Pension
Protection
Fund

Annual Report and Accounts 2010/11

Protecting People's Futures

Pension
Protection
Fund

Annual Report & Accounts 2010/11

Annual Report presented to Parliament pursuant to Section 119(5) of the Pensions Act 2004 and Accounts presented to Parliament pursuant to paragraph 22(6) (b) of Schedule 5 of the Pensions Act 2004.

Ordered by the House of Commons to be printed on 3 November 2011.

HC 1559 London: The Stationery Office £20.50

Any enquiries regarding this publication should be sent to us at 0845 600 2541.

This publication is also for download at www.official-documents.gov.uk and from our website at www.pensionprotectionfund.org.uk.

ISBN: 9780102975048

Printed in the UK by The Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office

ID 2456464 10/11

Printed on paper containing 75% recycled fibre content minimum

Contents

1 This is what we do... 6

2 This is who we are... 7

3 A statement from the Chairman 8

4 Chief Executive's review 9

5 Our vision and mission for 2010/11 11

6 Our financial position 12

7 Paying the right people the right amount at the right time 13

8 Investing for the future 15

9 The pension protection levy – present and future 17

10 Communicating is a two-way thing 19

11 Our developing organisation 21

12 Managing our risks 23

13 Managing the Financial Assistance Scheme 24

14 Appeals, complaints and requests for information 25

15 Fraud Compensation Fund 25

Part two Statutory reports 26

1 This is what we do...

Pension Protection Fund

We protect millions of people who belong to defined benefit, eg final salary, pension schemes in the United Kingdom.

If their employers go bust, and their pension schemes can't afford to pay what they promised, we will pay compensation for their lost pensions.

Tens of thousands of people are now receiving compensation and hundreds of thousands more will do so in the future.

Compensation, and the cost of running the PPF, are paid for through levies on eligible pension schemes. We also generate income from our own investments, taking on the assets of schemes that transfer to the PPF – and recovering money, and other assets, from insolvent employers of the schemes we take on.

We are a public corporation, set up by the Pensions Act 2004, run by an independent Board which is responsible to Parliament through the Secretary of State for Work and Pensions.

Fraud Compensation Fund

We also pay compensation to members of pension schemes of all types whose employers go bust and the schemes have lost out financially due to dishonesty.

This compensation is paid for through a separate levy on all pension schemes.

Financial Assistance Scheme

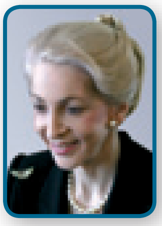
We manage the Financial Assistance Scheme (FAS) on behalf of the Government which funds it.

The FAS pays financial assistance to people who belonged to certain defined benefit pension schemes which are ineligible for compensation from the PPF.

We protect millions of people who belong to defined benefit, eg final salary, pension schemes in the United Kingdom

2 This is who we are...

Chairman



Lady Judge CBE

Chief Executive

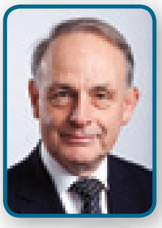
Alan Rubenstein

Executive Board Members

Martin Clarke

David Heslop

Non-executive Board Members



Dick Barfield

Ann Berresford

John Bevington

Sir Anthony Holland

Christopher Hughes

Arnold Wagner OBE
(joined January 2011)

Baroness Warwick of Undercliffe
(joined March 2011)

Directors

Graham Crowe

Naomi L'Estrange

Paul Reynolds

Sara Protheroe

David Taylor

Lawrence Churchill CBE
Left Office in June 2010

Baroness Drake of Shene
Left the Board in November 2010

Michael Deakin
Left the Board in November 2010

3 A statement from the Chairman

It has been a difficult year economically but the PPF has ridden the storm well

As I look back on my first year as Chairman, I realise how much I have learned during that time, not only about the PPF (and its mission) - but the different environment in which it operates and the staff who bring such expertise and commitment to the continuing success of the organisation.

It has been a difficult year economically but the PPF has ridden the storm well and I have great hopes for the future as we strive to be financially self-sufficient by 2030.

For me, it is vital that we are confident of our financial resilience so we can provide the reassurance to our members, and all our other stakeholders, that we have the ability and vision to meet our long-term objectives.

I have been gratified during the year that my meetings with many of the people who are affected by our work have shown that, while not everyone agrees with us all of the time, most people appreciate that we are now a permanent feature on the pensions landscape and that we do valuable work.

It would be extremely unfortunate if we had to return to the days when people could lose the pensions they had spent years accumulating if their employer became insolvent and left them stranded without any provision for their future.

It is this unfortunate situation which occurred all too often that underscores the necessity for the PPF, and is why I am so heartened by the number of people we now directly protect who otherwise would be looking at a bleak financial future.

I have also been encouraged by the way that the industry has engaged with us during the year to help us formulate a new levy framework which, I believe, represents a significant improvement over the earlier one. It now helps to provide the companies that pay our levy with the stability and predictability that they both need and desire.

Another highlight for me in 2010/11 was the performance of our investment portfolio. This is set forth in detail later in this document but, generally, I think the excellent returns that we have achieved indicate that our investments are well managed.

Finally, I would like to recognise the vital support we receive from all the members of our Board. During the year, we said goodbye to two members, Baroness Drake of Shene and Michael Deakin, and I want to thank them each for their most valuable contribution.

We have also recently welcomed two new members, Baroness Diana Warwick and Arnold Wagner OBE, who have already made some important contributions to the future of the PPF. In addition, I would like to thank our entire Executive Team for their tireless and excellent efforts.

I look forward to my second year at the PPF helm with real enthusiasm.

Lady Judge CBE
Chairman

4 Chief Executive's Review

We continued to develop and deliver as an organisation, making sure we are much better equipped to fulfil our new vision.

This year has seen further excellent progress by the PPF, particularly when set against a difficult operating background, which arose largely as a result of the controls imposed on all public sector organisations by central Government.

My second year as Chief Executive of the PPF was as busy and as testing as the first one. It was a year when we continued to develop and deliver as an organisation, making sure we are much better equipped to fulfil our new vision, mission and strategic aims.

By the end of the year, we reported a surplus of £678 million, up £284 million on the previous year, had almost £6.3 billion of assets – and, most importantly, were providing protection for more than 450,000 people covered by the PPF and the Financial Assistance Scheme (FAS).

While these figures are a snapshot of what happened in 2010/11, they should also be seen in the context of our objective for the PPF to be financially self-sufficient by 2030, something we remain firmly on course to achieve. They should also give the people who receive our compensation and financial assistance continued confidence in our ability to provide that compensation and assistance for as long as they need them.

During the year, we set ourselves three big challenges which would focus our efforts even more than usual and provide targets which were deliberately stretching and tough.

They were:

- for 135 PPF schemes to complete assessment and 250 FAS schemes to wind up by end of March 2011
- to outperform our investment benchmark of LIBOR by, in the long term, 1.8 per cent, and
- to collect 90 per cent of uncontested levies by 31 March 2011.

By the end of the year, 170 PPF schemes had completed assessment and we had wound up 287 FAS schemes. Also, our investments produced a return of 4.7 per cent, beating our benchmark of LIBOR of 0.7 per cent, equivalent to a gain of £214 million, and we collected 95.6 per cent of uncontested levies.

These were fantastic achievements and testament to all the hard work that went on across right across the organisation, and with our outsourced partners - a great example of collaborative working to deliver a great result.

Of course, there were other highlights during the year. Our Assess & Pay programme began to pay real dividends as the pilot programme of 50 schemes completed our assessment process more quickly than usual. This has given us the confidence to extend the principles developed under this project across most schemes going through assessment.

We finalised the work that we have been carrying out to develop the new pension protection levy framework which will come into effect in 2012/13. This was the culmination of many months of development work and consultation with industry and we now believe we have a levy fit for the future and one which will provide the stability and predictability that levy payers are looking for.

Also, we set a levy estimate for 2011/12 of £600 million, a reduction of £120 million from the previous year. We made this reduction in anticipation of the impact on us of the Government's plans to link the indexation and benefits under both PPF and FAS to the Consumer Prices Index (CPI) rather than the Retail Prices index (RPI). This prompt response, which was designed to benefit levy payers during the continuing difficult times economically while still protecting our own financial position, was widely welcomed.

While all of this was going on, we were also working very hard to improve the efficiency of the organisation and encourage a high-performance culture among our staff. This was achieved through setting specific efficiency targets across all teams and introducing a new performance appraisal process which links more closely individual objectives with those of the organisation as a whole.

I was delighted that we were named in the 'One to Watch' category in the Best Companies to Work for in the Public Sector, a national award scheme which allows us to compare our performance with other similar organisations. While this was a good result for a first-time entry, we hope to be among the top 75 best public sector companies to work for in the future. And, while I'm talking about awards, I would also like to again congratulate our financial risk and investment teams, whose innovative liability driven approach to liability management led to us being named Risk Magazine's Pension Fund Risk Manager of the Year 2011.

Finally, I want to make a special mention of the PPF staff. I continue to be in awe of the enthusiasm and commitment they bring to the work of the organisation in this testing environment and their willingness to embrace new ways of working to further improve the way we go about our business.

I would personally like to thank all our staff for their contributions during 2010/11 and look forward to working alongside them as we progress during 2011/12.

Alan Rubenstein
Chief Executive

5 Our vision and mission for 2010/11

The strategic framework for 2010/11 and beyond consists of a vision, mission and strategic objectives, underpinned by a set of values that will drive everything that we do.

Vision:

Protecting people's futures.

Mission:

Pay the right people the right amount at the right time.

Strategic Objectives:

- Manage schemes through the assessment and wind-up processes in a timely and efficient manner.
- Invest assets prudently and effectively to meet our commitments.
- Set and collect an appropriate levy and allocate it fairly.
- Maintain our reputation by communicating clearly what we do and why.
- Be an efficient organisation where staff are recognised and valued.
- Maintain effective risk management in all areas of PPF business.

Values:

- **Integrity** – 'Do the right thing'
- **Collaboration** – 'Work as one'
- **Accountability** – 'Own your actions'
- **Respect** – 'Value every voice'
- **Excellence** – 'Be your best'

6 Our financial position

Underpinning everything that we do is our commitment to make sure that the people who receive our compensation remain confident in our ability to provide that compensation.

By 31 March 2011, we were £678 million in surplus, an increase of £284 million from the previous year

That is why in August 2010, we published a funding strategy which sets out how we intend to have the financial resources needed to pay existing levels of compensation to current and future PPF members – and become self-sufficient by 2030.

As well as being fully-funded, we want to eliminate our exposure to interest rate, inflation and other market risks. We also want to build a reserve – or buy hedging instruments – to protect ourselves against future claims and the impact of members living longer than we estimate.

By monitoring progress through our internal risk model that projects future economic conditions, claims on the PPF and investment returns, we have concluded that we are on track to meet our aims.

As at 31 March 2011, we reported a surplus of £678 million, representing a funding position of 105.1 per cent. This compares with a £394 million surplus in 2009/10, a funding position of 103.3 per cent.

Our financial position improved mainly because positive investment returns and the amount received in levy income were greater than the value of new claims.

As at 31 March 2011, we were 105.1 per cent funded, compared with 103.3 per cent at the end of the previous year

Although this is a short-term position, these figures should be seen in the context of meeting our aim to be financially self-sufficient within 20 years.

We remain on track to become financially self-sufficient by 2030

While the pension protection levy remains a vital source of income, other income streams are increasingly helping us meet our future funding aims. These are:

- returns on our own investments
- assets from schemes that transfer to the PPF, and
- recoveries from insolvent employers.

The performance of these income streams can be found under the investment and levy chapters on pages 15 and 17 respectively.

7 Paying the right people the right amount at the right time

Manage schemes through the assessment and wind-up processes in a timely and efficient manner.

During the year, we needed to continue reassuring people about our ability to provide pension protection because of the ongoing economic uncertainty and the flow of schemes transferring to the PPF.

transferring schemes

By 31 March 2011, the number of people who had transferred to us was 74,651, an increase of 28,258 on the previous year. Also during the year, 170 schemes completed the PPF assessment process, comfortably beating our target of 135 schemes for the year.

Out of those 170 schemes, 133 transferred into us, 17 were able to secure better-than-PPF benefits by buying out in the insurance market, 10 were rejected as they were not eligible schemes and 10 were rescued as part of deals.

Fifty of those schemes were transferred more quickly than usual thanks to Assess & Pay, a new programme we set up in May 2010 to reduce the time it takes for pension schemes to complete assessment - from an average of 35 months to less than 24 months.

By the end of 2010/11, we were responsible for supporting 335 schemes in the PPF assessment period with assets of £9.2 billion and liabilities of £10.5 billion.

By 31 March 2011, a total of 283 schemes had transferred to the PPF, representing 74,651 people

Assess & Pay

Building on almost six years' experience of taking schemes through assessment, our Assess & Pay programme aimed to increase the speed and number of schemes completing assessment to bring benefits for scheme members, the industry and PPF levy payers alike.

We piloted our new process with more than 50 schemes, in partnership with Punter Southall who helped us take a more 'hands on' approach to seeing schemes through assessment.

Throughout the pilot, we worked closely with trustees, scheme administrators and other pensions professionals to make sure we all worked towards the same end.

actuarial panel

One innovation was the introduction of a panel of firms to undertake actuarial valuations for schemes in assessment. By developing expertise and experience among a small group of firms, we can reduce costs, speed up processes and improve quality.

The success of the pilot has meant that most schemes going through PPF assessment now, and in the future, will be using processes and techniques developed through the Assess & Pay programme.

We are also considering extending this model in the future for other service providers such as auditors.

As at 31 March 2011, 335 schemes were in the assessment period, representing 187,223 members who were protected to PPF levels of compensation

move from RPI to CPI

During the year, the Government announced changes to the way PPF compensation and Financial Assistance Scheme assistance are calculated.

Both compensation and assistance increase in line with inflation each year. The changes mean that, instead of using the Retail Prices Index (RPI) to calculate those increases, we now have to use the Consumer Prices Index (CPI).

RPI and CPI measure different baskets of goods and services so produce different results. Because the CPI figure is generally lower than the RPI figure, compensation and assistance increases may not increase by as much as they might have if the Government continued to use RPI.

During the year, we issued letters to all retired and deferred PPF and FAS members to tell them about these changes.

equalising benefits for GMPs

During the year, we continued to look at how compensation and assistance should be calculated for men and women being assessed for entry into the PPF and the Financial Assistance Scheme – or who are already PPF or FAS members – to make sure they are treated equally. This is required by law.

Differences in compensation or assistance payments for men and women can arise because of differences in the calculation of guaranteed minimum pensions (GMPs), primarily brought about by different retirement ages.

In January 2011, we consulted on how we would calculate benefits to take account of GMPs, following a long period of consulting with stakeholders and seeking expert advice and in-depth actuarial work. We are now considering the responses we had to this consultation.

During the year, 170 schemes completed PPF assessment, beating the 2010/11 target of 135

8 Investing for the future

Invest assets prudently and effectively to meet our commitments

Our invested assets continued to grow substantially during the year, demonstrating the increasing significance our investment returns will have on our plans to become financially self-sufficient by 2030.

All investments were made in line with our Statement of Investment Principles (SIP) which, following an update in March 2010, aimed to bring greater returns by investing in a broader range of assets – but without increasing our level of risk.

Our investment portfolio, including cash deposits, grew from £4.4 billion in 2009/10 to almost £6.3 billion in 2010/11

investment performance

In 2009/10, we set ourselves a target of outperforming our benchmarks by 1.8 per cent, rather than the previous target of 1.4 per cent.

During the year, we received amounts totalling £1.6 billion from levy and scheme assets. And, despite wars, oil price shocks, earthquakes and nuclear leaks, our investments returned 4.7 per cent (equivalent to £214 million), ahead of our LIBOR benchmark of 0.7 per cent.

While we have out performed over the year we are mindful of the long term investment horizon over which we aim to achieve low volatility performance. Over the last four years, our benchmark (three month LIBOR) has been +3.1 per cent per annum. During this period, we have achieved a return of +5 per cent (excluding our liability driven investment programme) - a very significant achievement.

In February, we were named Risk Magazine's Pension Fund Risk Manager of the Year in its annual awards scheme. The Chief Investment Officer at Insight Investment praised our "highly innovative" team.

He said that we have done an outstanding job, which has had significant knock-on benefits across the industry, both in terms of securing the industry's pension safety net and reducing the scale of the levy on corporate sponsors.

We were named Risk Magazine's Pension Fund Risk Manager of the Year

Statement of Investment Principles (SIP) updated

We further updated our SIP in November, as part of the continuing development of our investment strategy. The main change was to extend our hedging strategy to include the use of bond repurchase agreements and securities lending – activity that remains in line with our low risk philosophy.

To implement our updated SIP, we named 26 fund managers during the year – either for immediate appointment, deferred appointment or to sit on panels – to handle a range of investments including global tactical assets, private equity secondaries, real estate and alternative credit.

responsible investment

As part of our commitment to responsible investment, we were among the first signatories to the new UK Stewardship Code adopted by the Financial Reporting Council in July 2010.

This code aims to improve the quality of engagement between investors and companies to help maximise long-term returns as well as improve and strengthen corporate governance.

We are committed to being a responsible and vigilant asset owner which means we will exercise our rights, including voting rights, to safeguard sustainable returns in the long-term.

We earned a return of 4.7 per cent on our invested assets during the year, beating our LIBOR benchmark of 0.7 per cent

transfer of scheme assets

During the year, we transferred £1 billion in cash and other assets from schemes which had entered the PPF. To transfer these assets economically and with minimum risk, we transfer them in groups.

We also continued to work closely with schemes in the PPF assessment period to encourage them to change their investment strategies to more closely mirror our own, where appropriate for them. This closer tracking of scheme investments means we are able to manage any risks we are exposed to before they transfer.

recoveries

Recoveries from insolvent employers continued to be an important income stream. We have now made – or expect to realise in the future – more than £1 billion in recoveries since we were set up.

One notable success was the £32.6 million we received for shares we had held in Heath Lambert. The insurance broker was saved from going bust when we took on its pension scheme in exchange for a stake in its business.

We received the money when the company was bought in May 2011 by an American insurance company. This marked the sale of just one of 25 equity stakes in UK companies that we, alongside trustees of schemes in assessment, have negotiated.

We topped the £1 billion mark for recoveries from insolvent employers

9 The pension protection levy – present and future

Set and collect an appropriate levy and allocate it fairly

Income from the pension protection levy, which we charge all eligible pension schemes, remains essential to fund the compensation we pay. As ever, we need to balance security for our members with setting a levy that pension schemes can afford to pay.

We received a total of £697 million relating to all levy years in 2010/11

new levy framework

Throughout the year, work continued on developing a new levy framework. We announced a consultation in October 2010 and took on board comments made by schemes, consultants, employers and their representatives. The consultation was backed up by a number of events, including a levy webinar, held during December 2010.

By the end of March 2011, we collected 95.6 per cent of uncontested levies, beating our target of 90 per cent

Because our final proposals subsequently received widespread support from industry, we made an early announcement in January 2011 that we would be going ahead with the new framework and would be ironing out final details in the following months.

We did this so levy payers had enough notice to meet important deadlines for submitting all the information we needed to set the scaling factor, which will be used to calculate individual levy bills for the three years from 2012/13.

In May 2011, we confirmed the full details of the new levy framework. Key features include:

- fixing levy rules for three years to provide the certainty levy payers asked for
- averaging funding levels so that sharp financial market movements have less effect on a scheme's underfunding risk
- reflecting investment risk in the levy calculation for the first time, and
- a system of 10 insolvency ratings bands, an increase from the six we originally proposed. This responded to industry concerns that six bands would create 'cliff-edges' where schemes could face large levy rises.

We confirmed a new levy framework to come into effect from 2012/13

investment risk

Introducing investment risk will enable us to calculate a scheme's underfunding risk more accurately. This is important because, if an employer goes bust, we are exposed to potential declines in the value of a scheme's investments.

But we recognise that trustees are best placed to decide on their own investment strategy and are not seeking to influence their behaviour.

Schemes with more than £1.5 billion in liabilities will have to carry out their own, more detailed, analysis of investment risk to provide a more precise measurement. To help schemes do this, we published draft guidance for consultation alongside the levy framework announcement.

Throughout this process we worked closely with interested parties in industry and beyond and we are grateful to everyone for their contributions.

levy estimate for 2011/12

In September 2010, we announced that we would set a levy estimate of £600 million for 2011/12, a reduction of £120 million from the previous year.

We made this reduction because of Government plans to increase PPF compensation in line with the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI). The CPI figure is generally lower than RPI which means compensation may not increase as much in the future.

We believe this move would benefit levy payers during what are difficult times economically but still protect our own financial position.

collecting the levy

Invoicing and collecting the 2010/11 levy started in September 2010. By the end of March 2011, we had collected 95.6 per cent of uncontested levies, beating the target we set ourselves of 90 per cent.

We set a levy estimate for 2011/12 of £600 million, compared with £720 million in the previous year

10 Communicating is a two-way thing

Maintain our reputation by communicating clearly what we do and why

We have always stressed the importance of communicating clearly with everyone that has an interest in what we do, listening carefully to their views and adapting our policies to take account of those views where appropriate.

By doing this, we aim to increase confidence in our long-term resilience and:

- provide information that is trusted and respected
- have a leadership team that is accessible to all
- identify opportunities to work with industry to achieve best results, and
- demonstrate that we are open and transparent in everything that we do.

We issued about 90 different publications including consultation and decision documents as well as information for scheme members and industry

communications channels

Our website remained first port of call for many professionals seeking information about the PPF. During the year, it had more than 205,000 unique views and 614,000 page views.

We issued 53 alerts, press releases and information notes to almost 2,500 people who have registered their emails with us, as well as other interested parties such as professional organisations and the media.

Some 90 documents were published during the year. These included consultation and decision documents on issues such as the levy, GMP equalisation and valuation assumptions.

We also published the fifth edition of the Purple Book which highlights trends in defined benefit schemes, based on data from 6,596 schemes, representing 96.3 per cent of PPF-eligible schemes. The format of this year's book changed, with more focus on data rather than narrative to make it more manageable to read.

Each month, we published the PPF 7800 Index which provides regular monthly updates on scheme funding levels. This allows us to track funding and risk through time.

All PPF members also received a copy of an annual review which summarised what we did during 2009/10. Independent research shows that this is hugely welcomed by members as a way of keeping them in touch with what the PPF is up to.

In November 2010, we held the second of our member days where we invite people receiving our compensation to visit our Croydon offices and meet PPF staff. More than a dozen members and their guests, aged between 60 and 82, attended the day and were able to share their experiences and learn more about the organisation.

All commented on the professionalism of staff and, most importantly, the positive effect the PPF has had on their lives. As one member said: "As an individual recipient of a PPF pension, I can tell you that it has improved my quality of live immeasurably. You should all feel very proud."

support team

Our dedicated Stakeholder Support Team continued to provide the main point of contact for members, industry professionals and employers, among others.

During the year, they handled 8,350 telephone calls and 3,350 letters and emails. Thousands of other enquiries were handled by Capita which administers payments to members.

Our customer service team handled more than 8,000 calls and more than 3,000 pieces of correspondence

webinars

Because of spending restrictions imposed as part of the Government's cost cutting agenda, we had to look at ways of getting our messages across even more cost-effectively than previous years.

For instance, instead of holding roadshows and similar events across the country to inform people about policies, we decided to run online webinars instead. These consisted of a panel of senior PPF staff presenting and answering emailed questions from viewers.

In May 2010, we held a webinar on the Financial Assistance Scheme and the role and responsibilities of trustees and their advisors - and in December 2010 we held a similar event on our proposals for the new pension protection levy framework.

We arranged for our Chairman and Chief Executive to speak at, or attend, more than 140 meetings and other events

Both webinars were watched by more than 300 people across industry and generated positive feedback. We also took part in a number of webcasts during the year on a range of subjects, using the webcasting services of organisations such as the Pensions Management Institute (PMI).

11 Our developing organisation

Be an efficient organisation where staff are recognised and valued

We recognise that, as a public organisation funded by levy payers, we need to demonstrate that we are being as efficient as we can in everything that we do.

During the year, we spent £31.3 million running the organisation, against a budget of £34.6 million

process and performance

Our focus for the year, therefore, was on improving processes, eg the Assess & Pay programme, as well as encouraging a high-performance culture among our staff through leadership and coaching programmes, talent management and a range of development activity.

During the year, we launched a new performance appraisal process to link more closely individual objectives with those of their respective teams and the organisation as a whole.

We embedded our new ICARE values, ie Integrity, Collaboration, Accountability, Respect and Excellence, and introduced monthly ICARE awards which go to those individuals and teams who best demonstrated one or more of these values.

efficiencies

During 2010/11, we implemented cross-directorate plans which were designed to further improve efficiency across the organisation.

Efficiencies included reducing the amount we spend on back office by 10 per cent in favour of front office functions. This supports the Government's efficiency agenda.

These efforts resulted in us underspending our overall budget of £34.6 million by £3.3 million.

One other important measure of our efficiency is the average administration cost per PPF member, including all those in assessment and those who have transferred. This average cost fell from £100 in 2009/10 to £85 in 2010/11.

The PPF's payment practice is to pay our suppliers within 30 days and we abide by these terms. As at 31 March 2011, the proportion of amounts owed to suppliers in relation to invoices paid during the 2010/11 financial year, expressed as a number of days, is 27/365 days (2009/10: 33/365 days).

survey and recognition

In our latest staff survey, we found good levels of employee engagement, with almost 70 per cent of staff recommending the PPF as a good place to work, despite continuing pay restraints.

In February 2011, we were named in the One to Watch category of the Best Companies to Work for in the public sector list, a national award scheme which allows us to compare our performance with others in the public sector.

While this was a good result for a first-time entry, we hope that by continuing to improve our employee engagement, in the future, we will end up among the top 75 Best Companies to Work for in the public sector.

We were named in the One to Watch category of the Best Companies to Work for in the public sector list

internal communications

Another area we focused on during the year was internal communications which most staff in 2009 felt needed improving.

We agreed an internal communications strategy in July 2010, as well as a comprehensive action plan, and by the end of March 2011, our staff survey found that 74 per cent of staff agreed that internal communications had improved.

> The average administration cost per PPF member fell from £100 in 2009/10 to £85 in 2010/11

community involvement

We have long recognised that, as a responsible employer, we have a role to play in contributing to the local community and beyond.

During the year, we continued our membership of Croydon Commitment, a charitable business partnership which bridges the gap between the needs of the local community and businesses in the area.

Under its auspices, we took part in three 'community days'. We cleared overgrown land at a local community centre so they could hold their annual fete, dug out a pond for a nearby primary school and, for the third year running, served Christmas dinner to members of a pensioners' drop-in centre.

We also ran a successful reading partnership project with a local primary school where more than 20 members of staff read and mentored pupils once a week throughout the year. This will continue into next year.

