Pension
Protection
Fund

Annual Report & Accounts 2008/09

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Annual Report presented to Parliament by the Secretary of State for Work and Pensions in pursuance of paragraph 119(5) of the Pensions Act 2004 and Accounts presented to Parliament by the Secretary of State for Work and Pensions on behalf of the Comptroller and Auditor General in pursuance of paragraph 22 (6) (b) of Schedule 5 of the Pensions Act 2004.

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Contents

Role of the Pension Protection Fund

The Board of the Pension Protection Fund (PPF) is a Public Corporation which derives its duties and powers from the Pensions Act 2004 and the Pensions Act 2008, and is accountable to Parliament through the Secretary of State for Work and Pensions. The PPF became operational on 6 April 2005.

It was established to pay compensation to members of defined benefit and hybrid occupational pension schemes where an employer has become insolvent, and where there are insufficient assets in the pension scheme to cover PPF levels of compensation. Providing certain conditions are met, the PPF will take over the assets of a pension scheme and pay compensation to eligible individuals. It is funded from the assets of schemes transferred to the Fund, investment returns and by an annual levy on defined benefit and hybrid pension schemes.

The Board of the PPF also manages the Fraud Compensation Fund which pays compensation to defined benefit and defined contribution pension schemes where these schemes have suffered a loss that is attributable to dishonesty.

At the request of the Secretary of State for Work and Pensions, the Board provided advice and support to the Financial Assistance Scheme (FAS) from 17 July 2008 onwards. The FAS was announced in May 2004 to help those who had suffered significant losses to their pensions as a consequence of employer insolvency prior to April 2005. Since being established it has been successively extended, covering additional schemes, more members and offering greater assistance. All costs arising in respect of the FAS are funded by the Department for Work and Pensions.

In July 2009, the Secretary of State for Work and Pensions additionally conferred management responsibility for the FAS on the Board of the Pension Protection Fund[1].

1 Relates to events after 31 March 2009.

Chairman's Foreword

"There is little doubt that 2008/09 will be remembered as a significant year. It is probably too soon to say how its significance will influence our lives but it seems highly probable that it will also be regarded as a watershed year."

Defined benefit pension provision in the UK depends on a healthy sponsoring employer willing and capable of funding the pensions promises which have been made to current employees, previous employees and retirees. Deficits in the pension fund are theoretically set off against the 'contingent capital' represented by the sponsoring employer. The overnight failure of Lehman Brothers, a large and highly rated company, sent shockwaves through the banking industry and out into the real economy. No longer were companies too big to fail and the speed of transition could be dramatic.

Markets struggled to assess the impact, stock prices were marked down (by around 30 per cent over the year – with 90 per cent being found in the banking sector), interest rates were reduced to their lowest for 300 years – increasing the net present value of future liabilities on a buy-out basis, while the anomalous recognition of increased credit risk in selecting the discount factor for FRS 17 actually reduced liabilities on this basis. A theoretical measurement problem became very real overnight for boards of trustees and their advisors. The need for governing bodies to understand what is driving the numbers – rather than being driven by the numbers – has never been higher.

The pension protection system set up under the Pensions Act 2004 has naturally felt these stresses. The Pensions Regulator has issued further guidance reminding trustees of the inherent flexibility of the scheme specific funding regime, provided technical provisions are calculated prudently. The Pension Protection Fund (PPF), conscious of the dangers of pro-cyclicality, has held its levy constant in real terms for the past two years. The PPF is designed for the long term and is resilient enough to take the short term impact of increased claims without raising the levy.

The economic circumstances have highlighted how vital PPF protection has been. None of us would want to go back to an era where people lost their pensions as well as their jobs.

People have naturally asked whether the PPF can continue to pay benefits given the fallout of the economic downturn.

There is absolutely no need for concern about the PPF's current obligations. On reasonable assumptions the PPF will have enough liquid assets to pay pensions at current levels – including those schemes in the assessment period – for as long as those pensions are due.

The basis on which our financial statements in this report are prepared are highly prudent – essentially equivalent to a 'risk free' basis. On this measure our funding ratio (the ratio of assets to the net present value of liabilities) is 88 per cent, a stronger funding ratio, on this basis, than the majority of schemes we protect.

We cannot of course speak with certainty about inherently uncertain future obligations which may or may not fall to the PPF. On dire assumptions, hypothesising an economic downturn much worse than even 2008/09, and lasting long into the future, then we have enough assets for more than two decades – thereby giving us, government, the Pensions Regulator, employers and trustees more than ample time to formulate policy responses if these dire circumstances prevail. We have set out elsewhere in this report an overview of our risk modelling and scenario planning.

So is the glass half empty or half full? There is a spectrum of views on this, heavily influenced by the assumptions used and the degree of safety required. Putting more money in today against unlikely contingency tomorrow may not represent the most efficient allocation of capital, but no-one can guarantee that unforeseen company failures will not take place. The PPF Board keeps the topic under continuous review and is informed by the Pensions Regulator of emerging patterns of scheme funding promises from sponsoring employers.

PPF levels of compensation average around £4,000 per annum (and only £1,940 per annum for pensioner women), a relatively modest sum compared to the poverty line of around £8,200 per annum for a single pensioner. The Board has reconfirmed its policy of raising the levy to the ceiling provided by Parliament before reducing benefits from the level set by Parliament.

Last year I mentioned that our focus needed to switch to operational performance, and this emphasis will continue for the year ahead. A number of large and complex insolvencies will make it difficult to achieve our self-imposed targets for throughput of schemes in assessment. While members' compensation is unaffected by whether PPF or the trustees write the cheque, the lack of accurate and detailed information we and trustees hold for schemes in assessment can pose a higher risk to our balance sheet.

PPF staff have continued to work with skill, diligence and passion in support of our mission and I thank them warmly for their unstinting efforts. Our second CEO, Partha Dasgupta, stood down at the end of March. The Board is grateful to Partha for the four years plus he devoted to the PPF, and warmly welcomes both Alan Rubenstein as our new CEO, and David Heslop as our Chief Operating Officer, from 1 April 2009.

Lawrence Churchill

Lawrence Churchill
Chairman

Chief Executive's Report

"An economy in unprecedented times will always mean unprecedented challenges. Despite having seen both employer insolvencies and scheme funding worsen during the year, the PPF has, I believe, weathered the challenges well."

The PPF protects the members of over 7,000 eligible defined pension schemes in the UK. The economic conditions have therefore brought into sharp focus the protection that exists for the retirement savings of these 12 million scheme members. This has been reflected in the increased calls to our Stakeholder Support Team from scheme members increasingly concerned about whether the loss of their job might also mean the loss of their pension.

During the year we experienced both an increase in number, and an increase in the value, of claims. As is to be expected, we have therefore seen an increase in our deficit position over the year. The reasons for the movement in the deficit from £517 million to £1,230 million over the course of the year are outlined in the Financial Review. While new claims made a significant contribution to the worsening, changes to a number of the actuarial assumptions have served to balance this. These changes, which derive largely from changes in the relationship between swaps and gilts yields, are explained more fully in the Financial Review.

Our extensive modelling of a range of economic scenarios gives reassurance that the PPF, and the protection framework of which it is part, is resilient. Building on information about our modelling work published in August 2007 and the December 2008 Purple Book, we have disclosed more about this work to ensure that our stakeholders can better understand the confidence that arises from our modelling.

Our modelling work has also informed the setting of the pension protection levy. The Board has been clear that its preference would be to increase the levy to the ceiling set by Parliament before using any of the other levers, such as reducing benefits, available to it. While we have anticipated that the levy may have to rise once the economy improves, we remained sufficiently content about our financial position, despite the recession, to deliver on our three year levy estimate commitment of August 2007. As announced in September 2008 and June 2009, we have therefore continued to hold the levy stable in real terms for 2009/10 and 2010/11 respectively.

The focus during the year on volatility in the funding position of the schemes we protect has served to distract from the fact that the PPF, both in its own right and through schemes being assessed for entry, is a significant investor. We have again included a detailed Investment Report, and for the first time included voting information. As announced in May 2009, work commenced during the year to revise our Statement of Investment Principles and to coordinate the investment approach of schemes in assessment with our overall investment approach.

The year also saw our publishing a significant consultation on the future of the pension protection levy. The principles of fairness, simplicity and proportionality have underpinned the PPF's approach on the levy. Within this overarching context three aims have served to shape the PPF's recent approach in respect of the levy.

The introduction of the Pensions Regulator's Exchange system and continuing engagement with D&B has ably supported the first aim, namely that we use the best evidence available to us for individual bills. Our modelling work has shown that, the existing approach of looking at employer strength, and scheme funding, only a year ahead and in normal conditions creates challenges for the second aim of incentivising risk reduction and for the third aim that we should 'price' risk on theoretically sound and empirically valid techniques. The experience of the last 12 months has highlighted what we considered to be problematic levels of cross-subsidy between different groups of schemes, primarily benefiting those who appear strong on a short term basis but pose a significant risk to the PPF in difficult economic circumstances.

During the year we therefore brought forward proposals to include an additional element in the levy calculation to recognise long term risk. We also consulted on whether we should reflect the risks arising from scheme investment strategies. In July 2009 we announced that, given the general acceptance of the principles underlying our approach, but recognising concerns about how it might be implemented, we would work further with industry stakeholders on the proposals.

The risks that we seek to recognise in the levy calculation are ultimately reflected in the claims that we experience. This has resulted in increasing numbers of schemes in the PPF assessment period. Challenges around poor quality scheme records and member data mean that we have not yet met our aspiration of 75 per cent of schemes and 75 per cent of scheme members completing the assessment period within two years. While our achievements to date represent a significant improvement over the time taken to wind schemes up before the advent of the PPF, the coming year will see a renewed focus on improving performance in getting schemes through the assessment period.

During the year the PPF started to take a more active role in supporting the work of the Government's Financial Assistance Scheme (FAS). This recognised the significant amount of expertise and experience developed by the PPF in supporting schemes through the wind-up process.

From July 2009 this role has been further extended with the PPF formally taking over the management of the scheme. While all of the costs of the FAS, including work undertaken by the PPF on its behalf, continue to be met by the Government rather than the levy-payer, we also believe both levy-payers and taxpayers should benefit from economies of scale from bringing PPF and FAS activities together over time.

Chief Executive's Report continued

For most of 2008/09, I was navigating the economic challenges in a very different role. Until the announcement in January 2009, that I would take up the role of Chief Executive of the PPF on 1 April 2009, like many of you reading this, I was simply an interested observer of the work of the PPF. Taking over as Chief Executive has given me a particular insight into the significant breadth of the PPF's work. I would therefore encourage you to take time to consider every page of this document which covers all aspects of the organisation's work during the year.

What has struck me most since joining the PPF is the high morale and strong commitment of its staff. The economic climate and providing support for the FAS saw a growth in staff numbers during 2008/09. The focus on ensuring pension scheme members are protected remains undimmed and I would like to thank my colleagues for their continuing commitment.

I would also like to pay tribute to the work of my predecessor in managing the PPF through the challenges. Partha Dasgupta, who stood down at the end of March 2009, left us with an outstanding legacy upon which to build. I wish him well for the future.

Alan Rubenstein
Chief Executive

Management Commentary – Report on 2008/09

3.1 Review of the year

Highlights of 2008/09

- **As at 31 March 2009 a total of 12,723 former scheme members were in receipt of compensation from the Fund, with a further 18,009 having a deferred entitlement. This compares with 3,596 and 8,577, respectively, as at 31 March 2008.**
- **As at 31 March 2009 a total of 100 schemes or sections of schemes had transferred to the PPF and a total of 148 had completed the assessment period. During 2008/09 83 schemes or sections of schemes completed the assessment period, with 59 of these transferring to the PPF during the year.**
- **As at 31 March 2009 a total of 290[2] schemes or sections of schemes, with just under 179,000 members were in PPF assessment periods. This compares with 288 schemes or sections of schemes, with just over 118,000 members as at 31 March 2008. Members in these schemes had the assurance that they would receive benefits at PPF compensation levels.**
- **The PPF deficit increased from £517 million to £1,230 million. The funding ratio fell from 91 per cent to 88 per cent.**
- **The PPF set a levy estimate for 2009/10 of £700 million, the same level, in real terms, as that set for 2008/09.**
- **The PPF investment portfolio grew to £2,933 million from £1,472 million. We received £1,263 million of assets from levy receipts and from transferring schemes during the year.**
- **The PPF also had responsibility for overseeing schemes in assessment with assets of £5,916 million and liabilities of £8,823 million.**

2 Including those validated after the year end.

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3.1 Review of the year continued

3.1.1 Economic context

The defining context for the PPF during 2008/09 was the worsening economic environment with the UK economy entering recession, substantial falls in equity indices and other investment markets and increasing pressures on sponsoring employers resulting in a rise in corporate insolvencies.

During 2008/09 the UK economy shrank by 4.9 per cent, UK interest rates fell from 5.25 per cent to 0.5 per cent and the rate of corporate liquidations in England and Wales increased to 0.8 per cent from 0.6 per cent. In addition financial markets continued to see increased volatility with the FTSE 100 falling from 5,853 at 1 April 2008, to 3,512 during the year, before partially recovering to 3,926 by 31 March 2009.

The volatile economic conditions resulted both in more claims than in 2007/08 and in larger claims. The particularly severe conditions in the financial, retail and construction sectors were reflected in the composition of the claims experienced by the PPF.

3.1.2 The pension protection framework

The PPF was established by the Pensions Act 2004 to pay compensation to members of eligible defined benefit pension schemes where the sponsoring employer suffers an insolvency event. While the PPF is a key element in providing scheme members with confidence about their pension savings, particularly in challenging economic circumstances, the system taken as a whole is what secures that protection. While trustees and employers have prime responsibility for schemes, the main elements of the protection framework are the Government, the Pensions Regulator and the PPF.

The response to the economic conditions has been led by a number of Government initiatives and proposals which are intended to reduce, or may in future reduce, the risk of claims. Examples are:

→ action to recapitalise, restructure or merge financial institutions, thereby preventing a likely claim and/or improving the strength of the sponsoring employer, and

→ increasing the flow of credit to companies through engagement with the financial sector and specific initiatives to support business credit.

The Pensions Regulator, with a statutory objective of protecting the PPF, also continued to play an important role in the wider protection regime. The organisation published guidance on a range of issues during the year, particularly related to how scheme trustees might navigate the downturn. The Pensions Act 2008 passed by Parliament during the period under review amended the Pensions Regulator's anti-avoidance powers by creating a new material detriment test.

The work of the Pensions Regulator seeking to improve scheme funding, and thus to reduce the size of claims on the PPF, continued during 2008/09. This is described fully in the Pensions Regulator's Annual Report[3].

While the Pensions Regulator had the prime responsibility for improving scheme funding, the PPF also continued to encourage and recognise voluntary steps taken by schemes and employers to reduce the risks of claims on the Fund. For the 2008/09 levy year the PPF received notification of 241 new contingent assets (180 Type A, 44 Type B and 17 Type C)[4].

The third edition of the Pensions Universe Risk Profile (known as the Purple Book) was jointly published by the PPF and the Pensions Regulator using scheme return data in December 2008. It is intended that a fourth edition will be published in December 2009.

The PPF continued to publish monthly updates of the aggregate funding position of the over 7,000 PPF eligible pension schemes. These updates, shown in Chart 1 opposite for 2008/09 and the period to date of publication, clearly demonstrate the growing deficit position of many PPF eligible schemes. The funding position of these schemes is primarily a matter for the Pensions Regulator, trustees and sponsoring employers but it indicates an increased exposure for the PPF.

3.1.3 Operational performance

The 2008/09 year was the PPF's fourth full year of operations with the organisation continuing to develop in significant ways. In addition, as discussed in the section on page 15, the PPF commenced providing advice to the then scheme manager of the FAS and took on functions to work with FAS qualifying pension schemes which are still winding-up.

3 Full details can be found on pages 19 to 21 of the Pensions Regulator's Annual Report and Accounts 2008-2009 HC 628.
4 An explanation of the different types of contingent asset referred to here can be found in the Glossary.

Chart 1
Estimated section 179 aggregate balance total assets less total liabilities

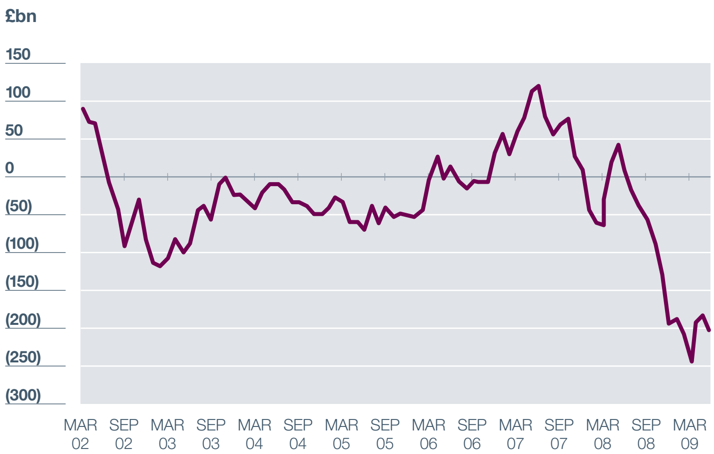

Chart 2
Estimated section 179 aggregate balance total assets less total liabilities

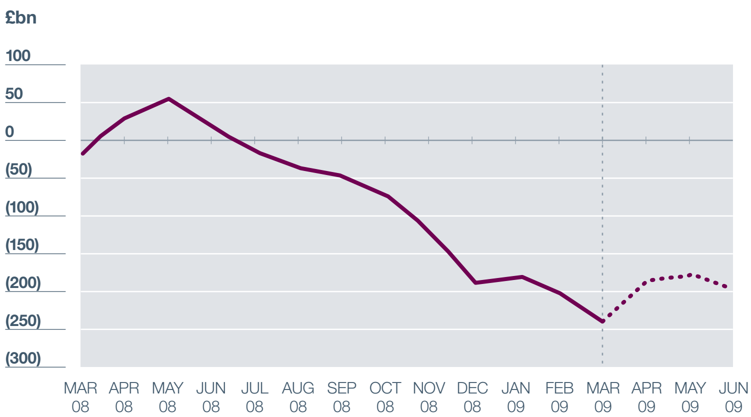

Chart 1 shows the data going back to 2002, demonstrating the volatility in the movement of deficits.

Chart 2 specifically focuses on the period under review. It is important to understand that the data shown relates to schemes which are not the responsibility of the PPF and represent potential future claims.

As both charts show, March 2009 marked the nadir for aggregate scheme funding. *Subsequent to the period under the review there has been some improvement although it is too early to be confident that this will be sustained.*

3.1.3.1 The pension protection levy

The pension protection levy remained central to the PPF's ability to fund the compensation it provides. As previously signalled, 2008/09 saw further proposals on the long term development of the levy being announced. In addition there was particular focus during the year on the calculation of individual scheme levies with the publication of the final Levy Scaling Factor (LSF) for 2008/09 and the publication of the Quantum, Determination and LSF for 2009/10.

2008/09 pension protection levy

The setting and publication of the final LSF for 2008/09 in May 2008 attracted particular external comment and was a disappointing episode for the PPF. The final LSF figure of 3.77 was substantially higher than the indicative LSF of 1.6 published in November 2007. The overall total amount of levy to be raised remained unchanged at £675 million; the changes to the LSF resulted in a revised distribution between schemes. Changes in various factors, as well

Management Commentary – Report on 2008/09

3.1 Review of the year continued

as sampling considerations, caused the movement when the final LSF was calculated on the basis of final March 2008 data. The most significant elements that contributed to the movement were changes in D&B insolvency probabilities, the use of an underpin comparator between March 2007 and March 2008 D&B insolvency probabilities and the impact of contingent assets. A full reconciliation of the movements can be found on the PPF website.

In addition to publishing the reconciliation, a number of roundtable discussion meetings were held with actuarial consultancies and other stakeholders, during July 2008 to respond directly to concerns. The PPF also gave consideration to the lessons that could be learnt from the unexpected increase in the LSF.

Invoicing and collection of the 2008/09 pension protection levy commenced in September 2008. The numbers of invoices issued to 31 March 2009 and the value of these invoices is disclosed below.

For 2008/09 levy year	To 31 March 2009
Number of invoices	6,662
Number of re-invoices	377
Value of invoices issued	£606.8m
Value of invoices not yet collected	£117.6m
Estimated value of invoices yet to be issued	£59.1m

As at 31 August 2009 £62.0 million remained to be collected and an estimated £10.1 million remained to be invoiced.

Details of levy appeals can be found in the complaints section.

2009/10 pension protection levy

The overall total to be raised in 2009/10, of £700 million (representing £675 million indexed to wage inflation), was announced in September 2008.

The setting of the 2009/10 pension protection levy followed a revised approach, the final LSF being published in September 2008 and, following consultation, was then confirmed unchanged in November 2008. This was six months earlier in the cycle than in previous levy years, giving levy payers greater notice of their likely bills.

The September 2008 announcement also confirmed that D&B had been reappointed as the PPF's insolvency risk provider for a further three years, following consultation on the criteria that the PPF should use to select a provider and a competitive tender exercise.

Future development of the pension protection levy

In November 2008 the PPF published a consultation on the long term development of the pension protection levy, supported by a number of technical papers and roadshow events. This built on work undertaken during 2007/08. In cooperation with stakeholders, this had looked at how to move toward reflecting long term risk in the calculation of individual scheme levies and how these levies might also reflect the funding volatility to which the PPF is exposed through individual scheme investment strategies.

The consultation unveiled proposals to make the pension protection levy paid by eligible schemes dependent on a changed assessment of 'risk'. The two key features of the proposals were to:

- → add an additional element to the risk-based levy calculation to assess, over a five year period, both underfunding risk and the probability of a scheme's sponsoring employer becoming insolvent, in stressed circumstances, in addition to the existing one year assessment of risk, and
- → take account of the risk that a scheme's investment strategy posed to the PPF when calculating its individual levy.

The consultation period closed in February 2009. *The PPF announced its response in July 2009.* Those responding to the consultation broadly welcomed the principles underpinning the proposed approach but there was significant concern about the detailed implementation. There was also a clear preference for the recognition of complex scheme investment strategies. The PPF announced that it would continue to work with those who had responded to the consultation to develop the proposals further.

3.1.3.2 Assessment and compensation

One hundredth scheme enters the PPF

The purpose of the PPF is to pay compensation to scheme members where their scheme has insufficient assets to pay PPF levels of benefits. The year saw the 148th scheme or section of a scheme complete the assessment period, with the hundredth scheme transferring to the PPF. Eighty three schemes, or sections of schemes, completed assessment during 2008/09 (59 transferring to the PPF). These schemes had 22,925 members, of which 18,442 transferred to the PPF. This compares with the 52 schemes, with 10,673 members, which completed in 2007/08 (32 schemes, with 5,021 members, transferring to the PPF).

As at 31 March 2009, 50 per cent of the cases and 46 per cent of members which had completed the assessment period since April 2005 had taken less than two years. Of those schemes still in the assessment period, 40 per cent of cases and 47 per cent of members had been in assessment for two years or more. These figures compare with an average period for winding-up a pension scheme prior to the PPF of 7.5 years.

The PPF continues to aspire to meeting the challenging target that 75 per cent of schemes and 75 per cent of scheme members should complete assessment within two years. This target is a stretching one and, as described on page 14, significant work continues to refine and strengthen the assessment process.

Chart 3
Analysis of schemes completing assessment

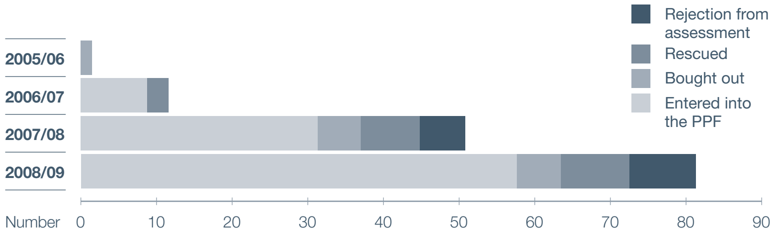

Chart 4
Movements in cases in assessment

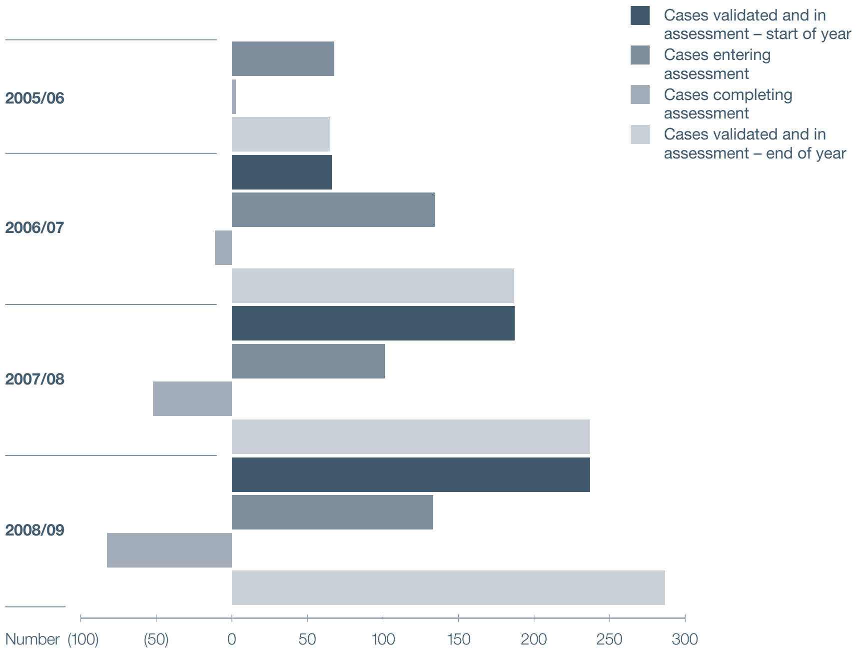

Chart 3 shows the year-on-year analysis for the number of schemes completing assessment.

Chart 4 illustrates the movement in cases in assessment over time.

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3.1 Review of the year continued

The assessment process is a complex and significant undertaking for the trustees of the schemes, their advisors and the PPF team which supports them. Challenges remain concerning member data quality, Guaranteed Minimum Pension (GMP) reconciliation, legal issues, apportionment of employer debt and the quality of section 143 valuations. A particular focus of the PPF is to ensure that improvements are being made in both quality and duration of the process.

Demand on the PPF's assessment process also grew during the year, with 134 schemes, or sections of schemes, entering assessment following an insolvency event during the year; this was an increase of 30 per cent on the volumes experienced in 2007/08.

Reflecting the increasing importance of the payment of compensation in the organisation's operational focus, a number of beneficiaries currently receiving compensation visited the PPF in January 2009 in order to help staff better understand the experience of being protected by the PPF and give the beneficiaries an insight into the work done to enable them to receive their compensation payments.

The PPF received 3,042 section 120 notices during the year, up 68 per cent on the previous year. 2,774 of these were rejected, mainly because they were in respect of defined contribution schemes and, therefore, not eligible for the PPF. By the year end 134 notices were validated, with the remainder in the process of validation. *An electronic reporting mechanism for section 120 notices, to reduce delays in their validation, was introduced on 3 April 2009.*

A full list of schemes which either commenced or completed an assessment period during 2008/09 can be found in Appendices A and B.

