faced, especially in the light of the COVID-19 pandemic.

In 2020/21 we ran a benchmarking exercise to align ourselves with the operational resilience standards of the Prudential Regulation Authority (PRA) and the FCA. Although we're not regulated as an organisation, we aim to emulate the standards of regulated financial institutions.

We also continue to benchmark against best practice in the field of risk management. This includes measuring ourselves against the UK Government's Orange Book, ISO standards, and standards published by the Risk Coalition, a network of independent professional bodies. These benchmarking exercises have confirmed that our risk framework is appropriately designed, and have highlighted areas we need to develop further to make sure that we meet current best practice.

"We were in a very good position because of all the hard work the IT teams had done to get us to the point where we could all work from home, including people in investment and the contact centre for whom that hadn't previously been feasible because of the technology used in their roles. That was a key component of our resilience."

Duncan Ward
Operational Resilience Manager

Responding to risk in a pandemic

We very quickly established a COVID-19 resilience tracker, with feeds from across the organisation. We met weekly at first, then eventually monthly as we monitored the situation.

We used our risk and control self-assessment process (RCSA) to monitor the most worrying risks and understand from where large risk exposures may occur. This included, for example, staff sickness and increased workloads.

The outlook for our biggest risk

The risk of insolvency from the schemes we protect remains our biggest risk.

Although we expected the pandemic to result in a number of insolvencies, and therefore claims on the PPF, government interventions have deferred, and possibly reduced, this risk. We're monitoring the situation closely, and using our models to help us understand the number of insolvencies, and therefore claims, we might expect. This modelling has also informed our estimates of contingent liabilities (see page 155).

We continually monitor our risk radar to make sure we have a good understanding of new and emerging risks. For example, one of the risks on our radar is the changes to the pensions landscape that commercial consolidators may bring.

Commercial consolidators, or superfunds, are an emerging development in the pensions industry. They aim to consolidate multiple DB pension schemes into one larger scheme.

Should the consolidator market grow, it may change our risk profile from a fairly diverse portfolio of largely insolvency risk, to a much more concentrated portfolio of largely investment risk, with less diversification.

The Pensions Regulator's (TPR) interim authorisation programme will help regulate consolidators as they develop. We'll continue to work with TPR on this and any future legislation as the market develops.

Court rulings – *Hampshire* and *Hughes*
In September 2018 the Court of Justice of the European Union (CJEU) determined, in the *Hampshire*[1] case, that every individual's PPF compensation should be subject to a floor of 50 per cent of the value of their accrued pension.

In July 2021 the Court of Appeal ruled in the Hughes2 case that we are entitled to perform a one-off calculation approach for increasing payments to the 50 per cent minimum level. It also confirmed that the PPF compensation cap, as set in legislation, is unlawful based on age discrimination and has to be disapplied.

Although we now know that no party plans to appeal the ruling, we are working hard to plan how we will implement it. So for now, we'll continue to pay members their current level of benefits.

Court of Justice of the European Union ruling – *Bauer*
We continue to work closely with the DWP to agree our approach for implementing the *Bauer*[3] judgment.
(see page 197).

Fraud Compensation Fund
As we noted in last year's Annual Report and Accounts, although historically claims on the FCF have been low, we had become aware of a high number of potential claims relating to schemes that were themselves part of a scam. It was unclear whether these schemes would be eligible to claim on the FCF, so we initiated a legal process to seek clarity on this, working with the trustees of one such scheme.

In November 2020 a court ruling clarified that occupational pension schemes set up as part of a scam were eligible to claim on the FCF. This is excellent news for the victims of these scams.

We have received a number of claim applications from such schemes, with a total value of over £40 million. We expect to receive more claims from schemes following confirmation of eligibility to apply for compensation.

Our 2019/20 Annual Report and Accounts confirmed the FCF had assets of £21.5 million, and if claims exceeded the current assets of the Fund, we'd need to seek additional funding.

Given the value of the claims we had already received and our expectation that, following the court ruling, further claims will be made, we confirmed in April 2021 that we're raising an FCF levy of 75p per member (30p for master trusts) in 2021/22.

This FCF levy alone would not be sufficient to fund all potential claims, should they crystallise, so we have been working with the DWP to resolve the funding gap by securing a loan from the DWP to the FCF. The Bill to enable funds to be loaned to the FCF has had its third reading. This loan and its interest would be repaid using FCF levy receipts over time. We are confident that funding will be obtained and that we will be able to pay claims as they settle. However, until the resolution of all matters regarding the loan including the completion of the required legislation, some uncertainty remains that we would be able to provide a continuation of service.

1 Grenville *Hampshire* v Board of the Pension Protection Fund (Case C-17/17) EU:C:2018:674 (6 September 2018).
2 Secretary of State for Work and Pensions & Anor v Hughes & Ors (2021) EWCA Civ 1093.
3 Pensions-Sicherungs-Verein VVaG v *Bauer* (Case C-168/18) EU:C:2019:1128 (19 December 2019).

Built for innovation

It's been an exceptional year of change and technological evolution. In the second year of our three-year IT transformation, we continued to enhance our digital services and offer a better experience for employees and members.

The transformation programme has enabled us to make the transition to a modern, customer-centric organisation whose effectiveness can be enhanced through embracing technology and digital services.

With our entire workforce working from home from March 2020 we had to bring forward some of our IT transformation plans. However, the work we'd already done in the first year of the programme meant we had what we needed in place to work effectively from home without an impact on customer service or operational resilience.

We quickly had to re-prioritise projects and introduce interim solutions, such as Zoom, to keep us connected, as well as fast-tracking new digital services to make sure we could continue to work effectively while working remotely.

Other significant achievements this year included:

- Implementation of cloud services
- Introduction of Microsoft365
- Desktop upgrade to Windows 10
- Introduction of a new call recording system
- Migration of all users to Skype 2019
- Introduction of single sign-on capabilities for

multiple services
- Introduction of IT self-service to minimise technical dependencies
- Blueprint for a new data platform
- Implementation of automation to the technology estate

How we prepare for an emergency
This year we ran our first internal IT disaster recovery exercise, in alignment with FCA standards. This involved powering down our main data centre, where all our systems and information are hosted, and moving everything to a backup system.

We ran the exercise over a weekend, with people from across the business logging on to test whether they could still complete important pieces of work. This was a great success and means we know we can maintain high-quality services to members and levy payers in the event of an emergency.

We will run and review these exercises on a regular basis, along with building our networks of industry peers so we can share and learn from best practice.

This year we also achieved Cyber Essentials Plus Certification, the highest level of certification offered under the government-backed and industry-supported scheme. The new certification complements and adds to our ISO 27001 certification and alignment to the National Cyber Security Centre's 10 steps to cyber security.

Efficiency in our member services
This year we welcomed more than 17,000 new members

and as a result of our efficiency programme, we were able to offer them a first-rate level of service without hiring more customer-facing staff.

Launched in 2019, the Efficiency and Service Improvement Programme has seen us evolve our tools, technology, systems and processes.

As we move into the final year of our transformation, we're able to serve an increasing membership and manage the additional workload without an impact on service or a rise in costs.

As part of this, our digital service has taken another leap forward. Members can now do more online. We've made everything fast and simple, from getting a username reminder to deferring a pension.

Ways we've enhanced our service this year:
Becoming more efficient
Our target was to bring in five new initiatives to increase efficiency; we were able to double this, with 10 initiatives completed (see page 42, 'Beyond the status quo').

Getting more members online
Encouraging members to do more with us online has seen our online transactions grow to more than 80 per cent, putting us well ahead of our 70 per cent target for 2022.

Making it easier to retire online
The simplest and quickest way for members to start their payments is by using our 'Retire Now' feature. This year saw the number of online retirements rise to 30 per cent, beating our target of 25 per cent.

Flexible resource

We’ve also hit our target for completing the training of pensions administrators on both the FAS and PPF key processes, implementing a rotation plan that ensures new skills and knowledge are kept alive. This is motivating for employees, who increase their range of skills, and allows us to manage the needs of both PPF and FAS members more flexibly and effectively.

“I would just like to say that my complete experience of using the website and the call centre has been absolutely superb. No problems whatsoever in dealing with your website, which I thought was excellent, so I would just like to say well done.”

Member

Brilliant service for members and schemes

In the past year, all companies have been tested to their limits simply trying to provide a basic service for customers. Despite the challenging circumstances, we've kept service at the heart of what we do.

We continue to beat our target of 90 per cent customer satisfaction, with 97.7 per cent of PPF and FAS members feeling satisfied with the service they've received.

This year saw some large schemes transfer to us, bringing a total of 17,130 new members.

Although our membership has grown and our teams have largely worked from home, we've continued to surpass our Service Level Agreement times, dealing with more than 99 per cent of cases in under five days and answering 84 per cent of calls within 30 seconds.

Our member payroll has also continued uninterrupted, including post-Brexit overseas payments to members living in the EU. To handle the transition smoothly, we contacted those with an EU address to make sure they changed their bank details with us if necessary.

"In these difficult times, it was a very pleasant surprise to find the phone answered so promptly and so cheerfully."

Member

"Absolutely brilliant service. The person I spoke to was absolutely brilliant. He is very, very knowledgeable. Nothing was too much trouble, he went above and beyond. Every time I've rung your service every single person has been brilliant but he was lovely. He put my mind at rest. Honestly, your staff are brilliant – a round of applause (claps)… these terrible times… this pandemic and everyone's so nice."

Member

Beyond the status quo
In addition to maintaining the level of service members expect from us, this year we've enhanced our online service in several ways, improving member experience across all our channels.

We now email members who are turning 50 and 55 to encourage them to use our online Benefit Modeller. This helps them understand their pension and lump sum options so they can plan for retirement.

Once ready to retire, they can do so easily online, and we write to members encouraging them to do this as they approach their scheme's normal pension age, encouraging them to use this method, no longer including paper forms as we've done in the past.

As members increasingly want to do more via digital channels, we're continually improving the experience. We know, for example, that some members don't need to use our website frequently, so may forget their login details. Members are now able to be reminded of their username and to change their password via the website, so they can swiftly get back online without contacting us.

"The way that the PPF has dealt with the coronavirus issue is incredible and I can't believe how calm and reassuring they have been each time I have called."

Member

Supporting our vulnerable members
One of our key priorities is to continue to make our service as straightforward to use as possible for members with disabilities or other vulnerabilities.

Over the past year, we've been asking members with vulnerabilities if we can make a note of their circumstances on our system so they don't have to repeat themselves when they call. This has been welcomed by members and has helped us offer a better, more individual service to each person. We've also started using Relay UK to support people with hearing impairments and we signpost sources of help for issues such as mental health and money worries.

More ways we've improved this year
Web accessibility
Our member website now has a Web Content Accessibility Guidelines rating of AA which means it's accessible for people with disabilities, such as impaired vision or motor difficulties. It can be used with a screen reader and navigated with a keyboard.

We have a plan of further improvements to make the site even more accessible over the coming year.

Letters of authority
If one of our members would like someone else to deal with us on their behalf, they can now download a ‘letter of authority’ form from our site.

This is useful in a number of different circumstances, including for members with dementia or those with hearing difficulties who prefer not to speak on the phone. It can also be helpful if a member prefers a third party to manage their finances for them.

Dealing with bereavement

“The support we’ve received from our team leaders has been amazing. Hopefully, we are past the worst of the bereavement calls now. Everyone in the team has handled it brilliantly.”

“I got emotional speaking to a 19-year-old beneficiary about their loss. I spoke to my team leader afterwards which really helped me, and I was encouraged to take a break. You really feel for the caller in these situations.

“Every bereavement call is different. Putting yourself in their shoes can be difficult when you’re dealing with back-to-back calls.”

Hannah
Senior Contact Centre Advisor

“The first time I saw a death certificate on a member record with the cause of death as ‘COVID-19’, it really brought home to me the reality of this pandemic. The effect this awful virus is having on our older generation, in particular, is devastating.”

Bernie
Member Payments Officer

“The increase of bereavement calls has been very difficult to deal with for many people. Even before COVID-19, every call took me back to how I felt when I went through a bereavement. I’ve sometimes needed to compose myself before taking another call. I know how laborious those calls are and how hard it is to even say the person’s name or

their date of birth.

"When I take a bereavement call I want to make sure that the person I'm talking to is left with a positive feeling in a dark time, and that they have one less thing to worry about. I want them to have confidence in the PPF; after all, this is probably the first time they've spoken to us. I want to leave them knowing that we're not just another company they have to deal with, but that we're people who care about our members and the people they leave behind."

Ellias
Pensions Administrator

Putting people ahead of targets

One of the planned activities we didn't achieve in 2020/21 is reducing our call handling time. This is because we felt it would be wrong to prioritise this target over our members' needs or employees' wellbeing.

Periods of lockdown have meant that our people working from home often had to take longer between calls due to conflicting priorities, such as homeschooling.

Reducing call times would also have got in the way of our ability to treat each person as an individual.

Our team has witnessed the devastating loss of life caused by the pandemic, with an unprecedented rate of bereavement calls. Naturally, calls with bereaved families need a little longer than ordinary calls and this isn't something we would want to change.

As we know how difficult it is to have to notify multiple organisations when a person has passed away, we're also working on improving the process further.

Brilliant service for schemes
This has been a challenging year for the schemes we protect. To recognise this, we offered levy payers an extra two months to pay without incurring interest if their business or scheme was struggling as a result of the COVID-19 crisis.

It was reassuring to see that uptake on this was low – around one per cent of schemes requested longer to pay, which we agreed to in all cases. We were also able to collect 95 per cent of the outstanding 2020/21 levy by the end of November, a month ahead of our goal.

We surpassed our target for excellent service, with 92 per cent of levy payers surveyed feeling satisfied with the service they've received, against a target of 80 per cent.

Case Study
"Following a long career in the industry, I'm currently an advisor to a group of SMEs.

"The group has reluctantly accepted that the levy is here to stay and has been consulting with the PPF's SME Forum on the interests of small businesses.

"Personally, I'm delighted with the way they have responded to our input, particularly with the small scheme adjustment and levy cap.

"They're good people to deal with and in the way that they respond to feedback, I've found them a breath of fresh air."

Paul Duffy
Independent pensions trustee and company advisor

Innovating our service for the future

We know our levy payers don't have a choice in using our service, which reinforces our ambition to continually improve what we do.

This year our focus has been on improving our digital services by listening carefully to what levy payers want from us and understanding where we can do better.

We accelerated our introduction of electronic invoicing this year. We'll be continuing to refine the process for future years in response to the feedback we've had about its effectiveness so far.

We also asked for levy payers' help with our work exploring whether it's possible to develop a levy estimate tool. Their input has contributed to our feasibility study. Final decisions on this piece of work will be taken in 2021/22, with the outcome feeding into our next Strategic Plan.

Engaging with levy payers

We've maintained our regular cycle of two structured SME Forums, with formal meetings in September and February, but we've also been running informal meetings and focus groups, including with our Industry Steering Group members.

We received valuable feedback that has helped shape our levy rules, small scheme adjustment and the risk-based levy cap proposals.

Following this, we reduced the cap on an individual scheme’s levy from 0.5 per cent to 0.25 per cent of its liabilities.

We’ve also seen a welcome increase in engagement with our levy consultations since we introduced online forms, including a ‘quick response’ option.

In addition, we’ve introduced a revamped email newsletter that goes out to all schemes, in response to feedback from levy payers.

Case study
“The rapid collapse of Carillion was very high profile. It was featured in national media and on television and was debated in Parliament.”

“Several of the Carillion pension schemes were significantly underfunded and the public debate about the failure of the company caused huge concern and upset to its current employees, but also to its former employees who were pension scheme members.

“Thankfully the PPF was able to step in to provide a safety net.

“This meant our members were able to move from a place of difficult, stressful uncertainty to having confidence in the security of their pension, in a very short period of time.”

Chris Martin
ITS Limited, Carillion Staff Pension Scheme Trustee

Welcoming Dun & Bradstreet

After a productive partnership, our contract with Experian ended this year. We're grateful for the work its team did to help us develop our bespoke insolvency risk model over the last six years.

Dun & Bradstreet (D&B) will build on the old methodology and help us develop our services, with levy payers at the heart of any improvements.

We began insolvency risk scoring with D&B under new methodology in April 2020. Monthly scores will be used in the 2021/22 levy calculations.

Throughout the past year our levy payers have been using the D&B portal to check their insolvency risk scores and submit queries online.

Case study

"The small scheme adjustment has been a most welcome relief and has turned the levy into a much more manageable cost. I'm pleased to hear they think it will continue."

"There's a disconcerting disconnect between people who have to be trustees of smaller DB heritage pension schemes and the complexity of the system. The learning curve is vertical.

"The PPF has recognised the glaring disadvantages that small and medium enterprises (SMEs) have suffered since the second three-year levy period. We all thought we were alone in the wilderness until we joined the SME Consultation Group and then the PPF's SME Forum.

"I do think the PPF have listened and taken into account what SME stakeholders have been saying. And where they can move, they've moved."

Charles Malcolm-Brown
Managing Director, Dixon International Group

The best of financial and public services culture

We emulate the best practice of regulated financial institutions and do work that makes a positive impact on the world. This gives us a unique ethos, perspective and culture we're proud of.

Thank you to our people
It's a true testament to our people that we've continued to deliver on our objectives and maintain our service to customers and levy payers amid difficult circumstances. We'd like to acknowledge their hard work here.

Accountability for Senior Managers
We demonstrate our culture from the top down, which includes reflecting best practice in the financial services industry.

Publishing our own version of the SMCR is an important part of this. This system designed by the FCA is used by regulated financial organisations to define their responsibilities and hold people accountable to them.

Along with our ongoing monitoring of this regime, we've successfully run further fitness and propriety checks on our employees this year so we know we're aligned with industry best practice.

Expanding our ICARE values
An important aspect of the SMCR is setting a minimum standard of behaviour for people working in financial services.

As part of our commitment to good governance, we've continued to reflect the FCA Conduct Rules in our ICARE values and behaviour framework through a dedicated training programme.

Although our values are already aligned with these rules, we've been using them to drive our behaviours in tangible ways, such as putting processes in place so we can collaborate well together.

It's vital that everyone working in the organisation understands the importance of their conduct so we've held workshops with our senior leaders, which will be rolled out more widely alongside our appraisal process.

"The pandemic has affected everyone who works for us. Whether it's starting early or working late to fit work around childcare or the increase in calls from bereaved families while themselves suffering bereavement, people have delivered. The commitment, resilience and good humour everyone has shown during these testing times has been remarkable."

Katherine Easter
Chief People Officer

FCA Conduct Rules

Rule 1
You must act with integrity.

Rule 2
You must act with due skill, care and diligence.

Rule 3
You must be open and cooperative with the FCA, the PRA and other regulators.

Rule 4
You must pay due regard to the interests of customers and treat them fairly.

Rule 4
You must observe proper standards of market conduct.

Our ICARE values

Integrity
Doing the right thing

Collaboration
Working as one

Accountability
Owning our actions and their outcomes

Respect
Valuing every voice

Excellence
Being our best

"I believe the importance of diversity cannot be overstated because not only does strength lie in our differences, but also diversity guides us in reaching the best outcomes for our members."

Stephen Adeolu
Investment Analyst

How we're improving diversity

We're actively building a diverse and inclusive workplace, where everyone feels able to be themselves and valued for their differences.

One of the most important ways we're taking action is by recruiting people from under-represented groups, including into more junior roles, so we can nurture our own talent.

Although it will take time before we see the results of this in changing the makeup of our organisation at a senior level, it will make a big difference in the long term.

We still have a way to go, but we're encouraged by the fact that our employees have recognised our efforts, with 88 per cent saying we encourage all aspects of diversity, up from 81 per cent in 2020. We're especially pleased with the improvement in this figure among under-represented groups.

Ways we've taken action this year

Becoming a Disability Confident Leader

In October 2020 we became accredited as a Disability Confident Leader – the third and highest level of the Government's Disability Confident scheme.

With 8.4 million people of working age[1] in the UK having a disability, it makes poor business sense to ignore this huge potential talent pool.

To encourage other organisations, we're keen to share our experience in attracting, recruiting and developing opportunities for people with disabilities and other health conditions.

Sharing our knowledge

As a Disability Confident Leader we look for ways to champion Disability Confident in our networks and communities. In January 2021 we hosted a webinar with Work With Me, a community of businesses committed to becoming more inclusive of disabled people. We're an active participant of Croydon's Disability Confident Action Group, of which our HR Director, Sue Hall is vice chair; and the Diversity Project's disability workstream, which helps to share improvements for the workplace.

More women in senior financial roles

Back in February 2018, as part of the Women in Finance Charter, we committed to improving gender balance across all levels. Our goal was to have 40 per cent female representation in senior positions by December 2021.

We met that goal by October 2019 and by August 2020, we'd surpassed it, with 42.4 per cent of senior posts held by women.

We now have a new goal of achieving 45 per cent by 2023 with the longer-term aim of achieving gender parity.

Transparency around pay

In March 2021 we published our diversity pay gap report as a further demonstration of our commitment to equality. We voluntarily reported our ethnicity pay gap figures for the first time, alongside our gender pay gap. Making this commitment to addressing our ethnicity pay gap is the first step to improving our position.

We've set targets for ethnicity representation – particularly in senior level roles – and we're holding ourselves accountable to them. We're also monitoring our progress against externally recognised standards, including the Race at Work Charter.

1 Disabled people in employment briefing paper, April 2021, Disabled people in employment – House of Commons Library (parliament.uk).

Making a difference in our community

Despite the constraints of social distancing and lockdowns, it has been another successful year for our Corporate Social Responsibility (CSR) programme.

For 2020/21 our people chose to support the Alzheimer's Society as our organisational charity of choice. This charity is close to the hearts of many within our organisation and our membership.

With someone in the UK developing dementia every three minutes[1], the work of the Society in funding research to find a cure and supporting people living with dementia has never been more vital.

We've held a variety of fundraising virtual events and a number of our people have made donations towards our fundraising target.

We've continued to support our local community in other ways too. We provided IT equipment for some of our own employees homeschooling their children, and provided laptops for the students of St Mary's High School, with which we continue to work closely.

"It's been difficult to organise our usual fundraising and community support programme this year, given the pandemic. However, under very different and difficult circumstances, we're delighted to report that we've had a successful year for our staff-nominated charity, the Alzheimer's Society.

We have fundraised successfully, supported our community to aid homeschooling and run a comprehensive internal communications programme to raise awareness about the effects of dementia, the work of the charity we are supporting, and how our efforts to fundraise can really help those affected by the disease."

Katrina Carney
CSR Lead

Awards and recognition 2020/21

The Queen's Birthday Honours List 2020
Services to pensioners – Sara Protheroe

Pensions Age Awards 2021
Pensions Administration Award (Winner)

Investments and Pensions Europe (IPE) Awards 2020
Commitment to Diversity (Winner)

Professional Pensions Women in Pensions Awards 2020
Change Excellence of the Year – Lucy Ogan (Winner)

Investments and Pensions Europe (IPE) Awards 2020
Fixed Income and European Pension Fund of the Year (Highly Commended)

Recruitment Industry Disability Initiative (RIDI) Awards 2020
Best Candidate Experience (Highly Commended)

1 Source: Alzheimer's Society.

Clear value for money

Performance and attribution reporting

In addition to the outstanding investment performance in 2020/21, our investment team successfully implemented our new performance and attribution platform. The platform is a significant improvement to our previous monitoring and reporting capabilities, providing us with more real-time insight into how performance has been derived, in turn supporting our engagement with our external managers.

Value for money review

Having completed our value for money review last year, we've continued to monitor our costs and benchmark our suppliers against industry standards.

Across the organisation we've introduced better tools and processes, so we're now able to serve more members without increasing our staff numbers and offer value for money to our stakeholders.

Long-term expenditure trends

	2017 £m	2018 £m	2019 £m	2020 £m	2021 £m	2022 Forecast* £m	2023 Forecast* £m
PPF – investment expenses	152.7	143.3	141.8	152.6	250.0	178.4	179.9
PPF – operating expenses	38.3	44.5	46.8	43.6	45.6	57.7	58.3
PPF Administration Fund	14.2	13.9	13.1	13.7	12.4	14.5	14.4
FAS Administration Fund	7.9	8.8	9.1	7.8	8.1	8.5	8.2
Total	**213.1**	**210.5**	**210.8**	**217.7**	**316.1**	**259.1**	**260.8**

* Excludes investment transaction fees (2021: £6.0 million).

Our costs are accounted for in three funds as explained on page 141 and further analysed on pages 185-186. Total expenditure for the PPF and the Administration Funds over the last five years, and planned over the next two, is shown in the table above. The Administration Funds comprise PPF and FAS-related expenditure.

The increase in investment expenses in 2020/21 is caused by the performance element of fund management fees payable in certain asset classes which performed strongly in the year. We assume performance fees will revert to normal levels in future years. Other costs are forecast to increase from 2021/22 as activities recover from delays caused by the COVID-19 pandemic. Also we are investing in IT services as well addressing the judgments on FCF claims and on *Hampshire*.

Complaints, reviews and FOI requests

As in any organisation, occasionally things go wrong. We pride ourselves on putting things right and learning from experience.

During the year, we handled a number of complaints, appeals and requests for information.

General complaints

The total level of complaints for PPF and FAS remain low compared to the size of the membership (less than 0.2 per cent). The total number of complaints is about the same as for 2019/20. The following tables provide an analysis of the complaints received and dealt with by the PPF during the year ended 31 March 2021.

Complaints

	PPF 2020/21	FAS 2020/21	PPF 2019/20	FAS 2019/20
Complaints brought forward from previous year	29	11	7	12
Complaints received	519	145	433	224
of which:				
• resolved at stage one	479	145	361	193
• resolved at stage two	40	6	45	29
• resolved at stage three	14	2	5	3
• resolved at stage four	2	0	0	0
• carried forward	13	3	29	11

Complaint categories*

	PPF 2020/21	FAS 2020/21	PPF 2019/20	FAS 2019/20
Payment-related	82	7	38	39
Communication	169	56	104	50
Process/regulation	68	38	152	46
Delay	64	19	38	35
Entitlement	128	51	83	54
Other	323	76	123	47

* Complaints can have multiple categories.

Guidance on how we handle complaints and appeals can be found on our website: www.ppf.co.uk/how-to-make-a-complaint

Freedom of Information (FOI) requests

	2020/21	2019/20
FOI requests received	33	31
of which:		
• we fully disclosed the information	22	23
• we partially disclosed the information	4	1
• we did not hold the information	0	1
• the request was withdrawn	0	0
• we declined to disclose the information	7	6

In line with the Freedom of Information Act 2000 and guidance published by the Information Commissioner's Office, we do not charge for disclosing information.

We declined to disclose information where statutory exemptions applied.

Reviewable matters

We run a statutory appeals process in respect of 'reviewable matters' listed in schedule 9 of the Pensions Act 2004.

Levy-related reviewable matters

	2020/21	2019/20
Review decisions issued	27	35
of which:		
• the scheme was found to be levied correctly	14	24
• we agreed with some or all of the scheme's appeal	13	11
Decisions made by the Reconsideration Committee	4	7

Non-levy-related reviewable matters*

	2020/21	2019/20
Review decisions issued	24	20
Decisions made by the Reconsideration Committee	11	8

Maladministration complaints*

	2020/21	2019/20
Formal complaints of maladministration considered	16	21
of which:		
• maladministration was found to have occurred	3	4
• maladministration was found to have occurred in part	5	1
Six of these cases also involved a reviewable matter (2019/20: three).		
Maladministration decisions made by the Reconsideration Committee of which:	4	3
• maladministration was found to have occurred	1	0
• maladministration was found to have occurred in part	0	1

* Complaints can be classed as both maladministration and reviewable matters.

Statement of going concern

In order to comply with the Government Financial Reporting Manual (FReM) when preparing this Annual Report and Accounts, we have to explain why we may have adopted a going concern basis for the organisation.

An organisation deems itself a going concern if its management believes that the organisation will continue to operate and there is no intention, or need, to close down its functions. In the public sector, the FReM provides that anticipated continuation of service is presumed to provide sufficient evidence to adopt a going concern basis.

After reviewing the three funds which we operate, cash flow forecasts and our powers to raise levies and control outgoings, we believe it appropriate to adopt a going concern basis for the PPF and FAS Administration Funds because we believe these funds have enough resources to provide a continuation of services for the foreseeable future. For the Fraud Compensation Fund, whilst it is appropriate to adopt the going concern basis, there is some uncertainty over the availability of funds until the required loan from the DWP is finalised and the necessary legislation is enacted.

Pension Protection Fund

For the PPF, we considered the following factors when forming this view:

- our cash flow forecasts, which indicate that cash and other asset inflows will significantly exceed outflows for the foreseeable future, supported by:

- our levy raising powers – see www.ppf.co.uk/what-risk-based-levy; and
- our reserve powers on benefit levels.

The COVID-19 pandemic has not had a significant impact on this view.

PPF and FAS Administration Funds
In considering the going concern status of the PPF and FAS Administration Funds, we took into account the status of the Board as an independent statutory corporation, while also recognising that the Board receives funding from its sponsor department, the DWP, in the form of grant-in-aid, to cover all of its expenditure on its functions as FAS scheme manager, and its expenditure on certain PPF administration functions.

We also considered the regulations under which the DWP finances its payments to the Board on grant-in- aid for PPF administration functions by raising a PPF Administration Levy from eligible pension schemes.

Fraud Compensation Fund
In considering the going concern of the FCF, we recognise that, although historically claims have been low, the Fund is now vulnerable to large claims well in excess of the current assets available. The claims risk is most likely to materialise from historic claims relating to schemes that were themselves part of a scam.

The FCF has received applications for nine claims totalling £47.3m and we are aware of 117 more possible applications totalling £358.1m as at 31 March 2021. The assets of the

FCF totalled £33.9m at that date. We are in the process of assessing the applications and anticipate paying any of these and others of which we are aware, over a four-year period. The exact value of these actual and possible claims remains to be determined. However, it appears likely that levy income will be insufficient to pay all these claims as they are settled. We are in the process of obtaining a loan facility from the DWP which will enable us to ensure a continuation of claims payments. A Bill to enable the FCF to receive loan funds is being presented to the House of Commons and we are confident that, whilst the loan has not been finalised by the time the Financial Statements are approved, that the funds to pay claims as they settle will be available when required.

Accordingly, until the loan facility has been finalised and the legislation has been enacted, there is some uncertainty that we would be able to provide a continuation of service.

Oliver Morley
Chief Executive
6 October 2021

Section 3

Investing responsibly

Responsible investment

Encouraging responsible practices is an important part of protecting our investments and better serving our members and levy payers.

How we're driving transparency
Across our investment activities, we mirror best practice in the financial services and pensions industry, working to the highest standards of both. Publishing our first Responsible Investment (RI) report in August 2020 was an important part of this. In this we detailed how we're implementing our principles and plans, particularly across our priority areas of climate change, stewardship and reporting.

Throughout the year we've also continued to report regularly to the Board and Investment Committee, and published quarterly voting and engagement reports on our website.

New Statement of Investment Principles
In our drive towards best practice, we chose to update our Statement of Investment Principles (SIP) in line with new regulations for occupational pension schemes.

The updated SIP outlines our principles for stewardship, taking financially material considerations into account in our investments – including ESG risks, and in particular climate change – and details how we monitor our external fund managers.

"Responsible investment has always been at the core of how we do things and we have no doubt that the importance of being a responsible asset owner will only grow."

Barry Kenneth
Chief Investment Officer

Increasing our access to ESG insights
As part of the day-to-day implementation of our SIP and RI framework, we're actively working with our managers and service providers to improve the way they provide fund reporting and data.

Although we still have a way to go, we now have access to more ESG and carbon emissions data than ever before in our main portfolio management system.

We have ESG data available through our portfolio system for 70 per cent of the Fund's net asset value, and within this coverage, we also have carbon emissions data for approximately 30 per cent of the total.

To improve the process, we've been focusing on each asset class in turn, increasing our access to data in a way that works for each.

This year we worked with managers to develop dedicated reporting templates that will give us insight into key ESG, climate and stewardship data at the fund level across our portfolios. We're pleased to report that 100 per cent of our managers of publicly traded assets have reported under this new framework.