A number of charities benefited from our efforts and we held one-off events for the Pakistan flood appeal, Jeans for Genes Day, a local special needs school and Macmillan Cancer Relief.

We are also committed to acting in a socially responsible manner in other aspects of our work. We keep our environmental, equal opportunity and other policies under review during the year to make sure we meet the highest standards.

We also address the impact of our investment activities through responsible investment policies.

statistics

By 31 March 2011, we had 291 employees. This figure was down on last year's figure of 302, mainly because of a recruitment freeze imposed on all Government departments and arms-length bodies such as ourselves.

During the year, the number of days we lost to sickness averaged 6.4 per person (2.4 per cent). This included long-term absences of more than 28 days. We only lost 4.2 days per person (1.6 per cent), excluding long-term absences, which compares favourably with the Civil Service average of 8.5 days per person.

12 Managing our risks

Maintain effective risk management in all areas of PPF business

The way we manage both our financial and non-financial risks has developed successfully during the last six years. While we have progressed well, we remain focused on continually updating our processes to make sure they are fit for purpose.

funding risk review

During 2010/11, we continued to actively manage the risks we face to our future funding, including investment risks.

We did this by:

- managing our liability exposures throughout the year, including the active use of hedging tools
- enhancing our risk indicators and using these to manage the risks we face, and
- controlling our investment risks within the agreed tolerances.

NAO recommendations

During 2009/10, the National Audit Office (NAO) completed a value for money review of the PPF.

Praising the report, Edward Leigh, Chairman of the Public Accounts Committee, said: "The PPF has prepared well and made plans to ensure that the lifeboat will not be swamped by the potential tidal wave of bust firms. But it should continue to take appropriate steps to manage the increasing value of its assets and to improve its ability to gauge the risks it faces."

The report made some recommendations, which were endorsed by the Public Accounts Committee in April 2010. The recommendations have all been implemented.

NAO value for money recommendations implemented

risk appetite

As part of the continuing development of our risk management capability, we worked with the Board to refresh our risk appetite, which was agreed in September 2010. A copy of our risk appetite statement can be found on our website www.pensionprotectionfund.org.uk/About-Us/Documents/Risk_Appetite_Statement.pdf.

As part of this review, we took the opportunity to improve the way we capture the most significant risks facing the PPF and then agreed these with the Board.

Board refreshes its risk appetite

13 Managing the Financial Assistance Scheme

Manage schemes through the assessment and wind-up processes in a timely and efficient manner

While the PPF helps those people whose schemes were underfunded when their employers went bust after April 2005, the Financial Assistance Scheme (FAS) helps people who have lost out in certain other circumstances.

In July 2009, the Government asked us to take over as scheme manager for the FAS, although the scheme remains funded by the Department for Work and Pensions (DWP).

During 2010/11 we transferred 287 FAS schemes, beating our target of 250

end of year figures

During the year, the number of people receiving FAS assistance increased from 15,218 to 16,917 and the FAS paid out £45 million.

We also transferred 287 schemes to our administrators, Capita, beating the target we set ourselves at the beginning of 2010/11 of 250.

This means that since FAS started, a total of more than £135 million has been paid out and more than 1250 schemes had looked to qualify for the FAS. By 31 March 2011, 1004 of these schemes had qualified.

A total of more than £135 million of assistance was paid out to members by the end of the year

new rules and regulations

Regulations which allowed assets from FAS schemes to transfer to government came into force in April 2010 and we published guidance on how valuation information should be provided to us.

Almost £45 million of scheme assets were transferred to Government as a result

As with the PPF, the Government announced that Financial Assistance Scheme assistance annual inflation increases will be calculated using the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI) (see page 14).

We wrote to all FAS members who may be affected by this, explaining the changes to the rules and why they have been made.

14 Appeals, complaints and requests for information

Reviewable matters – 2010/11 levy year

We run a statutory appeals process in respect of "reviewable matters" listed in the Pensions Act. The majority of appeals under this process relate to the levy.

During 2010/11, we issued 171 review decisions in response to levy appeals, compared with 194 the previous financial year. In 125 of these cases, the scheme was found to have been levied correctly. In the remaining 46 cases, we agreed with some or all of the scheme's appeal. In 59 cases, the applicants further appealed the review decision to the Reconsideration Committee (see page 31).

We also issued three review decisions in relation to other reviewable matters (primarily individuals' compensation entitlements) during 2010/11.

Maladministration complaints

We dealt with one formal complaint of maladministration during 2010/11. In this case, the Board found in favour of the applicant.

Freedom of Information (FoI) requests

During the year, we received 31 FoI requests and we disclosed fully the information requested in 14 cases, partially disclosed in eight cases and did not hold the information asked for in one case.

Other requests were declined because the information was restricted, commercially sensitive or too costly to disclose.

General complaints

During the year, we resolved 49 PPF complaints at stage one and 2 at stage two. In addition, we received 28 FAS complaints, all of which were resolved satisfactorily apart from one which went to the Independent Case Adjudicator.

For the PPF, the focus of complaints was around delays in process and poor communications from our third party administrator. For FAS, complaints were mostly about poor communications.

Guidance on how complaints and appeals are handled can be found on our website.

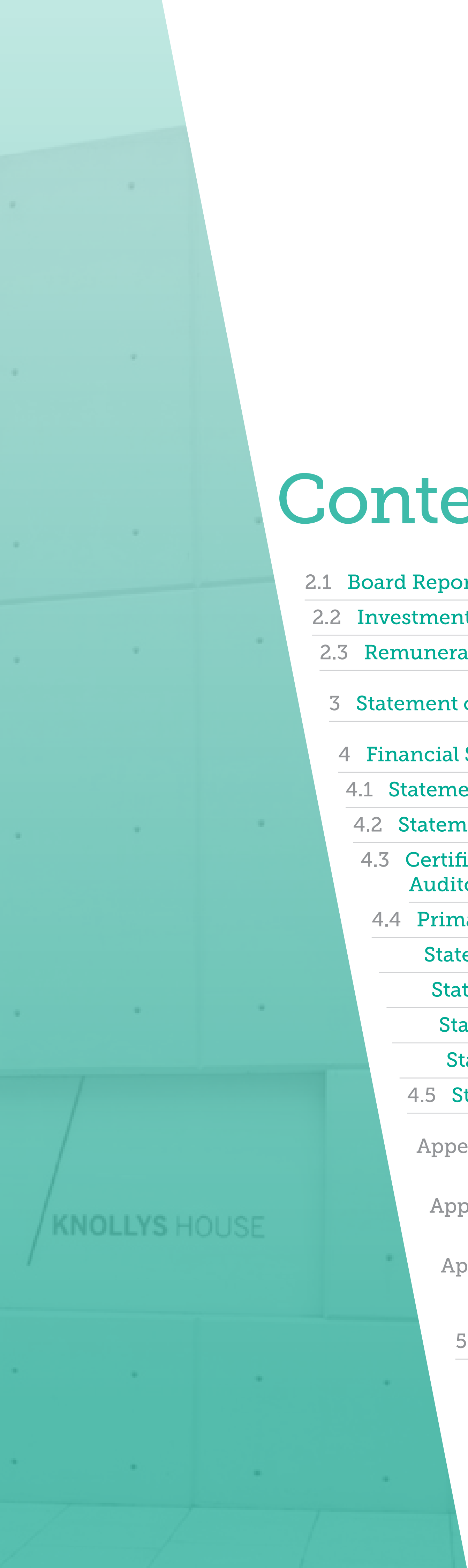
15 Fraud Compensation Fund

We are responsible for providing compensation to occupational pension schemes where the sponsoring employer has gone bust and where the scheme has suffered a loss through fraud or dishonesty. This compensation is paid out from the Fraud Compensation Fund (FCF).

During the year, we announced for the second year running that we would raise a fraud compensation levy during 2011/12. This was necessary due to the expected cost of current claims. This levy is collected on our behalf by the Pensions Regulator.

The FCF remains in deficit by more than £5 million. Raising a levy will clear some of this deficit but we may need to raise further levies in the future, depending on the level of claims against the FCF.

Part two



Contents

2.1 Board Report *28*

2.2 Investment Report *31*

2.3 Remuneration Report *34*

3 Statement on Going Concern *37*

4 Financial Statements for the year ended 31 March 2011 *38*

4.1 Statement of Responsibilities *38*

4.2 Statement on Internal Control *38*

4.3 Certificate and Report of the Comptroller and Auditor General *41*

4.4 Primary Financial Statements *42*

Statement of Comprehensive Net Income *42*

Statement of Financial Position *43*

Statement of Cash Flows *44*

Statement of Changes in Reserves *45*

4.5 Statement of Accounting Policies *46*

Appendix 1 Notes relating to the Pension Protection Fund *49*

Appendix 2 Notes relating to the Fraud Compensation Fund *63*

Appendix 3 Notes relating to the Administration Fund *65*

5 Actuarial Valuation as at 31 March 2011 *69*

2 Board Reports

2.1 Board Report

The Board operates under legislation set out in the Pensions Acts 2004 and 2008, and related regulations.

It is made up of:

- non-executive Chairman
- seven non-executive members, and
- three executive members, including the PPF Chief Executive.

There needs to be a majority of non-executive members on the Board and Board committees are chaired by non-executive members.

All non-executive members were independent when they were appointed and had no relationship with the PPF as an employee, contractor nor officer.

How the Board operates is set out on the PPF website, as is the Board's register of interests www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/board_register_interests.pdf

The Board is committed to achieving high levels of corporate governance and complies with HM Treasury's code of good practice for corporate governance in government departments. This is reviewed regularly.

Board members and committee memberships

Chairman
Lady Judge CBE

Chief Executive
Alan Rubenstein

Executive Members
Martin Clarke
David Heslop

Non-Executive Members
Dick Barfield
Ann Berresford
John Bevington
Sir Anthony Holland
Christopher Hughes (also Senior Independent Director of the Pension Protection Fund)
Arnold Wagner OBE
Baroness Warwick of Undercliffe

All biographies are on the PPF website www.pensionprotectionfund.org.uk/About-Us/TheBoard/Pages/BoardMembers.aspx

The following Board members stood down during the year:

Lawrence Churchill CBE
Baroness Drake of Shene
Michael Deakin

Attendance at Board meetings during 2010/11

Board meetings 2010/11

	28.4.2010	9.6.2010	15.7.2010	17.9.2010	19.11.2010	17.2.2011
Lawrence Churchill	✓	✓				
Dick Barfield	✓	✓	✓	✓	✓	✓
Ann Berresford	✓	✓	✓	✓	✓	✓
John Bevington	✓	✓	✓	✓	✓	✓
Michael Deakin	✓	✓	A	✓	✓	
Jeannie Drake	✓	✓	✓	✓	✓	
Anthony Holland	✓	✓	✓	✓	✓	✓
Christopher Hughes	✓	✓	✓	✓	✓	✓
Barbara Judge	O	O	✓	✓	✓	✓
Alan Rubenstein	✓	✓	✓	✓	✓	✓
Martin Clarke	✓	✓	✓	✓	✓	✓
David Heslop	✓	✓	✓	✓	✓	✓
Arnold Wagner						A

A - Apologies
O - Attended as observer
- Not yet appointed/ or left Board

Non Executive Committee meetings 2010/11

	9.6.2010	17.2.2011
Lawrence Churchill	✓	■
Dick Barfield	✓	✓
Ann Berresford	✓	✓
John Bevington	✓	✓
Michael Deakin	✓	■
Jeannie Drake	✓	■
Anthony Holland	✓	✓
Christopher Hughes	✓	✓
Barbara Judge	O	✓
Arnold Wagner	■	A

A - Apologies
O - Attended as observer
■ - Not yet appointed/ or left Board

Remuneration Committee meetings held 2010/11

	21.5.2010 T	9.6.2010	21.6.2010	23.9.2010	9.12.2010	24.3.2011
Jeannie Drake	✓	✓	✓	✓	■	■
John Bevington	✓	✓	✓	✓	✓	✓
Tony Holland	A	✓	✓	✓	✓	✓
Arnold Wagner	■	■	■	■	■	✓

A - Apologies
■ - Not yet appointed/ or left Board

Audit Committee meetings 2010/11

	13.5.2010	1.7.2010	28.9.2010	9.12.2010	16.2.2011
Ann Berresford	✓	✓	✓	✓	✓
Dick Barfield	A	✓	✓	✓	✓
Michael Deakin	✓	✓	✓	✓	■
Christopher Hughes	✓	✓	✓	✓	✓

A - Apologies
O - Attended as observer
■ - Not yet appointed/ or left Board

Investment Committee meetings 2010/11

	27.5.2010	23.9.2010	9.12.2010	22.3.2011
Dick Barfield	✓	✓	✓	✓
John Bevington	✓	✓	✓	✓
Michael Deakin	✓	✓	■	■
Martin Clarke	✓	✓	✓	✓
Alan Rubenstein	A	✓	✓	✓

A - Apologies
■ - Not yet appointed/ or left Board

Reconsideration Committee meetings 2010/11

	22.4.2010	20.5.2010	24.6.2010	22.7.2010	16.8.2010	9.9.2010	14.10.2010	26.11.2010	22.12.2010	11.1.2011	15.2.2011	17.3.2011
Jeannie Drake	✓	✓	✓	✓	✓	✓	✓	✓	■	■	■	■
Anthony Holland	✓	A	✓	✓	A	✓	A	✓	✓	✓	✓	✓
Christopher Hughes	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

A - Apologies
■ - Not yet appointed/ or left Board

Nomination Committee meetings held 2010/11

	21.10.2010	30.11.2010	21.12.2010	16.2.2011	17.2.2011
Barbara Judge	✓	✓	✓	✓	✓
Anthony Holland	✓	✓	✓	✓	✓

Board governance

During the year, the Board agreed:

- a new pension protection levy formula for 2012/13 onwards as well as a levy estimate for 2011/12 of £600 million
- its risk appetite statement
- its funding strategy
- the Management Plan 2011/12 – 2013/14, and
- ratified the appointment of two new Board members.

Monitoring risk

The Board regularly monitors the risks facing the PPF, receiving updates on its financial and investment performance as well as non-financial risks, eg supplier contracts and legal issues.

This allows the Board to, among other things, keep track on the progress of the PPF's funding strategy which sets a target of the PPF being financially self-sufficient by 2030 www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/PPF_Funding_Strategy_Document.pdf.

Committees

Non-Executive Committee

The responsibilities of this committee, which is made up of all Non-Executive Members of the Board, are set out in section 112 of the Pensions Act 2004 www.legislation.gov.uk/ukpga/2004/35/section/112.

During the year, this committee met twice and reviewed the work of its sub-committees, ie the Audit and Remuneration Committees.

Audit Committee

This committee met five times during the year.

Both internal and external auditors have full access to meeting papers and minutes – and attended committee meetings as well as meeting separately with committee members.

Internal audit was carried out by BDO LLP and external audit was carried out by the National Audit Office (NAO).

In 2010/11, the committee:

- approved the 2009/10 Report and Accounts for recommendation to the Board
- received and reviewed internal audit reports
- agreed a new internal audit strategy, internal audit charter and key performance indicators
- received risk management updates and monitored processes
- reviewed policies, including risk management and whistleblowing, and
- introduced 'deep dives' to review key risks in more depth.

Remuneration Committee

This committee met six times during the year and:

- approved Executive Directors' objectives for the 2011/12 financial year
- reviewed Executive Director performance for the 2009/10 financial year and made bonus recommendations, and
- received information on pay remit proposals.

Board committees

Descriptions of all committee remits can be found here www.pensionprotectionfund.org.uk/About-Us/TheBoard/Pages/TheBoard.aspx

Reconsideration Committee

The Reconsideration Committee met 12 times during the year.

It considered, and issued decisions relating to, 57 cases where levy payers challenged their levy. The committee found that the levy had been calculated correctly in 44 of these cases. The committee also considered a small number of cases on non-levy matters.

Nomination Committee

The Nomination Committee met four times during the year.

It was supported at three of these meetings by an independent assessor.

In 2010/11, the Committee managed the recruitment of two new non-executive Board members.

Investment Committee

The Investment Committee is also a committee of the Board. Its activities are discussed in the context of the Investment Report.

The Investment Committee met four times during the year. Significant items considered were:

- appointment of global real estate, infrastructure, LDI and alternative credit investment managers
- development of liability hedging programme to incorporate gilt-repurchase agreements and impact of CPI inflation
- implementation of a securities lending programme, and
- an in-depth risk review of collateral management, liability mismatching risk, counterparty risk and custody risk.

2.2 Investment report

This is a summary of our investment activities, including details of cash flows, our liability driven investment (LDI) strategy and how we manage risk and fund manager performance.

Governance and strategy

The PPF Board sets the risk appetite within which the investment strategy must operate. The Board delegates authority to the Investment Committee to design and implement investment policy that aims to meet these objectives and risk appetite.

Full details of the PPF's investment strategy and guidelines are set out in its Statement of Investment Principles (SIP) www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/SIP_November_2010.pdf

During the year the investment strategy has evolved in a number of ways. The range of options to hedge liability mismatch has increased (through the use of gilt repurchase agreements). Return seeking assets have been diversified by increased use of alternative assets. We use a pool of preferred managers and allocate between them to improve the overall risk adjusted return of the portfolio.

Asset and Liability Committee

The Investment Committee is supported by the Asset and Liability Committee (ALCo), an executive committee which meets frequently to review financial risk management and the way the investment strategy is implemented.

ALCo provides oversight on the allocation of our assets, within the tolerances specified in the SIP. These allow us the flexibility around the investment of cash coming into the Fund. This is particularly important given the volume of schemes transferring into the PPF.

The strategic allocations and tolerance ranges are outlined in the following table:

Asset Class	Strategic Allocation	Tolerance Range	Asset Benchmark
Cash and bonds	70.0%	65.0% - 80.0%	
- Cash			3-month LIBOR
- UK gilts			FTSE gilt all stocks
- Global government bonds			JP Morgan government bond
- Global aggregate bonds (including credit)			Barclays global aggregate bond
Public equity	10.0%	5.0% - 20.0%	FTSE all-world index
Alternatives (including property)	20.0%	10.0% - 25.0%	3-month LIBOR

Any significant deviations from the SIP are reported immediately to the Investment Committee, along with corrective actions taken.

Risk management

So that we remain on track to meet our overall funding objective, we look at all the risks we face that may jeopardise that target. A list of these is in our SIP. These risks are monitored on an ongoing basis by the investment team and are regularly communicated to our committees.

- ALCo receives regular updates from the Chief Risk Officer through a Financial Risk Register, and
- Investment Committee is updated by the Chief Investment Officer via an omnibus report.

Cash flows

We continue to manage the significant amount of cash coming into the PPF in the most prudent and cost-effective way. This comprises contributions from levy payments and value realisation on scheme transfer. We maintain close scrutiny over our forecast cash position and future commitments to ensure we have sufficient funds available to pay our members at the right time. The rest we put to work as quickly and effectively as possible.

Contributions to the PPF

Our assets again grew significantly during the year, due to the amount of levy payments we received, the amount of scheme assets transferring to the PPF and the investment return achieved.

Invested assets, plus cash deposits, rose from £4.4 billion at 31 March 2010 to £6.3 billion at 31 March 2011, an increase of £1.9 billion. New money from levy payments and transferred scheme assets totalled £1.6 billion.

Also, we achieved positive returns on our investments of £214 million (after management fees) excluding liability matching instruments. When including the contribution from assets held for liability hedging (gilts, index-linked gilts and swaps) our investments generated £371 million.

Transitions

So we can reduce the costs and risks associated with transferring scheme assets into the PPF, we group these assets together and they are temporarily 'parked' in our most widely held investments.

We then transition them to PPF mandates as a group so we can minimise the number and costs of transitions. The specialist managers we used to transition assets during the year were BlackRock and Goldman Sachs.

At year end, £719 million of assets were in transition and were transferred during the next financial year. We undertook three major transition exercises worth £1.4 billion during the year.

Further information about how we manage transitions can be found in our SIP.

Manager allocation

So we could further diversify our investment portfolio, we appointed additional fund managers. They were:

- Global Equity: Legal & General
- Global Tactical Asset Allocation: Cantab Capital, Winton Capital
- Real Estate: Legal & General
- Private Equity: Lexington Partners, Pantheon, LGT Capital Partners

Account	%
Insight	15.3%
PIMCO	14.7%
GSAM	13.8%
Rogge	11.7%
Mondrian	11.7%
Aviva	7.4%
Arrowstreet	6.9%
Longview	6.8%
L&G (RAFI)	5.2%
Winton	1.6%
Other	4.9%

Liability Driven Investments (LDI)

Our approach to liability hedging is to use a combination of swap and gilt assets to match the interest rate and inflation sensitivity of the liabilities. Details of the approach are contained in our SIP.

The portfolio is managed by Insight, using money market instruments, bonds and derivatives. It covers the liabilities of schemes which have transferred to the PPF and any unhedged liabilities of those schemes in the PPF assessment process. Details of the actuarial balance sheet sensitivity based on this approach are included in Annex S5.

Responsible investment

We have made a commitment to responsible investment across all asset classes and markets we invest in, believing that:

- by acting as a responsible and vigilant asset owner and market participant, we can protect and enhance the value of our investments, and
- environmental, social and governance (ESG) factors can have an impact on the long-term performance of our investments, and the management of ESG risks and exploitation of ESG opportunities can, therefore, add value to our portfolio.

In setting these beliefs, our primary concern is to act in the best financial interest of our members, by seeking the best return that is consistent with a prudent and appropriate level of risk. Further details can be found in our SIP and on our website.

During the year, we:

- implemented ESG ratings for all managers in all asset classes
- affirmed our commitment to responsible ownership and transparency by becoming one of the first signatories to the new UK Stewardship Code (adopted by the Financial Reporting Council in 2010)
- contributed to working groups of the UN:PRI and International Corporate Governance Network, and
- continued to be a signatory to the Carbon Disclosure Project and the CDP Water Disclosure Project.

	1 April 2010 – 31 March 2011 (global stocks, actively managed)	1 April 2009 – 31 March 2010 (UK stocks, actively managed)
Number of companies engaged	195	63
Number of milestones*	95	34
Number of company meetings (resolutions) voted	378 (3884)	150 (1865)
Number of meetings where PPF opposed or abstained on at least one resolution	226	75
Resolutions opposed/ abstained	16%/5%	2%/4%

*Instances of tangible impact on the way companies manage ESG risks and opportunities

Market and investment commentary

This section provides commentary on the impact of the economic environment on the PPF's asset classes.

Fixed Income

Despite inflationary pressures gaining international momentum, interest rates in developed markets have broadly remained low. Developing market countries have been more proactive in responding through tightening monetary policy. We have preserved capital over the fiscal year and continued to add value through limited non-government credit exposure.

Equity

We have positioned ourselves to benefit from a more defensive stance in equity investments. This tends to limit our losses during challenging periods. Over the year, we have outperformed rising global equity markets as measured by the FTSE All World index (hedged to Sterling) that rose by 9.2 per cent. We benefited from our investment managers picking stocks that on balance contributed positively to performance as market volatility has reduced since the 2008 financial crisis.

Alternatives

Our UK commercial property investments have risen by 9 per cent over the last twelve months, and we have expanded our strategy to incorporate North American real estate during the year. We have also increased the diversity of our alternative investment programme to include Global Tactical Asset Allocation and Private Equity.

Asset performance

Our benchmark is the return that would have been achieved on cash earning the three-month LIBOR rate over the same period, which was +0.7 per cent for the year to 31 March 2011. Our assets (excluding the contribution of the LDI programme) earned a return of +4.7 per cent over this time. For comparison, the return which would have been achieved by investing in the benchmark asset allocation laid down in the SIP would have been +3.5 per cent.

While we have outperformed the LIBOR over the year, it is important to be mindful of the long term investment horizon over which we aim to achieve low volatility performance. Over the last four years, our benchmark (three-month LIBOR) has been +3.1 per cent per annum. During this period, we have achieved a return of +5 per cent a year (excluding the LDI programme).

2.3 Remuneration report

Salary and Pension Entitlements (subject to audit - see auditor's report page 41)

Pensions

Pension benefits are provided through the Civil Service pension arrangements. Further details can be found on the Civil Service website www.civilservice.gov.uk/my-civil-service/pensions/index.aspx.

Cash equivalent transfer values

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.

CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

	Salary (in bands of £5000)		Salary (in bands of £5000)		Pensions				
	Year ended 31 March 2011		Year ended 31 March 2010		Real increase in pension and related lump sum	Total accrued pension at pension age at 31/3/11	Cash Equivalent Transfer Value at 31/3/11	Cash Equivalent Transfer Value at 31/3/10	Real increase in CETV
	Salary £'000	Bonus £'000	Salary £'000	Bonus £'000	£'000	£'000	£'000	£'000	£'000
Lady Judge CBE Chairman (from 1 July 2010)	40-45 (Full year equiva-lent: 55-60)	N/A	N/A	N/A	N/A [1]	N/A	N/A	N/A	N/A
Lawrence Churchill CBE Chairman (until 30 June 2010)	20-25 (Full year equivalent: 85-90)	N/A	85-90	N/A	0-2.5	5-10	96	94	2
Alan Rubenstein Chief Executive	195-200	5-10[2]	195-200	N/A[2]	2.5-5	5-10	113	56	57
Martin Clarke Director of Financial Risk	165-170	5-10[2]	165-170	10-15[2]	N/A[1]	N/A	N/A	N/A	N/A
David Heslop Chief Operating Officer	135-140	5-10[2]	135-140	N/A[2]	2.5-5	5-10	66	35	31
John Bevington Non-Executive member	15-20	N/A	5-10	N/A	N/A	N/A	N/A	N/A	N/A
Christopher Hughes Non-Executive member	15-20	N/A	20-25	N/A	N/A	N/A	N/A	N/A	N/A
Dick Barfield Non-Executive member	15-20	N/A	10-15	N/A	N/A	N/A	N/A	N/A	N/A
Ann Berresford Non-Executive member	15-20	N/A	20-25	N/A	N/A	N/A	N/A	N/A	N/A
Sir Anthony Holland Non-Executive member	15-20	N/A	20-25	N/A	N/A	N/A	N/A	N/A	N/A
Arnold Wagner OBE Non-Executive member (from 4 January 2011)	0-5 (Full year equivalent: 15-20)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Baroness Warwick of Undercliffe Non-Executive member (from 7 March 2011)	0-5 (Full year equivalent : 15-20)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Michael Deakin Non-Executive member (until 30 November 2010)	10-15 (Full year equivalent salary: 15-20)	N/A	20-25	N/A	N/A	N/A	N/A	N/A	N/A
Baroness Drake of Shene Non-Executive member (until 30 November 2010)	10-15 (Full year equivalent salary: 15-20)	N/A	20-25	N/A	N/A	N/A	N/A	N/A	N/A

[1] Neither Lady Judge nor Martin Clarke were members of any employer sponsored pension arrangement during the year.