Strengthening the assessment process

The PPF undertook a number of projects during the year to help trustees of schemes in assessment, providing them with additional support and advice. In May 2008 the revised Trustee Good Practice Guide was launched, setting out practical guidance on the assessment period and helping trustees understand better their roles and responsibilities. The launch of the Guide was supported by a period of consultation and a number of roadshow events.

Workshops were also held to provide guidance to actuaries on completing section 143 valuations and a Memorandum of Understanding was signed with the Actuarial Profession.

As one of the main reasons for prolonged assessment is poor quality scheme data and administration, the PPF has engaged with the Pensions Regulator and the Government to set out expectations and so improve performance over time. Other initiatives include arrangements for discharging defined contribution assets and refinement of the legal and regulatory framework around assessment in the light of the last four years' experience.

Equalisation of compensation to allow for differences in the GMP formula

In April 2008 the PPF consulted on the requirement under section 171 of the Pensions Act 2004 to equalise compensation to allow for differences in the GMP formula. The consultation made clear that the legal advice received by the Board was that it had a duty to equalise compensation in this respect. It outlined a number of options, specific to schemes in the assessment period or which have already transferred to the PPF, by which the PPF's legal obligations could be met.

Subsequent to receiving a range of consultation responses, a number of which questioned the extent of the obligations on the Board and the costs of equalising benefits for GMPs as against the benefits to individual members of doing so, the PPF took further advice and had substantial discussions with the Department for Work and Pensions (DWP). *After the end of the period under review the PPF received confirmation that it had a duty to equalise compensation in respect of GMPs; the PPF published its formal response to the consultation in October 2009 and a provision in respect of the liability arising from equalising benefits for GMPs is recognised in the financial statements.*

3.1.3.3 Investment performance

Although it was a difficult year for markets, the PPF's low risk, liability driven approach provided a total return of 13.4 per cent. This was heavily influenced by the return achieved on the Fund's swap portfolio, which seeks to match movements in the liability valuation caused by moves in interest or inflation rates. Overall the Fund earned positive contribution from the swap overlay of £318 million. The return on investments excluding the swap positions was -3.4 per cent.

A detailed investment report can be found in Section 3.3.3.2.

Financial Assistance Scheme (FAS)

During 2008/09 the PPF performed a supporting role to the DWP as it managed the Financial Assistance Scheme.

The FAS was announced in May 2004 to help those who had suffered significant losses to their pensions as a consequence of employer insolvency prior to April 2005. Since being established it has been successively extended, covering more people, a greater range of schemes including certain schemes with solvent employers and offering greater levels of assistance.

Regulations effective from 17 July 2008 gave the PPF responsibilities in relation to FAS. It gave the PPF an advisory role should the FAS manager request it (initiated as soon as the Regulations came into force). A cross organisational programme of work was established, involving the PPF and various parts of the DWP in order to take forward FAS work. It also gave the PPF specific responsibilities in relation to the winding-up of FAS qualifying schemes.

Activities undertaken by the PPF during 2008/09 in respect of FAS broadly fell into two areas: PPF staff, using the organisation's experience and knowledge in driving pension scheme wind-ups, established processes to help speed FAS eligible scheme wind-ups. PPF staff also provided advice to the DWP to help it determine, and then implement, the necessary legislative and business change processes to support the continued development of FAS.

A consultation was launched in February 2009 which proposed that the PPF should be conferred the remaining scheme manager functions going forward.

In July 2009 the Government laid regulations conferring the responsibility for the management and administration of FAS from the DWP to the Board of the PPF.

Unlike the PPF's levy funded activities, the administrative and assistance payment costs associated with the operation of FAS are borne by the DWP, and are Government funded. PPF levy payers do not contribute in any way to FAS costs.

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3.2 Performance against strategic objectives

The Board published the 'Management Plan 2008/09 – 2010/11', incorporating the Pension Protection Fund's 2008/09 Business Plan, in April 2008. The Board reiterated the five year strategic objectives set in June 2006. While the Management Plan detailed the medium term actions to achieve the objectives, the Business Plan outlined detailed actions for 2008/09 and how they would be implemented. The Board also continued its practice of reviewing its success against its strategic objectives twice a year.

The PPF was focused during the year on the operational activities required to support its strategic objectives. The 2008/09 Business Plan set three priorities for the organisation within the framework of the strategic objectives. These were:

- → Confidence and consensus building.
- → Risk management and early warning systems.
- → Encouraging strong levels of scheme funding.

The Management Plan had anticipated that a full strategic review of the organisation would be published in late 2008, looking toward 2012 and beyond. Work commenced on this, both through engagement with external stakeholders and internal consideration, but no final document was published. The imminent appointment of a new Chief Executive, the volatile economic circumstances and the prospect of revised responsibilities in respect of the FAS were powerful arguments for deferring a wider strategic review, while emerging issues were carefully reviewed as part of the Management Plan process.

This section considers progress, where not already discussed in the Management Commentary, made during 2008/09 in relation in each of the five year strategic objectives.

3.2.1 Objective 1:
Maintain the solvency position of the PPF between predetermined limits

As at 31 March 2008 the PPF disclosed a deficit of £517 million; a 91 per cent funding ratio. As at 31 March 2009 the PPF had a deficit of £1,230 million; an 88 per cent funding ratio. This worsening reflected the prevailing economic conditions, which resulted in increased numbers of claims and in these claims being more significant in size. The Board considered the solvency position and concluded that it remains within limits acceptable to the Board.

The Board closely monitored the economic situation and during the year regularly considered the impact on the Fund of a range of possible recessionary and recovery scenarios.

The insolvency and underfunding risks to which the PPF is exposed are heavily correlated with the economic cycle and, as recent experience has shown, can produce more and bigger claims on the Fund. The Fund's future experience is also dependent on the actions taken by trustees and scheme sponsors to improve funding and reduce risk. In addition the Board is also aware of the sensitivity of future outcomes to specific stresses such as longevity improvements.

The PPF internal Long Term Risk Model[5] is designed to simulate future experience, both economic and demographic, through a range of different scenarios. The PPF carries out extensive stochastic modelling, based around a number of different economic scenarios to inform the Board of the likelihood and range of future claims and funding outcomes. The model, which is simply an aid to the Board in understanding the impact of various outcomes rather than a predictor of the future, produces outputs expressed in percentile terms as to the percentage of outcomes falling below that data point.

The chart opposite shows the outcome at the median (50th) and lower quartile (25th) points on a baseline economic scenario and a more adverse economic scenario. The baseline modelling involves scenarios based on an eventual return to trend growth conditions, following the deepest recession since the Second World War. In the adverse scenario, a return to trend conditions is delayed, with the economy experiencing a double dip recession.

In interpreting the model output it is clear that both the actual economic conditions experienced and the exposure to below median stochastic outcomes have a key influence on the pace of recovery.

Other factors which would be expected to have an influence on the rate of improvement are the impact of the Scheme Specific Funding regime, the rate of scheme buyouts and closures and the effect of increasing the levy up to the ceiling set by Parliament (the outputs above assume the levy remains stable in real terms throughout the period).

5 'Modelling Uncertainty – An introduction to the PPF Long Term Risk Model' published in August 2007 can be found on the PPF website.

Chart 5
Profile of the median and 25th percentile funding positions under baseline and stressed scenarios

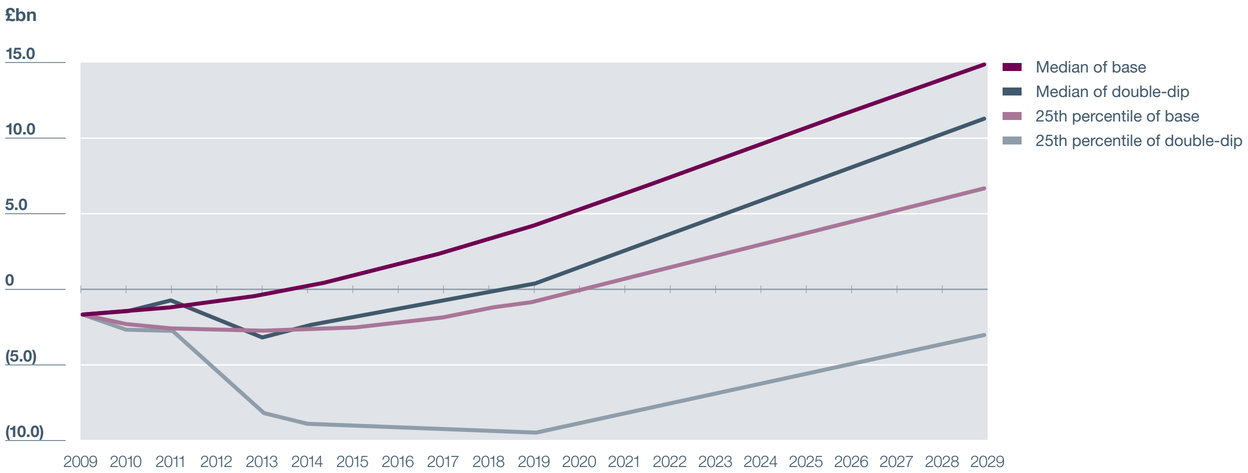
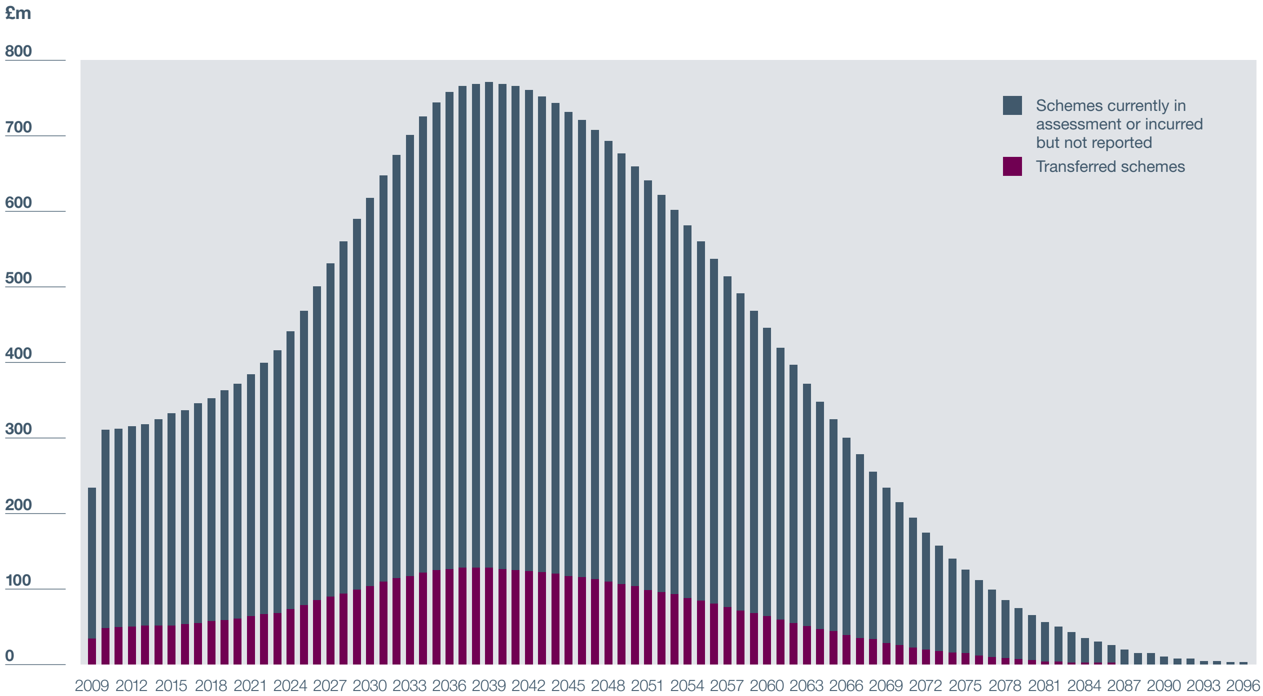


Chart 6
Total cash flows by year



The outcomes shown above are neither the most optimistic nor pessimistic scenarios the Board has modelled. The range of economic scenarios modelled has indicated possible circumstances in which the pension protection framework would come under sustained pressure. Even in these extreme circumstances, the PPF believes that the timescales are sufficient for a corrective policy response to be effective before the diminution of assets would threaten the ongoing payment of PPF compensation.

Management Commentary – Report on 2008/09

3.2 Performance against strategic objectives continued

Consideration has been given to the cash flow profile of the Fund and hence the strength of its liquidity position. PPF current compensation payments are at a comparatively low level (relative to the Fund's assets). As shown in Chart 6, payments will grow in future as more members reach pension age when compensation commences to be payable. The PPF during 2008/2009 paid out £37.6 million in compensation payments (this excludes payments made at PPF compensation levels by trustees to members of schemes in assessment) and anticipates that compensation will be payable to beneficiaries into the 22nd century. The expected peak in compensation payments on the basis of the current population of beneficiaries is in the 2040s. Short and medium term liquidity risks are monitored but considered to be low level.

3.2.2 Objective 2:
Playing our part in building confidence in pensions

The part that the PPF plays in building confidence in pensions is providing assurance that compensation will be paid in the event of employer insolvency. The importance of this has been emphasised as economic conditions worsened during 2008/09. As disclosed in the 2008 Purple Book published in December 2008, the PPF protects the defined benefit pension entitlements of some 12 million scheme memberships. The decisions that might be made by trustees and employers about the future of these schemes are part of a wider debate that goes beyond the responsibilities of the PPF.

Contact with the PPF has been dominated in previous years by pensions professionals, trustees and sponsoring employers and has focused on assessment and levy related issues. However increasing numbers of individual scheme members contacted the PPF during 2008/09. These members were generally seeking reassurance about the level of protection available to them and the compensation that would be payable to them in the event of their scheme entering an assessment period.

The PPF has therefore seen a renewed focus on explaining the application of the protection regime. Where employers have experienced an insolvency event or a sponsoring employer has been experiencing financial difficulties, the PPF has directed scheme members to their trustees for further information and to the various publications that the PPF has developed to explain its work to scheme members. The PPF has also worked to ensure that local media, constituency MPs, trade union representatives and others with an interest were kept informed of the PPF's role in relation to any pension scheme involved with an insolvency.

The 'Protecting Peoples' Pensions' series of publications has continued to provide an important tool for reassuring scheme members. This provides dedicated literature aimed at scheme members, with the intention that trustees of schemes entering the assessment period would distribute it to members. These leaflets were written with a non-technical audience in mind, and aim to provide reassurance about PPF compensation at what can often, given that the PPF becomes involved only after employer insolvency, be a stressful time for scheme members. These leaflets were distributed by around three-fifths of the trustees of schemes in assessment and were also available in printed form or for download from the PPF website. The PPF is working to encourage all trustees to distribute these leaflets.

3.2.3 Objective 3:
Pay the right people the right compensation at the right time

As noted in Section 3.1.3.2 increasing numbers of schemes and members both started and completed assessment periods in 2008/09. Throughout assessment, scheme trustees remain responsible for paying scheme members, albeit at PPF levels of compensation. Where a scheme transfers to the PPF, compensation payments are made to members on a monthly basis by Capita Hartshead, the Board's outsourced compensation administrator.

Capita Hartshead was required to report on a monthly basis to the PPF's Director of Delivery on its performance against criteria laid down in a Service Level Agreement. During the year this identified very few occasions on which errors in the payment of compensation occurred, and there were high levels of service in dealing with member queries.

During 2008/09 the PPF re-tendered the contract for the administration and payment of compensation. Capita Hartshead was appointed by the Board, subject to contract, in December 2008 to administer all compensation payments from June 2009 onwards for a period of five years.

3.2.4 Objective 4:
Ensure investment in human capital to deliver the Board's functions

Increasing demands upon the organisation both due to the economic climate and the new role in providing advice and assistance to the FAS saw the PPF grow in size during 2008/09. The knowledge and skills built up among the organisation's staff has required particular consideration of how to retain and develop staff. As in previous years recruitment and retention remained challenging although this started to ease as wider economic pressures started to feed into the employment market.

The PPF is committed to the health and welfare of its staff. However, it is recognised that, from time to time, staff will become unwell. The PPF policy and procedure set out a framework which allows for an effective and sympathetic approach to managing sickness, which meets the needs of the organisation as well as protecting staff when needed. In 2008/2009 days lost due to sickness averaged 4.3 per person (1.65 per cent) and 3.1 days per person excluding long term absences of over 28 days (1.19 per cent) which compares favourably to the Civil Service average.

Substantial changes to the Executive team of the PPF were initiated during the year. Alan Rubenstein was appointed Chief Executive, while David Heslop was appointed Chief Operating Officer, although they did not take up their appointments until after the end of the period under review. There was also expansion of the managerial team below Executive Director level with the appointment of a Chief Investment Officer and a Director of Finance.

Overall staff numbers rose to the equivalent of 216 full time staff from 162. This increase in staff numbers, beyond the levels anticipated in the 2008/09 Business Plan, reflected the increased workload of the organisation and the extended role in respect of providing advice to the FAS.

Staff working on FAS activities were seconded from the DWP, specifically recruited or, in the majority of cases, divided their time between FAS and existing PPF activities. Including those dividing their time between FAS and existing PPF activities, for the last quarter of 2008/09, time spent by staff on FAS activities was the equivalent of 40.95 full time staff.

Staff working on FAS activities during the year were co-located alongside colleagues working on core PPF responsibilities, in order to benefit from existing organisational knowledge and skills. As noted in the section on the FAS all costs for these staff and costs associated with support services for FAS activities were separately accounted for and charged to the DWP.

3.2.5 Objective 5:
Ensure two-way communications with stakeholders are effective

The PPF remains committed to effective two-way communication with stakeholders. Clear, open and honest communication is a pre-requisite for maintaining the trust of those with whom the PPF works and those who have an interest in the organisation's work. There is also a need to ensure that the communication methods of the PPF are appropriate to the audience. The Board reviews the communications strategy annually, informed by the annual stakeholder perception audit, and adopted an unchanged strategy in July 2008.

The PPF continued to undertake a range of activities to engage with stakeholders:

→ issued 17 different publications during the year. These included the formal levy Determination for 2009/10, a Trustee Good Practice Guide for schemes in assessment, a revised introductory leaflet aimed at scheme members and a number of other consultation documents. An annual report summary document was also produced and sent to all PPF compensation beneficiaries,

→ held nine workshops on the development of the PPF levy and the preparation of section 143 valuations. These were attended by a range of pension professionals. The roadshows accompanied the publication of the levy consultation in November 2008 and guidance to actuaries on completing section 143 valuations, and

→ the PPF Chairman and Chief Executive between them spoke at or attended 213 meetings and events with stakeholders. Senior management team members also spoke at a range of industry events and conferences.

Management Commentary – Report on 2008/09

3.2 Performance against strategic objectives continued

The main point of contact at the PPF for members, trustees, employers or others the PPF works with is the Stakeholder Support Team (SST). While other parts of the organisation such as the actuarial or legal teams provided input into responses as required, SST acted to coordinate external correspondence.

- → The team dealt with over 13,000 telephone calls and almost 6,000 pieces of written correspondence (either letters or emails). Where appropriate, the specific PPF team with responsibility for the issue raised was involved in the response. The majority of the enquiries continued to be from trustees and pension scheme professionals in respect of levy invoicing, although an increasing number were from individual scheme members.
- → The SST adopted exacting service level standards; 89 per cent of all telephone calls received during the year were answered within two rings and 92 per cent of all letters and emails, including those raising queries of a technical nature, received substantive answers within 15 working days.

Those receiving compensation have access to a similar dedicated team provided by Capita Hartshead, the PPF's outsourced compensation provider. In addition all scheme members receive a 'Welcome Pack' upon transferring to the PPF and access to a dedicated secure website area where they can view details of their compensation and amend their personal details. The PPF has continued to develop the content of the Welcome Pack and all transferring members are asked for their views on the materials they received during the assessment period and on transfer.

The main website (www.pensionprotectionfund.org.uk), and the supporting use of electronic communications, remained an important element of the PPF's communications strategy.

During 2008/09:

- → the website had over 263,000 unique visits and just over 1.5 million page views. The most popular sections were those in respect of the levies and technical guidance,
- → the facility on the website for interested stakeholders to register an email address with the PPF was maintained. Over 9,300 email addresses were registered with the PPF as at 31 March 2009 and 53 email alerts were sent out during 2008/09. In addition the PPF sent a detailed newsletter and a number of other email alerts to all those (about 25,000) who had provided email addresses as part of the Pensions Regulator's scheme return process, and
- → following feedback from previous stakeholder surveys, the PPF commenced a major redesign and revision of the main PPF website. *The revised website was subsequently launched after the end of the period under review, in September 2009.*

3.2.6 Objective 6:
Achieve high levels of stakeholder satisfaction in respect of the organisation's professionalism, policies, processes and helpfulness

The PPF worked during the year with the aim of maintaining existing high levels of stakeholder satisfaction and addressing concerns identified by the annual Stakeholder Perception Audit.

During 2008/09 GfK NOP was appointed by the PPF to undertake a Stakeholder Perception Audit in each of the next three years. Previous Stakeholder Perception Audits had been undertaken by Ipsos MORI on an annual basis. The intention was for the PPF to better understand the concerns of its stakeholders, how successful the PPF was being in reaching stakeholders and whether existing communication channels remained appropriate.

The first Stakeholder Perception Audit commissioned from GfK NOP was undertaken in spring 2009. The results from the quantitative research continued to be encouraging; the key findings were as follows:

→ 82 per cent of respondents described themselves as having an average or good level of knowledge of the PPF. This compares with 60 per cent in the previous 2008 Ipsos MORI Audit,

→ 64 per cent of those surveyed believed the PPF has been effective in fulfilling its main role and objectives. This compares with 73 per cent and 47 per cent in the previous 2008 and 2007 Ipsos MORI Audits respectively,

→ 57 per cent of respondents agreed that PPF 'works in a simple, fair and proportionate way' (47 per cent in 2008), and

→ 85 per cent of compensation beneficiaries surveyed found the Welcome Pack they received on transfer to be useful and easy to understand.

Management Commentary – Report on 2008/09
3.3 Financial review

3.3.1 Accounting Officer Statement
In accordance with the standard practice for public bodies contained in HM Treasury guidance, as Chief Executive of the Board of the PPF, I was appointed Accounting Officer on 1 April 2009. The previous Chief Executive, Partha Dasgupta, served as Accounting Officer until he stood down from his position as Chief Executive on 31 March 2009.

In order to satisfy myself as to the completeness and accuracy of the accounts and accompanying statements I have taken appropriate steps in respect of the period prior to my appointment. Having completed these assurance processes, I am satisfied that it is in order for me to sign these accounts.

As far as I am aware, there is no relevant information of which the Board's auditors are unaware, and I have taken all appropriate steps to make myself aware of any relevant audit information and to establish that the Board's auditors are aware of that information.

Audit
The Pensions Act 2004 requires the Board of the PPF's accounts to be audited by the Comptroller and Auditor General. His certificate and report are on pages 55-56. The cost of the audit is shown in Note 3.3b and no services other than the audit are provided by the Comptroller and Auditor General.

During the year the Comptroller and Auditor General, through the staff of the National Audit Office (NAO), carried out preparatory work for a Value for Money (VFM) investigation into the PPF and its asset and liability management policies and practices. The DWP also asked the Board to participate in a cross governmental VFM investigation into cash management and banking practices. The NAO carried out this fieldwork during the year. The Board did not bear any of the costs of either of these VFM investigations.

3.3.2 Introduction to the Funds
The PPF is responsible for two funds created under the Pensions Act 2004, the Pension Protection Fund and the Fraud Compensation Fund. The PPF is also self-accounting in respect of its operating expenses and so effectively runs its own Administration Fund. The costs of providing support and advice to the DWP in respect of the FAS were accounted for through the Administration Fund and drawn down as grant in aid through DWP and financed by Government. This review considers each of these three funds separately.

3.3.3 Pension Protection Fund
The principal activity of the Pension Protection Fund (the Fund) is to pay compensation to members of eligible defined benefit pension schemes where the scheme's employer has become insolvent and where the scheme's assets are inadequate to meet its protected liabilities (as defined by the Pensions Act 2004). It takes over the assets and liabilities of these schemes and, in order to make up the shortfall between assets and liabilities, raises pension protection levies designed to ensure the long term solvency of the Fund. The Fund's assets are invested in accordance with its Statement of Investment Principles (SIP).

3.3.3.1 Levies and other income
For 2008/09, the pension protection levies were raised, incorporating risk based factors (principally scheme underfunding and employer insolvency risks) and a scheme based factor (the value of scheme liabilities). The Board announced in August 2007 its intention to set a stable levy, indexed to wage inflation, for the three years from 2008/09 onwards and its intention to set the starting point for this at £675 million.

The levy estimate of £675 million (unchanged from 2007/08) was confirmed in November 2007. The calculation, billing and collection of the pension protection levy were undertaken by the PPF. By the end of the period under review, £496 million had been collected and had been invested in accordance with the Fund's SIP. As at 31 August 2009, a total of £582.9 million had been collected. As part of this billing process the PPF had appropriate credit control procedures in place.

The amount of levy collected for 2008/09 is anticipated to be broadly the same as that estimated in November 2007. This contrasts with the experience of previous years where significant differences between the levy estimate and levy collected have been experienced.

The closer alignment was due to a number of factors. The notification of contingent assets and deficit-reduction contributions to the PPF did not reduce the quantum to be collected in 2008/09 as the final LSF was set after the start of the levy year when these had been submitted to the Board.

More accurate data was also an important factor in reducing changes between the anticipated levy and that then invoiced and collected. The Pensions Regulator's online web-based scheme return system, now known as 'Exchange', which gave schemes greater flexibility to submit data, and check data held, was launched in December 2007. As a result of this improved opportunity to submit and check data submitted, schemes were no longer able to seek to correct data they had previously submitted incorrectly after the start of the levy year. Schemes and sponsoring employers remained able to challenge the failure scores provided to the PPF by D&B (who provide insolvency risk measurement services to the PPF).

As disclosed in the 2007/08 Annual Report and Accounts, collection of the 2007/08 levy continued into 2008/09. £202.63 million was collected during 2008/09 as data became available. £35.83 million remained outstanding as at 31 March 2009 and was being actively pursued. Outstanding amounts either remain subject to the statutory appeals process or are being strongly pursued.

In November 2008 the Board announced a levy estimate of £700 million for 2009/10 and confirmed the final LSF prior to the start of the levy year. This maintained the three year commitment to a stable levy announced in August 2007.

During 2008/09, the PPF assumed responsibility for assets totalling £616.3 million following the transfer during the year of a further 59 schemes, or sections of schemes, into the Fund. These are now incorporated into the Fund.

3.3.3.2 Investment report

As the effects of the credit crisis spread throughout the global economy, investment markets during the year experienced their worst conditions for decades. The PPF's growing portfolio was not immune from these effects but its low risk approach to investments and its commitment to hedging its liabilities proved to be a substantial mitigation against adverse and volatile markets. Overall the Fund earned a return in the year to 31 March 2009 of +13.4 per cent including the growth in value of its swap portfolio. Overall the Fund earned positive contribution from the liability-driven investment (LDI) overlay of £318 million, while the return on investments excluding these swaps was -3.4 per cent.

This section provides a summary of the Fund's investment activities, including details of cash flows into the Fund, the LDI strategy, risk management and fund manager performance.

i) Governance

The Board delegates authority to the Investment Committee to implement and ensure adherence to the strategic investment policy and to make recommendations on investment issues. Key strategic investment decisions remain the responsibility of the Board.