Best practice in stewardship

This year we developed a new stewardship policy that covers the key aspects of our approach as part of the management of the Fund's assets, building on the new SIP. As with our Climate Change Policy, we have published the Stewardship Policy on our website.

We also retendered for outsourced stewardship services during the year, with expanded requirements beyond just listed equities, and, reappointed EOS at Federated Hermes following a competitive process.

Case study
Green Gilts

We often collaborate with stakeholders and policy makers on important RI initiatives, and as a large Gilt market participant, we actively engage with the UK Debt Management Office (DMO).

In October 2020, we supported the 'Green+ Gilt' proposal developed by Impact Investing Institute (III), Green Finance Institute and Grantham Research Institute, for a sovereign bond that would attract private sector capital into the green recovery and social renewal.

Following the Chancellor's announcement of at least £15 billion in green gilts issuance this year in the 2021 Budget, III was appointed as Secretariat of the UK Treasury and DMO's new Stakeholder Discussion Forum on green finance. Whilst our participation in any such issuance will be based on meeting our investment requirements, as active stewards we believe it is important to express our opinion. We continue to work with III, contributing our views to develop potential metrics and measurement frameworks for reporting on both environmental and social benefits.

Climate change

As a supporter of the Task Force on Climate-related Financial Disclosures (TCFD), we will continue to provide full details of our climate-related governance, strategy, risk management, and metrics and targets in our RI report.

Key progress in 2020/21 included:

- **Governance:** Reporting on climate-related risks to our Chief Investment Officer through monthly dashboards and to our Investment Committee through quarterly dashboards.
- **Strategy:** Assessing how the Fund might be impacted by transition risks such as aligning our portfolios with a well-below 2˚C scenario.
- **Risk management:** Expanding the carbon and climate risk data available in our main portfolio system. Focusing on climate-related risks in our stewardship activities. Working on transitioning to a new climate-aware equity benchmark. Including climate-related risks as a specific part of our investment risk register.
- **Metrics and targets:** Reporting on additional carbon footprint metrics for our listed Equities and Credit holdings (see table on page 71). Our Equity portfolio has reduced its carbon footprint by 16 per cent over the year[1]. As we expanded the coverage of our Credit portfolio to include the corporate bonds in our Emerging Market Debt portfolios this year (which tend to have a higher carbon footprint), we have seen a modest increase in its carbon footprint over the year.

1 Based on Weighted Average Carbon Intensity.

Disclosure metrics as recommended by the TCFD
Equities

Metric	Scopes[1]	PPF Equities	Coverage	Equity Benchmark[2]	Coverage
Metrics based on Investor Allocation (using EVIC[3]) for $6.5bn Equity portfolio:					
Total Financed Carbon Emissions (tCO_2e)	Scope 1+2	796,972	97.6%	818,760	97.3%
Financed Carbon Emissions (tCO_2e/$m invested)	Scope 1+2	122.1	97.6%	125.4	97.4%
Financed Carbon Intensity (tCO_2e/$m revenues)	Scope 1+2	225.5	97.6%	256.9	97.3%
Metrics based on Weights (WACI) for Equity portfolio:					
Weighted Average Carbon Intensity (tCO_2e/$m revenues)	Scope 1+2	242.7	97.6%	298.7	97.4%

1 Based on the definition set by the Greenhouse Gas (GHG) Protocol. The GHG Protocol has set the global standard for GHG reporting, notably the three scopes of reporting information: Scope 1: Direct GHG Emissions from operations; Scope 2: Electricity indirect GHG Emissions (the companies' indirect emissions from electricity, heating, or steam consumption); Scope 3: Other indirect GHG emissions. More detail is available at: https://www.ghgprotocol.org/sites/default/files/ghgp/standards_supporting/Diagram%20of%20scopes%20and%20emissions%20across%20the%20value%20chain.pdf
2 FTSE All World Minimum Variance Index
3 Enterprise value including cash = Market capitalisation at fiscal year-end date + preferred stock + minority interest + total debt

Credit

Metric	Scopes	PPF Credit	Coverage	Credit Benchmark[1]	Coverage
Metrics based on Investor Allocation (using EVIC) for $6.2bn Credit portfolio:					
Total Financed Carbon Emissions (tCO_2e)	Scope 1+2	329,106	86.2%	525,417	68.7%
Financed Carbon Emissions (tCO_2e/$m invested)	Scope 1+2	53.0	87.6%	84.6	71.8%
Financed Carbon Intensity (tCO_2e/$m revenues)	Scope 1+2	192.4	86.2%	202.8	68.7%
Metrics based on Weights (WACI) for Credit portfolio:					
Weighted Average Carbon Intensity (tCO_2e/$m revenues)	Scope 1+2	317.9	93.1%	255.3	84.3%

1 Bloomberg Barclays Global Credit Index

Source: Certain information ©2020 MSCI ESG Research LLC. Reproduced by permission; no further distribution (PPF holdings as at 31 December 2020).

Metric definitions:

- Total Financed Carbon Emissions: Measures the Scope 1 + Scope 2 tonnes of CO_2 equivalent emissions for which an investor is responsible by their total overall financing. Emissions are apportioned across all outstanding shares and bonds (% EVIC).
- Financed Carbon Emissions: Measures the Scope 1 + Scope 2 tonnes of CO_2 equivalent emissions, for which an investor is responsible, per USD million invested, by their total overall financing. Emissions are apportioned across all outstanding shares and bonds (% EVIC).
- Financed Carbon Intensity: Measures the carbon efficiency of a portfolio, defined as the ratio of Scope 1 + Scope 2 tonnes of CO_2 equivalent emissions for which an investor is responsible to the revenues for which an investor has a claim by their total overall financing. Emissions and sales are apportioned across all outstanding shares and bonds (% EVIC).

- Weighted Average Carbon Intensity (WACI): Measures a portfolio's exposure to carbon intensive companies, defined as the portfolio weighted average of companies' Carbon Intensity (Scope 1 + Scope 2 tonnes of CO_2 equivalent emissions per million USD of revenues).

Section 4

Accountability report

The Board of the Pension Protection Fund

Arnold Wagner
Chair of the Board
2016-2021

Chair of the Nomination Committee, and member of the Remuneration Committee

Arnold was appointed Chair of the PPF in July 2016 having been on the Board since 2011. After an initial background in academia, Arnold's career has been in human resources. He is a former Director of Human Resources at Smiths Group plc. He has also served as a non-executive director at the UK Atomic Energy Authority, where he chaired the Remuneration Committee; and is Senior Independent Director at Cifas.

Arnold has had extensive involvement in pensions throughout his career. He has also been active in voluntary and charitable work in the social care and education sectors, and was awarded an OBE in 2002 for his services to education.

Arnold stepped down on 30 June 2021 at the end of his five year term as Chair.

Oliver Morley
Chief Executive

Member of the Decision Committee and the Investment Committee

Oliver joined the PPF as Chief Executive in March 2018. Prior to the PPF, Oliver was Chief Executive of the DVLA and led the successful digital transformation of one of the UK's biggest multi-channel service organisations, with over 45 million customers and £6 billion of revenue.

Before this, he was Chief Executive and Keeper of The National Archives, which brings genealogy and key historical records to life for millions of users.

Prior to this Oliver worked at Thomson Reuters in a range of senior global and regional roles from FX and Money Markets to market data and technology. Oliver has also worked in the technology and shipping industries, and in a Corporate Treasury role.

Oliver was awarded a CBE in 2017 for his work in digital services.

Kate Jones
Senior Independent Director;
Chair from July 2021

Chair of the Investment Committee and the Decision Committee, and member of the Risk and Audit Committee

Kate's career spans senior investment roles in the financial services industry including BlackRock, Schroders and M&G.

She played an instrumental role in the growth of BlackRock's

Solutions business where she built and led the portfolio management function with responsibility for over £300 billion of assets.

Kate is the non-executive Chairman of JPMorgan Funds Limited and Chair of Trustees for the financial education charity, RedSTART. Kate is also an executive coach with a focus on senior leaders in the financial sector.

Kate took up the role of Chair of the PPF from 1 July 2021.

Chris Cheetham
Non-executive Board member

Chair of the Risk and Audit Committee and member of the Investment Committee

During his executive career, Chris spent 41 years working in the investment management industry, most recently as Global Chief Investment Officer for HSBC's global asset management business. Previous roles include Global CIO for AXA Investment Managers, CEO at AXA Sun Life Asset Management and Director of Investment Strategy and Research at Prudential Portfolio Managers (now M&G).

He now holds a number of non-executive roles including Chairman of Mineworkers Pension Scheme, Trustee of the BT Pension Scheme and roles with The Peoples Pension, the Science Museum Foundation and the charity Chance to Shine.

Emmy Labovitch
Non-executive Board member

Member of the Risk and Audit Committee, the Investment Committee and the Remuneration Committee

Emmy has held a variety of international roles in financial services and was a member of the executive committees of Fortis Investments and UBP Asset Management. Until 2018 Emmy was Senior Policy Advisor at the Organisation for Economic Co-operation and Development (OECD) with a focus on pension funds and investment governance.

Emmy is a trustee of Phoenix Futures, a charity. She is a member of the With-Profits Committee of The Royal London Mutual Insurance Society and is Chair of the Employer Committee of the Social Housing Pension Scheme.

Jayne Nickalls
Non-executive Board member

Chair of the Remuneration Committee and member of the Risk and Audit Committee

Jayne is currently a non-executive director at UK-based web experience supplier Jadu, and an independent member of Council at The University of Warwick. She was also a non-executive director at the Financial Services Compensation Scheme.

Jayne's executive career spanned more than 30 years in IT and Consulting, latterly in the Cabinet Office as CEO of Directgov, the Government's online service for citizens. Prior to that, Jayne was VP Consulting Services at US company Chordiant Software.

Rodney Norman
Non-executive Board member

Rodney is a Fellow of the Institute of Chartered Accountants. He has worked in industry, financial services and banking as Finance Director of the banking division of the Close Brothers Group and was a non-executive board member of the Government Banking Service.

Rodney moved to HM Treasury in 2007 where he was responsible for funding the public sector. He served as Finance Director at National Savings and Investments. He is a senior advisor to the Bank of England and serves on the Audit Committees of the UK Debt Management Office, the Army and, until 30 September 2021, the Office of Rail and Road.

Rodney was awarded a CBE in 2019 for services to taxpayers.

Sara Protheroe
Chief Customer Officer

Sara is responsible for overseeing the assessment and transfer of pension schemes to the PPF, and looking after more than 400,000 PPF and FAS members. She was previously the PPF's Director of Strategy and Policy, where she had responsibility for developing strategy and policy in relation to all aspects of the PPF, including the levy.

Before joining the PPF as a founding employee in 2005, Sara undertook a number of roles in the DWP, including Private Secretary to a former Pensions Minister, the late Malcolm Wicks, and was a pivotal member of the DWP team which designed the PPF.

Sara was awarded an OBE in October 2020 for services to pensioners.

Nailesh Rambhai
Non-executive Board member

Chair of the Reconsideration Committee, and member of the Remuneration Committee

Nailesh began his career practising law at Linklaters and McDermott, Will and Emery LLP.

He then moved to Coventry Building Society as Group General Counsel and Company Secretary where he was also Secretary to the Pension Scheme Trustees.

Nailesh has lived and worked in Canada, the USA and South East Asia in a global career, including most recently as Head of Legal and Company Secretary at Petronas.

He is also a Trustee of the charity United Way UK and was previously a non-executive director at the Belgrade Theatre.

David Taylor
General Counsel

Member of the Decision Committee

David was appointed to the PPF Board as an Executive Director and General Counsel in 2015. David joined the PPF shortly after its establishment in 2005 and has since taken on responsibility for areas including policy, strategy, restructuring/insolvency and compliance. The PPF levy has been a particular focus throughout, with David leading both development and operational delivery since 2014.

Earlier in his career, David specialised in corporate and commercial law. He spent 10 years in private practice at Linklaters and US firm WilmerHale. He is a trustee of Roundabout Dramatherapy.

Anna Troup
Non-executive Board member

Member of the Investment Committee and the Reconsideration Committee

Anna qualified as a lawyer at Slaughter and May, specialising in corporate tax.

She is currently a non-executive director at Charles Stanley Group plc, Aberdeen Diversified Income and Growth Trust plc, Amlin Investment Management Limited and Chair of T Bailey Fund Services Limited. She is also a Trustee of the Triathlon Trust.

Her executive career spanned senior investment roles in the financial services industry including Merrill Lynch, PwC, Goldman Sachs, BlueBay Asset Management and Legal & General.

Members of the Executive Committee

Oliver Morley
Chief Executive

Katherine Easter
Chief People Officer

Barry Kenneth
Chief Investment Officer

Simon Liste
Chief Technology Officer

Lisa McCrory
Chief Finance Officer and Chief Actuary

Sara Protheroe
Chief Customer Officer

David Taylor
General Counsel

Stephen Wilcox
Chief Risk Officer

Further information about the Executive Committee is available on the PPF website.

www.ppf.co.uk/executive-committee

Governance statement

Governance framework

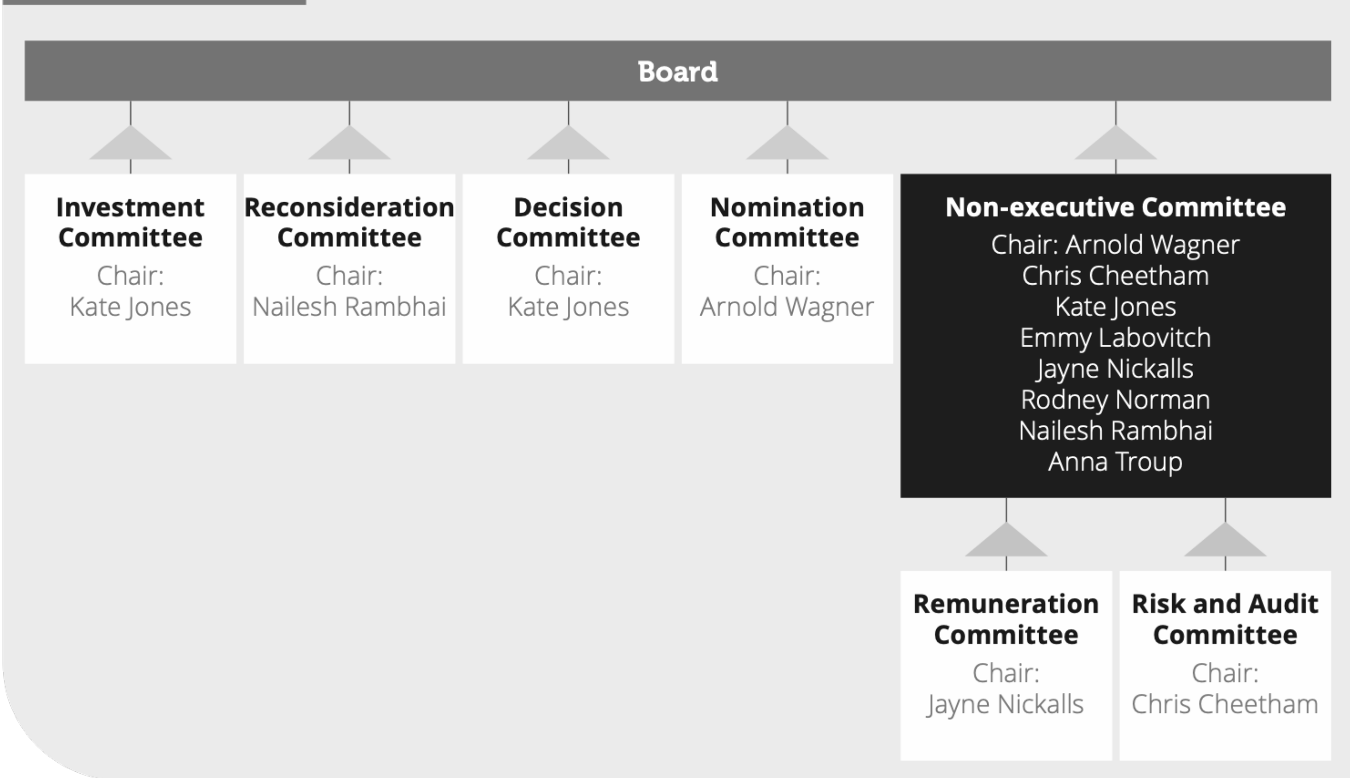
During 2020/21, the Board had eight non-executive members at any one point in time, including the Chair. In addition, there were three executive members, including the Chief Executive. Board members' attendance at Board and committee meetings is set out on page 83.

The Board has established a number of committees and a Statement of Operating Principles in order to discharge its responsibilities.

The Board has also given the Chief Executive delegated powers so he can take decisions to ensure operational effectiveness and provide regular updates to the Board on performance, risks and strategy. The Chief Executive has also established internal committees to oversee operations. Further details of the governance framework are provided in Appendix 2.

During the year, the Board took decisions and considered matters within its normal cycle of work. Details of these, and reports from the Board's committees, are in Appendix 1.

Committee structure



Attendance at Board and committee meetings during 2020/21

Board member details and committee memberships are on pages 73-80. Board appointments and terms are in the Remuneration and staff report on page 106.

	Board	Remuneration Committee	Risk and Audit Committee	Investment Committee	Reconsideration Committee	Nomination Committee	Non-executive Committee
Arnold Wagner	8 of 8	6 of 6**	–	–	–	2 of 2	4 of 4
Chris Cheetham	8 of 8	–	5 of 5	5 of 5	–	–	4 of 4
Kate Jones	8 of 8	–	5 of 5	5 of 5	–	–	4 of 4
Emmy Labovitch	8 of 8	6 of 6	5 of 5	5 of 5	–	–	4 of 4
Oliver Morley	8 of 8	5 of 6*	5 of 5*	5 of 5	3 of 7*	–	–
Jayne Nickalls	8 of 8	6 of 6	5 of 5	–	–	–	4 of 4
Rodney Norman	8 of 8	–	5 of 5	–	7 of 7	–	4 of 4
Sara Protheroe	8 of 8	–	5 of 5**	–	5 of 7**	–	–
Nailesh Rambhai	8 of 8	6 of 6	–	–	7 of 7	–	4 of 4
David Taylor	8 of 8	–	5 of 5**	5 of 5**	5 of 7**	–	–
Anna Troup	8 of 8	–	–	5 of 5	7 of 7	–	4 of 4

* Attended in capacity of Chief Executive.
** Attended meetings as a non-member.

The Decision Committee did not meet in 2020/21 because no decisions were referred.

Account of corporate governance

The Board is committed to maintaining high standards of corporate governance and reviews its compliance against the UK Corporate Governance Code and the HM Treasury/Cabinet Office 'Corporate governance in central government departments: Code of good practice'. The Board continues to apply the provisions of the Code of good practice where they are relevant to the PPF. Formal reporting of compliance with the HM Treasury/Cabinet Office Code on a 'comply or explain' basis is set out in this statement in Appendix 3.

Provisions of the codes not applicable to the PPF relate to entities which are significant listed companies, or have arm's length bodies, or a lead minister, or are funded by central Government.

The risk and control environment

Our approach to managing risk is consistent with the guidelines provided by HM Treasury in its publication 'Orange Book: Management of Risk – Principles and Concepts'.

We aim to make sure that our approach to risk management follows best practice for regulated financial services firms. Our assessment of our approach has been informed by the guidance ('Raising the Bar') for board risk committees and risk functions issued by the Risk Coalition. The Risk Coalition is a network of not-for-profit professional bodies and membership organisations committed to raising the standards of risk management in the UK.

The Board determines its risk appetite which is then applied to the more granular risks by risk owners within the organisation. The Risk function reports regularly to the Board on our risk exposure and position relative to that risk appetite.

Our analysis is informed by our Risk Universe, which catalogues the risk types that could affect our ability to achieve our objectives. We categorise these risk types as:

- External environment;
- Strategic and funding; and
- Operational.

Significant risks
We have identified 13 key enterprise risks (shown below), which could arise as a result of internal or external factors and which could materially affect our strategic aims, funding objective, solvency, operations or reputation.

- Investment strategy
- Claims experience
- Longevity
- Reputation management
- Transformation and change
- IT service
- Information security and cyber threat
- Hedging
- Third party service
- Conduct
- Policy
- Culture
- Employee capacity/capability

These risks are managed as part of the normal course of business.

COVID-19
As the COVID-19 pandemic has developed, we have kept the assessment of our enterprise risks under review.

Our staff have been working from home throughout the year as a result of the pandemic. We have not worked in this way before so the operational effect on the organisation and its staff was simply unknown, but we used our usual operational risk processes to identify and mitigate potential impacts.

These appear to have been successful – we have not seen an increase in actual operational risk incidents or a material deterioration in our operational KPIs. Our customer satisfaction remains extremely high.

However, the greater risk is to our funding and comes from our exposure to the schemes we protect.

The whole of the UK is under economic strain so the likelihood of sponsor insolvency and, therefore, of claims against us has increased.

In order to understand the risks to our funding from claims, we have identified the schemes with the biggest deficits and have monitored the performance of the sponsoring companies regularly. This monitoring has been focused on the sectors which are most affected by the pandemic.

We have also reviewed our plans for the levy in the light of these new circumstances.

Brexit
As we are an organisation which exists to manage the risks of UK domiciled defined benefit pension schemes, the effect of Brexit on us depends almost entirely on what, if any, effect it has on:

- the relative success of the wide range of economies in which we invest and the UK economy; and
- the economic health of the sponsoring companies whose pension schemes we protect.

We measure our probability of success (see page 28) using an actuarial approach that takes into consideration a wide range of potential scenarios for the future, some of which might occur wholly or partly as a result of Brexit and this is monitored closely and regularly.

It is difficult to disentangle any direct impact of Brexit and the end of the transition agreement from the impact of the COVID-19 pandemic on either our assets or the sponsors of the schemes we protect. Operationally, Brexit has not had a material impact on us, and we have successfully managed the risk of delays and errors in payments to members who live in the European Union, as reported on page 41.

Ministerial directions
No directions have been issued.

Personal data related incidents
We have had no notifiable events during 2020/21.

Significant control issues
We have had no significant control issues during 2020/21.

Review of effectiveness of the system of internal control
For the purposes of FReM, the Board sees the Chief Executive as having responsibilities equivalent to those of an Accounting Officer as set out in ‘Managing Public Money’.

As Chief Executive, I have responsibility for reviewing the effectiveness of the system of internal control. My review has been informed by:

- the assurances I sought and received from holders of

Senior Management Functions in our SMCR implementation which detailed the work carried out to make sure management of risk and control is addressed in their areas of responsibility;

- the work of the executive directors and senior managers who have responsibility for developing and maintaining the internal control framework; and
- comments made by the external auditor in their management letter and other reports, and the opinion of the Director of Internal Audit on the overall adequacy and effectiveness of our framework of governance, management of risk and control.

In my review of the effectiveness of the system of internal control I have also considered the work of the Risk and Audit Committee, the Executive Committee and the Asset and Liability Committee.

Having completed my review, I am of the opinion that there is no reason to believe that there are any significant limitations in the system of internal control.

Appendix 1

Board and committee reports

Board

The Board met formally eight times during the year. With the PPF moving to remote working all of these meetings were held virtually. There were also a number of ad hoc telephone meetings of the Board particularly during the early months of the year to discuss the COVID-19 pandemic and its impact on the PPF.

Early in 2019 the Board agreed a three-year Strategic Plan for 2019–22, followed by the Business Plan. During 2020/21 the Strategic Plan was reviewed and the Business Plan and budget for 2021/22 were agreed. Work on the next Strategic Plan for 2022–25 has now commenced.

The Board reviewed the existing funding strategy, and approved updated modelling assumptions for the long-term funding strategy. The Board also approved the assumptions used in the Actuarial Valuation.

The levy consultation, determination and estimate of £520 million for 2021/22 were all agreed. The Board regularly discussed the implementation of the *Hampshire/Hughes* and *Bauer* judgments. The Board regularly discussed the funding position of the FCF in light of the Court Judgment. The Board noted the decision to again collect an FCF levy in 2021/22.

The Board discussed and approved updated risk appetite statements and a new SIP.

The Board received regular updates on investment performance and Member Services including member satisfaction levels.

The Board discussed a number of staff-related matters, including the D&I programme, employee survey results and organisational culture. The strong customer satisfaction scores again achieved by the Member Services team were also noted, alongside updates on performance against the organisation's KPIs.

The Board discussed digital technology and updates on the organisation's IT strategy and high-profile projects were received. The Board reviewed the progress of the implementation of the RI strategy and reviewed progress on climate change.

The Board received a report of the effectiveness of oversight under the SMCR. The Board approved a number of publications, including the 2019/20 Annual Report and Accounts. The Board also assessed progress against the actions from the Board and committee effectiveness reviews and agreed updates to the Board Committees' Terms of Reference.

The PPF's Modern Slavery Act Statement was approved. The Board received the Data Protection Officer's report.

A formal programme of training for Board members was introduced.

Remuneration Committee
The Remuneration Committee is chaired by Jayne Nickalls. The Committee met three times formally during

the year and agreed objectives for executive directors for the 2020/21 financial year. The Committee also undertook yearly and half-yearly performance reviews of executive directors, discussed their pay and approved bonus payments for them based on performance against the objectives set. The Committee also reviewed processes associated with reward across the organisation. In addition, three ad hoc meetings were held between formal meetings related to concluding matters relating to the above.

Risk and Audit Committee
The Risk and Audit Committee (RAC) is chaired by Chris Cheetham. The Committee met five times over the year.

The Committee has continued to work with the Investment Committee to ensure full coverage of the risks facing the PPF.

Under its risk management remit, the Committee regularly monitored the risk exposures in the organisation via reports from the Chief Risk Officer (CRO). It also oversaw work to update and enhance the Risk Management Framework, notably recommending to the Board updated risk appetite statements, and approved various Risk Policies.

The Committee regularly discussed the PPF's preparedness for implementation of the *Hampshire/Hughes* and *Bauer* judgments.

The Committee received a regular report from the Director of Legal, Compliance and Ethics on outputs from the compliance monitoring plan and on work to embed a culture of employee accountability.

Given its status, the PPF is not required to comply with the SMCR, but has nevertheless decided to implement its own version, as it seeks to achieve the best of public and private sector standards. A review of the SMCR as applied to the PPF (PPF Regime) was considered and the Committee noted that in the opinion of the Director of Legal, Compliance and Ethics, the Senior Management Function holders within the PPF were overseeing their responsibilities within the expectations of the PPF Regime, and the PPF had the requisite framework in place appropriate for the organisation.

The Committee also approved the compliance monitoring plan for 2021/22. It also received reports on whistleblowing incidents in line with the whistleblowing policy.

The Committee received regular reports on the Funding Strategy review.

The Committee had deep dives on the Restructuring & Insolvency team's work, off-balance sheet risk, and hedging schemes in assessment.

The Committee continued to receive progress reports on major projects, including the IT transformation programme. Cybersecurity, particularly with remote working, was again a major focus for the Committee during the year.

The Committee has worked closely with the Director of Internal Audit during the year, initially to approve the internal audit strategy and plan and subsequently to review regular reports on progress against the plan, the results of audit work, sufficiency of audit resources and the continuous improvement of the function.

As part of its normal cycle of work, the Committee reviewed the Governance Statement, the annual Actuarial Valuation and the whistleblowing policy. We encourage staff and others associated with the organisation to raise concerns which are in the public interest, without fear of reprisal or victimisation. The policy was approved by the Committee.

The Committee also reviewed and recommended the 2019/20 Annual Report and Accounts for approval by the Board and received the annual report from the external auditors, who are regular attendees at the Committee.

Margaret Ammon (Chief Risk Officer of Legal and General Investment Management) remained a co-opted member of the Committee providing additional independent risk management knowledge and experience.

Investment Committee
The Investment Committee is chaired by Kate Jones. The Committee met five times during the year.

The Committee has continued to work with the Risk and Audit Committee to ensure that the oversight of risks relating to the PPF's investment functions is fully understood and supported. Working with the RAC, approval was given for the investment team to invest in commodity products both strategically and tactically.

As part of its normal cycle of work, the Committee reviewed and approved:

- the SIP, ensuring the requirement under section 114 of the Pensions Act 2004 for the Committee to prepare and maintain a SIP was fulfilled;
- the expected long-term returns on a range of asset classes;
- the portfolio benchmarks used by the Investment team;
- the RI principles and policies including the Climate Change, Stewardship and Minimum Standards Policies;
- custodian arrangements; and
- an updated Terms of Reference for the Committee.

The Committee examined reports each quarter from the Chief Investment Officer covering investment activity for each asset class and investment performance. It also received quarterly reports on the markets and investment strategy and regularly discussed the challenges and opportunities arising from market volatility through the year.

The Committee continued its programme to conduct in-depth reviews across assets held by the PPF, examining investment strategy and performance for Alternative Credit, Absolute Return and LDI through the course of the year. The Committee also conducted a deep dive into the Operational Due Diligence team’s work. Following the period of significant market volatility in March/April 2020, the Committee examined whether there were any lessons to be learned considering process and people aspects in addition to the portfolio’s performance.

The CRO provided a regular report to the Committee enabling the overall risk of the investment portfolio to be monitored. In addition, Compliance provided their annual assurance to the Committee that the portfolio had been managed in compliance with the SIP.

Continuing its oversight of the implementation of the RI strategy, the Committee also reviewed a newly created RI report.

During the course of the year, the Committee also received updates relating to market changes covering the PPF's preparedness for the transition from London Inter Bank Offered Rate (LIBOR) to Sterling Overnight Index Average (SONIA) and the reform of the Retail Prices Index (RPI).

The Committee recommended a new Strategic Asset Allocation (SAA) to the Board for approval and reviewed the Transition Plan for moving to the new SAA.

The Committee continued to benefit from the additional independent investment knowledge of Michael O'Brien, formerly of JPMorgan and BlackRock, a co-opted specialist member of the Committee. The Committee also commissioned an independent investment advisor, David Bennett of Redington.

Reconsideration Committee
Complaints from members and levy payers regarding decisions previously made by the PPF are referred to the Reconsideration Committee when not resolved by previous stages in the PPF's internal complaints procedure.

The Committee is a panel of non-executive members of the Board and co-opted members without prior involvement in the matters discussed. When a matter is remitted from the PPF Ombudsman, the panel does not include the same members as were previously involved. The Committee has been chaired by Nailesh Rambhai since March 2020. Rodney Norman joined the Committee in April 2020. Christopher Hughes and Alan Jenkins, co-opted members of the Committee, and Anna Troup, non-executive director, continued to provide input based on their considerable experience to ensure clear and robust decision making.

The Committee met on seven occasions during the year. It considered, and issued, decisions relating to four cases where levy payers challenged their levy.

The Committee also considered and issued decisions on 14 non-levy review cases: three relating to alleged maladministration, 10 to compensation entitlement and one to both.

Decision Committee
The Decision Committee is chaired by Kate Jones. The Committee did not meet during the year. The Committee takes decisions on matters that are normally delegated to the Chief Executive which he refers back to the Committee, as well as any specific cases assigned to it by the Board.

Nomination Committee

The Nomination Committee is chaired by Arnold Wagner. The Nomination Committee is responsible for overseeing the appointment of new Board members. No Board recruitment took place during the year and therefore no meetings were held.

Non-executive Committee

The Non-executive Committee is chaired by Arnold Wagner. All non-executives of the Board are members of the Committee. The Committee met four times in the year to discuss executive director pay, succession planning and training for the Board. The Committee also received quarterly reports from the Remuneration Committee and the Risk and Audit Committee. For governance purposes, the Committee held one meeting without the Chair being present.

Appendix 2

Governance framework

The Board is compliant with the requirements of the Pensions Act 2004.

There are currently three executive members: the Chief Executive, the Chief Customer Officer and the General Counsel.

All non-executive members were independent at first appointment, and had no current or previous material relationship with the organisation as an employee, officer or contractor. The functions of the Non-executive Committee are set out in section 112 of the Pensions Act 2004 and can be summarised as:

- the duty to keep under review the question of whether the Board's internal financial controls secure the proper conduct of its financial affairs;
- the duty to determine, subject to the approval of the Secretary of State, the remuneration of the Chief Executive and any other members of staff appointed as executive members of the Board; and
- the duty to determine the remuneration of any other prescribed members of staff.