[2] The bonus values disclosed here relate to the Executive Directors' performance in the 2009/10 year (paid in 2010/11). As at the date of publication of this report, no decision had been made on the award of bonuses based on 2010/11 performance. In these circumstances, Cabinet Office guidance requires the disclosure of prior year awards. For consistency of comparison, the bonus values disclosed in the year ended 31 March 2010 relate where applicable to the Executive Directors' performance in 2008/09 (paid in 2009/10). 2 of the current Executive Directors were appointed after the end of 2008/09 and so there are no comparatives to disclose for those directors.

Contracts

Arnold Wagner and Baroness Warwick of Undercliffe were appointed to the Board of the PPF in March 2011 for a three year term of office, starting in January 2011 and March 2011 respectively.

Executive Board members – outside appointments

We recognise the benefits to the individual, and to the organisation, of executive Board members 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 Board members for current appointments.

External non-executive appointments held by Executive Board members during the year were:

Martin Clarke, Congregational & General Insurance plc and UKSIF.

Remuneration and bonuses

Executive directors receive a fixed salary which is reviewed annually by the Remuneration Committee.

Their contracts allow for the payment of an annual performance related bonus of up to 20 per cent of their base salary.

The Chairman was paid a fixed fee and was contracted to work for the PPF for two days a week.

All other non-executive members receive a fixed fee, based on working 26 days a year.

This salary was not performance-related and there was no provision for compensation if a contract was terminated.

Notice periods

The Chief Executive, Executive Director of Financial Risk and the Chief Operating Officer 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 Chairman's appointment is subject to a six month notice period, by either the Secretary of State for Work and Pensions or by the postholder. This can be waived by either and the postholder can accept payment in lieu of notice.

Alan Rubenstein
Accounting Officer

25 October 2011

3 Statement on going concern

So we can comply with the Government Financial Reporting Manual when preparing this annual report and accounts, we have to explain why we 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, nor need, to close down its functions.

After reviewing the three funds which we operate, cash flow forecasts and our powers to raise levies and control outgoings, we decided to adopt a going concern basis for the PPF as a whole because we believe we have enough resources to continue operating for the foreseeable future.

Pension Protection Fund

For the PPF, we considered the following factors when making this decision:

- 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 (www.pensionprotectionfund.org.uk/levy/aboutlevy/Pages/AbouttheLevy.aspx), and
  - our reserve powers on compensation levels (www.pensionprotectionfund.org.uk/Pages/Compensation.aspx).

The Fraud Compensation Fund (FCF)

The volume of claims on the FCF remains at a relatively low level so we do not have enough statistics to forecast the level of future claims accurately. We, therefore, remain vulnerable to an unexpected rise in the volume of claims or unusually large or urgent claims.

But we have reviewed our powers and obligations and decided that the going concern basis remains appropriate for the FCF for the following reasons:

- none of the claims which the FCF has received, and which it will probably have to pay out on, are from schemes that have immediate cash flow requirements
- claims take some time to investigate and validate, which gives us time to plan how we will settle them
- we also have powers to settle claims in instalments in order to ease any strain on our cash flow, and
- during the year, the Board reviewed its funding strategy for the FCF and decided it was appropriate to build up a small surplus over a number of years by raising a fair and proportionate levy.

The Administration Fund

We decided that the going concern basis for the Administration Fund remains appropriate after taking into account the robust financial procedures governing:

- the setting of operating budgets
- in-year reviews and forecasts
- controls over drawing grant-in-aid from the Department for Work and Pensions (DWP), and
- the segregation of levy payer-funded PPF activities and government-funded Financial Assistance Scheme(FAS)-related activities.

Alan Rubenstein
Accounting Officer

25 October 2011

4 Financial Statements for the year ended 31 March 2011

4.1 Statement about the responsibilities of the Board and the accounting officer for these accounts

By law, the Board of the Pension Protection Fund (PPF) has to prepare accounts which comply with any accounting directions given by the Secretary of State for Work and Pensions, and approved by the Treasury.

An accounts direction relating to these accounts was issued on 18 February 2010. It requires the Board to prepare accounts which give a true and fair view of the PPF's income and expenditure, gains and losses and cash flows and state of affairs at the year end.

They should also disclose any expenditure, income or financial transactions which have not been used for the purposes intended by Parliament.

I have been the accounting officer for the Board throughout 2010/11, and up to the date of signing these accounts, which have been prepared in accordance with the standard practice for public bodies contained in HM Treasury, and other, guidance.

I have taken all appropriate steps to make myself aware of any relevant audit information, and made sure that the Board's auditors are aware of that information.

As far as I am aware, there is no information that the Board's auditors are unaware of.

Alan Rubenstein
Accounting Officer

25 October 2011

4.2 Statement on internal control

Scope of responsibility

As accounting officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the PPF's policies, aims and objectives, while safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Managing Public Money.

My responsibility to ensure compliance with the requirements of the Board of the PPF's Framework Document with the DWP has been supplemented by regular meetings with our departmental Stewardship team, the Board and the Executive team of the Pensions Regulator. The scope of my accounting officer responsibilities extends to the functions carried out by the Board in respect of the Financial Assistance Scheme (FAS).

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can, therefore, only provide reasonable, and not absolute, assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Board of the PPF's policies, aims and objectives. This process is also designed to evaluate the likelihood of those risks being realised and their impact, should they be realised, and to manage them efficiently, effectively and economically.

The system of internal control has been in place in the Board of the PPF for the year ending 31 March 2011 and up to the date of signing of these accounts and accords with Treasury guidance.

Key systems and procedures were subject to internal audit review during the year ending 31 March 2011.

Capacity to handle risk

The PPF Board aims to manage risk and opportunities at a reasonable level to achieve and add value to its policies, aims and objectives. We do not aim to eliminate all risk of failure but we do aim to maintain risk within the risk appetite set by the Board.

The Board identifies the key areas where we are exposed to risk and sets the risk appetite for these. This is complemented by risk assessments at a team and process level as well as topic based risk assessments such as bribery, fraud and information security.

The Board has delegated responsibility for monitoring performance against the agreed risk appetite to the Audit and Investment Committees.

Active management of the risks we face is undertaken by named risk owners and overseen by the Risk Management Committee (RMC), chaired by the Chief Operating Officer, as well as the Asset and Liability Committee (ALCO) chaired by the Director of Financial Risk. The owners and Committees are supported by specialist risk management teams.

The RMC is focused on non-financial risks while ALCO oversees the financial risk management activities of the Board, including the control of the potential mismatch of the assets of the PPF to its liabilities, and controls other risks affecting the financial position of the fund, such as large claims made on the PPF in the future.

We are currently reviewing the financial risk systems and processes we have in place to ensure these have the capacity to manage the projected level of funds we will have under investment.

Staff are equipped to manage risk in a way appropriate to their authority and duties, with guidance provided to them through risk assessment workshops and communications through the intranet. We are currently developing additional risk training to focus on risk taking within the Board's risk appetite as well as on the PPF's risk processes.

The risk and control environment

The PPF's approach to risk management follows the guidelines provided by HM Treasury in their document entitled, 'Orange Book: Management of Risk – Principles and Concepts.'

The Board has determined that the following list represents the most significant sources of risk to the achievement of its objectives:

- business strategy
- reputation
- cultural
- legal
- operational
- investment operations, and
- funding and investment.

The Board determines its risk appetite on an annual basis, which is then cascaded to risk owners within the PPF who report quarterly their adherence to this. The Board's risk appetite can be accessed by clicking on the following link:

www.pensionprotectionfund.org.uk/About-Us/Documents/Risk_Appetite_Statement.pdf

This is complemented by risk reviews at both a team and process level with identified risks and controls captured in risk registers and monitored regularly.

Risk processes are embedded throughout the organisation and individual's responsibilities are communicated annually. We continually review our processes to ensure these remain appropriate for the organisation and, during the last 12 months, we have developed and implemented a more refined set of risk appetite statements supported by a senior management attestation process.

We undertake "deep dives" of particular risk types with risk owners at Board and Executive Committees to ensure that we are managing all the risks we face and that the controls we have in place are appropriate.

As an arms-length body, we are required to operate in accordance with the Security Policy Framework (SPF) and related Data Security guidance issued by HMG. To help achieve this we have gained certification in the ISO27001 Information Security standard and implemented ongoing six monthly ISO27001 audits to make sure we maintain compliance with the standard.

The ISO27001 standard provided us with a best practice-based process for creating an Information Security Management System (ISMS) for the PPF. The ISMS provides us with a policy and process framework for assessing and treating information security risks.

To ensure an ongoing focus on operating in accordance with the SPF we have created a PPF Information Security Forum, which reports into the Risk Management Committee and is tasked with achieving and maintaining compliance with HMG guidance in relation to data security.

Significant Risks

We have identified the following risks, which we manage as part of the normal course of our business, which have the potential to impact on our ability to deliver our objectives and may pose a risk to the achievement of the three year business plan:

- scheme funding regime failing to deliver expected reduction in scheme deficits which may result in higher than expected claims on the fund
- an extreme claims experience impacting the achievement of the long term funding objective
- government spending restrictions constraining the terms and conditions we can offer to retain and recruit staff, and
- investment strategy failing to deliver the return necessary to the achievement of the long-term funding objectives of the PPF.

Review of effectiveness

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

- the assurances I sought and received from other Board Members and senior staff of the PPF detailing the work undertaken to ensure risk management and control is addressed in their areas of responsibility
- the work of the Executive Directors and senior managers within the PPF who have responsibility for the development and maintenance of the internal control framework
- the work of the internal auditors whose opinion is that "the PPF has a sound framework of control in the areas reviewed which we are satisfied should provide assurance regarding the effective and efficient achievement of the PPF's objectives", and
- comments made by the external auditors in their management letter and other reports.

I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Audit Committee, the Executive Committee, the Asset and Liability Committee and the Risk Management Committee.

Significant control issues

There are no significant control issues to disclose.

Alan Rubenstein
Accounting Officer

25 October 2011

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

I certify that I have audited the financial statements of the Board of the Pension Protection Fund for the year ended 31 March 2011 under the Pensions Act 2004. These comprise the Statement of Comprehensive Net Income, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Reserves and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Board of the Pension Protection Fund, the Chief Executive and Auditor

As explained more fully in the Statement of Responsibilities of the Board and the Accounting Officer, the Board of the Pension Protection Fund and the Chief Executive, as the Accounting Officer, are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit the financial statements in accordance with applicable law, and International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Board of the Pension Protection Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board of the Pension Protection Fund; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income 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.

Opinion on Regularity

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

Opinion on financial statements

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 2011 and of its net income for the year then ended; and
- the financial statements have been properly prepared in accordance with the Pensions Act 2004 and the Secretary of State for Work and Pensions' directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with the Secretary of State for Work and Pensions' directions issued under the Pensions Act 2004; and
- the information given in the Annual Report, the Board Report and Investment Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception:

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
- the financial statements are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General

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

28 October 2011

4.4 Primary Financial Statements

THE BOARD OF THE PPF
STATEMENT OF COMPREHENSIVE NET INCOME For the year 1 April 2010 to 31 March 2011

All amounts in £000s	PPF		Fraud Compensation Fund		Administration Fund		Total Funds	Total Funds
	Notes	Appendix 1	Notes	Appendix 2	Notes	Appendix 3	Year ended 31 March 2011	Year ended 31 March 2010
Statutory Operating Activities								
Operating Income								
Income from levies	1.1	687,134	2.1	3,475		-	690,609	589,479
Total Operating Income		**687,134**		**3,475**		**-**	**690,609**	**589,479**
Operating Expenses								
Staff costs		-		-	3.1a	(17,157)	(17,157)	(17,943)
Other costs	1.2	(27,515)	2.2	(552)	3.1b	(12,924)	(40,991)	3,760
Depreciation and impairment charges		-		-	3.1c	(1,268)	(1,268)	(1,315)
Total Operating Expenses		**(27,515)**		**(552)**		**(31,349)**	**(59,416)**	**(15,498)**
Net Operating Surplus / (Deficit)		**659,619**		**2,923**		**(31,349)**	**631,193**	**573,981**
Investment Activities								
Interest on operating bank accounts		296		1	3.2	12	309	412
Investment income	1.3	137,690	2.3	33		-	137,723	88,900
Change in fair value of investments	1.4	258,606		-		-	258,606	284,601
Income from annuity policies		8,319		-		-	8,319	3,045
Investment expenses	1.5	(25,892)		-		-	(25,892)	(9,818)
Net Investment Return		**379,019**		**34**		**12**	**379,065**	**367,140**
Claims Activities								
Gains/(losses) on actuarial liabilities	1.6	(164,053)		-		-	(164,053)	6,266
Current year claims for compensation	1.7	(747,862)	2.4	(1)		-	(747,863)	(643,585)
Revaluation of prior year claims for compensation	1.8	156,916	2.5	(572)		-	156,344	1,289,766
Net Cost of Claims		**(754,999)**		**(573)**		**-**	**(755,572)**	**652,447**
Net Comprehensive Income For The Year		**283,639**		**2,384**		**(31,337)**	**254,686**	**1,593,568**

The accounting policies and notes on pages 46 to 68 form part of these financial statements.

THE BOARD OF THE PPF
STATEMENT OF FINANCIAL POSITION As at 31 March 2011

All amounts in £000s	PPF		Fraud Compensation Fund		Administration Fund		Total Funds	Total Funds
	Notes	Appendix 1	Notes	Appendix 2	Notes	Appendix 3	Year ended 31 March 2011	Year ended 31 March 2010
Non-Current Assets								
Property, plant and equipment		-		-	3.3	1,051	1,051	1,852
Intangible assets		-		-	3.3	562	562	554
Financial assets	1.9	5,454,273		-		-	5,454,273	4,108,151
Derivative financial instruments	1.9	621,073		-		-	621,073	511,512
Total Non-Current Assets		**6,075,346**		**-**		**1,613**	**6,076,959**	**4,622,069**
Current Assets								
Amounts receivable from investments sold	1.10	473,386		-		-	473,386	44,908
Derivative financial instruments	1.10	25,030		-		-	25,030	1,467
Levy receivables	1.10	88,952		-		-	88,952	123,863
Transfer-in receivables	1.10	66,477		-		-	66,477	29,963
Other current assets	1.10	2,327	2.6	14	3.4	293	2,634	1,956
Cash and cash equivalents	1.10	372,055	2.7	7,613	3.4	2,418	382,086	148,927
Total Current Assets		**1,028,227**		**7,627**		**2,711**	**1,038,565**	**351,084**
Total Assets		**7,103,573**		**7,627**		**4,324**	**7,115,524**	**4,973,153**
Current Liabilities								
Amounts payable from investments purchased	1.11	(150,765)		-		-	(150,765)	(108,484)
Derivative financial instruments	1.11	(23,606)		-		-	(23,606)	(134)
Other current liabilities	1.11	(11,328)		-	3.5	(4,958)	(16,286)	(9,305)
Total current liabilities		**(185,699)**		**-**		**(4,958)**	**(190,657)**	**(117,923)**
Net current assets plus non-current assets		**6,917,874**		**7,627**		**(634)**	**6,924,867**	**4,855,230**
Non-Current Liabilities								
Derivative financial instruments		(317,736)		-		-	(317,736)	(195,515)
Actuarial liabilities	1.12a	(3,982,326)		-		-	(3,982,326)	(2,447,045)
Claims provisions	1.12b	(1,940,220)	2.8	(12,809)		-	(1,953,029)	(1,828,986)
Total non-current liabilities		**(6,240,282)**		**(12,809)**		**-**	**(6,253,091)**	**(4,471,546)**
Assets Less Liabilities		**677,592**		**(5,182)**		**(634)**	**671,776**	**383,684**
Represented by:								
Net result carried forward for tax payers		-		-		(9,957)	(9,957)	(8,957)
General and other reserves for tax payers		-		-		9,483	9,483	7,695
Total Tax Payer Funds		**-**		**-**		**(474)**	**(474)**	**(1,262)**
Net result carried forward for levy payers		677,592		(8,119)		(21,380)	648,093	362,002
General and other reserves for levy payers		-	2.10	2,937		21,220	24,157	22,944
Total Levy Payer Funds		677,592		(5,182)		**(160)**	**672,250**	**384,946**
Total Levy and Tax Payers' Funds		**677,592**		**(5,182)**		**(634)**	**671,776**	**383,684**

The accounting policies and notes on pages 46 to 68 form part of these financial statements.

The Board of the PPF approved these accounts on 25 October 2011 and authorised the accounting officer to sign this Statement of Financial Position on the same date.

Alan Rubenstein
Accounting Officer

25 October 2011

THE BOARD OF THE PPF
STATEMENT OF CASH FLOWS For the year 1 April 2010 to 31 March 2011

All amounts in £000s	PPF	Fraud Compensation Fund	Administration Fund	Total Funds Year ended 31 March 2011	Total Funds Year ended 31 March 2010
Cash flows from operating activities					
Operating surplus / (deficit)	659,619	2,923	(31,349)	631,193	573,981
FAS Operating Unit expenditure not settled through operating bank accounts	-	-	-	-	1,059
Compensation (payments) and recoveries	(119,771)	-	-	(119,771)	(81,783)
Assets from schemes transferring into the PPF receivable as cash	288,290	-	-	288,290	119,462
Items reported in "Investment return" but settled through operating bank accounts	(11,466)	-	12	(11,454)	(4,393)
Depreciation and impairment	-	-	1,268	1,268	1,315
Movement in current liabilities	6,787	-	(880)	5,907	2,311
Movement in receivables	(2,682)	538	(137)	(2,281)	119,896
Net cash inflow/(outflow) from operating activities	**820,777**	**3,461**	**(31,086)**	**793,152**	**731,848**
Cash flows from investing activities					
Cash transfers to Fund Managers	(760,992)	-	-	(760,992)	(686,405)
Cash inflows to foreign currency deposits	638,188	-	-	638,188	509,214
Cash outflows from foreign currency deposits	(618,912)	-	-	(618,912)	(521,690)
Gains on foreign currency deposits	208,682	-	-	208,682	30,601
Cash flows from liquidity funds	-	33		33	-
Cash flows from property rental income	534	-	-	534	-
Acquisition of equity interests in special purpose entities	(60,457)	-	-	(60,457)	-
Purchase of property, plant and equipment	-	-	(146)	(146)	(1,064)
Purchase of intangible assets	-	-	(329)	(329)	(906)
Net cash inflow/(outflow) from investing activities	**(592,957)**	**33**	**(475)**	**(593,399)**	**(670,250)**
Cash flows from financing activities					
Financing from DWP for PPF activities (levy payer funded)	-	-	22,661	22,661	20,843
Financing from DWP for FAS activities (tax payer funded)	-	-	10,745	10,745	6,717
Net cash inflow from financing activities	**-**	**-**	**33,406**	**33,406**	**27,560**
Net increase in cash and cash equivalents in the year	**227,820**	**3,494**	**1,845**	**233,159**	**89,158**
Cash and cash equivalents at beginning of the year	**144,235**	**4,119**	**573**	**148,927**	**59,769**
Cash and cash equivalents at end of the year	**372,055**	**7,613**	**2,418**	**382,086**	**148,927**

THE BOARD OF THE PPF
STATEMENT OF CHANGES IN RESERVES for the year ended 31 March 2011

All amounts in £000s	PPF	Fraud Compensation Fund	Fraud Compensation Fund	Administration Fund	Total Funds
	General Reserve	Donated Assets Reserve	General Reserve	General Reserve	Reserves
Balance at 31 March 2009	(1,229,793)	2,937	(10,730)	(917)	(1,238,503)
Changes in reserves 2009-10					
Net result for the year - levy payers' funds	1,623,746	-	227	(21,448)	1,602,525
Net result for the year - tax payers' funds	-	-	-	(8,957)	(8,957)
Total recognised Income and expense for 2009-10	**1,623,746**	-	**227**	**(30,405)**	**1,593,568**
PPF Grant-in-aid received in the year	-	-	-	20,843	20,843
Grant-in-aid to finance FAS Activities	-	-	-	6,717	6,717
FAS Operating Unit financing	-	-	-	1,059	1,059
Balance at 31 March 2010	**393,953**	**2,937**	**(10,503)**	**(2,703)**	**383,684**
Changes in reserves 2010-11					
Net result for the year - levy payers' funds	283,639	-	2,384	(21,380)	264,643
Net result for the year - tax payers' funds	-	-	-	(9,957)	(9,957)
Total recognised Income and expense for 2010-11	**283,639**	**-**	**2,384**	**(31,337)**	**254,686**
PPF Grant-in-aid received in the year	-	-	-	22,661	22,661
Grant-in-aid to finance FAS Activities	-	-	-	10,745	10,745
Balance at 31 March 2011	**677,592**	**2,937**	**(8,119)**	**(634)**	**671,776**

4.5 Statement of accounting policies

1. Basis of preparation

These Accounts have been prepared in accordance with the Accounts Direction dated 18 February 2010 given to the Board of the PPF by the Secretary of State for the Department for Work and Pensions, with the approval of the Treasury, in accordance with the Pensions Act 2004 (Schedule 5, Part 4, Paragraph 22 (2) (b)). It requires the Board to prepare accounts in accordance with the 2010-11 Government Financial Reporting Manual (FReM). The FReM requires accounts to follow, as far as appropriate, private sector practice based on International Financial Reporting Standards (IFRS).

At the date of authorisation of these financial statements, it is not expected that adoption of Standards (including Interpretations of Standards) which are in issue but not yet effective will have a material impact on the Board's financial statements, with the exception of IFRS 9 *Financial Instruments: Classification and Measurement*, due to become effective 1 January 2013. IFRS 9 replaces the current classifications of financial assets currently within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* (see Accounting Policy Note 6) with two categories, namely those measured at fair value and those measured at amortised cost.

These Accounts have been prepared on a going concern basis and all items of income and expenditure are accounted for on an accruals basis.

The principal accounting policies adopted by the Board are summarised below.

2. Segmental reporting

The Board adopts an accounting policy in compliance with IFRS 8 *Operating Segments* to present the financial transactions and balances of the following three separate streams of activity:

- Pension Protection Fund
- Fraud Compensation Fund, and
- Administration Fund.

The Administration fund figures include expenditure incurred by the Board in acting as Scheme Manager under the Financial Assistance Scheme (Miscellaneous Amendments) Regulations 2009. This expenditure is taxpayer funded and is presented separately in the Notes to the Accounts for the Administration Fund.

3. Business Combinations

The Board has adopted acquisition accounting in accordance with IFRS 3 *Business Combinations* to account for a special purpose vehicle, in which it acquired a 100 per cent interest to invest in certain private equity funds.

The financial impact of the acquisition of the special purpose vehicle is disclosed in note 1.9(iv) to these accounts.

4. Income Recognition

i) Levy Income

Protection Levy and Fraud Levy income is recognised on an accruals basis.

The Board adopts IAS 18 *Revenue Recognition* in recognising levy income where it judges that the scheme's eligibility for pension protection or protection under the Fraud Compensation Fund is probable.

Where the Board judges that a scheme's eligibility is less than probable, no income or receivable will be recognised, but the Board will disclose a contingent asset for the value of the levy that is possibly receivable as prescribed by IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

ii) Grant in Aid

Grant in aid received by the Board from DWP is used to finance the administration activities and expenditure of the Board. These receipts are not treated as income, but as required by the FReM, are treated as financing and credited to the General Reserve, because they are regarded as contributions from a controlling party.

5. Non-Current Assets

i) Property, Plant and Equipment

In accordance with IAS 16 *Property, Plant and Equipment*, the Board recognises the following assets:

- information technology hardware
- plant and machinery, and
- furniture and fittings.

These items are capitalised if the costs of purchase either as a single item or as a group of related items bought for a common purpose, exceeds £1,000. Items below this value are written off in the year of purchase.

ii) Intangible Assets

In accordance with IAS 38 *Intangible Assets*, the Board capitalises the following as intangible assets:

- the costs of purchasing major software licences, and
- the costs of major software and software development and enhancement which are capitalised as intangible assets, where it is considered that the resulting software has an extended useful life. Ongoing software maintenance costs are written off in the year they occurred.

iii) Depreciation and Amortisation

Depreciation is provided on property, plant and equipment and all intangible assets at rates calculated to write down the cost or valuation (less any estimated residual value) of each asset evenly over its expected useful life as follows:

• information technology equipment	3 years
• major software licences	3 years
• software and software development	3 years
• leasehold improvements	5 years

The Board also holds assets as Payments on Account and Assets under Construction, representing payments made and assets purchased as part of larger capital projects. Depreciation is charged on these assets only when the project is complete and the assets brought fully into use.

iv) Impairment of Non-Current Assets

In accordance with IAS 36 *Impairment of Assets*, the Board conducts an annual review of the carrying value and useful lives of non-current assets and makes adjustments as appropriate.

6. Financial Instruments

The Board adopts the following accounting standards in accounting for and classifying its financial instruments:

- IAS 32 *Financial Instruments: Presentation*
- IAS 39 *Financial Instruments: Recognition and Measurement, and*
- IFRS 7 *Financial Instruments: Disclosures.*

Financial assets and liabilities are recognised when the Pension Protection Fund becomes party to the contracts that give rise to them.

Financial assets are de-recognised when the right to receive cash flows has expired or the Pension Protection Fund has transferred substantially all the risks and rewards of ownership or control of the asset. Financial liabilities are de-recognised when the obligation to deliver cash or another financial asset is discharged, cancelled or expires.

Financial instruments are classified under the following categories which are determined at initial recognition:

- Financial assets/liabilities at fair value through profit or loss, separated by:
  (a) those designated at fair value through profit or loss upon initial recognition, and
  (b) those classified as held for trading,
- Loans and receivables
- Held-to-maturity investments
- Available-for-sale financial assets, and
- Financial liabilities measured at amortised cost.

7. Actuarial liabilities and changes in value of actuarial liabilities

i) Actuarial liabilities

The Board recognises the full value of the liabilities of the Pension Protection Fund disclosed in the annual actuarial valuation of the PPF, prepared and signed by the appointed actuary in accordance with the Pensions Act 2004 (Schedule 5, Part 4, Paragraph 22 (2)(a)). This represents the present value, as at the end of the reporting period, of the liability to pay compensation to the members, both deferred and retired, of all pension schemes in respect of which Transfer Notices have been issued, valued on the assumptions set out in the actuary's report. It also includes an allowance for all categories of operating expenses permitted by various regulations to be charged against the PPF.

ii) Changes in value

The movement in the value of actuarial liabilities arises:

- in the year of Transfer, from the Transfer Notice date to the end of the reporting period, and
- subsequently, between the end of the current and subsequent reporting periods.

The movement in value will be analysed to distinguish between the impact of changes in actuarial assumptions, discount rates and other relevant factors, including the payment of benefits during the period.

8. Provisions and contingent liabilities for claims

In accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, the Board recognises provisions for claims in respect of schemes where eventual entry into the PPF is judged probable, and discloses contingent liabilities for claims in respect of schemes where eventual entry into the Pension Protection Fund is judged possible.