The Asset and Liability Committee (ALCo) is an Executive committee established by the Chief Executive under the powers delegated to him by the Board. This Committee reviews the financial risk management activities of the PPF and, by agreement with the Investment Committee it provides reports on its activities to the Investment Committee to allow the latter to focus on strategic issues.

Investment activities are structured formally within the Fund's SIP. This document is prepared in accordance with Section 114 of the Pensions Act 2004. It outlines the principles and policies governing investments made by or on behalf of the Board in the management of the Fund's assets.

ii) Strategy

The Board's investment strategy is designed to closely match the Fund's liabilities and also to target an excess return above LIBOR of 1.4 per cent per annum. The strategy has a lower risk than that of a typical UK pension plan.

The Fund's portfolio is split into 'matching assets' and 'return seeking assets'. The former refers to the cash and swap portfolio and is described in the section on LDI, below. The latter comprises the active equity, bond, property and other mandates, which are discussed in the sections on manager allocations and performance.

The investment strategy is reviewed annually or as required, subject to significant changes in capital markets, the liabilities of the Fund, or governing legislation. Full details of the strategy are provided in the SIP which can be found on the PPF website.

Management Commentary – Report on 2008/09

3.3 Financial review continued

iii) Asset allocation

Asset allocation decisions within the tolerance ranges specified in the SIP are delegated by the Investment Committee to ALCo. The tolerance ranges allow deviation from the strategic allocation and provide the Board with flexibility around the investment of its cash flows. The flexibility is particularly important given the volume of schemes that transfer into the PPF. Asset allocation remains the responsibility of the Investment Committee. The strategic allocations and tolerance ranges are outlined in Table 1 below.

The 'Cash Collateral' element of the strategic allocation is the UK bond portfolio (managed by Insight) and provides a resource to support the Fund's swap portfolio.

As the impact of market events during 2008/09 hit the Fund, the actual exposure to each asset class has been volatile. From time to time this volatility has resulted in valuations in breach of the asset allocation tolerance limits. ALCo regularly monitors asset allocation against the SIP, taking appropriate corrective actions, principally using cash flows into the Fund. Any significant deviations are reported immediately to the Investment Committee.

The Fund retained underweight positions in equity and property and overweight positions in cash and bonds throughout 2008/09. These positions helped mitigate the impact of falling equity and property markets compared to the performance that would have been achieved had the Fund been invested strictly according to the strategic asset allocation throughout the year.

During the year the Board decided to replace its allocation to active currency with an allocation to more broadly based Global Tactical Asset Allocation (GTAA) mandates. Pending the appointment of new GTAA managers the Fund had no allocation to currency at the end of the financial year.

iv) Cash flows

The Board continues to manage the significant cash flows it receives in a prudent and cost effective manner. This section summarises key developments over the year in the collection of levy payments, asset transfers and transition management.

a. Contributions to the Fund

The collection of levy payments and ongoing transfer of scheme assets helped grow the assets of the Fund considerably over the last financial year. The Fund's invested assets plus cash deposits increased from £1,472 million at 31 March 2008 to £2,933 million at 31 March 2009, an increase of almost 100 per cent.

During 2008/09 levy receipts and assets transferred totalled £1,263 million. Adjusting for other cash flows (e.g. compensation payments) the net inflows were £1,225 million for the year. The £217 million difference between the gain in the Fund's assets and the net inflows is the return on investments made by the Board. This return is largely attributable to the swap portfolio (see section vi. opposite) which produced a gain of £318 million as interest rates fell across the yield curve.

Table 1

Asset class	Strategic allocation	Tolerance range	Asset benchmark
Cash collateral	20.0%	20.0%-30.0%	3-month LIBOR
Global bonds	50.0%	45.0%-55.0%	JP Morgan Government Bond Index[1]
UK equities	12.5%	10.0%-15.0%	FTSE All-Share Index
Global equities	7.5%	5.0%-10.0%	FTSE All-World Index[1]
Property	7.5%	2.5%-10.0%	Investment Property Databank UK Monthly Index
GTAA	2.5%	1.5%-3.5%	3-month LIBOR

1 Hedged to sterling

b. Transitions

In order to minimise the costs and risks associated with transferring the assets (legacy assets) of schemes coming into the PPF, the Board groups together these assets into suitable tranches of critical mass that are then transitioned by specialist managers chosen from the Board's panel of transition managers. The panel currently comprises State Street, Goldman Sachs and BlackRock.

The Board supports the T-Charter – a voluntary code of best practice for transition managers – and has included its principles within the transition management agreements (TMAs).

Prior to the legacy assets of transferred schemes being transitioned to PPF mandates, they are temporarily 'parked' within the most widely held pooled investment products. By accumulating assets in this way the number and cost of transitions can be minimised. Accounts are in place to park assets within Legal & General, BlackRock and Barclays Global Investors.

As these assets accumulate they present a minor deviation from the SIP until the point at which they are transitioned and transferred to the relevant investment mandate. As at 31 March 2009 approximately £253 million of assets from accepted schemes were parked in this manner, awaiting transition.

During the year, only one major transition exercise took place. In October 2008 £178 million of assets from transferred schemes which had been parked with legacy fund managers were migrated into the ongoing PPF investment structure.

v) Manager allocation

The Board invested £721.6 million across its return seeking and matching strategies in 2008/09, using its discretion to allocate assets within the tolerance ranges, between managers and to support the hedging activities in the swap portfolio.

During the year, the Board appointed Legal & General as a passive manager for UK equity to provide more flexibility with the management of this asset class.

At financial year end the Board had the following mandates in operation:

- → **Insight Investment Management** – UK Government bonds (collateral) and LDI swaps
- → **Goldman Sachs Asset Management (GSAM)** – global Government bonds
- → **PIMCO** – global Government bonds
- → **Lazard** – UK equity
- → **State Street Global Advisors (SSgA)** –UK equity
- → **Legal & General**[1] – passive UK equity
- → **Newton Investment Management** – global equity
- → **Aviva Investors** – UK property

1 Denotes mandate receiving initial funding during 2008/09

vi) LDI – the swap portfolio

The 'matching' element of the portfolio is designed to closely follow the sensitivities of the Fund's liabilities to interest rates and inflation, and in doing so minimise the fund exposure to both.

Chart 7

	Account	
1	**GSAM**	**25.7%**
2	**Insight Investment Management**	**25.4%**
3	**PIMCO**	**25.2%**
4	**Newton Investment Management**	**8.0%**
5	**Lazard**	**7.4%**
6	**Legal & General**	**4.3%**
7	**Aviva Investors**	**2.0%**
8	**SSgA**	**1.9%**

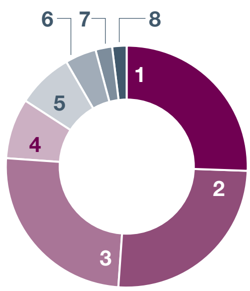


Chart 7 illustrates the actual manager allocations as at 31 March 2009.

Notes:

a) Owing to market movements towards the end of the financial year, some of these allocations are outside of the permitted tolerance range. Rebalancing is done, when appropriate, to ensure allocations are restored.

b) At 31 March 2009, £284 million of assets were held in cash or were transition assets parked in pooled investment funds and are not included in the chart.

c) Numbers may not sum to 100% due to rounding.

Management Commentary – Report on 2008/09

3.3 Financial review continued

The swap portfolio is one of the most significant and sophisticated of its kind. It is managed by Insight Investment Management using money market instruments, bonds and derivatives, and covers the liabilities of schemes which have transferred to the PPF, and otherwise unhedged liabilities of those schemes that are in the assessment period. This programme of hedging is reviewed continuously, particularly as the Fund receives new claims or updated data on the Fund's existing liabilities. Throughout the year fresh tranches of interest rate and inflation hedging were added according to changes in the Fund's liabilities, and having regard to prevailing market conditions.

During the year the swap portfolio delivered a gain of some £318 million in assets. At the same time the effect of interest rates and inflation rates was to increase the liabilities of schemes that had transferred to the PPF by £215 million. This resulted in a profit of some £103 million which went towards offsetting the increase in liabilities of schemes in assessment.

vii) Responsible Investment (RI)

The Board continues to develop its approach to RI in line with its fiduciary and statutory duties, using the UN Principles for Responsible Investment (UN PRI), to which it is a signatory, as a benchmark. During the year, the PPF participated in the UN PRI Reporting and Assessment Process.

In October, the Board appointed F&C Asset Management as the PPF's dedicated voting and engagement specialist for its UK equity portfolio. The Investment Committee has agreed voting principles, which F&C are then authorised to implement. Table 2 provides an overview of the PPF voting record while Appendix C provides additional detail on those cases where the PPF either abstained on or opposed a resolution.

Table 2

UK equity voting record	1 April 2008 – 31 March 2009
Meetings	154
Resolutions	1,941
For	1,918
Abstentions	9
Oppose votes	14

The investment team continues to develop its manager monitoring process for RI. The assessment of fund managers' RI capabilities, in particular the degree to which they integrate environmental, social and governance (ESG) considerations into their investment decisions, is an integral part of the appointment process.

viii) Performance of the Fund's assets

The difficult conditions in all markets during the year had a significant impact on the invested assets of the PPF. However, this impact is likely to have been lower than the average UK defined benefit pension plan owing to the relatively low risk nature of the Board's investment strategy.

The long term benchmark for the Fund is the return on 3-month LIBOR, which was +4.7 per cent over the year. The Board targets a return of 1.4 per cent above this, giving a target return of +6.2 per cent over the year.

The Fund's assets (excluding gains from the swap portfolio which are discussed in section vi) earned a return of -3.4 per cent over the year to 31 March 2009.

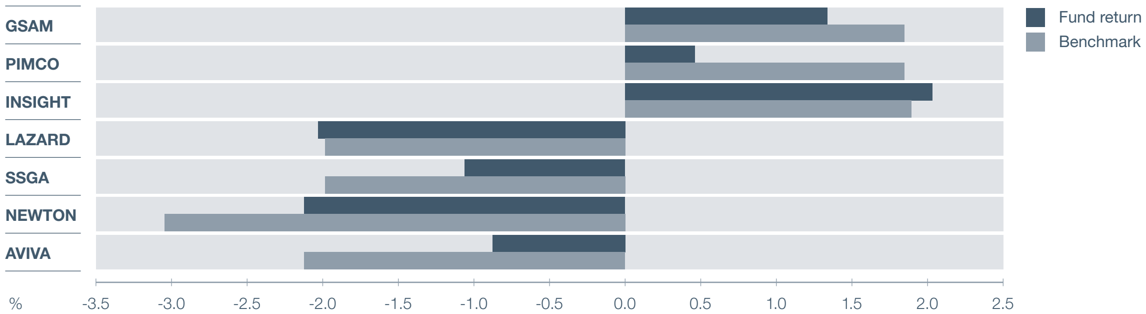
For comparison, the benchmark weighted return laid down as per the asset allocation section on page 24 in the SIP implied a return of -3.6%.

While the Fund underperformed the return target by having exposure to equity and property assets during the year, losses on the portfolio were somewhat mitigated by the large exposure that the Fund allocates to UK and global fixed income. Deviations from the target asset allocation within the allowable tolerance ranges enhanced the return slightly. This was a result of an underweight allocation to the worst performing asset classes.

The annualised performance of the individual managers against their benchmark is shown in Chart 8 opposite, weighted to account for the actual asset allocation for the managers and the target allocation for the benchmarks. Only those mandates which have been in operation for the whole year are shown.

Fund manager performance is best judged relative to their performance benchmarks. Over the year five of the fund managers met or exceeded their performance benchmarks, in some cases (State Street, Newton and Aviva) by a considerable margin. Both GSAM and PIMCO underperformed their benchmarks, in the case of PIMCO substantially so. This was sufficiently serious to warrant a formal review, following which it was decided to maintain PIMCO's appointment on a provisional basis.

Chart 8
Financial year 2008/09 – weighted performance contribution by manager



3.3.3.3 Provisions for compensation payments

As at 31 March 2008 compensation was in payment to 3,596 individuals who had transferred to the PPF. There were a further 8,577 individual entitlements to deferred compensation from the PPF. During 2008/09 a further 59 schemes or sections of schemes' assets and liabilities were transferred into the Fund. As at 31 March 2009 12,723 individuals were in receipt of compensation from the Fund, with a further 18,009 deferred entitlements. The accounts as at 31 March 2009 disclose liabilities associated with these beneficiaries valued at £1,728 million (plus an additional £8.64 million for future administration expenses).

During 2008/09, 24 schemes exited the assessment period. A further nine schemes were rescued and six schemes completed the assessment period with sufficient assets to secure their liabilities outside of the PPF. In addition nine cases exited the assessment period for technical reasons such as a section of scheme being found, after further investigation, to have no eligible members or the scheme being less than three years old.

The accounts of the Fund show that the PPF has also recognised provisions in respect of 292 pension schemes (including those already in an assessment period) totalling £2,693 million where the PPF judges eventual entry into the Fund to be 'probable'. Probable in this context is defined as schemes where the employer insolvency event occurred on or before the Fund's accounting date; where no scheme rescue is judged likely; and where protected liabilities are estimated to exceed scheme assets (including recoveries from insolvent employers) at the assessment date. This is the same basis applied in previous Financial Reviews.

The provisions for claims are arrived at as follows:

	£m
For schemes where eventual entry is considered probable:	
Scheme assets valued at	5,915.61
Estimates of recoveries from insolvent employers	214.43
Protected liabilities valued at	8,823.04
Provision for claims	2,693.00

Management Commentary – Report on 2008/09

3.3 Financial review continued

The schemes included in these provisions are, therefore, in aggregate 69 per cent funded against their protected liabilities, after asset recoveries, on the Fund's ongoing actuarial basis.

The largest single scheme contributes £333.22 million to the total provision for claims, while the top five schemes contribute £963.25 million. Fifty per cent of the total provision for claims is concentrated in just 4 per cent of schemes. This pattern of contribution is shown in Charts 9 and 10 below – note that the provisions for schemes where we hold no specific data are excluded from the charts.

Chart 9
Claim distribution

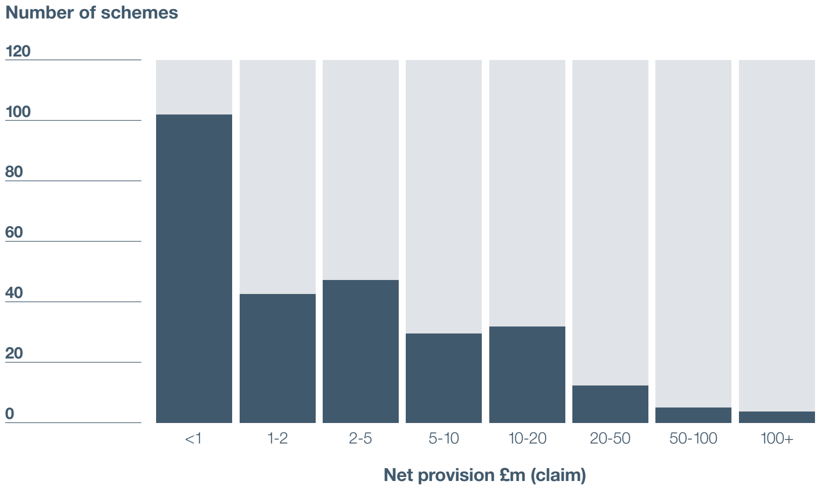
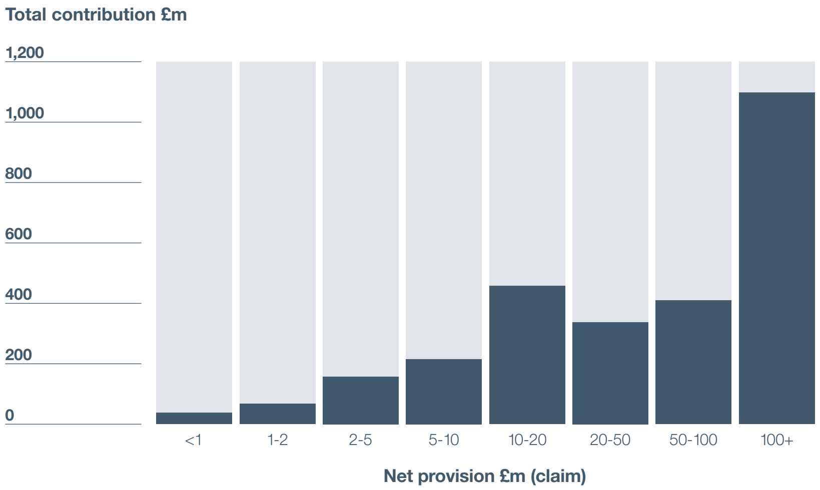


Chart 10
Contribution to total provisions analysed by size of provison



3.3.3.4 Contingent liabilities for compensation payments

The accounts as at 31 March 2009 disclose contingent liabilities associated with 103 schemes valued at £695.38 million. This is where the PPF judges eventual entry into the Fund to be less than probable but higher than remote. The value represents the PPF's estimate of the contingent liabilities for claims of all these 103 schemes, and of these 84 schemes with an aggregate provision of £315.32 million fall into the Type 4 category (as defined in the Actuary's Supplementary Report). Type 4 schemes are where the risk of employer insolvency is considered significant, that is an assessed probability of insolvency of greater than or equal to 0.044 in any one year; however the PPF has decided to include 100 per cent of the aggregate allowance for claims value in contingent liabilities.

Expenses

Investment expenses consist of fund management fees and custody fees charged to the Fund, as per the Pension Protection Fund (Payments to meet Investment Costs) Regulations 2005. From 1 April 2008, as per the Pension Protection Fund (Prescribed Payments) Regulations 2008, the costs of creating and maintaining records of those entitled to compensation, maintaining a payroll for the payment of such compensation and verifying data required for the creation and maintenance of these records and payrolls are also charged to the Fund.

Funding position

The PPF measures its funding position in the following way:

The Board aggregates the value of the assets directly controlled by the Board with the assets (including anticipated recoveries) of the pension schemes which are judged probable for future entry into the PPF. The Board then aggregates the value of its own actuarial liabilities with those of the same pension schemes judged probable for future entry into the PPF. The funding ratio is then the total assets divided by the total liabilities.

This 'gross' presentation differs from that shown in the financial statements, where the assets and liabilities of the schemes judged probable for future entry into the PPF are disclosed as a net value of the deficits of those schemes. This presentation in the financial statements is required to comply with the relevant accounting standard, FRS 12 Provisions, Contingent Liabilities and Contingent Assets.

This can be summarised as follows:

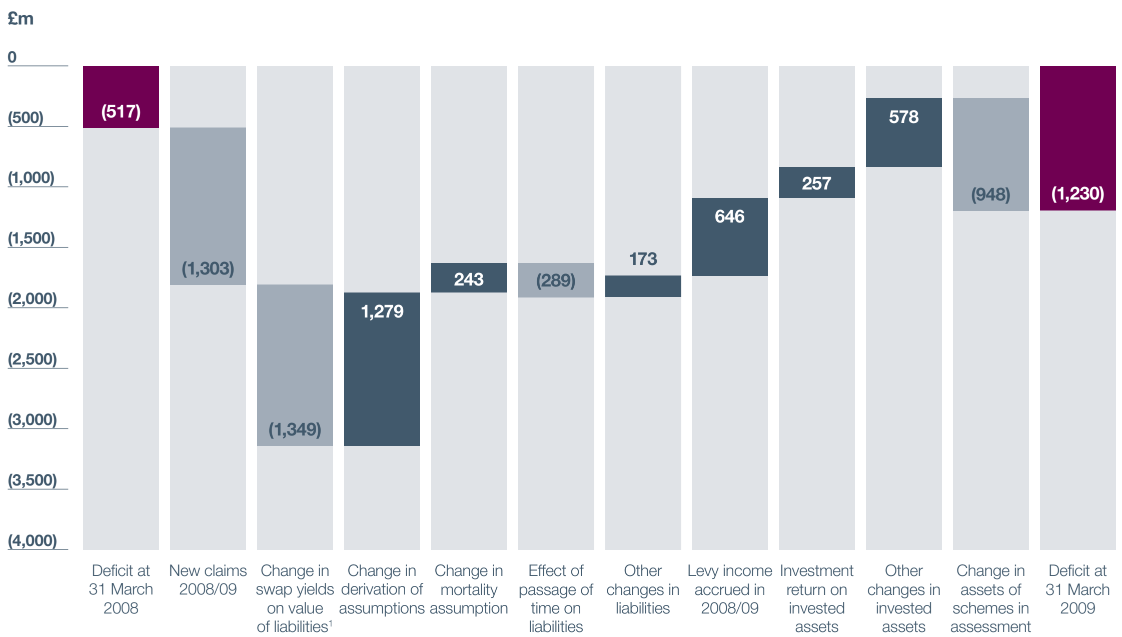
	£m
PPF net assets	3,200.30
Scheme assets valued at	5,915.61
Estimated outstanding recoveries from insolvent employers	214.44
Total assets	9,330.35
PPF liabilities valued at	1,737.10
Protected scheme liabilities valued at	8,823.04
Total liabilities	10,560.14
Deficit	1,229.79
Funding ratio = total assets/total liabilities	88%

Management Commentary – Report on 2008/09

3.3 Financial review continued

Chart 11 below provides a reconciliation of the major factors influencing the movement in deficit in the financial year. New claims arising during the year and changes in the value of the assets of schemes in assessment made significant contributions to the movement of the deficit. In addition changes in the assumptions used by the PPF had a noticeable impact.

Chart 11
Movement in PPF deficit from 31 March 2008 to 31 March 2009



1 Liabilities include both liabilities of schemes transferred into the PPF and liabilities of schemes in assessment.

For the previous valuation at 31 March 2008 the discount rate was calculated as the zero-coupon interest swaps yield. For the 2009 valuation the discount rate has been derived from the higher of zero-coupon interest rate swaps yield less 15 basis points and the gilts strip yield. The PPF believes this change, which reduces the value of the liabilities, is an appropriate response to the dislocation of the previous relationship between the yields that has arisen in the current economic circumstances.

The PPF has based base-mortality on SAPs experience, but instead of using our own calibration this year the PPF has used the newly available SAPS S1 tables. This has resulted in a fall in the PPF's liabilities. The allowance made for future longevity improvements is unchanged from last year. The PPF continues to use, where appropriate, on an evidential basis, a scheme specific mortality basis for larger schemes in assessment.

At the year end the Fund also held total money purchase benefits not yet discharged by the PPF in respect of transferred schemes amounting to £472,000.

3.3.4 Fraud Compensation Fund

Under the Pensions Act 2004, the Board of the PPF is responsible for providing compensation to occupational pension schemes where the sponsoring employer is insolvent and where the scheme suffers a loss that can be attributable to dishonesty. This responsibility was inherited from the Pensions Compensation Board on 1 September 2005. The assets are held in a ring-fenced fund called the Fraud Compensation Fund.

Levies and other income

The PPF did not consider it necessary to raise a Fraud Compensation Levy in 2008/09. The Board will not be raising a levy in 2009/10 but is considering doing so in

2010/11. This is based on the PPF's view of the level of funds it already controls compared with the level of claims in process and its current view of the likely incidence of future claims.

The PPF will keep under review the level of assets compared with the level of claims, and plans to formally announce a decision on any levy to be raised in 2010/11 in due course.

The PPF also anticipated making recoveries in respect of the CW Cheney & Son Ltd Pension Fund. Subsequent to a number of convictions obtained by the Serious Fraud Office in 2004, Confiscation Orders, with associated Compensation Orders in favour of the Fund, were made against two individuals at Birmingham Crown Court in June and December 2008 respectively. Payments had not been received in respect of these Orders prior to 31 March 2009, but two payments were received subsequent to the year end.

Claims

There were four outstanding claims as at 1 April 2008 and three new claims were formally made during 2008/09. The PPF was also informed of activities in respect of a number of eligible schemes which it believes makes future claims more than likely. The PPF discloses in its accounts provisions of £12.35 million reflecting these probable claims.

The PPF settled a single claim, in respect of EPL Technologies, amounting to £37,000, during the year. This claim had previously been inherited from the Pensions Compensation Board.

Investment

In September 2005, the PPF published a SIP for the Fraud Compensation Fund, benchmarking its investment performance against the Bank of England 'repo' rate and allowing investments in cash, deposits and money market funds. The SIP remains unchanged. Insight Investment Management and Fidelity Investments, appointed in March 2006, remain responsible for managing money market funds for the Fund.

Expenses

All operating expenses incurred in administering the Fraud Compensation Fund are accounted for through the Administration Fund of the PPF.

3.3.5 Administration Fund

The PPF is a Public Corporation, under the stewardship of the DWP whose Board reports to the Secretary of State for Work and Pensions, and is, therefore, responsible for accounting for its own income and operating and capital expenditures.

The PPF is funded by drawing down grant-in-aid from the DWP as empowered by section 116 of the Pensions Act 2004. These grant-in-aid payments are in turn funded by the DWP raising an annual PPF administration levy on eligible pension schemes as set out in section 117 of the Act. The activities of the PPF in relation to the FAS were also funded by drawing down of ring-fenced grant-in-aid from DWP. These grant-in-aid payments are not funded from the annual PPF administration levy, instead being funded from DWP resources.

The Board and DWP's powers, together with processes described below by which these powers are utilised, led the PPF to consider it appropriate for accounts of its Administration Fund to be prepared on a going concern basis.

The key risks facing the PPF and DWP in this funding process relate to the accuracy and completeness of the PPF's budgeting processes, which inform the DWP's setting of the rate of administration levy, and the accuracy and completeness of the PPF's forecasting processes, which generate the amounts of grant-in-aid drawn down to cover forecast expenditure in the next period.

These risks are mitigated by robust financial disciplines such as:

- the PPF submitting each year a Strategic Plan for the three years ahead to the DWP,
- the first year of the Strategic Plan is developed into a detailed Business Plan, with objectives for the year and associated budgeted expenditure required to fulfil those objectives,
- the regular review of actual in-year expenditures against budgets and the preparation of regular forecasts of expenditures for the remainder of the year, and
- approval by the Accounting Officer of specific periodic (normally quarterly) drawdown requests.

Management Commentary – Report on 2008/09

3.3 Financial review continued

The PPF had sufficient funding on hand throughout 2008/09 to meet operating and capital expenditure requirements. At no time were payments to staff or suppliers delayed due to inadequate funding.

The PPF operated within its final operating budget in respect of PPF activities during 2008/09 but the capital expenditure budget had to be revised during the year. Total net operating expenditure in respect of core PPF activities amounted to £18.25 million compared with the budget of £18.65 million. Capital expenditure in respect of PPF activities amounted to £0.85 million compared with the budget of £0.72 million. Total grant-in-aid received to finance FAS activities amounted to £2.26 million.

Expenditure on PPF core activities in 2008/09 was higher than that in 2007/08. This was due to the need to ensure that the PPF had sufficient capability and capacity to fulfil its responsibilities. The economic climate, with a larger number of schemes entering the assessment period, created particular staffing demands in the Delivery Directorate and in roles across the organisation which support the assessment process. Overall the administrative cost of the PPF per scheme member in assessment or compensation has fallen from £155 in 2007/08 to £122 in 2008/09. The PPF has continued to seek to benchmark costs against suitable external comparators such as the annual Watson Wyatt survey of pension scheme administration costs.