As well as the Non-executive and Reconsideration Committees, the Board has also established a Risk and Audit Committee and a Remuneration Committee as sub-committees of the Non-executive Committee.

Investment, Nomination and Decision Committees have been established as committees of the Board. Each committee has a majority of non-executive members.

Board procedures are governed by its Statement of Operating Principles and its decision-making role by the Delegation of the Board's powers and Matters Reserved to the Board. The Chief Executive reports to the Board on performance against strategic objectives, and provides a Chief Executive's report and other briefings as required. Papers are circulated a week in advance of meetings.

The roles of internal committees established by the Chief Executive and those of individual post-holders are set out in the 'Authorisations from the Chief Executive' and 'Investment Authorisations' sections of the Governance Manual.

Pensions Act 2004

The Pensions Act 2004 requires that the Board:

- has a majority of non-executive members, including a non-executive Chair;
- must appoint a Chief Executive and at least two further executive Board members;
- must appoint a Non-executive Committee; and
- must have a Reconsideration Committee to reconsider reviewable matters and maladministration complaints.

Appendix 3

Account of corporate governance

The Board is committed to maintaining high standards of corporate governance and annually reviews its compliance against the UK Corporate Governance Code and HM Treasury/Cabinet Office's 'Corporate governance in central government departments: Code of good practice'.

The principal areas of compliance against the code of good practice are set out below.

Board leadership

The structure of the Board is underpinned by the framework set out in the Pensions Act 2004 as well as governance and operational requirements.

Committees have been established to serve particular needs. The composition of the Board is determined by the skills, experience and diversity needed to deliver the PPF's statutory functions and is supported by its members' financial, investment, legal, risk management, operational and customer service knowledge.

The Board focuses on strategic issues, and provides leadership and challenge to the ExCo. The Board considers the PPF's performance against its strategic objectives as well as risk management in the organisation, and ensures these support the long-term success of the organisation.

The Board believes that effective behaviours and culture support organisational delivery and risk management. Board members regularly discuss their views in relation to organisational culture and behaviours, and monitor this closely using the staff survey and other measures. The Board operates in accordance with its Board Manual which identifies how meetings should be conducted. Individual members also adhere to the code of conduct, guidance on dealing with potential conflicts of interest, and guidance on expenses and hospitality.

All non-executive directors were independent at first appointment. The Board has a Non-executive Committee chaired by the Chair of the Board. The Board has appointed a Senior Independent Director who meets with the non-executives without the Chair present on at least an annual basis.

Board effectiveness
The Board has an operational framework in place and has determined its behavioural values. The actual operation of this framework and these values, as well as Board balance, is reviewed through annual Board effectiveness evaluations. These evaluations are conducted internally, and facilitated by external consultants every three years.

The most recent externally facilitated review was completed in 2019/20 by Independent Audit Limited.

Independent Audit presented the outcome of the review to the Board in March 2020 concluding that the Board of the PPF remained a highly professional Board with considerable strengths. The Board, during the year, actioned the recommendations for improvements to the Board’s operations. A follow up internal review by questionnaire was conducted in February 2021 which concluded that the Board continued to operate effectively.

The Board follows regulations in place for the appointment of ‘ordinary’ Board members and both the Board and its Nomination Committee consider the current and future needs of the Board to inform the Board appointment process. A skills matrix has been developed to assist the Chair of the Board when planning the recruitment of new Board members which provides an overview of the skills and experience of each member of the Board, and is used to identify any gaps to be addressed. New Board members receive induction training and ongoing briefings, while opportunities to visit business areas support non-executive members’ understanding of the organisation’s operations and key risks.

The Board is provided with detailed appropriate information as part of its decision-making processes. The financial and performance data provided to the Board is extracted from the PPF’s accounting and operational systems.

This means it is subject to regular, planned, internal assurance checks and independent audits. As part of the Board effectiveness review it was asked about the quality and frequency of information received and no concerns were raised.

Board and committee papers are circulated a week in advance of meetings and the Board is supported by a dedicated secretariat led by a Chartered Company Secretary.

Management of risk

The Board is supported in its risk management role by the:

- Risk and Audit Committee, which is chaired by a non-executive member with relevant experience;
- Internal and external auditors; and
- Investment Committee.

They receive assurance from the:

- Chief Risk Officer;
- Director of Legal, Compliance and Ethics; and
- Head of Internal Audit, who is independent from the operations of the organisation.

All three individuals report to the Risk and Audit Committee and have unfettered access to the chair of the Committee and to the Board. The Risk and Audit Committee has oversight of all three functions.

Risk management is embedded throughout the organisation from team-level risk assessments and issues logs through to the risks considered significant by the Board. The Chief Executive has established an Executive Committee and an Asset and Liability Committee to ensure effective day-to-day oversight of all risks.

Appendix 4

System of internal control

The system of internal control is designed to manage risk within our risk appetite rather than to eliminate all risk.

There is an ongoing process designed to identify our risks and then to prioritise the management of them. This process is also designed to evaluate the likelihood of those crystallising and the effect if they did. It is also designed to enable us to manage them efficiently, effectively and economically.

Our system of internal control has been in place throughout the year ending 31 March 2021 and up to the date of signing of this Annual Report and Accounts. It is consistent with HM Treasury guidance. The internal audit plan approved by the Risk and Audit Committee includes audits of specific elements of our system of internal control.

The risk and control environment

As stated, our approach to risk management is consistent with the guidelines provided by HM Treasury in its document 'Orange Book: Management of Risk – Principles and Concepts'.

Risk processes are embedded throughout the organisation and individuals' responsibilities are reinforced through training. During the year, we delivered a number of improvements to the management of risk, which have been outlined in the Performance Report.

We rely on various mathematical models, some of which are identified as critical. There is an appropriate quality assurance framework (as defined in the ‘Macpherson Report – Review of Quality Assurance of Government Analytical Models’) in place for these models.

The model quality assurance framework includes, but is not limited to, external audit, internal and external review, governance structures for review and challenge of model assumptions and outputs, developer testing and consideration of the relevant actuarial standards where appropriate.

Historically, oversight of the model quality assurance framework took place within the business. To enhance this independent oversight further, responsibility was transferred to the Chief Risk Officer part way through the year.

We recognise the importance of managing information effectively. We operate a security framework that is multi-tiered and aligns to industry recognised best practice. We also follow the Security Policy Framework and related Data Security guidance issued by the Government. Our commitment to security has been cemented further by gaining certification of compliance with the ISO 27001 Information Security Standard and Cyber Essentials Plus.

Remuneration and staff report

The remuneration and staff report sets out the remuneration policy for directors, how that policy was implemented and the amounts awarded to those directors, along with details of the composition of staff employed by the PPF and measures relating to fair pay.

Remuneration policy

Our remuneration policy outlines our approach to reward across the entire organisation. We aim to pay market rate for those that are achieving full performance within their role. We set a basic salary to reflect an employee’s professional experience and organisational responsibility. We set variable remuneration to reflect performance in excess of that required to fulfil the employee’s job description and terms of employment.

Remuneration and bonuses of directors

Executive directors receive a salary that is decided annually by the Remuneration Committee which recommends its decisions for approval by the Secretary of State for Work and Pensions. Their contracts allow for the payment of an annual performance-related bonus.

The Chair was paid a fixed fee and was contracted to work for the PPF for two days a week. All other non-executive directors received a fixed fee, based on working 26 days a year. This fee was not performance-related and there was no provision for compensation if a contract was terminated.

Contracts

Executive directors are employed on a fixed term contract and non-executive directors are appointed for a fixed term of office.

Name	Contract type	Start date	End date
Arnold Wagner (Chair)[1]	Term of office (first)	1 July 2016	30 June 2021
Oliver Morley	Fixed Term Contract (first)	19 March 2018	18 March 2022
Sara Protheroe	Fixed Term Contract (first)	18 March 2020	17 March 2023
David Taylor	Fixed Term Contract (third)	1 June 2021	31 May 2024
Chris Cheetham	Term of office (second)	1 May 2021	30 April 2024
Kate Jones[2]	Term of office (second)	15 February 2019	14 February 2022
Emmy Labovitch	Term of office (second)	1 July 2021	30 June 2024
Jayne Nickalls	Term of office (second)	1 July 2019	30 June 2022
Rodney Norman	Term of office (first)	2 September 2019	1 September 2022
Nailesh Rambhai	Term of office (first)	2 September 2019	1 September 2022
Anna Troup	Term of office (first)	2 September 2019	1 September 2022

1 Arnold Wagner was previously a non-executive member of the Board, first appointed on 4 January 2011.

2 Kate Jones was appointed Chair from 1 July 2021with a term of office until 30 June 2026.

Notice periods

The executive directors have notice periods of six months. Non-executive directors' appointments can be terminated with one month's notice by either the Board or the individual member. The Chair's appointment is subject to a three-month notice period by either the Secretary of State for Work and Pensions or the post-holder. This can be waived by either party.

Executive directors – outside appointments

We recognise the benefits to the individual, and to the organisation, of executive directors of the PPF serving as non-executive directors of other organisations and companies. These roles are undertaken outside of PPF working hours through a combination of paid and unpaid leave. Fees, where applicable, are retained by the executive director for current appointments.

Oliver Morley, Chief Executive, was an unpaid non-executive director of Kodak Alaris Holdings Limited as a shareholder representative. There were no external non-executive director appointments held by executive directors during the year. David Taylor was an unpaid trustee of Roundabout Dramatherapy.

Directors' salary and pension entitlements*

Year ending 31 March 2021	Salary (in bands of £5,000) £'000	Bonus[1] (in bands of £5,000) £'000	Benefits in-kind[2] (to nearest £100) £'000	Pension benefits[3] (to nearest £1,000) £'000	Total (in bands of £5,000) £'000
Executive directors					
Oliver Morley,[4] Chief Executive	215–220	50–55	1.8	–	265–270
Sara Protheroe, Chief Customer Officer	130–135	10–15	1.5	146	295–300
David Taylor,[4] General Counsel	140–145	10–15	0.6	55	210–215
Non-executive directors					
Arnold Wagner, Chair	55–60	–	–	–	55–60
Chris Cheetham	20–25	–	–	–	20–25
Kate Jones	20–25	–	–	–	20–25
Emmy Labovitch	15–20	–	–	–	15–20
Jayne Nickalls	20–25	–	–	–	20–25
Rodney Norman	15–20	–	–	–	15–20
Nailesh Rambhai	20–25	–	–	–	20–25
Anna Troup	15–20	–	–	–	15–20

1 The bonus values disclosed here relate to the executive directors' performance in the year.
2 Benefits-in-kind relate to private medical, critical illness and healthcare costs insurances.
3 The value of pension benefits accrued during the year.
4 Includes back pay from a delayed pay increase for 2018/19 and 2019/20.

Year ending 31 March 2020	Salary (in bands of £5,000) £'000	Bonus[1] (in bands of £5,000) £'000	Benefits in-kind[2] (to nearest £100) £'000	Pension benefits[3] (to nearest £1,000) £'000	Total (in bands of £5,000) £'000
Executive directors					
Oliver Morley, Chief Executive	200–205	45–50	1.7	–	250–255
Andy McKinnon, Chief Financial Officer	80–85	5–10	0.8	–	85–90
(to 30 September 2019)	(160–165)[4]				
Sara Protheroe, Chief Customer Officer	5–10	0–5	0.1	6	10–15
(from 18 March 2020)	(130–135)[4]				
David Taylor, General Counsel	130–135	10–15	0.6	56	205–210
Non-executive directors					
Arnold Wagner, Chair	55–60	–	–	–	55–60
Chris Cheetham	5–10[5]	–	–	–	5–10
	(15–20)[4]				
Alan Jenkins	5–10	–	–	–	5–10
(to 6 August 2019)	(15–20)[4]				
Kate Jones	15–20	–	–	–	15–20
Tom Joy	5–10	–	–	–	5–10
(to 6 August 2019)	(15–20)[4]				
Emmy Labovitch	15–20	–	–	–	15–20
Jayne Nickalls	15–20	–	–	–	15–20
Rodney Norman	10–15	–	–	–	10–15
(from 2 September 2019)	(15–20)[4]				
Nailesh Rambhai	10–15	–	–	–	10–15
(from 2 September 2019)	(15–20)[4]				
Anna Troup	10–15	–	–	–	10–15
(from 2 September 2019)	(15–20)[4]				
Baroness Warwick of Undercliffe	15–20	–	–	–	15–20
(to 6 March 2020)	(15–20)[4]				

1 The bonus values disclosed here relate to the executive directors' performance in the year.
2 Benefits-in-kind relate to private medical, critical illness and healthcare costs insurances.
3 The value of pension benefits accrued during the year.
4 Full year equivalent.
5 Salary waived until 1 October 2019.

Directors' pension benefits*

	Total accrued pension at pension age as at 31 March 2021 (in bands of £5,000) £'000	Real increase in pension at pension age (in bands of £2,500) £'000	Cash equivalent transfer value as at 31 March 2021 £'000	Cash equivalent transfer value as at 31 March 2020 £'000	Real increase in CETV £'000	Employer contribution to partnership pension account (to nearest £100) £'000
Oliver Morley, Chief Executive	–	–	–	–	–	39.3
Sara Protheroe, Chief Customer Officer	40–45[1]	5–7.5[2]	604	490	89	–
David Taylor, General Counsel	45–50	2.5–5	687	630	28	–

1 Plus a lump sum of £75–80,000.
2 Plus a lump sum of £10–12,500.

Oliver Morley was not a member of the Principal Civil Service Pension Scheme in either 2019/20 or 2020/21.

Cash equivalent transfer value
This is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A cash equivalent transfer value (CETV) is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figure shown relates to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The figure includes the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. It also includes any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real increase in CETV

This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Staff report

Salary multiples*

Reporting bodies are required to disclose the relationship between the remuneration of the highest paid Board member in their organisation and the median remuneration of the organisation's workforce.

	2020/21	2019/20
Annualised band of highest paid Board member's total remuneration	£265–£270,000	£250–£255,000
Median remuneration of the workforce	£53,000	£49,000
Ratio	**5.1**	**5.1**

In 2020/21, six employees (2019/20: six) received remuneration in excess of the highest paid Board member. Remuneration ranged from £19,000 to £945,000–£950,000 (2019/20: £19,000 to £860,000–£865,000).

Total remuneration includes salary, non-consolidated performance-related pay and benefits-in-kind. It does not include severance payments, employer pension contributions and the CETV of pensions. Payment of performance- related pay in excess of £50,000 is deferred over a period of up to five years.

Staff numbers and costs*

The average number of staff employed, including seconded and temporary staff and their associated costs (as shown in note 11 to the financial statements) was:

	2021		2020	
	Average no. employees	Staff costs £m	Average no. employees	Staff costs £m
Permanent employees and fixed term contracts	440	39.9	427	37.1
Short-term, seconded and temporary staff	1	0.1	4	0.2
Total	**441**	**40.0**	**431**	**37.3**

Sickness, absence and staff turnover

The number of days we lost to sickness during the year averaged 4.9 days per person (2019/20: 5.2 days). This included long-term absences of more than 28 days of which we had 19 cases absent for more than six months for serious health issues. Excluding long-term absences, we lost 2.7 days per person (2019/20: 4.2 days).

Staff turnover was six per cent in 2020/21 and 14 per cent in 2019/20.

Staff composition

As at 31 March we had:

	2021		2020	
	Men	Women	Men	Women
Total employees	**224**	**222**	**218**	**215**
Senior management	10	11	11	11
Other management	28	17	22	15

Other employee matters

We believe that having a diverse workforce is not just the right thing to do; it improves our performance. A diverse and inclusive workplace is central to our ability to attract, develop and retain the talent we need to succeed.

We are a Level 3 Disability Confident Leader under the Disability Confident Employer scheme which recognises that we take action to meet commitments regarding employment, retention, training and career development of disabled employees. As at 31 March 2021, we have 21 employees who consider themselves to have a disability.

We published our Diversity Pay Gap Report in March 2021. In December 2019 we signed the Race at Work Charter and this is the first year we have published our median ethnicity pay gap, which stood at 23.15 per cent as of our 31 March 2020 payroll. We are a signatory to the Women in Finance Charter. Our median gender pay gap stood at 15.71 per cent, as of our 31 March 2020 payroll (31 March 2019: 13.39 per cent).

Our equality and dignity at work policy sets out what we expect of all staff in relation to discrimination, bullying and harassment. It also describes the procedures for dealing with any instances of discrimination, bullying or harassment and the different routes available to staff for reporting any such instances.

Off-payroll staff
There were a total of 13 off-payroll engagements for more than £245 per day between 1 April 2020 and 31 March 2021. All off-payroll engagements undertaken during the year have been assessed as compliant with the requirements of IR35.

There were four off-payroll engagements as of 31 March 2021 for more than £245 per day. Of these engagements three existed for between one and two years at the time of reporting.

Of the eight individuals who held senior manager roles with significant financial responsibility during the year, none were undertaken as off-payroll engagements.

Staff exit packages*
Exit package payments agreed to former staff are summarised as follows:

Exit package cost band	Total number of exit packages by cost band 2021	2020
£10,000–£25,000	1	1
£25,000–£50,000	–	6
£50,000–£100,000	1	2
Total number of exit packages	**2**	**9**
Total cost	**£106,996**	**£385,969**

Redundancy costs have been paid within the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972.

There were no compulsory redundancies in 2020/21 (2019/20: none).

Consultancy costs
We use professional service providers to help with specialist work, including consultancy and contingent labour, when we believe it appropriate. Total expenditure on consultancy during the year amounted to £8.2 million (2019/20: £7.8 million).

Parliamentary accountability

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

The Chair and Chief Executive meet regularly with Ministers and Senior Officials from the DWP in addition to quarterly accountability review meetings. The DWP approves the Board's Strategic Plan and the Board delivers its Annual Report and Accounts to Parliament through the Secretary of State for Work and Pensions.

Compliance with chief executive responsibilities is supported through the Board's risk management procedures and through a shared objective for senior management to support the Chief Executive in fulfilling his responsibilities.

Losses and special payments*
Our mission is to pay the right amount of PPF compensation to the right people at the right time. To do this we rely on complete and accurate data being available, as well as our own administrative processes working effectively.

Incorrect payments do occasionally arise. Sometimes we will pay the best estimate of compensation at the correct time, based on inaccurate or incomplete data from scheme trustees. We may occasionally make errors ourselves in the administration of compensation. When more accurate information is made available, or an error has occurred and is subsequently identified, we will reassess the compensation calculation. This can lead to us making additional compensation payments or to reclaim overpaid compensation from members. We also have to make similar adjustments where amounts have in the past been paid incorrectly by schemes which subsequently transferred into the PPF.

Our policy for overpayments is to seek recovery by offset against future compensation payments or by immediate settlement where this is not possible (or if the member prefers to do so). Under certain circumstances, including financial hardship, the overpaid amount will be written off. If the amount is uneconomic to recover or relates to the remainder of the month in which a member dies, the overpaid amount will be waived. During the year 276 overpayments totalling £648,899 (2019/20: 126 totalling £151,648) were written off. In addition, 6,485 overpayments totalling £967,549 (2019/20: 3,705 totalling £551,277) were waived. The level of write-offs and waivers has been affected by increased member deaths, owing to the COVID-19 pandemic.

During the year, an error occurred in the process of constructing the liability hedging requirement which led to a cash loss of approximately £950,000.

Remote contingent liabilities*
Claims which are considered possible are recognised as contingent liabilities. The aggregate value of all other potential claims at 31 March 2021 is estimated at £140 billion, calculated on the same basis as for the PPF 7800 Index.

The PPF 7800 Index is an established official statistic, which we have published since 2007. It indicates the latest estimated funding position for the DB pension schemes in the PPF's eligible universe.

* Subject to audit.

Statement of Chief Executive's responsibilities

Under the Pensions Act 2004, the Board of the PPF is required to prepare for each financial year a statement of accounts in the form and on the basis directed by the Secretary of State for Work and Pensions with the consent of HM Treasury. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Board and of its income and expenditure, Statement of Financial Position and cash flows for the financial year.

For the purposes of the Government Financial Reporting Manual, the PPF Board sees the Chief Executive as having analogous responsibilities to the Accounting Officer as set out in 'Managing Public Money'.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- observe the Accounts Direction issued by the Secretary of State, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the accounts;
- prepare the accounts on a going concern basis; and

- confirm that the Annual Report and Accounts as a whole is fair, balanced and understandable and take personal responsibility for the Annual Report and Accounts and the judgements required for determining that it is fair, balanced and understandable.

The responsibilities of the Accounting Officer, including responsibility for the propriety and regularity of the public finances for keeping proper records and for safeguarding the Board's assets, are set out in 'Managing Public Money' published by HM Treasury.

As Chief Executive I confirm the following:

- as far as I am aware, there is no relevant audit information of which the auditors are unaware;
- I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the auditors are aware of that information;
- the Annual Report and Accounts as a whole are fair, balanced and understandable; and
- I take personal responsibility for the Annual Report and Accounts and the judgements required for determining that it is fair, balanced and understandable.

Oliver Morley
Chief Executive
6 October 2021

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

Opinion on financial statements

I certify that I have audited the financial statements of the Board of the Pension Protection Fund for the year ended 31 March 2021 under the Pensions Act 2004. The financial statements comprise: the Consolidated Statements of Comprehensive Net Income, Financial Position, Cash Flows, Changes in Reserves; and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them. The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards as interpreted by HM Treasury's Government Financial Reporting Manual.

I have also audited the information in the Accountability Report that is described in that report as having been audited.

In my opinion, the financial statements:

- give a true and fair view of the state of the Board of the Pension Protection Fund's affairs as at 31 March 2021 and of the PPF's net income for the year then ended;
- have been properly prepared in accordance with the Pensions Act 2004 and Secretary of State directions issued thereunder.

Opinion on regularity

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

Basis for opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK), applicable law and Practice Note 10 ‘Audit of Financial Statements of Public Sector Entities in the United Kingdom’. My responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the financial statements section of my certificate.

Those standards require me and my staff to comply with the Financial Reporting Council’s Revised Ethical Standard 2019. I have also elected to apply the ethical standards relevant to listed entities. I am independent of the Board of the Pension Protection Fund in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

In auditing the financial statements, I have concluded that the PPF’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the PPF’s ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

My responsibilities and the responsibilities of the Board and the Chief Executive with respect to going concern are described in the relevant sections of this certificate.

The going concern basis of accounting for the Board of the Pension Protection Fund is adopted in consideration of the requirements set out in the International Accounting Standards as interpreted by HM Treasury’s Government Financial Reporting Manual, which require entities to adopt the going concern basis of accounting in the preparation of the financial statements where it anticipated that the services which they provide will continue into the future.

Other Information

The other information comprises information included in the Annual Report, but does not include the parts of the Accountability Report described in that report as having been audited, the financial statements and my auditor’s report thereon. The Board and the Chief Executive is responsible for the other information. My opinion on the financial statements does not cover the other information and except to the extend otherwise explicitly stated in my report, I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

I have nothing to report in this regard.

Opinion on other matters

In my opinion, based on the work undertaken in the course of the audit:

- the parts of the Accountability Report to be audited have been properly prepared in accordance with Secretary of State directions made under the Pensions Act 2004 and
- the information given in the Performance and Accountability Reports for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

In the light of the knowledge and understanding of the Board of the Pension Protection Fund and its environment obtained in the course of the audit, I have not identified material misstatements in the Performance and Accountability reports. I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or

- the financial statements and the parts of the Accountability Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of remuneration specified by HM Treasury's Government Financial Report Manual are not made; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Responsibilities of the Board and Chief Executive Officer for the financial statements

As explained more fully in the Statement of Chief Executive's Responsibilities, the Board and the Chief Executive Officer, is responsible for:

- the preparation of the financial statements in accordance with the applicable financial reporting framework and for being satisfied that they give a true and fair view;
- internal controls as the Board and the Chief Executive, determines is necessary to enable the preparation of financial statement to be free from material misstatement, whether due to fraud of error.
- assessing the PPF's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board and the Chief Executive, anticipates that the services provided by the PPF will not continue to be provided in the future.

Auditor's responsibilities for the audit of the financial statements

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

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

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulation, including fraud.

My procedures included the following:

- Inquiring of management, the PPF's head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to the PPF's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;

  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including the PPF’s controls relating to the Pensions Act 2004 and Managing Public Money.
- discussing among the engagement team and involving relevant internal specialists, including in investments, valuation and actuarial liabilities regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, I identified potential for fraud in the following areas: levy revenue recognition and determination, and posting of unusual journals.
- obtaining an understanding of the PPF’s framework of authority as well as other legal and regulatory frameworks that the PPF operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the PPF. The key laws and regulations I considered in this context included the Pensions Act 2004, Managing Public Money, Tax Legislation and Employment Law.
- obtaining an understanding of the control environment in place at the PPF, in respect of compensation paid, levy collected, investments made and schemes in assessment.

In addition to the above, my procedures to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- reading minutes of meetings of those charged with governance and the Board;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business;
- performing substantive testing over a number of schemes in assessment; and
- reviewing all income and expenditure streams for any irregularities or non-compliance with laws and regulations, including levy collected.

I also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

A further description of my responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of my certificate.

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

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

Report
I have no observations to make on these financial statements.

Gareth Davies
Comptroller and Auditor General
13 October 2021

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

Section 5
Financial statements

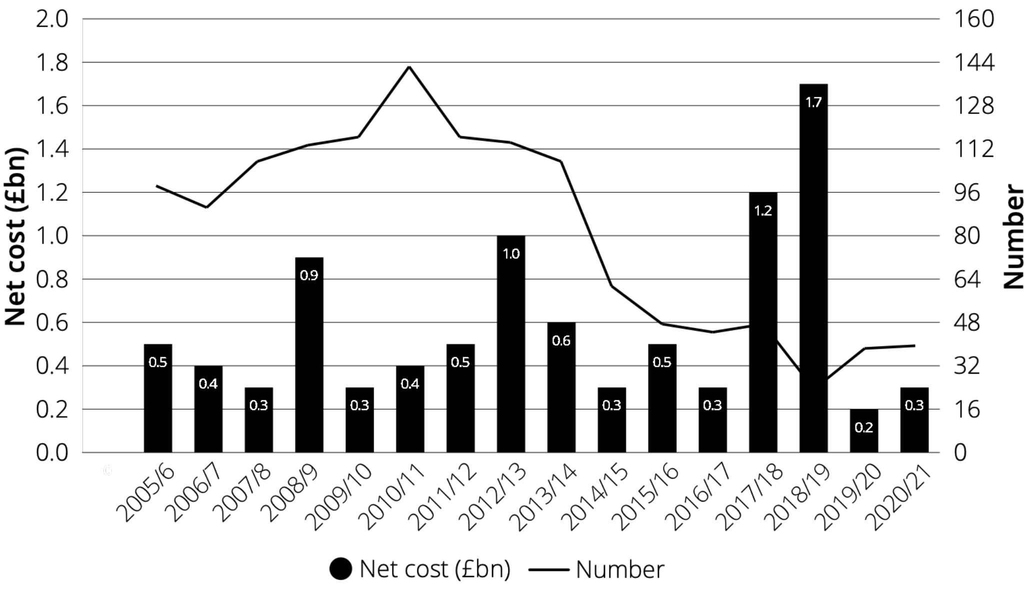
Contents

Chief Finance Officer's review[1]

Summary
The excess of our assets over our liabilities is a measure of our progress towards building sufficient reserves to allow for future claims. This can be expressed in terms of the absolute amount of our consolidated reserves (£9.0bn).

The consolidated reserves of the PPF have increased over the year from £5.1bn to £9.0bn. This reflects the strong performance of non-hedging assets generating a return of £3.7bn. New claims remain low and were similar to last year, as shown in the following chart:

Cost of new claims since inception



Whilst the funding of DB pension schemes has improved overall, with the aggregate deficit of schemes in deficit improving from £254bn to £144bn in the year, claims continue to be uncertain. Sponsors continue to be impacted by consequences of the COVID-19 pandemic.

Improved market conditions have contributed to a higher funding ratio, now just over 127 per cent, and the probability that we will in the long term hold sufficient funds to meet our liabilities, with the appropriate risk buffer, is now 95 per cent.

In order to meet the cost of claims in the future, we charge a levy on eligible schemes and invest the assets under stewardship. In 2020/21, PPF levy income was £630m and our net investment return (including movements on our hedging assets) was £1.2bn.

Including the effect of hedging liability movements, the total investment return was 3.2 per cent, lower than in 2019/20 mainly due to the rise in gilt yields over the year. Excluding hedging, the return was 17.6 per cent for the year, a significant increase from last year, which had been impacted by extreme market volatility towards the end of the financial year.

Note disclosures and commentary
Alongside the principal financial statements and accompanying notes, we present a commentary to highlight and explain important points in a number of the notes. These are identifiable by a shaded background and are not audited by the Comptroller and Auditor General, but have been reviewed for consistency. These notes comprise a summary of accounting policies specific to individual financial statement items (included in a box) and disclosures.

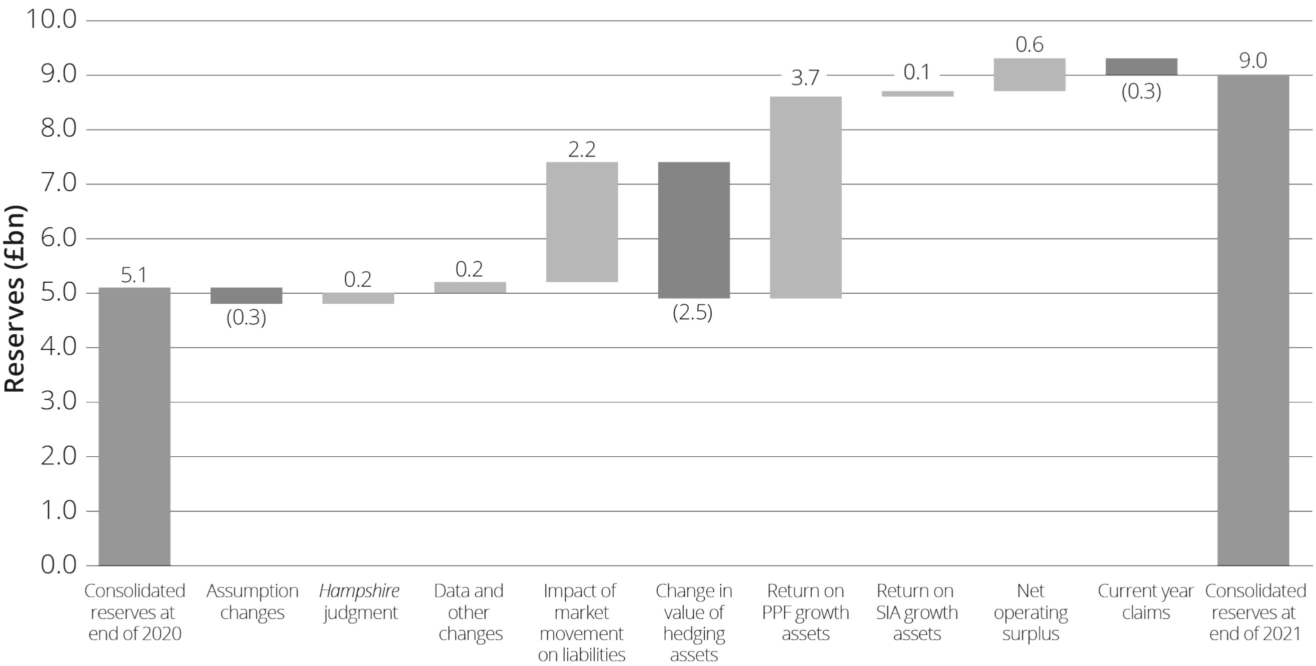
The report from the Comptroller and Auditor General on pages 120-123 confirms that there are no matters that need to be brought to the reader's attention.