In all cases, the liability is valued at the net deficit impacting the PPF, that is, scheme liabilities valued at protected benefit levels, net of assets under the scheme trustees' control, including asset recoveries from insolvent employers.

In recognising the liability, the Board considers the following factors:

- population of schemes making up the provisions
- likelihood of schemes' eventual entry into the Pension Protection Fund
- valuation of scheme assets and liabilities, subject to materiality criteria, and
- asset recoveries from insolvent employers.

Within the Fraud Compensation Fund, the Board recognises provisions for claims where it judges that it is probable that the claim will be validated and a compensation payment to the claimant scheme be made from the Fraud Compensation Fund. Where the Board judges that validation of the claim is possible (ie that the likelihood is greater than remote but lower than probable) a contingent liability will be disclosed.

9. Impact of the issue of Transfer Notices

Schemes may exit the assessment process through the Board issuing a Transfer Notice under section 160 of the Pensions Act 2004. This Notice has the effect of the Board assuming responsibility for the scheme, so that all the property, rights and liabilities of the scheme are transferred to the Board. The following accounting policies apply to this transfer of assets and liabilities.

- The scheme's net financial assets are transferred to the Board at fair value as at the effective date of the Transfer Notice.
- Actuarial liabilities are transferred to the Board as at the effective date of the Transfer Notice and are valued using the same policies set out in Accounting Policy Note 7(i), which 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 subsequent reporting period, changes in the value of the deficit due to changes in the value of the scheme's assets and liabilities up to the effective date of the Transfer Notice are accounted for as "revaluation of prior year claims".

10. Significant estimates and judgements

The preparation of financial statements requires management to make estimates and assumptions in certain circumstances that affect reported amounts. The Board exercises judgement in making assumptions and producing estimates in the application of its accounting policies. Actual results could differ from these estimates. Information about these judgements and estimates is contained in the relevant accounting policies and notes to the accounts, and the key areas of estimation uncertainty are highlighted below.

Cost of claims, claims provisions and contingent liabilities: the calculation of the costs of claims on both the Pension Protection Fund and the Fraud Compensation Fund relies on the use of actuarial assumptions for the valuation of scheme liabilities. It also relies on techniques such as rolling forward asset values as at a prior date to the Board's accounting date using investment indices. For the PPF, these estimation techniques are described in detail in the Actuary's Supplementary Report included in this Annual Report and Accounts. These assumptions and techniques introduce estimation uncertainty in that the actual value of scheme assets and liabilities at the Board's accounting date may differ from the values estimated and used to calculate provisions and contingent liabilities.

Actuarial liabilities, and gains or losses on actuarial liabilities: the calculation of the actuarial liabilities of the PPF relies on the use of actuarial assumptions about a number of financial and demographic factors. These assumptions are set out in Annex M2 of the Actuarial Valuation included in this Annual Report and Accounts. These assumptions introduce estimation uncertainty in that the PPF's actual experience of these financial and demographic factors may differ from the assumptions used to calculate the actuarial liabilities.

Techniques for valuing financial instruments for which there is not an active market: the Board holds financial instruments for which markets are not active, and for which the fair value is determined using valuation techniques. The choice of valuation technique appropriate to the type of financial instrument, and the choice of inputs to the valuation methodology (whether based on observable market data or not) are both matters of judgment and involve the use of estimates. In general these financial instruments are valued by the Board's appointed fund managers or other appropriately qualified professional adviser, and where possible, the resulting valuations are verified by the Board's custodian. The Board has approved the resulting valuations, and recognises the estimation uncertainty that is introduced into the fair valuation of the Board's financial instruments, in that the actual experience of values eventually realised from these financial instruments may differ from the estimated values disclosed in these accounts.

NOTES RELATING TO THE OPERATION OF THE PENSION PROTECTION FUND FOR THE PERIOD 1 APRIL 2010 TO 31 MARCH 2011

Note 1.1 Income from levies

Protection levies are chargeable to eligible pension schemes incorporating risk-based factors (principally scheme underfunding and employer insolvency risks) and scheme-based factors (principally the value of scheme liabilities).

All amounts in £000s	Year ended 31 March 2011	Year ended 31 March 2010
Risk-based levies in respect of the current year	540,840	453,973
Scheme-based levies in respect of the current year	141,832	137,670
Total Protection Levies in respect of the current year	**682,672**	**591,643**
Risk-based levies in respect of prior years	3,970	(6,780)
Scheme-based levies in respect of prior years	492	4,616
Total Protection Levies in respect of prior years (i)	**4,462**	**(2,164)**
Total income from protection levies	**687,134**	**589,479**

(i) Income from pension protection levies in respect of prior years excludes the value of credit notes provided for in the 2009/10 financial year. The impact of these credit notes is disclosed in the movement in the provision for levy waivers and appeals in Note 1.2.

Note 1.2 Other Costs

All amounts in £000s	Year ended 31 March 2011	Year ended 31 March 2010
Bank Charges	16	9
Compensation Administration Costs (i)	2,335	920
Movement in provision for levy waivers and appeals (ii)	22,723	(15,946)
Write off of levies (iii)	2,441	99
Other costs	**27,515**	**(14,918)**

(i) Compensation Administration costs are charged to the PPF under The Pensions Protection Fund (Prescribed Payments) Regulations 2008 (SI2008/664).

(ii) The Board reviews levy receivables outstanding at the year end, in the context of the Board's experience of levy payers lodging appeals requesting corrections and waivers of their levy invoice, either in full or in part. The Board sets up provisions for amounts it considers may be credited, in full or in part, following resolution of levy payers' appeals and in accordance with IAS *18 Revenue Recognition*, the movement on this provision is disclosed as an expense.

(iii) Where the Board considers that to pursue outstanding unpaid pension protection levy amounts is no longer possible or cost effective, the levy amount due is written off.

Note 1.3 Investment income

All amounts in £000s	Year ended 31 March 2011	Year ended 31 March 2010
Financial assets designated at fair value through profit or loss		
Debt instruments	95,987	66,564
Equity	15,412	15,340
Property	12,972	5,614
Repurchase agreements	12,681	-
Total	**137,052**	**87,518**
Financial assets not designated at fair value through profit or loss		
Deposit Interest	-	42
Other investment assets	638	1,317
Total	**638**	**1,359**
Total investment income	**137,690**	**88,877**

Note 1.4 Change in fair value of investments

All amounts in £000s	Year ended 31 March 2011	Year ended 31 March 2010
Financial assets designated at fair value through profit or loss		
Debt instruments	(26,131)	35,378
Equity	46,108	179,000
Managed funds	29,281	53,107
Insurance policies	(1,512)	(12,086)
Property	20,002	20,319
Global tactical asset allocation	8,055	-
Repurchase agreements	(1,907)	-
Private equity	52,901	(32)
Foreign exchange contracts	31,270	31,773
Net gain/(loss) from financial assets designated at fair value through profit or loss	**158,067**	**307,459**
Held for trading		
Derivative financial instruments	**51,296**	**(68,250)**
Loans and receivables		
Other investment assets	49,243	45,392
Total change in fair value of investments	**258,606**	**284,601**

Note 1.5 Investment expenses

Investment expenses consist of fund management fees, custody charges and transaction costs charged to the PPF, as permitted by the Pension Protection Fund (Payments to meet Investment Costs) Regulations 2005 (SI 2005/1610).

All amounts in £000s	**Year ended 31 March 2011**	**Year ended 31 March 2010**
Fund management fees	19,475	7,631
Custody charges	606	242
Transaction costs	5,811	1,945
Total Investment expenses	**25,892**	**9,818**

Note 1.6 Gains and losses on actuarial liabilities

The gains and losses on actuarial liabilities represent the change in value of those liabilities:

a) in respect of liabilities transferred in in prior years, from the start of the year to the end of the reporting period, and

b) in respect of scheme liabilities transferring in during the year, from the schemes' Transfer Notice dates to the end of the reporting period.

The causes of the changes in value are described in detail in Annex M2 to the accompanying Actuarial Valuation report. The impact of these changes can be summarised as follows:

All amounts in £000s	**Year ended 31 March 2011**	**Year ended 31 March 2010**
Gain/(loss) arising from:		
Effect of discounting due to the passage of time	(21,420)	(73,524)
Changes in financial assumptions	(107,111)	28,617
Changes in mortality assumptions	46,929	47,072
Changes in allowance for future expenses	(60,275)	(1,194)
Other experience gains and losses	(22,176)	5,295
Total net (loss)/gain on actuarial liabilities	**(164,053)**	**6,266**

Note 1.7 Current year claims for compensation

The claims value recognised consists of the aggregate value, as at 31 March 2011 of provisions for 142 new schemes (or individual sections of schemes) where eventual entry into the PPF is considered probable, and where reliable estimates can be made of the impact on the PPF, in accordance with the policies and processes set out in Accounting Policy Note 8. Also included are claims in respect of a further three schemes, which although already in Assessment in the prior year were not provided for at 31 March 2010 because the schemes were then estimated to be in surplus at their Assessment Dates. Based on further information received during the year, the Board now estimates that these schemes cannot meet their protected liabilities and so includes the values of these schemes' deficits as current year costs of claims.

The claims in respect of the total of 145 schemes (or individual sections of schemes) (31 March 2010: 119 schemes) are detailed below.

All amounts in £000s	**Year ended 31 March 2011**	**Year ended 31 March 2010**
Scheme assets including recoveries	1,680,230	1,389,750
Protected liabilities	(2,119,103)	(1,686,083)
Scheme specific claims recognised	**(438,873)**	**(296,333)**
Provision for equalisation of compensation	(308,989)	(345,512)
New claims recognised	**(747,862)**	**(641,845)**

Readers should refer to the Actuary's Supplementary Report as at 31 March 2011, in particular Annexes S6 and S7, for further detailed information on the calculation of these provisions.

Note 1.8 Revaluation of prior year claims

The total revaluation of prior claims charged to the Statement of Comprehensive Net Income can be analysed as follows:

All amounts in £000s	**Year ended 31 March 2011**	**Year ended 31 March 2010**
Release of provisions for schemes no longer considered probable for entry	22,925	56,971
Release impact of prior year GMP equalisation provision (i)	345,512	131,800
Revaluation of provisions brought forward from previous year end (ii)	(138,582)	1,002,658
Changes in provisions for schemes transferring into the Protection Fund during the year (iii)	32,061	96,394
Change in allowance for future expenses (iv)	(105,000)	-
Total revaluation of prior year claims	**156,916**	**1,287,823**

i) The provision for GMP equalisation recognised in 2009/10 has been replaced by the provision disclosed in Note 1.7 as a new provision for the current year. This current year provision incorporates the impact of revaluing the GMP element of actuarial liabilities and claims provisions in 2009/10 surviving up to 31 March 2011. It is not possible to isolate that revaluation impact due to changes in the methodology used to calculate the provision.

ii) Revaluation of provisions brought forward from the previous year end.

Of the 323 schemes for which provisions were made as at 31 March 2010:

- 122 schemes were transferred into the Pension Protection Fund during the year, and
- 24 schemes' provisions have been released.

The Board considers that the remaining 177 schemes (or scheme sections) will probably enter the PPF in the future and has therefore retained the associated provisions, and revalued them to 31 March 2011.

The revaluation impact can be analysed as follows:

All amounts in £000s	**Year ended 31 March 2011**	**Year ended 31 March 2010**
Changes in value of scheme assets including recoveries	(318,571)	823,640
Changes in value of scheme liabilities	179,989	179,018
Total changes in provisions for schemes remaining in assessment	**(138,582)**	**1,002,658**

iii) Changes in provisions for schemes transferring into the Pension Protection Fund

During the year 126 schemes transferred into the PPF. Provisions had been created as at 31 March 2010 in respect of 122 of these schemes. A further four schemes completed the assessment process during the year and transferred into the PPF in respect of which no provision had been created as at 31 March 2010. The assets and liabilities of these 126 schemes changed in value up to their Transfer Notice dates (when they were incorporated into the assets and liabilities of the PPF); this change in value is made up as follows:

All amounts in £000s	**Year ended 31 March 2011**	**Year ended 31 March 2010**
Changes in values of scheme assets	(165,937)	31,478
Change in value of scheme liabilities	197,998	64,916
Total changes in provisions for schemes transferring into the PPF	**32,061**	**96,394**

iv) Change in allowance for future expenses

The change in allowance for future expenses is further explained in Paragraph 6 of annex S4 (Actuary's Supplementary Report).

Note 1.9 Financial Assets

The Management Commentary section of the Annual Report includes a detailed Investment Report, covering the investment strategy, governance arrangements and risk management activities undertaken in respect of the PPF.

All amounts in £000s	As at 1 April 2010	Asset transfers (i)	Purchases	Sales	Gain / (Loss)	As at 31 March 2011
Financial assets designated at fair value through profit or loss						
Debt instruments (ii)	2,649,589	-	6,322,166	(5,532,348)	(16,567)	3,422,840
Equity	606,873	-	8,728,939	(8,612,751)	53,915	776,976
Managed funds	457,715	699,038	6,664	(1,130,042)	24,279	57,654
Insurance policies	84,861	37,363	-	-	(2,551)	119,673
Property	271,314	-	125,519	(24,486)	21,961	394,308
Global tactical asset allocation	-	-	108,582	-	8,073	116,655
Repurchase agreements (iii)	-	-	5,229,653	(4,790,303)	(57,746)	381,604
Private equity (iv)	257	-	115,452	(5,639)	70,035	180,105
Foreign exchange contracts	8,628	-	-	-	(8,628)	-
Other financial assets	322	3,375	-	(322)	-	3,375
Total financial assets at fair value through profit or loss	**4,079,559**	**739,776**	**20,636,975**	**(20,095,891)**	**92,771**	**5,453,190**
Financial assets held for trading						
Derivative Financial Instruments (v)	**511,512**					**621,073**
Loans and receivables						
Investment income receivable	**28,592**					**43,387**
Financial liabilities designated at fair value through profit or loss						
Foreign exchange contracts	**-**					**(42,304)**
Total non-current assets	**4,619,663**					**6,075,346**

i) Represents the fair value of assets transferred in specie from schemes transferring into the PPF as a result of the issue of Transfer Notices.

ii) Towards the end of the financial year, the Board commenced the implementation of a securities lending programme. At 31 March 2011 the Board held £53.0m non-cash collateral against £52.2m of securities lending, primarily consisting of government debt instruments.

iii) The Board enters into repurchase agreements, selling gilts under contract terms to repurchase them at fixed future dates. The proceeds of these sales are used to purchase further gilts, which can then themselves be sold under repurchase agreements. The position under these agreements can be analysed as follows:

All amounts in £000s	As at 31 March 2011
Financial assets held under repurchase agreements	2,417,613
Payables under repurchase agreements	(2,036,009)
Repurchase agreements	**381,604**

iv) On 31 March 2011 the Board acquired 100 per cent of the equity voting rights of Crown Secondary Placements plc, a special purpose vehicle registered in Eire set up to invest in certain private equity funds. The Board acquired private equity funds valued at £79.9m for cash consideration of £60.5m, recognising an immediate gain on acquisition of £19.4m.

As these amounts are not material, the Board does not produce single entity accounts for the PPF. Single entity accounts for the PPF would disclose under investment in subsidiaries the net book value of £60.5m for Crown Secondary Placements plc. Assets less Liabilities for the single entity PPF accounts will therefore be £19.4m lower than Assets less Liabilities presented in these consolidated accounts.

v) The Board's derivative financial instruments are designated as held for trading as they are part of a general investment strategy to manage interest rate and inflation risk.

Note 1.10 Current assets

All amounts in £000s	Year ended 31 March 2011	Year ended 31 March 2010
Amounts receivable from investments sold	473,386	44,908
Derivative financial instruments	25,030	1,467
Total investment related receivables	**498,416**	**46,375**
Invoiced receivables for all levy years (i)	75,799	95,718
Accrued levies for all levy years (ii)	13,153	28,145
Total levy receivables	**88,952**	**123,863**
Assets receivable from schemes in respect of which Transfer Notices were issued during the year (iii)	31,273	21,687
Asset recoveries (iv)	35,204	8,276
Transfer-in receivables	**66,477**	**29,963**
Money purchase assets awaiting discharge (v)	1,998	924
Loans to Trustees	329	324
Other current assets	**2,327**	**1,248**
Cash deposits (sterling and foreign)	274,358	46,400
Cash at bank	97,697	97,835
Cash and cash equivalents	**372,055**	**144,235**
Total current assets	**1,028,227**	**345,684**

i) Invoiced receivables for all levy years consist of protection levies billed to qualifying pension schemes remaining unpaid at the accounting date. They are stated after allowing for provisions of £24,142,000 (31 March 2010: £20,093,000) for levy waivers, reviews and appeals, and levies deemed to be uncollectible.

ii) Accrued levies for all levy years represent the estimated value of scheme-based and risk-based levies due from eligible pension schemes not yet billed as at the accounting date.

iii) All the assets receivable from schemes in respect of which Transfer Notices were issued during the year were received in the immediate post year-end period.

iv) Asset recoveries represent the best estimate of the value of debts and other assets recoverable from the previous sponsoring employers of schemes which have now transferred into the PPF.

v) Where the PPF inherits the liability to discharge money purchase benefits which the trustees of a pension scheme have been unable to settle prior to the effective date of the Transfer Notice, the Board will account for the money purchase assets transferred to the PPF, and will also account for the liability to discharge the money purchase benefits.

Note 1.11 Current liabilities

All amounts in £000s	Year ended 31 March 2011	Year ended 31 March 2010
Amounts payable for investments purchased	150,765	108,484
Derivative Financial Instruments	23,606	134
Money purchase benefits payable	1,998	924
Compensation payments due	113	133
Accruals and other payables	9,217	2,410
Total current liabilities	**185,699**	**112,085**

Note 1.12 Non-current liabilities

a) Actuarial liabilities

During the year to 31 March 2011, the PPF accepted 126 schemes, to add to the 150 schemes which were accepted in previous years. The value of actuarial liabilities disclosed here is the aggregate value of the actuarial liabilities for the members of all these schemes, now beneficiaries of the PPF, revalued to 31 March 2011. It can be analysed as follows:

All amounts in £000s	As at 31 March 2011	As at 31 March 2010
Opening value of actuarial liabilities	2,447,045	1,736,631
Actuarial liabilities at dates of Transfer	1,490,685	798,259
Actuarial (gains)/losses	164,053	(6,266)
Benefits paid since transfer	(119,457)	(81,579)
Total actuarial liabilities	**3,982,326**	**2,447,045**

b) Provisions for claims on the PPF

As at 31 March 2011, the PPF recognises provisions in respect of 322 pension schemes or individual sections of pension schemes (31 March 2010: 323 schemes or scheme sections). The total value of provisions also includes an amount of £7,053,000 to provide for an estimated number of eight claims incurred but not reported (IBNR reserve).

The aggregate value of provisions can be analysed as follows:

	As at 31 March 2011	As at 31 March 2011	As at 31 March 2010	As at 31 March 2010
	Number of schemes	£000s	Number of schemes	£000s
Claims provisions at start of year	323	1,816,749	292	2,692,992
Prior year correction for number of scheme sections		-	3	-
Release of provisions for schemes transferring into the PPF	(126)	(499,536)	(50)	(326,659)
Release of provisions for schemes no longer considered probable for entry	(24)	(22,925)	(41)	(56,971)
Revaluation of remaining provisions		138,582		(1,002,658)
Provision for new claims arising in the year and remaining outstanding at year end	149	438,873	119	296,333
Changes in allowance for future expenses		105,000		-
Release of provision for Equalisation of Compensation as at 31 March 2010		(345,512)		(131,800)
Provision for Equalisation of Compensation as at 31 March 2011		308,989		345,512
Total claims provisions	**322**	**1,940,220**	**323**	**1,816,749**

Note 1.13 Contingent liabilities

a) Claims

The Actuary's Supplementary Report as at 31 March 2011 included in the Annual Report and Accounts classifies these contingent liabilities into five types and readers should refer to the Supplementary Report, in particular Annex S2, for definitions and further detail of these contingent liabilities types.

All amounts in £000s ***Type of contingent liability***	**Number of schemes**	**Assets**	**Liabilities**	**Net deficit as at 31 March 2011**	**Net deficit as at 31 March 2010**
1	1	25,643	30,031	4,388	34,373
2	2	10,517	16,454	5,937	8,585
3	10	810,819	1,038,397	227,578	155,385
4	103	3,814,081	4,796,242	982,161	621,893
Sub total for specific schemes	**116**	**4,661,060**	**5,881,124**	**1,220,064**	**820,236**
5	-	-	141,147	141,147	115,301
Total	**116**	**4,661,060**	**6,022,271**	**1,361,211**	**935,537**

b) Write Off of Protection Levy

The Board discloses the contingent liability to write off (where debts are outstanding) or to refund (where debts have been settled) a total of £40,291,000 in protection levy income, should the legal actions currently being pursued result in a determination that the schemes are ineligible to enter the PPF and therefore not liable to pay protection levies. The Board judges that it remains possible that the legal actions to determine eligibility will conclude that they are ineligible and not liable to pay protection levies.

Note 1.14 Financial Instruments and Related Risks

Financial Instruments by Category

All amounts in £000s	**As at 31 March 2011**	**As at 31 March 2010**
Financial assets designated at fair value through profit or loss		
Debt instruments	3,422,840	2,649,589
Equity	776,976	606,873
Managed funds	57,654	457,715
Insurance policies	119,673	84,861
Property	394,308	271,314
Global tactical asset allocation	116,655	-
Repurchase agreements	381,604	-
Private equity	180,105	257
Foreign exchange contracts	-	8,628
Other financial assets	3,375	322
	5,453,190	**4,079,559**
Financial assets held for trading		
Derivative financial assets	**646,103**	**512,979**
Loans and receivables		
Cash and cash equivalents	372,055	144,235
Investment income receivable	43,387	28,592
Levy receivables	88,952	123,863
Transfer-in receivables	66,477	29,963
Amounts receivable from investments sold	473,386	44,908
Other receivables	2,327	1,248
	1,046,584	**372,809**
Financial liabilities designated at fair value through profit or loss		
Foreign exchange contracts	**(42,304)**	**-**
Financial liabilities held for trading		
Derivative financial liabilities	**(341,342)**	**(195,649)**
Financial liabilities measured at amortised cost		
Amounts payable for investments purchased	(150,765)	(108,484)
Money purchase benefits payable	(1,998)	(924)
Compensation payments due	(113)	(133)
Accruals and other payables	(9,217)	(2,410)
	(162,093)	**(111,951)**
Total Financial Instruments	**6,600,138**	**4,657,747**
Reconciliation to Total Net Assets/(Liabilities)		
Total Financial Instruments	6,600,138	4,657,747
Actuarial liabilities	(3,982,326)	(2,447,045)
Claims provisions	(1,940,220)	(1,816,749)
Total Net Assets/(Liabilities)	**677,592**	**393,953**

The amounts stated under loans and receivables and financial liabilities measured at amortised cost have carrying values which are not materially different to their fair values. Therefore the carrying values of these financial instruments approximate fair value.

Financial Instruments Measured at Fair Value

The table below analyses the PPF's financial instruments over the hierarchy of fair valuation methodology set out in IFRS7, reflecting the significance of inputs used in making the valuation.

Level 1 assets are those valued by reference to quoted prices in active markets for identical assets. For the PPF, level 1 assets include debt instruments and equities which are quoted in open and active markets.

Level 2 assets are those assets valued using inputs other than quoted prices, and where those inputs are observable either directly (ie as prices) or indirectly (ie derived from prices). Level 2 assets consist mainly of debt instruments which are traded on a broker-to-broker basis.

Level 3 assets are those valued using inputs which are not based on observable market data. Included under level 3 are property funds, private equity funds and GTAA funds, where the PPF gains exposure to those asset classes through unitised vehicles. The units in these funds are not traded in active markets, and are valued mainly on a "share of net asset value" basis. The assets underlying these unitised funds may consist of assets which themselves fall into any of the 3 IFRS7 levels. Where the underlying assets fall into level 3, such as property and private equity, they are typically valued using industry-standard valuation methodologies. These methodologies carry the inherent risk that the valuations will differ from the actual experience of values eventually realised. The PPF also holds insurance policy assets valued using actuarial models.

All amounts in £000s	**Level 1**	**Level 2**	**Level 3**	**Total**	**Total**
	As at 31 March 2011	As at 31 March 2011	As at 31 March 2011	As at 31 March 2011	As at 31 March 2010
Financial assets designated at fair value through profit or loss					
Debt instruments	357,982	3,027,086	37,772	3,422,840	2,649,589
Equity	776,976	-	-	776,976	606,873
Managed funds	-	57,654	-	57,654	457,715
Insurance policies	-	-	119,673	119,673	84,861
Property	-	-	394,308	394,308	271,314
Global tactical asset allocation	-	-	116,655	116,655	-
Repurchase agreements	-	381,604	-	381,604	-
Private equity	-	-	180,105	180,105	257
Foreign exchange contracts	-	-	-	-	8,628
Other financial assets	-	-	3,375	3,375	322
Financial assets held for trading					
Derivative financial assets	-	646,103	-	646,103	512,979
Total financial assets	**1,134,958**	**4,112,447**	**851,888**	**6,099,293**	**4,592,538**
Financial liabilities designated at fair value through profit or loss					
Foreign exchange contracts	-	42,304	-	42,304	-
Financial liabilities held for trading					
Derivative financial liabilities	-	341,342	-	341,342	195,649
Total financial liabilities	**-**	**383,646**	**-**	**383,646**	**195,649**

Financial instruments measured at fair value based on Level 3

All amounts in £000s	**Designated at fair value through profit or loss**
Financial assets	
Balance as at 31 March 2010	**465,575**
Gains or losses in Statement of Comprehensive Net Income	(40,038)
Purchases	2,903,995
Settlements	(2,477,644)
Balance as at 31 March 2011	**851,888**

Financial Risks

IFRS 7 *Financial Instruments: Disclosures* requires disclosures which enable users of financial statements to evaluate the nature and extent of risks arising from financial instruments and how the entity manages those risks.

The PPF's Statement of Investment Principles (SIP) is available by following this link www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/SIP_November_2010.pdf .

The SIP describes the Board's primary objective as to have sufficient funds to pay compensation to members of eligible pension schemes. It goes on to describe the Board's funding objective which is designed to mitigate the risks of failing to meet this primary objective. The Board's intention in setting this funding objective, and in managing the financial risks associated with it, is 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, reflecting its duty to consider the interests of parties affected by the rate of the levies.

The Board's funding objective is described in more detail in this document: www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/Funding_Strategy_Factsheet.pdf

The SIP describes the governance arrangements for the Fund, and sets out the roles and responsibilities of the Board, the Investment Committee and the executive Asset and Liability Committee. It sets out the arrangements for managing the risks associated with the financial instruments the Board holds, specifically the investment of:

- accumulated levy contributions paid into the Fund, and
- assets transferred by pension schemes entering the Fund.