The PPF indicative budget for 2009/10 was agreed with the DWP in September 2008 to inform the setting of the PPF administration levy for 2009/10. This budget covered all aspects of operating expenditure including staff costs, outsourced services and consultancy and advisory services. As a result of this budgeting process following the required consultation, the DWP decided to freeze the rates of the administration levy for 2009/10. Operating expenditure for core PPF activities was forecast to be around £22.8 million while capital expenditure for core PPF activities was forecast to be £1.4 million. The total administration levy amounted to £21 million in 2008/09.

3.3.6 Going concern

The Pension Protection Fund

The Board continues to adopt the going concern basis in preparing the annual report and accounts in relation to the PPF because the Board has a reasonable expectation that the Fund will have adequate resources to continue in operational existence for the foreseeable future. The following factors were especially relevant to the Board during its considerations:

- cash flows out of the Fund for compensation payments will be at a very low level during the early years of the Fund's operation, and the current level of funding is considered adequate to ensure cash will be available to meet compensation payments as they fall due,
- relevant accounting standards require the Fund to immediately recognise the full present value of probable scheme deficits but the Fund cannot recognise the future streams of protection levy income which will effectively bridge the gap between the assets and liabilities of schemes it transfers in,
- the PPF considers that its levy raising powers (and its powers to increase levies up to a ceiling set by the Secretary of State for Work and Pensions) are adequate to protect its liquidity position. The PPF's levy-raising powers are set out in sections 174 to 181 of the Pensions Act 2004, and
- the PPF also has the reserve powers (in extreme circumstances after due consultation and with approval of the Secretary of State) to amend benefit payments both for scheme members already within the Fund and for new scheme members entering the Fund. These powers are set out in the Pensions Act 2004, Schedule 7, paragraph 29 and 30 covering powers to alter rates of revaluation and indexation, and to vary the percentage paid as compensation. The Board has no current plans to exercise these powers.

The Fraud Compensation Fund

The Board continues to adopt the going concern basis in preparing the annual report and accounts in relation to the Fraud Compensation Fund because the Board has a reasonable expectation that the Fund will have adequate resources to continue in operational existence for the foreseeable future. Volumes of claims on the Fund remain at relatively low levels and so the Board has inadequate statistics to forecast future claim volumes or values with any degree of certainty. The Fund therefore remains vulnerable to claims at unexpected volumes or for unusually large values. The Board has reviewed its powers and obligations in relation to the Fund, particularly as regards making interim payments, and concludes the going concern basis remains appropriate for the following reasons:

→ Relevant accounting standards require the Fund to recognise the full value of probable claims in the accounting period in which the claim arises. In the current year, the Board has recognised claims totalling £12 million and therefore discloses a deficit of £8 million on an accounting basis. This value does not represent an immediate call on the resources of the Fund. Indeed the Board consider it likely that the Fund will have sufficient resources to deal with any calls on the Fund for interim payments from claimant schemes in the foreseeable future. The Board will continue to work closely with independent trustees of claimant schemes to manage the cash flows of the schemes themselves (in the context of the assets still under the control of the trustees) and of the Fund to ensure the schemes can continue to meet their liabilities as they fall due in the foreseeable future.

→ The Board has the power to raise Fraud Compensation Levies and is currently planning to do so in 2010/11, up to the current Fraud Compensation Levy ceiling of 23p per eligible member. The Board is also keeping under review whether it will be necessary to raise levies in future years.

→ The Board also has the power to borrow funds from commercial sources in order to exercise its functions, including settling Fraud Compensation claims or making interim payments. The Board however has no current plans to enter into any such borrowing arrangements.

The Administration Fund

The Board continues to adopt the going concern basis in preparing the Annual Report and Accounts in relation to the Administration Fund because the Board has a reasonable expectation that the Fund will have adequate resources to continue in operational existence for the foreseeable future. In reaching this conclusion, the Board has taken account of the robust financial procedures governing:

→ the setting of operating budgets,

→ in-year reviews and forecasts,

→ the controls over drawing down grant-in-aid from DWP, and

→ the segregation of levy payer funded PPF activities from Government funded FAS-related activities.

Management Commentary – Report on 2008/09

Corporate Responsibility

> "The PPF recognises the wider responsibilities it has to stakeholders and scheme members. Its role as a financial institution is discussed in Section 3.3.3.2, but the PPF also continues to believe it has a role as an employer in contributing to its local community."

A part of the local community

During the year the PPF was an active member of Croydon Commitment. Croydon Commitment is a corporate-led social responsibility charity that promotes the work of local charities and voluntary groups and is supported by local business organisations. Croydon Commitment fundraises on behalf of other charities and promotes community involvement amongst local companies and their staff. The PPF has supported a number of activities and in December 2008 PPF staff cooked and served Christmas dinner to over 80 local residents at the Parchmore Community Centre in Thornton Heath.

A responsible employer

The PPF is also committed to acting in a socially responsible manner in the other aspects of its work. The organisation kept its environmental, equal opportunities and other policies under review during the year to ensure that the organisation continued to meet the highest standards.

A responsible investor

The PPF also addresses its wider responsibilities through its SIP. Its activities in this area are discussed in the Investment Report.

A 'Safe & Secure' organisation

During the year the PPF undertook a major review of its information security, health and safety procedures. This reflected the changing nature and growing scale of the organisation and genuine concern across the public sector around the security of personal information. The PPF therefore implemented revised procedures, collectively entitled 'Safe & Secure' to strengthen many aspects of its activities. It also sought and received assurances from those handling information on behalf of the PPF as to the strength of their controls. The PPF also commenced seeking ISO 27001 accreditation during the year.

The PPF had no reportable personal data related incidents during 2008/09.

Freedom of Information (FOI)

“The PPF is subject to the Freedom of Information Act 2000. Whenever possible, the PPF aims to provide information without the need to invoke formal FOI procedures. However, where the content of an enquiry indicated (whether explicitly or not) that it should be treated formally as a request for information under the Act it was logged accordingly.”

- **The PPF received 29 requests for information which were considered under the Act during 2008/09.**
- **In 11 cases the PPF was able to fully disclose the information requested.**
- **In seven cases the PPF was able to partially disclose the information requested with other information requested not being disclosed.**
- **In three cases the PPF did not hold the information requested.**
- **In eight instances the PPF would not disclose any of the information requested.**

Where the PPF was unable to disclose all information requested, in four cases this related to restricted information, the release of which is prohibited by the Pensions Act 2004, in two cases where information was intended for future publication, in one instance where disclosure was likely to prejudice commercial interests and in one case the request was declined on grounds of cost.

In one instance, following the PPF’s refusal to disclose the information requested, a first stage appeal was received. This was considered by the Director of Delivery, as he had not been involved in relation to the material requested. The PPF subsequently disclosed limited information contained in a successful tender for services.

A publication scheme and FOI procedures can be found on the PPF website.

Complaints and appeals

"The PPF is committed to resolving concerns and complaints as swiftly and co-operatively as possible. In the first instance complaints are received by the SST. Where an informal complaint relates to a particular area of the PPF's work, staff from that team are involved in resolving the complaint. Issues can also be raised more formally through the statutory procedures for review of reviewable matters and complaints of maladministration.

PPF complaints and appeals have principally been concerned with reviewable matters for which a statutory process exists. The PPF has seen more general complaints, which are not reviewable matters, being made. In response, in August 2009 the PPF established a formal complaints process for general complaints. Number of complaints received, together with the outcomes of these complaints and any changes arising from them will be published in future Annual Report and Accounts."

The flow charts opposite show applications dealt with through the statutory procedure for review of levy invoices for the 2007/08 and 2008/09 financial years. Six requests were made for review of other reviewable matters. The charts capture information about reviews, in respect of the levy, commenced on or before 31 March 2009, and track all developments in those cases up to the date of publication of these accounts.

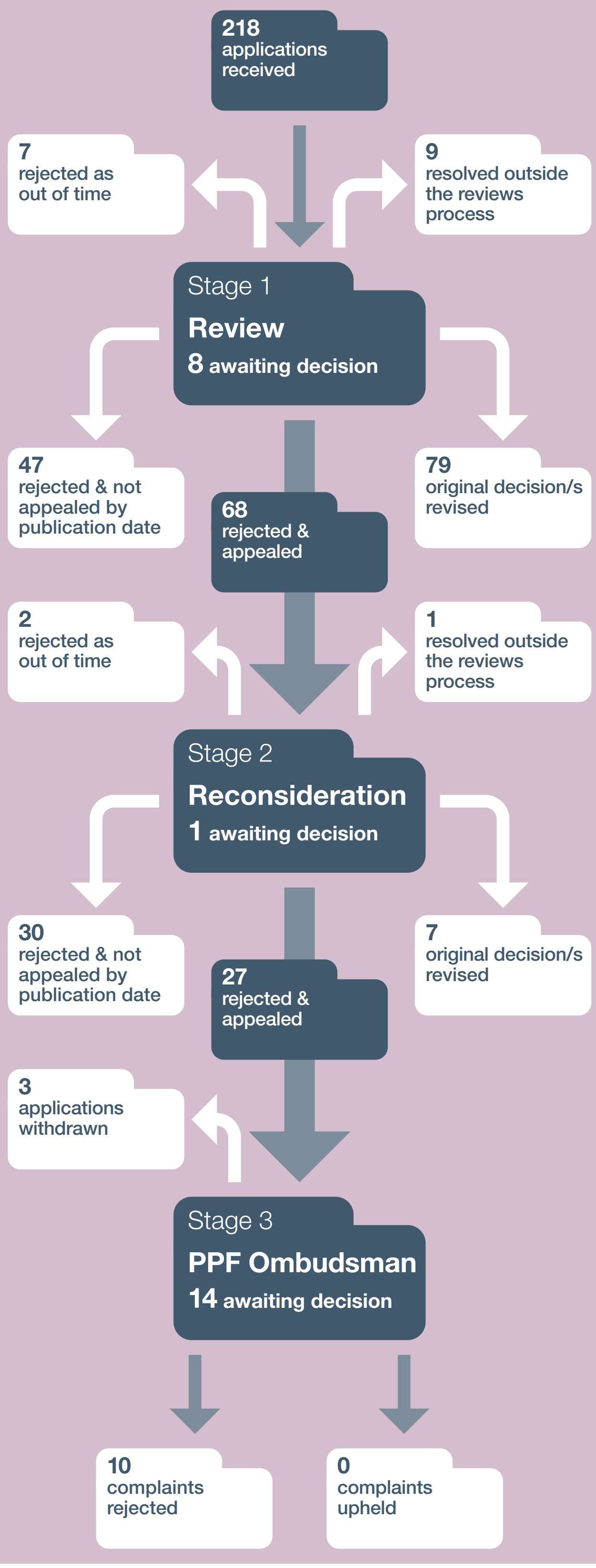
In relation to the separate maladministration jurisdiction, the Board received one new complaint of maladministration during the 2008/09 financial year. This was considered and rejected by the Board.

The PPF has also been informed of a number of outstanding cases with the Pensions Ombudsman in respect of schemes for which the Fund has assumed responsibility. The Board is kept informed of developments in those cases and makes any necessary adjustments to compensation save in cases where the admissible rules and reviewable ill health pensions provisions prevent this.

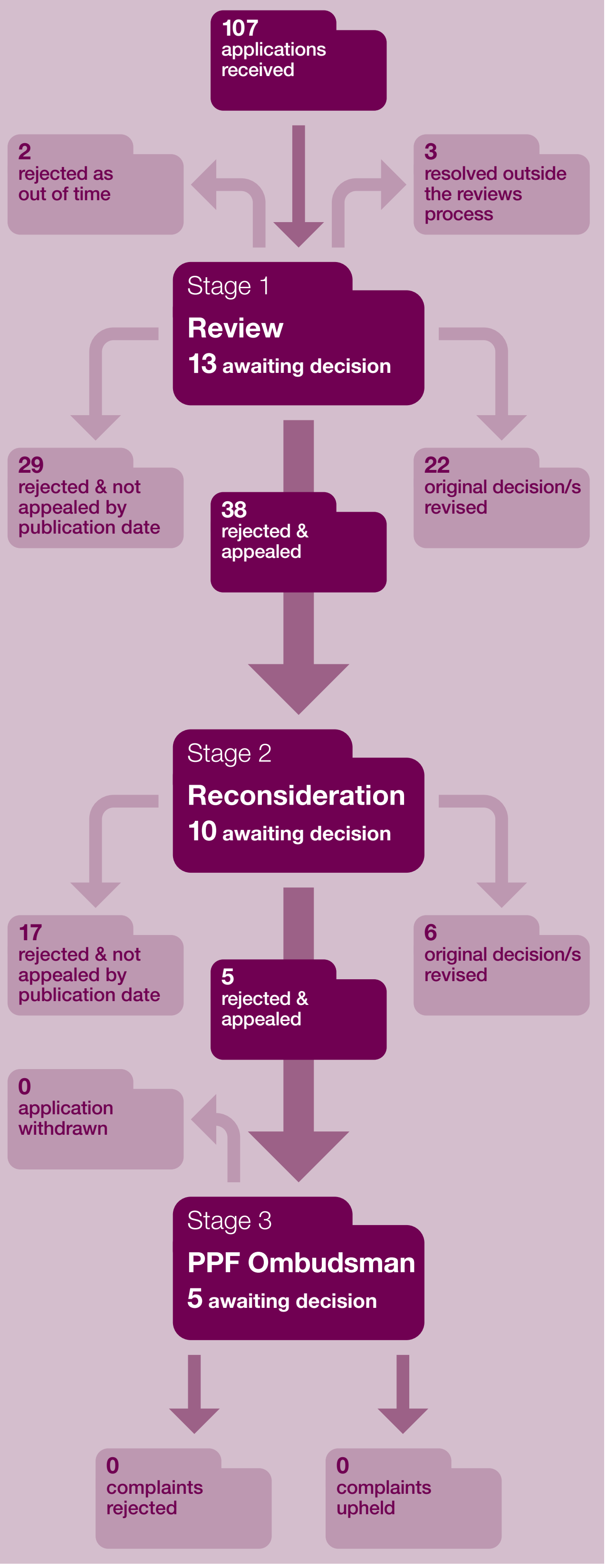
Where complaints are made in respect of probabilities of insolvency provided to the Board by D&B these complaints are handled through D&B's five stage appeals process.

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

Reviewable matters in respect of the 2007/08 levy year



Reviewable matters in respect of the 2008/09 levy year



Directors' Report

4.1 Introduction to the Directors' Report

The structure and functions of the Board of the PPF are defined by the Pensions Act 2004, the Pensions Act 2008 and associated regulations. The Members of the Board comprise a Non-executive Chairman, a Chief Executive and at least five ordinary Members, at least two of whom must be appointed from the staff of the Board of the PPF (subject to a majority of the Board being Non-executive Members). The Chief Executive and the Members who are appointed from the staff of the PPF are 'Executive Members'.

The Board has a Statement of Operating Principles and Scheme of Delegations, which details the functions which are reserved to the Board and where functions have been delegated to the Chief Executive. This document is available at:

www.pensionprotectionfund.org.uk/Document Library/Documents/statement_of_operating_ principles.pdf

The Board is committed to adhering to high standards of corporate governance and compliance with HM Treasury's 'Corporate governance in central government departments: Code of good practice', originally published in July 2005, is reviewed annually.

All Non-executive Members were independent at appointment, having no current or previous material relationship with the organisation as an employee, officer or contractor. All Board Committees are chaired by Non-executive Members. The Board Secretary acted as Secretary to the Board and its Committees during the reporting period.

The Board has a process for managing conflicts of interests and publishes a register of interests which is available at:

www.pensionprotectionfund.org.uk/Document Library/Documents/board_register_interests.pdf

Biographies[6]

01 Lawrence Churchill
Before joining the PPF, Lawrence was Chief Executive of Zurich Financial Services, UK, Irish and International (2002 to 2004). Lawrence holds a number of non-executive positions, including as a member of the Board of Actuarial Standards, a member of the Board of BUPA and a trustee of the International Longevity Centre – UK.

02 Ian Abrams
Ian is currently a Non-executive Director of Mizuho International plc, (having been Managing Director from 1998 to 2003), an Independent Director of LCH Clearnet Group Ltd and the Chairman of Orchard Wealth Management Ltd (Jersey). He also serves as a member of the Financial Services and Markets Tribunal, the Pensions Regulator Tribunal and the Accountants and Actuaries Discipline Board.

03 Mark Baker CBE
Mark was formerly Chairman of Magnox plc and of Electricity Pensions Ltd, having been actively involved with the management and evolution of the Electricity Supply Pension Scheme since 1989. Mark was Deputy Independent Chairman of the Police Negotiating Board from 2000 to 2005 and was a member of the Senior Salaries Review Body from 2005 to 2009.

04 Ann Berresford
Ann was Finance Director for the Bank of Ireland's UK Financial Services Division and Bristol & West plc until 2006. She was also a Board member of Bristol & West Pension Trustees Ltd from 2001 to 2006. Prior to this, Ann held a range of senior roles in Clyde Petroleum plc, an independent British exploration and production company, including Group Treasurer and Finance Director for their substantial Dutch operations based in The Hague. Ann is now a Non-executive Director for the Bath Building Society and an independent trustee to the local government Avon Pension Fund, administered by Bath & North East Somerset Council.

05 Michael Deakin
Michael set up a consultancy business in October 2003 providing strategic investment advice to pension funds. Prior to this Michael was Chief Investment Officer and an Executive Director of Insight Investment (formerly Clerical Medical Investment Group) where he controlled over £65 billion of assets and managed and built a team of 150 investment professionals covering equity, fixed income and property fund management. He currently holds a number of positions including Chairman of Manifest Information Services Ltd, Chairman of Lands Improvement Holdings, Deputy Chairman of the London Pension Fund Authority, and a trustee of the HBOS Final Salary Pension Scheme.

06 Jeannie Drake CBE
Jeannie retired as Deputy General Secretary of the Communication Workers Union in 2008. Jeannie's current portfolio career includes Acting Chair of the Personal Accounts Delivery Authority, a Commissioner of the Equality and Human Rights Commission, and a panel member of the Employment Appeal Tribunal. She has also been President of the TUC, and was a member of the Pensions Commission. Jeannie was educated at Brunel University and the London School of Economics.

6 Although not a formal Member of the Board, Derek Cribb, Interim Chief Operating Officer, also attended Board meetings during the year as an observer.

07 Sir Anthony Holland
Sir Anthony was a solicitor who has had extensive experience in private practice and has held a range of senior appointments in the legal and financial services sectors. He is a former President of the Law Society and has written a number of legal textbooks. Sir Anthony is the Independent Complaints Commissioner at the Financial Services Authority and was Chairman of the Northern Ireland Parades Commission and the Standards Board for England.

08 Christopher Hughes
Christopher is a solicitor with Wragge & Co LLP, of which he was formerly Managing Partner. Christopher has also been a Board member of Severn Trent Water Authority and the Chairman of Newman Tonks Group plc, a manufacturer and distributor of industrial and domestic hardware. Christopher is the Senior Independent Director of the Board of the PPF.

09 Partha Dasgupta
Partha was Chief Executive and Accounting Officer until 31 March 2009.

He was appointed Chief Executive in June 2006 having joined the PPF in January 2005 as Director of Investment and Finance where he led the development of the risk-based levy and investment strategy. Prior to joining the PPF, Partha was a Managing Director at Barclays Global Investors. He is also a Non-executive Director of the UK Statistics Authority.

10 Martin Clarke
Martin is Executive Director of Financial Risk and was appointed on an interim basis in July 2006. His appointment was made permanent and he joined the Board in May 2007. He is also a Non-executive Director of Congregational & General Insurance.

Prior to joining the PPF, Martin's career was spent in retail financial services with Co-operative Insurance Society (CIS), the insurance services arm of the Co-operative Group, which he joined in 1977.

11 Peter Walker
Peter is Executive Director of Delivery and was appointed in October 2007. He was previously Chief Operating Officer, on an interim basis from July 2006 to February 2007, when his appointment was made permanent and he joined the Board.

Prior to joining the PPF, Peter spent three years working as an interim executive for a number of international companies. Before that, he was Chief Financial Officer for Kleinwort Benson Private Bank.

12 Alan Rubenstein[7]
Prior to joining the PPF as Chief Executive in April 2009, Alan Rubenstein was a Managing Director of Lehman Brothers. At Lehman Brothers, Alan was responsible for establishing their Pensions Advisory Group, which brought together Lehman Brothers equity, fixed income and investment banking services to pension funds and corporate plan sponsors.

Alan qualified as an actuary with Scottish Widows and then moved into senior executive positions in investment banking with BZW Asset Management, Lucas Varity Fund Management and Morgan Stanley. Alan is a former Vice-Chairman of the NAPF, and Chairman of its Investment Council. He is a Governor of the Pensions Policy Institute and is a former member of the Management Board of the UK Actuarial Profession, the Council of the Faculty of Actuaries and the Takeover Panel.

13 David Heslop[7]
David Heslop is the PPF's Chief Operating Officer. He joined the PPF in April 2009 following a 20 year career at Aviva plc, one of the UK's largest insurance and savings groups.

David held a wide variety of senior positions during his time at Aviva including, Director of Customer Experience for Norwich Union Life, Managing Director of Norwich Union Investment Funds and Managing Director of Your Move estate agency.

7 Board Members at the date of publication having joined subsequent to 31 March 2009.

Directors' Report

4.2 Attendance at Board meetings

From 1 April 2008 to 31 March 2009

	Board	Non-executive	Audit	Remuneration	Investment	Reconsideration[3]	Nomination[4]	Decision
Number of meetings	**11**	**4**	**5**	**5**	**5**	**15**	**5**	**1**
Lawrence Churchill	11	4	n/a	4[1]	n/a	n/a	5	n/a
Ian Abrams	9	3	5	n/a	5	7	n/a	n/a
Mark Baker CBE	8	2	n/a	5	3	n/a	1[1]	1
Ann Berresford	9	3	5	n/a	1[1]	n/a	4	n/a
Michael Deakin	9	3	3	n/a	5	n/a	n/a	nil
Jeannie Drake CBE	9	2	n/a	5	n/a	15	1[1]	n/a
Sir Anthony Holland	9	4	n/a	5	n/a	9	n/a	1
Christopher Hughes	11	4	5	1[1]	n/a	11	4	n/a
Partha Dasgupta	10	n/a	4[2]	3[5]	5	n/a	3	1
Martin Clarke	8	n/a	n/a	n/a	5	n/a	n/a	n/a
Peter Walker	10	n/a	4[2]	n/a	n/a	n/a	n/a	1
Derek Cribb[6]	(8)	n/a	(4)	(1)	(2)	n/a	n/a	n/a

1 In attendance – Non-executive Board Members may elect to attend meetings of the Audit and Remuneration Committees and all Board Members may elect to attend meetings of the Investment Committee. Other Committees could be attended at the request or with the permission of the Chair of the Committee.

2 A number of Executive Members, including the Chief Executive and Accounting Officer, are regular attendees at Audit Committee meetings.

3 The Reconsideration Committee has a panel of members not all of whom attend each meeting. Meetings of the Committee are chaired by the Chair or Vice-Chair.

4 The Nomination Committee is formed from a panel typically comprising the Chief Executive, Chairman and Senior Independent Director for Executive Board Member appointments with other Non-executive Board Members involved as appropriate. In the case of Non-executive Board Member appointments the Nomination Committee panel will be formed from Non-executive Board Members. The Committee may also co-opt Members.

5 The Chief Executive was invited to attend some Remuneration Committee meetings where Executive Directors' performance was discussed.

6 In attendance at Board meetings as Interim Chief Operating Officer and could request or be asked to attend certain Board Committees.

Directors' Report

4.3 Board and Committee structure and membership[8]

8 This includes all Members of the Board at date of publication.

Directors' Report

4.4 Board Report

Strategy and objectives

The Board is responsible for the strategy of the PPF and has continued to review and revise, as necessary, the direction of the organisation. As the economic environment became more challenging the Board assured themselves of the liquidity and sustainability of the PPF in a range of recessionary scenarios. The Board remained committed to its strategic approach and believed that it remained fit for purpose despite emerging challenges.

During 2008/09 the Board considered how to work alongside the DWP in respect of the FAS. The Board agreed to provide assistance to the DWP subject to clear ring-fencing of funding and no cross subsidies from levy payers. Further discussions resulted in the DWP consulting on conferring the functions of managing the FAS on the Board. *Following consultation, the DWP decided to confer these functions on the Board and the necessary Regulations came into force in July 2009.*

The Board published its 'Management Plan 2008/09 – 2010/11' in April 2008. At each of its meetings the Board received regular reports from the Chief Executive on the activities undertaken by the organisation. The Board had discussions on the broad strategic direction of the PPF at a dedicated strategy day in December 2008.

Senior appointments

During the year the Board, on the recommendation of the Nomination and Remuneration Committees, agreed the appointment and remuneration arrangements of the new Chief Executive and new Chief Operating Officer. Both subsequently joined the Board outside of the reporting period.

Levy and compensation

The Board considered the continuing development of the pension protection levy during 2008/09. The Board approved the consultation on the future of the pension protection levy published in November 2008 and at its March 2009 meeting considered the responses received. *The formal response of the Board to the consultation was published in July 2009.*

The Board agreed a levy estimate of £675 million indexed to wage inflation for 2009/10 in September 2008. The final levy estimate for 2009/10 was therefore set in November 2008 at £700 million. The Board remained mindful of the need to balance the interests of compensation beneficiaries and levy payers and consulted on the levy estimate figure.

The Board is required to equalise compensation to take account of any differences in treatment between men and women, including differences in the GMP formula. A consultation was published in April 2008 and the Board considered the responses to this consultation and, in discussion with DWP, possible routes forward during the year.

Contracts

In June 2008, the Board approved the reappointment of D&B as insolvency risk provider to the Board for the period 2008/09 to 2011/12, following a competitive procurement exercise which commenced during 2007/08.

In December 2008, the Board approved the reappointment of Capita Hartshead as the outsourced administration and payroll provider to the Board. This was on a revised contract to allow Capita Hartshead to undertake activities in relation to any future expanded role of the PPF in relation to the FAS.

Communication strategy and stakeholder engagement

The Board continued the development of the existing communications themes, agreeing a revised communications strategy in June 2008. This was considered alongside the results of the annual Stakeholder Perception Audit which provided an assessment of the implementation of the previous strategy and shaped the revisions made to the strategy agreed.

Board and organisational performance

The Board remained committed to continuing to improve the performance of the Board, its Committees and the organisation as a whole. A review of the performance of the Board and governance arrangements was undertaken by PricewaterhouseCoopers and a number of recommendations implemented.

The Board also considered the performance of the organisation as a whole against the objectives set by the Board.

4.4.1 The Non-executive Committee

The Non-executive Committee met on four occasions between 1 April 2008 and 31 March 2009. The Committee is constituted of all Non-executive Members of the Board.

The matters reserved to the Committee are set out in section 112 of the Pensions Act 2004, and are:

a) the duty to keep under review the question whether the Board's internal financial controls secure the proper conduct of its financial affairs,

b) the duty to determine under sub-paragraph (5)(a) of paragraph 12 of Schedule 5, subject to the approval of the Secretary of State, the terms and conditions as to remuneration of any Chief Executive appointed under sub-paragraph (4) of that paragraph,

c) the duty to determine under paragraph 13(3)(a) of that Schedule, subject to the approval of the Secretary of State, the terms and conditions as to remuneration of any member of staff who is also to be an Executive Member of the Board, and

d) the duty to determine under paragraph 13(3)(b) of that Schedule, the terms and conditions of remuneration of any member of staff of a description prescribed for purposes of that provision.