1 The Chief Finance Officer's review is not subject to audit.

Review of the Consolidated Statement of Comprehensive Net Income

The Consolidated Statement of Comprehensive Net Income, together with the Consolidated Statement of Changes in Reserves, shows the movement in consolidated reserves during the reporting year. These are summarised in the following diagram and further explained in the subsequent commentary.

Movement in reserves (£bn)



The reserves have increased by £3.9bn in the year mainly due to the return on our non-hedging assets, of around £3.7bn. This was offset however by changes to the assumptions used to assess the liabilities.

Over the year a number of changes were made to the assumptions used to assess our liabilities. The most material change was to the assumed difference between future RPI and CPI following recent announcements from ONS and HMT, this acted to reduce reserves by around £0.7bn. This change was however offset by changes to the assumed future life expectancy of our membership as well as our revised assessment of the likely cost of implementing the *Hampshire* judgment.

Although there was significant movement in gilt yields over the year, our extensive hedging meant that overall our surplus was not materially impacted by these movements.

Net operating surplus is £0.1bn higher than last year, at £0.6bn. This comprises total levy income of £637m (2019/20: £574m) less operating costs of £66m (2019/20: £65m). Levy income comprises PPF levies of £630m and £7m levies for FCF.

There have been 39 new claims (2019/20: 38) totalling £0.3bn (2019/20: £0.2bn).

The Consolidated Statement of Financial Position

The Consolidated Statement of Financial Position sets out the details, at 31 March 2021, of the assets and liabilities held in all the funds for which the Board is responsible.

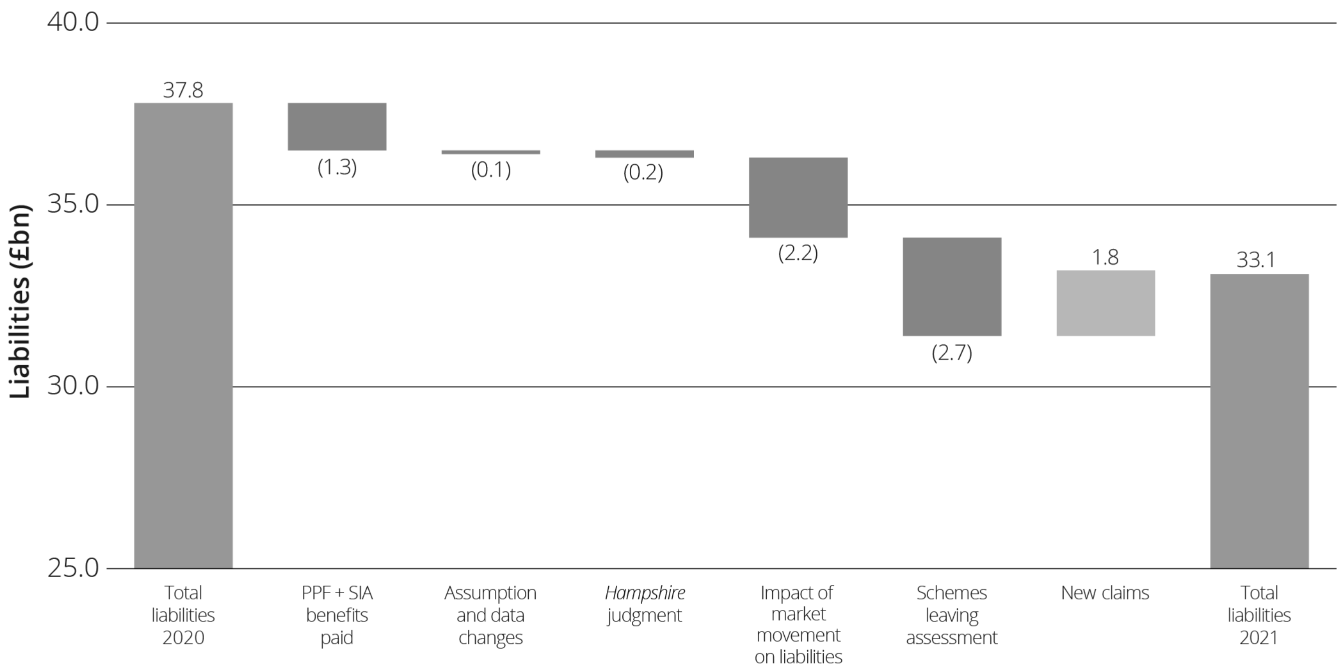
For schemes in assessment (SIA), although the claim has been recognised, the assets and liabilities remain outside of the PPF and the accounting treatment is to include a provision for the net deficit. However, we include the assets and liabilities – calculated on the PPF valuation basis – when calculating the funding ratio.

Consolidated reserves at 31 March 2021

	Consolidated Statement of Financial Position excluding claims provisions for SIA £m	Claims provisions for SIA £m	Total £m
Net assets of the FCF	33.9		33.9
Net assets of the Administration Funds	1.9		1.9
Net assets of the PPF	38,032.2	4,040.1	42,072.3
Total	**38,068.0**	**4,040.1**	**42,108.1**
Actuarial estimates of liabilities of the PPF	(28,484.4)	(4,566.4)	33,050.8
Total reserves	**9,583.6**	**(526.3)**	**9,057.3**
Funding Ratio of the PPF			127.3%

The following graph summarises the movements in actuarial liabilities, including those schemes included in the provision for SIA, from £37.8bn at the beginning of the year to the closing figure of £33.1bn. The impact of new claims is an increase of £1.8bn liabilities.

Movement in actuarial liabilities for transferred schemes and schemes in assessment (£bn)



Lisa McCrory
Chief Finance Officer and Chief Actuary

Consolidated Statement of Comprehensive Net Income

For the year ended 31 March	Notes	2021 £m	2020 £m
Operating income			
Income from levies	3	637.3	574.1
Income from grants	3	20.9	22.7
Total operating income		**658.2**	**596.8**
Operating expenses			
Staff costs	11	(40.0)	(37.3)
Other costs	11	(26.1)	(27.8)
Total operating expenses		**(66.1)**	**(65.1)**
Net operating surplus		**592.1**	**531.7**
Investment activities			
Net investment income	5	724.4	702.9*
Change in fair value of investments	5	702.6	1,250.3*
Investment expenses	5	(250.0)	(152.6)
Net investment return		**1,177.0**	**1,800.6**
Claims activities			
Current year claims for compensation	2	(271.3)	(237.0)
Revaluation of claims for compensation	2	350.0	(310.5)
Gains/(losses) on actuarial liabilities	1	2,116.0	(2,768.2)
FCF claims recoveries		0.7	–
Net cost of claims		**2,195.4**	**(3,315.7)**
Comprehensive net income/(expense) for the year		**3,964.5**	**(983.4)**

* Figures for 2019/20 have been reanalysed to reflect a change in the treatment of amortisation on debt holdings adopted in 2020/21.

The Board has no comprehensive income or expenditure other than the comprehensive net income disclosed above. There were no discontinued operations, acquisitions or disposals during this period.

The accounting policies and notes on pages 141 to 191 form part of these financial statements.

Consolidated Statement of Financial Position

As at 31 March	Notes	2021 £m	2020 £m
Assets			
Operating cash		91.8	81.9
Investment assets	4a	47,072.9	49,188.2
Levy receivables		1.4	1.4
Transfer-in receivables		8.9	162.9
Other assets		18.3	15.1
Total assets		**47,193.3**	**49,449.5**
Liabilities			
Investment liabilities	4a	(9,055.4)	(13,043.4)
Other liabilities		(69.5)	(57.8)
Actuarial liabilities	1	(28,484.4)	(28,749.2)
Claims provisions	2	(526.7)	(2,506.3)
Total liabilities		**(38,136.0)**	**(44,356.7)**
Total assets less total liabilities		**9,057.3**	**5,092.8**
Represented by:			
Total levy and tax payer funds		**9,057.3**	**5,092.8**

The Board of the PPF approved the financial statements on 4 October 2021 and authorised the Chief Executive to sign this Consolidated Statement of Financial Position on the same date.

Oliver Morley
Chief Executive
6 October 2021

The accounting policies and notes on pages 141 to 191 form part of these financial statements.

Consolidated Statement of Changes in Reserves

For the year ended 31 March	Levy payer funds £m	Taxpayer funds £m	Total reserves £m
At 1 April 2019	**6,073.4**	**2.8**	**6,076.2**
Total recognised net expense for 2019/20	(982.1)	(1.3)	(983.4)
Balance at 31 March 2020	**5,091.3**	**1.5**	**5,092.8**
Total recognised net income for 2020/21	3,965.3	(0.8)	3,964.5
Balance at 31 March 2021	**9,056.6**	**0.7**	**9,057.3**

The accounting policies and notes on pages 141 to 191 form part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 March	Notes	2021 £m	2020 £m
Cash flows from operating activities			
Net operating surplus		592.1	531.7
Purchase of property and equipment		(0.1)	(1.4)
Depreciation, amortisation and impairment charges	11	1.6	2.2
Movement in current liabilities		10.1	(17.5)
Movement in receivables		(4.0)	2.6
Net cash inflow from operating activities		**599.7**	**517.6**
Cash flows from investing activities			
Cash proceeds from net investment (purchases)/sales		(609.4)	(3,268.7)
Cash proceeds from net investment return		1,299.7	1,122.8
Net (losses)/gains on cash equivalents		(30.5)	69.3
Net cash inflow/(outflow) from investing activities		**659.8**	**(2,076.6)**
Cash flows from claims activities			
Cash receivable from schemes transferring into the PPF		359.6	1,351.5
Compensation payments	1	(1,006.4)	(859.7)
Net cash (outflow)/inflow from claims activities		**(646.8)**	**491.8**
Net increase/(decrease) in cash and cash equivalents in the year		**612.7**	**(1,067.2)**
Cash and cash equivalents at beginning of the year		**(81.4)**	**985.8**
Cash and cash equivalents at end of the year		**531.3**	**(81.4)**
Cash and cash equivalents comprise the following:			
Operating cash		91.8	81.9
Cash at fund managers	4a	2,243.7	3,233.5
Net repurchase agreements	4a	(1,600.2)	(3,343.2)
Net unsettled trades	4a	(204.0)	(53.6)
		531.3	**(81.4)**

The accounting policies and notes on pages 141 to 191 form part of these financial statements.

Funds for which the Board is responsible

The Board is a statutory public corporation, sponsored by the DWP, incorporated on 6 April 2005 under the Pensions Act 2004. Legislation requires the Board to hold and apply statutory funds which constitute the three broad streams in which the financial activities of the Board are accounted for:

- the **PPF** itself;
- the **FCF**; and
- the **Administration Funds**.

The **PPF** holds the majority of the Board's assets and liabilities, receives protection levy income and incurs much of the Board's costs. Its assets arise from levy income collected, investment returns and assets transferred from schemes for which the PPF has assumed responsibility. The PPF's principal liabilities are to pension scheme members for whom it has assumed responsibility and a provision for the total estimated value of the deficits of schemes where eventual entry to the PPF is judged probable.

The **FCF** receives fraud compensation levies and holds a fund to compensate schemes which have suffered loss due to acts of dishonesty.

The **Administration Funds** record some of the Board's administrative expense and the related funding. In the Board's role as manager of the FAS the Board administers payments to members of certain DB pension schemes which are ineligible for PPF compensation and manages the transition of these schemes and the transfer of the schemes' assets to the Government.

Core accounting policies

This section sets out the core accounting policies which apply throughout the financial statements. Accounting policies specific to particular elements of the financial statements are set out in boxes within the relevant note disclosures. The Board’s core and specific accounting policies have been consistently applied in the current and preceding year.

Basis of preparation

These financial statements have been prepared in accordance with an Accounts Direction dated 18 February 2010 issued by the Secretary of State for the DWP, with the approval of HM Treasury, in line with the Pensions Act 2004. The Accounts Direction stipulates compliance with the current FReM, which provides guidance in following, as far as appropriate, private sector practice based on International Financial Reporting Standards (IFRS).

The financial statements have been prepared on the going concern basis. However the going concern basis for FCF is subject to some uncertainty until the required loan from the DWP is finalised and the necessary legislation is enacted. This has not affected the assets, liabilities or net income of the FCF (see page 65). For all funds, the financial statements have been prepared under the historical cost convention, except for the measurement at fair value through profit and loss of financial instruments and investment property, and the measurement of compensation benefits and associated provisions at the present value of the obligation.

Accounting standards particularly relevant to reporting on the Board's responsibilities and activities include:

- IFRS 7 Financial Instruments: Disclosures;
- IFRS 9 Financial Instruments: Recognition and Measurement;
- IFRS 10 Consolidated Financial Statements;
- IFRS 13 Fair Value Measurement;
- IFRS 15 Revenue from Contracts with Customers (as adapted by the FReM);
- IAS 20 Accounting for Government Grants and Disclosure of Government Assistance;
- IAS 32 Financial Instruments: Presentation;
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
- IAS 40 Investment Property.

Standards likely to affect future financial statements include:

- IFRS 16 Leases (effective for the periods beginning on or after 1 January 2021 as directed by the FReM). The new standard replaces International Accounting Standard (IAS) 17 Leases and introduces a new single accounting approach for lessees for all leases (with limited exceptions). As a result, there is no longer a distinction between operating leases and financial leases, and lessees will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. The Board leases two properties for use as office space which are currently classified as operating leases. When implementing IFRS 16, the Board expects to recognise a right-of-use asset and a lease liability on the Statement of Financial Position, both of approximately £11m.

- IFRS 17 Insurance Contracts (effective for the periods beginning on or after 1 January 2023). The new standard replaces IAS 4 and is a comprehensive new accounting standard for all insurance contracts covering recognition and measurement, presentation and disclosure. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers and to replace the requirements of IFRS 4 that allowed insurers to apply grandfathering of previous local accounting policies. The Board is currently considering the potential impact of IFRS 17 – it is not yet clear how the standard will be applied to the public sector.

Consolidated financial statements
The financial statements consolidate the financial positions and results of the PPF, the FCF and the Administration Funds. The Board holds some investment assets through subsidiaries formed solely for that purpose. The underlying investments, income, gains and losses are recorded in the total investment portfolio. The subsidiaries are listed in note 13.

The Board also has a subsidiary which it acquired following a scheme transfer. The Board considers itself an investment entity as defined under IFRS 10 Consolidated Financial Statements and this subsidiary forms part of its investment portfolio. As such, the subsidiary has not been fully consolidated into PPF's financial statements but is included in investments in note 4 of the financial statements, measured at fair value through profit and loss.

Segmental reporting
To comply with IFRS 8 Operating Segments, note 12 summarises the financial transactions and balances of the three separate activity streams described in the introduction: the PPF, the FCF and the Administration Funds. Further information is available in the notes on provisions for claims, levy income and operating expenses.

Foreign currency translation
These financial statements are presented in sterling, which is the functional currency of the Board. Transactions denominated in foreign currency are recorded at the exchange rates prevailing on the dates of the transactions.

All assets and liabilities denominated in foreign currencies are translated into sterling at the rates prevailing at the year end. Exchange differences arising on settlement and on retranslation are recognised in change in fair value. Forward foreign exchange contracts are valued at rates prevailing at the year end.

Impact of the Board assuming responsibility for schemes
Before entering the PPF, schemes go through an Assessment Period described at: www.ppf.co.uk/overview-assessment-process.

Schemes that satisfy the criteria for transfer to the PPF – in particular that they have insufficient assets to meet their protected liabilities – receive a Transfer Notice under section 160 of the Pensions Act 2004, under which all their property, rights and liabilities are transferred to the Board. At the effective date of the Transfer Notice the scheme's net financial assets are transferred at fair value and its actuarial liabilities are valued using the same policies as apply to the Board's existing actuarial liabilities. Where the net deficit of a transferring-in scheme has been provided for at the end of the previous reporting period, changes in the value of the deficit due to changes in the value of the scheme's assets and liabilities from the previous accounting date up to the effective date of the Transfer Notice are accounted for as a revaluation of claims.

Taxation

By virtue of the PPF (Tax) Regulations 2006, SI 2006/575, the Board is treated in the same way as UK registered pension schemes. Income from which recoverable withholding tax has been deducted is recorded gross, and the tax recoverable is included in receivables. Where tax withheld cannot be recovered, income is recorded net. The Board does not have to pay tax on its net income. Value Added Tax is normally irrecoverable in the European Union prior to Brexit and in the United Kingdom following Brexit and is recognised as part of the expenditure to which it relates.

Significant estimates and judgements

The preparation of financial statements requires management to make estimates and judgements. Actual results could differ from estimates. Information about these judgements and estimates is contained in the relevant accounting policies and notes to the accounts. The key areas of estimation uncertainty and judgement are:

- actuarial liabilities and gains or losses on actuarial liabilities (note 1);

- claims provisions and contingent liabilities (note 2); and
- techniques for valuing financial instruments for which there is not a quoted price (note 4).

Paying compensation

This section describes:

- the PPF's liabilities to pay compensation to members; and
- provisions and contingent liabilities made for potential claims for schemes to enter the PPF and for schemes to be compensated by the FCF for losses caused by dishonesty.

1. Liabilities to pay compensation to members

The Consolidated Statement of Financial Position shows that at 31 March 2021 the PPF estimated the value of existing liabilities to pay compensation to members at £28.5bn. During the year, the PPF paid members compensation of £1.0bn. After the Actuarial Valuation as at 31 March 2021 was completed, a net gain of **£2.1bn to the Consolidated Statement of Comprehensive Net Income** was recognised to decrease the estimated liabilities to pay compensation to members.

The amount of the PPF's liabilities to pay compensation to members (actuarial liabilities) is calculated by the Appointed Actuary – see the Actuarial Valuation starting on page 192.

The value is impacted by changes in actuarial assumptions, discount rates, operating expenses and other relevant factors, including the payment of benefits during the period.

Accounting policy

In accordance with IAS 37, the Board recognises its best estimate of the expenditure required to pay compensation to members in the future as disclosed in the Actuarial Valuation. This includes:

- the present value of the liability to pay compensation to the members, both deferred and retired, of all pension schemes for which the Board has assumed responsibility, valued on the assumptions set out in the Appointed Actuary's Report; and
- an allowance for operating expenses permitted to be charged against the PPF.

Where a member retires before the year end but has not received compensation, the transaction is accounted for as a decrease in the actuarial liabilities on a cash basis.

Key judgements and estimates
The reported financial position of the PPF is dependent on an appropriate valuation of its actuarial liabilities. In accordance with the Pensions Act 2004, the Board has appointed a suitably qualified actuary to undertake these calculations.

The material assumptions used in calculating the actuarial liabilities include judgements to select the assumed discount rate, and estimations of the assumed inflation rate and the assumed life expectancy of members, used to forecast benefits payable to members. A description of each of these assumptions is set out below and the impact of changes to these assumptions is set out on the following page.

Discount rate	A full curve, consisting of: 75% of the gilt yield, plus 25% of the SONIA swap yield plus 10 basis points at each term
CPI inflation	0.9% p.a. lower than RPI inflation swap curve until 31 January 2030 and 0.1% p.a. lower thereafter
Baseline life expectancy	Club Vita life expectancy curves, 2020 version

In order to assist the reader of these financial statements, a full copy of the Appointed Actuary's Report to the Board on this year's valuation has been included in this document. The details of this report have not been audited by the NAO but does contain information useful in understanding the judgements which have been made in arriving at the valuation. In particular, Appendix M3 which sets out details of the significant assumptions, including on page 217 the method used to compute an appropriate discount rate and Appendix S4 which illustrates the more material sensitivities to those assumptions.

The change in the total value of actuarial liabilities can be analysed as follows:

Actuarial liabilities

	2021 £m	2020 £m
Opening value of actuarial liabilities	28,749.2	23,063.3
Actuarial liabilities of schemes which transferred to the PPF during the year	2,857.6	3,777.4
Actuarial (gains)/losses	(2,116.0)	2,768.2
Benefits paid to members	(1,006.4)	(859.7)
Total actuarial liabilities	**28,484.4**	**28,749.2**

The minimum amount of the total actuarial liabilities expected to be settled within 12 months is £908m (2020: £845m).

The impact of changes to the material assumptions used in calculating the actuarial liabilities are set out below.

Actuarial (gains)/losses

The analysis of change has been determined by aggregating actual experience observed over each month of the year. Actuarial (gains)/losses are the net adjustment required to the outstanding amount of actuarial liabilities after accounting for schemes which have transferred into the PPF and the amount of benefits paid during the year. Actuarial (gains)/losses can be analysed as follows:

	2021 £m	2020 £m
Change due to the passage of time	2.0	150.6
Change in liabilities due to change in market yields	(1,872.8)	2,537.2*
Change in assumptions	135.2	(9.8)*
Data changes and other experience	(186.3)	(77.8)*
Change in past service cost	(194.1)	168.0
Total actuarial (gains)/losses	**(2,116.0)**	**2,768.2**

* Reanalysed to align more closely to the analysis given in the Appointed Actuary's Report.

Change in assumptions includes changes to mortality, inflation and discount rates.

Impact of changes to assumptions on actuarial liabilities
The change in value of actuarial liabilities under a number of scenarios would be:

	2021		2020	
	£m	%	£m	%
Nominal yields are 0.5% higher per year than assumed	(2,268.6)	(8.0)	(2,579.2)	(9.0)
Inflation is 0.5% lower per year than assumed	(725.1)	(2.5)	(1,069.2)	(3.7)
Average life expectancy is one year shorter than assumed	(1,319.8)	(4.6)	(1,369.2)	(4.8)

2. Provisions for claims on the PPF and the FCF

The Consolidated Statement of Financial Position shows **total provisions of £526.7m for claims from pension schemes,** with £526.3m being for the PPF (see page 154) and £0.4m for the FCF (see page 157). The Consolidated Statement of Comprehensive Net Income shows **cost of current year claims of £271.3m,** £270.9m being the PPF and £0.4m being the FCF, and also shows a net **decrease to the values of claims previously recorded of £350.0m.**

The PPF provision relates to SIA and is calculated by the Appointed Actuary as the present value of estimated future compensation payments to be made by the PPF, less the value of existing assets in such pension schemes. The claims activities disclosed in the Consolidated Statement of

Comprehensive Net Income are affected by two elements of claims: the amount of new claims received in the year, and the effect of reassessing the value of previously reported claims.

The FCF maintains a provision for claims where we have established, more likely than not, that a fraud has occurred and sufficient information has been provided to reliably estimate the amount of loss.

Accounting policies
The PPF considers all eligible pension schemes whose sponsoring employers have experienced a qualifying insolvency event before the end of the accounting period. Where eventual entry of the scheme into the PPF is judged probable, the Board recognises a provision.

Where the Board believes no qualifying insolvency event has occurred before the end of the accounting period, but nonetheless the event could possibly occur, and where it has sufficient information, a contingent liability will be disclosed.

The provision is valued at the net deficit impacting the PPF, that is:

- scheme liabilities calculated on the same basis as actuarial liabilities; less
- assets under the trustees' control, including asset recoveries from insolvent employers.

The contingent liabilities are valued using statistical modelling of all the schemes that the PPF protects to provide an expected insolvency rate which when combined with the expected deficit gives the expected value of claims within the next 12 months.

Within the FCF, the Board recognises provisions for claims (including third party claims handling costs) where it is probable that an eligible pension scheme has suffered a loss due to an act of dishonesty and the loss can be reliably estimated. Where the success of a claim is judged possible, but less than probable or its value cannot be reliably measured, a contingent liability is disclosed.

Key judgements and estimates

The calculation of the costs of claims on the PPF relies on actuarial assumptions for the valuation of scheme liabilities. The material assumptions used in calculating the scheme liabilities include judgements used to derive the discount rate and estimations of the assumed inflation rate and the assumed life expectancy of members, used to forecast benefits payable to members. A description of each of these assumptions is set out below and the impact of changes to these assumptions is set out in the following notes.

Discount rate	A full curve, consisting of: 75% of the gilt yield, plus 25% of the SONIA swap yield plus 10 basis points at each term
CPI inflation	0.9% p.a. lower than RPI inflation swap curve until 31 January 2030 and 0.1% p.a. lower thereafter
Baseline life expectancy	Club Vita life expectancy curves, 2020 version

For asset values of schemes in PPF assessment, we are required to estimate fair value at the accounting date based on the most recently available information from scheme trustees. Generally this means we roll forward asset values as at a date prior to the Board's accounting date using appropriate market indices (see Appendix S2 for the PPF).

The calculation of the cost of claims for the FCF relies on the validation of the calculation of the loss by a scheme from information provided by the trustees (see page 157).

Claims on the PPF

Claims provisions, current year claims for compensation, the revaluation of claims for compensation, and the total estimate of contingent liabilities relating to the PPF are summarised below:

	2021 £m	2021 Number of schemes	2020 £m	2020 Number of schemes
Claims provisions at start of year	**2,506.3**	**71**	**3,040.5**	**73**
Sub-division of prior year claim into its scheme sections		2		–
Current year claims for compensation				
Protected liabilities	1,845.2		3,135.7	
Scheme assets including recoveries	(1,574.3)		(2,898.7)	
Total current year claims for compensation*	**270.9**	**39**	**237.0**	**38**
Revaluation of claims for compensation				
Release of provision for schemes no longer considered probable for entry	(2.9)	(11)	(19.6)	(6)
Revaluation of provisions brought forward from previous year end	(387.9)		283.1	
Change in provisions for schemes transferring into the PPF during the year	40.8		47.0	
Revaluation of claims	**(350.0)**		**310.5**	
Release of provisions for claims transferred to the PPF	**(1,900.9)**	**(22)**	**(1,081.7)**	**(34)**
Claims provisions at end of year	**526.3**	**79**	**2,506.3**	**71**

* Current year claims for compensation comprises newly notified claims, reapplications, and claims for schemes which had been in surplus in previous years but are now in deficit. Collectively these are referred to as 'new claims'. In previous years, new claims did not include reapplications or schemes which had been in surplus in previous years but are now in deficit. In 2019/20 there were two such exclusions and 36 new claims had been reported totaling £237.0m.

The amount of the total claims provision expected to be settled within 12 months is £253.5m (2020: £2.0bn).

The claims provisions are calculated as the total estimated actuarial liabilities less the total value of assets reported as owned by SIA at 31 March:

	2021 £m	2020 £m
Total estimated actuarial liabilities for SIA	4,566.4	9,061.0
Total assets owned by SIA	(4,040.1)	(6,554.7)
Total net deficits of SIA	**526.3**	**2,506.3**

Impact of changes to assumptions on claims provisions

The impact of changes to the material assumptions used in calculating the claims provisions are set out below.

The Appointed Actuary's Supplementary Report, in particular Appendix S4, gives further information on these provisions.

	2021		2020	
	£m	%	£m	%
Nominal yields are 0.5% higher per year than assumed	(214.2)	(40.7)	(486.3)	(19.4)
Inflation is 0.5% lower per year than assumed	(43.0)	(8.2)	(196.3)	(7.8)
Average life expectancy is one year shorter than assumed	(213.4)	(40.5)	(376.3)	(15.0)

Contingent liabilities for possible claims on the PPF
The total value of claims on the PPF identified as reasonably foreseeable at 31 March 2021, net of the value of related scheme assets, was estimated as £408.4m. As at 31 March 2020 this was disclosed as £3,746.7m but this has been restated to £1,694.1m following a change to the method used to calculate these liabilities. In previous years an individual scheme was included if it was underfunded and if the sponsoring employer was deemed to be at a high risk for an insolvency event over the next year. The current method instead uses statistical modelling techniques to assign a probability of insolvency to the sponsoring employer of a scheme, which when combined with any underfunding and aggregated across all schemes provides a best estimate of the expected value of claims within the next 12 months. The reduction over the year reflects both an improvement in funding in the universe we protect as well as a reduction in expected insolvencies over the year ahead.

It should be noted that although £408.4m is our best estimate of the contingent liabilities for possible claims as at 31 March 2021, the statistical modelling described above produces a wide range of possible outcomes. The model has calculated that as at 31 March 2021 there is a five per cent chance that the number could be as high as £1,427m and a five per cent chance it could be as low as £23m.

This method is consistent with the Board’s own methods of assessing the risk of schemes entering the PPF and we consider that this provides a more appropriate measure.

In addition, in 2019/20, the CJEU ruled that a reduction in the amount of occupational old age pension benefits paid to a member on account of their employer’s insolvency is manifestly disproportionate where, as a result of the reduction, the member is living below the at-risk-of-poverty threshold determined by Eurostat (Bauer). The implementation of the Bauer judgment presents a significant operational complexity and we are working with the DWP to address the challenges. We are therefore unable at this point to provide a reliable estimate of how many of our members will be affected.

Claims on the FCF

The total value of claims on the FCF as at the 31 March 2021 was estimated at £0.4m (2020: £nil).

	2021 £m	2021 Number of schemes
Claims provision at the start of the year	**–**	**–**
New claims	0.4	1
Claims provision at the end of the year	**0.4**	**1**

Contingent liabilities for possible claims on the FCF

We have received a further eight claim applications amounting to £46.9m which are going through the settlement process whereby the claims will be assessed for eligibility and validation of the amounts claimed. Until we have completed our review and validation of information provided by the trustees, we are not able to confirm that the claim is valid or make a reliable estimate of the claims.

We have been notified of a further 117 potential claims with best estimates (before any recoveries) totalling £358.1m but there is uncertainty as to their eligibility and to the validity of the amounts claimed (see page 35).

Therefore no provision has been included.

Funding compensation

Levy income, grants and investment management
This section describes how the PPF and the FCF fund their obligations to pay compensation to members.

The PPF’s SIP describes the primary objective as having sufficient funds to pay compensation to members of eligible pension schemes. The PPF’s funding objective, and managing the financial risks associated with it, is designed to achieve a balance between protecting and securing the compensation payments for current and potential members of schemes that come into the PPF while setting a fair and proportionate levy.

The PPF is funded principally from four main sources:

- charging a levy on eligible pension schemes;
- taking on the assets of schemes that transfer to the PPF;
- recovering money, and other assets, from the insolvent employers of the schemes we take on; and
- funds to pay compensation in the future which are invested to earn an investment return.

The FCF is mainly funded by the fraud compensation levy and it has its own SIP.

3. Operating income

Operating income consists of income from levies and income from grants.

Income from levies

The Consolidated Statement of Comprehensive Net Income shows that **total levy income increased by £63.2m to £637.3m, £629.9m for the PPF itself and £7.4m for the FCF.**

The PPF levy amount collected in relation to the 2020/21 levy year was £629.9m, broadly in line with the estimate of £620m published in September 2019.

The principles, policies and procedures for levy assessment and invoicing are explained at:

www.ppf.co.uk/levy-payers

Accounting policy

Protection levy and fraud compensation levy income is recognised on an accruals basis.

Income from levies is reduced for possible reimbursements following levy payers’ appeals.

Levy income for the year ended 31 March is summarised as follows:

	2021 £m	2020 £m
Risk-based levies in respect of the current year	597.5	532.9
Scheme-based levies in respect of the current year	32.4	30.2
Total protection levies in respect of the current year	**629.9**	**563.1**
Risk-based levies in respect of prior years	–	4.2
Scheme-based levies in respect of prior years	–	(0.1)
Total protection levies in respect of prior years	**–**	**4.1**
Income from protection levies	**629.9**	**567.2**
Income from fraud compensation levy	**7.4**	**6.9**
Total income from levies	**637.3**	**574.1**

The Board raised a fraud compensation levy of £7.4m in 2020/21 (2019/20: £6.9m). The levy is collected by TPR on the Board's behalf.

Income from grants

The Consolidated Statement of Comprehensive Net Income shows that **income from grants decreased by £1.8m to £20.9m**. Grants are received from the DWP to fund PPF and FAS operational expenses. Grants from the DWP relating to the PPF are funded by an administration levy applied to eligible UK pension schemes.

Accounting policy

Income from grants is recognised in the period in which the grant is received in accordance with IAS 20, as directed by the FReM.

Income from grants for the year ended 31 March is summarised as follows:

	2021 £m	2020 £m
Levy payer funds	13.6	16.2
Tax payer funds	7.3	6.5
Total	**20.9**	**22.7**

4. Financial instruments

Financial instruments are categorised as financial assets and financial liabilities. Financial assets are a contractual right to receive cash or another financial asset from another entity. Financial liabilities are a contractual obligation to deliver cash or another financial asset to another entity. Financial instruments comprise investments, cash and cash equivalents, levy receivables, transfer-in receivables and other assets and liabilities.