The Board adopts low risk investment strategies in line with its duty of prudent management of its financial affairs. Its intention is to match current estimates of the Board's liabilities and provide some outperformance over the estimated liabilities. Any outperformance should contribute to the long-term sustainability of the PPF and reduce the burden on levy payers. The management of the investment portfolio, and its liability-matching and return-seeking components, is described in detail in the Investment Report, together with a commentary on the implementation of this strategy and the investment performance achieved during the year. The report describes the role played by derivatives and financial instruments of other asset classes (equities, bonds, property funds and currency funds) in the PPF's investment strategy.

The nature and extent of risks arising from financial instruments to which the PPF is exposed at the end of the reporting period and the methods used to measure and manage the associated risks are discussed below.

a) Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices, and includes price risk, interest rate risk and currency risk.

i) Price Risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are 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 and fair value changes are recognised in the Statement of Comprehensive Net Income, therefore all changes in market conditions will directly affect total investment return.

The Board manages price risk by diversifying its investments across a range of asset types, both within the UK and globally, and sets asset allocation guidelines for the fund managers as per the table below.

Asset class	As at 31 March 2011 *£000's*	Actual %	Strategic allocation	Tolerance range
Global bonds	2,993,209			
UK bonds and cash	1,287,765			
Cash and Bonds	**4,280,974**	**73.38%**	**70%**	**65%-80%**
Public Equity	**865,286**	**14.83%**	**10%**	**5%-20%**
Alternatives	**687,995**	**11.79%**	**20%**	**10%-25%**
Total	**5,834,255**	**100.00%**	**100%**	

Alongside the strategic allocation, the SIP permits us to take tactical investment views, either to enhance return, or to control risk, but always within the overall risk appetite set by the Board. The actual investment values disclosed above incorporate tactical positions held at the year end.

ii) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The PPF is exposed to interest rate risk in that the valuation of its current and potential future liabilities is sensitive to interest rates, as well as to a range of other financial and demographic factors described in more detail in its Statement of Investment Principles. This interest rate sensitivity is explicitly taken into account by the Board when setting the strategic asset allocation for the PPF's investments.

The Board mitigates interest rate risk by applying a portfolio of derivatives to closely match the liability sensitivities to nominal and real interest rates.

At the reporting date, the PPF's financial instruments exposed to interest rate risk amounted to the following:

All amounts in £000s	Fixed rate financial assets	Variable rate financial assets	Non interest bearing financial assets	As at 31 March 2011	As at 31 March 2010
Debt instruments	3,422,840	-	-	3,422,840	2,649,589
Equity	-	-	776,976	776,976	606,873
Managed Funds	57,654	-	-	57,654	457,715
Property	-	-	394,308	394,308	271,314
Repurchase agreements	381,604	-	-	381,604	-
Other financial assets	3,375	-	-	3,375	322
Derivative Financial Assets	-	646,103	-	646,103	512,979
Foreign Exchange Contracts	-	-	-	-	8,628
Investment income receivable	-	-	43,387	43,387	28,592
Cash and cash equivalents	-	372,055	-	372,055	144,235
Derivative Financial Liabilities	-	(341,342)	-	(341,342)	(195,649)
Total	**3,865,473**	**676,816**	**1,214,671**	**5,756,960**	**4,485,598**

Swap spread risk

As described in the Actuarial Valuation, the PPF's future liabilities are discounted using the higher of the zero-coupon interest rate swaps yield less 15 basis points and the gilts strip yield. The swaps used to hedge interest rate risk do not therefore fully close the mismatch with the "higher of gilts and swaps" rate used in the Valuation. During the year, we have implemented a programme designed to manage this "swap spread risk" and eliminate much of this mismatch. This takes the form of a programme using gilt repurchase agreements ("repos") to increase the exposure to gilts.

The main risk in the repo programme is roll risk, ie that we cannot enter into new repo contracts when the existing contracts expire. This will lead to the PPF being exposed to interest rate risk until we reinstitute the interest rate hedge in the swap market. Roll risk is mitigated in a number of ways, including diversification of maturities, limits on exposure to individual counterparties, and a limit on the total size of the programme relative to total outstanding commercial repo exposure.

iii) Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The PPF's financial liabilities are entirely designated in sterling and therefore it is the Board's strategy, within its risk appetite, to hedge assets back to sterling.

For certain asset classes such as private equity and GTAA assets, the Board's current risk appetite leads to a strategy of applying an optimal currency hedging ratio based on the characteristics of the asset class.

At the reporting date the residual unhedged foreign currency exposure is as follows:

	As at 31 March 2011 *£000s*	**As at 31 March 2011** *%*
Euro	83,782	21.3%
US Dollar	210,069	53.4%
Japanese Yen	20,591	5.2%
Other currencies	79,051	20.1%
Total	**393,493**	**100.0%**

Sensitivity Analysis

The analysis below shows the impact on the above values of a 10 per cent increase and decrease in rates relative to sterling.

All amounts in £000s	**Increase/(Decrease) in value of Financial Instruments**
10% increase	(35,772)
10% decrease	43,721

iv) Value at Risk Sensitivity Analysis

In order to estimate the sensitivity of the PPF's financial position to adverse changes in financial markets, we apply the methodology set out in the Guidance for the Bespoke Investment Risk Calculation: www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/investment_risk_consultation_May11.pdf

This scenario has been calibrated to represent a "one-standard deviation event" and will be applied by defined benefit pension schemes to provide a measure of their investment risk, which will be used in 2012/13 as an input to the formula of the risk-based levy.

Applying this scenario as at 31 March 2011 results in an increase in assets of £1,228m and an increase in liabilities of £1,860m, so leading to a negative impact on the Statement of Financial Position of £632m.

Annex S5 of the Actuary's Supplementary Report models the sensitivity of the values of the Fund's assets and liabilities to changes in the rates of a wide variety of financial and non-financial factors. The scenarios modelled in this analysis cover changes in interest rates, changes in inflation rates (including where CPI rates diverge from RPI), changes in gilt yields and changes in mortality assumptions and other demographic factors.

b) Credit Risk

Credit risk is the risk that a counterparty to a financial instrument will cause a financial loss for the PPF by failing to discharge an obligation.

The main exposure to credit risk in the PPF's financial instruments arises from investments in gilts and global bonds. The PPF is also exposed to counterparty credit risk on derivatives, cash and cash equivalents, amounts due from brokers and transfer-in receivables. The Board is satisfied that the credit quality of all the financial instruments exposed to credit risk is satisfactory, as the instruments consist of investments in traded government and corporate debt; derivative and other contracts with counterparties whose credit rating meets the Board's criteria; and debtors with levy payers, pension schemes and others where recovery of the debt is probable.

At the reporting date, the PPF's financial assets exposed to credit risk amounted to the following:

All amounts in £000s	**As at 31 March 2011**	**As at 31 March 2010**
Debt instruments	3,422,840	2,649,589
Insurance policies	119,673	84,861
Derivative Financial Assets	646,103	512,979
Amounts receivable from investments sold	473,386	44,908
Investment income receivable	43,387	28,592
Cash and cash equivalents	372,055	144,235
Levy receivables	88,952	123,863
Transfer-in receivables	66,477	29,963
Other receivables	2,327	1,248
Total	**5,235,200**	**3,620,238**

Financial Assets Impaired and Past Due

As at 31 March 2011 *All amounts in £000s*	**Not past due**	**0-3 months past due**	**3-6 months past due**	**Over 6 months past due**
Financial assets past due not impaired	**-**	**6,435**	**6,364**	**16,088**
Financial assets before impairment	2,384	24,759	19,035	9,389
Impairment	(648)	(10,339)	(8,135)	(5,021)
Impaired financial assets	**1,736**	**14,420**	**10,900**	**4,368**
Total financial assets past due and impaired	**1,736**	**20,855**	**17,264**	**20,456**

As at 31 March 2010 *All amounts in £000s*	**Not past due**	**0-3 months past due**	**3-6 months past due**	**Over 6 months past due**
Financial assets past due not impaired	**-**	**5,206**	**10,268**	**8,388**
Financial assets before impairment	-	10,980	24,638	32,060
Impairment	-	(3,477)	(7,497)	(9,120)
Impaired financial assets	**-**	**7,503**	**17,141**	**22,940**
Total financial assets past due and impaired	**-**	**12,709**	**27,409**	**31,328**

c) Liquidity Risk

Liquidity risk is the risk that the PPF will encounter difficulty in meeting obligations associated with financial liabilities.

For financial liabilities associated with the Board's functions of managing investments and paying compensation, the Board considers that the PPF is not currently exposed to significant liquidity risks. The Board is of the opinion that cash inflows will significantly exceed outflows for the foreseeable future. Cash flows are regularly reviewed, through the preparation of cash flow forecasts, comparing forecast inflows from levy collections and scheme asset transfers with forecast outflows on compensation payments and operating expenses. In addition, the assets of the PPF, including its investment assets, are all considered to be readily realisable should the need arise, with the exception of investments in property, private equity and other similarly illiquid asset classes.

The following table shows a liquidity ageing analysis for financial liabilities:

Financial liabilities due: *All amounts in £000s*	**within 1 year** As at 31 March 2011	**1-5 years** As at 31 March 2011	**5-10 years** As at 31 March 2011	**Over 10 years** As at 31 March 2011	**Total** As at 31 March 2011	**Total** As at 31 March 2010
Financial liabilities including derivatives settled net						
Derivative financial instruments	23,606	28,841	15,799	273,096	341,342	195,649
Amounts payable for investments purchased	150,765	-	-	-	150,765	108,484
Money purchase benefits payable	1,998	-	-	-	1,998	924
Compensation payments due	113	-	-	-	113	133
Accruals and other payables	9,217	-	-	-	9,217	2,410
Total Financial Liabilities	**185,699**	**28,841**	**15,799**	**273,096**	**503,435**	**307,600**

Specific Instruments

Derivative Financial Instruments

As described in the PPF's SIP, the Board uses hedging strategies to mitigate the risk of a fall in the value of assets against the liabilities. The PPF has entered into a combination of interest rate and inflation swap agreements to adjust the cash flow profile from assets to match the liability cash flow profile. This is primarily to mitigate interest rate and inflation risk.

The SIP also permits, within the overall risk appetite set by the Board, tactical investment views to be taken, either to enhance return or to control risk. These tactical views are frequently implemented through the use of options and other derivative instruments.

The value of the portfolio of derivative financial instruments at the reporting date is as follows:

All amounts in £000s	**As at 31 March 2011**	**As at 31 March 2011**	**As at 31 March 2011**	**As at 31 March 2010**
	Assets	Liabilities	Total	Total
Swaps due to settle within 1 year				
Interest rate swaps	16,600	(23,533)	(6,933)	1,282
Inflation rate swaps	258	(60)	198	50
Options	8,105	-	8,105	-
Credit default swaps	67	(13)	54	2
	25,030	**(23,606)**	**1,424**	**1,334**
Swaps due to settle after more than 1 year				
Interest rate swaps	475,267	(216,199)	259,068	193,848
Inflation rate swaps	138,662	(99,940)	38,722	111,725
Options	5,362	-	5,362	11,666
Credit default swaps	1,782	(1,597)	185	(1,243)
	621,073	**(317,736)**	**303,337**	**315,996**
Total value of swap portfolio	**646,103**	**(341,342)**	**304,761**	**317,330**

Swap Valuation Methodologies

Interest rate swaps are valued using an interest rate swap pricing model, a time series of historic LIBOR rates and a zero coupon interest rate swap curve generated by the fund manager using models based on market sources. Zero coupon interest rate swaps are used for the PPF as their purpose is to match the sensitivity of asset values to the sensitivity of liability values to changes in interest rates. The curve is used in the pricing model to ascertain the future LIBOR rates to be applied in calculating the floating leg cash flows and to calculate the present value of future fixed and floating leg cash flows.

Inflation rate swaps are valued using an inflation swap pricing model, a time series of historic UK inflation rates, a zero coupon swap inflation expectation curve, an inflation seasonality model and the zero coupon interest rate swap curve used in the valuation of interest rate swaps.

The value of paired long and short credit default swaps is derived from calculating the estimated net cash flow between the paired credit default swaps based on the fund manager's pricing models, broker appraisal and third party information, and from calculating a price for the long and short credit default swaps using one of the approved methods for pricing credit default swaps.

Note 1.15 Related Party Transactions

There are no transactions with related parties to disclose.

Note 1.16 Events After the Reporting Period

Claims provisions: Since the end of the reporting period there have been further developments in relation to one scheme forming part of the claims provisions. This scheme has material values of assets and of liabilities, although the net deficit provided for is not material. This scheme is now no longer expected to transfer to the PPF, as the trustees of the scheme have obtained indications from an insurance company that the current value of the scheme's assets is now likely to be sufficient to secure a buy-out of scheme benefits above PPF compensation levels. The Board estimates that the impact of removing the provision for this scheme would be as follows, using the format illustrated in Annex S7 "Actuarial Balance Sheet" of the Actuary's supplementary report:

Value of PPF assets and assets of schemes forming provisions: £12,991,733,000

Value of PPF liabilities and liabilities of schemes forming provisions: £12,312,740,000

Funding ratio: 105.5 per cent

NOTES RELATING TO THE OPERATION OF THE FRAUD COMPENSATION FUND FOR THE YEAR 1 APRIL 2010 TO 31 MARCH 2011

Note 2.1 Income from levies

The Board raised a Fraud Compensation Levy for the first time in 2010/11, at the rate of 23p per eligible pension scheme member. The levy is collected by the Pensions Regulator on the Board's behalf and monies from levies received are regularly transferred to the Board under agreed procedures.

Note 2.2 Other costs

These costs represent the write-off of a receivable disclosed in last year's accounts relating to amounts due to the Board following Confiscation Orders made against a number of individuals prosecuted for fraud in the case of the Cheney Pension Scheme. The unpaid amounts under these Orders have now either been waived by the Court or are considered by the Board not to be recoverable.

Note 2.3 Investment income

Interest is accounted for on the liquidity funds held by the FCF on a daily basis and is immediately reinvested in new fund units.

Note 2.4 Current year claims for compensation

All amounts in £000s	Year ended 31 March 2011	Year ended 31 March 2010
Claims arising during the year	-	1,740
Claims paid	1	-
Total	**1**	**1,740**

Note 2.5 Revaluation of prior year claims for compensation

The revaluation of prior year claims consists of:

All amounts in £000s	Year ended 31 March 2011	Year ended 31 March 2010
Revaluation of provisions (see Note 2.8)	(572)	1,853
Revaluation of recoveries	-	90
Total Revaluation of prior year claims	**(572)**	**1,943**

Note 2.6 Current assets

Other current assets consist of:

All amounts in £000s	As at 31 March 2011	As at 31 March 2010
Recoveries due from prior year claims	-	552
Levy receivables	14	-
Provisions for levy collection costs and doubtful debts	-	-
Total other current assets	**14**	**552**

Note 2.7 Cash and cash equivalents

All amounts in £000s	As at 31 March 2011	As at 31 March 2010
Cash at bank	**78**	**20**
Cash equivalents managed by:		
Insight Investment Management	3,769	2,051
Fidelity Investments	3,766	2,048
Total cash equivalents (i)	7,535	4,099
Total cash and cash equivalents	7,613	**4,119**

i) Cash equivalents are held in the form of units in liquidity funds managed by external fund managers.

Note 2.8 Claims provisions

All amounts in £000s	Schemes probably eligible to claim	Schemes which may be eligible to claim	Schemes almost certainly ineligible	Grand total
As at 31 March 2010				
Number of schemes	6	1	2	9
Gross losses	28,700	3,500	19,800	52,000
Estimated recoveries	(16,558)	(2,019)	(11,423)	(30,000)
Interest	95	16	-	111
	12,237	**1,497**	**8,377**	**22,111**
Movements in the year				
Number of schemes	-	3	1	4
Gross losses	-	466	-	466
Recoveries	342	42	236	620
Interest	230	38	-	268
As at 31 March 2011				
Number of schemes	6	4	3	13
Gross losses	28,700	3,966	19,800	52,466
Actual recoveries received	(16,216)	(1,977)	(11,187)	(29,380)
Interest	325	54	-	379
Net losses	**12,809**	**2,043**	**8,613**	**23,465**

The claims provision is in relation to six schemes provided for in the prior year where the Board judges that the schemes' eligibility to claim on the FCF is probable. The provision has been re-assessed and increased to take account of:

- further interest accruing on claims which fall to be dealt with under the Pension Compensation Board regime (see note on Interest Rate Risk below), and
- a reduction in the estimate of probable net recoveries by these six schemes, following the recognition of additional recovery costs.

Note 2.9 Contingent liabilities

The Board discloses as at 31 March 2011 contingent liabilities of £2,043,000 relating to 4 schemes (as at 31 March 2010: £1,497,000 relating to 1 scheme) which may be eligible to claim on the FCF, as disclosed in the table in Note 2.8.

Note 2.10 Reserves

The general and other reserves figure of £2,937,000 represents the net assets of the Pensions Compensation Board, valued at fair value as at 5 April 2005, which have been brought onto the Statement of Financial Position of the FCF under the operation of merger accounting. This is the value categorised in the Statement of Changes in Reserves as the "donated assets reserve".

Note 2.11 Financial instruments

IFRS 7 *Financial Instruments: Disclosures* requires disclosure of the role which financial instruments have had during the year in creating or changing the risks an entity faces in undertaking its activities. Because of the non-trading nature of the FCF's activities and the way it is financed, the FCF is not exposed in this area to the same financial risks faced by business entities.

Financial Instruments by Category

All amounts in £000s	As at 31 March 2011	As at 31 March 2010
Loans and receivables		
Cash and cash equivalents	7,613	4,119
Levy receivables	14	-
Recoveries due from prior year claims	-	552
Total Financial Instruments	**7,627**	**4,671**

Reconciliation to Total Net Assets/(Liabilities)

All amounts in £000s	As at 31 March 2011	As at 31 March 2010
Reconciliation to Total Net Assets/(Liabilities)		
Total financial instruments	7,627	4,671
Claims provisions	(12,809)	(12,237)
Total Net Assets/(Liabilities)	**(5,182)**	**(7,566)**

The amounts stated under loans and receivables and financial liabilities measured at amortised cost have carrying values which are not materially different to their fair values. Therefore the carrying values of these financial instruments approximate fair value.

Funding risk – The Board reviewed its funding strategy for the FCF during the year and considered the risks posed to the Fund by the unpredictability of claims, both in size and frequency, the ceiling on the levy that the Board can raise, and the mitigation provided by the Board's powers to agree with the trustees of claimant schemes that settlements be made in instalments. The Board considered its duties to secure the compensation payments to current and potential claimant schemes, balanced with its duty to set a fair and proportionate levy.

The Board concluded that it could best manage the funding risk by aiming to build up a small surplus in the Fund by raising levies over a number of years. This strategy will be reviewed if the observed pattern of claims is seen to change. The Fund remains at risk of large and urgent claims, but the Board does not consider it proportionate to build up a large surplus at the expense of levy payers.

Liquidity risk –The FCF is not exposed to significant liquidity risks as the Board is of the opinion that:

- the assets of the FCF, including its investment assets, are highly liquid and readily realisable, and
- the time required to investigate claims and decide whether payment (including any instalment settlements) should be made is adequate to raise any levy income required over and above the funds already under the Board's control.

Interest rate risk – Dependent on the date of the insolvency of the sponsoring employer of the claimant scheme, claims on the Fund may fall to be considered under the Occupational Pension Scheme (Pensions Compensation Provisions) Regulations 1997, which is the regime operated by the Fund's predecessor body, the Pension Compensation Board. Under this regime, claimants are entitled to interest based on the value of the validated loss, to be calculated at a rate of 2 per cent above base rate, for the period between the effective date of loss and the date of payment of compensation. The FCF therefore faces the risk that the return on its investments will be inadequate to cover the interest payments due to claimants whose claims are dealt with under this regime. The FCF's Statement of Investment Principles recognises this risk and describes the investment strategy designed to mitigate it.

Other claims on the FCF may fall to be considered under the Occupational Pension Schemes (Fraud Compensation Payments and Miscellaneous Amendments) Regulations 2005, which make no provision for the payment of interest, as claimants are entitled to receive only the value of the net loss suffered.

Foreign currency risk – The FCF has no significant exposure to foreign currency in respect of its compensation activities as all of its income, costs, assets and liabilities are denominated in sterling.

Credit risk – The FCF's loans and receivables are exposed to credit risk. Cash and cash equivalents are held in the form of units in liquidity funds managed by external fund managers, as explained in note 2.7.

NOTES RELATING TO THE OPERATION OF THE BOARD OF THE PPF'S ADMINISTRATION FUND FOR THE YEAR 1 APRIL 2010 TO 31 MARCH 2011

Note 3.1 Operating expenses

a) Employee benefits

All amounts in £000s	Year ended 31 March 2011			Year ended 31 March 2010		
	PPF	FAS	Total	PPF	FAS	Total
Short-term employee benefits	8,580	2,181	10,761	8,250	1,968	10,218
Social security costs	769	177	946	742	169	911
Other pension costs	1,550	407	1,957	1,492	375	1,867
Contractors and secondees	1,581	1,824	3,405	2,195	2,632	4,827
Termination benefits	88	-	88	120	-	120
Total	**12,568**	**4,589**	**17,157**	**12,799**	**5,144**	**17,943**

Included in short-term employee benefits above is the movement in the accrual for compensated absences.

The average number of staff employed, including secondment and temporary staff, was:

	As at 31 March 2011	As at 31 March 2010
	No.	**No.**
Permanent employees	219	216
Short term contract, seconded and temporary staff	20	32
FAS Operating Unit staff	52	54
Total	**291**	**302**

The average number of staff employed for the year ended 31 March 2011 includes FAS Operating Unit staff employed by the Department of Work and Pensions and seconded to the Board from July 2009. This arrangement with DWP ended in July 2011.

Details of the remuneration of members of the Board of the PPF are given in the Remuneration Report in section 2.3 of the Annual Report. The employee benefits reported include the costs of all Board members.

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 defined benefit section, or to contribute to a stakeholder (defined contribution) arrangement. The PCSPS is an unfunded multi-employer defined benefit salary related scheme but the Board is unable to identify its share of the underlying assets and liabilities. Defined benefit contributions are therefore accounted for by the Board as if they were contributions to a defined contribution scheme. A full actuarial valuation of PCSPS was carried out as at 31 March 2010 and details can be found in the Cabinet Office: Civil Superannuation Resource Accounts (www.civilservice-pensions.gov.uk).

During the year to 31 March 2011, employer's contributions of £1,948,000 (year to 31 March 2010: £1,844,000) were payable to the defined benefit section of the PCSPS at one of four rates in the range 17.1 per cent to 25.5 per cent (year to 31 March 2010: same range). 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. Employers' contributions of £9,000 (year to 31 March 2010: £22,000) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions were age-related and range from three per cent to 12.5 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.

At 31 March 2011, pension contributions in respect of the month of March 2011 totalling £169,000 were outstanding, and were paid over to PCSPS in April 2011 in accordance with legislative requirements.

b) Other costs

All amounts in £000s	Year ended 31 March 2011			Year ended 31 March 2010		
	PPF	FAS	Total	PPF	FAS	Total
Training and recruitment costs	714	116	830	832	120	952
Staff travel, expenses and hospitality	85	66	151	124	145	269
Advisory and other professional services	4,012	3,005	7,017	3,645	1,301	4,946
Statutory audit costs	117	13	130	144	16	160
Accommodation	1,136	943	2,079	944	882	1,826
General office expenses	374	146	520	387	156	543
IT and telephony	1,414	710	2,124	1,330	811	2,141
Publicity and Communications	61	12	73	265	56	321
Total	**7,913**	**5,011**	**12,924**	**7,671**	**3,487**	**11,158**

Other costs include where appropriate Value Added Tax which the Board is not able to recover.

c) Depreciation, amortisation and impairment charges

All amounts in £000s	Year ended 31 March 2011			Year ended 31 March 2010		
	PPF	FAS	Total	PPF	FAS	Total
Total charges in the year	907	361	1,268	986	329	1,315
Net charge to Statement of Comprehensive Net Income	**907**	**361**	**1,268**	**986**	**329**	**1,315**

Note 3.2 Interest income

The Board draws down grant in aid from DWP on a periodic (normally quarterly) basis, and these funds are held in interest bearing accounts.

All amounts in £000s	Year ended 31 March 2011			Year ended 31 March 2010		
	PPF	FAS	Total	PPF	FAS	Total
Interest on operating bank accounts	8	4	12	8	3	11
Total	**8**	**4**	**12**	**8**	**3**	**11**

Note 3.3 Property, Plant and Equipment and Intangible Assets

All amounts in £000s	Information Technology	Plant and Machinery	Furniture and Fittings	Payments on Account and Assets under Construction	Total Property plant and equipment	Intangible assets
Cost						
At 1 April 2009	**3,214**	**2**	**566**	**657**	**4,439**	**2,189**
Additions in the year	-	-	-	1,970	1,970	-
Assets brought into use	930	-	357	(2,193)	(906)	906
At 31 March 2010	4,144	2	923	434	5,503	3,095
Additions in the year	-	-	-	475	475	-
Disposals in the year	-	(2)	-	-	(2)	-
Assets brought into use	510	-	-	(839)	(329)	329
At 31 March 2011	**4,654**	**-**	**923**	**70**	**5,647**	**3,424**
Depreciation and amortisation						
At 1 April 2009	**(2,643)**	**(2)**	**(245)**	**-**	**(2,890)**	**(1,987)**
Depreciation and amortisation charged in the year	(594)	-	(167)	-	(761)	(554)
At 1 April 2010	**(3,237)**	**(2)**	**(412)**	**-**	**(3,651)**	**(2,541)**
Depreciation and amortisation charged in the year	(762)	-	(185)	-	(947)	(321)
Disposals in the year	-	2	-	-	2	-
At 31 March 2011	**(3,999)**	**-**	**(597)**	**-**	**(4,596)**	**(2,862)**
Net Book value at 1 April 2009	**571**	**0**	**321**	**657**	**1,549**	**202**
Net Book value at 31 March 2010	**907**	**-**	**511**	**434**	**1,852**	**554**
Net Book value at 31 March 2011	**655**	**-**	**326**	**70**	**1,051**	**562**
Net Book value of PPF Assets	**555**	**-**	**94**	**70**	**719**	**552**
Net Book value of FAS Assets	**100**	**-**	**232**	**-**	**332**	**10**

Note 3.4 Current assets

All amounts in £000s	As at 31 March 2011	As at 31 March 2010
Prepayments	244	82
Staff loans	36	47
Other receivables	13	27
Other current assets	**293**	**156**
Cash and cash equivalents	**2,418**	**573**
Total current assets	**2,711**	**729**

Note 3.5 Current liabilities

All amounts in £000s	As at 31 March 2011	As at 31 March 2010
	Total	**Total**
Amounts due to suppliers	1,047	1039
Taxation and social security	313	317
Accrual for compensated absences	149	150
Other payables	379	979
Accruals	3,070	3,353
Total current liabilities	**4,958**	**5,838**

Note 3.6 Reserves

The general reserve consists of:

All amounts in £000s	As at 31 March 2011			As at 31 March 2010		
	PPF	FAS	Total	PPF	FAS	Total
Opening balance	(1,441)	(1,262)	(2,703)	(836)	(81)	(917)
PPF Grant-in-aid received in the year (i)	22,661	-	22,661	20,843	-	20,843
Grant-in-aid to finance FAS Activities (i)	-	10,745	10,745	-	6,717	6,717
Incorporation of FAS Operating Unit	-	-	-	-	1,059	1,059
Net result for the year	**(21,380)**	**(9,957)**	**(31,337)**	**(21,448)**	**(8,957)**	**(30,405)**
Closing balance	**(160)**	**(474)**	**(634)**	**(1,441)**	**(1,262)**	**(2,703)**

i) The Board is authorised to draw down grant in aid from DWP under s116 of the Pensions Act 2004. Grant in aid is normally drawn down on a quarterly basis to fund the forecast operating and capital expenditure of the Board.