The Committee has established Audit and Remuneration Committees.

In 2008/09, the Non-executive Committee:

→ agreed arrangements for better use of Board Member time including a rebalancing of the numbers of Board and Committee meetings,

→ undertook a review of the effectiveness of its Sub-Committees,

→ discussed the corporate governance and strategic risk framework for the PPF,

→ initiated a review of the organisation's Dispute Resolution Process,

→ received reports from the Audit and Remuneration Committees at each of its meetings, and

→ continued to consider means of reviewing the effectiveness of the Board.

Audit Committee

The Audit Committee met on five occasions between 1 April 2008 and 31 March 2009.

Both the internal and external auditors had full access to meeting papers and minutes and attended meetings of the Committee. Internal audit was provided by BDO Stoy Hayward (reappointed at the February 2009 meeting) while the National Audit Office (NAO) provided the external audit service.

In 2008/09, the Committee:

→ reviewed, considered and recommended the Annual Report and Accounts for 2007/08 for the Board's approval. It also commenced planning for the 2008/09 and 2009/10 Annual Report and Accounts, including the implementation of IFRS and receiving the NAO's Audit Strategy for the 2008/09 Annual Report and Accounts,

→ considered the arrangements for the handover of Accounting Officer responsibilities,

→ reviewed reports received from the internal auditors and the Executive's action plan to implement recommendations,

→ undertook a comprehensive tender exercise for internal audit services,

→ monitored the organisation's top down risk register, including a separate register for FAS work being undertaken, receiving quarterly reports on how these risks were managed and on any specific risk related issues that had arisen,

→ reviewed the organisation's information security policy,

→ reviewed the organisation's whistle blowing policy, and

→ undertook a comprehensive review of the Committee's effectiveness.

The Audit Committee monitored and commented on the organisation's risk management processes and reported on these to the Non-executive Committee after each meeting.

Directors' Report

4.4 Board Report continued

Remuneration Committee

The Remuneration Committee met on five occasions between 1 April 2008 and 31 March 2009.

In 2008/09, the Committee:

- → reviewed the performance of the Chief Executive and that of the Executive Directors and agreed annual bonus payments for 2007/08,
- → commissioned external benchmarking of Executive Director remuneration,
- → recommended increases in the salary of the Chief Executive and Executive Directors for the approval of the Secretary of State,
- → continued to monitor Executive Directors taking up external Non-executive roles and the terms on which such posts are taken,
- → ensured that appropriate objectives were in place for the Executive Directors against which performance would be measured in 2009/10,
- → was involved in the proposals for staff remuneration arrangements including performance management and assessment, recruitment and retention issues and pay remits for 2008/09 and 2009/10, and
- → recommended the remuneration of the incoming Chief Executive and Chief Operating Officer at appointment for the approval of the Secretary of State.

4.4.2 Board Committees

Decision Committee

Where it is judged necessary in the light of the possibility of a future review or complaint, the Committee meets to support and advise the Chief Executive on novel or contentious issues in respect of issues that would normally be delegated to him or to consider any specific decisions assigned to it by the Board. (Board Members who are Members of the Reconsideration Committee asked to reconsider the matter must not have been party to the initial decision.)

The Decision Committee met on one occasion during 2008/09.

Reconsideration Committee

The Reconsideration Committee is a Committee of the Board required to be established by the Pensions Act 2004 for the purposes of carrying out the second stage of the formal appeals process for reviews and complaints. The Committee also acts as the investigatory committee for the purposes of the second stage maladministration complaints.

The Reconsideration Committee met on 15 occasions between 1 April 2008 and 31 March 2009.

In 2008/09, the Committee:

- → Considered a number of cases where the levy payer challenged the level of levy invoiced vis-à-vis the previous year's levy. In each of these cases the levy figure was found to be correctly calculated.
- → Considered a number of cases where the levy payer challenged the D&B methodology, where it was determined that the process adopted by D&B was not a reviewable matter under Schedule 9 of the Pensions Act 2004.
- → Considered an applicant's request not to enforce payment of the levy charged rather than an application to pay the levies by instalments. It was determined that the Board did not have discretion to suspend payment of an invoice.
- → In a number of cases the Committee found in the applicant's favour and directed that a credit note be issued and the invoice re-calculated.

Where the Reconsideration Committee has not upheld a review request or complaint the applicant may take their case to the PPF Ombudsman (this must normally be within 28 days of issue of the Reconsideration Committee's written decision).

The Board received updates from the Committee at each meeting which captured a number of themes that had emerged from the appeals processes specifically considered by the Board.

Nomination Committee

The Nomination Committee met on six occasions between 1 April 2008 and 31 March 2009. The Committee was supported at four of these meetings by an independent OCPA assessor and for the interviewing of candidates was joined by a representative of the DWP. In addition, the Chief Executive designate attended the interviewing of candidates for the post of Chief Operating Officer.

In 2008/09, the Committee:

- agreed the job descriptions and recruitment processes for the posts of Chief Executive and Chief Operating Officer,
- appointed recruitment agencies to support the recruitment processes,
- short-listed and interviewed candidates for both roles, and
- recommended the appointment by the Board of Alan Rubenstein as Chief Executive and David Heslop as Chief Operating Officer.

Investment Committee

The Investment Committee met on five occasions between 1 April 2008 and 31 March 2009.

In 2008/09, the Committee:

- reviewed and revised the SIP approved by the Board in October 2006. The SIP is reviewed annually; that in place for most of 2008/09 can be found at:
  www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/sip_july_2008.pdf
  A further revision to the SIP was agreed at the March 2009 meeting subject to Board ratification,
- commenced a wide ranging review of the investment strategy of the Fund. This has looked at all aspects of the investment approach of the PPF,
- reviewed the approach of the Fund to hedging a range of risks to which it is exposed such as inflation and interest rates,
- received quarterly updates from Mercer Investment Consulting, the Investment Advisor to the Fund, and monitored their compliance with agreed standards,
- reviewed reports from State Street, Custodian to the Fund (reappointed at September 2008 meeting), and monitored their compliance with agreed standards,
- anticipating future growth in the Fund, initiated a search for new global bond and global equity managers in order to help diversify fund manager risk,
- considered how to best manage the equity stakes which the PPF has acquired as a result of agreeing to the re-structuring of insolvent companies, and
- considered the strategy of the Fund in respect of RI, and agreed the appointment of F&C (at the September 2008 meeting) as an external advisor on voting and engagement.

Remuneration Report

Salary and pension entitlements (subject to audit – see Auditor's Report pages 55-56)

	Salary (in bands of £5000) including bonuses		Pensions				
	Period end 31 March 2009 £'000	Period end 31 March 2008 £'000	Real increase in pension and related lump sum £'000	Total accrued pension at pension age at 31 March 2009 £'000	Cash Equivalent Transfer Value at 31 March 2009 £'000	Cash Equivalent Transfer Value at 31 March 2008 £'000	Real Increase in Cash Equivalent Transfer Value £'000
Lawrence Churchill							
Chairman	85-90	85-90	0-2.5	5-7.5	126	112	14
Partha Dasgupta							
Chief Executive (until 31 March 2009)	190-195	180-185	0-2.5	7.5-10	89	71	18
Martin Clarke							
Director of Financial Risk	180-185	195-200	n/a[1]	n/a	n/a	n/a	n/a
Peter Walker							
Director of Delivery	155-160	160-165	0-2.5	2.5-5	70	39	31
Ian Abrams							
Non-executive Member	20-25	20-25	n/a	n/a	n/a	n/a	n/a
Mark Baker CBE							
Non-executive Member	20-25	20-25	n/a	n/a	n/a	n/a	n/a
Ann Berresford							
Non-executive Member	20-25	10-15	n/a	n/a	n/a	n/a	n/a
Michael Deakin							
Non-executive Member	20-25	20-25	n/a	n/a	n/a	n/a	n/a
Jeannie Drake CBE							
Non-executive Member	20-25	20-25	n/a	n/a	n/a	n/a	n/a
Sir Anthony Holland							
Non-executive Member	20-25	10-15	n/a	n/a	n/a	n/a	n/a
Christopher Hughes							
Non-executive Member	20-25	20-25	n/a	n/a	n/a	n/a	n/a
Derek Cribb							
Interim Chief Operating Officer (until April 2009)	275-280	140-145	n/a	n/a	n/a	n/a	n/a

1 Martin Clarke was not a member of any employer sponsored pension arrangement during the year.

This report is based on payments made by (or accrued by) the Board and so recorded in the accompanying financial statements (rather than, for example, on annual rates of salary). The values displayed for Derek Cribb, Interim Chief Operating Officer, represent amounts payable to the interim agency through which his services were provided, and exclude that agency's fees and VAT. Mr Cribb left the PPF with effect from 17 April 2009.

Contracts

Partha Dasgupta was appointed to his post as Chief Executive on 21 June 2006 on a three-year fixed term contract and had formerly held the position of Director of Investment and Finance having been appointed to this position in 2004 on a three-year fixed term contract. Partha Dasgupta gave notice in August 2008 that he would not be seeking to renew or extend his current contract beyond June 2009 and stood down as Chief Executive on 31 March 2009.

Following an open recruitment exercise, it was announced in January 2009 that Alan Rubenstein would take up the post of Chief Executive from 1 April 2009. His appointment was made on a three-year fixed term contract.

The Director of Delivery was appointed on a permanent basis, on a continuation of his existing contract term, in October 2007. He had previously been appointed as Chief Operating Officer in January 2007 on a permanent basis, on a three-year fixed term contract, having been initially appointed in July 2006 on an interim basis.

The Director of Financial Risk was appointed in July 2006 on an interim basis. In this capacity he was not a member of the Board but attended meetings. He was appointed on a permanent basis, on a three-year fixed term contract in May 2007, then formally becoming an Executive Member of the Board.

The Chairman of the PPF was appointed by the Secretary of State in July 2004 for a three-year term of office and subsequently reappointed in July 2007 to a further three-year term of office. Ann Berresford and Sir Anthony Holland were appointed to the Board in September 2007. All other Non-executive Members of the Board having been appointed by the Secretary of State in December 2004 for a three-year term of office were appointed to further three-year terms in December 2007 albeit following discussions about succession planning which may involve some Members stepping down at an earlier date.

Executive Directors – outside appointments

The PPF recognises the benefits to the individual and to the organisation of Executive Directors serving as Non-executive Directors of external organisations and companies. The PPF policy is that an Executive Director may accept one outside appointment (excepting FTSE 100 companies or an appointment as a Non-executive Chair) subject to the approval of the Chairman (in the case of the Chief Executive) and by the Chairman and Chief Executive (in the case of other Executive Directors).

External Non-executive appointments held by Executive Directors during the year were:

Partha Dasgupta	UK Statistics Authority
Martin Clarke	Congregational & General Insurance plc

These roles were undertaken outside of PPF time through a combination of paid and unpaid leave, and personal time. Fees were therefore retained by the Executive Director.

Remuneration

The Executive Directors received a fixed salary which is reviewable annually by the Remuneration Committee. The Remuneration Committee during this period comprised Mark Baker CBE (Chairman), Jeannie Drake CBE and Tony Holland, who are all Non-executive Members of the Board.

The Chairman of the Board was paid a fixed salary together with a pension contribution and was contracted to work for the PPF for two days a week. All other Non-executive Members received a fixed fee of £20,694 per annum based on an estimated time commitment of 26 days per annum. Non-executive Board Members' salary was not performance-related and there was no provision for compensation in the event of termination.

Remuneration Report continued

Bonuses

Executive Directors were eligible for an annual bonus of up to 20 per cent of their base salary, subject to performance. The maximum bonus level was recommended by the Remuneration Committee and approved by the Secretary of State as part of the individuals' remuneration packages when the appointments were agreed. It was determined by reference to Executive Directors within comparable organisations. Base pay covered normal competent performance and any bonus paid represented a significant contribution or achievement in addition to this. Bonuses were determined by the Remuneration Committee which assesses the performance of each Executive Director against the objectives and the targets for meeting these objectives for the year. There was no contractual undertaking to make termination payments for any of the Executive Directors.

Notice periods

The Chief Executive, the Director of Delivery and the Director of Financial Risk had notice periods of six months. The Chief Executive gave notice in August 2008 that he would stand down from June 2009. Following the recruitment of his successor he stood down, by mutual agreement, as Chief Executive on 31 March 2009.

Non-executive Members' appointments can be terminated on a month's notice by either the Board or the Non-executive Member. The Chairman's appointment is subject to a notice period of six months which can be exercised by the Secretary of State or by the postholder in writing. The right to notice can be waived by the Secretary of State or the postholder and the postholder can accept payment in lieu of notice.

Pensions

Pension benefits are provided through the Civil Service pension arrangements. As from 30 July 2007, civil servants may be in one of four defined benefit schemes; either a 'final salary' scheme (**Classic**, **Premium** or **Classic plus**); or a 'whole career' scheme (**Nuvos**). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under **Classic**, **Premium**, **Classic plus** and **Nuvos** are increased annually in line with changes in the Retail Prices Index (RPI). Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a good quality 'money purchase' stakeholder pension with a significant employer contribution (**Partnership** pension account).

Employee contributions are set at the rate of 1.5 per cent of pensionable earnings for **Classic** and 3.5 per cent for **Premium**, **Classic plus** and **Nuvos**. Benefits in **Classic** accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For **Premium**, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike **Classic**, there is no automatic lump sum. **Classic plus** is essentially a hybrid with benefits in respect of service before 1 October 2002 calculated broadly as per **Classic** and benefits for service from October 2002 calculated as in **Premium**. In **Nuvos** a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3 per cent of their pensionable earnings in that scheme year and the accrued pension is uprated in line with RPI. In all cases members may opt to give up (commute) pension for lump sum up to the limits set by the Finance Act 2004.

The **Partnership** pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3 per cent and 12.5 per cent (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of three providers. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3 per cent of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8 per cent of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

Further details about the Civil Service pension arrangements can be found at:

www.civilservice-pensions.gov.uk

Cash Equivalent Transfer Values (CETV)

A CETV is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their purchasing additional pension benefits at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Real increase in CETV

This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Alan Rubenstein
Accounting Officer
14 October 2009

Financial Statements

For the period 1 April 2008 to 31 March 2009

6.1 Statement of responsibilities

Under paragraph 22 of Part 4 of Schedule 5 to the Pensions Act 2004 the Board is required to prepare a statement of accounts which complies with any accounting directions given by the Secretary of State with the approval of the Treasury.

The accounts direction issued on 18 July 2007 in respect of these accounts requires the Board to prepare accounts which give a true and fair view of the Board's income and expenditure, total recognised gains and losses and cash flows for the financial year and the state of affairs at the year end; and which provide disclosure of any material expenditure or income which has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities which govern them.

In preparing the accounts, the Accounting Officer is required to comply with:

→ the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual in force for the financial year,

→ other guidance which HM Treasury may issue from time to time in respect of accounts which are required to give a true and fair view,

→ the Framework Document between the Board of the PPF and the DWP, and

→ any other specific disclosure or other requirements required by the Secretary of State for Work and Pensions.

For the period 1 April 2008 to 31 March 2009, the then Chief Executive, Partha Dasgupta, was the Accounting Officer for the Board. This appointment expired with effect from 31 March 2009 when Partha Dasgupta stood down as Chief Executive. I was appointed Accounting Officer for the Board with effect from 1 April 2009, co-incident with my appointment as Chief Executive. The relevant responsibilities of Accounting Officers, including the responsibility for the propriety and regularity of the public finances and for the keeping of proper records and financial procedures are set out in the model 'Non-Departmental Public Bodies Accounting Officers' Memorandum' issued by the Treasury and published in Government Accounting. Although the Board of the PPF is classified as a Public Corporation rather than a Non-Departmental Public Body, I still consider this guidance to be the most appropriate for me to follow as Accounting Officer for the Board.

Alan Rubenstein
Accounting Officer
14 October 2009

Financial Statements

6.2 Statement on internal control

Scope of responsibility

For the period 1 April 2008 up until 31 March 2009 when he stood down as Chief Executive, Partha Dasgupta had responsibility as Accounting Officer for maintaining a sound system of internal control that supported the achievement of the PPF's policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which he was personally responsible, in accordance with the responsibilities assigned to him in managing public money.

I was appointed Accounting Officer with effect from 1 April 2009, and have therefore carried out these same responsibilities for internal control, safeguarding public funds, record keeping and managing risk and resources from that date up to the date of signing these Accounts.

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. In particular, the Quarterly Accountability Review meetings with the Steward covered updates on the implementation of our strategic objectives, helped formulate our future business direction and highlighted the inherent risks and opportunities in implementing our policies.

The scope of my Accounting Officer responsibilities extends to the functions carried out by the Board in respect of the FAS. I have reviewed the relevant correspondence from the DWP Steward and the Minister for Pensions Reform in this regard. I have also reviewed the protocols and processes in place aimed at ensuring the strict ring-fencing of levypayer funded PPF activities and taxpayer funded FAS activities.

There was a full handover of Accounting Officer responsibilities from Partha Dasgupta to myself, which included the preparation by him of an Interim Statement on Internal Control titled 'Statement by the outgoing Accounting Officer of the PPF to the incoming Accounting Officer' covering his tenure as Accounting Officer. This Statement on Internal Control therefore represents a consolidation of statements made by Partha Dasgupta in respect of his period of office, and made by me in respect of my period of office.

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; to evaluate the likelihood of those risks being realised and the 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 ended 31 March 2009 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 period ended 31 March 2009.

Capacity to handle risk

The Board of the PPF aims to manage risk 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 eliminate surprises and to maintain risk to as low a level as is reasonably practicable and appropriate to the economic use of levy payers' funds.

The Board monitors the significant risks to achieving our strategic goals and has delegated to the Audit Committee the responsibility for ensuring that an appropriate risk management strategy is in place and embedded throughout the organisation.

The risk management process is led within the executive operations of the Board by the Risk Management Committee, chaired by the Chief Operating Officer. The membership includes a wide spread of skills and knowledge including a specialist risk manager. We have consciously enlisted heads of teams into the membership of the Risk Management Committee to embed risk responsibility and ownership deeper into the organisation.

Financial Statements
6.2 Statement on internal control continued

The Committee obtained an independent review to ensure that adequate and effective controls are maintained over the processes relating to risk management from BDO Stoy Hayward LLP (BDO). The overall summary confirmed that the there is a sound system of internal control designed to achieve the system objectives and the controls that are in place are being consistently applied. BDO made one low level recommendation which has now been completed.

The Executive Committee, which comprises the Executive Directors and selected senior managers from across the organisation regularly discusses risk management issues, agrees key risk management policies and receives reports from the Risk Management Committee.

The specific risks to the achievement of the Board's objectives relating to asset and liability management are dealt with at an executive level by the Asset and Liability Committee (ALCo). The Committee oversees the financial risk management activities of the Board including investment (risk and performance) management, insolvency, under funding and other balance sheet risk management.

The ALCo is chaired by the Executive Director of Financial Risk and its membership includes the Chief Risk Officer, Chief Actuary, Chief Investment Officer and the Executive Director of Delivery.

Staff are trained and equipped to manage risk in a way appropriate to their authority and duties. Guidance is provided to them through risk assessment workshops, communications through the intranet and the induction programme.

In my opinion, the PPF has maintained its risk management processes during the year. Within this overall statement the following improvements have been made:

→ The review and improvement of risk management policies and procedures, and their communication to staff using, for example, the PPF intranet.

→ The publication of the Governance and Compliance Manual.

→ The launch of the PPF 'Safe and Secure' programme, focussing on information security risks.

→ Identifying, documenting and risk assessing all of our information assets and external data flows.

→ Seeking formal DWP security accreditation for external suppliers handling personal or sensitive information on the PPF's behalf.

→ The implementation of a new IT service infrastructure providing an inherently more resilient service and greatly enhanced business continuity capabilities.

→ Implementation of a secure data transfer service for all exchanges of protected data with external parties.

→ Ongoing programme of internal audit reviews and the regular monitoring of the top down risk profile.

→ Development of the processes around sourcing fund managers by introducing an enhanced audit of operational effectiveness.

These developments have built on the risk management foundations laid down last year and have continued in the post year end period.

The risk and control environment

The risk management process underpins the risk management strategy and provides a continual cycle that both informs and is informed by the strategic objectives of the PPF.

The PPF has identified risks at the following levels:

→ **Top Down Risk Profile:**
This is the process whereby we capture the key risks to the achievement of our strategic objectives.

→ **Process or Team Assessment:**
This process drives at the heart of our operational capability and considers those risks which may adversely impact on the objectives of a process or team.

→ **Project Assessment:**
The final aspect of our risk identification approach looks at the risks that accrue from our change portfolio.

During the year, the Risk Manager undertook an exercise to map risks identified from the 'bottom up' team and project risk assessment with our Top Down Risk Profile. While direct one-to-one mapping was not possible, this has given me assurance that there was significant alignment and effective ownership of risks throughout the organisation.

Risk management information is recorded in team and project risk registers which are regularly reviewed and updated. The assessment of the level of risk informs both the priority and ownership of risks. Risks are identified and controlled by:

→ Identifying the objective and the risks which may prevent the achievement of that objective.

→ Assessing the inherent risk with reference to predetermined criteria covering impact and likelihood.

→ Considering risk against the appetite set by the Board.

→ Determining appropriate control strategy (tolerate, treat, transfer, terminate).

→ Identifying controls in place to manage the risk.

→ Assessing the residual risk after the application of controls.

→ Preparing an action plan for activities to achieve the control strategy.

→ Assigning responsibility for ownership of risk and action plans.

To quantify risks that can adversely affect the balance sheet of the PPF over the medium to long term, the Financial Risk Management teams use the LTRM, a stochastic model generating 500,000 scenarios of up to 20 years of claims made on the PPF. The model enables us to estimate the probability distribution of future claims and future funding position of the PPF. The model is run on a quarterly basis and a 'Quarterly Risk Report' is compiled covering the main risks affecting the balance sheet of the PPF including insolvency risk, investment risk and longevity risk. In addition a Financial Risk Management dashboard monitoring risk over the short term is updated on a monthly basis.

To improve collaboration with the Pensions Regulator in the management of risks, a joint Risk Monitoring Group with the Pensions Regulator was constituted in 2008. The group meets on a monthly basis. Its objectives are:

→ To encourage a mutual understanding of both agencies' risks and current risk monitoring.

→ To inform each other of changes in risk monitoring and risk.

→ To exchange views and discuss how risks are developing and could be mitigated.

Investment performance and risk are monitored by the ALCo on a monthly basis. An 'Omnibus Report' is made to the ALCo showing performance of the PPF's assets against the liabilities. The report also shows forward-looking measures of investment risk produced by a market risk management system called WM ALGO which was implemented in 2008.

The Risk Management Committee and the ALCo meet monthly and consider risk and internal control matters across the organisation. There is an independent Audit Committee chaired by a Non-executive Board Member with appropriate financial expertise which meets quarterly. This committee oversees the control environment and risk management framework and receives reports from our internal and external auditors on our system of internal control.

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 assist us in achieving this we have implemented and gained certification in the ISO27001 Information Security 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.

Internal audit services were provided on an outsourced basis by BDO and that firm was re-appointed in February 2009 following a rigorous selection and appointment process. The appointment was made under the Government Internal Audit Standards.

Financial Statements

6.2 Statement on internal control continued

The Audit Committee approves an overall internal audit plan for each financial year. Terms of reference for each internal audit assignment are agreed between BDO and the line manager responsible for each function, process or project. BDO submit reports that include their independent opinion on the appropriateness and effectiveness of the function's internal controls, together with their recommendations for improvement. All finalised BDO reports are tabled at the next available Audit Committee meeting. The completion of accepted recommendations is rigorously monitored by the Risk Management Committee and the Audit Committee.

In my opinion, the PPF has maintained the standard of risk management reported in the last annual accounts. We continually strive to achieve high standards of risk management and have the opportunity to enhance the framework further by developing attestation processes planned for implementation by 31 March 2010.

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 the former Chief Executive and Accounting Officer who held office for the period 1 April 2008 up until 31 March 2009, as detailed in the 'Statement by the outgoing Accounting Officer of the Pension Protection Fund to the incoming Accounting Officer' he prepared on leaving office,
- 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 internal auditors and the Executive officers and senior managers within the PPF who have responsibility for the development and maintenance of the internal control framework, 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 and the Risk Management Committee and a plan to address weaknesses and to ensure continuous improvement of the system is in place.

Alan Rubenstein
Accounting Officer
14 October 2009

Financial Statements

6.3 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 2009 under the Pensions Act 2004. These comprise the Operating Statement, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement 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 Accounting Officer and Auditor

The Board of the Pension Protection Fund and Accounting Officer are responsible for preparing the Annual Report, the Remuneration Report and the financial statements in accordance with the Pensions Act 2004 and directions made thereunder by the Secretary of State for Work and Pensions and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of the Board of the Pension Protection fund and Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements and the part of the Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Pensions Act 2004 and directions made thereunder by the Secretary of State for Work and Pensions. I report to you whether, in my opinion, certain information given in the Annual Report, which comprises the Chairman's Foreword, Chief Executive's Report, Management Commentary, Directors' Report and the unaudited part of the Remuneration Report is consistent with the financial statements. I also report whether 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.

In addition, I report to you if the Board of the Pension Protection Fund has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Board of the Pension Protection Fund's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or form an opinion on the effectiveness of the Board of the Pension Protection Fund's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Board of the Pension Protection Fund and Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Board of the Pension Protection Fund's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that 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. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Financial Statements

6.3 The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament continued

Opinions

Audit opinion

In my opinion:

→ the financial statements give a true and fair view, in accordance with the Pensions Act 2004 and directions made thereunder by the Secretary of State for Work and Pensions, of the state of the Board of the Pension Protection Fund's affairs as at 31 March 2009 and of its deficit (net result), recognised gains and losses and cash flows for the year then ended,

→ the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Pensions Act 2004 and directions made thereunder by the Secretary of State for Work and Pensions, and

→ the information given within the Annual Report, which comprises the Chairman's Foreword, Chief Executive's Report, Management Commentary, Directors' Report and the unaudited part of the Remuneration Report is consistent with the financial statements.

Audit 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.