Accounting policy
Classification
Financial instruments are classified at initial recognition as one of:

- financial assets and liabilities at fair value through profit or loss, further identified by:

  (a) those financial assets mandatorily held at fair value through profit or loss;

  (b) those financial assets designated as held at fair value through profit or loss at initial recognition;

  (c) those financial liabilities classified as held at fair value through profit or loss (mainly derivatives – interest rate swaps, inflation rate swaps, options, credit default swaps, longevity swaps and forward foreign exchange contracts to support LDI); or
- financial assets or liabilities which are categorised as held at amortised cost.

Recognition and derecognition
Financial assets and liabilities at fair value through profit

and loss are recognised initially on trade date. Other financial assets and liabilities are recognised on the date they are originated. Financial assets are derecognised when the right to receive cash flows has expired, or the Board has transferred substantially all the risks and rewards of ownership or control of the asset. Financial liabilities are derecognised when the obligation to deliver cash or another financial asset is discharged, cancelled or expires.

Securities sold subject to repurchase agreements remain on the Consolidated Statement of Financial Position and a liability is recorded for the consideration received.

Measurement

Financial assets and liabilities at fair value through profit and loss are measured at fair value, defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Quoted securities and other exchange-traded assets, including derivative contracts, are valued at closing prices at the end of the reporting period. Prices used are the bid price or last traded price, depending on the convention of the stock exchange or other market on which they are quoted. Pooled investment vehicles are valued at closing bid or single prices as appropriate. Assets for which a recognised investment exchange does not exist are valued at a fair value estimated by the Board’s appointed fund managers or other appropriately qualified professional advisor. The latest available valuation is used, rolled forward to the reporting date as appropriate. Where possible, the resulting valuations are validated by the Board’s custodian. Derivative contracts that are not exchange-traded (often referred to as over-the-counter contracts) are valued at prices calculated by a pricing agent – and compared to the fund manager’s own valuations – using valuation methodologies based on market sources, except for longevity swaps which are valued using actuarial methods.

Other financial assets and liabilities are measured on an historic cost basis.

In relation to property assets as at 31 March 2020, totalling £1.9bn, valuers declared a ‘material valuation uncertainty’ in their valuation reports as at that date. This was on the basis of uncertainties in markets caused by COVID-19. The values in the reports were used to inform the measurement of property assets in these financial statements as at 31 March 2020. No such declarations of material valuation uncertainty existed as at 31 March 2021.

Key judgements and estimates
The choice of valuation technique and inputs to the valuation methodology – whether based on observable market data or not – are matters of judgement and involve the use of estimates. The amounts eventually realised from these financial instruments may differ from the estimated values disclosed in these accounts. The Board may adjust the price of financial instruments received from the relevant price source if it judges that the price supplied does not reflect an orderly transaction in a functioning market or restrictions on the sale and use of the asset. Due to market volatility towards the end of 2019/20 associated with the COVID-19 pandemic, some assets that required significant

judgement to ascertain fair value, such as property and private equity, were subject to a higher level of uncertainty. No such volatility existed at 31 March 2021. Note 13 describes Kodak Alaris Holdings Limited (KAHL) as a wholly owned subsidiary of the PPF. The Board of the PPF assessed the accounting treatment of KAHL, concluding that the PPF meets the definition of an investment entity under IFRS 10 and its holding in KAHL forms part of the PPF's investment portfolio. As such KAHL has not been fully consolidated into the PPF's fincial statements but has been disclosed as an investment asset.

Classification of financial instruments at 31 March 2021

	Financial assets held at fair value through profit and loss* £m	**Financial liabilities held at fair value through profit and loss £m**	**Total financial instruments measured at fair value £m**	**Financial assets held at amortised cost £m**	**Financial liabilities held at amortised cost £m**	**Total financial instruments £m**
Net investment portfolio	44,608.1	(8,758.6)	**35,849.5**	2,464.8	(296.8)	**38,017.5**
Cash at bank	–	–	**–**	91.8	–	**91.8**
Levy receivables	–	–	**–**	1.4	–	**1.4**
Transfer-in receivables	–	–	**–**	8.9	–	**8.9**
Other assets	–	–	**–**	1.3	–	**1.3**
Other liabilities	–	–	**–**	–	(68.1)	**(68.1)**
Total	**44,608.1**	**(8,758.6)**	**35,849.5**	**2,568.2**	**(364.9)**	**38,052.8**

* Of the financial assets measured at fair value through profit and loss £26,362.5m have been designated at initial recognition.

Classification of financial instruments at 31 March 2020

	Financial assets held at fair value through profit and loss* £m	Financial liabilities held at fair value through profit and loss £m	Total financial instruments measured at fair value £m	Financial assets held at amortised cost £m	Financial liabilities held at amortised cost £m	Total financial instruments £m
Net investment portfolio	45,669.8	(12,811.8)	**32,858.0**	3,518.4	(231.6)	**36,144.8**
Cash at bank	–	–	**–**	81.9	–	**81.9**
Levy receivables	–	–	**–**	1.4	–	**1.4**
Transfer-in receivables	–	–	**–**	162.9	–	**162.9**
Other assets	–	–	**–**	0.4	–	**0.4**
Other liabilities	–	–	**–**	–	(54.9)	**(54.9)**
Total	**45,669.8**	**(12,811.8)**	**32,858.0**	**3,765.0**	**(286.5)**	**36,336.5**

* Of the financial assets measured at fair value through profit and loss £26,032.8m have been designated at initial recognition.

4a. Net investment portfolio

The Consolidated Statement of Financial Position shows that at the year end the PPF and the FCF together had **gross investment assets valued at £47.1bn and investment liabilities of £9.1bn,** a net investment portfolio of £38.0bn. The Consolidated Statement of Comprehensive Net Income shows a **net investment return (income and gains less investment expenses) of £1.2bn.**

The Board's approach to investment is summarised in the SIP (https://www.ppf.co.uk/sites/default/files/2020-09/PPF_SIP_PPF.PDF) which summarises investment management governance, objectives, risk management, strategy, fund management and custody. The FCF has its own SIP. The day-to-day fund management of the assets is performed by an in-house team of investment professionals and a portfolio of external fund managers.

The Board holds a wide range of investment assets and liabilities as shown below. To help manage the risks associated with its long-term liabilities to pay compensation to members, the Board has a programme of UK Government bonds sale and repurchase agreement transactions and derivatives (principally interest rate and inflation swaps). The Performance Report comments on the PPF's investment performance.

The change in the net investment portfolio over the year is summarised as follows:

	2020 £m	Assets transferred from SIA £m	Net purchases/ (sales) £m	Net gains/ (losses) £m	Other movements £m	2021 £m
Annuities	405.2	17.9	–	(53.2)	–	369.9
Corporate bonds	5,829.5	–	328.5	368.3	(585.0)	5,941.3
Index-linked corporate bonds	363.1	–	(12.8)	32.6	0.2	383.1
Government bonds	15,674.8	547.6	1,878.9	(2,017.4)	(6.3)	16,077.6
Index-linked government bonds	773.8	–	(497.6)	86.4	(0.2)	362.4
Other debt	3,391.6	133.0	(139.5)	239.6	(26.6)	3,598.1
Public equity	2,933.0	–	251.1	1,260.4	(0.7)	4,443.8
Private equity	1,420.1	53.3	0.1	184.9	–	1,658.4
Global tactical asset allocation	1,867.7	–	(454.5)	340.2	–	1,753.4
Investment property funds	1,278.7	0.2	239.3	(35.1)	(4.3)	1,478.8
Investment property held directly	653.6	–	34.4	(12.1)	–	675.9
Infrastructure	770.0	–	91.7	(29.8)	–	831.9
Timberland and farmland	557.5	–	55.3	28.1	–	640.9
	35,918.6	**752.0**	**1,774.9**	**392.9**	**(622.9)**	**38,215.5**
Other investment assets						
Unsettled trades	163.1					89.7
Derivatives	9,321.8					5,996.2
Cash at fund managers	3,233.5					2,243.7
Repurchase agreements	429.4					396.4
Accrued income	121.8					131.4
Total investment assets	**49,188.2**					**47,072.9**
Other investment liabilities						
Unsettled trades	(216.7)					(293.7)
Derivatives	(9,039.2)					(6,762.0)
Repurchase agreements	(3,772.6)					(1,996.6)
Interest payable	(14.9)					(3.1)
Total investment liabilities	**(13,043.4)**					**(9,055.4)**
Net investment portfolio	**36,144.8**					**38,017.5**

Other movements include corporate actions and minor reclassifications. Assets transferred are in specie movements from schemes coming into the PPF.

Cash at fund managers includes £1,935.9m (2020: £2,752.6m) managed in-house.

The amounts of the net investment portfolio expected to be recovered or settled within 12 months are assets of £2,992.8m and liabilities of £2,504.4m (2020: assets of £4,291.5m and liabilities of £4,243.7m).

4b. Financial instruments measured at fair value
The following tables and disclosures analyse the financial instruments of the PPF and the FCF in accordance with IFRS 13 to reflect the significance of inputs used in assessing fair value.

Level 1 instruments are valued by reference to quoted prices in active markets for identical assets.

Level 2 instruments are valued using valuation techniques utilising inputs (other than quoted prices taken directly from markets) observable either directly (e.g. through market information price feeds) or indirectly (i.e. derived from market rates, prices and other data).

Level 3 instruments are valued using valuation techniques utilising unobservable inputs.

We invest in a number of pooled funds which are valued at a fair value estimated by the Board’s appointed fund managers or other appropriately qualified professional advisor. Where possible, the resulting valuations are validated by the Board’s custodian.

The main valuation techniques used to measure the fair value of financial instruments and details of the sensitivity of fair value measurement to significant inputs are set out below:

Description of asset	Level	Basis of valuation	Inputs and sensitivities affecting valuations
Market quoted equity and debt	1	Closing bid or last traded price, depending on the convention of the market, at the end of the reporting date or the last trading day prior to that date	Not applicable
Exchange-traded managed funds and exchange-traded derivatives	1	Closing bid price published by an exchange	Not applicable
UK Government, other sovereign and listed corporate debt	2	Priced using price aggregation services which source prices from authorised brokers and dealers	Interest rate changes
Non exchange-traded managed funds (priced using observable inputs)	2	Closing bid or single prices which are derived from the net asset value of underlying investments	Interest rate or market index changes
Over-the-counter derivatives	2	Discounted cash flow and option pricing models	Interest rate, exchange rate or market index changes
Repurchase and reverse repurchase agreements	2	The value of collateral held with counterparties as either cash or bonds	Interest rate changes
Annuities	3	Actuarial valuation models	Interest rate and mortality assumptions impact the valuation
Private and illiquid debt	3	Discounted cash flow and debt pricing models	Discount rate, interest rate and credit rating assumptions impact the valuation
Private equity	3	Discounted cash flow models, net asset values based on recognised accounting standards or valuation models recognised by the International Private Equity and Venture Capital Guidelines	Discount rate, EBITDA multiple and revenue assumptions impact the valuation
Non-exchange traded managed funds (priced using unobservable inputs)	3	Closing bid or single prices which are derived from the net asset value of underlying investments	Discount rate, interest rate, credit rating, EBITDA multiple and revenue assumptions can impact the valuation
Investment property held directly	3	Valuations are undertaken by qualified real estate valuation professionals	Price assumptions based on recent transactions of a similar nature which may be impacted by the timing and specific nature of those transactions used

Financial instruments measured at fair value at 31 March 2021

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Annuities	–	–	369.9	369.9
Corporate bonds	–	3,511.3	2,430.0	5,941.3
Index-linked corporate bonds	–	–	383.1	383.1
Government bonds	–	16,067.0	10.6	16,077.6
Index-linked government bonds	–	4.8	357.6	362.4
Other debt	–	1,895.2	1,702.9	3,598.1
Public equity	3,708.8	725.2	9.8	4,443.8
Private equity	–	–	1,658.4	1,658.4
Global tactical asset allocation	–	662.1	1,091.3	1,753.4
Investment property funds	196.6	532.2	750.0	1,478.8
Investment property held directly	–	–	675.9	675.9
Infrastructure	–	–	831.9	831.9
Timberland and farmland	–	–	640.9	640.9
Derivatives	(11.6)	(651.2)	(103.0)	(765.8)
Repurchase agreements	–	(1,600.2)	–	(1,600.2)
Total	**3,893.8**	**21,146.4**	**10,809.3**	**35,849.5**

Financial instruments measured at fair value at 31 March 2020

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Annuities	–	–	405.2	405.2
Corporate bonds	50.0	3,822.8	1,956.7	5,829.5
Index-linked corporate bonds	–	211.5	151.6	363.1
Government bonds	–	15,665.0	9.8	15,674.8
Index-linked government bonds	–	706.1	67.7	773.8
Other debt	–	2,211.7	1,179.9	3,391.6
Public equity	2,436.9	487.8	8.3	2,933.0
Private equity	–	–	1,420.1	1,420.1
Global tactical asset allocation	–	134.3	1,733.4	1,867.7
Investment property funds	–	–	1,278.7	1,278.7
Investment property held directly	–	–	653.6	653.6
Infrastructure	–	–	770.0	770.0
Timberland and farmland	–	–	557.5	557.5
Derivatives	–	329.4	(46.8)	282.6
Repurchase agreements	–	(3,343.2)	–	(3,343.2)
Total	**2,486.9**	**20,225.4**	**10,145.7**	**32,858.0**

The following table summarises the movement between the opening and closing balances of Level 3 financial instruments:

Level 3 financial instruments

	2021 £m	2020 £m
Balance at start of year	**10,145.7**	**7,336.1**
Gains/(losses) included in the Statement of Comprehensive Net Income	492.8	(117.2)
Purchases and assets transferred in	1,970.8	3,294.3
Sales	(1,677.5)	(922.2)
Transfers into Level 3	671.4	559.2
Transfers out of Level 3	(793.9)	(4.5)
Balance at end of year	**10,809.3**	**10,145.7**

Transfers into Level 3 during the year relate to index-linked corporate and government bonds, corporate bonds and derivatives reclassified from Level 2 and public equity reclassified into Level 1.

Transfers out of Level 3 during the year relate to a number of property funds disclosed as Level 1 and 2 in 2021 that were disclosed as Level 3 in 2020 following valuers declaring ‘material valuation uncertainty’ in their 2020 valuation reports due to the COVID-19 pandemic. Also a number of long dated swaps were disclosed as Level 3 but are now disclosed as Level 2 due to their termination dates now being within standard yield curves. Some public equity holdings were reclassified to Level 1 and other debt, government and corporate bonds were reclassified to Level 2.

4c. Investment property held directly

Accounting policy

Investment properties held directly are measured initially at cost, including transaction costs. The PPF follows the fair value model option in IAS 40 Investment Property. Investment properties are valued at their fair value by independent valuers with recognised and relevant qualifications and recent and relevant experience. The latest available valuation is used, rolled forward to the reporting data as appropriate. Gains or losses arising from a change in the fair value are recognised in the Consolidated Statement of Comprehensive Net Income for the period in which they arise.

At 31 March 2021, the Board owned 37 (2020: 36) commercial properties in the UK, with a total fair value of £675.9m (2020: £653.6m). Rental income recognised was £34.2m (2019/20: £32.1m). Direct operating expenses were not material. There were no restrictions on the realisation of property, income or disposal proceeds and no significant leasing arrangements.

As at the year end, total future minimum lease payments:

	2021 £m	2020 £m
Not later than one year	36.6	35.2
Later than one year but not later than five years	134.3	129.3
Later than five years	352.4	379.0
Total	**523.3**	**543.5**

5. Net investment return

Accounting policy

Investment income is accounted for on an accruals basis, that is:

- interest income arising from cash deposits, fixed and variable interest securities and similar investments are accounted for using the effective interest rate method; and
- dividends and distributions are accounted for when the dividend or distribution is declared.

Change in fair value of investments includes:

- gains and losses realised on the disposal of investments;
- unrealised gains and losses on investments held at the accounting date (the difference between acquisition cost

and current fair value); and

- gains and losses arising from the translation of investments (including cash, payables and receivables) denominated in foreign currencies into sterling.

Investment expenses are accounted for on an accruals basis.

Previously, investment income included an amortisation charge on debt instruments with an offset included in Change in fair value of investments. In order to simplify the accounting treatment, this no longer applies. We have restated the prior year figures in the following table.

	Net investment income £m	Change in fair value of investment £m	Total 2021 £m	Net investment income £m	Change in fair value of investment £m	Total 2020 £m
Investment return						
Financial assets held at fair value through profit and loss	1,209.2	(7,983.6)	**(6,774.4)**	857.0*	3,454.0*	**4,311.0**
Financial liabilities held at fair value through profit and loss	(564.1)	8,742.2	**8,178.1**	(155.1)	(2,213.9)	**(2,369.0)**
Financial assets held at amortised cost	79.3	(56.1)	**23.2**	1.0*	11.1*	**12.1**
Financial liabilities held at amortised cost	–	0.1	**0.1**	–	(0.9)	**(0.9)**
Total investment return	**724.4**	**702.6**	**1,427.0**	**702.9***	**1,250.3***	**1,953.2**
Investment expenses						
Fund management fees			(241.1)			(144.0)
Custody charges			(2.9)			(2.0)
Transaction costs			(6.0)			(6.6)
Total investment expenses			**(250.0)**			**(152.6)**
Net investment return			**1,177.0**			**1,800.6**

* Previously, Investment income included an amortisation charge on debt instruments with an offset included in Change in fair value of investments. In order to simplify the accounting treatment, this no longer applies. We have restated the prior year figures in the table above. Previously, for 2019/20, Net investment income totalled £572.7m and Change in fair value of investment totalled £1,380.5m. The total fair value of debt holdings and the total investment return are not affected.

Financial risk management

Managing the payment and funding of member compensation described in the previous sections involves financial risk. The most important categories of financial risk, and the ways in which the Board manages them, are described in Section 4 of the SIP (https://www.ppf.co.uk/sites/default/files/2020-09/PPF_SIP_PPF.PDF).

A number of the risks described in the SIP come from holding financial instruments about which further disclosure is given below, as required by IFRS 7:

- **PPF credit risk** (including concentration risk and counterparty risk) – note 6;
- **PPF market risk** (including price risk, interest rate risk, inflation risk and currency risk) – note 7; and
- **PPF liquidity risk** – note 8.

These disclosures are followed by notes on:

- **FCF financial risks** – note 9; and
- **Administration Funds' financial risks** – note 10.

6. PPF credit risk

Credit risk is the risk that an issuer or counterparty to a financial instrument will cause the PPF financial loss by failing to discharge an obligation, or as a result of an increase in the overall level of perceived credit risk. The main exposure to credit risk in the PPF's financial instruments arises from investments in government bonds, corporate bonds and other debt instruments. The PPF is also exposed to credit risk from derivative transactions, insurance policies, cash, transfer-in receivables and other receivables.

The principal elements of the PPF’s policy for managing credit risk include:

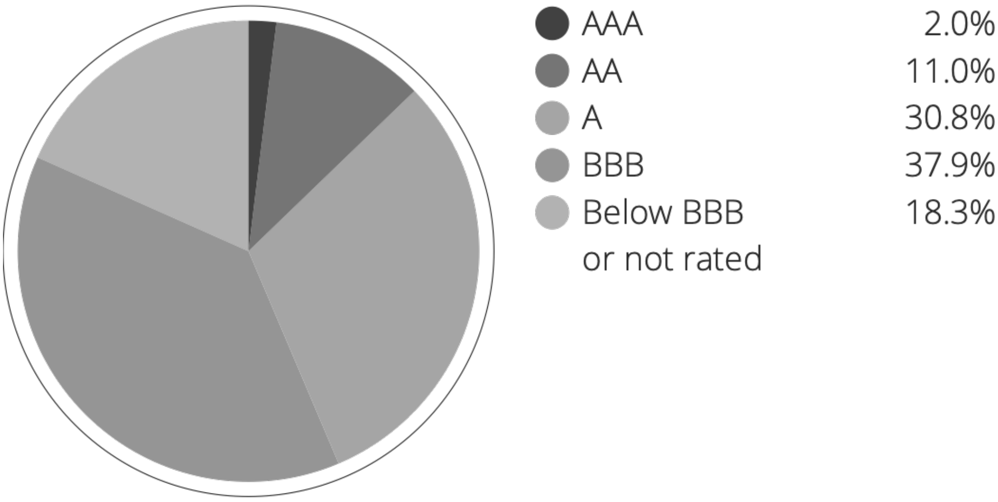
- counterparties to derivative contracts and repurchase arrangements are subject to overall exposure limits and, where credit quality requires, are subject to increased collateral requirements;
- fund managers that invest in credit-sensitive products do so within guidelines as set in the investment management agreement;
- investment management agreements require fund managers to deal with the highest-rated counterparties consistent with best execution; and
- collateral is taken under the terms of the relevant Credit Support Annex to the International Swaps and Derivatives Association Master Agreement.

The PPF manages concentration risk (the risk of excessive exposure to a single institution or institutions that share a common risk factor) by ensuring that the spread of assets, the fund managers’ policies on investing in individual securities and the PPF’s investment guidelines to fund managers provide adequate diversification of investments.

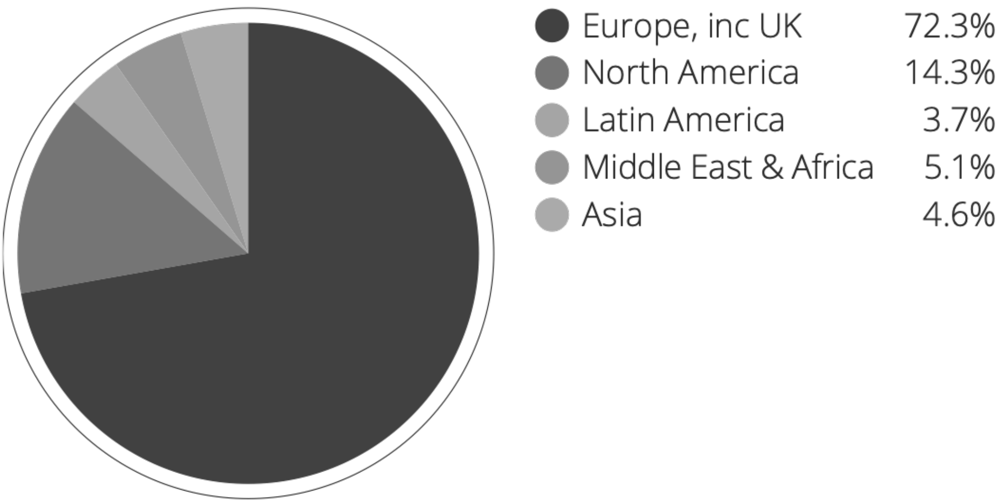
The Board is satisfied that credit exposure is in accordance with the risk appetite described in the SIP.

As at 31 March 2021, the rating distribution of the fixed income investment portfolio (excluding UK gilts aid derivatives) was as follows:

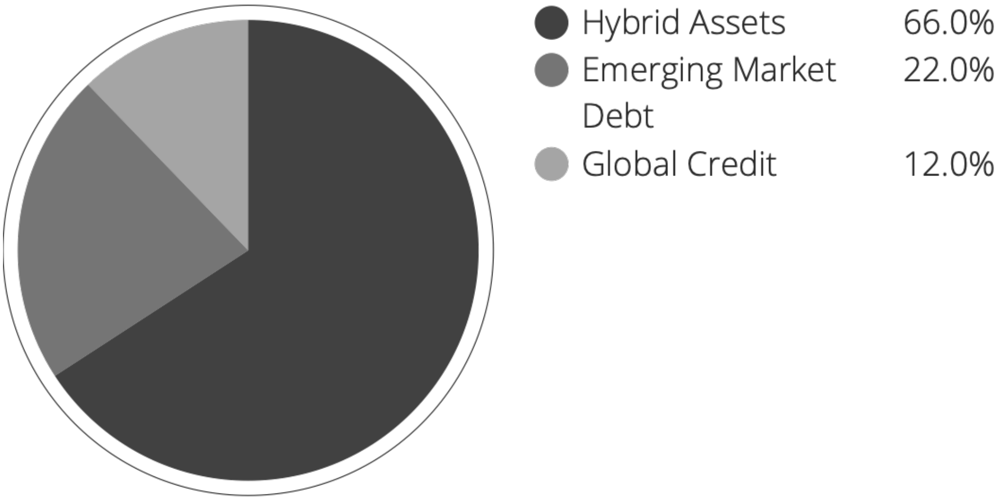
Fixed Income Portfolio Allocation (£6.9bn)
by Rating Category



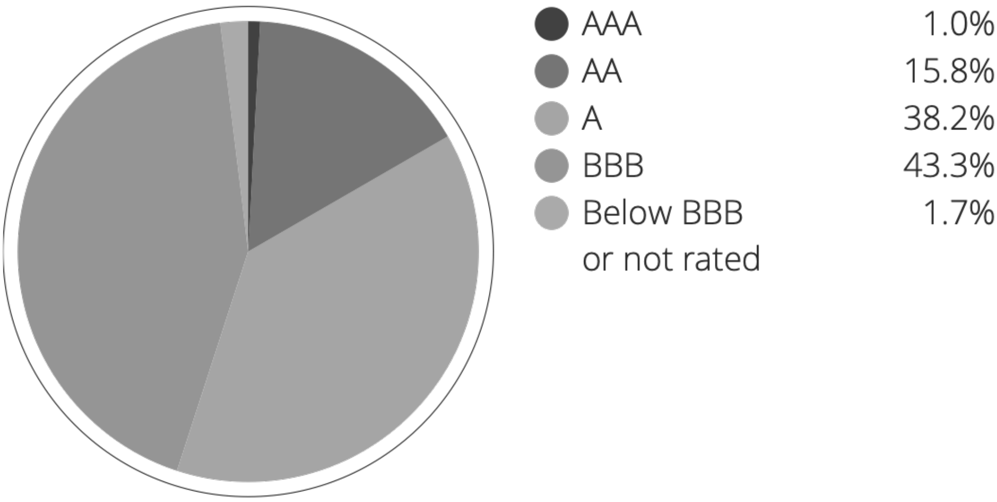
Fixed Income Portfolio Allocation (£6.9bn)
by Region



Fixed Income Portfolio Allocation (£6.9bn)
by Asset Type



Hybrid Asset Allocation (£4.6bn)
by Rating Category



A one basis point move in credit spread across the Fund's fixed income portfolio results in a change in market value of approximately £6.6 million, the largest contributors to this being Hybrid assets.

For information on the PPF's exposure to assets that are subject to collateral and similar arrangements with counterparties, refer to the liquidity risk section (note 8).

7. PPF market risk

Market risk is the risk that the fair value of, or future cash flows arising from, the PPF's assets and liabilities will fluctuate due to changes in market factors, including:

- market prices;
- interest rates;
- inflation rates; and
- foreign exchange rates.

Market risk is measured, monitored and managed within an agreed risk budget in a number of ways using a combination of sensitivities, tail risk measures and stress tests. Where the PPF wants to consider the potential impact of a specific event or shock, we run stress tests to be able to quantify the net impact on the PPF's assets and liabilities.

The PPF ensures that the spread of assets, the fund managers' policies on investing in individual securities and the PPF's investment guidelines to fund managers provide adequate diversification of investments.

Impact of changes to market factors on PPF assets

The net assets of the PPF, excluding actuarial liabilities and claims provision (as per the Statement of Financial Position) of £38.0bn (2020: £36.3bn) under a number of scenarios would change by:

	2021		2020	
	£m	%	£m	%
Nominal yields are 0.5% lower per year than assumed	(2,822.2)	(7.4)	(2,908.4)	(8.0)
Inflation is 0.5% lower per year than assumed	(822.2)	(2.2)	(1,218.4)	(3.4)
Non-LDI assets fall by 10%	(2,062.2)	(5.4)	(1,878.4)	(5.2)

Appendix S4 of the Appointed Actuary's Supplementary Report provides further sensitivity analyses of the PPF's assets and liabilities to changes in a variety of financial and non-financial risk factors, including market prices, interest rates, inflation rates, and mortality assumptions.

Price risk

Price risk is the risk that the fair value of, or future cash flows arising from, financial instruments will fluctuate due to changes in market prices (other than those arising from other market factors such as interest rates, inflation rates or foreign exchange rates). Price risk can be caused by factors specific to the individual financial instrument or its issuer, or factors affecting similar financial instruments traded in the market.

The PPF's financial instruments are carried at fair value, with fair value changes recognised in the Consolidated Statement of Comprehensive Net Income. Therefore any relevant changes in market conditions will directly affect investment returns. The Board manages price risk by diversifying its investments across a range of asset classes, both within the UK and globally, and sets asset allocation guidelines for the fund managers consistent with the following table.

Asset class[1]

	2021 £m	Actual %	Tolerance range
Global bonds[2]	2,366.4		
UK bonds and cash	17,303.8		
Cash and bonds	**19,670.2**	**52.3%**	**43%–63%**
Public equity	4,286.7	11.4%	9%–14%
Alternatives[3]	7,053.8	18.7%	16%–21%
Absolute return	2,074.8	5.5%	3%–8%
Hybrid assets	4,565.1	12.1%	10%–15%
Total assets allocated per SIP	**37,650.6**	**100.0%**	

1 Asset classes are based on internal risk reporting which looks through pooled fund holdings and uses mid prices.
2 Includes emerging market debt.
3 Includes private market assets such as property and private equity.

Alongside the strategic allocation, the SIP permits other investments such as tactical trades to control risk or enhance return within the overall risk appetite set by the Board. Total assets disclosed above exclude these tactical trades.

Interest rate risk
Interest rate risk is the risk that the fair value of, or future cash flows arising from, the PPF's assets and liabilities will fluctuate due to changes in short and longer-term interest rates.

The valuation of the PPF's liabilities is sensitive to movements in interest rates. As part of the PPF's LDI programme, this interest rate risk is hedged through the PPF's holdings of certain bonds and derivatives, as these financial instruments are also sensitive to movements in interest rates.

Inflation risk
Inflation risk is the risk that the fair value of, or future cash flows arising from, the PPF's assets and liabilities will fluctuate due to changes in short and longer-term inflation rates.

The projection of the PPF's cash flows and therefore the valuation of its liabilities are sensitive to movements in short and longer-term inflation rates. As part of the PPF's LDI programme, this inflation risk is hedged through the PPF's holdings of certain bonds and derivatives, as these financial instruments are also sensitive to movements in inflation rates.

Currency risk
Currency risk – also called foreign exchange rate risk – is

the risk that the fair value of, or future cash flows arising from, financial instruments will fluctuate due to changes in foreign exchange rates. The PPF's liabilities are denominated in sterling and therefore only its assets are exposed to currency risk.

The PPF operates a currency risk management strategy in which it has determined a target currency hedge ratio for each asset class – based on the underlying characteristics of each asset class – and aims to limit deviations from these. As at 31 March 2021, the exposure and therefore sensitivity to each major currency is illustrated by the following table.

Residual unhedged currency exposure

	2021 £m	2020* £m
Euro	628.2	481.0
US dollar	622.3	(1,282.7)
Australian dollar	177.8	161.5
Hong Kong dollar	(68.2)	(3.8)
South Korean won	62.9	22.8
Other currencies	82.8	486.9
Total	**1,505.8**	**(134.3)**

* The note has been prepared on the basis of the largest five unhedged currency exposures as at the 2021 year end. The comparatives for 2020 year end have been amended to align with the 2021 disclosures.

8. PPF liquidity risk

Liquidity risk is the risk of exhausting available cash and liquid assets and therefore being unable to meet immediate financial obligations as they fall due. This includes the inability of the PPF to sell assets quickly or at fair market values to meet its financial obligations as they fall due. The PPF's financial obligations include:

- compensation to members;
- collateral calls on derivatives and repurchase agreements;
- investment commitments to fund managers, for example, capital calls on private equity and infrastructure

investments; and

- staff pay and associated costs, and other operating expenses.