Note 3.7 Financial Instruments

IFRS 7 *Financial Instruments: Disclosures*, requires disclosure of the role which financial instruments have had during the year in creating or changing the risks an entity faces in undertaking its activities. Because of 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 business entities. Financial assets and liabilities are generated by the Board's routine operational activities, and are not held to change the risks facing the Board in carrying out its administration functions.

Financial Instruments by Category

All amounts in £000s	As at 31 March 2011	As at 31 March 2010
Loans and receivables		
Cash and cash equivalents	2,418	573
Staff loans	36	47
Other receivables	13	27
	2,467	**647**
Financial liabilities measured at amortised cost		
Amounts due to suppliers	(1,047)	(1,039)
Accrual for compensated absences	(149)	(150)
Accruals	(3,070)	(3,353)
	(4,266)	**(4,542)**
Total Financial Instruments	**(1,799)**	**(3,895)**

Reconciliation to Total Net Assets/(Liabilities)

All amounts in £000s	As at 31 March 2011	As at 31 March 2010
Total financial instruments	(1,799)	(3,895)
Non-current assets	1,613	2,406
Prepayments	244	82
Taxation and social security	(313)	(317)
Other payables	(379)	(979)
Total Net Assets/(Liabilities)	**(634)**	**(2,703)**

The amounts stated under loans and receivables and financial liabilities measured at amortised cost have carrying values which are not materially different to their fair values. Therefore the carrying values of these financial instruments approximate fair value.

Liquidity risk – Both the Board's resource and capital requirements are funded by grant-in-aid from its sponsor department, DWP. The Board works closely with the DWP on budgeting and forecasting of expenditures, particularly on forecasting grant-in-aid requirements, to ensure that the Board is not exposed to significant liquidity risks.

Interest rate risk – The Board has no power to borrow to fund administration activities and therefore is not exposed to any interest rate risk. Any surplus funds on its Administration account are held in interest-bearing accounts.

Foreign currency risk – The Board has no significant exposure to foreign currency in respect of its administration activities.

Credit risk – The Board has very low exposure to credit risk. Staff travel loans are repaid over a defined period and repaid in full if employment is terminated. Cash and cash equivalents consists entirely of cash held in the Administration Fund's current bank account.

Note 3.8 Related Party Transactions

Of the accommodation costs disclosed in Note 3.2b, £1,983,000 (year to 31 March 2010: £1,346,000) was payable to the Estates Division of DWP who manage the facilities occupied by the Board and its staff and through whom all related facilities costs, including rent, rates and property service charges, are routed. DWP Estates charge no explicit fee for these property management services.

There are no other related party transactions to disclose.

Actuarial Valuation of the Pension Protection Fund

To: The Board of the Pension Protection Fund

From: Stephen Rice, Appointed Actuary

The actuarial valuation of the Pension Protection Fund as at 31 March 2011

1. Introduction

The Board of the Pension Protection Fund ('the Board') is required by paragraph 22 of schedule 5 to the Pensions Act 2004 to prepare a statement of accounts in respect of each financial year. Each statement of accounts must contain an actuarial valuation of the assets and liabilities of the Pension Protection Fund prepared and signed by the Appointed Actuary.

This is the sixth actuarial valuation of the Pension Protection Fund. The effective date of this valuation is 31 March 2011. The previous actuarial valuation was as at 31 March 2010, and the report on that valuation was dated 25 October 2010.

At its meeting on 26 April 2006 the Board appointed me to prepare the annual actuarial valuation of the assets and liabilities of the Pension Protection Fund. I intend my report to assist the Board with the preparation of the annual report and accounts as at 31 March 2011 and so I see the Board as the user of this report. As required by paragraph 22(5) of schedule 5 to the Pensions Act 2004, the Board will be sending a copy of this report, as part of the statement of accounts, to the Secretary of State and also to the Comptroller and Auditor General. No party, apart from the Board, the Secretary of State and the Comptroller and Auditor General, should rely on any part of this report.

This report does not contain advice on the funding of compensation payable from the Pension Protection Fund. In particular, the results of this valuation are not used in the determination of the levy. All the results in this report are outcomes of a valuation exercise involving the quantification of amounts for recording in the annual report and accounts.

In my view, while the Actuaries Code issued by the Actuarial Profession applies to the preparation of this report, there are no professional practice standards which directly apply. I have, however, prepared this report having regard to the principles in three Technical Actuarial Standards, namely TAS R (Reporting Actuarial Information), TAS D (Data) and TAS M (Modelling). This report should be considered alongside my supplementary report dated 25 October 2011. As my reports are prepared solely for the purpose of the Annual Report and Accounts of the Pension Protection Fund, I have not produced any projections of future accounting positions in either this or my supplementary report because the Board does not require them for its accounting disclosures.

2. Data

Individual member data was obtained from Capita (the administrators) in respect of former members of schemes for which the Board assumed responsibility on or before 31 March 2011 (although some membership data was missing in respect of one scheme because the full membership data had not been provided to Capita by this date). I have carried out some overall checks on this data for general reasonableness and to ensure that it is consistent with that used in the actuarial valuation at 31 March 2010. A summary of the data as at 31 March 2011 is as follows (figures in brackets are as at 31 March 2010):

Deferred pensioners

Sex	Number	Average age	Total Accrued Pension revalued to 31 March 2011 *(uncapped) (£000s pa)*
Male	31,395 (20,294)	49.4 (48.9)	116,863 (77,147)
Female	10,668 (5,134)	47.6 (46.9)	21,749 (10,406)
Total	**42,063 (25,428)**	**48.9 (48.5)**	**138,612 (87,553)**

Pensioners

Status	Sex	Number	Average age	Total Compensation at 31 March 2011 *(capped where applicable) (£000s pa)*
Members	Male	22,003 (14,325)	67.8 (67.8)	103,466 (64,814)
	Female	6,100 (3,145)	68.4 (69.6)	12,621 (6,541)
Dependants (excluding children)	Male	361 (183)	70.3 (72.3)	529 (319)
	Female	4,520 (3,039)	73.3 (73.9)	11,846 (7,589)
Children	Male	40 (38)	15.6 (17.3)	78 (80)
	Female	45 (45)	16.1 (17.0)	82 (84)
Total		**33,069 (20,775)**	**68.6 (68.8)**	**128,622 (79,427)**

Individuals who are in receipt of one tranche of compensation as well as being entitled to a further tranche of compensation beginning after 31 March 2011 are included in both tables.

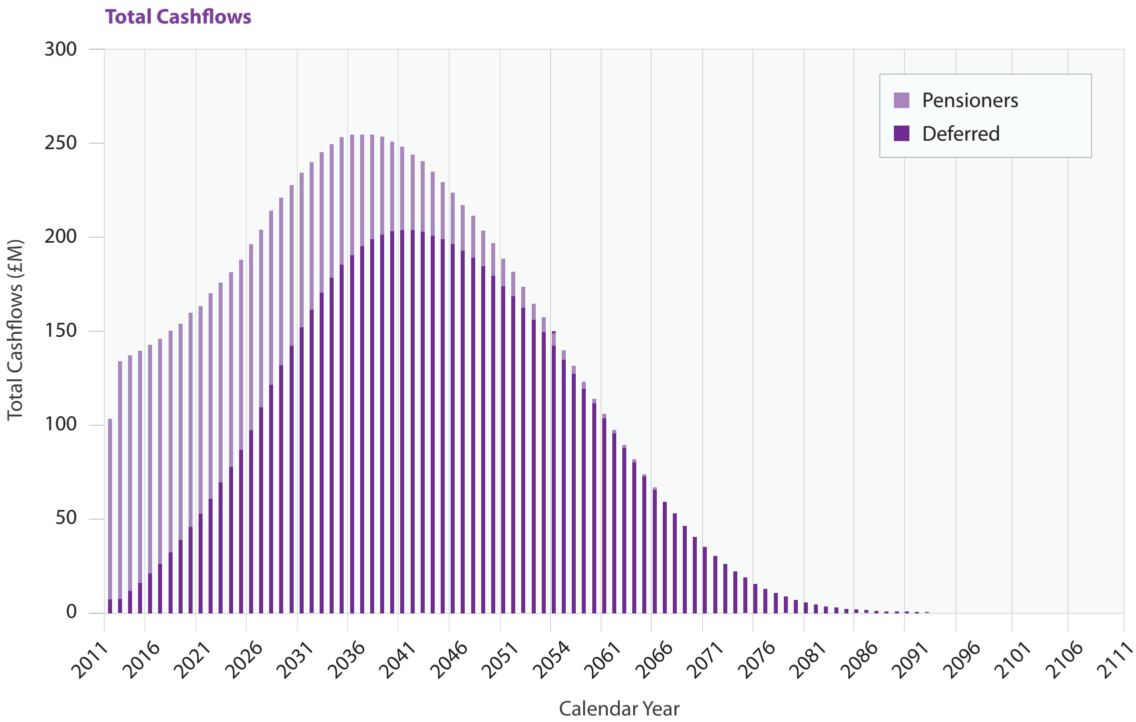
In respect of the one scheme for which the individual membership data was not complete, a loading of 50 per cent was added to the calculated liabilities of the incomplete membership of that scheme. The loading was derived from an analysis of the grouped member data and liabilities provided in conjunction with the scheme's s143 valuation.

3. Compensation

The compensation in respect of former members of schemes for which the Board assumed responsibility on or before 31 March 2011 has been determined in accordance with the provisions of Schedule 7 to the Pensions Act 2004 and consequent regulations. A summary of the compensation provisions is shown in Annex M1.

4. Method

In respect of each former member of schemes for which the Board assumed responsibility on or before 31 March 2011, the expected compensation cash flows for each future year are estimated. In estimating each yearly compensation cash flow for each former member, account is taken of the initial amount of compensation or accrued pension, mortality, the Normal Pension Age (NPA) for deferred members, compensation increases and the probability of survivors' compensation being paid. The expected cash flows are shown in the chart below (ignoring early retirement and commutation of annual compensation for a lump sum). Note that this cash flow projection takes no account of schemes for which the Board assumes responsibility after 31 March 2011.



The resulting yearly compensation cash flows are discounted back to a present value at the valuation date, 31 March 2011, and summed to obtain the actuarial present value of each former member's liability.

The financial and demographic assumptions employed are described briefly in the next section of this report and set out more fully in Annex M2.

The sum of all former members' liabilities is the estimated sum required, based on the financial and demographic assumptions employed, to meet liabilities that have been transferred to the Board's responsibility.

5. Assumptions

In order to estimate future compensation cash flows, I have needed, in respect of the former members of schemes for which the Board assumed responsibility on or before 31 March 2011, to make assumptions about:

- annual increases in payment to that element of their compensation which accrued after 5 April 1997
- revaluation of compensation in deferment for those whose compensation does not begin to be paid until after the valuation date, 31 March 2011
- their future mortality and other demographic features, and
- whether the Secretary of State exercises his / her power under paragraph 30 of Schedule 7 of the Pensions Act 2004 to vary the 100 per cent level of compensation for those members in category 1 of Annex M1 and the 90 per cent level of compensation for those members in category 2 of Annex M1.

In order to determine the present value of the liabilities, I have needed to discount the compensation cash flows, estimated as described above, back to the valuation date, 31 March 2011.

The Appointed Actuary has responsibility for the assumptions used in the statutory valuation of the assets of the PPF and the transferred liabilities, which are the subject of this report. The Board has responsibility for the assumptions used to value the provisions for schemes forming the provisions, as well as contingent liabilities, which are the subject of my supplementary report. Since there is a large overlap in the two sets of assumptions, past practice has been to adopt the same assumptions, as far as possible, for both purposes, which are agreed by the Board.

In proposing the assumptions for the 2011 actuarial valuation, I have taken account of the Accounts Direction which is 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 this direction, the Board is required to prepare accounts in compliance with:

- the accounting principles and disclosure requirements of the current edition of the Government Financial Reporting Manual (the 'FReM') issued by HM Treasury which is in force for the financial year for which the accounts are being prepared
- other guidance issued by HM Treasury in respect of accounts which are required to give a true and fair view, and
- the Framework document agreed with the Board of the Pension Protection Fund.

None of the above provides direction on the choice of assumptions made for the valuation. However, in taking account of these documents and the accounts direction, the Board is required to place a value on the provisions which is best estimate (ie is equally likely to overstate as to understate the actual value). This follows from IAS 37, which the Board is required to take into account in accordance with the FReM. As the same choices of assumptions are made as far as possible for this report as for valuing the provisions the value placed on liabilities of the PPF are also best estimate.

A full description of the assumptions made can be found in Annex M2.

I have also carried out a sensitivity analysis in which the effect on the assets and liabilities is shown by changes in certain key assumptions. The results of this analysis may be seen in the supplementary report which I have prepared concerning the provisions of the Pension Protection Fund as at 31 March 2011.

6. Value of assets

The value of the Pension Protection Fund assets is determined in accordance with regulations 2, 4 and 5 of the Pension Protection Fund (Valuation of the Assets and Liabilities of the Pension Protection Fund) Regulations 2006 (SI 2006 / 597).

I have adopted the value of the assets of the Fund as stated in the relevant accounts prepared by the Board for the financial period ending on 31 March 2011. I have not adopted either of the adjustments made available by regulations 4 and 5 as I considered that it was not appropriate to do so.

Accordingly I have taken the value of the assets of the Pension Protection Fund as at 31 March 2011 as £6,602,136,000. This includes £1,998,000 in respect of AVC assets that match AVC liabilities yet to be discharged.

This compares with £4,658,671,000 as at 31 March 2010.

An analysis of the change in the value of the assets of the Fund between 31 March 2010 and 31 March 2011 is as follows:

	£000s
Value of assets at the start of the year (31 March 2010)	**4,658,671**
Assets for schemes entering the PPF during the year to 31 March 2011 (measured at their transfer dates)	1,025,682
Income from Pension Protection Levies	668,460
Compensation paid	(119,457)
Change in current assets (AVCs to be discharged)	1,074
Change in value of interest rate swaps and inflation swaps	91,445
Change in value of invested assets on account of changes in bond yields	47,508
Change in value of invested assets on account of other changes (excluding bond yields, interest rate swaps and inflation swaps) net of investment management expenses.	228,753
Value of assets at the end of the year (31 March 2011)	**6,602,136**

An analysis of the change in the actuarial liabilities between 31 March 2010 and 31 March 2011 is as follows:

	£000s
Actuarial liabilities at the start of the year (31 March 2010)	**2,447,969**
Liabilities for schemes entering the PPF during the year to 31 March 2011 (measured at 31 March 2011)	1,490,685
Effect of passage of time on discounting	21,420
Actuarial (gain) / loss due to change in financial assumptions	107,111
Actuarial (gain) / loss due to changes in mortality assumptions	(46,929)
Actuarial (gain) / loss due to experience being different from what was assumed*	22,176
Change in expense allowance**	60,275
Compensation paid	(119,457)
Change in current liabilities (AVCs to be discharged)	1,074
Actuarial liabilities at the end of the year (31 March 2011)	**3,984,324**

* Mainly due to actual increases to pensions both in payment and in deferment being higher than assumed

** See section vii) of Annex M2 for a description of the changes incorporated for expenses

7. Value of liabilities

The value of the Pension Protection Fund liabilities is determined in accordance with regulation 3 of the Pension Protection Fund (Valuation of the Assets and Liabilities of the Pension Protection Fund) Regulations 2006 (SI 2006 / 597). This requires that:

(a) the liabilities of the Pension Protection Fund 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 actuarial liabilities in respect of former members of schemes for which the Board assumed responsibility on or before 31 March 2011, on the assumptions described in section 5 and Annex M2, are summarised in the table below:

Type of member	£000s
Deferred pensioners	2,079,544
Pensioners	1,827,782
Administration expenses to be met from the Fund	75,000
Current liabilities (AVCs to be discharged)	1,998
Total	**3,984,324**

Accordingly I have taken the value of the liabilities of the Pension Protection Fund as at 31 March 2011 as £3,984,324,000.

This compares with £2,447,969,000 as at 31 March 2010.

8. Conclusion

The balance sheet in respect of the assets and liabilities of the Pension Protection Fund determined in accordance with regulation SI 2006 / 597 is as follows:

	£000s
Assets	
The value of the Pension Protection Fund assets determined in accordance with the Pension Protection Fund (Valuation of the Assets and Liabilities of the Pension Protection Fund) Regulations 2006	6,602,136
Total assets	**6,602,136**
Liabilities	
The actuarial liabilities in respect of former members of schemes for which the Board assumed responsibility on or before 31 March 2011	3,907,326
Allowance for certain expenses that are met from the Pension Protection Fund	75,000
The remaining liabilities under Regulation 3 of the Pension Protection Fund (Valuation of the Assets and Liabilities of the Pension Protection Fund) Regulations 2006	1,998
Total liabilities	**3,984,324**
Excess of assets over liabilities – before provisions	**2,617,812**
Funding ratio (Assets / Liabilities) – before provisions	**166%**

5 Actuarial valuation as at 31 March 2011

In respect of the Pension Protection Fund as at 31 March 2011, the value of the assets was £ 6,602,136,000 and the value of the liabilities (including those in respect of former members of schemes for which the Board assumed responsibility on or before 31 March 2011) was £ 3,984,324,000.

The excess of assets over liabilities of £ 2,617,812,000 in the Pension Protection Fund as at 31 March 2011 needs to be understood in the context of additional pension schemes that had entered into an assessment period, as defined in section 132 of the Pensions Act 2004, with effect from a date on or before 31 March 2011. Therefore, in addition to this formal report on the assets and liabilities, I have estimated provisions in respect of the assets, potential recoveries and liabilities of those schemes which, in the Board's judgement, are likely to be transferred into the Pension Protection Fund. These provisions are shown in my supplementary report to the Board dated 25 October 2011 and will be shown in the statement of accounts being prepared by the Board for the financial period ending on 31 March 2011.

I have also estimated contingent liabilities as at 31 March 2011, including those in respect of other pension schemes which, in the Board's judgement, may possibly be transferred into the Pension Protection Fund in the near future. These contingent liabilities are shown in my supplementary report to the Board dated 25 October 2011 and will be disclosed in footnotes to the statement of accounts prepared by the Board for the financial period ending on 31 March 2011.

Signed: Stephen Rice

Date: 25 October 2011

Name: Stephen Rice, Appointed Actuary

Job Title: Chief Actuary

Qualification: Fellow of the Institute of Actuaries

Employer: The Board of the Pension Protection Fund

Annex M1 Summary of compensation provided by the Pension Protection Fund

Broadly speaking, the Pension Protection Fund provides two levels of compensation:

1. For individuals who have reached their scheme's normal pension age before the assessment date or, irrespective of age, are in receipt of either a survivor's pension or a pension on the grounds of ill health, the Board pays from the Pension Protection Fund -- **100 per cent level of compensation**

In broad terms and in normal circumstances, this means a starting level of compensation that equates to 100% of the pension in payment immediately before the start of the assessment period, as defined in section 132 of the Pensions Act 2004. This is subject to a review of the rules of the scheme by the Board.

The part of this compensation that is derived from pensionable service on or after 6 April 1997 will, from 1 January 2012, be increased each year in line with the increase in the Consumer Prices Index ("CPI") capped at 2.5% and with a floor of 0%. Before this change, the increase was linked to increases in the Retail Prices Index ("RPI"). Primary legislation is planned for later this year in order to enable this change to be made.

2. For the majority of people aged below their scheme's normal pension age the Board pays from the Pension Protection Fund -- **90 per cent level of compensation**.

In broad terms and in normal circumstances, this means 90 per cent of the pension an individual had accrued immediately before the assessment date (subject to a review of the rules of the scheme by the Board) plus revaluation in line with the increase in the RPI between the assessment date and March 2011, and the increase in the CPI between March 2011 and the commencement of compensation payments, subject to a floor of 0 per cent over the whole period, and to a maximum increase of five per cent per annum for the whole period (2.5 per cent per annum for pension accrued on or after 6 April 2009). This compensation is subject to an overall cap, which from April 2011 equates to £33,219.36 per annum at age 65 (the cap is adjusted according to the age at which compensation comes into payment). This revaluation method is a change to previous years when revaluation was linked solely to increases in RPI. Regulations (SI 2011 / 554) requiring the use of CPI in determining revaluation after March 2011 were laid in March 2011.

Once compensation is in payment, the part that derives from pensionable service on or after 6 April 1997 is increased on 1 January each year in line with:

- for years 2011 and earlier, the increase in the RPI capped at 2.5 per cent and with a floor of 0 per cent, and
- for years 2012 and later, the increase in the CPI capped at 2.5 per cent and with a floor of 0 per cent.

Also, there is compensation for certain survivors.

Under the Pensions Act 2004, the Board has a duty to pay compensation on a basis that is no more or less favourable to a woman (or man) than it would be to a comparable man (or woman) in respect of pensionable service on or after 17 May 1990. In meeting this requirement, the Board must take into account any differences in scheme benefits that have arisen owing to differences in the calculation of Guaranteed Minimum Pensions (GMPs) for males and females. The Board has received legal advice confirming the existence of its duty to pay compensation on this basis. The Board has also carried out work on how it might implement equalisation of compensation for members whose schemes have already entered the PPF and on the probable costs of equalisation. These events have led the Board to conclude that it should establish a provision within its financial statements for the cost of equalisation on both the schemes that have transferred to the PPF and those schemes forming the provisions. Additionally a contingent liability is disclosed in respect of the cost of equalisation in respect of other contingent liabilities in the footnotes to the statement of accounts prepared by the Board for the financial period ending on 31 March 2011.

The Board has the power to alter the amount of the levy that it collects (up to the levy ceiling) to meet its liabilities. Additionally, under paragraphs 29 and 30 of Schedule 7 of the Pensions Act 2004, the Board:

- has the power to alter the rates of revaluation and indexation, and
- can recommend to the Secretary of State for Work per cent Pensions that the percentage of benefits paid as compensation is varied.

Annex M2 Assumptions

a) Compensation levels

As for previous valuations of the Pension Protection Fund, I have continued to assume that the Secretary of State will not exercise her / his power under paragraph 29 of Schedule 7 of the Pensions Act 2004 to vary the 100 per cent level of compensation for those members in category 1 of Annex M1 and the 90 per cent level of compensation for those members in category 2 of Annex M1.

b) Financial assumptions

For the liabilities in respect of transferred schemes I have applied the same rationale in setting the financial assumptions as I did in my report as at 31 March 2010. I consider that it is still appropriate for the financial assumptions to vary according to the term of the particular cash flow being estimated and discounted.

i) Discount rates

I consider that a notional portfolio of assets consisting of cash plus appropriate zero-coupon interest rate swaps contracts and inflation swaps contracts plus gilt strips (or notional gilt strips) provides the best match to the Pension Protection Fund liability cash flows. Calculating the liabilities in this way represents a low-risk approach to the setting of the financial assumptions, in the sense that there should be a low risk of the notional assets being inadequate to pay the PPF members as at the valuation date their full compensation.

Under the terms of a zero-coupon interest rate swap contract with notional principal P and tenor (=duration) N, the Fund would at time N pay interest on P to the counterparty of the London Interbank Offered Rate ("LIBOR") while the counterparty would at the same time pay the Fund a fixed interest rate specified in the contract. Since around August 2008, zero coupon interest rate swap yields for longer tenors have been lower than the gilts strip (one with the individual cash flows stripped out of a gilt) yields at the same duration. It is therefore considered reasonable to construct a notional portfolio so that it contains gilts strips (or more often notional gilts strips) at longer durations and cash and swaps contracts at shorter durations.

Because it is difficult to earn close to LIBOR interest on cash, a deduction is made from the zero-coupon interest rate swap yields of 15 basis points at each term.

The discount rate for each term is therefore taken as the higher of the zero-coupon interest rate swaps yield less 15 basis points and the gilts strip yield.

A zero-coupon interest rate swaps yield curve as at 31 March 2011 was obtained from Insight Investment who constructed the curve by seeking indicative prices from investment banks.

A gilts strip yield curve as at 31 March 2011 was obtained from the UK Debt Management Office. This curve shows gilt strips yields at terms one year to 45 years inclusive. Yields at each of these terms are in respect of bonds with the closest nominal maturity to the indicated term. As the zero-coupon swaps curve and gilt strips curve both extend only as far as term 50 and 45 respectively, I have assumed that these curves remain flat from term 50 and 45 onwards.

In my opinion, the Pension Protection Fund's Statement of Investment Principles is consistent with this discount rate derivation, albeit that the Board takes some extra investment risk in the expectation of outperformance.

ii) Revaluation rates

I have assumed that the Board of the Pension Protection Fund will not exercise its power to amend the maximum revaluation rate of 5 per cent per annum (2.5 per cent per annum in respect of compensation which derives from service after 5 April 2009).

Future revaluations of deferred compensation are now linked to increases in the CPI rather than RPI, as for the previous valuation. In considering what assumption would be appropriate for future CPI increases, I have noted that at present there is almost no market in CPI swaps or indeed any other instruments from which CPI prices can reasonably be inferred. Such limited current market pricing information as is available from investment banks and insurance companies would suggest only a very small gap between CPI-linked prices and corresponding RPI-linked prices. I have therefore assumed, for this valuation, that there will be a zero gap between future CPI increases and future RPI increases. I have further assumed that the rate of future RPI increases, for the period from the valuation date to normal pension age, is determined from the RPI inflation swap curve (supplied as at 31 March 2011 by Insight Investment).