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General
National Audit Office
151 Buckingham Palace Road
Victoria
London SWIW 9SS
Date: 27 October 2009

Financial statements

Financial Statements

6.4 Operating Statement

For the year 1 April 2008 to 31 March 2009

	Notes	Pension Protection Fund Appendix 1 £000s	Notes	Fraud Compensation Fund Appendix 2 £000s	Notes	Administration Fund Appendix 3 £000s	Total Funds Year ended 31 March 2009 £000s	Total Funds Year ended 31 March 2008 *As restated* £000s
Statutory operating activities								
Operating income								
Income from levies	1.2	646,446	2.2	–		–	646,446	576,565
Total operating income		**646,446**		**–**		**–**	**646,446**	**576,565**
Operating expenses								
Staff costs		–		–	3.3a	(12,516)	(12,516)	(9,616)
Other costs	1.3	(802)		–	3.3b	(7,126)	(7,928)	(6,689)
Depreciation and impairment charges		–		–	3.3c	(1,018))	(1,018)	(768)
Total operating expenses		**(802)**		**–**		**(20,660)**	**(21,462)**	**(17,073)**
Net operating surplus/(deficit)		**645,644**		**–**		**(20,660)**	**624,984**	**559,492**
Investment activities								
Interest on operating bank accounts	1.4	2,080	2.3	–	3.4	74	2,154	1,393
Investment income	1.5	62,752	2.4	147		–	62,899	33,878
Change in fair value of investments	1.6	196,114		–		–	196,114	108,396
Income from annuity policies		1,693		–		–	1,693	113
Investment expenses	1.7	(5,772)		–		–	(5,772)	(4,116)
Net investment return		**256,867**		**147**		**74**	**257,088**	**139,664**
Claims activities								
Gains/(losses) on actuarial liabilities	1.8	44,238		–		–	44,238	(95,078)
Current year claims for compensation	1.9	(1,444,584)	2.5	(12,387)		–	(1,456,971)	(349,073)
Revaluation of prior year claims for compensation	1.10	(215,112)	2.6	1,115		–	(213,997)	(179,478)
Net cost of claims		**(1,615,458)**		**(11,272)**		**–**	**(1,626,730)**	**(623,629)**
Transfers to reserves		**–**		**–**	3.8	**20,586**	**20,586**	**16,957**
Net result for the year		**(712,947)**		**(11,125)**		**–**	**(724,072)**	**92,484**
Net result brought forward		**(516,846)**		**395**		**–**	**(516,451)**	**(608,935)**
Net result carried forward		**(1,229,793)**		**(10,730)**		**–**	**(1,240,523)**	**(516,451)**

6.4 Statement of Total Recognised Gains and Losses

There are no recognised gains or losses other than the net result disclosed above.

The accounting policies and notes on pages 61 to 135 form part of these financial statements.

Financial Statements
6.4 Balance Sheet

As at 31 March 2009

	Notes	**Pension Protection Fund** Appendix 1 £000s	Notes	**Fraud Compensation Fund** Appendix 2 £000s	Notes	**Administration Fund** Appendix 3 £000s	**Total Funds** As at 31 March 2009 £000s	**Total Funds** As at 31 March 2008 *As restated* £000s
Non-current assets								
Fixed assets		–		–	3.5	1,751	1,751	1,922
Financial assets	1.11	2,471,551		–		–	2,471,551	1,314,883
Derivative financial instruments	1.11	501,226		–		–	501,226	140,692
Total non-current assets		**2,972,777**		**–**		**1,751**	**2,974,528**	**1,457,497**
Current assets								
Derivative financial instruments	1.12	558		–		–	558	200
Levy debtors	1.12	186,529		–		–	186,529	218,983
Transfer-in debtors	1.12	87,258		–		–	87,258	29,111
Other current assets	1.12	559	2.8	1,115	3.6	214	1,888	521
Cash deposits	1.12	28,275	2.7	3,441		–	31,716	52,413
Cash at bank	1.12	27,690	2.8	1	3.6	362	28,053	14,302
Total current assets		**330,869**		**4,557**		**576**	**336,002**	**315,530**
Total assets		**3,303,646**		**4,557**		**2,327**	**3,310,530**	**1,773,027**
Current liabilities								
Derivative financial instruments	1.13	(354)		–		–	(354)	(2,096)
Other current liabilities	1.13	(3,298)		–	3.7	(3,162)	(6,460)	(6,146)
Total current liabilities		**(3,652)**		**–**		**(3,162)**	**(6,814)**	**(8,242)**
Total assets less current liabilities		**3,299,994**		**4,557**		**(835)**	**3,303,716**	**1,764,785**
Non-current liabilities								
Derivative financial instruments		(95,887)		–		–	(95,887)	(43,584)
Actuarial liabilities	1.14a	(1,736,631)		–		–	(1,736,631)	(880,292)
Claims provisions	1.14b	(2,692,992)	2.9	(12,350)		–	(2,705,342)	(1,355,148)
Other provisions	1.14c	(4,277)		–		–	(4,277)	–
Total non-current liabilities		**(4,529,787)**		**(12,350)**		**–**	**(4,542,137)**	**(2,279,024)**
Total net assets/(liabilities)		**(1,229,793)**		**(7,793)**		**(835)**	**(1,238,421)**	**(514,239)**
Represented by:								
Net result carried forward		(1,229,793)		(10,730)		–	(1,240,523)	(516,451)
Revaluation and other reserves		–	2.11	2,937	3.8	(835)	2,102	2,212
Total levy payers' funds		**(1,229,793)**		**(7,793)**		**(835)**	**(1,238,421)**	**(514,239)**

The accounting policies and notes on pages 61 to 135 form part of these financial statements.

The Board of the PPF approved these accounts on 1 October 2009 and authorised the Accounting Officer to sign this Balance Sheet on the same date.

Alan Rubenstein
Accounting Officer
14 October 2009

Financial Statements
6.4 Cash Flow Statement

For the year 1 April 2008 to 31 March 2009

	Pension Protection Fund £000s	Fraud Compensation Fund £000s	Administration Fund £000s	Total Funds Year ended 31 March 2009 £000s	Total Funds Year ended 31 March 2008 £000s
Cash balance at start of year	**13,458**	**3**	**841**	**14,302**	**27,238**
Cash inflow/(outflow) from operating activities	735,832	(37)	368	736,163	457,317
Cash transfers from/(to) fund managers	(721,600)	35	–	(721,565)	(469,363)
Capital expenditure	–	–	(847)	(847)	(890)
Net cash inflow/(outflow)	**14,232**	**(2)**	**(479)**	**13,751**	**(12,936)**
Cash balance at end of year	**27,690**	**1**	**362**	**28,053**	**14,302**
Reconciliation of the operating surplus/(deficit) to the cash flow from operating activities					
Operating surplus/(deficit)	645,644	–	(20,660)	624,984	559,492
Compensation payments	(37,603)	(37)	–	(37,640)	(17,313)
Assets from schemes transferring into the PPF receivable as cash	154,189	–	–	154,189	52,803
Financing from DWP for PPF functions (levy funded)	–	–	18,216	18,216	17,160
Financing from DWP for FAS functions (tax payer funded)	–	–	2,260	2,260	–
Items reported in ‘investment return’ but settled through operating bank accounts	(1,152)	–	74	(1,078)	(1,772)
Depreciation and impairment	–	–	1,018	1,018	768
Movement in creditors	533	–	(409)	124	(2,722)
Movement in debtors	(25,779)	–	(131)	(25,910)	(151,099)
Cash inflow/(outflow) from operating activities	735,832	(37)	368	736,163	457,317

Financial Statements
6.4 Statement of accounting policies

The principal accounting policies are summarised below. They have been applied consistently throughout the year and the preceding year with the exception of the policy for Financial Instruments which is explained in Note d.

a) Basis of preparation
These Accounts have been prepared in accordance with the Accounts Direction dated 18 July 2007 given to the Board of the PPF by the Secretary of State 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's Accounts to give a true and fair view of the income and expenditure, total recognised gains and losses and cash flows for the financial year, and the state of affairs at the year end. It requires the Board to prepare accounts in accordance with the Government Financial Reporting Manual. This Manual in turn requires accounts to be produced on an accruals basis following, as far as appropriate, private sector practice based on generally accepted accounting practice in the United Kingdom (UK GAAP), i.e. the requirements of the Companies Act and on the accounting standards issued or adopted by the Accounting Standards Board, including, where appropriate, Statements of Recommended Practice (SORPs).

These Accounts have been prepared on an historical cost convention, modified to include the revaluation of certain fixed assets and investments, and in accordance with applicable UK accounting standards.

b) Going concern
These Accounts have been prepared on a going concern basis.

c) Accruals basis
All items of income and expenditure are accounted for on an accruals basis. The application of this general policy to specific items of income and expenditure is detailed in the notes for that specific item within the appendix devoted to the relevant segment.

d) Changes to accounting policies
The Government Financial Reporting Manual requires the adoption of the following accounting standards:

→ FRS 25 Financial Instruments: Presentation,

→ FRS 26 Financial Instruments: Recognition and Measurement, and

→ FRS 29 Financial Instruments: Disclosures

to replace the requirements under FRS 13 Derivatives and Other Financial Instruments.

The objective of these standards is to establish principles, consistent with International Accounting Standards, for recognising, measuring and presenting financial instruments including financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Government Financial Reporting Manual states that the exemption from the requirement to restate comparative information for FRS 25, FRS 26, and FRS 29 shall apply to reporting entities adopting these standards from 1 April 2008 and is therefore adopted by the Board.

e) Segmental reporting
The Board of the PPF was created by the Pensions Act 2004 and this Act specifies that the Board must hold, manage and apply two ring-fenced funds:

→ the Pension Protection Fund, and

→ the Fraud Compensation Fund.

Financial Statements
6.4 Statement of accounting policies continued

Additionally, as a separate statutory corporate body, the Board is responsible for the management and control of its own administration functions, funded by grant in aid from the DWP. The Administration Fund figures include expenditure incurred by the Board in providing advice and consultancy to the DWP in connection with the management of the FAS under the Financial Assistance Scheme (Miscellaneous Amendments) Regulations 2008. These activities are taxpayer funded and are therefore disclosed separately in Appendix 3: Notes to the Accounts relating to the PPF Administration Fund.

The Board have therefore adopted an accounting policy in compliance with SSAP25 which presents the financial transactions and balances of these three separate streams of activity in a coordinated set of primary statements in a columnar format. An aggregate total is also presented in order to indicate the total value of the transactions and balances for which the Board is responsible.

However, to assist users of the Accounts to navigate to their areas of particular interest, an appendix to the Accounts is then devoted to each of the three segments described above, which consists of a description of the application of these accounting policies and detailed notes relating only to the transactions and balances of that segment.

f) Related parties
The Board considers the following to be related parties for the purposes of these Accounts:

i) Individual Board Members and key management.

ii) Close family members of any individual falling under parties mentioned in i) above.

iii) The DWP, to whom the Board is accountable as a Public Corporation for the achievement of a number of pensions policy objectives.

iv) The Pensions Regulator, a Non-Departmental Public Body, also accountable to the DWP, with whom the Board shares certain pensions policy objectives.

g) Whole of Government Accounts
HM Treasury is responsible under the Government Resources and Accounts Act 2000 for preparing Whole of Government Accounts for a group of bodies each of which appears to the Treasury to exercise functions of a public nature or to be entirely or substantially funded from public money. The Board of the PPF is not one of these publicly funded bodies and so lies outside of the 'Whole of Government Accounts boundary'. The transactions and balances of the Board will not therefore be consolidated into the Whole of Government Accounts. However, in line with best practice set out in the Government Financial Reporting Manual, the Board will disclose separately any of its assets and liabilities (in particular its debtors and creditors) related to entities that, to the best of the Board's knowledge, lie inside the Whole of Government Accounts boundary.

h) Post balance sheet events
The Board has carried out a detailed review of events since the balance sheet date, and has incorporated into these Accounts any material adjustments it considered necessary arising from that review, including events with an impact on the valuation of provisions and contingent liabilities in both the PPF and the Fraud Compensation Fund. As far as the Board is aware, at the date of issue of these Accounts, there have been no further material post balance sheet events necessitating adjustment to these Accounts.

The Board's Accounts are laid before the Houses of Parliament by the Secretary of State for Work and Pensions.

FRS 21 requires the Board of the PPF to disclose the date on which the Accounts are authorised for issue. This is the date on which the Comptroller and Auditor General certifies the Accounts.

The authorised date for issue is 27 October 2009.

Appendices

Appendix 1

Accounting policies and notes relating to the operation of the Pension Protection Fund for the year 1 April 2008 to 31 March 2009

Note 1.1 Accounting policies

a) Recognition of protection levy income
Protection levy income is recognised on an accruals basis, that is, on the basis of the value of levies due in respect of each levy year. This may involve the use of estimation techniques in order to recognise levy income which, for a variety of operational reasons, remains unbilled at the date of preparing the Accounts.

The Board only recognises protection levy income where it judges that the scheme's eligibility for pension protection (or, where relevant, the eligibility of the section of the scheme or part of pension scheme membership) is virtually certain. Absolute certainty of eligibility may, in the most complex cases, only be achieved through a legal process, but for practical purposes, the Board considers acceptance by scheme trustees of the eligible status of their scheme (including settling the scheme's protection levy invoice) to be sufficient. Where the Board judges that a scheme's eligibility is probable (but not virtually certain), no income or debtor will be recognised, but the Board will disclose a contingent asset for the value of the levy that is probably receivable.

Where the Board judges that the scheme's eligibility is less than probable (that is, possible or remote) no income or debtor will be recognised, neither will any contingent asset be disclosed.

In certain circumstances, schemes may have paid their protection levy invoice whilst they continue to dispute the eligibility status of the scheme (either as a whole or in part). If the Board judges that the scheme's eligibility for pension protection is less than virtually certain, even though the scheme has settled the levy invoice, the Board will establish a creditor for any monies already received.

b) Financial instruments
i) Definition
A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

A financial asset is any asset that is cash, equity, a contractual right to receive cash or another financial asset from another entity, or a contractual right to exchange financial instruments with another entity under conditions that are potentially favourable.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity, or a contractual obligation to exchange financial instruments with another entity under conditions that are potentially unfavourable.

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

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

iii) Classification of financial instruments
Financial instruments are classified under the following categories which are determined at initial recognition:

→ financial assets/liabilities at fair value through the Operating Statement separated by:
  (a) those designated at fair value through the Operating Statement 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.

The Protection Fund has no held-to-maturity or available-for-sale financial assets or liabilities.

iv) Financial assets/liabilities at fair value through the Operating Statement upon initial recognition
Financial assets and liabilities that are managed and evaluated on a fair value basis in accordance with the SIP and reported to key management on that basis are designated at fair value through the Operating Statement at inception.

Investments in this category include debt and equity instruments, managed funds, foreign exchange contracts and units in property funds.

v) Financial assets/liabilities held for trading
Derivative financial instruments held by the Protection Fund are not designated as hedging instruments. Therefore the Protection Fund categorises derivatives as financial assets/liabilities held for trading.

The Protection Fund's derivatives held for trading consist of the swap portfolio.

vi) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are not classified as available for sale. Loans and receivables are initially recognised at fair value and subsequently held at amortised cost. The fair value of trade receivables is usually the original invoiced amount. Included in this category are protection levy debtors, investment income receivable, transfer-in debtors and cash and cash equivalents.

Cash and cash equivalents comprises cash at bank and cash deposits held by fund managers with banks and similar institutions, which are readily convertible to known amounts of cash and which are subject to insignificant risk of change in value.

Impairment of assets is represented by the provision for bad debt against levy debtors where the Board considers that recovery of the debt is lower than the invoiced amount. Therefore the impairment is the difference between the original invoiced amount and the estimated recovery.

vii) Financial liabilities measured at amortised cost
Trade creditors and accruals are non interest bearing and are stated at amortised cost. Included in this category are net amounts payable to brokers for outstanding settlements, protection levy refunds due, compensation payments due, money purchase benefits payable and accruals.

viii) Fair value and investment return
Investment assets are included in these Accounts at fair value, which is defined as follows:

- Quoted securities and other exchange-traded assets, including derivative contracts, are valued at closing prices at the balance sheet date, which may be defined as bid price or last traded price depending on the convention of the stock exchange or other market on which they are quoted.
- Derivative contracts which are not exchange-traded (often referred to as over-the counter contracts) are valued at prices calculated by the fund managers, using valuation methodologies based on market sources.
- All other assets for which a recognised investment exchange does not exist are valued at a fair value estimated by the appointed custodian, fund manager or other appropriately qualified professional advisor, and approved by the Board.

Appendix 1
Accounting policies and notes continued

→ Pooled investment vehicles are valued at closing bid prices or, if single-priced, at the closing single price.

→ Investments denominated in foreign currency are valued in sterling using the closing spot rates of exchange from a recognised information source.

Investment return is defined as the net total of:

→ investment income earned on invested assets, including interest and dividends, plus

→ the 'change in the fair value of investments' defined above, including gains and losses realised on the disposal of investments; unrealised gains and losses on investments held at the accounting date, that is, the difference between acquisition cost and current fair value; and gains and losses arising on the translation of investments (including cash, payables and receivables) denominated in foreign currencies into sterling, less

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

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

→ interest income arising from cash deposits, fixed interest securities and similar investments is accounted for using the effective interest rate,

→ dividends and distributions from managed funds, including property funds, are accounted for when the dividend or distribution is declared, for example, when the quoted security is quoted in its investment exchange as 'ex-dividend'.

As stated in Note d in the Statement of Accounting Policies, the Board has adopted FRS 25, 26 and 29.

The Government Financial Reporting Manual states that the exemption from the requirement to restate comparative information for FRS 25, FRS 26, and FRS 29 shall apply to reporting entities adopting these standards from 1 April 2008 and is therefore adopted by the Board. However, if this exemption was not adopted, the effect of the change in accounting policy would result in the total net deficit of £516,846,000 in 2007/08 increasing by 0.1 per cent or £492,000 to £517,338,000.

c) Actuarial liabilities and changes in value of actuarial liabilities
i) Actuarial liabilities
The Board recognises the full value of the liabilities of the Protection Fund disclosed in the annual actuarial valuation of the Protection Fund, 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 balance sheet date, 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.

During the year, the Actuary made a significant change in the way he derived the discount rate used in his valuation. At 31 March 2008, he used discount rates derived from zero coupon interest rate swaps. At 31 March 2009 however, for the reasons described in Annex M2 of his Valuation Report, he uses as the discount rate the higher of zero coupon interest rate swap yields less 15 basis points and the gilt strip yield. This change would not have had any impact on the valuation results at 31 March 2008, since it is only from around August 2008 that zero-coupon interest rate swap yields for longer durations have been less than the gilts strip yields at the same duration. Had the Actuary not changed the method of deriving discount rates in this way, it is estimated that the Protection Fund's actuarial liabilities would be £189,183,000 greater than disclosed in these accounts; and that the provisions for the deficits of schemes judged probable to enter the Protection Fund would be £1,090,000,000 greater than disclosed in these accounts.

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 balance sheet date, and

→ subsequently, between the opening and closing balance sheet dates.

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.

iii) Recognition of payments of compensation

In order to disclose the effect of the payment of benefits on the actuarial liabilities of the Protection Fund, the Board recognises compensation payments on an accruals basis, with the objective of ensuring that all compensation payments that fall due for payment in the accounting period are taken into account.

d) Provisions and contingent liabilities for claims

The Board recognises provisions for claims in respect of schemes where eventual entry into the Protection Fund is judged probable, and discloses contingent liabilities for claims in respect of schemes where eventual entry into the Protection Fund is judged possible. No liability is recognised or disclosed for claims in respect of schemes where eventual entry into the Protection Fund is judged unlikely. In all cases, the liability is valued at the net deficit impacting the Protection Fund, that is, scheme liabilities valued at protected benefit levels, net of assets under the scheme trustees' control, including asset recoveries from insolvent employers. Each element of this process is discussed in greater detail below.

i) Population of schemes

When considering provisions and contingent liabilities for claims on the Protection Fund, the Board reviews schemes in the following categories:

1. Schemes remaining in an assessment period at the Protection Fund's accounting date.
2. Schemes accepted into an assessment period in the post year end period, where the date of employer insolvency (and hence the effective date of the commencement of an assessment period, the 'assessment date') was prior to the Protection Fund's accounting date.
3. Schemes accepted into an assessment period in the post year end period, up to the date of approval of the actuarial report, where the assessment date was after the Protection Fund's accounting date.
4. Schemes in respect of which a notice of employer insolvency has been received by the Board but which the Board has not been able to validate up to the date of approval of the actuarial report, regardless of the date of employer insolvency.
5. Schemes where no notice of employer insolvency has yet been received but where, based on the Board's specific knowledge of circumstances prevailing at the accounting date, entry into assessment is considered likely in the foreseeable future.
6. Schemes associated with employers with the lowest failure scores (and hence the highest risk of insolvency in the foreseeable future) as measured by the Board's independent insolvency risk measurer, D&B.

The Board also reviews the requirement for a reserve for claims incurred but not reported (IBNR reserve) which, by definition, cannot be associated with individual schemes.

Appendix 1
Accounting policies and notes continued

ii) Likelihood

Having established the population of schemes which it needs to consider for the purposes of setting up provisions and disclosing contingent liabilities, the Board then considers claims information on those schemes in order to reach judgements on the likelihood of schemes' eventual entry into the Protection Fund. The following guidelines apply to these considerations:

Schemes judged '**probable**' for eventual entry include:

1. Schemes in assessment for which a scheme failure notice has been validated.
2. i) Schemes in assessment at the accounting date for which no scheme failure notice has yet been received,

   ii) schemes accepted into assessment after the accounting date but where the effective assessment date is within the accounting period, and

   iii) schemes, in respect of whose employer a notice of insolvency had been received but not validated up to the date of approval of the actuarial report, but where the potential effective assessment date would be within the accounting period.

In all of the above cases, the Board also applies the following guidelines in considering whether a scheme is to be judged probable for eventual entry into the Protection Fund:

- → where there is no reliable evidence that a scheme rescue will occur,
- → where current estimates of the protected liabilities as at the assessment date are in excess of current estimates of scheme assets (including any recoveries from insolvent employers) at the assessment date, and
- → where those estimates of assets and liabilities are believed to be reliable. Where no reliable estimates are available, the values involved would be considered as contingent liabilities.

Schemes judged '**possible**' for eventual entry include:

1. Schemes accepted into assessment after the accounting date and schemes, in respect of whose employer a notice of insolvency had been received but not validated up to the date of approval of the actuarial report, where the employer insolvency event occurred after the accounting date and where there is no evidence either that a scheme rescue may occur or that scheme assets (including any recoveries from insolvent employers) as at the assessment date are adequate to meet protected liabilities valued at the assessment date.
2. Schemes, in respect of whose employer no notice of insolvency has been received up to the date of approval of the actuarial report, but where there is reason to believe that entry into assessment is likely in the foreseeable future, and in respect of which current estimates of the protected liabilities as at the accounting date are in excess of current estimates of scheme assets (including any recoveries from insolvent employers) at the accounting date.

Schemes judged '**unlikely**' eventually to enter the Protection Fund include:

1. Schemes in respect of which there is reliable evidence that a scheme rescue will occur.
2. Schemes in respect of which current estimates of scheme assets at the assessment date (including any recoveries from insolvent employers) are in excess of current estimates of the protected liabilities at the assessment date.

iii) Materiality

Recognising the desirability of minimising the administrative burden on the PPF of schemes in (or being considered for entry into) assessment, the Board has decided to classify schemes into material and non-material schemes, according to the following criteria for material schemes:

→ the scheme's Minimum Funding Requirement (MFR) liabilities according to the latest MFR valuation exceeded £30 million (prior year: £15 million),
or

→ the scheme's protected liabilities according to the latest valuation prepared under either section 179 or section 143 of the Pensions Act 2004 exceeded £40 million (prior year: £25 million),
and

→ with an overriding requirement that at least 75 per cent (prior year: 65 per cent) in aggregate of the Protection Fund's liabilities generating provisions must relate to material schemes.

The changes in levels of materiality reflect the growing volume and value of the Protection Fund's liabilities (including provisions) overall, whilst the increase in the level of liabilities calculated on a scheme specific basis reflects the improved flows of information between the Board and trustees of schemes in assessment.

For material schemes, additional specific information on scheme assets and liabilities was sought, as described in paragraphs iv) 1 and vi) 1 below. For non-material schemes, robust estimation techniques were developed to enable existing information on scheme assets and liabilities to be used without the need to place additional burdens on scheme trustees to provide further detailed information. These techniques are described in paragraphs iv) 2 and vi) 2 below.

iv) Scheme assets

Pension scheme assets will be valued in the deficit calculations described above in ways consistent with the valuation policies for the Protection Fund's own investments, which are also consistent with the valuation policies used in the accounts of pension schemes themselves, as set out in the Statement of Recommended Practice 'Financial Reports of Pension Schemes'. Scheme asset information has been captured in the following ways:

1. For schemes which are considered material to the Protection Fund's liabilities, actual asset information at the Protection Fund's accounting date has been obtained from scheme trustees and used in the calculations.

2. For schemes which are not considered material to the Protection Fund's liabilities, scheme asset information has been extracted from other information readily available to the Board, such as the latest actuarial valuation or audited scheme accounts. These asset values have then been indexed forward to the Protection Fund's accounting date using generally accepted investment return indices appropriate to the asset classes in which the schemes' investments are held. Further adjustments are then made to allow for benefit payments between the valuation date and the Protection Fund's accounting date using assumptions consistent with those used to estimate scheme liabilities.

v) Asset recoveries from insolvent employers

The experiencing by an employer of an insolvency event may trigger the right for trustees to claim the debt due to a scheme under section 75 of the Pensions Act 1995 (deficiencies in scheme assets). These may be unsecured or secured by charges over other employer assets such as real estate or machinery and equipment. These claims may also entitle trustees to be party to negotiations relating to the reconstruction, re-financing or acquisition by a third party of the employer's business, out of which trustees may acquire assets such as a shareholding in the reconstructed company. Under section 137 of the Pensions Act 2004, these rights to pursue debts and to acquire assets are exercisable by the Board. The Board's policy for recognising these recoverable assets is to take them into account when assessing the net deficit of schemes in the categories described in paragraph d(i) above.

Appendix 1
Accounting policies and notes continued

The Board's policy for valuing these recoverable assets at fair value is as follows:

1. Unsecured claims recoverable as cash out of the liquidation of the employer company will be valued at the amount assessed by the Board to be recoverable as dividends from the liquidation (adjusted as necessary to account for the time value of money over the projected future period of dividend distributions). The Board's assessment of recoverable amounts will be based on available evidence. For example, where the liquidator has not yet made any dividend distributions nor produced any estimate of likely dividends, the Board assesses the recoverable value as nil. Where a liquidator has produced an estimate of likely dividends, the Board will test this estimate against any history of actual dividend distributions to assess its probable accuracy. Where a liquidator has produced a range of estimates of likely dividends, the Board assesses the recoverable value using the lowest value in the range.

2. Secured claims will be valued by the Board at the full face value of the claim, provided the Board is satisfied that the value of the security at least covers the claim value. If the Board assesses the value of the security as less than the face value of the claim, it will provide against the shortfall.

3. Other assets acquired by the Board on behalf of trustees will be valued at fair value, in compliance with accounting standards or valuation guidelines appropriate to the type of asset, for example:

   → Quoted securities are valued at closing prices, which may be defined as bid price or last traded price depending on the convention of the stock exchange or other market on which they are quoted.

   → Unquoted securities including private equity will be valued in accordance with the 'International Private Equity and Venture Capital Valuation Guidelines' issued by the British, French and European venture capital associations. These guidelines emphasise the evidence base required to produce reliable valuations, for example, the enterprise's value implied by a history of dividend payments; the net asset value from the latest audited accounts; the value of recent share dealings, adjusted to take account of the non-open market nature of those dealings; or (for recent acquisitions) the acquisition cost. Where the Board uses acquisition cost to value these assets, the value will normally be assessed at nil, since no explicit purchase price has been paid to acquire the asset.

vi) Scheme liabilities
Scheme liabilities are taken into account in assessing the net deficits of schemes in the categories described in paragraph d(i) above at the net present value, at the Protection Fund's accounting date, assessed by the Protection Fund's appointed actuary as being the realistic cost of settling the liabilities for compensation on a continuing basis from the Protection Fund as a going concern. This realistic cost of settlement includes where relevant the impact of the use of scheme-specific factors (for example, mortality rates) where the Board has reliable evidence from the scheme trustees or their advisors that this has generated a more accurate and robust valuation than the use of generic factors. This cost will therefore not be the same value as the liabilities disclosed in actuarial valuations obtained under section 143 of the Pensions Act 2004 ('valuation of assets and protected liabilities') nor as disclosed in valuations obtained under section 179 of the Act ('valuations to determine scheme underfunding').