The PPF maintains an investment strategy so that at all times there is sufficient liquidity to meet foreseeable cash outgo, when it falls due, both in normal and under stressed financial market conditions. We monitor our liquidity position continuously against unstressed and stressed limits, to ensure that liquidity remains available.

Paying compensation to members

Future payments to members are projected in estimating the actuarial liabilities reported in the Consolidated Statement of Financial Position – see note 1 and the Actuarial Valuation. The estimated maturity profile of payments to current members (which exclude any lump sum payments) is as follows:

	Within 1 year £m	1-5 years £m	Over 5 years £m	Total £m
2021	908.3	3,463.4	24,112.7	**28,484.4**
2020	844.5	3,404.5	24,500.2	**28,749.2**

Financial liabilities

Financial liabilities are all due within one year, except for derivative financial instruments. The maturity profile of derivative financial instruments is as follows:

	Within 1 year £m	1-5 years £m	5-10 years £m	Over 10 years £m	Total £m
2021	211.0	548.5	311.5	5,691.0	**6,762.0**
2020	239.5	768.4	425.0	7,606.3	**9,039.2**

Collateral arrangements

At 31 March, the following assets were subject to collateral and similar arrangements with counterparties:

	2021 £m	2020 £m
Securities subject to sale and repurchase agreements	1,739.6	3,930.8
Funds paid as collateral for reverse sale and repurchase agreements	396.4	429.4
Securities lent to market counterparties	234.6	144.4
Total assets provided subject to collateral and similar arrangements with counterparties	**2,370.6**	**4,504.6**
Funds received as collateral for sale and repurchase agreements	1,996.6	3,772.6
Securities subject to reverse sale and repurchase agreements	394.4	427.8
Collateral received from counterparties	251.2	154.5
Total assets received subject to collateral and similar arrangements from counterparties	**2,642.2**	**4,354.9**

Collateral pledged for securities lending, repurchase and reverse repurchase agreements are subject to minimum collateralisation levels of between 102 per cent and 105 per cent of the market value of borrowed securities. Collateral pledged must be cash, debt issued from OECD member states, US corporate debt with a minimum long-term debt rating of A- or higher, or equities from major indices.

Capital commitments

Commitments to pay capital calls to fund managers at 31 March totalled:

	2021	2021 £m	2020	2020 £m
Denominated in US dollars	$2,287.8m	1,658.2	$2,370.7m	1,911.9
Denominated in euros	€865.9m	737.6	€1,009.8m	893.6
Denominated in sterling	£349.6m	349.6	£500.2m	500.2
Denominated in Australian dollars	A$34.7m	19.1	A$71.6m	35.3
Total		**2,764.5**		**3,341.0**

In addition to the above, the Board has provided a loan facility of up to £36.2m (US$50m) relating to its holding in KAHL – this loan facility is currently unused.

9. FCF financial risks

The FCF has £33.6m (2020: £21.5m) of cash and money market funds, receivables of £0.7m (2020: £nil) and provisions valued at £0.4m (2020: £nil). The Board has the power to raise levies to meet the cost of successful claims.

The Board is aware of the potential for significant claims with regard to schemes that were themselves part of a scam and nine applications have been received with an estimated total claim value of £47.3m. These, together with expected applications mean that the FCF may have insufficient funds to pay its claims in 2021/22.

The DWP is seeking to obtain sufficient funding but this may not be in place by the time validated claims are due to be paid. In this situation options would be considered to manage the cash flow.

The risk is compounded if a new large claim arises, or a number of such claims occurring closely together which would require prompt settlement.

Credit risk – the FCF's funds are principally invested in liquidity funds managed by external fund managers.

Market risk – the FCF's holdings in liquidity funds are subject to some price risk and interest rate risk. Claims can include variable rate interest for the period between the effective date of loss and the date of compensation.

Liquidity risk – subject to liquidity risk as a result of shortfall of funds from claims as they arise, the FCF is not exposed to significant liquidity risk as its assets are in liquidity funds.

10. Administration Funds' risks

Due to the non-trading nature of the Board of the PPF's administration activities and the way it is financed, the Board is not exposed in this area to the degree of financial risk faced by similar commercial organisations.

Operating the business

This section explains the elements of the consolidated financial statements which relate to operating the PPF's business, including operating expenses and infrastructure, and gives other required disclosures.

11. Operating expenses
Operating expenses **have increased by £1m to £66m,** reflecting a higher headcount and an increased spend on legal advice in relation to litigation regarding FCF claims and the *Hampshire* judgment. There has been a net saving following the insourcing of IT.

Total operating expenses are allocated to three funds: the PPF, the PPF Administration Fund and the FAS Administration Fund. The costs of administering the FCF is borne by the PPF Administration Fund. The PPF is charged with the costs of creating and maintaining records of members entitled to PPF compensation, running payrolls to pay compensation, and verifying data for the purposes of creating and maintaining data and running payrolls, investment costs and insolvency costs. Other costs are charged, as appropriate, to the PPF Administration Fund or the FAS Administration Fund.

Total operating expenses in 2020/21 are summarised as follows:

	PPF £m	PPF Administration Fund £m	FAS Administration Fund £m	2021 £m
Staff costs				
Wages and salaries	20.3	5.8	3.7	29.8
Social security costs	2.4	0.8	0.4	3.6
Other pension costs	4.2	1.4	0.9	6.5
Short-term, seconded and temporary staff	0.1	–	–	0.1
Total staff costs	**27.0**	**8.0**	**5.0**	**40.0**
Other costs				
Member payroll services	0.3	–	0.1	0.4
Staff-related and recruitment	0.6	0.2	0.2	1.0
Advisory and other professional services	5.9	2.6	0.7	9.2
Statutory audit costs	0.3	–	–	0.3
Accommodation and general office	2.8	0.8	0.7	4.3
IT and telephony	7.9	0.8	0.6	9.3
Depreciation and amortisation charges	0.8	–	0.8	1.6
Total other operating expenses	**18.6**	**4.4**	**3.1**	**26.1**
Total operating expenses	**45.6**	**12.4**	**8.1**	**66.1**

Statutory audit costs were £260,000 (2019/20: £263,000).

	PPF £m	PPF Administration Fund £m	FAS Administration Fund £m	2020 £m
Staff costs				
Wages and salaries	18.1	6.2	3.6	27.9
Social security costs	2.1	0.8	0.4	3.3
Other pension costs	3.7	1.4	0.8	5.9
Short-term, seconded and temporary staff	0.1	0.1	–	0.2
Total staff costs	**24.0**	**8.5**	**4.8**	**37.3**
Other costs				
Member payroll services	0.3	0.1	0.2	0.6
Staff-related and recruitment	0.9	0.3	0.2	1.4
Advisory and other professional services	5.8	2.8	0.2	8.8
Statutory audit costs	0.2	–	–	0.2
Accommodation and general office	3.1	0.6	0.8	4.5
IT and telephony	7.9	1.4	0.8	10.1
Depreciation and amortisation charges	1.4	–	0.8	2.2
Total other operating expenses	**19.6**	**5.2**	**3.0**	**27.8**
Total operating expenses	**43.6**	**13.7**	**7.8**	**65.1**

Information on the staff numbers and exit packages can be found in the Remuneration and staff report on pages 106-114.

Pensions

Employees of the Board of the PPF are eligible for membership of the Principal Civil Service Pension Scheme (PCSPS) and can opt to join the DB section or to contribute to a stakeholder (DC) arrangement.

The PCSPS is an unfunded, multi-employer DB salary-related scheme and the Board is unable to identify its share of underlying assets and liabilities. DB contributions are therefore accounted for by the Board as if they were contributions to a DC scheme. A full actuarial valuation of PCSPS was carried out as at 31 March 2016 and details can be found in the Cabinet Office: Civil Superannuation Resource Accounts: www.civilservicepensionscheme.org.uk/about-us/resource-accounts.

During the year ended 31 March 2021, employer contributions of £6.3m (2019/20: £5.8m) were payable to the DB section of the PCSPS at one of four rates in the range 26.6 per cent to 30.3 per cent (2019/20: 26.6 per cent to 30.3 per cent).

Employer contributions for the year ended 31 March 2022 are expected to be approximately £7.6m. The scheme's actuary reviews employer contributions every four years following a full scheme valuation. These contribution rates reflect the benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Employees of the Board can opt to open a partnership pension account, which is a stakeholder pension with an employer contribution. Employer contributions of £170,000 (2019/20: £157,000) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions were age-related and range from eight per cent to 14.75 per cent (2019/20: eight per cent to 14.75 per cent) of pensionable pay, and employers also match employee contributions up to three per cent of pensionable pay. In addition, employer contributions were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees. Accrued pension contributions at 31 March 2021 were £553,000 (2020: £514,000).

12. Segmental analysis

As indicated earlier, the Board accounts for its financial activities in the following funds:

- the PPF itself;
- the FCF; and
- the Administration Funds.

The elements of the consolidated financial statements attributable to each segment are summarised in the following tables. Additional information relating to each activity can be found in the following notes:

- provisions for claims (note 2);
- levy income (note 3); and
- operating expenses (note 11).

Consolidated Statement of Comprehensive Net Income

For the year ended 31 March	2021 £m	2020 £m
PPF		
Net operating surplus	584.3	523.6
Net investment return	1,177.0	1,800.5
Net cost of claims	2,195.1	(3,315.7)
Net comprehensive expense	**3,956.4**	**(991.6)**
FCF		
Net comprehensive income	**7.7**	**7.0**
Administration Funds		
Income from grants	20.9	22.7
Operating expenses	(20.5)	(21.5)
Net comprehensive income	**0.4**	**1.2**
Consolidated net comprehensive income/(expense)	**3,964.5**	**(983.4)**

Consolidated Statement of Financial Position

For the year ended 31 March	2021 £m	2020 £m
Total assets less total liabilities		
PPF	9,021.5	5,065.1
FCF	33.9	26.2
Administration Funds	1.9	1.5
Consolidated Statement of Financial Position	**9,057.3**	**5,092.8**

All of the Board's operational activities take place in the United Kingdom. The PPF's investment portfolio is diversified across a wide variety of geographic locations.

13. Subsidiaries

A small proportion of the Board's investment portfolio is held through subsidiaries. As at 31 March 2021 these were:

- PPF Nominee 2 B.V. (a company registered in the Netherlands);
- PPF Real Estate Nominee 1 Limited (a company registered in the United Kingdom);
- PPF Real Estate Nominee 2 Limited (a company registered in the United Kingdom);
- PPF Real Estate Nominee 3 Limited (a company registered in the United Kingdom);

- PPF Real Estate Nominee 4 Limited (a company registered in the United Kingdom);
- PPF Investment Holdings 1 Limited (a company registered in the United Kingdom); and
- Kodak Alaris Holdings Limited (a company registered in the United Kingdom) (KAHL).

The subsidiaries do not operate separately from the PPF's overall investment management processes apart from KAHL which operates as a commercial trading entity. The relevant assets, liabilities, income and expenses of all subsidiaries except KAHL are fully consolidated and recorded within the appropriate asset classes in the PPF's accounting records. The holding in KAHL is shown as part of the investment portfolio in the relevant asset classes. Interest receivable on the KAHL loan notes was rolled over by the issue of further loan notes to the same value as the interest. KAHL also paid a facility charge for the loan facility disclosed in note 8. All subsidiaries are 100 per cent owned by the Board and have 31 March year ends.

The PPF also has holdings in other entities for investment purposes. These are registered in the United Kingdom, Cayman Islands, Delaware, Luxembourg and the Republic of Ireland. Certain holdings had been disclosed as subsidiaries in prior years but upon review it was concluded that the PPF does not have controlling interest in these entities.

14. Related party transactions

£20.9m (2019/20: £22.7m) was received from the DWP in grants in respect of recovery costs for administering FAS and for costs incurred in the PPF Administration Fund which is ultimately funded by the PPF Administration Levy, which is set by the DWP and collected by TPR. The DWP is the sponsoring department of the PPF. There are no other related party transactions to disclose other than transactions with subsidiaries shown in note 13.

15. Events after the reporting period

The legislation required for the FCF to receive a loan from the DWP has had a third reading in the House of Commons and we expect the Bill to be passed in 2021/22.

In July 2021 the ruling of the *Hughes* judicial review of the *Hampshire* judgment was overturned at appeal. This was previously disclosed as an unquantified contingent liability, however the outcome of the appeal has meant that no further liability will crystallise.

There have been no other material events after the reporting period.

The financial statements were authorised for issue by the Chief Executive on 13 October 2021, the date the Comptroller and Auditor General certified them.

The financial statements do not reflect events after this date.

Section 6
Actuarial reports

The actuarial valuation of the PPF as at 31 March 2021 (transferred schemes only

Supplementary report: actuarial liabilities and provisions of the PPF as at 31 March 2021

Summary of the two actuarial valuation reports

Over the year to 31 March 2021 our reserves (across both transferred schemes and those in assessment) increased to £9.0 billion, from £5.1 billion as at 31 March 2020. This corresponds to an increase in funding ratio to 127.3 per cent from 113.4 per cent. While government bond, and swap, yields increased over the year, reducing liabilities by around six per cent, there was limited impact on our reserves due to our hedging programme. The main factors influencing this increase in reserves were:

- gains on invested (non-hedging) assets of £3.7 billion;
- levy receipts of £0.6 billion; and
- a decrease in our liabilities of £0.4 billion resulting from updates to our life expectancy assumptions that reflect more up to date information. This assumption makes no allowance for the impact of the pandemic on future life expectancy as the longer-term impacts are unclear.

These items have been offset by:

- an increase in our liabilities of £0.7 billion from a change in the assumed difference between RPI and CPI from 2030, which reflects the announcement in November 2020 from ONS and HMT that RPI will be aligned with CPIH from February 2030.

Over the year 39 schemes entered PPF assessment. One of these schemes subsequently transferred to the fund and it is expected that a further 27 of them will ultimately transfer. The shortfall of assets compared with liabilities is £0.3 billion for those schemes that entered assessment and were recognised on our balance sheet for at least some time over the year.

The table below summarises the results, broken down between schemes that have already transferred to us (and covered in my main valuation report) and those that are currently in an assessment period but are expected to transfer (covered in my supplementary valuation report). The reports make no allowance for any assets or liabilities payable from the FCF or the Administration Funds.

	Transferred schemes	**Schemes in an assessment period**	**Total**
Assets (£m)	38,032.2	4,040.1	**42,072.3**
Liabilities (£m)	28,484.4	4,566.4	**33,050.8**
Reserves (£m)	**9,547.8**	**(526.3)**	**9,021.5**
Funding ratio (assets/liabilities)	**133.5%**	**88.5%**	**127.3%**
Number of records in respect of members receiving compensation*	184,844	33,846	**218,690**
Number of records in respect of deferred members*	113,902	27,749	**141,651**

* Some members have more than one record in the data. The numbers of records for schemes in an assessment period only relate to schemes that are expected to transfer to us.

The actuarial valuation of the PPF as at 31 March 2021 (transferred schemes only)

1. Introduction and framework

This report has been prepared for the Board of the Pension Protection Fund (the Board). It sets out the results of the actuarial valuation of the PPF as at 31 March 2021 for inclusion in the Annual Report and Accounts. Copies will be sent to the Secretary of State for Work and Pensions and to the Comptroller and Auditor General. This report is not intended to assist any user other than the Board or for any other purpose than meeting its accounting requirements.

This report deals solely with schemes that transferred to the PPF before 31 March 2021. It should be read alongside my supplementary report, dated 5 October 2021, which also includes those schemes that are currently in an assessment period but are ultimately expected to transfer.

Framework under which this valuation has been prepared

The requirement to include an actuarial valuation of the PPF is set out in the Accounts Direction given by the Secretary of State for Work and Pensions with the approval of HM Treasury in accordance with the Pensions Act 2004.

Under the Accounts Direction, the Board is required to prepare accounts in compliance with the Government Financial Reporting Manual (FReM), and other relevant guidance issued by HM Treasury. The FReM requires that International Accounting Standard (IAS) 37 must be taken into account. When taken together, this means that the valuation of both assets and liabilities should provide a true and fair assessment. The methodology used for the valuation as at 31 March 2021 is broadly the same as that adopted for the valuation as at 31 March 2020.

The requirement to provide an annual valuation of the PPF is also set out in the Framework document agreed between us and the Department for Work and Pensions (DWP).

This valuation has been prepared in accordance with the above pieces of legislation and guidance insofar as they apply. Appendix M4 – Legislation and guidance sets out more detail around this.

This valuation complies with Technical Actuarial Standard (TAS) 100 ‘Principles of Technical Actuarial Work’. Further, given the scope of the work, the processes and the calculations underlying this report, together with the report itself, are subject to independent peer review. This review has been done by the Government Actuary’s Department.

Signed:

Name of Appointed Actuary: Lisa McCrory
Date: 5 October 2021
Job title: Chief Finance Officer and Chief Actuary
Qualification: Fellow of the Institute and Faculty of Actuaries
Employer: The Board of the Pension Protection Fund

2. Compensation and data

Compensation for members who have transferred to the PPF has been determined in accordance with the provisions of schedule 7 of the Pensions Act 2004 and consequent regulations. A summary of the compensation provisions is shown in Appendix M1.

Additionally, over the last few years there have been a number of court rulings that have impacted the shape of PPF compensation payable:

- In September 2018 the CJEU ruled in the case of *Hampshire* v PPF that compensation is subject to a minimum level of 50 per cent of the value of accrued old age pension in the former scheme.
- In December 2019 the CJEU ruled in the case of *PSV* v *Bauer* that a reduction in the amount of occupational old age pension benefits paid to a member on account of his or her employer's insolvency is manifestly disproportionate where, as a result of the reduction, the member is living below the at-risk-of-poverty threshold determined by Eurostat.
- In July 2021 the Court of Appeal ruled in the case of *Hughes v PPF* that the PPF is entitled to perform a one-off calculation approach for increasing payments to the 50 per cent minimum level. It also confirmed that the PPF compensation cap, as set in legislation, is unlawful based on age discrimination and has to be disapplied.

Data has been provided by our internal administration team and reflects the compensation currently in payment for those in receipt and the amount calculated at assessment date for those in deferment. For all but a small number of members, these benefits make no allowance for the court rulings discussed above. Liabilities have therefore been adjusted for the expected cost of uplifting compensation in line with the *Hampshire* and *Hughes* judgments.

As was the case last year, I have not included an allowance for any additional increase in compensation in respect of the Bauer judgment. We continue to work closely with the DWP to agree our approach for implementation. However, for some aspects of the ruling I do not currently have sufficient data to enable a reliable estimate to be made. In line with the accounting guidance, where there is material uncertainty no allowance has been included in the liabilities and instead the contingent liability section of the financial statements notes this potential additional liability.

As I obtained data extracts at dates shortly before the effective date of the valuation, adjustments were applied to the liabilities to allow for expected membership movements up to the effective date of the valuation. This is similar to the process adopted for the valuation as at 31 March 2020 and ensures the results are not materially impacted by member experience over that period. The adjustments made allow for:

- members retiring and commuting some of their compensation for a lump sum; and
- actual deaths incurred being higher than expected as a result of the pandemic.

I checked the data for general reasonableness and for consistency with the data used for the actuarial valuation as at 31 March 2020. I have no concerns over the accuracy of the data.

A full summary of the data used, including that used for the actuarial valuation as at 31 March 2020 for comparison, is set out in Appendix M2 – Membership data. The total numbers of membership records along with their current annual compensation amounts, as at 31 March 2021, are set out in the following table:

Member status	Number of records	Compensation, £m p.a.
Receiving compensation	184,844	895.0
Deferred	113,902	379.0

Legislation permits amendments to the amount of starting compensation, if agreed by the Secretary of State, and amendments to the level of compensation increases if agreed by us. For the purpose of this valuation I have assumed that there are no such changes in the future.

3. Approach

The methodology used for the valuation as at 31 March 2021 is broadly the same as that adopted for the valuation as at 31 March 2020.

Assets

The value of the PPF assets is taken from the PPF's accounts for the financial period ending 31 March 2021.

Liabilities

The liabilities are the present value of expected future compensation payments payable to all members and any future dependants that had transferred to the PPF before 31 March 2021, uplifted to reflect the expected future expenses that will be met by the PPF.

The future payments are estimated through projections of the initial amount of compensation provided in the membership data, allowing for assumptions in the future around such things as:

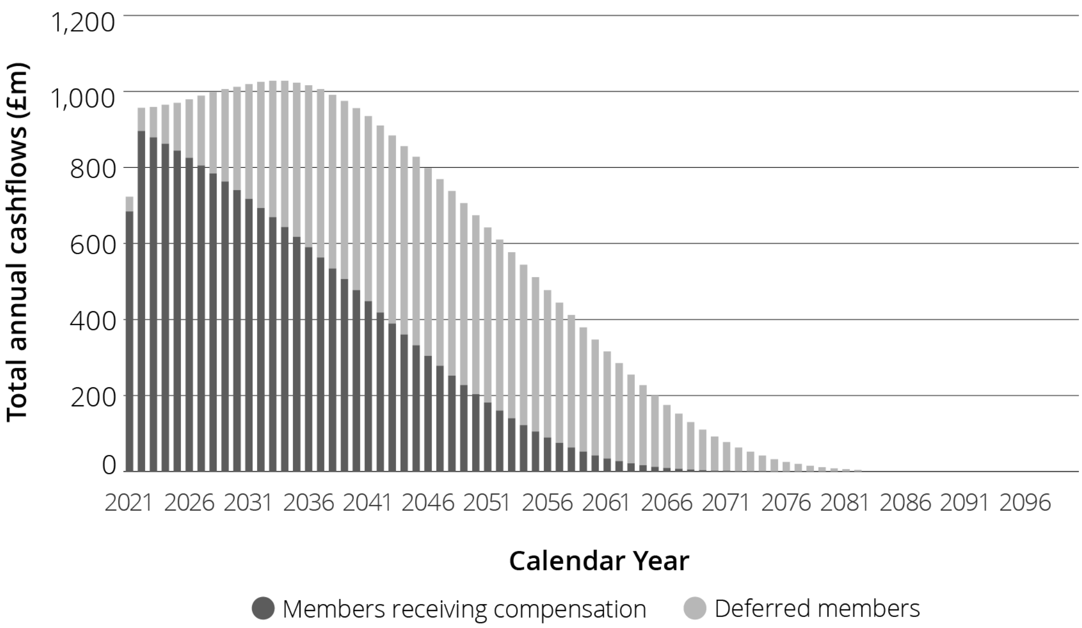
- when deferred members will retire;
- what compensation increases will be;
- what the PPF compensation cap will be;
- how long people will live; and
- the chances compensation will be paid out to dependants.

Future expenses are calculated by projecting our current per-member cost and membership numbers and adding on the expected cost of administering the portfolio of assets used to determine the discount rate.

The assumptions used are summarised in the next section and described more fully in Appendix M3 – Assumptions.

The resulting expected future payments and expenses are then all discounted back to the valuation date and added together to form a total present value of the liabilities. As set out in section 2, I have then applied an adjustment to allow for actual membership movements over the period from the effective date of the data to the calculation date as well as the expected cost of uplifting compensation to allow for the impacts of the *Hampshire* and *Hughes* judgments.

The chart below summarises the expected future payments (and associated expenses) to all members who had transferred to the PPF by 31 March 2021 (note that calendar year 2021 excludes payments made before 31 March 2021).



Owing to the timescales involved in preparing this report, I initially calculated liabilities for all schemes that transferred before 31 March 2021 as at 28 February 2021 using assumptions derived from market conditions at that date. I then adjusted for changes in market conditions between 28 February 2021 and 31 March 2021 as well as such adjustments as:

- one fewer month of discounting;
- incorporating one more month's worth of known inflation; and
- compensation paid out over the month.

I have also included in the liabilities the value of any AVCs that have transferred to us and are in the process of being discharged.

4. Assumptions

As Appointed Actuary, I have responsibility for the assumptions used in this statutory valuation of the PPF. As in previous years, the proposed assumptions were discussed and agreed with the Board prior to completing the valuation.

I have taken account of the relevant legislation, regulations, and guidance when setting the assumptions, details of which are included in Appendix M4 – Legislation and guidance. None of these items provide specific direction on the choices of assumptions made for the valuation. However, the main principles I have followed when deciding the assumptions are:

1) The assumptions used to estimate future cash flows should be best estimate so that they are as likely to overstate as understate the calculated liabilities.

2) A risk-free discount rate should be used to convert the estimated future cash flows into a current value of liabilities to compare with the market value of assets.

A full description of the assumptions made can be found in Appendix M3 – Assumptions. The most important assumptions are summarised in the following table:

Valuation date	31 March 2021	31 March 2020
Discount rate	A full curve, consisting of: 75% of the gilt yield, plus 25% of the SONIA swap yield plus 10 basis points at each term	A full curve, consisting of: 75% of the gilt yield, plus 25% of the SONIA swap yield plus 10 basis points at each term
RPI inflation	RPI inflation swap curve	RPI inflation swap curve
CPI inflation	0.9% p.a. lower than RPI inflation until 31 January 2030 and 0.1% p.a. lower thereafter	1.0% p.a. lower than RPI inflation until 31 March 2030 and 0.6% p.a. lower thereafter
Compensation increases	As for CPI inflation adjusted for the annual cap of 2.5% p.a. and minimum of 0%	As for CPI inflation adjusted for the annual cap of 2.5% p.a. and minimum of 0%
Baseline life expectancy	Club Vita life expectancy curves, 2020 version	Club Vita life expectancy curves, 2019 version
Future improvements in life expectancy	CMI 2019 model (core form, except for addition to initial improvements, 'A', of 0.25%), long-term rate 1.5% p.a.	CMI 2018 model (core form, except for addition to initial improvements, 'A', of 0.75%), long-term rate 1.5% p.a.
Median life expectancies from age 65 implied by the above assumptions	For a man: Aged 65 now: 21.4 years Aged 40 now: 23.1 years	For a man: Aged 65 now: 21.7 years Aged 40 now: 23.3 years
Impact of the *Hampshire* and *Hughes* court judgments (see further details below)	Uplifts to liabilities of: For the 50% minimum test required by the *Hampshire* judgment: • 0.1% for members receiving compensation • 0.3% for deferreds • £nil for arrears For removal of the compensation cap provisions: • £19.5m for arrears due • 0.52% for members receiving compensation (including the cost of further arrears) • 0.50% for deferreds The amount of arrears of PPF compensation actually paid may be affected by time limits under the Limitation Act 1980.	Uplifts to liabilities of: For the 50% minimum test required by the *Hampshire* judgment: • 0.2% for members receiving compensation • 1.3% for deferreds • £15.5m for arrears For potential removal of the compensation cap provisions: • £19.5m for arrears due • 0.86% for members receiving compensation (including the cost of further arrears) • 0.53% for deferreds The amount of arrears of PPF compensation actually paid may be affected by time limits under the Limitation Act 1980.

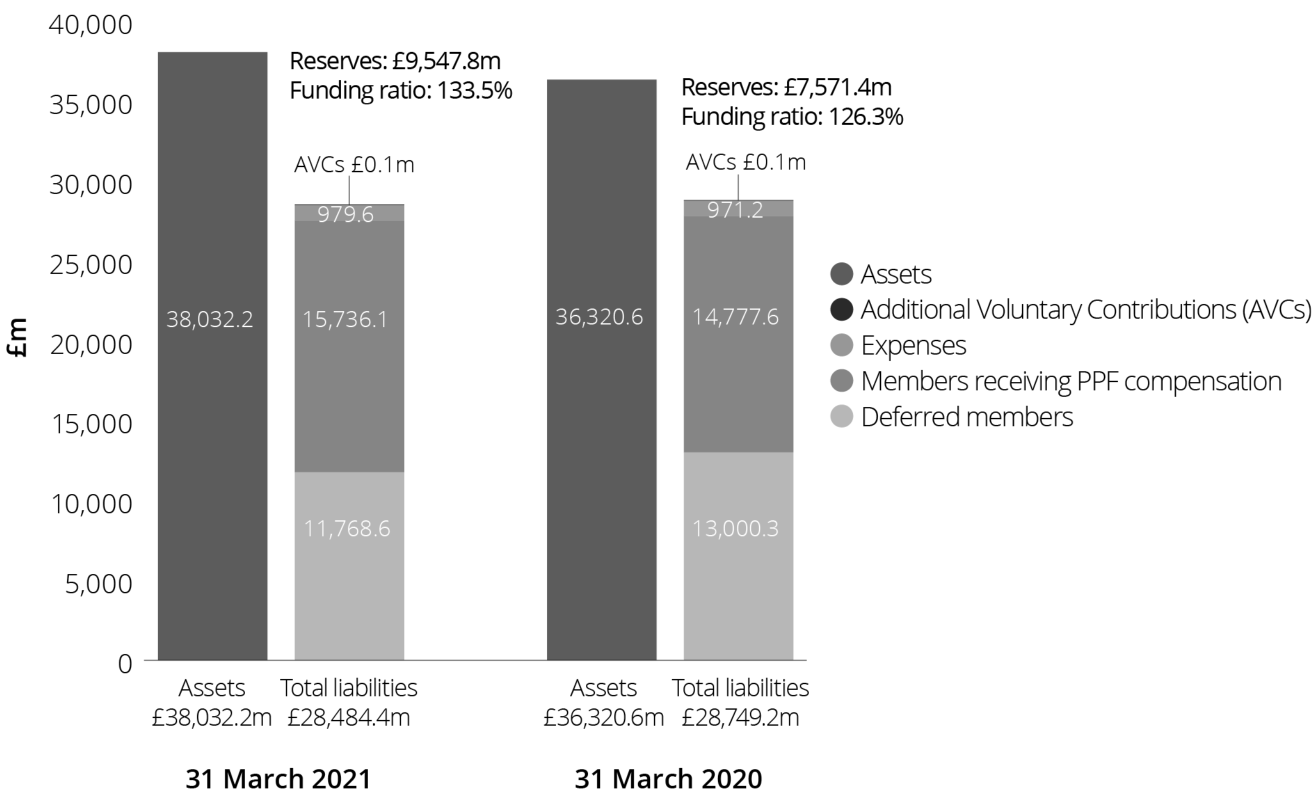
There was one assumption that has changed materially since last year. This is the assumed difference between RPI and CPI after 2030, which reflects the November 2020 announcement from ONS and HMT that RPI will be aligned with CPIH from February 2030.

The remaining assumptions are generally the same as used last year in terms of their derivation, although their values have changed with market conditions and the emergence of new data and information. In particular, the expected cost of increasing compensation to meet the minimum 50 per cent level determined by the *Hampshire* judgment has been estimated using our one-off value test methodology like last year. This is in accordance with the latest ruling by the Court of Appeal in the *Hughes* judgment. Although the same methodology has been used, more granular information on the benefits that would have been paid from the scheme is now available. The reduction in the expected cost this year is therefore a result of this data being used in my assessment.

I have performed a sensitivity analysis of the results according to plausible changes in the assumptions. The results based on the above assumptions are summarised in section 5 – Results in this report, and the results of the sensitivities are given in Appendix S4 – Sensitivity analysis in my supplementary report.

5. Results

The following chart sets out the values of the PPF's assets and liabilities at the current and previous valuation dates.