I am aware that there are other methods of deriving a CPI assumption and these include, for example, deducting a best estimate of the future gap between RPI and CPI from the market implied measure of RPI. I do not feel that this method is consistent with the setting of the other financial assumptions. Should a market develop, I expect that a gap will develop between RPI and CPI and I have shown the sensitivity of the balance sheet to there being a gap of 0.5 per cent. This may be seen in the supplementary report which I have prepared concerning the provisions of the PPF as at 31 March 2011.

The maximum revaluation rate of 5 per cent per annum never applies, for any term, to compensation deriving from service before 6 April 2009. The maximum revaluation rate of 2.5 per cent per annum would apply, for every term, to compensation deriving from service after 5 April 2009. For ease of calculation this upper limit of 2.5 per cent per annum has been ignored. The consequent overstatement of liabilities is insignificant; a rough estimate of the overstatement is less than £500,000.

iii) Pension increase rates

I have assumed that the Board of the Pension Protection Fund will not exercise its power under paragraph 29 of Schedule 7 of the Pensions Act 2004 to amend the maximum annual increase rate of 2.5 per cent per annum, for compensation accrued after 5 April 1997.

As with revaluation, future increases to compensation will be linked to the increase in CPI rather than RPI. Assuming a zero gap between CPI and RPI, my assumption for pension increase rates is therefore derived in the same way as in my valuation report dated 31 March 2010 and this is set out below.

An LPI[0,2.5 per cent] inflation swap is an inflation swap which is subject to an annual floor of 0 per cent and an annual cap of 2.5 per cent. It is used to determine the level of increase that will apply in payment each year. The assumed rate of future post-1997 pension increases was determined from the LPI[0,2.5 per cent] inflation swap curve (supplied as at 31 March 2011 by Insight Investment for terms 5 to 30 years). As at 31 March 2011, it has not been possible to obtain data for terms one to four years because Insight Investment did not receive quotes for trading the LPI[0,2.5 per cent] inflation swap for these years on that day. Insight Investment was, however, able to generate notionally a curve for terms one to four years by assuming that the implied volatilities that can be derived from the more heavily traded LPI[0,3.0 per cent] inflation swap curve were applied to the RPI inflation swap curve. For terms beyond 50 years, I have assumed that the LPI[0,2.5 per cent] inflation swap curve remains flat.

The table below shows the annualised average term-dependent rates of discount, inflation and increases to pensions in payment over the given term. Figures shown in brackets are as at 31 March 2010

Term	Discount rate pa	RPI increase rate pa	Post 1997 pension increase rate pa
1	1.216% (0.893%)	4.115% (2.921%)	2.307% (2.029%)
2	1.730% (1.401%)	3.894% (3.087%)	2.223% (2.038%)
3	2.194% (1.945%)	3.667% (3.099%)	2.183% (2.037%)
4	2.572% (2.388%)	3.498% (3.125%)	2.152% (2.043%)
5	2.882% (2.750%)	3.398% (3.167%)	2.123% (2.035%)
10	3.969% (4.233%)	3.471% (3.466%)	2.145% (2.146%)
15	4.413% (4.666%)	3.614% (3.681%)	2.186% (2.202%)
20	4.638% (4.721%)	3.671% (3.784%)	2.213% (2.236%)
30	4.560% (4.709%)	3.707% (3.804%)	2.237% (2.268%)
40	4.410% (4.528%)	3.683% (3.770%)	2.226% (2.285%)
50	4.286% (4.456%)	3.680% (3.755%)	2.224% (2.286%)

Sources: Insight Investment
UK Debt Management Office (for discount rates with terms 8 years and over)

c) Demographic assumptions

i) Mortality

The assumption for mortality is in two parts. The first part is the assumption about baseline mortality. This reflects the rate at which people have been dying in the recent past. The second part of the assumption is an estimate of how mortality rates will change over time. Taken together, these assumptions reflect my best estimate of the mortality that will be experienced by members of the PPF (ie it is my view that the assumption is equally likely to overstate as to understate actual experience).

- Baseline mortality

For the valuation as at 31 March 2010, standard tables produced by the Continuous Mortality Investigation (CMI) of the UK Actuarial Profession from the pensioner mortality experience of self-administered pension schemes (SAPS) were used as base tables. The table actually used for any particular member depended on:

- member status (ie deferred pensioner, pensioner, or dependant)
- sex, and
- amount of compensation.

I have concluded that there is a significant gain in precision if account is also taken of an additional factor; namely lifestyle, as proxied by post-code. Club Vita, a mortality analyst, by analysing a large amount of data from its members (including the PPF), has provided the PPF with 149 different mortality curves to apply to the transferred membership. These curves are based on mortality experienced over the period 2006-2008, and vary one from another according to member status, sex, amount of compensation and post-code.

- Allowance for changes in mortality over time

For the valuation as at 31 March 2010, I adopted the CMI-2009 mortality projection model which made available for the first time a different approach to projecting changes in mortality rates over time. As well as reflecting a change in methodology, the new model also incorporated new data on how mortality in England and Wales has changed in recent years.

This model was adopted in its core form, without advanced parameterisation, setting a long-term improvement rate of 1.5 per cent per annum for both men and women. I have seen no evidence to suggest that the long-term improvement rate should be changed from my assumption adopted last year.

Since the previous valuation, the CMI has updated the CMI-2009 model to take account of more up to date data. I have therefore adopted the CMI-2010 mortality projection model in its core form, without advanced parameterisation, setting a long term improvement rate of 1.5 per cent per annum for both men and women for this valuation. In standard notation, my assumption for men is denoted CMI_2010_M [1.5 per cent] and for women is denoted CMI_2010_F [1.5 per cent].

It should be recognised that there is a substantial element of subjectivity about mortality assumptions and that different actuaries will come to different conclusions. The appropriate mortality assumption for future valuations will be kept under review.

- Life expectancies implied by the mortality assumptions

The following table illustrates the range of cohort life expectancies of pensioners aged 65 on 31 March 2011 and non-pensioners from age 65 aged 40 on 31 March 2011 (based on the mortality assumptions being used for this valuation). Cohort life expectancies are based on the age-specific mortality rates allowing for projected changes in mortality. The figures in brackets show the cohort life expectancies based on the assumptions adopted in my valuation as at 31 March 2010. One source of the difference between the 2010 and 2011 expectations of life is due to an additional year's worth of mortality improvements in the 2011 figures. As a result of using post code analysis in the baseline mortality assumption, there are significantly more mortality curves used in this valuation than in the previous valuation. This gives a wider range of life expectancy than would have been seen last year.

Men

Membership group	Minimum life expectancy in years	Maximum life expectancy in years	Range of life expectancies, in years, within which 75% of all accrued annual compensation lies	Average life expectancy in years (weighted by annual compensation)
Pensioners:				
- Members	17.2 (19.9)	25.9 (24.1)	20.1-24.3 (21.6-24.1)	21.5 (21.6)
- Dependants	16.0 (19.9)	20.9 (24.1)	19.5-20.9 (19.9-19.9)	19.5 (19.9)
Male Non-pensioners:				
- Members	20.4 (23.0)	28.8 (27.0)	23.1-26.1 (24.5-27.0)	24.4 (24.5)
- Dependants	19.1 (23.0)	24.0 (27.0)	22.6-24.0 (24.5-27.0)	22.6 (24.5)

Women

Membership group	Minimum life expectancy in years	Maximum life expectancy in years	Range of life expectancies, in years, within which 75% of all accrued compensation lies	Average life expectancy in years (weighted by annual compensation)
Pensioners:				
- Members	20.0 (23.4)	26.4 (25.1)	22.7-25.6 (23.4-24.0)	23.9 (24.0)
- Dependants	16.2 (22.6)	27.4 (25.4)	21.7-25.7 (22.6-23.8)	23.8 (23.8)
Non-pensioners:				
- Members	23.2 (26.5)	29.3 (28.1)	25.9-28.6 (27.0-27.0)	27.0 (27.0)
- Dependants	20.0 (25.8)	30.2 (28.3)	25.0-27.8 (27.0-27.0)	26.2 (27.0)

ii) Commutation

No allowance is made for commutation of compensation. Even though estimated cash flows would be affected by making allowances, nonetheless these member options are roughly cost-neutral in that the value of the liabilities is roughly the same whether or not a member commutes pension for cash. The factors used to determine the amount of compensation given up for cash are assumed to change over time (being reviewed at least annually) in order to maintain this cost-neutral position.

iii) Early retirement

No allowance is made for early retirement. Even though estimated cash flows would be affected by making allowances, nonetheless these member options are roughly cost-neutral in that the value of the liabilities is roughly the same whether or not a member retires early. The factors used to determine the reduction in compensation on early retirement are assumed to change over time (being reviewed at least annually) in order to maintain this cost neutral position.

iv) Proportion married

For pensioners:

Where there is provision for survivor pensions for relevant partners an assumption consistent with 90 per cent (males) or 80 per cent (females) at normal pension age.

Where there is no provision for survivor pensions for relevant partners other than legal spouses an assumption consistent with 80 per cent (males) or 70 per cent (females) at normal pension age.

For deferred pensioners:

Where there is provision for survivor pensions for relevant partners an assumption, at the assumed date of retirement or earlier death, of 90 per cent (males) or 80 per cent (females).

Where there is no provision for survivor pensions for relevant partners other than legal spouses an assumption, at the assumed date of retirement or earlier death, of 80 per cent (males) or 70 per cent (females).

These are standard assumptions normally considered appropriate by actuaries measuring liabilities of UK pension funds.

v) Age difference between member and dependant

Females assumed to be 3 years younger than males.

This is a standard assumption normally considered appropriate by actuaries measuring liabilities of UK pension funds.

vi) Children's pensions

No specific additional allowance is included for prospective children's pensions. Children's pensions already in payment are assumed to cease in accordance with the compensation entitlement with no allowance for mortality prior to cessation.

vii) Expenses

Since 1 April 2008, certain administration expenses are being met from the Pension Protection Fund rather than from the Administration Fund as happened before that date. Since 1 April 2011 certain other expenses are also being met from the Pension Protection Fund rather than the Administration Fund.

An allowance equal to 1.9 per cent of the value of the liabilities in respect of former members of schemes that have transferred into the Pension Protection Fund before 1 April 2011 has been made in respect of the future cost of expenses to be met from the Pension Protection Fund. This has been derived from a calculation of the present value of the expected future expenses that will be incurred in respect of these members. This calculation was based on the budgeted expenses to be incurred by the Pension Protection Fund in the three years following the valuation date. This compares to an allowance of 0.6 per cent in the previous year's valuation.

Actuary's supplementary report as at 31 March 2011

To: The Board of the Pension Protection Fund

From: Stephen Rice, Chief Actuary to the Board of the Pension Protection Fund

Actuarial liabilities, provisions and contingent liabilities of the Pension Protection Fund as at 31 March 2011

1. Introduction

The Board of the Pension Protection Fund ("the Board") is required by paragraph 22 of schedule 5 to the Pensions Act 2004 to prepare a statement of accounts in respect of each financial year. Each statement of accounts must contain an actuarial valuation of the assets and liabilities of the Pension Protection Fund. This actuarial valuation is set out in my report to the Board dated 25 October 2011.

The statement of accounts also contains provisions and discloses contingent liabilities that require actuarial estimation. This report contains these estimates. It also contains actuarial balance sheets for the Pension Protection Fund showing actuarial liabilities and provisions in comparison with the corresponding assets. The Board is responsible for the accounting policies, and this report has been prepared within the framework which it has determined. Although I have not been explicitly commissioned to provide this report, I have, nevertheless, prepared it for the Board and I intend my report to assist the Board with the preparation of the Annual Report and Accounts as at 31 March 2011. I therefore see the Board as the user of this report and no other party should rely on any part of this report.

This report does not contain advice on the funding of compensation payable from the Pension Protection Fund. In particular, the results of this valuation are not used in the determination of the levy. All the results in this report are outcomes of a valuation exercise involving the quantification of amounts for recording in the Annual Report and Accounts.

In my view, while the Actuaries Code issued by the Actuarial Profession applies to the preparation of this report, there are no professional practice standards which directly apply. I have, however, prepared this report having regard to the principles in three Technical Actuarial Standards, namely TAS R (Reporting Actuarial Information), TAS D (Data) and TAS M (Modelling). This report should be considered alongside my report to the Board dated 25 October 2011. As my reports are prepared solely for the purpose of the Annual Report and Accounts of the Pension Protection Fund, I have not produced any projections of future accounting positions in this report because the Board does not require them for its accounting disclosures.

2. Provisions

Under International Accounting Standard 37 (IAS 37) of the International Accounting Standards Board 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 application of this requirement in the accounting standard to the Board's statement of accounts as at 31 March 2011 is set out in Annex S1.

3. Contingent liabilities

Under IAS 37, a contingent liability is not recognised as a liability because it is either:

- a possible obligation (it has not yet been confirmed whether there is an obligation that could lead to a transfer of economic benefits), or
- a present obligation that does not meet the recognition criteria in IAS 37 (ie it is not probable that a transfer of economic benefits will be required to settle the obligation, or a sufficiently reliable estimate of the amount of the obligation cannot be made).

A contingent liability should, however, be disclosed if the possibility of an outflow of economic benefit to settle an obligation is more than remote. The application of this requirement in the accounting standard to the Board's statement of accounts for the financial period ending on 31 March 2011 is set out in Annex S2.

The definitions of contingent liabilities are specified by the Board and I have calculated the values accordingly. However, it should be noted that claims arising after 31 March 2011 could arise from sources other than those described in the definitions for the contingent liabilities. For the avoidance of doubt, the contingent liabilities are not meant to represent the expected claims in the coming year.

4. Data

The data used for this valuation is summarised in Annex S3.

5. Compensation provided by the Pension Protection Fund

The compensation provided by the Pension Protection Fund is summarised in Annex M1 of my report to the Board dated 25 October 2011.

6. Assumptions

The assumptions used to calculate the actuarial liabilities are set out in full in Annex M2 of my report to the Board dated 25 October 2011.

The set of assumptions used in order to calculate the provisions and contingent liabilities as at 31 March 2011 are in most respects the same as those used to calculate the actuarial liabilities. The differences are shown in Annex S4.

We have performed a sensitivity analysis by amending the valuation basis in key areas. The assumptions adopted for the sensitivity analysis are shown in Annex S5.

To determine whether a provision is required for a scheme it is necessary to determine whether as at the insolvency date the value of the assets was less than the amount of Protected Liabilities (see Annex S1). The assumptions to determine this are derived from market conditions at the date of calculation following the published guidance on undertaking a valuation in accordance with section 179 of the Pensions Act 2004. This guidance is available on the Pension Protection Fund web-site;

www.pensionprotectionfund.org.uk/TechnicalGuidance/Pages/ValuationGuidance.aspx

7. Method to calculate the actuarial liabilities, provisions and contingent liabilities

a) Actuarial liabilities

The method of calculating the actuarial liabilities is set out in my report to the Board dated 25 October 2011

b) Provisions

The method of calculating the provisions varied according to the data that the Board was holding about the scheme as at 30 April 2011.

1. Updated asset value information (as at 31 December 2010 or later) and recent membership data

This information was obtained from certain schemes classified as 'material schemes'. These are schemes which:

(i) satisfy the definition of a provision as set out in annex S1

(ii) are sufficiently large. (Starting with the largest scheme by liability, the Board had a target that at least 75 per cent of the total liabilities and provisions of the Pension Protection Fund should be made up of material schemes and schemes which have already transferred to the Pension Protection Fund), and

(iii) actually did provide membership data and updated asset information.

For these schemes, the asset value at 31 March 2011 was determined by rolling forward the updated asset value and making an adjustment for benefits paid between the "as at date" of the assets and 31 March 2011. The liability was determined by generating future cash flows of PPF compensation for the members and discounting to 31 March 2011 using the assumptions set out in annex S4 of this report. No allowance was made for membership movements between the "as at" date of the membership and 31 March 2011 as the majority of data was provided as at or close to 31 March 2011.

Material schemes and schemes which have already transferred to the PPF account for 85 per cent of the total liabilities and provisions, as compared with the target of 75 per cent.

2. A section 143 valuation or a section 179 valuation, but not updated assets and membership data

- A section 143 or 179 valuation was rolled forward to the insolvency date and used as a proxy for a section 143 valuation to determine whether the scheme was in deficit at the insolvency date and therefore whether it should be included in the provisions.
- If the scheme was to be included in the provisions, the resulting section 179 valuation was then rolled forward to 31 March 2011 on the valuation basis using the same methodology.

The methodology consistent with that to be applied for the calculation of levy in the financial year 1 April 2010 to 31 March 2011 was used to roll the s143 / s179 valuation results forward to 31 March 2011, at the same time changing the valuation assumptions to those described in annex S4. The 2010/11 methodology is available in the Pension Protection Levy section of the Pension Protection Fund web-site at:

www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/1011_determination_appendix_transformation.pdf

3. A Minimum Funding Requirement (MFR) valuation, but not updated assets and membership data, nor a section 143 valuation nor a section 179 valuation.

The MFR valuation was initially transformed to a section 179 valuation (guidance version G3/A3) at the MFR valuation date using a methodology consistent with that available in the Pension Protection Levy section of the Pension Protection Fund website at

www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/1011_determination_appendix_MFR.pdf

- The resulting section 179 valuation was rolled forward to the insolvency date and used as a proxy for a section 143 valuation to determine whether the scheme was in deficit at the insolvency date and therefore whether it should be included in the provisions.
- If the scheme was to be included in the provisions, the resulting section 179 valuation was then rolled forward to 31 March 2011 on the valuation basis using the same methodology.

4. No updated assets and membership information, nor a section 143 valuation, nor a section 179 valuation, nor a MFR valuation.

It was assumed that the scheme was in deficit at the insolvency date and that the scheme's provision was estimated as the median provision for schemes where data was available.

For all non-material schemes, where information relating to income and outgo was forthcoming, this information was used to provide a more precise estimate of the scheme assets and liabilities as at 31 March 2011 than was available solely using the roll-forward methodology.

In addition to the above, a provision is being set up in this valuation for the cost of equalising compensation that is unequal on account of inequalities in Guaranteed Minimum Pensions (GMPs) accrued between 17 May 1990 and 5 April 1997. This provision is to cover the cost of equalisation both on the liabilities of schemes that have already transferred to the PPF and the liabilities of schemes which contribute to the provisions. Under the Pensions Act 2004, the Board has a duty to pay compensation on a basis that is no more or less favourable to a woman (or man) than it would be to a comparable man (or woman) in respect of pensionable service on or after 17 May 1990, and this includes equalisation for GMPs.

The Board has considered legal advice on how exactly compensation should be equalised to allow for the difference in the GMP formula for UK pension schemes. Loadings have been calculated to apply to compensation payable from Normal Pension Age 60 to 65 inclusive for men and women separately in respect of transferred schemes. These calculations use assumptions that I believe to be appropriate for schemes that have transferred into the PPF. In addition, a loading was calculated for transferred schemes equal to the expected arrears of compensation due to these inequalities in GMPs. A single loading was applied to the liabilities forming the provisions and contingent liabilities equal to the equivalent single loading that would give the total loading applied to transferred schemes. A separate provision has then been set up equal to the cost of equalising compensation for GMPs. Overall, the provision is 2.4 per cent of the actuarial liabilities and liabilities of schemes forming the provisions. This is a weakening of the provision compared to that allowed for in my previous report (three per cent) which takes account of the latest information available. A number of assumptions have gone into the calculation of this provision and some sensitivities to the result have been carried out. By looking at a number of extreme scenarios, I conclude that the impact of equalising compensation for GMPs should be between 2.0 per cent and 3.4 per cent of liabilities and provisions.

c) Contingent liabilities

The method adopted for contingent liabilities was identical to that for provisions where the Board was in possession of a section 179 valuation, except that no additional information was sought. This was the same method as adopted last year.

8. Results of the calculations

The results of the calculations of the actuarial liabilities, provisions and contingent liabilities are set out in Annex S6. We also show the results as at 31 March 2010 using the assumptions set out in the Annual Report and Accounts as at 31 March 2010.

It is my opinion that the data collection processes and calculation methods described in section 7 have resulted in calculations that represent a reasonable estimate of provisions and contingent liabilities in aggregate for the Pension Protection Fund. I recognise that the use of summary data and roll-forward methodologies inevitably introduce approximations into the calculations, but I consider they remain appropriate for calculating aggregate provisions and contingent liabilities for the purposes of this supplementary report.

9. Actuarial Balance Sheets

Annex S7 sets out the actuarial balance sheets for the Pension Protection Fund as at 31 March 2011, including the liabilities of the schemes forming the provisions. For this purpose the liabilities are taken to be:

(a) the present value of the liabilities of the Pension Protection Fund to pay sums or transfer property, as required under section 173(3) of the Pensions Act 2004. This includes the liabilities in respect of compensation to members of schemes for which the Board has assumed responsibility. The total value is taken as £3,984,324,000, the same figure as was used in my actuarial valuation report of 25 October 2011

(b) my estimate of the present value of the liabilities of the schemes forming the provisions, as set out in Annex S6 of this report, which amounts to £9,072,227,000, and

(c) my estimate of the present value of the cost of equalising compensation that is unequal on account of inequalities in GMPs, which amounts to £308,989,000.

Accordingly, I have taken the liabilities of the Pension Protection Fund as at 31 March 2011 as £13,365,541,000

In the actuarial balance sheets for the Pension Protection Fund as at 31 March 2011, the assets are:

(a) the value of the Pension Protection Fund assets determined in accordance with regulations 2, 4 and 5 of the Pension Protection Fund (Valuation of the Assets and Liabilities of the Pension Protection Fund) Regulations 2006 (SI 2006/597). This value is taken as £6,602,136,000, the same figure as was used in my actuarial valuation report of 25 October 2011, and

(b) the sum of the estimated values of the assets in the schemes that generated the provisions described in section 2 of this report, plus any anticipated recoveries estimated on a prudent basis (£399,447,000). This figure amounts to £7,440,997,000.

Accordingly I have taken the value of the assets of the Pension Protection Fund as at 31 March 2011 as £14,043,133,000.

10. Reconciliation of the change in the funding position

Annex S8 shows a reconciliation of the opening and closing net funding position in the actuarial balance sheet for the Pension Protection Fund, including the schemes that generate the provisions.

Signed: Stephen Rice

Date: 25 October 2011

Name: Stephen Rice, Appointed Actuary

Job Title: Chief Actuary

Qualification: Fellow of the Institute of Actuaries

Employer: The Board of the Pension Protection Fund

Annex S1 Provisions in the Statement of Accounts for the financial period ending on 31 March 2011

The statement of accounts as at 31 March 2011 contains provisions in respect of eligible schemes as defined in section 126 of the Pensions Act 2004 in relation to which:

- an insolvency event notice under section 120 of the Pensions Act 2004 had been received by the Board from an insolvency practitioner on or before 30 April 2011
- the Board had not stated on or before 30 April 2011 that the insolvency event was not a qualifying insolvency event
- the insolvency date was on or before 31 March 2011
- a withdrawal notice under section 122(2)(b) of the Pensions Act 2004 had not been received on or before 30 April 2011 (and, in the Board's judgement, is unlikely to be received) from the insolvency practitioner, and
- as at the insolvency date, the value of the assets was, in the Board's judgement (if the scheme had not yet transferred to the PPF), likely to have been less than the amount of the Protected Liabilities as defined in section 131 of the Pensions Act 2004 (determined on the section 179 basis as at the insolvency date).

Schemes which had, in the Board's judgement, a surplus of assets over the value of the Protected Liabilities at the insolvency date, but which may ultimately enter the PPF have been considered. A provision might be appropriate if there are a significant number of schemes in this position. I do not consider that this is so.

In addition, the position of schemes which, as a result of the valuation process set out in S3, have a surplus of assets over the estimated value of the Protected Liabilities at the valuation date, and therefore contribute a negative amount to the provisions, has also been considered. It might be appropriate to offset some of this negative provision if there are a significant number of schemes in this position because some of these schemes may not ultimately enter the PPF. Again, I do not consider that this is so.

In addition to the above provisions I considered those schemes where a s143 valuation had been completed by the trustees and this showed an excess of assets over Protected Liabilities. These schemes did not, therefore, transfer into the PPF. There is a possibility that some of these schemes will return to the PPF within six months of the s143 valuation being signed off (for instance if the trustees obtained a buy-out quote that showed a deficit of assets compared with the Protected Liabilities). Of these schemes, it was considered that it was probable one of these schemes would obtain a buy-out quote that showed a deficit of assets compared with the Protected Liabilities. This scheme is expected to have a small surplus which is not material and has therefore been ignored. However, one further scheme has been included as a provision where the s143 valuation shows an excess of assets over Protected Liabilities although the s143 valuation has not yet been finalised. This is because we have information that indicates the scheme will not be able to obtain a buy-out quote that shows an excess of assets over Protected Liabilities.

Additionally, an allowance for insolvency events that occurred on or before 31 March 2011 that have yet to be reported has also been made. This takes the form of an 'IBNR reserve' (Incurred But Not Reported reserve) which is determined by estimating the number of schemes where a claim has been incurred but not reported. This is calculated as a percentage addition to the number of schemes which have been reported and included as provisions. This percentage has been determined from an analysis of the average time lag between insolvency event occurrence and notification of such an event to the Board (via a section 120 notice) with consideration of the proportion of events resulting in a claim, as shown in the following table:

Number of months between insolvency event and Board receipt of S120 notice	Cumulative proportion of notifications received by each point in time
0	56%
1	87%
2	91%
6	96%
9	97%
12	98%
18	99%
37	100%

For this estimated number of schemes where a claim is yet to be reported, the provision is based on the median provision of schemes where a claim has been reported.

Additionally, we monitored the movement of the funding position in respect of schemes forming the provisions from 30 April 2011 to 25 October 2011 and our figures include the observed changes of sufficient materiality.

Annex S2 Contingent liabilities in the Statement of Accounts for the financial period ending on 31 March 2011

Five types of contingent liabilities are disclosed in footnotes to the statement of accounts. The definitions are the same as last year.

1. Type 1 contingent liabilities are in respect of eligible schemes as defined in section 126 of the Pensions Act 2004 in relation to which:

- an insolvency event notice under section 120 of the Pensions Act 2004 had been received by the Board from an insolvency practitioner on or before 30 April 2011
- the Board had stated on or before 30 April 2011 that the insolvency event was a qualifying insolvency event
- the insolvency date was on or after 1 April 2011
- a withdrawal notice under section 122(2)(b) of the Pensions Act 2004 had not been received on or before 30 April 2011 (and, in the Board's judgement, is unlikely to be received) from the insolvency practitioner, and
- as at the insolvency date, the value of the assets was, in the Board's judgement, likely to have been less than the amount of the Protected Liabilities as defined in section 131 of the Pensions Act 2004.