As disclosed in Note 1 c(i), the Actuary made a significant change in the way he derived discount rates used in valuing the liabilities of schemes considered for provisions. Had the Actuary not changed the method of deriving discount rates in this way, it is estimated that the Protection Fund's provisions for the deficits of schemes judged probable to enter the Protection Fund would be £1,090,000,000 greater than disclosed in these accounts.

It should also be noted that the criterion for accepting a scheme into the Protection Fund involves comparing scheme assets with protected liabilities at the assessment date. Provisions may therefore be recognised (or contingent liabilities disclosed) in respect of schemes where protected liabilities valued on a statutory basis are estimated to exceed assets at the assessment date, but where differential movements in asset and liability values mean that assets are estimated to exceed protected liabilities valued on a realistic basis at the accounting date. The aggregate deficit for schemes in (or likely to enter) assessment recognised as provisions (or disclosed as contingent liabilities) may therefore include values for individual schemes 'in surplus' at the accounting date.

Consistent with its desire to minimise the administrative burden on schemes in (or being considered for entry into) assessment, the Board has decided to use liability information already in existence or generated by trustees and their actuaries for other purposes, such as valuations under section 143 or section 179 of the Act. Methodologies have been developed in consultation with the actuarial profession (and quality-assured by the Government Actuary's Department) for transforming liability information produced for section 143 or section 179 purposes at past dates into liability values on the Protection Fund's own realistic basis at the accounting date. This transformation is then supplemented as follows:

1. For schemes which are considered material to the Protection Fund's liabilities, further liability information has been obtained from scheme trustees, such as details of changes to benefit designs, material changes to the membership, and significant benefit payments or bulk transfers between the scheme's valuation date and the Protection Fund's accounting date, and used in the calculations.

2. For schemes which are not considered material to the Protection Fund's liabilities, further adjustments may then be made to allow for benefit payments between the valuation date and the Protection Fund's accounting date using assumptions consistent with those used to estimate scheme assets.

e) Current assets

Current assets arise as a consequence of the accruals basis of accounting for income and expenditure, to ensure all income (for example, protection levies due in respect of periods ending on or before the accounting date) which had not been received by the accounting date, are disclosed within the Board's Accounts. Similarly, items of expenditure paid in advance of the due date (for example, compensation payments) will be accounted for as prepayments.

Only debtors which are virtually certain of recovery will be accounted for as assets. The application of this policy to protection levy debtors is described in Note 1.1a.

The application of this policy to debts representing assets recoverable for the previous sponsoring employers of pension schemes which have transferred into the PPF is as follows:

- Only debts (or those portions of debts) which are virtually certain of recovery (including if appropriate by legal enforcement) will be recognised.
- Debts that are recognised will be valued consistently with the valuation policies set out in Note 1.1d(v) which governs the valuation of these assets prior to transfer to the PPF.

f) Current liabilities

Current liabilities arise as a consequence of the accruals basis of accounting for income and expenditure, to ensure all liabilities (for example, for compensation payments or for investment management expenses) falling due on or before the accounting date which had not been settled by the accounting date are disclosed within the Board's Accounts.

Appendix 1
Accounting policies and notes continued

g) Impact of the issue of transfer notices

Schemes may exit the PPF 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:

→ Investment assets are transferred to the legal ownership of the Board at fair value as at the effective date of the transfer notice. 'Fair value' carries the same meaning as in Note 1.1b governing the valuation of the Board's investment assets.

→ Asset recoveries from insolvent employers are recognised where the Board judges that the assets are virtually certain of recovery, and are valued using the same policies set out in Note 1.1d(v), governing the valuation of the same assets prior to transfer to the PPF. In appropriate circumstances, the Board will also disclose contingent assets in respect of recoveries which are less than virtually certain of recovery.

→ Current assets and current liabilities are transferred to the Board at fair value using the accruals basis of accounting. Debtors which are virtually certain of recovery are recognised; creditors are recognised on an accruals basis including, for example, all outstanding fees to trustees, actuaries, auditors, administrators and other advisors for work commissioned prior to transfer and necessary to complete the transfer of the scheme to the PPF and its subsequent winding-up.

→ 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 Note 1.1d(vi), that is, as assessed by the Board's appointed actuary as being the realistic cost of settling the liabilities for compensation on a continuing basis from the Protection Fund as a going concern.

→ Where the net deficit of a transferring-in scheme has been provided for at the previous balance sheet date, 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'.

Note 1.2 Income from levies

Income from protection levies derives from:

	Year ended 31 March 2009 £000s	Year ended 31 March 2008 £000s
Risk-based levies in respect of the current year	526,233	459,567
Scheme-based levies in respect of the current year	124,286	118,137
Total protection levies in repect of the current year	650,519	577,704
Risk-based levies in respect of prior years	(6,017)	(1,257)
Scheme-based levies in respect of prior years	1,944	118
Total protection levies in respect of prior years	(4,073)	(1,139)
Total income from protection levies	**646,446**	**576,565**

Risk-based and scheme-based levies

In respect of levy years 2006/07 onwards, 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). These two separate sets of factors generate separate levies, known as the risk-based levy and the scheme-based levy. The calculation, billing and collection activities for these levies have been carried out in-house by the Board's staff and are therefore subject to the regime of internal control (including internal audit) described in the Statement on Internal Control in Section 6.2 of these Accounts.

Protection levy income is accounted for in these Accounts on an accruals basis, that is, including amounts billed in respect of the year but after 31 March 2009, and including amounts unbilled at the date of preparing these Accounts. Estimates of amounts unbilled have however only been prepared for schemes where the Board is virtually certain of the schemes' eligibility for pension protection and consequent liability to pay protection levies; accruals of levies chargeable have been set up on a best estimate basis for schemes where only issues such as clarification of scheme and employer data necessary to calculate levies are outstanding.

The Board is aware that a number of levy issues remain to be resolved, particularly concerning the specific provisions of the PPF Entry Rules and related regulations, and their impact on certain schemes. There is signifcant disagreement between the trustees (and sponsoring employers) of those schemes and the Board on eligibility for pension protection and hence on their liability to pay protection levies. These issues will only be resolved through binding legal processes and may take considerable time to conclude. Whilst in some instances stages of these processes have progressed during the year, the Board is of the opinion that the final outcome remains uncertain, so these accounts do not recognise any levy income in respect of these situations. If these processes eventually conclude that the schemes involved are liable to pay protection levies, the Board estimates a further £24,033,000 will be receivable (£6,380,000 in respect of 2008/09 levy year, the balance in respect of prior years). Should these processes conclude the schemes are ineligible, an amount of £1,031,000 will be refundable to the schemes, which is already provided for (see Note 1.13). Specific arrangements have been made where necessary to allow legal processes to continue and to secure that the Board will receive interest on any amounts ultimately found to be payable.

Note 1.3 Other costs

	Notes	Year ended 31 March 2009 £000s	Year ended 31 March 2008 £000s
Bank charges		3	3
Scheme administration costs	i	513	–
Write off of levies	ii	286	–
Other costs		**802**	**3**

i) The Pension Protection Fund (Prescribed Payments) Regulations 2008 (SI2008/664) requires that, with effect from 1 April 2008, the expenses of administering the records of beneficiaries of the Protection Fund, including maintaining the records of deferred beneficiaries and running a payroll for beneficiaries in receipt of compensation, are to be charged to the Protection Fund. In prior years, these expenses have been charged to the Board's Administration Fund, and for the year ended 31 March 2008 totalled £227,000.

ii) When a pension scheme winds-up it could potentially have outstanding unpaid pension protection levy amounts due to the Board. Section 181(2) of the Pensions Act provides that the levy is payable to the Board by or on behalf of the trustees or managers of the pension scheme, or any other prescribed person. In the case of wound-up schemes, the trustees or managers of the pension scheme cease to exercise their previous functions and so cannot be pursued for any outstanding unpaid pension protection levy amounts. 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 1.4 Interest on operating bank account

The bank account operated by the Board for the PPF was interest bearing. The account was used to collect protection levy monies, to fund compensation payments to members and to transfer cash to the custodian for investment by the fund managers. Interest was therefore earned on these monies as funds were building up to the required levels for efficient investment by fund managers.

Appendix 1
Accounting policies and notes continued

Note 1.5 Investment income

Investment income earned during the year consists of income arising from:

	Year ended 31 March 2009 £000s	Year ended 31 March 2008 £000s
Financial assets at fair value through the Operating Statement		
UK Government fixed interest stocks	15,221	6,824
UK Government index linked stocks	1,413	495
Non UK Government stocks	14,230	11,243
Corporate bonds	10,587	2,874
Mortgage and asset backed securities	6,465	3,994
UK equity	7,671	3,834
Non UK equity	3,191	1,071
Property	3,476	1,359
Total investment income arising from financial assets at fair value through the Operating Statement	**62,254**	**31,694**
Financial assets not at fair value through the Operating Statement		
Deposit interest	856	2,286
Other	(358)	(287)
Total investment income arising from financial assets not at fair value through the Operating Statement	**498**	**1,999**
Total investment income	**62,752**	**33,693**

Note 1.6 Change in fair value of investments

The total change in fair value of investments during the year consists of gains and losses arising from:

	Year ended 31 March 2009 £000s	Year ended 31 March 2008 *As restated* £000s
Financial assets designated at fair value through the Operating Statement		
Asset classes further analysed in Note 1.11	135,709	84,780
Foreign exchange contracts	85,326	(6,796)
Net gain/(loss) from financial assets designated at fair value through the Operating Statement	**221,035**	**77,984**
Financial assets held for trading		
Derivative financial instruments	**299,724**	**111,068**
Loans and receivables		
Provision for reduction in fair value of investments (see Note 1.14(c))	(4,277)	–
Other investment assets	(320,368)	(80,656)
Net gain/(loss) from loans and receivables	**(324,645)**	**(80,656)**
Total change in fair value of investments	**196,114**	**108,396**

Note 1.7 Investment expenses

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

	Notes	Year ended 31 March 2009 £000s	Year ended 31 March 2008 £000s
Fund management fees		4,657	3,040
Custody charges		268	238
Transaction costs	i	847	838
Total investment expenses		**5,772**	**4,116**

i) FRS 25 Financial Instruments: Presentation requires transaction costs to be presented under investment expenses. In prior years these costs were presented as a change in fair value of investments as permitted by FRS 13, however, comparative figures for the year ended 31 March 2008 have been restated to reflect this change of presentation.

Note 1.8 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 balance sheet date

b) in respect of scheme liabilities transferring in during the year, from the schemes' transfer notice dates to the balance sheet date.

The causes of the changes in value are described in Annex M2 to the accompanying Actuarial Valuation report, in particular those changes in swap yields and in mortality assumptions arising in the current year for the first time. The impact of these changes can be summarised as follows:

	Notes	Year ended 31 March 2009 £000s	Year ended 31 March 2008 £000s
Gain/(loss) arising from:			
Compensation amendments	i	–	(14,116)
Effect of discounting due to the passage of time		(50,671)	(26,011)
Changes in swap yields		(163,885)	–
Change in discount derivation method	ii	189,183	(8,933)
Changes in compensation increase assumptions		–	(38,435)
Changes in mortality assumptions		25,485	–
Changes in allowance for future administration expenses	iii	408	(4,380)
Other experience gains and losses		43,718	(3,203)
Total net gain/(loss) on actuarial liabilities		**44,238**	**(95,078)**

i) The cost of compensation amendments in the prior year refers to the impact on the valuation of differences in the application of early retirement factors by previous scheme trustees and administrators on benefit calculations in respect of schemes that completed the transfer process in the prior year, which the Board is required to correct.

ii) The change in discount derivation method is further explained in Note 1c(i) and in Annex M2 of the Actuary's Valuation Report.

Appendix 1
Accounting policies and notes continued

iii) With effect from 1 April 2008, the expenses of administering the records of beneficiaries of the Protection Fund, including maintaining the records of deferred beneficiaries and running a payroll for beneficiaries in receipt of compensation, have been charged to the Protection Fund. In prior years, these expenses have been charged to the Board's Administration Fund. This change was effected by the Pension Protection Fund (Prescribed Payments) Regulations 2008 (SI2008/664). The allowance made in the valuation represents the net present value of the estimated costs of administering the records of the population of beneficiaries included in the actuarial valuation of the Protection Fund. Although this change came into effect from 1 April 2008, the actuary made full provision for the future costs of administering the then population of beneficiaries in his 31 March 2008 valuation. The change in the allowance in the current year represents in part the additional beneficiaries transferred into the PPF from schemes completing the assessment process.

Note 1.9 Current year claims for compensation

The claims value recognised consists of the aggregate value, as at 31 March 2009, of provisions for schemes (or individual sections of schemes) where eventual entry into the Protection Fund is considered probable, and where reliable estimates can be made of the impact on the Protection Fund, in accordance with the policies and processes set out in Note 1.1d, where the Board has reached the judgment in the current year that the schemes are likely to enter the Protection Fund in the future.

New claims in respect of 115 schemes (or individual sections of schemes) (year to 31 March 2008: 107 schemes) are detailed below.

	Notes	Year ended 31 March 2009 £000s	Year ended 31 March 2008 £000s
Scheme assets including recoveries		3,321,331	838,831
Protected liabilities		(4,634,115)	(1,187,904)
Scheme specific claims recognised	i	**(1,312,784)**	**(349,073)**
Provision for equalisation of compensation	ii	(131,800)	–
New claims recognised		**(1,444,584)**	**(349,073)**

i) The current year value for specific scheme claims includes one scheme, with a net deficit of £1,609,000, where the employer insolvency occurred in the 2007/08 year but which was not provided for at 31 March 2008 because the scheme was then estimated to be in surplus at its assessment date. Updated estimates have led the Board to judge as at 31 March 2009 that a provision should now be created for this scheme.

Also included are claims in respect of a further two schemes, which were not provided for at 31 March 2008 because the schemes were then estimated to be in surplus at their assessment dates, but which completed the assessment process during 2008/09 and were found to be unable to meet their PPF liabilities at their assessment dates.

ii) As at 31 March 2008, the Board disclosed a contingent liability of £212,827,000 as the additional liability to the PPF, and to schemes in PPF assessment periods judged probable to enter the PPF, for compensation equalisation. The treatment of this liability as contingent was based on the facts that:

→ The Board had not concluded its response to its 2008 consultation on the requirement to take into account any differences in scheme benefits that have arisen due to differences in the calculation of Guaranteed Minimum Pensions (GMPs) due to gender. Neither had the Board determined how to advise trustees of schemes in assessment to deal with GMP equalisation in actuarial valuations produced in the assessment period, nor finalised any policy for implementing equalisation of compensation for members whose schemes have already entered the PPF.

→ The Board had received a broad estimate of the costs of GMP equalisation for UK pension schemes as a whole in line with the Board's proposed equalisation solution, but the Board was not in a position to determine the costs of the additional liability associated with compensation equalisation with sufficient confidence to establish any provision within its financial statements.

The Board has received further legal advice during the year confirming the existence of its 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.

The Board has carried out further 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 can now determine the costs of the additional liability associated with compensation equalisation with sufficient confidence to establish a provision within its financial statements.

Readers should refer to the Actuary's Supplementary Report as at 31 March 2009, in particular Annexes S6 and S7, for further detailed information on the calculation of these provisions.

Note 1.10 Revaluation of prior year claims

The total revaluation of prior claims charged to the operating statement can be analysed as follows:

	Notes	Year ended 31 March 2009 £000s	Year ended 31 March 2008 £000s
Release of provisions no longer considered necessary		52,597	33,343
Revaluation of provisions brought forward from the previous year end	i	(212,432)	(210,653)
Changes in provisions for schemes transferring into the Protection Fund during the year	ii	(55,277)	(2,168)
Total revaluation of prior year claims		**(215,112)**	**(179,478)**

i) Revaluation of provisions brought forward from the previous year end

Of the 263 schemes for which provisions were made as at 31 March 2008, 57 schemes were transferred into the Protection Fund during the year, while provisions in respect of a further 27 schemes have been released as they are no longer considered necessary. The Board considers that the remaining 179 schemes are still likely to enter the Protection Fund in the future and has therefore retained the associated provisions, and revalued them to 31 March 2009. The revaluation impact can be analysed as follows:

	Year ended 31 March 2009 £000s	Year ended 31 March 2008 £000s
Changes in value of scheme assets including recoveries	(162,787)	(176,037)
Changes in value of scheme liabilities	(49,645)	(34,616)
Total changes in provisions for schemes remaining in assessment	**(212,432)**	**(210,653)**

ii) Changes in provisions for schemes transferring into the Protection Fund

During the year 59 schemes transferred into the Protection Fund. Provisions had been created as at 31 March 2008 in respect of 57 of these schemes. As noted in Note 1.9, 2 scheme sections completed the assessment process during the year and transferred into the Protection Fund in respect of which no provision had been created as at 31 March 2008, and the net deficit of these two sections as at their assessment dates have been accounted for as current year costs of claims. These assets and liabilities changed in value up to their transfer notice dates (when they were incorporated into the assets and liabilities of the Protection Fund); this change in value is made up as follows:

	Year ended 31 March 2009 £000s	Year ended 31 March 2008 £000s
Changes in value of scheme assets	(64,642)	(24,444)
Changes in value of scheme liabilities	9,365	22,276
Total changes in provisions for schemes transferring into the Protection Fund	**(55,277)**	**(2,168)**

Appendix 1
Accounting policies and notes continued

Note 1.11 Financial assets

a) The table below details the purchases, sales, and realised and unrealised gains or losses achieved by the Fund's appointed investment managers, categorised by asset class. It also includes the value of invested assets transferred in in-specie from schemes transferring into the PPF as a result of the issue of transfer notices on the completion by the schemes involved of an assessment period.

	Market value as at 1 April 2008 *As restated* £000s	Asset transfers £000s	Purchases £000s	Sales £000s	Gain/(loss) £000s	Market value as at 31 March 2009 £000s
Financial assets at fair value through the Operating Statement						
UK Government fixed interest stocks	350,878	–	1,160,195	(1,394,754)	73,893	190,212
UK Government index linked stocks	46,556	–	319,218	(2,916)	(42,262)	320,596
Non UK Government fixed interest stocks	398,089	–	1,125,950	(1,064,368)	135,587	595,258
Non UK Government index linked stocks	3,288	–	1,119	(1,191)	(3,216)	–
Mortgage backed securities	87,851	–	921,905	(889,874)	10,407	130,289
UK corporate bonds	5,544	–	38,977	(4,951)	302	39,872
Non UK corporate bonds	59,434	–	249,578	(25,600)	9,440	292,852
Money market funds	25,316	–	55,453	–	60,158	140,927
Managed funds	116,863	428,959	152,919	(293,314)	(53,759)	351,668
UK equity	138,103	–	251,314	(149,609)	(23,726)	216,082
Non UK equity	60,706	–	217,072	(114,970)	(6,930)	155,878
Insurance policies	15,304	32,330	–	–	(4,971)	42,663
Property	55,667	–	4,200	–	(18,614)	41,253
Asset backed securities	43,857	–	35,254	(24,231)	(564)	54,316
Other	1	819	–	–	(36)	784
Total financial assets at fair value through the Operating Statement	**1,407,457**	**462,108**	**4,533,154**	**(3,965,778)**	**135,709**	**2,572,650**
Other financial assets						
Foreign exchange contracts	(7,272)					(18,868)
Income receivable	13,758					21,178
Amounts payable, net of amounts receivable, for outstanding settlements	(99,060)					(103,409)
Total other financial assets	**(92,574)**					**(101,099)**
Total financial assets	**1,314,883**					**2,471,551**
Derivative financial instruments	**140,692**					**501,226**
Total non-current assets	**1,455,575**					**2,972,777**

The Management Commentary section of the Annual Report includes, in Section 3.3.3.2, a detailed Investment report, covering the investment strategy, governance arrangements and risk management activities undertaken in respect of the Protection Fund.

The cash flows for the interest rate swaps, inflation rate swaps and money markets are accounted for on a gross basis. The Board has decided to disclose the net cash flow for these instruments in Note 1.11 in order that the total purchase and sales activities of the PPF are not overstated.

b) The portfolios managed by the fund managers were valued as follows:

	Value at 1 April 2008 £000s	Capital invested £000s	Investment return £000s	Value at 31 March 2009 £000s
Managed by:				
Insight Investment Management	518,704	104,474	347,899	971,077
PIMCO	275,688	234,975	33,333	543,996
Goldman Sachs Asset Management	268,068	235,305	51,230	554,603
Auriel Capital Management	7,392	–	(2,977)	4,415
Lazard Asset Management	70,630	123,666	(34,955)	159,341
Aviva (formerly Morley Fund Management)	57,377	4,000	(17,597)	43,780
Newton Investment Management	69,379	141,748	(38,338)	172,789
State Street Global Advisors	59,758	–	(18,904)	40,854
Legal & General Investment Managers	–	94,000	(527)	93,473
Transition Account	132,183	245,540	(56,677)	321,046
Total	**1,459,179**	**1,183,708**	**262,487**	**2,905,374**

Investment return in this table includes investment income, changes in fair value of investments (other than provisions for reduction in fair value) and certain investment expenses disclosed in Note 1.7.

The asset classes in which each of the above managers are mandated by the Board to invest are detailed in paragraph 3.3.3.2 v) of the Management Commentary section of the Annual Report.

c) Reconciliation of non-current assets to fund manager portfolios

Due to the adoption of FRS 29, certain financial instruments which make up part of the portfolio of assets in Note 1.11(b) are presented in categories of assets and liabilities other than non-current assets detailed in Note 1.11(a). The table below shows a reconciliation between the asset portfolio managed by fund managers and non-current assets.

	Year ended 31 March 2009 £000s	Year ended 31 March 2008 £000s
Total non-current assets (1.11(a))	**2,972,777**	**1,455,575**
Derivative financial instruments included in current assets	558	200
Cash deposits (sterling and foreign) included in current assets	28,275	49,084
Derivative financial instruments included in current liabilities	(354)	(2,096)
Derivative financial instruments included in non-current liabilities	(95,887)	(43,584)
Other	5	–
Total investment portfolio (1.11(b))	**2,905,374**	**1,459,179**

Appendix 1
Accounting policies and notes continued

Note 1.12 Current assets

	Notes	As at 31 March 2009 £000s	Year ended 31 March 2008 *As restated* £000s
Derivative financial instruments		**558**	**200**
Invoiced debtors for all levy years	i	138,339	198,113
Acrrued levies for all levy years	ii	48,190	20,870
Total levy debtors		**186,529**	**218,983**
Assets receivable from schemes in respect of which Transfer Notices were issued during the year	iii	78,184	12,871
Asset recoveries	iv	9,074	16,240
Transfer-in debtors		**87,258**	**29,111**
Money purchase assets awaiting discharge	v	472	438
Prepayments of compensation		1	–
Loans to schemes in assessment		86	–
Other current assets		**559**	**438**
Cash deposits (sterling and foreign) held by fund managers		28,275	49,084
Cash at bank	vi	27,690	13,458
Cash and cash equivalents		**55,965**	**62,542**
Total current assets		**330,869**	**311,274**

i) Invoiced debtors 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 £12,006,000 (31 March 2008: £16,906,000) for bad debts 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.

The value of debtors that falls inside the Whole of Government Accounts boundary is: nil.

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. These assets arise under the operation of section 75 of the Pensions Act 1995 and associated regulations, and the rights of recovery of these debts and other assets transferred to the Board when the schemes transferred in to the PPF. Only assets which are virtually certain of recovery are accounted for here as debtors. The Board is not aware of any further debts arising in the same way where the Board judges that recoverability is less than virtually certain.

v) Where the Protection Fund 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 Protection Fund, and will also account for the liability to discharge the money purchase benefits.

vi) As described in the accounting policy on ‘Segmental Reporting’, the Board of the PPF is responsible for three ring-fenced funds. To improve controls over the three funds and ensure that only allowable items of income and expenditure are transacted within each fund, the Board has opened separate bank accounts for the three funds. The PPF account is used to collect the protection levy and to transfer cash to the custodian for investment by the fund managers. It is also used for processing compensation payments.

All bank accounts are interest bearing, at rates that the Board consider competitive given the operating requirements of the accounts.

Note 1.13 Current liabilities

Current liabilities consist of:

	As at 31 March 2009 £000s	Year ended 31 March 2008 *As restated* £000s
Derivative financial instruments	354	2,096
Money purchase benefits payable	472	438
Provision for levy refunds	1,031	1,049
Compensation payments due	236	–
Accruals and other creditors	1,559	1,088
Total current liabilities	**3,652**	**4,671**

Accruals and other creditors represent fund management and scheme-related expenses incurred in respect of the year and outstanding at the accounting date.

The value of creditors that falls inside the Whole of Government Accounts boundary is: £nil.

Note 1.14 Non-current liabilities

a) Actuarial liabilities

During the year to 31 March 2009, the PPF accepted 59 schemes into the Protection Fund, to add to the 41 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 Protection Fund, revalued to 31 March 2009. It can be analysed as follows:

	As at 31 March 2009 £000s	As at 31 March 2008 £000s
Opening value of actuarial liabilities	880,292	536,166
Actuarial liabilities at dates of transfer	938,180	266,361
Actuarial (gains)/losses (see Note 1.8)	(44,238)	95,078
Benefits paid since transfer	(37,603)	(17,313)
Total actuarial liabilities	**1,736,631**	**880,292**

Appendix 1
Accounting policies and notes continued

b) Provisions for claims on the PPF
As at 31 March 2009, the PPF recognises provisions in respect of 292 pension schemes or individual sections of pension schemes (31 March 2008: 263 schemes or scheme sections) where the Board considers that eventual entry into the Protection Fund is probable (as defined in Note 1.1d(ii)), and where reliable estimates of the difference between those schemes' protected liabilities and assets (including any recoveries from insolvent employers) can be made (as defined in Note 1.1d(iv) to (vi)). The total value of provisions also includes an amount of £8,776,000 to provide for an estimated number of five claims incurred but not reported (IBNR reserve) following a review of statistical information on the reporting of insolvency events to the Board by insolvency practitioners.

Notes 1.9 and 1.10 give further detail of how the values in the table below were arrived at.

The aggregate value of provisions can be analysed as follows:

	As at 31 March 2009 Number of schemes	As at 31 March 2009 £000s	As at 31 March 2008 Number of schemes	As at 31 March 2008 £000s
Claims provisions at 31 March 2008	263	1,355,148	207	908,493
Release of provisions for schemes transferring into the Protection Fund	(57)	(267,183)	(32)	(79,507)
Release of provisions for schemes no longer considered probable for entry	(27)	(52,597)	(17)	(33,343)
Revaluation of remaining provisions (see Note 1.10)	–	212,432	–	210,653
Provision for equalisation of compensation	–	131,800	–	–
Provision for new claims arising in the year and remaining outstanding at year end	113	1,313,392	105	348,852
Total claims provisions at 31 March 2009	**292**	**2,692,992**	**263**	**1,355,148**

c) Other provisions
Other provisions represent provisions created against the likely non-recovery or permanent diminution in value of certain investment assets.