Over the year to 31 March 2021 assets increased by £1,711.6 million and liabilities have decreased by £264.8 million. The reduction in liabilities was largely due to:

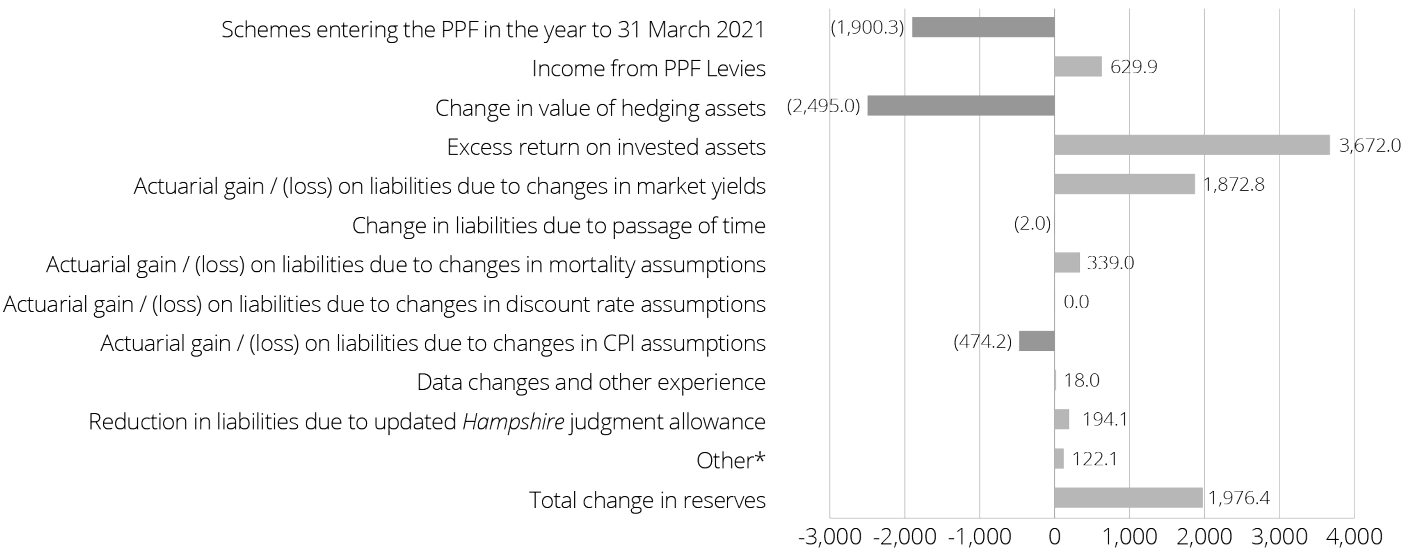
- a decrease of £1,872.8 million due to changes in gilt yields over the year; and
- a decrease of £339.0 million due to changes in the mortality assumptions.

The growth in assets was mostly due to:

- an increase of £957.3 million in respect of assets transferring to the PPF over the year;
- levy receipts of £629.9 million; and
- gains on invested (non-hedging) assets of £3,672.0 million.

The net impact is an increase in the reserves in respect of transferred schemes between 31 March 2020 and 31 March 2021 of £1,976.4 million.

A full analysis of change is set out in the following chart (figures are in £ million):



* Includes such items as assets from schemes that transferred in prior years, expenses, and the impact of inflation being different to that assumed. The £122.1m increase in reserves comprises a £168.3m decrease in liabilities and a £46.2m decrease in assets.

The analysis of change has been determined by aggregating actual experience observed over each month of the year. The actuarial gain/(loss) on liabilities due to changes in market yields is not directly comparable to the change in value of hedging assets because some of the assets held in respect of transferred schemes are used to hedge schemes currently in PPF assessment.

The reserves should be considered alongside the current shortfall in respect of schemes currently in assessment and expected to transfer to the PPF. My supplementary report to the Board shows the shortfall in respect of these schemes calculated as £526.3 million. Therefore, had these schemes transferred to the PPF on the calculation date our reserves would have reduced to £9,021.5 million.

6. Risks and uncertainties

Based on our current levy and investment strategy it is our long-term expectation that reserves should increase as a result of returns on assets and levy income exceeding expected future claims. It is, however, possible that over the short term some deterioration in funding could occur.

In addition, the calculated liabilities will be sensitive to the assumptions used. As part of my supplementary report I have carried out some analysis to demonstrate how sensitive the results are to the assumptions used.

I have summarised below some areas of uncertainty that could have a material impact on our funding in the short term:

- Although our current investment strategy is designed to be low risk and well diversified, there is a risk that investment losses may occur. If, for example, the value of our growth assets were to fall by five per cent, our reserves would fall by around £1.0 billion.

- Future claims are always uncertain and this is particularly true given the current economic climate. There is therefore a risk that a larger than expected claim on the PPF could reduce reserves. The Provisions for claims on the PPF and the FCF note to the Financial Statements give further details on claims expectations for the year ahead.
  I understand that the likelihood of claims eroding the current reserves over the short term remains small.
- Future changes in life expectancy are very uncertain. This is particularly true at present given the ongoing situation with COVID-19. The impacts of the recent higher than expected levels of deaths have already been allowed for in my assessment of the liabilities. However, no allowance has been made for the impact of the pandemic on future life expectancy as the longer-term impacts are unclear. I have estimated that if the average life expectancy of our membership were to increase/decrease by one year our reserves would decrease/increase by around £1.3 billion. The sensitivity analysis included in Appendix S4 shows this impact broken down by age group.
- As discussed in section 2, over the last few years there have been a number of court rulings that have impacted the level of PPF compensation payable. Although significant progress has been made in terms of implementing these changes there are a number of uncertainties that remain:

i) the methodology for implementing the *Hampshire* judgment is in accordance with the latest ruling from the Court of Appeal.

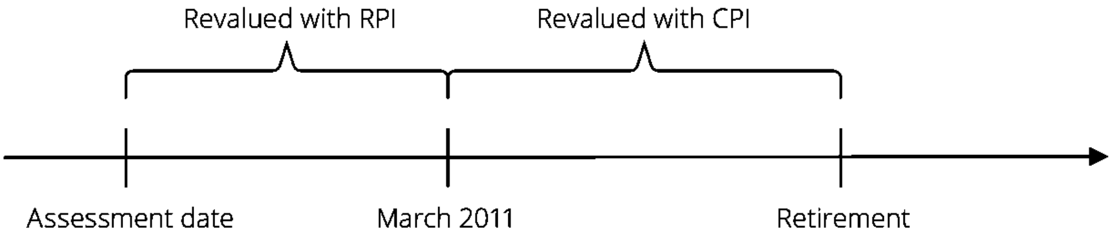
ii) no allowance has been included for the potential additional increase to compensation as a result of the *Bauer* judgment. Although we do not have sufficient information to reliably estimate the impact of the judgment, modelling has indicated that it is unlikely to be sufficiently material to impact our current approach to funding.

Appendix M1

Summary of compensation provided by the PPF

Member type	Starting PPF compensation
Members who reached their former scheme's Normal Pension Age (NPA) before the scheme came into assessment	100% of scheme pension
Members receiving a survivor's pension	
Members receiving an ill-health pension	
Members who were below NPA when their former scheme came into assessment	90% of scheme pension

Revaluation of compensation between coming into assessment and retirement



Subject to a minimum of 0% over the whole period to retirement and a maximum over the whole period to retirement of:
– five per cent per year for pension in respect of service before 6 April 2009
– 2.5 per cent per year for pension in respect of service after 5 April 2009

Where retirement is before or after NPA, early or late retirement factors apply. RPI or CPI revaluation does not extend past NPA.

Compensation increases in payment

Compensation in payment is increased on 1 January each year in line with the below table. The first increase after retirement is reduced to reflect the fact that member compensation has not yet been in payment for a full year.

Pension in respect of service	Compensation increases
Before 6 April 1997	Nil
After 5 April 1997	CPI up to a maximum of 2.5% a year (with a minimum of nil)

Compensation cap
In June 2020 the Administrative Court ruled that the compensation cap is unlawful. This ruling was upheld by the Court of Appeal in July 2021. For the purpose of this valuation, the liabilities have been calculated on the basis that the cap does not apply. If the cap had been applied to members' compensation then the current rate in force equates to £41,461.07 per year at age 65 (adjusted according to the age at which compensation comes into payment). The cap on members' compensation increases by three per cent for each full year of pensionable service above 20 years, up to a maximum level of compensation of double the standard cap.

Minimum compensation
As a result of the *Hampshire* judgment, compensation is subject to a minimum of 50 per cent of the value of accrued old age pension in the former scheme. An approximate allowance for the expected additional cost of providing this minimum has been made – see Appendix M3 for details.

No allowance has been made for any potential increase in compensation as a result of the *Bauer* judgment. See section 2 for further details.

Survivors' compensation
After a member's death, generally 50 per cent of the member's compensation amount will be paid to a legal spouse or relevant partner, depending on the rules of the former scheme.

A proportion of the member's compensation is also paid to any children who are under 18 years old, or under 23 if they are in full-time education.

Powers to alter PPF compensation
Under the Pensions Act 2004 (see Appendix M4 – Legislation and guidance for more detail), we have the power to alter the rates of revaluation and indexation, and can recommend to the Secretary of State for Work and Pensions that the percentage of benefits paid as compensation is varied.

Appendix M2

Membership data

I had to obtain data extracts at dates before the effective date of the valuation. This is similar to the process adopted for the valuation as at 31 March 2020. The following table sets out these dates, which depended on when the schemes transferred to the PPF.

Date of scheme transfer to the PPF	Effective date of data
Before 31 January 2021	15 January 2021
February 2021	16 February 2021
March 2021	13 March 2021

Adjustments have been applied to ensure the data is consistent with the valuation date 31 March 2021 and that the accuracy of the valuation results is not materially affected.

Here are summaries of the member data used in the valuation:

Deferred members

		31 March 2021			31 March 2020		
		Male	**Female**	**Total/average**	**Male**	**Female**	**Total/average**
Deferred members	Number	75,103	38,799	**113,902**	77,723	38,738	**116,461**
	Average age (unweighted)	54.6	53.3	**54.2**	54.1	52.7	**53.7**
	Total compensation (£m p.a.)	288.7	90.0	**378.7**	300.3	87.9	**388.2**

Note: deferred compensation amounts are shown as at the dates in the table above, rather than after the adjustments mentioned have been applied.

Members receiving compensation

		31 March 2021			31 March 2020		
		Male	Female	Total/average	Male	Female	Total/average
Members receiving compensation (excl. dependants)	Number	111,962	42,453	**154,415**	103,528	38,838	**142,366**
	Average age (unweighted)	71.4	72.2	**71.6**	71.1	71.9	**71.3**
	Total compensation (£m p.a.)	686.4	109.9	**796.3**	599.9	93.8	**693.7**
Dependants receiving compensation (excl. children)	Number	3,119	26,767	**29,886**	2,741	24,235	**26,976**
	Average age (unweighted)	75.3	77.3	**77.1**	74.9	76.9	**76.7**
	Total compensation (£m p.a.)	4.7	93.3	**98.0**	4.0	80.8	**84.8**
Children receiving compensation	Number	262	281	**543**	249	270	**519**
	Average age (unweighted)	16.0	16.3	**16.2**	15.8	16.4	**16.1**
	Total compensation (£m p.a.)	0.3	0.4	**0.7**	0.4	0.3	**0.7**
All members receiving compensation	**Number**	**115,343**	**69,501**	**184,844**	**106,518**	**63,343**	**169,861**
	Average age (unweighted)	**71.4**	**73.9**	**72.3**	**71.1**	**73.6**	**72.0**
	Total compensation (£m p.a.)	**691.4**	**203.6**	**895.0**	**604.3**	**175.0**	**779.3**

The figures in the tables on the previous page relate to member records rather than individuals. So for example, members who are already receiving one tranche of compensation but are entitled to a further tranche are included in both tables. The compensation amounts shown for members in receipt of compensation:

- are prior to the removal of the PPF compensation cap. Allowing for the removal of the cap is expected to increase compensation by around £2.3 million; and
- include *Hampshire* uplifts for a number of members that were made as a result of calculations performed prior to the *Hughes* judgment. These uplifts increased annual compensation by around £1.2 million.

Suspended payments

There were around 3,400 members whose compensation payments had been suspended (and not restored) by the effective date of the data. These suspensions mainly relate to recent deaths that were being processed. As a proportion of these will have an eligible spouse, I have included a reserve of £9 million in respect of the cost of providing these benefits.

Other payments

The compensation in the tables on the previous page also excludes a very small amount of some other types of pension – for example, step-down pensions – that would have been payable under a former scheme's rules and now need to be reflected in PPF compensation paid to members. On grounds of materiality some but not all of this is reflected in the liabilities, but this approach will be revisited in future if more schemes with these other pensions transfer to the PPF.

Guaranteed Minimum Pension (GMP) – reconciliation with HMRC records

Additionally, there is an unknown number of people whom HMRC have on record as having paid contracted-out rate National Insurance contributions, but who were not included in the transfer to the PPF. Schemes would have had a liability to pay a GMP in respect of individuals who were contracted-out, unless this liability had been discharged. Members may contact us and provide evidence that they are entitled to PPF compensation and this would need to be considered on a case-by-case basis. A liability will be recognised for any such member if and when their entitlement to compensation is established.

Appendix M3

Assumptions

A full summary of the assumptions used in the actuarial valuation is shown below, along with the 2020 valuation assumption, if different.

Valuation date	**31 March 2021**	**31 March 2020 (if different)**
Discount rate	A full curve, consisting of: • 75% of the gilt yield plus • 25% of the SONIA based swap yield plus 10 bps at each term	
RPI inflation	RPI inflation swap curve	
CPI inflation	0.9% p.a. lower than RPI inflation until 31 January 2030, then 0.1% p.a. lower thereafter	1.0% p.a. lower than RPI inflation until 31 March 2030 then 0.6% p.a. lower thereafter
Compensation increases	A full CPI (0,2.5%) curve derived from CPI inflation	
Baseline life expectancy	Club Vita life expectancy curves, 2020 version	Club Vita life expectancy curves, 2019 version
Future improvements in life expectancy	CMI 2019 model (core form, except for addition to initial improvements, 'A', of 0.25% p.a.), long-term rate 1.5% p.a.	CMI 2018 model (core form, except for addition to initial improvements, 'A', of 0.75% p.a.), long-term rate 1.5% p.a.
Commutation, early retirement, late retirement	No allowance on the grounds that member options are exercised on terms that are cost neutral on our latest accounting basis; therefore these options should not affect our liabilities	
Proportion of members married or with a relevant partner	Depends on provisions in former scheme • 85% (men)/70% (women) (if any relevant partner) • 75% (men)/60% (women) (if legal spouses only) For members receiving compensation, these proportions apply at normal pension age; for deferred members, at assumed date of retirement or earlier death	
Age difference between member and dependant	Women assumed to be three years younger than their male partners	
Children's compensation	No additional allowance	
Expenses	An allowance of 3.6% of the liabilities	An allowance of 3.5% of the liabilities
Impact of *Hampshire* and *Hughes* court judgments	Uplifts to liabilities of: For the 50% minimum test required by the *Hampshire* judgment: • 0.1% for members receiving compensation • 0.3% for deferreds • £nil for arrears For removal of the compensation cap provisions: • £19.5m for arrears due	Uplifts to liabilities of: For the 50% minimum test required by the *Hampshire* judgment: • 0.2% for members receiving compensation • 1.3% for deferreds • £15.5m for arrears This excludes the impact of the *Hughes* judgment, which was treated as a

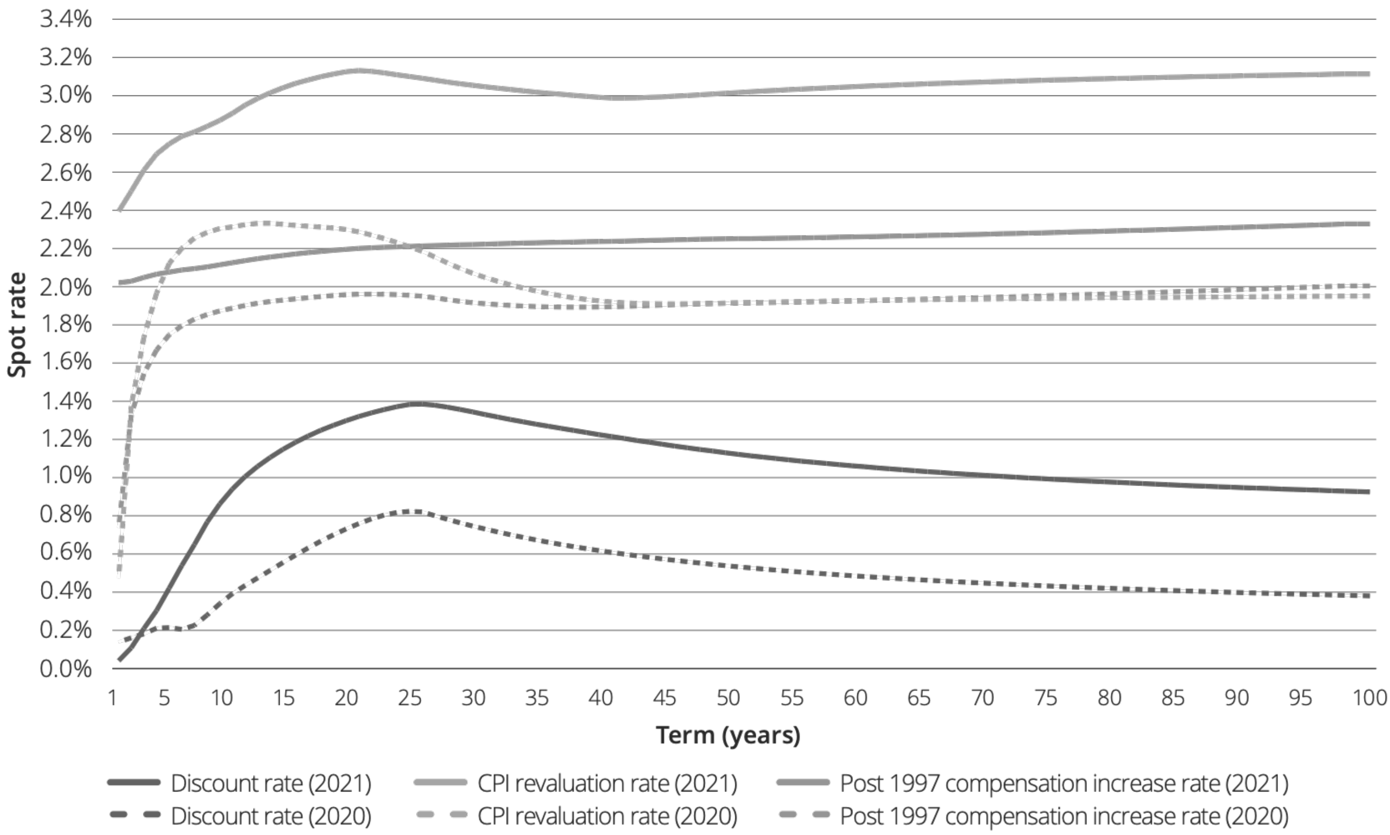
Valuation date	31 March 2021	31 March 2020 (if different)
	• 0.52% for members receiving compensation (including the cost of further arrears) • 0.50% for deferreds The amount of arrears of PPF compensation actually paid may be affected by time limits under the Limitation Act 1980.	Contingent Liability. For potential removal of the compensation cap provisions: • £19.5m for arrears due • 0.86% for members receiving compensation (including the cost of further arrears) • 0.53% for deferreds The amount of arrears of PPF compensation actually paid may be affected by time limits under the Limitation Act 1980.
GMP equalisation	No allowance on the grounds that there are no members for whom we have not yet equalised for GMP	
Levels of compensation, revaluation in deferment and increase in payment	No change from current legislation	

I give further information on these assumptions below.

Financial assumptions

In general, I have applied the same approach to setting the financial assumptions as for the actuarial valuation at 31 March 2020. In particular, the financial assumptions vary according to the term of the compensation payment being estimated.

The graph below shows the annualised average term-dependent discount rates, CPI revaluation rates, and increases to compensation in payment, that have been assumed over the given term as at 31 March 2021.
The previous year's figures are shown as dashed lines for comparison. The rates are presented as spot rates.



Source: BlackRock and a number of investment banks with, in some cases, our additional calculations

Discount rates

I have set the discount rates assumption according to a notional portfolio of assets that I consider to best match the PPF liability cash flows for the purposes of this actuarial valuation.

This notional portfolio consists of 75 per cent gilts and 25 per cent swaps. The discount rate for each term is a blend of 75 per cent of the gilt yield and 25 per cent of the SONIA-based swap yield plus 10 basis points at that term. The 10 basis point addition is made to the swap yield to reflect the actual expected returns on the cash backing the swap contracts.

Inflation and compensation increases

For the RPI inflation assumptions I have used a curve of RPI inflation swap yields as at 31 March 2021.

Since expected future CPI inflation is not reliably observable in the market in the same way as expected RPI inflation, I have instead set this assumption via deducting a margin from the RPI inflation assumptions. In November 2020 the UK Statistics Authority and HMT announced that RPI will be aligned with CPIH from February 2030. I have therefore used a best estimate of the margin between RPI and CPI of 0.9 per cent per year up to 31 January 2030 reducing to 0.1 per cent per year thereafter, reflecting the expected difference between CPI and CPIH. This is the same assumption as we use in constructing the portfolio of assets to hedge our liabilities.

For compensation increases in payment, I have used the Stochastic Alpha Beta Rho (SABR) model to adjust expected future CPI inflation for the upper and lower limits that apply when CPI-linked compensation increases are derived.

Demographic assumptions

Life expectancy

This assumption is in two parts. The first is baseline life expectancy which reflects the assumed rates of mortality at the valuation date. The second part is an assumption about how these rates will change over time.

The following table illustrates the life expectancies of members aged 65 at both the date of valuation and in 25 years' time, based on the assumptions described below. The figures shown are in years.

Date of valuation			31 March 2021		31 March 2020	
			Men	Women	Men	Women
Median life expectancy	Members currently receiving compensation	Now	21.4	23.9	21.7	23.9
	Dependants currently receiving compensation		19.3	23.5	19.8	23.5
	Members due to receive compensation	In 25 years' time	23.1	26.3	23.3	26.5
	Future dependants		21.7	25.5	22.3	25.5
Minimum life expectancy	Members currently receiving compensation	Now	14.8	18.6	14.9	18.8
	Dependants currently receiving compensation		14.8	18.6	14.9	18.8
	Members due to receive compensation	In 25 years' time	19.1	22.4	19.2	22.4
	Future dependants		17.3	21.5	17.5	21.8
Maximum life expectancy	Members currently receiving compensation	Now	24.4	25.5	24.6	25.9
	Dependants currently receiving compensation		22.5	25.4	23.7	25.6
	Members due to receive compensation	In 25 years' time	26.3	27.6	26.5	28.0
	Future dependants		24.6	27.5	25.8	27.7
Range of life expectancies which covers 75% of compensation	Members currently receiving compensation	Now	19.2–23.6	21.8–25.0	19.6–23.5	21.8–25.2
	Dependants currently receiving compensation		17.3–21.3	21.3–25.4	17.8–21.6	21.6–25.6
	Members due to receive compensation	In 25 years' time	21.5–24.8	25.2–27.2	22.0–25.1	25.1–27.3
	Future dependants		19.8–23.6	23.5–26.8	20.4–23.9	23.8–26.7

Baseline life expectancy
A life expectancy analysis provider, Club Vita, provides me with a number of individual mortality curves to apply to the PPF's individual members, based on a number of factors such as sex, postcode, and compensation amount.

Allowance for changes in life expectancy over time
A model for this purpose is produced by the Continuous Mortality Investigation (CMI), which is part of the Institute and Faculty of Actuaries. This model is updated every year to reflect more recent data and, in some years, modelling methodology improvements.

For the actuarial valuation as at 31 March 2021, I have adopted the CMI_2019 model, with all model parameters at their core values except an initial adjustment to mortality improvements of 0.25 per cent per year. This parameter was adjusted to reflect the population differences between members of DB pension schemes and the general population of England and Wales. I have assumed a long-term rate of mortality improvement of 1.5 per cent per year for men and women. Currently I have made no allowance for the impact of the COVID-19 crisis on future mortality as it is unclear whether this will result in a short-term impact on expected life expectancies or whether the effects will be felt for a longer time.

Member options – commutation, early retirement, late retirement
No allowance is made for any member options to be exercised, given that the option terms are set such that the liabilities are broadly unchanged whether the option is exercised or not.

Other demographic assumptions
I have based these on the PPF's experience.

Expenses
Certain administration expenses, such as those associated with paying members and investment management, are met directly from the PPF.

The current expected total cost of paying members is converted to a per-member cost and projected into the future with CPI and expected membership changes derived using the assumptions outlined above. This is then discounted back to a present-day value.

Investment management expenses have been taken as the estimated current annual management charge that would apply to the notional portfolio used to set the discount rate assumption, including an allowance for the cost of us overseeing it.

This results in an allowance of 3.3 per cent of liabilities, which compares with 3.2 per cent at the last actuarial valuation, using the same methodology.

In addition, the expected future cost of administering four longevity swap contracts that have transferred to the PPF has been included. This has increased the allowance to 3.6 per cent of liabilities.

Minimum compensation
i. *Hampshire* and *Hughes* – 50 per cent minimum
The *Hampshire* ruling determined that compensation is subject to a minimum level of 50 per cent of the value of accrued old age pension. The Court of Appeal in the *Hughes* case supported the PPF's one-off calculation approach for increasing payments to the minimum level.

The allowance included in the liabilities has been calculated based on our one-off value test following the latest ruling from the Court of Appeal. This is consistent with last year's valuation.

To determine the cost I have calculated the uplifts that would apply to a large number of model points covering different ages, assessment dates and scheme benefit structures. These model points were then mapped to our current membership to determine the uplift to liabilities required. The resulting uplifts are 0.1 per cent of liabilities in respect of members receiving compensation and 0.3 per cent of deferred liabilities. These compare to uplifts of 0.2 per cent of liabilities in respect of members receiving compensation and 1.3 per cent of deferred liabilities at the last actuarial valuation. The reduction in the expected cost is a result of more granular information on the benefits that would have been paid from the scheme being used in the calculation.

I have not allowed for any expected arrears as I expect these amounts to be very small.

ii. *Hughes* – the compensation cap

The Court of Appeal, also in the *Hughes* case, confirmed in July 2021 that the High Court's decision that the PPF compensation cap, as set in legislation, is unlawful based on age discrimination and has to be disapplied. At the time of preparing this report, compensation payments have not been adjusted to reflect the ruling as the Court of Appeal upheld this ruling only recently. Some capped members have however received increases to their PPF compensation to reflect the *Hampshire* ruling using the one-off value test method. I have included an allowance for the expected cost of removing the compensation cap.

The cost for deferred members was accurately assessed since uncapped benefits are recorded on our administration system. This increased deferred liabilities by 0.50 per cent.

For members in payment an approximate approach was taken based on data collected for previous benefit rectification exercises. Given the small cost relative to our total liabilities I do not expect the cost to be materially different when full data becomes available. The expected cost for increasing members in payment for the removal of the cap along with payment of any arrears identified after June 2020 has increased the pensioner liability by 0.52 per cent. However, the amount of arrears of PPF compensation actually paid may be affected by time limits under the Limitation Act 1980.

I have also allowed for liabilities of £19.5 million for expected arrears. This is in respect of members identified as due uplifts prior to June 2020 and includes the amounts still due to members who have already had their compensation uplifted and those that still need to be processed. Again, the amount of arrears of PPF compensation actually paid may be affected by time limits under the Limitation Act 1980.

GMP equalisation

All compensation of members of transferred schemes is equalised for GMP so no further adjustments are required. This was also the case at the 2020 actuarial valuation.

In November 2020 the High Court ruled that trustees of DB schemes that provide GMPs are required to top-up historical cash equivalent transfer values (CETVs) that were calculated on an unequalised basis if the CETV would have been higher had allowance been made for GMP equalisation.

At this stage it has not been possible to provide a reliable estimate of the potential impact this ruling could have on the liabilities given the lack of availability of data and the uncertainty inherent in the calculations.

Appendix M4

Legislation and guidance

Legislation/guidance	Valuation aspect it applies to
Pensions Act 2004	Various. Specific significant aspects are detailed below.
Paragraph 22 of schedule 5 to the Pensions Act 2004	We are required to prepare a statement of accounts of each financial year, which must include an actuarial valuation of the assets and liabilities of the PPF prepared and signed by the Appointed Actuary. We are required to send a copy of this valuation report (along with the rest of the accounts) to the Secretary of State for Work and Pensions and the Comptroller and Auditor General (paragraph 22(5)).
The Accounts Direction given by the Secretary of State for Work and Pensions with the approval of HM Treasury in accordance with part 4 of schedule 5 of the Pensions Act 2004	This states that the discount rate used to discount future cash flows and liabilities should be that advised by the PPF's actuary.
Government FReM (accounting principles and disclosure requirements therein) Other guidance issued by HM Treasury in respect of accounts which are required to give a true and fair view The Framework document agreed between the DWP and the Board of the PPF	Under the Accounts Direction referred to above, we are required to prepare accounts in compliance with these.
IAS 37 Provisions, Contingent Liabilities and Contingent Assets	In accordance with FReM, we are required to take account of this. It follows from this that we are required to place a best estimate value on the provisions. We are exempted from IAS 37's requirements around the calculation of the discount rate by virtue of the Accounts Direction described above.
Schedule 7 to the Pensions Act 2004 (and consequent regulations)	This schedule sets out PPF compensation.
Section 132 of the Pensions Act 2004	This section defines what an assessment period is.
The Pension Protection Fund (Valuation of the Assets and Liabilities of the Pension Protection Fund) Regulations 2006 (SI 2006/597)	The value of the PPF liabilities is determined in accordance with regulation 3, which required that: a) the liabilities of the PPF shall be any sums or properties falling to be paid or transferred out of the Fund required to meet liabilities listed in section 173(3) of the Pensions Act 2004; and b) the value of a liability shall be the present value of that liability at the valuation date. The value of the PPF assets is determined in accordance with regulations 2, 4, and 5. Regulations 4 and 5 make available adjustments but these have not been made in this valuation.

Supplementary report: actuarial liabilities and provisions of the PPF as at 31 March 2021

1. Introduction and framework

This supplementary valuation report has been prepared for the Board for inclusion in its Annual Report and Accounts as at 31 March 2021.

This report mainly deals with schemes in PPF assessment as at 31 March 2021 that are expected to transfer to the PPF. This is a broad definition of the schemes which form the ‘provisions’.

Last year my report also covered contingent liabilities, mainly the assets and liabilities of schemes believed to have a high chance of employer insolvency over the coming months along with those with the highest insolvency risk as determined for levy purposes. This year, a new approach to determining contingent liabilities in respect of future claims has been used and therefore contingent liabilities no longer form part of my supplementary report. Further details on the approach taken this year can be found in note 2 of the financial statements of the Annual Report and Accounts.

Fuller details of schemes in assessment (SIA) (the ‘provisions’) can be found in Appendix S1 – Definition of a provision.

In addition to the above, I also include details of the assets and liabilities of both transferred schemes and SIA in aggregate as well as sensitivities of these to certain changes in key assumptions and market conditions.

This report is not intended for any purpose other than meeting our accounting requirements.

Framework under which this valuation has been prepared

The requirement to include an actuarial valuation of the PPF is set out in the Accounts Direction given by the Secretary of State for Work and Pensions with the approval of HM Treasury in accordance with schedule 5, part 4 of the Pensions Act 2004.

Under the Accounts Direction, the Board is required to prepare accounts in compliance with the Government FReM, and other relevant guidance issued by HM Treasury. The FReM requires that IAS 37 must be taken into account. When taken together, this means that the valuation of both assets and liabilities should provide a true and fair assessment.

The requirement to provide an annual valuation of the PPF is also set out in the Framework document agreed between us and the DWP.

This valuation has been prepared in accordance with the above pieces of legislation and guidance insofar as they apply. Appendix M4 – Legislation and guidance in my main report and Appendix S5 – Legislation and guidance set out more detail around this.

This valuation complies with Technical Actuarial Standard (TAS) 100 ‘Principles of Technical Actuarial Work’. Further, given the scope of the work, the processes and the calculations underlying this report, together with the report itself, are subject to independent peer review. This review has been done by the Government Actuary's Department.

Signed:

Name of Appointed Actuary: Lisa McCrory
Date: 5 October 2021
Job title: Chief Finance Officer and Chief Actuary
Qualification: Fellow of the Institute and Faculty of Actuaries
Employer: The Board of the Pension Protection Fund

2. Compensation, data, approach, assumptions

Where possible, I have taken the same approach to value the liabilities forming the provisions as I took to value the liabilities of the schemes that transferred to the PPF by 31 March 2021. This is covered in my main report to the Board dated 5 October 2021.