2. Type 2 contingent liabilities are in respect of eligible schemes in relation to which:

- an insolvency event notice under section 120 of the Pensions Act 2004 was received by the Board from an insolvency practitioner on or before 30 April 2011
- the Board had stated on or before 30 April 2011 that the insolvency event was NOT a qualifying insolvency event
- in the Board's judgement, a subsequent insolvency event, which will be a qualifying insolvency event, is likely, and
- as at 31 March 2011, the value of the assets was, in the Board's judgement, likely to have been less than the amount of the Protected Liabilities, as defined in section 131 of the Pensions Act 2004.

3. Type 3 contingent liabilities are in respect of eligible schemes in relation to which:

- in the Board's judgement, as at 30 April 2011, no insolvency event has taken place, but the Board is nonetheless expecting to receive an insolvency event notice under section 120 of the Pensions Act 2004 from an insolvency practitioner in the future, and
- the Board has sufficient data about the scheme to be able to make an estimate of a contingent liability.

4. Type 4 contingent liabilities are in respect of schemes where:

- the Dun & Bradstreet failure scores are available to the Board and, based on the data available as at 30 April 2011, the score corresponding to the weighted insolvency probability of the scheme's participating employers was less than 10 (which means the probability of insolvency over the next year was greater than 4.68 per cent), and
- the Board in its view had sufficient information as at 30 April 2011 about the scheme to enable the funding level as at 31 March 2011 to be estimated, and
- as at 31 March 2011, the value of the assets was, in the Board's judgement, likely to have been less than the amount of the Protected Liabilities as defined in section 131 of the Pensions Act 2004.

Out of a population of around 6,500 schemes considered, 160 had a failure score of less than 10 associated with them. Of these 160 schemes, 103 were in deficit.

There is the potential to have a slight overlap with the IBNR reserve referred to in Annex S1. In the context of the total contingent liabilities I would expect the overlap to be trivial.

Type 4 contingent liabilities exclude any scheme already within the provisions or other categories of contingent liabilities.

It should be noted that in practice the schemes contributing to the type 4 contingent liabilities often changes considerably from one year to the next.

5. Type 5 contingent liabilities are in respect of the cost of equalising compensation that is unequal on account of inequalities in Guaranteed Minimum Pensions (GMPs) accrued between 17 May 1990 and 5 April 1997.

Under the Pensions Act 2004, the Board has a duty to pay compensation on a basis that is no more or less favourable to a woman (or man) than it would be to a comparable man (or woman) in respect of pensionable service on or after 17 May 1990.

A contingent liability has therefore been established for the cost of equalising compensation in respect of contingent liability types 1 to 4 above.

Annex S3 Data

a) Data in respect of former members of schemes that were transferred to the Board on or before 31 March 2011

This data was shown in my report to the Board dated 25 October 2011.

b) Data in respect of provisions and contingent liabilities

There are 314 schemes which contribute to the provisions figure in the statement of accounts for the financial period ending on 31 March 2011 (and a further eight schemes included via the IBNR estimate); liabilities in respect of another 55 schemes have not been recognised (ie not included in the provisions) because the value of their assets was, in the Board's judgement, likely to have exceeded the amount of the Protected Liabilities at their insolvency date. For Type 1 contingent liabilities this recognition test was also undertaken at the insolvency date. For Type 2, Type 3 and Type 4 contingent liabilities the recognition test assessment was undertaken at the valuation date since a qualifying insolvency event had not occurred.

A database is maintained for schemes forming the provisions. Data used to identify these schemes is obtained from information sent to the PPF on an employer's insolvency. This data is updated when new information arises. For instance, when a claim is rejected by the PPF, the database is updated to reflect this information and the scheme is no longer included in the provisions calculations. In addition, the data used to place a value on the schemes forming the provisions is updated to allow for new information received by the PPF. We start off with data in relation to a s179 or MFR valuation which we already hold for the purposes of invoicing for levies, but as schemes near the end of their assessment period we will obtain a s143 valuation and the data from this will substitute any previous data held once there is confidence in the results of the s143 valuation. In other cases, for instance material schemes, the PPF will actively seek additional information from trustees so as to supplement or replace the data previously held on its database where it feels this will provide a more accurate valuation.

For contingent liabilities, identification is either through the same database as is used for schemes forming the provisions (type 1 contingent liabilities) or from information that the PPF has gathered from other sources (such as Dun & Bradstreet, negotiations with companies and information submitted by the Pensions Regulator). The data used to place a value on these liabilities is taken from the information we hold for levy invoicing purposes. A database is not maintained over time for these schemes. A separate identification of contingent liabilities is made each year for the Annual Report and Accounts and the latest data available is used in the valuation.

The numbers of schemes contributing to the various types of provisions and contingent liabilities are given in the following table:

Liability		Number of schemes recognised	Number of pensioners *	Number of deferred pensioners *
Provision	2011	314 (369 in total)**	72,148	112,454
	2010	317 (376 in total)	74,896	116,124
Provision - IBNR	2011	8 (8 in total)	n/a	n/a
	2010	6 (6 in total)	n/a	n/a
Type 1 contingent liability	2011	1 (2 in total)	235	229
	2010	8 (8 in total)	579	1,074
Type 2 contingent liability	2011	2 (2 in total)	120	168
	2010	4 (4 in total)	253	591
Type 3 contingent liability	2011	10 (10 in total)	6,795	9,356
	2010	12 (17 in total)	3,470	5,277
Type 4 contingent liability	2011	103 (160 in total)	25,297	58,662
	2010	107 (157 in total)	15,254	35,290

* Data in respect of recognised schemes only.

** As at 31 March 2011 we have sought to recognise all segregated parts of schemes as separate schemes. This is the same treatment as was adopted at 31 March 2010.

The valuation of the liabilities of material schemes forming the provisions has been undertaken using membership data, in some cases grouped by age and gender. The valuation of the liabilities of all other schemes forming the provisions and contingent liabilities has not been undertaken using member-by-member data as we do not hold this data. Instead the historic valuation results available for the schemes have been used and rolled forward on a global basis. As such the valuation will not be as accurate as one undertaken using individual membership data for each scheme. This approach, while perhaps inappropriate for valuation purposes for some schemes on an individual basis, in aggregate is, in my opinion, acceptable for estimating provisions and contingent liabilities. Generally there is no reason to doubt the quality of the information provided within a particular scheme's valuation report. It is important, however, to note that any errors contained within the original scheme valuation will carry through to this valuation.

Because of the lack of uniformity of data summaries in individual schemes' valuation reports, it has not been possible to provide any other summary data about schemes in the various liability categories.

As we do not hold member-by-member data for all the schemes forming the provisions, we have not been able to indicate the incidence of cash flows relating to the schemes forming the provisions. However, when collecting data for material schemes we obtained information relating to the pensions in payment and deferred pensions by age band and this indicated that the shape of the cash flows for schemes forming the provisions is not dissimilar to that for transferred schemes.

Annex S4 Assumptions

a) Actuarial liabilities

The assumptions adopted were described in my report to the Board dated 25 October 2011

b) Basis adopted for Provisions and Contingent liabilities

1. Discount, inflation and pension increase rates

For the Provisions represented by material schemes we have used the term-dependent rates as described in Annex M2). For the Provisions represented by non-material schemes and Contingent liabilities it is not possible to use term-dependent rates as we do not have individual member data to be able to project cash flows. We have therefore made assumptions about the following:

- discount rate in deferment (net of revaluation increases in deferment – see Annex M1 for a description of these increases)
- discount rate in payment for non-increasing compensation for current pensioners
- discount rate in payment for non-increasing compensation for future pensioners
- discount rate in payment for increasing compensation for current pensioners (net of increases in payment – see Annex M1 for a description of these increases), and
- discount rate in payment for increasing compensation for future pensioners (net of increases in payment – see Annex M1 for a description of these increases).

These financial assumptions have been derived from the term-dependent rates shown in Annex M2. This has been done by assuming that cash flows for provisions will follow the same shape as cash flows for the Pension Protection Fund liabilities.

Single rates of discount, inflation and pension increases were determined so that the present values placed on each of the cash flows for pensioners and deferred pensioners was equal to the present value determined using term-dependent rates. These single rates of discount, inflation and pension increase were then used to determine the net discount rate as set out in the following table. The figures in brackets are those as at 31 March 2010.

Net discount rate	% pa
In deferment	0.8 (0.9)
In payment for non-increasing compensation for current pensioners	4.1 (4.4)
In payment for non-increasing compensation for deferred pensioners	4.4 (4.6)
In payment for increasing compensation for current pensioners	1.9 (2.1)
In payment for increasing compensation for deferred pensioners	2.2 (2.2)

2. Mortality

There is no evidence to suggest that my assumption for the base mortality or long term mortality improvement used in my previous report should change, other than to adopt the latest update to CMI 2009 model for mortality improvements. The mortality baseline in respect of a member is, therefore, S1PMA (men) and S1PFA (women) with future changes in line with CMI_2010_M [1.50 per cent] and CMI_2010_F[1.50 per cent] for men and women respectively. For the member's dependant, the baseline is S1DFA (female dependants) and S1PMA (male dependants) with future changes in line with CMI_2010_F [1.50 per cent] and CMI_2010_M [1.50 per cent] for female and male dependants respectively. These baseline tables and future projections have been issued by the CMI.

Because the liabilities of non-material schemes' provisions and contingent liabilities are calculated by rolling forward the results of an earlier valuation, it is not possible to use the chosen assumptions precisely. Instead, all members of non-material schemes are assumed to be male and their dependants assumed to be female. Ratios of annuity values using male mortality are therefore used in the transformation of the valuation result. This straightforward and tractable approach is fit for purpose since men comprise the majority of pension scheme liabilities.

The possibility of scheme-specific mortality was considered for large schemes satisfying the following definition:

- Liabilities at the section 179 (or section 143) valuation date were at least £200 million on the section 179 (or section 143) basis.

Scheme-specific mortality was adopted where the Board had evidence that future mortality for large schemes as defined above was likely to be significantly different from the assumptions set out in the first paragraph. In consequence, in respect of one large scheme where in my opinion there is evidence that mortality is likely to prove significantly heavier than that described above, I have reduced the liability by assuming that the probability of death at each age will be 110 per cent of that used for all other schemes in assessment.

3. Proportion Married

80 per cent of members are assumed to be married or to have a relevant partner. Again, because the liabilities are calculated by rolling forward the results of an earlier valuation it is not possible to use sex-specific proportions married.

4. Age difference between member and dependant

Females assumed to be three years younger than males.

5. Children's pensions

No specific allowance.

6. Expenses

Allowance has been made for expenses incurred by the trustees prior to transfer into the Pension Protection Fund. Allowance has also been made for certain expenses incurred after transfer to the Pension Protection Fund, in respect of schemes which are likely to transfer to the Pension Protection Fund (see Annex M2 of my report to the Board dated 25 October 2011 for an explanation of the additional expenses that are to be met from the Fund with effect from 1 April 2011). These allowances amount to 1.1 per cent of the total provisions over and above the standard expenses allowances under the section 179 valuation methodology.

Annex S5 Sensitivity analysis

Results have been calculated on the basis described in annex S4. However, the future is never certain, and a wide range of factors could affect the future finances of the PPF. It is possible to capture some measure of how different possible outcomes for these factors affect the PPF by showing different valuation results using different values for the assumptions set out in annexes M2 and S4. For instance, if recipients of PPF compensation were to live longer than expected, the cash flows out of the PPF would rise, other things being equal. The risks that such a change pose to the PPF can be investigated by showing the results of the PPF valuation modified to reflect different assumptions about mortality rates and longevity. Conversely, if the values of (non-bond) assets held as investments by the PPF and schemes in assessment were to rise by 10 per cent, there would be more assets to meet liabilities, which, other things being equal, would be unchanged.

The scenarios considered are as follows:

Scenario 1: Assumptions based purely on the swaps curve at 31 March 2011 but with a deduction of 15 basis points at each term.

Scenario 2: Assumptions based purely on the gilts curve at 31 March 2011.

Under scenarios 1 and 2 the effect of the basis change is on the actuarial liabilities and on the liabilities forming the provisions. For the avoidance of doubt, scenario 1 assumes that the discount rates used for the 31 March 2010 valuation applied as at 31 March 2011.

Scenario 3: Assumes nominal yields increase by 0.5 per cent.

Scenario 4: Assumes nominal yields decrease by 0.5 per cent.

Scenario 5: Assumes that inflation increases by 0.5 per cent at each term.

Scenario 6: Assumes that inflation decreases by 0.5 per cent at each term.

In scenarios 3 to 6, we have looked at the effect on the invested assets and assets in respect of schemes forming the provisions as well as the effect on the liabilities.

Scenario 7: Assumes that increases in the Consumer Prices Index will be 0.5 per cent lower than increases in the Retail Prices Index, (ie assuming that a market had developed in CPI and that it was priced at 0.5 per cent below RPI).

Scenario 8: Assumes that the probability of death in each year of age is 90 per cent of that used in the main basis. Liabilities change by a similar order of magnitude in the opposite direction if the probability of death in each year is 110 per cent of that used in the main basis.

Scenario 9: Assumes that the long term projection in mortality improvement is increased by 0.5 per cent to 2.0 per cent per annum. Liabilities change by a similar order of magnitude in the opposite direction of the rate is decreased by 0.5 per cent to 1.0 per cent per annum.

Scenario 10: Assumes non-bond type assets decrease by 10 per cent at 31 March 2011. Assets change by a similar order of magnitude in the opposite direction if these assets are assumed to increase by 10 per cent.

Scenario 11: Assumes that the age difference between men and women decreases by one year so that men will be two years older than their spouse or partner. Liabilities change by a similar order of magnitude in the opposite direction if the age difference increases by one year.

Scenario 12: Assumes that the proportion of married members increases by 5 per cent. Liabilities move by a similar order of magnitude in the opposite direction if the proportion married decreases by 5 per cent.

Scenario 13: Assumptions based on s143 entry valuation basis (effective 1 April 2011).

A summary of the assumptions is shown below:

	Main Basis	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5	Scenario 6
Discount rate in deferment	0.8%	0.4%	0.8%	1.3%	0.3%	0.3%	1.3%
Discount rate in payment for non-increasing compensation for current pensioners	4.1%	3.9%	4.1%	4.6%	3.6%	4.1%	4.1%
Discount rate in payment for non-increasing compensation for future pensioners	4.4%	4.0%	4.4%	4.9%	3.9%	4.4%	4.4%
Discount rate in payment for increasing compensation for current pensioners	1.9%	1.6%	1.9%	2.4%	1.4%	1.8%	2.0%
Discount rate in payment for increasing compensation for future pensioners	2.2%	1.7%	2.1%	2.6%	1.7%	2.1%	2.2%
Non bond assets	Market value	Market value	Market value	Market value	Market value	Market value	Market value
Age difference (male age less female age)	3 years	3 years	3 years	3 years	3 years	3 years	3 years
Proportion married	As in Annexes S4 and M4	As in Annexes S4 and M4	As in Annexes S4 and M4	As in Annexes S4 and M4	As in Annexes S4 and M4	As in Annexes S4 and M4	As in Annexes S4 and M4
Mortality	As in Annexes S4 and M4	As in Annexes S4 and M4	As in Annexes S4 and M4	As in Annexes S4 and M4	As in Annexes S4 and M4	As in Annexes S4 and M4	As in Annexes S4 and M4

	Scenario 7	Scenario 8	Scenario 9	Scenario 10	Scenario 11	Scenario 12	Scenario 13
Discount rate in deferment	1.3%	0.8%	0.8%	0.8%	0.8%	0.8%	0.4%
Discount rate in payment for non-increasing compensation for current pensioners	4.1%	4.1%	4.1%	4.1%	4.1%	4.1%	4.6%
Discount rate in payment for non-increasing compensation for future pensioners	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.6%
Discount rate in payment for increasing compensation for current pensioners	2.0%	1.9%	1.9%	1.9%	1.9%	1.9%	2.1%
Discount rate in payment for increasing compensation for future pensioners	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%	2.1%
Non bond assets	Market value	Market value	Market value	Fall by 10%	Market value	Market value	Market value
Age difference (male age less female age)	3 years	3 years	3 years	3 years	2 years	3 years	3 years
Proportion married	As in Annexes S4 and M4	As in Annexes S4 and M4	As in Annexes S4 and M4	As in Annexes S4 and M4	As in Annexes S4 and M4	As in Annexes S4 and M4 plus 5%	As in s143 guidance (A6)
Mortality	As in Annexes S4 and M4	10% reduction in death rates	2.0% long term mortality improvement	As in Annexes S4 and M4	As in Annexes S4 and M4	As in Annexes S4 and M4	As in s143 guidance (A6)

Annex S6 Calculation results

a) Calculation of actuarial liabilities for members who have transferred into the Pension Protection Fund

The actuarial liabilities in respect of former members of schemes for which the Board assumed responsibility on or before 31 March 2011 plus a sum required to meet the remaining liabilities under Regulation 3 of the Pension Protection Fund (Valuation of the Assets and Liabilities of the Pension Protection Fund) Regulations 2006 amount to £3,984,324,000.

b)Calculation of provisions

322 schemes were considered in relation to the provisions in the statement of accounts for the financial period ending on 31 March 2011, yielding the following estimated provisions (a comparison is shown with the equivalent figures from the 2010 Report per cent Accounts using the assumptions described in that report).

The table below shows the estimated assets held at 31 March 2011 in the 322 schemes forming the provisions. It also shows the outstanding anticipated recoveries, the resulting total assets and estimated funding position in respect of those 322 schemes.

All amounts in £000s	**31 March 2011**	**31 March 2010**
Assets excluding anticipated recoveries	7,041,550	7,331,853
Anticipated recoveries	399,447	266,927
Total assets	**7,440,997**	**7,598,780**
Provisions	9,381,217	9,415,529
Excess of liabilities over assets	1,940,220	1,816,749

The liabilities recognised as provisions are the present value of the liabilities calculated at each valuation date on the relevant basis.

The provision assets have decreased by £157,783,000 and this can be reconciled as follows:

	£m
Assets as at 31 March 2010	**7,599**
New schemes coming into assessment	1,394
Schemes accepted into the PPF (assets as at the Transfer Date)	(1,025)
Change in schemes' assets on account of known benefits paid out	(408)
Claims no longer considered probable (exits or schemes estimated to be in surplus at their assessment date)	(307)
Claims now considered probable (schemes estimated to be in deficit at their assessment date)	358
Change in schemes' assets on account of other changes (including updated valuation information, changes in recoveries and investment returns)	(170)
	(158)
Assets as at 31 March 2011	**7,441**

The provision liabilities have decreased by £34,313,000 and this can be reconciled as follows:

	£m
Provision liabilities at 31 March 2010	**9,415**
New schemes coming into assessment	1,767
Schemes accepted into the PPF (liabilities as at the Transfer Date)	(1,490)
Claims no longer considered probable (exits or schemes estimated to be in surplus as at their assessment date)	(324)
Claims now considered probable (schemes estimated to be in deficit as at their assessment date)	410
Effect of passage of time on discounting	200
Change in schemes' liabilities on account of change in financial assumptions	190
Change in mortality assumptions	31
Change in schemes' liabilities on account of known benefits paid out	(408)
Change in allowance for equalisation of GMPs*	(52)
Change in schemes' liabilities on account of updated valuation information	(463)
Change in allowance for future expenses**	105
	(34)
Provision liabilities at 31 March 2011	**9,381**

* see section 7(b) of this supplementary report for an explanation of the change in allowance for equalisation of GMPs

** refer to 6. of annex S4 for an explanation of change in expenses

c) Calculation of contingent liabilities

The estimated amounts for the various types of contingent liabilities were as follows (a comparison is shown with the equivalent figures from the 2010 Report per cent Accounts under the Main Assumptions basis as described in that report):

Type of contingent liability *All amounts in £000s*	**Estimated scheme funding positions / GMP equalisation costs (for type 5 contingent liabilities) as at 31 March 2011**	**Estimated scheme funding positions / GMP equalisation costs (for type 5 contingent liabilities) as at 31 March 2010**
1	4,388	34,373
2	5,937	8,585
3	227,578	155,385
4	982,161	621,893
5	141,147	115,301
Total	**1,361,211**	**935,537**

The liabilities recognised as contingent liabilities are the present value of the deficit calculated at each valuation date on the relevant basis.

Shown below are the total assets and total liabilities that correspond to the above deficits (contingent liabilities). A comparison is shown with the equivalent figures from the 2010 Report per cent Accounts under the Main Assumptions basis.

Type of contingent liability *All amounts in £000s*	**31 March 2011 Assets**	**31 March 2011 Liabilities**	**31 March 2010 Assets**	**31 March 2010 Liabilities**
1	25,643*	30,031	65,201*	99,574
2	10,517	16,454	50,871	59,456
3	810,819	1,038,397	398,437	553,822
4	3,814,081	4,796,242	2,508,622	3,130,515
5	N/A	141,147	N/A	115,301
Total	**4,661,060**	**6,022,271**	**3,023,131**	**3,958,668**

* at this stage it is too early to assess whether any recovery is available for this type of contingent liability so none has been assumed

Annex S7 Actuarial balance sheet

On the main 31 March 2011 basis the Pension Protection Fund actuarial balance sheet is as follows:

Assets	*£000s*
The value of the Pension Protection Fund assets determined in accordance with the Pension Protection Fund (Valuation of the Assets and Liabilities of the Pension Protection Fund) Regulations 2006	6,602,136
The sum of the estimated values of the assets in the schemes that generated the provisions, plus any anticipated recoveries*	7,440,997 **
Total assets	**14,043,133**

Liabilities	*£000s*
The present value of the liabilities of the Pension Protection Fund to pay sums or transfer property as required under section 173(3) of the Pensions Act 2004	3,984,324
The present value of the liabilities of the schemes forming the provisions (inclusive of the cost of equalisation for GMP for both the Pension Protection Fund liabilities and the provision liabilities)	9,381,217
Total liabilities	**13,365,541**
Excess of assets over liabilities	**677,592**
Funding Ratio (Assets / liabilities)	105.1%

* Inclusive of an allowance for IBNR (scheme assets of £30,040,000 and liabilities of £37,093,000)

** Inclusive of anticipated recoveries of £399,447,000

I have also calculated the actuarial liabilities and the liabilities of the schemes forming the provisions using the bases set out in Annex S5.

The balance sheet on the various scenarios (as described in the section on sensitivity analysis in Annex S5) is as follows

All amounts in £m	Main Basis	Scenario 1 2011 Swaps less 15 basis points	Scenario 2 2011 gilts	Scenario 3 2011 Nominal plus 0.5%	Scenario 4 2011 Nominal less 0.5%	Scenario 5 2011 Inflation plus 0.5%	Scenario 6 2011 Inflation less 0.5%
Assets							
The value of the Pension Protection Fund assets	6,602	6,602	6,602	5,994	7,211	6,808	6,396
The values of the assets in the schemes that generated the provisions	7,441*	7,441*	7,441*	6,920*	7,962*	7,732*	7,149*
Total assets	**14,043**	**14,043**	**14,043**	**12,914**	**15,173**	**14,540**	**13,545**
Liabilities							
The present value of the liabilities of the Pension Protection Fund	3,984	4,262	3,983	3,649	4,354	4,122	3,841
The present value of the liabilities of the schemes forming the provisions	9,381	10,034	9,399	8,630	10,251	9,741	9,048
Total liabilities	**13,365**	**14,296**	**13,382**	**12,279**	**14,605**	**13,863**	**12,889**
Excess of assets over liabilities	**678**	**(253)**	**661**	**635**	**568**	**677**	**656**
Funding Ratio (Assets / liabilities)	105%	98%	105%	105%	104%	105%	105%

All amounts in £m	Scenario 7 CPI is 0.5% lower than RPI	Scenario 8 10% reduction in death rates	Scenario 9 Long term mortality improve-ment plus 0.5%	Scenario 10 Non bond type assets fall by 10%	Scenario 11 Age difference reduced by 1 year	Scenario 12 Proportion married increased by 5%	Scenario 13 S143 basis
Assets							
The value of the Pension Protection Fund assets	6,602	6,602	6,602	6,462	6,602	6,602	6,602
The values of the assets in the schemes that generated the provisions	7,441*	7,441*	7,441*	7,252*	7,441*	7,441*	7,441
Total assets	**14,043**	**14,043**	**14,043**	**13,714**	**14,043**	**14,043**	**14,043**
Liabilities							
The present value of the liabilities of the Pension Protection Fund	3,841	4,085	4,069	3,984	3,958	4,000	4,131
The present value of the liabilities of the schemes forming the provisions	9,048	9,621	9,586	9,381	9,344	9,429	9,487
Total liabilities	**12,889**	**13,706**	**13,655**	**13,365**	**13,302**	**13,429**	**13,618**
Excess of assets over liabilities	**1,154**	**337**	**388**	**349**	**741**	**614**	**425**
Funding Ratio (Assets / liabilities)	109%	102%	103%	103%	106%	105%	103%

*Inclusive of anticipated recoveries of £399m

None of these scenarios should be interpreted as upper or lower bounds of the range of reasonable estimates which might be made.

Annex S8 Comparison with the funding position as at 31 March 2010

Under IAS 37 a reconciliation is required of the opening and closing net funding position on the actuarial balance sheet, including schemes that generate the provisions. I show this as a table below:

Reconciling item	£m
Excess of assets over liabilities on the actuarial balance sheet at 31 March 2010	**394**
Change in actuarial liabilities (this is further broken down in section 7 of my report on the actuarial valuation of the Pension Protection Fund)	(1,536)
Change in liabilities for schemes forming the Provisions (this is further broken down in Annex S6)	34
Change in Pension Protection Fund assets (this is further broken down in section 6 of my report on the actuarial valuation of the Pension Protection Fund)	1,944
Change in assets for schemes forming the provisions (this is further broken down in Annex S6)	(158)
Excess of assets over liabilities on the actuarial balance sheet at 31 March 2011	**678**

The overall impact on the PPF liabilities and the provision liabilities as a result of the change in mortality assumptions for 2011 was a reduction in liability of £30m.

Pension
Protection
Fund

Pension Protection Fund
Knollys House
17 Addiscombe Road
Croydon
Surrey CR0 6SR

T: 0845 600 2541
F: 020 8633 4903

www.pensionprotectionfund.org.uk

TSO
information & publishing solutions

Published by TSO (The Stationery Office) and available from:

Online
www.tsoshop.co.uk

Mail, telephone, fax and email
TSO
PO Box 29, Norwich NR3 1GN
Telephone orders/general enquiries: 0870 600 5522
Order through the Parliamentary Hotline Lo-Call 0845 7 023474
Fax orders: 0870 600 5533
Email: customer.services@tso.co.uk
Textphone: 0870 240 3701

The Parliamentary Bookshop
12 Bridge Street, Parliament Square,
London SW1A 2JX
Telephone orders/general enquiries: 020 7219 3890
Fax orders: 020 7219 3866
Email: bookshop@parliament.uk
Internet: http://www.bookshop.parliament.uk

TSO@Blackwell and other accredited agents

ISBN 978-0-10-297504-8

9 780102 975048

110248 - Designed by Croydon Design