I have requested recent individual member data for six of the largest schemes included in the provisions for use in this valuation. These schemes make up 55 per cent of the liabilities for schemes in the provisions and eight per cent of the total liabilities of transferred schemes and those in the provisions. There are a further four schemes for which I have used individual membership data requested for previous valuations. For all these 10 schemes the approach to valuing the liabilities is comparable with that taken for transferred schemes, with an additional allowance for the expected cost of completing the transfer to the PPF.

Similar to the approach for transferred schemes, liabilities have been adjusted for member movements over the period between the effective date of the data and the calculation date as well as the expected cost of uplifting compensation for the *Hampshire* and *Hughes* judgments[1]. The adjustments applied have been calculated in the same way as those used for transferred schemes, however where appropriate the calculation has been updated to reflect the demographics of the individual scheme.

For all other SIA, I have estimated the liabilities by adjusting the results of the latest section 179 (s179) valuation or section 143 (s143) valuation. The adjustments made allow for changes in market conditions, the passage of time, differences in assumptions used for s179 purposes and this valuation, as well as the expected scheme experience since the effective date of the valuation. The approach taken is broadly consistent with the methodology used to calculate the PPF levy for the financial year 1 April 2020 to 31 March 2021, the exceptions being:

- an allowance for increased deaths over the last year as a result of the COVID-19 pandemic; and
- liabilities have increased to reflect the expected cost of uplifting compensation for the *Hampshire* and *Hughes* judgments.

Due to the limited data available for these schemes a simplified approach to setting the assumptions is required, which involves using average assumptions for the discount rate, future inflation and current mortality rates. See Appendix S3 – Assumptions for further details on the assumptions used.

For all schemes included in the provisions, I have estimated the assets by rolling forward the latest information available using market indices for each asset class. For the material schemes discussed above, the latest asset valuation will be at a date on or after the effective date of the member data provided and for other schemes the asset information will be from the latest data submitted for PPF levy purposes. Again, the method I used to do this is broadly consistent with the latest levy methodology, the main exception being that assets have been reduced for lump sum payments on retirement for members of the schemes for which individual data was provided.

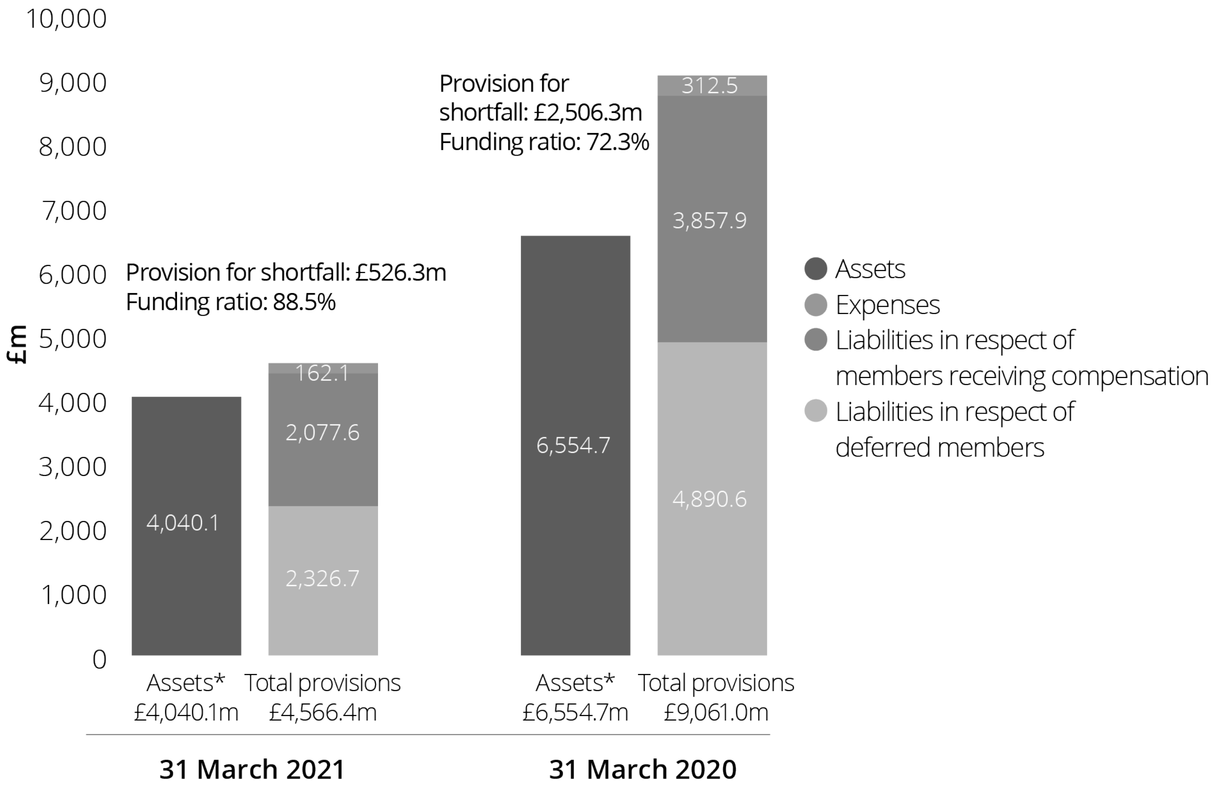
A scheme is only included in the calculation if it is expected that it has insufficient assets to secure benefits above PPF levels of compensation. See Appendix S1 – Definition of a provision for further details of the definitions used and Appendix S2 – Data for further details on the number of schemes included.

1 See section 2 of my main report for further information relating to the requirements of these judgments.

3. Results for schemes in PPF assessment

Provisions

79 schemes were included in the provisions as at 31 March 2021. The following chart sets out the values of the assets and liabilities of the schemes forming the provisions at the current and previous valuation dates.

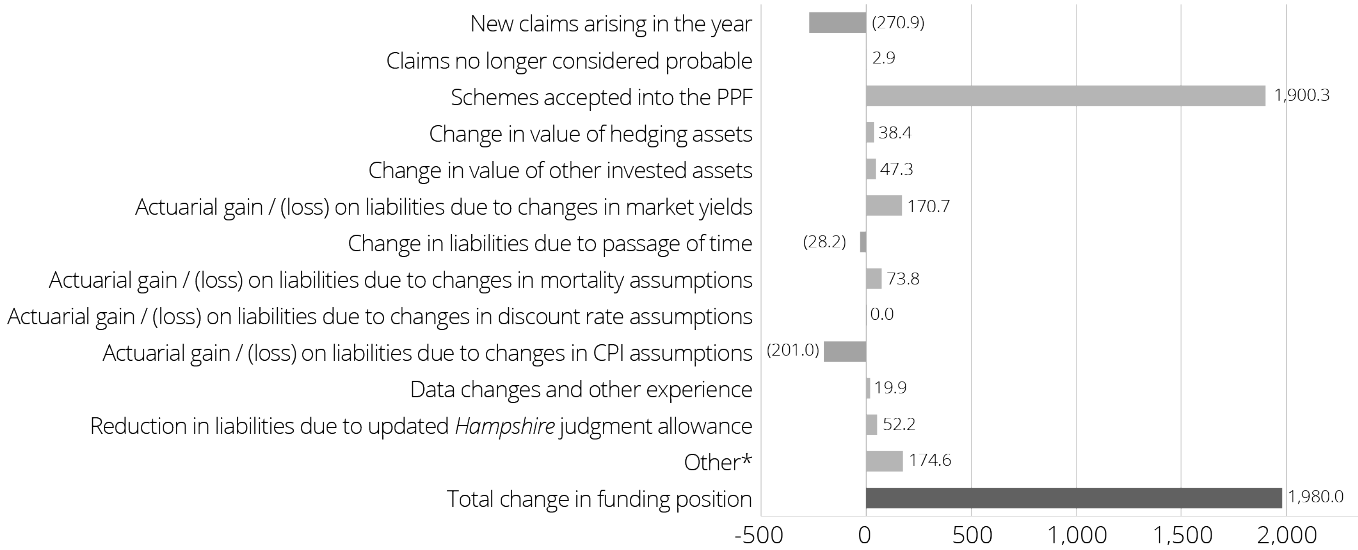


* Includes anticipated recoveries of £86.3 million (2020: £52.6 million).

For some schemes that are marginally underfunded on the PPF entry basis, the assets exceed liabilities on the basis used for the purpose of this valuation. In this circumstance I have restricted the assets to the value of the liabilities to avoid the risk of understating the provision made. This adjustment has reduced the asset value by £198.5 million.

The shortfall of assets compared to liabilities has reduced from £2,506.3 million as at 31 March 2020 to £526.3 million as at 31 March 2021. The change has largely been driven by a small number of large schemes transferring to the PPF. The decrease in the provisions has contributed to an increase in the reserves.

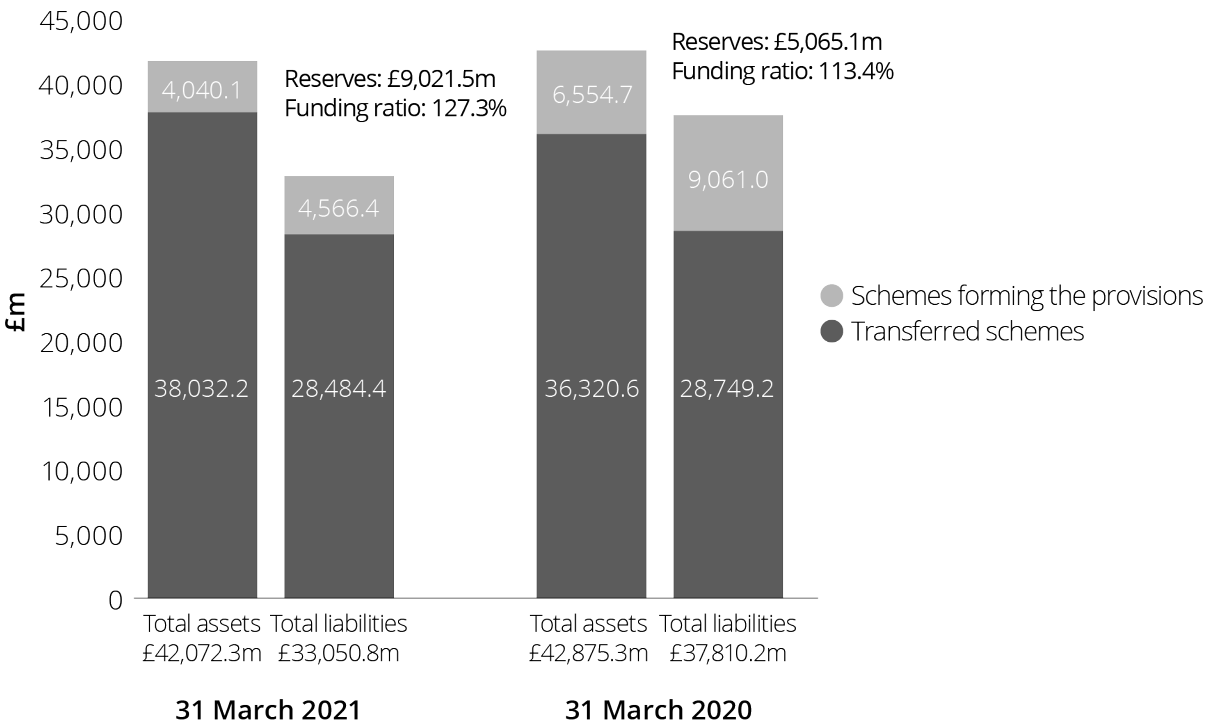
A full analysis of this change over the year is set out in the following chart (figures are in £ million):



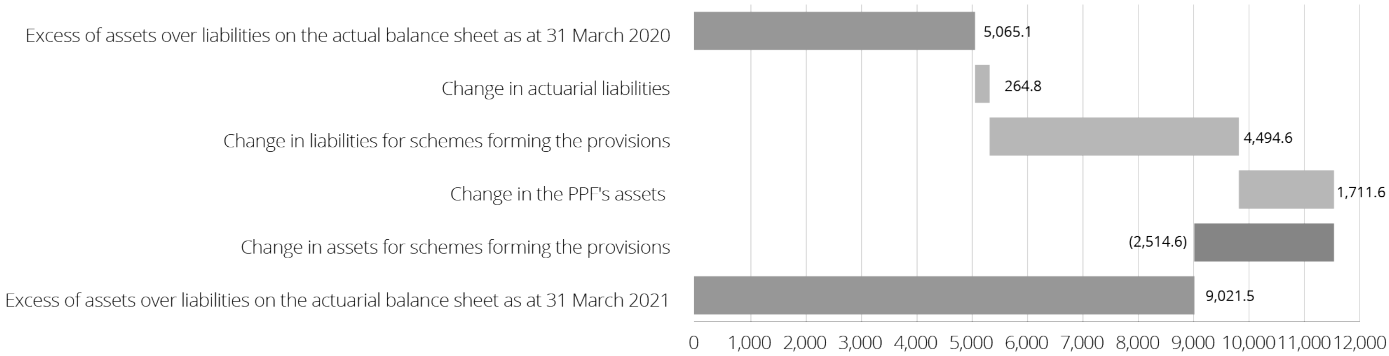
* Includes such items as expenses, recoveries, and the impact of inflation being different to that assumed.

Actuarial liabilities and provisions in aggregate

The following chart sets out the values of the assets and liabilities of the schemes that have already transferred to the PPF and those forming the provisions at the current and previous valuation dates.



The following chart sets out a reconciliation for the year of the net funding position on the actuarial balance sheet i.e. considering both transferred schemes and schemes forming the provisions in aggregate (figures are in £ million).



4. Sensitivity analysis

The value placed on liabilities will be very sensitive to the assumptions used; it is also likely that actual experience of the PPF will be different from that assumed. I have therefore illustrated how sensitive the results are to plausible changes in the main assumptions. Full details are set out in Appendix S4 – Sensitivity analysis and I have summarised below the impacts on reserves and funding ratio (in this context 'reserves' means the reserves of the PPF net of the shortfall between assets and liabilities of SIA).

Scenario	Description
Main	Assets and liabilities are as shown in the chart above.
1	Nominal yields are assumed to increase by 0.5% p.a.
2	Inflation is assumed to decrease by 0.5% p.a.
3	Average life expectancy is assumed to be one year shorter than assumed in the main valuation.
4	Improvements in life expectancy are assumed to be nil for the next five years.
5	The value of return-seeking assets as at the valuation date (excluding those which are used to hedge liabilities) is assumed to decrease by 10%.
6	Non-investment expenses are assumed to be 10% higher than assumed in the main valuation. (No change to investment nor wind-up expenses.)
7	Assumptions and expenses calculations based on the s143 valuation basis in force as at the valuation date.

The results show that, although some impacts can be large, the PPF is resilient to individual items of experience being different to assumed. A more detailed breakdown of the results is given in Appendix S4 – Sensitivity analysis. It should also be noted that, in some cases, the results are calculated in a more approximate manner than the main results in the report. None of the scenarios and assumptions variations described above should be interpreted as upper or lower bounds of the range of reasonable estimates that might be made.

Appendix S1

Definition of a provision

Schemes that make up the provisions as at 31 March 2021 are those schemes:

- in assessment whose asset value as at the insolvency date was likely to have been less than the expected cost of securing PPF levels of compensation with an insurer, and the scheme is expected to transfer to the PPF; or
- that have completed assessment and have not yet transferred to the PPF, but are expected to. This can occur if the scheme is expected to successfully reapply for PPF entry as assets are no longer expected to be sufficient to secure benefits in excess of PPF levels.

Schemes were considered to be in assessment as at 31 March 2021 if on or before that date an insolvency event occurred and:

- an insolvency event notice had been received;
- the insolvency event had not been rejected;
- a withdrawal notice had not been received from an insolvency practitioner, nor was one expected; and
- transfer to the PPF had not yet occurred.

Some schemes may have had insolvency events occur on or before 31 March 2021 but had not yet reported this to us. Analysis of the past reporting history indicates that insolvencies are notified very quickly and so it is unlikely that there are a material number of claims that have yet to be reported. I have therefore not included a reserve to cover this.

I have concluded that a scheme is likely to transfer to the PPF if (in the following order):

- the section 143 entry valuation test shows the scheme to be underfunded;
- in the absence of a formal report, the valuation actuary has provided confirmation that the expected outcome of entry test is that the scheme will be underfunded. For larger schemes, when there is uncertainty as to whether the scheme will ultimately transfer, I have taken a prudent approach and included the scheme as a provision; or
- my own assessment shows the scheme is likely to be underfunded. To do this I have adjusted the results of the latest s179 valuation using the methodology set out in the latest levy determination[1] to allow for the passage of time and the assumptions that would apply at the insolvency date. In addition, assets have been increased to allow for any expected recoveries from the sponsoring employer and liabilities have been increased to reflect the expected cost of uplifting compensation to allow for the *Hampshire* and *Hughes* judgments.

1 Full details of the methodology can be found at https://www.ppf.co.uk/sites/default/files/2021-01/Transformation_appendix_2122.pdf

Appendix S2

Data

Transferred schemes

The data for the PPF members whose compensation forms the actuarial liabilities is summarised in my main report dated 5 October 2021.

Schemes that form the provisions

The following table sets out the numbers of schemes and members that form the provisions.

	31 March 2021	31 March 2020
Number of schemes	79	71
Estimated number of members receiving compensation in these schemes	33,846	65,180
Estimated number of deferred members in these schemes	27,749	59,948

In addition, there are 21 schemes (from 14 of the same or related employers) currently in assessment that are not included as the expectation is that they will secure benefits above PPF levels and not therefore transfer to the PPF.

Material schemes

For material SIA (broadly those whose estimated liabilities are over £250 million), I obtained recent individual member data and current asset values from the scheme trustees. There are seven such schemes in the provisions this year. Of these:

- one came into assessment during the year to 31 March 2021, for which I obtained membership and asset data with an effective date in December 2020; and
- six were in assessment as at 31 March 2020, for five of which I obtained membership and asset data with effective dates between October 2019 and November 2020. For the

final scheme no new data was collected as the scheme was expected to transfer by March 2021, plus the scheme is only marginally underfunded and therefore has very little impact on the quoted reserves. Instead, data collected for the 31 March 2019 valuation was used which had an effective date of August 2018.

For the seven schemes for which data was provided, it was collected in a standard template and gives compensation at a current date split by various service dates.

I have carried out checks on all the data received for general reasonableness and, where appropriate, for consistency with that used in the actuarial valuation as at 31 March 2020. I have no material concerns about the data for the purpose of assessing the total liabilities of SIA. Transferred schemes and material SIA account for around 94 per cent of the total liabilities and provisions.

There are three schemes which were classified as material at a previous valuation date but do not classify as such at the 31 March 2021 valuation. For these schemes I have used the same individual member data and starting asset values I used for the 31 March 2020 valuation, which had effective dates between December 2015 and November 2016. I have allowed for expected member movements since the effective date of the data. These schemes account for less than one per cent of the total liabilities and provisions.

Non-material schemes

For producing the assets and liabilities of the remaining 69 schemes forming the provisions I used the latest s179 valuation information provided for levy purposes. Although there is no reason to doubt the quality of the information provided within a particular scheme's valuation report, I have carried out checks on the general reasonableness of the data submitted. Again, I have no material concerns relating to the data provided. This approach will be less accurate than using individual member data. However, given the small proportion of liabilities valued in this way, the impact of this simplifying approach should not be material to the overall results.

Expected recoveries
For all types of schemes that form the provisions, assets have been increased to allow for expected recoveries from the wind-up of the sponsoring employer. In aggregate this has acted to increase assets by £86.3 million.

Appendix S3

Assumptions

The assumptions used to value the provisions will generally be the same as used for the transferred schemes that make up the actuarial liabilities. This appendix lists out the differences and additions.

Financial assumptions for schemes where individual member data is not available

For these schemes it is not possible to use term-dependent rates as projected cash flows are not produced without individual member data. Instead, I determined six single rates of discount, inflation and compensation increases so that the value of the actuarial liabilities of the transferred schemes is the same whether the full set of term-dependent rates or these single rates are used. Essentially this approach assumes the shape of the cash flows is the same for schemes where individual data is held compared with those where it is not. These single rates, on this valuation measure, are as follows:

			Net discount rate	
Payment status	**Service**	**Member type**	**31 March 2021 % p.a.**	**31 March 2020 % p.a.**
In deferment	Before 6 April 2009	Deferred	-1.7	-1.6
	After 5 April 2009	Deferred	-1.2	-1.6
In payment	Before 6 April 1997	Receiving compensation	1.1	0.6
		Deferred	1.2	0.7
	After 5 April 1997	Receiving compensation	-1.0	-1.3
		Deferred	-1.0	-1.2

Equivalent assumptions are needed at the effective date of the original s179 valuation. I have derived these using the s179 assumptions guidance in force at each date.

Demographic assumptions

GMP equalisation

No additional allowance is made for the impact of GMP equalisation in the actuarial liabilities as the membership data for transferred schemes already includes the effects of this for every member. As this is not the case for all schemes forming the provisions, an additional allowance is made. This is 1.2 per cent of liabilities in respect of members receiving compensation and 0.6 per cent of deferred liabilities. This includes an allowance for backdated arrears payments and is based on the estimated cost of equalising the liabilities for members who have already transferred to the PPF. It is not applied to material SIA whose data already includes equalised GMP.

Expenses

In addition to expenses incurred after transfer to the PPF, the following expenses for schemes forming the provisions are also included:

- Expenses incurred by the schemes' trustees prior to transfer to the PPF. Schemes forming the provisions are assumed to be, on average, halfway through assessment and so these are assumed to be 50 per cent of those specified in the s179 valuation guidance, subject to a cap on 100 per cent of the expenses of £3 million per scheme. Two of the SIA have had this cap applied.
- Expenses incurred by us in transferring members into the PPF. This has been calculated as a per-member cost determined by dividing the cost to us of transferring members over the year to 31 March 2021 by the number of members involved.

The total expense allowance for provisions is 3.6 per cent of the liabilities (2019/20: 3.6 per cent).

Minimum compensation
A similar approach has been used to assess the expected cost of uplifting members' compensation in respect of the *Hampshire* and *Hughes* court rulings as the approach taken for transferred schemes.

i. *Hampshire* and *Hughes* – 50 per cent minimum
Each scheme in assessment was categorised according to the type of benefits provided by the original benefit structure. Each category was assigned a loading based on the model used to derive the uplifts for the transferred scheme data. This resulted in an allowance of 0.2 per cent of deferred liabilities and 0.1 per cent of pensioner liabilities for these schemes when considered in aggregate.

ii. *Hughes* – the compensation cap
The loadings for removal of the compensation cap have been set to be the same for schemes in assessment as for transferred schemes, except to adjust expected future arrears to reflect that schemes in assessment will generally have more recent dates of entering PPF assessment than transferred schemes. These loadings are therefore 0.5 per cent of liabilities in respect of members receiving compensation and 0.5 per cent of deferred liabilities.

Appendix S4

Sensitivity analysis

This appendix shows how sensitive the results are to plausible changes in the underlying financial and demographic assumptions.

Please note that the sensitivities are carried out in a more approximate manner than the results.

Scenario	Description	Reasoning
1	Nominal yields are assumed to increase by 0.5% p.a.	This is an illustration of a plausible move in yields.
2	Inflation is assumed to decrease by 0.5% p.a.	This is an illustration of a plausible move in market-implied inflation rates.
3	Average life expectancy is assumed to be one year shorter than assumed in the main valuation.	This is an illustration of a plausible move in life expectancy.
4	No improvements in life expectancy are assumed for the next five years.	This is an illustration of what could plausibly happen to life expectancy improvements given the COVID-19 pandemic.
5	The value of return-seeking assets as at the valuation date (excluding those which are used to hedge liabilities) is assumed to decrease by 10%.	This is an illustration of a plausible move in asset values.
6	Non-investment expenses are assumed to be 10% higher than assumed in the main valuation. (No change to investment nor wind-up expenses.)	This is an illustration of a plausible move in non-investment expenses.
7	Assumptions and expenses calculations based on the s143 valuation basis in force as at the valuation date.	This serves to illustrate the difference between our accounting basis used in this valuation and the s143 basis.

A summary of the values of the financial assumptions under each scenario is shown in the following table. For ease of display I have shown the single equivalent assumptions rather than the full yield curves, although for schemes where full member data has been used in the valuation whole yield curves have been used. The s143 valuation basis does not use full yield curves.

	Discount rate, % p.a.					
Payment status	**In deferment**		**In payment**			
Service	**Before 6 April 2009**	**After 5 April 2009**	**Before 6 April 1997**		**After 5 April 1997**	
Member type	**Deferred**		**Deferred**	**Receiving compensation**	**Deferred**	**Receiving compensation**
Main basis	-1.7%	-1.2%	1.2%	1.1%	-1.0%	-1.0%
Scenario 1	-1.2%	-0.7%	1.7%	1.6%	-0.5%	-0.5%
Scenario 2	-1.2%	-1.2%	1.2%	1.1%	-0.9%	-0.9%
Scenario 3	-1.7%	-1.2%	1.2%	1.1%	-1.0%	-1.0%
Scenario 4	-1.7%	-1.2%	1.2%	1.1%	-1.0%	-1.0%
Scenario 5	-1.7%	-1.2%	1.2%	1.1%	-1.0%	-1.0%
Scenario 6	-1.7%	-1.2%	1.2%	1.1%	-1.0%	-1.0%
Scenario 7	-2.3%	-1.3%	1.2%	1.2%	-1.2%	-0.6%

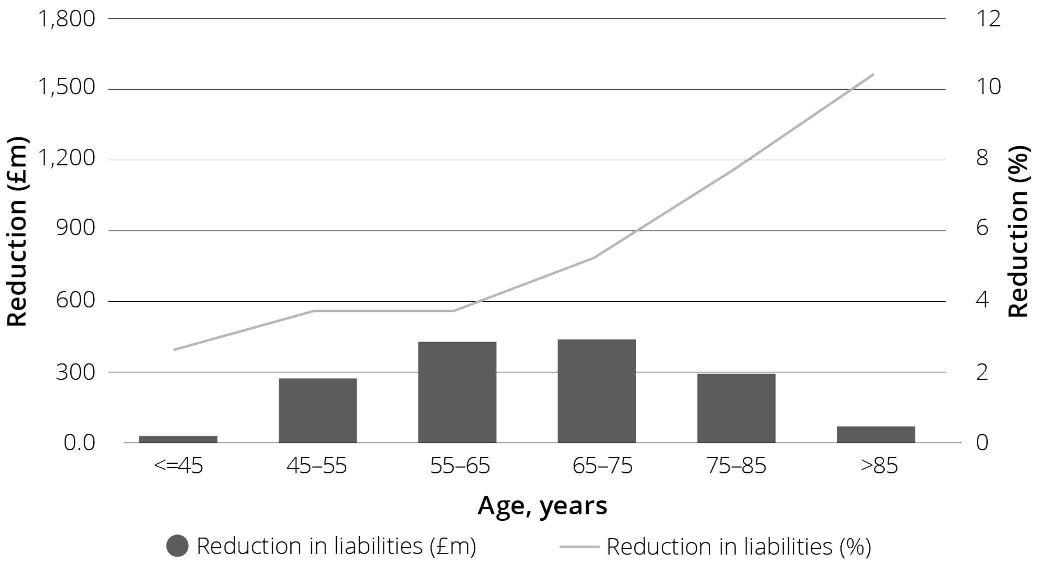
None of the scenarios and assumptions variations described above should be interpreted as upper or lower bounds of the range of reasonable estimates that might be made.

The following table sets out the range of results under the above scenarios for both transferred schemes and those in assessment. Figures are in £ billion.

	Assets			**Liabilities**				
Scenario	**PPF**	**Provisions**	**Total**	**PPF**	**Provisions**	**Total**	**Reserves**	**Funding ratio**
Main	38.03	4.04	42.07	28.48	4.57	33.05	9.02	127.3%
1	35.21	3.88	39.09	26.22	4.19	30.41	8.68	128.6%
2	37.21	3.96	41.17	27.76	4.44	32.20	8.97	127.8%
3	38.03	4.04	42.07	27.16	4.35	31.52	10.55	133.5%
4	38.03	4.04	42.07	27.98	4.48	32.46	9.61	129.6%
5	35.97	3.83	39.80	28.48	4.57	33.05	6.75	120.4%
6	38.03	4.04	42.07	28.55	4.58	33.13	8.94	127.0%
7	38.03	4.04	42.07	29.91	4.90	34.82	7.26	120.8%

Figures in the table are subject to rounding differences. Where schemes whose assets have been restricted to the level of liabilities (see section 3 – Results for schemes in PPF assessment) are included in the above figures, the assets have not been changed from the main valuation results, meaning these assets will not exactly match the liabilities in the alternative scenarios.

The chart below shows how the reduction in liabilities from a one-year reduction in life expectancy varies by age.



The results of all the sensitivities show that the PPF is resilient to individual items of experience being different to those assumed. The sensitivities do not consider the risk of a large claim on the PPF.

Appendix S5

Legislation and guidance

Appendix M4 – Legislation and guidance in my main report lists various pieces of legislation and guidance that are pertinent to my valuation. My supplementary report and valuation of the provisions have also been prepared under those. The following table lists out additional items and information that are particularly relevant to the valuation of provisions.

Legislation/guidance	Valuation aspect it applies to
IAS 37 Provisions, Contingent Liabilities and Contingent Assets	Provisions A provision should be recognised when: • an entity has a present obligation (legal or constructive) as a result of a past event; • it is probable that a transfer of economic benefits will be required to settle the obligation; and • a reliable estimate can be made of the amount of the obligation.
The following sections of the Pensions Act 2004:	
143	The assumptions to be used to assess the protected liabilities and entry to the PPF follow from our duty to obtain such an actuarial valuation under this section.
179	Actuarial valuations performed to determine the level of scheme funding for the purpose of calculating the risk-based pension protection levy.

Common terms and abbreviations

AVC – Additional Voluntary Contribution
CETV – Cash Equivalent Transfer Value
CJEU – Court of Justice of the European Union
CMI – Continuous Mortality Investigation
CPI – Consumer Prices Index
CPIH – CPI plus owner occupiers' housing costs
DB – Defined Benefit
DC – Defined Contribution
DWP – Department for Work and Pensions
D&I – Diversity and Inclusion
EBITDA – Earnings Before Interest, Tax, Depreciation and Amortisation
ESG – Environmental, Social and Governance
ExCo – Executive Committee
FAS – Financial Assistance Scheme
FCA – Financial Conduct Authority
FCF – Fraud Compensation Fund
FReM – Government Financial Reporting Manual
Funding ratio – the ratio of the PPF's assets (net of investment liabilities) and the assets of schemes in assessment over the PPF's non-investment liabilities and the liabilities of schemes in assessment
GMP – Guaranteed Minimum Pension
HMT – HM Treasury
Hybrid assets – Investments which possess attributes of both liability hedging and growth assets
IAS – International Accounting Standard
IFRS – International Financial Reporting Standard
ISAs – International Standards of Auditing
ISO – International Organization for Standardization

KAHL – Kodak Alaris Holdings Limited
KPI – Key Performance Indicator
LDI – Liability-Driven Investment
LIBOR – London Inter Bank Offered Rate
LTRM – Long Term Risk Model
ONS – Office for National Statistics
PoS – Probability of success
PRA – Prudential Regulation Authority
RI – Responsible Investment
RPI – Retail Prices Index
SIA – Schemes In Assessment
Section 143 – The assumptions to be used to assess the protected liabilities and entry to the PPF follow from our duty to obtain such an actuarial valuation under this section
Section 179 – Actuarial valuations performed to determine the level of scheme funding for the purpose of calculating the risk-based pension protection levy
SIP – Statement of Investment Principles
SMCR – Senior Managers and Certification Regime
SME – Small and Medium-sized Enterprise
SONIA – Sterling Overnight Index Average
TAS – Technical Actuarial Standard
TCFD – Task Force on Climate-related Financial Disclosures
TPR – The Pensions Regulator

Pension Protection Fund
Renaissance
12 Dingwall Road
Croydon
CR0 2NA
T: 020 8406 2107
www.ppf.co.uk
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