Note 1.15 Contingent assets
As described in Note 1.2, the PPF discloses contingent assets of £24,033,000 (31 March 2008: £17,653,000) relating to initial and protection levies which may be due from pension schemes depending on the outcome of the consideration of their eligibility for pension protection and hence their liability to pay protection levies. During the year, decisions were reached in certain legal processes which concluded that the pension schemes involved were not exempt from paying protection levies. However, the scheme employers and trustees in question have appealed the decisions and therefore sufficient uncertainty remains for the Board to conclude that the levies outstanding in these cases are disclosed as contingent assets.

As further described in Note 1.12(iv), the PPF discloses contingent assets of £nil (31 March 2008: £5,738,000) relating to assets which may be recoverable from the previous sponsoring employers of schemes which have transferred into the PPF.

Note 1.16 Contingent liabilities
As at 31 March 2009, the PPF discloses contingent liabilities in respect of 103 schemes, valued at £695,378,000 (31 March 2008: 80 schemes valued at £735,261,000) where the Board considers that eventual entry into the Protection Fund is possible (that is, the likelihood of entry is less than probable, but higher than remote). The Actuary's Supplementary Report as at 31 March 2009 included in the Annual Report and Accounts classifies these contingent liabilities into four types and readers should refer to the Supplementary Report, in particular Annex S2, for definitions and further detail of these contingent liabilities types.

	Assets £000s	Liabilities £000s	Net deficit as at 31 March 2009 £000s	Net deficit as at 31 March 2008 £000s
Type of contingent liability				
1	22,959	40,354	17,395	2,936
2	37,190	60,063	22,873	725
3	757,793	1,049,602	291,809	64,611
4	933,873	1,249,190	315,317	454,162
Sub total for specific schemes	1,751,815	2,399,209	647,394	522,434
5	–	47,984	47,984	212,827
Total	**1,751,815**	**2,447,193**	**695,378**	**735,261**

Note 1.17 Financial instruments and related risks

Financial instruments by category

	As at 31 March 2009 £000s	As at 31 March 2008 £000s
Financial assets designated at fair value through the Operating Statement		
Debt instruments	1,623,395	995,497
Equity	512,887	224,125
Managed funds	351,668	116,863
Insurance policies	42,663	15,304
Property	41,253	55,667
Other financial assets	784	1
	2,572,650	**1,407,457**
Financial assets held for trading		
Derivative financial assets	**501,784**	**140,892**
Loans and receivables		
Cash and cash equivalents	55,965	62,542
Investment income receivable	21,178	13,758
Levy debtors	186,529	218,983
Transfer-in debtors	87,258	29,111
Other receivables	559	438
	351,489	**324,832**
Financial liabilities designated at fair value through the Operating Statement		
Foreign exchange contracts	**(18,868)**	**(7,272)**
Financial liabilities held for trading		
Derivative financial liabilities	**(96,241)**	**(45,680)**
Financial liabilities measured at amortised cost		
Amounts payable, net of amounts receivable, for outstanding settlements	(103,409)	(99,060)
Money purchase benefits payable	(472)	(438)
Provision for levy refunds	(1,031)	(1,049)
Compensation payments due	(236)	–
Accruals and other creditors	(1,559)	(1,088)
	(106,707)	**(101,635)**
Total financial instruments	**3,204,107**	**1,718,594**

Appendix 1
Accounting policies and notes continued

	As at 31 March 2009 £000s	As at 31 March 2008 £000s
Reconciliation to total net assets/(liabilities)		
Total financial instruments	3,204,107	1,718,594
Actuarial liabilities	(1,736,631)	(880,292)
Claims provisions	(2,692,993)	(1,355,148)
Other provisions	(4,277)	–
Total net assets/(liabilities)	**(1,229,794)**	**(516,846)**

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 risks
The Government Financial Reporting Manual requires the adoption of FRS 29, Financial Instruments: Disclosures to replace the disclosure requirements under FRS 13 Derivatives and Other Financial Instruments. FRS 29 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 Protection Fund holds a variety of financial instruments in compliance with its investment management strategy, as set out in the Protection Fund's SIP (http://www.pensionprotectionfund.org.uk/sip_july_2008.pdf). The Board's primary strategic objective is to have sufficient funds to pay compensation to members of eligible schemes which have transferred into the Protection Fund, but having regard to the interests of levy payers.

The Board adopts suitable low risk investment strategies to support its target of reaching an appropriate funding level to meet this objective. The investment strategy is designed to match current estimates of the Protection Fund's liabilities and provide out-performance over the estimated liabilities.

The Protection Fund's investment portfolio comprises quoted equity investments, quoted debt investments, derivatives, and investments in other quoted funds that it intends to hold for an indefinite period of time. Asset allocation is determined by the Board on the advice of the Investment Committee to achieve the investment objectives.

The nature and extent of risks arising from financial instruments to which the Protection Fund is exposed at the balance sheet date 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 Protection Fund's financial instruments are carried at fair value and fair value changes are recognised in the Operating Statement, 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, and sets asset allocation guidelines for the fund managers as per the table below.

	As at 31 March 2009 £000s	Strategic allocation set by the Board %	Actual %	Tolerance range %
Asset class and fund manager				
Insight – gilts	549,115			
Cash collateral	**549,115**	**20**	**25.4**	**20-30**
GSAM	554,603			
PIMCO	543,996			
Global bonds	**1,098,599**	**50**	**50.8**	**45-55**
Lazard	159,341			
SSGA	40,854			
Legal & General	93,473			
UK equities	**293,668**	**12.5**	**13.6**	**10-15**
Newton	172,789			
Global equities	**172,789**	**7.5**	**8.0**	**5-10**
Aviva	43,780			
Property	**43,780**	**7.5**	**2.0**	**2.5-10**
Auriel	4,415			
Currency	**4,415**	**2.5**	**0.2**	**1.5-3.5**
Total	**2,162,366**			

As explained in the Investment Report in Section 3.3.3.2, market events during the financial year had a significant unfavourable impact on property values, which resulted in valuations in breach of the asset allocation tolerance range as at the reporting date.

Sensitivity analysis

The Protection Fund's financial assets are therefore exposed to equity, debt securities and property price risk. The analysis below shows the impact on the above values of a 10 per cent and 25 per cent increase and decrease in market prices. The currency holding with Auriel is not subject to price risk and is reflected in the analysis:

	Increase/(decrease) in value of financial instruments £000s
10% increase	215,795
25% increase	539,488
10% decrease	(215,795)
25% decrease	(539,488)

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 Protection Fund 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 the Protection Fund's SIP. This sensitivity is explicitly taken into account by the Board when setting the strategic asset allocation for the Protection Fund'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.

Appendix 1
Accounting policies and notes continued

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

	Fixed rate financial assets £000s	Variable rate financial assets £000s	Non interest bearing financial assets £000s	As at 31 March 2009 £000s	As at 31 March 2008 £000s
Debt instruments	1,623,395			1,623,395	995,497
Equity			512,887	512,887	224,125
Managed funds	241,022	9	110,637	351,668	116,863
Property			41,253	41,253	55,667
Other financial assets	745		39	784	1
Derivative financial assets		501,784		501,784	140,892
Foreign exchange contracts			(18,868)	(18,868)	(7,272)
Investment income receivable			21,178	21,178	13,758
Cash and cash equivalents		55,965		55,965	62,542
Transfer-in debtors			87,258	87,258	29,111
Derivative financial liabilities		(96,241)		(96,241)	(45,680)
Total	**1,865,162**	**461,517**	**754,384**	**3,081,063**	**1,585,504**

Sensitivity analysis
At the reporting date, the effect of both an increase and decrease in interest rates of 100 basis points on the value of the Protection Fund's financial assets and liabilities would be as follows:

	100 basis point increase £000s	100 basis point decrease £000s
Derivative financial instruments	(944,989)	1,334,943
Other financial instruments	(80,701)	101,272
Total increase/(decrease) in financial instruments	**(1,025,690)**	**1,436,215**

A change in long term interest rates will have a significant effect on the Protection Fund's long term liabilities, therefore the particular sensitivity to such changes reflects the Board's use of derivatives to match the liability profile.

Interest income on cash and cash equivalents would have increased by £789,000 as a result of a 100 basis point increase in interest rates.

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 Protection Fund's liabilities are entirely designated in sterling, and investment in assets denominated in currencies other than sterling is permitted only on condition that the foreign currency exposure is hedged to sterling. The Board therefore enters into forward foreign exchange rate contracts to mitigate the risk of unfavourable currency movements.

At the reporting date the Protection Fund had the following foreign currency exposure before being hedged into sterling:

	As at 31 March 2009 £000s	As at 31 March 2009 %
Euro	791,015	47.0
US dollar	541,381	32.2
Japanese yen	250,117	14.9
Australian dollar	31,637	1.9
Canadian dollar	30,201	1.8
Other currencies	36,611	2.2
Total	**1,680,962**	**100.00**

b) Credit risk

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

As can be seen from the asset allocation, the main concentration of credit risk to which the Protection Fund is exposed arises from investments in gilts and global bonds. The Protection Fund is also exposed to counterparty credit risk on derivatives, cash and cash equivalents, amounts due from brokers and transfer-in debtors.

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

	As at 31 March 2009 £000s	As at 31 March 2008 £000s
Debt instruments	1,623,395	995,497
Equity	512,887	224,125
Managed funds	351,668	116,863
Insurance policies	42,663	15,304
Property	41,253	55,667
Other financial assets	784	1
Derivative financial assets	501,784	140,892
Investment income receivable	21,178	13,758
Cash and cash equivalents	55,965	62,542
Levy debtors	186,529	218,983
Transfer-in debtors	87,258	29,111
Other receivables	559	438
Total	**3,425,923**	**1,873,181**

Appendix 1
Accounting policies and notes continued

Financial assets impaired and past due
At the reporting date, the financial assets, comprised entirely of levy debtors, past due are set out in the table below. 'Past due' in this analysis is defined as outstanding for longer than the 28 day period allowed under the Pensions Act 2004 for affected parties to appeal decisions of the Board. The aged provision for bad debt represents the impairment:

	Not past due £000s	0-3 months past due £000s	3-6 months £000s	Over 6 months £000s
Financial assets past due not impaired	**–**	**14,684**	**55,739**	**17,497**
Financial assets before impairment	5,137	3,680	4,445	7,653
Impairment	(2,080)	(1,173)	(1,346)	(7,407)
Impaired financial assets	**3,057**	**2,507**	**3,099**	**246**
Total financial assets past due and impaired	**3,057**	**17,191**	**58,838**	**17,743**

c) Liquidity risk
Liquidity risk is the risk that the Protection Fund will encounter difficulty in meeting obligations associated with financial liabilities.

The Protection Fund is not exposed to significant liquidity risks as the Board is of the opinion that cash inflows from the collection of protection levies will significantly exceed outflows on compensation payments for the foreseeable future; and the assets of the Protection Fund, including its investment assets, are mostly readily realisable.

The following table shows a liquidity analysis for financial liabilities:

	Financial liabilities due within 1 year £000s	Financial liabilities due after more than 1 year £000s
Financial liabilities including derivatives settled net		
Derivative financial instruments	354	95,887
Amounts payable, net of amounts receivable, for outstanding settlements	103,409	–
Money purchase benefits payable	472	–
Levy refunds due	1,031	–
Compensation payments due	236	–
Accruals and other creditors	1,559	–
Total financial liabilities	**107,061**	**95,887**

d) Funding risk
The Protection Fund's SIP describes the major risk facing the Protection Fund as not having sufficient funds to pay compensation as required under the Pensions Act 2004. The Board's primary objective is to achieve a balance between protecting and securing the compensation payments for actual and potential members of schemes that come into the Protection Fund whilst setting a fair and proportionate levy. The Protection Fund's funding strategy is designed to mitigate the risks, both in the short and the long term, that the Protection Fund's assets will be inadequate to meet its liabilities. The Protection Fund's investment strategy is described in detail in the Investment Report in Section 3.3.3.2 of the Annual 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 Protection Fund's investment strategy.

Specific instruments

a) Foreign exchange contracts

As described in Note 1.17(a)(iii), the Board's policy is to hedge all assets denominated in foreign currencies to sterling in order to match the nature of its liabilities. The Board therefore engages in forward foreign exchange rate contracts in order to mitigate the risk of unfavourable currency movements.

There is no difference between the settlement amount of the contracts and the value disclosed in the accounts as they are valued using forward rates.

b) Swap agreements

The Protection Fund 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 value of the portfolio of swap agreements at the reporting date is as follows:

	As at 31 March 2009 Assets £000s	As at 31 March 2009 Liabilities £000s	As at 31 March 2009 Total £000s
Swaps due to settle within 1 year			
Interest swap rates	531	(347)	184
Inflation rate swaps	27	(4)	23
Credit default swaps	–	(3)	(3)
	558	**(354)**	**204**
Swaps due to settle after more than 1 year			
Interest rate swaps	433,415	(85,402)	348,013
Inflation rate swaps	61,538	(9,721)	51,817
Credit default swaps	6,273	(764)	5,509
	501,226	**(95,887)**	**405,339**
Total value of swap portfolios	**501,784**	**(96,241)**	**405,543**

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 Protection Fund 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.

Appendix 1
Accounting policies and notes continued

The table below shows the impact on the swap portfolio of 100 basis point increase in interest rates and inflation.

	100 basis point increase £000s	100 basis point decrease £000s
Effect of change in interest rates	(944,989)	1,334,943
Effect of change in inflation	342,057	(342,057)

Note 1.18 Related party transactions

Transactions with related parties are discussed below.

i) Alan Rubenstein was appointed Chief Executive Officer of the Board of the PPF on 1 April 2009. Mr Rubenstein was previously a Managing Director of Lehman Brothers, responsible for its Pensions Advisory Group, and a trustee of its UK defined benefit pension scheme. Lehman Brothers became insolvent during 2008 and the Lehman Brothers Pension Scheme entered into a PPF assessment period. No conflict of interest exists as Mr Rubenstein stood down as a trustee in 2008 and is not a member of the part of the pension scheme which is in assessment.

ii) Michael Deakin, a Non-executive Member of the Board and Chair of the Investment Committee, was formerly Chief Investment Officer and an Executive Director of Insight Investment Management. In order to avoid any potential conflict of interest, Mr Deakin took no part in the decisions to appoint Insight Investment Management as fund managers to the PPF and the Fraud Compensation Fund, and takes no part in reviews of their performance and in negotiating contractual arrangements with Insight.

Appendix 1
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 2009

1. Introduction
The Board of the PPF (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 PPF prepared and signed by the appointed Actuary.

This is the fourth actuarial valuation of the PPF. The effective date of this valuation is 31 March 2009. The previous actuarial valuation was as at 31 March 2008, and the report on that valuation was dated 3 October 2008.

At its meeting on 26 April 2006 the Board appointed me to prepare the annual actuarial valuations of the assets and liabilities of the PPF. Accordingly I am addressing this report on the valuation as at 31 March 2009 to the Board. 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 PPF.

In my view, whilst the Professional Conduct Standards of the UK Actuarial Profession apply to the preparation of this report, there are no professional practice standards which directly apply.

2. Data
In respect of former members of schemes for which the Board assumed responsibility on or before 31 March 2009, individual member data was obtained from Capita (the administrators). 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 2008. A summary of the data as at 31 March 2009 is as follows:

Deferred pensioners

	Number	Average age	Total Accrued Pension revalued to 31 March 2009 (uncapped) £000s pa
Sex			
Male	14,846	48	59,199
Female	3,163	46	6,613
Total	**18,009**	**48**	**65,812**

Appendix 1
Actuarial valuation of the Pension Protection Fund continued

Pensioners

	Sex	Number	Average age	Total compensation at 31 March 2009 (capped where applicable) £000s pa
Status				
Members	Male	9,118	66	40,050
	Female	1,674	69	3,247
Dependants (excluding children)	Male	109	71	231
	Female	1,754	72	4,224
Children	Male	32	16	73
	Female	36	16	75
Total		**12,723**	**67**	**47,900**

A person who is in receipt of one tranche of compensation as well as being entitled to a further tranche of compensation beginning after 31 March 2009 is included in both tables.

3. Compensation
The compensation in respect of former members of schemes for which the Board assumed responsibility on or before 31 March 2009 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 2009, 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 resulting yearly compensation cash flows are discounted back to a present value at the valuation date, 31 March 2009, 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 2009, 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 2009.

→ Their future mortality and other demographic features.

→ Whether the Secretary of State exercises her/his 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 2009.

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 PPF as at 31 March 2009.

6. Value of assets

The value of the PPF 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 2009. I have not adopted either of the adjustments made available by regulations 4 and 5.

Accordingly I have taken the value of the assets of the PPF as at 31 March 2009 as £3,200,302,000. This includes £472,000 in respect of AVC assets that match AVC liabilities yet to be discharged.

This compares with £1,719,032,000 as at 31 March 2008.

An analysis of the change in the value of the assets of the Fund between 31 March 2008 and 31 March 2009 is as follows:

	£000s
Value of assets at the start of the year (31 March 2008)	1,719,032
Assets for schemes entering the PPF during the year to 31 March 2009 (measured at their transfer dates)	616,297
Income from Pension Protection Levies	646,446
Compensation paid	(37,603)
Change in value of interest rate swaps and inflation swaps	317,599
Change in value of invested assets on account of changes in bond yields	70,000
Change in current assets (AVCs to be discharged)	34
Change in value of invested assets on account of other changes (excluding bond yields, interest rate swaps and inflation swaps)	(131,503)
Value of assets at the end of the year (31 March 2009)	3,200,302

7 Value of liabilities

The value of the PPF 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 PPF shall be any sums or properties falling to be paid or transferred out of the Fund required to meet liabilities listed in section 173(3) of the Pensions Act 2004, and

(b) the value of a liability shall be the present value of that liability at the valuation date.

Appendix 1

Actuarial valuation of the Pension Protection Fund continued

The actuarial liabilities in respect of former members of schemes for which the Board assumed responsibility on or before 31 March 2009, on the assumptions described in Section 5 and Annex M2, are summarised in the table below:

	£000s
Type of member	
Deferred pensioners	983,433
Pensioners	744,558
Administration expenses to be met from the Fund	8,640
Current liabilities (AVCs to be discharged)	472
Total	**1,737,103**

Accordingly I have taken the value of the liabilities of the PPF as at 31 March 2009 as £1,737,103,000.

This compares with £880,730,000 as at 31 March 2008.

An analysis of the change in the actuarial liabilities between 31 March 2008 and 31 March 2009 is as follows:

	£000s
Actuarial liabilities at the start of the year (31 March 2008)	880,730
Liabilities for schemes entering the PPF during the year to 31 March 2009 (measured at their transfer dates)	938,180
Effect of passage of time on discounting	50,671
Actuarial (gain)/loss due to changes in swap yields	163,885
Actuarial (gain)/loss due to change in assumptions derivation from swaps to higher of swaps and gilts yields	(189,183)
Actuarial (gain)/loss due to changes in mortality assumptions	(25,485)
Actuarial (gain)/loss due to experience being different from what was assumed	(43,718)
Change in expense allowance	(408)
Compensation paid	(37,603)
Change in current liabilities (AVCs to be discharged)	34
Actuarial liabilities at the end of the year (31 March 2009)	1,737,103

8. Conclusion

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

	£000s
Assets	
The value of the PPF assets determined in accordance with the Pension Protection Fund (Valuation of the Assets and Liabilities of the Pension Protection Fund) Regulations 2006	3,200,302
Total assets	**3,200,302**
Liabilities	
The actuarial liabilities in respect of former members of schemes for which the Board assumed responsibility on or before 31 March 2009	1,727,991
Allowance for certain expenses that are met from the PPF	8,640
The remaining liabilities under Regulation 3 of the Pension Protection Fund (Valuation of the Assets and Liabilities of the Pension Protection Fund) Regulations 2006	472
Total liabilities	**1,737,103**
Surplus/(Deficit) – before provisions	1,463,199
Funding ratio (Assets/Liabilities) – before provisions	184%

In respect of the PPF as at 31 March 2009, the value of the assets was £3,200,302,000 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 2009) was £1,737,103,000.

The surplus of £1,463,199,000 in the PPF as at 31 March 2009 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 2009. 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 PPF. These provisions will be shown in the statement of accounts being prepared by the Board for the financial period ending on 31 March 2009.

I have also estimated contingent liabilities as at 31 March 2009, including those in respect of other pension schemes which, in the Board's judgement, may possibly be transferred into the PPF in the near future. These contingent liabilities will be disclosed in footnotes to the statement of accounts prepared by the Board for the financial period ending on 31 March 2009.

Stephen Rice

Stephen Rice
Appointed Actuary – the Board of the Pension Protection Fund
Fellow of the Institute of Actuaries
14 October 2009

Appendix 1

Annex M1

Summary of compensation provided by the PPF

Broadly speaking, the PPF 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 PPF – 100 per cent level of compensation.

   In broad terms and in normal circumstances, this means a starting level of compensation that equates to 100 per cent 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 be increased each year in line with the increase in the Retail Prices Index (RPI) capped at 2.5 per cent and with a floor of 0 per cent.

2. For the majority of people aged below their scheme's normal pension age the Board pays from the PPF – 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 the commencement of compensation payments, subject to a floor of 0 per cent over the whole period, and to a maximum increase for the whole period calculated by assuming RPI rose by 5 per cent each year (2.5 per cent each year for pension accrued on or after 6 April 2009). This compensation is subject to an overall cap, which from April 2009 equates to £31,936.32 at age 65 (the cap is adjusted according to the age at which compensation comes into payment).

   Once compensation is in payment, the part that derives from pensionable service on or after 6 April 1997 will be increased each year in line with the increase in the RPI capped at 2.5 per cent and with a floor of 0 per cent.

In addition there is also 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 GMPs for males and females. The Board has received legal advice during the year 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 now 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 2009.

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

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

Annex M2

Assumptions

a) Compensation levels
As for previous valuations of the PPF, 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 previous valuations of the PPF, a single annualised deferment revaluation rate and a single annualised post-1997 compensation increase rate were used to estimate cash flows, irrespective of term. Estimated cash flows were discounted using a single annualised discount rate. Use of term-dependent financial assumptions would have increased the precision of the calculation of the liabilities, but I considered then that that refinement would have been excessive as the liabilities of the PPF were small in relation to the provisions of the Fund. The liabilities of the PPF have now increased to the point where I consider it appropriate for the financial assumptions to vary according to the term of the particular cash flow being estimated and discounted.

i) Discount rates
For the previous valuation as at 31 March 2008, I considered that a notional portfolio of assets consisting of cash plus appropriate zero-coupon interest rate swaps contracts and inflation swaps contracts provided the best match to the PPF liability cash flows. Calculating the liabilities in this way represented 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) whilst the counterparty would at the same time pay the Fund a fixed interest rate specified in the contract. Because I considered that cash plus an aggregate of swaps contracts provided the best match to the liability cash flows as at 31 March 2008, my assumed discount rates for the 31 March 2008 valuation were derived from zero-coupon swap yields.

Since around August 2008, however, zero-coupon interest rate swap yields for longer tenors have been less than the gilts strip (one of the individual cash flows stripped out of a gilt) yields at the same duration. This yields relationship was still observable at 31 March 2009. I therefore believe that it is reasonable to adapt the construction of the 31 March 2008 notional portfolio so that, for 31 March 2009, it contains gilts strips (or more often notional gilts strips) rather than cash plus zero-coupon interest rate swaps at longer durations. This substitution is appropriate as this new notional portfolio can be put together more cheaply than the 31 March 2008 notional portfolio with a broadly equivalent low level of risk.

I have also decided that there should be a further refinement to the derivation of the discount rates. For several months it has been proving difficult to earn close to LIBOR interest on cash. Based on evidence from the last year or so, I am of the opinion that LIBOR ought no longer to be assumed to be earned on cash and have therefore made a deduction from the zero-coupon interest rate swap yields of 15 basis points at each term to allow for this.

I have decided therefore that the discount rate for each term should be the higher of the zero-coupon interest rate swaps yield less 15 basis points and the gilts strip yield.

Appendix 1

Annex M2 continued

A zero-coupon interest rate swaps yield curve as at 31 March 2009 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 2009 was obtained from Bloomberg Finance LP. This curve shows gilt strips yields at terms 1 year to 10 years inclusive and also at terms 15, 20, 30, 40 and 50 years. Yields at each of these terms are in respect of bonds with the closest nominal maturity to the indicated term. For intermediate terms, I have interpolated between the yields at the given terms. As the zero-coupon swaps curve and gilt strips curve both extend only as far as term 50, I have assumed that these curves remain flat from term 50 onwards.

In my opinion, the PPF's SIP 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 PPF will not exercise its power to amend the maximum revaluation rate of 5 per cent per annum.

I have assumed, for all deferred pensioners as at 31 March 2009, that the rate of valuation for the period from their assessment date to normal pension age will be the appropriate increase in the RPI, i.e. that the maximum revaluation rate will not apply to any of them. The assumed rate of revaluation, for the period from the valuation date to normal pension age (over which period the RPI increase is unknown), was determined from the RPI inflation swap curve (supplied as at 31 March 2009 by Insight Investment for terms up to 50 years). For terms over 50 years, I have assumed that the RPI swap curve remains flat.

iii) Pension increase rates

I have assumed that the Board of the PPF 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.

An LPI[0,2.5 per cent] inflation swap is an inflation swap which is subject to an annual floor of 0.0 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 2009 by Insight Investment for terms up to 30 years). As at 31 March 2009, it has not been possible to obtain data for terms beyond 30 years because Insight Investment did not receive quotes for trading the LPI[0,2.5 per cent] inflation swap beyond 30 years on that day. Insight Investment was, however, able to generate notionally a curve from 30 years up to 50 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.

	Discount rate pa %	Inflation rate pa %	Post 1997 pension increase rate pa %
Term			
1	1.393	(0.078)	0.753
2	1.942	1.213	1.171
3	2.341	1.757	1.517
4	2.673	2.132	1.686
5	2.921	2.442	1.791
10	3.578	3.347	1.996
15	4.098	3.676	2.088
20	4.273	3.690	2.106
30	4.510	3.643	2.093
40	4.771	3.583	2.168
50 plus	4.627	3.488	2.194

Source: Insight Investment.
Bloomberg Finance LP (for discount rates with terms 15 years and over).

c) Demographic assumptions
i) Mortality
The assumption for mortality is in two parts. The first part is the assumption about current mortality, and is dependent on both the status of the member and the amount of a member's compensation. The second part of the overall mortality assumption is an allowance for future expected improvements in longevity.

→ Current mortality
At this early stage in the establishment of the PPF the fund has yet to accumulate sufficient own mortality experience to assist in the setting of the mortality assumptions. The mortality assumptions have therefore been set prudently having regard to the recent Self-Administered Pension Schemes (SAPS) mortality tables published in February 2009 by the Continuous Mortality Investigation (CMI) of the UK Actuarial Profession.

For the previous valuation as at 31 March 2008 prior to the publication of the above the standard table PCMA00/PCFA00 was used with age rating adjustments for the compensation amount. The assumptions were set prudently having regard to the SAPS survey published in January 2008. The 2009 assumptions, being adjustments of tables specifically for the purpose of setting pension scheme mortality assumptions, ought in my opinion to be closer to the current state of PPF mortality than the PCA tables which were based on insured lives.

Three SAPS tables are being used as the basis for this valuation:

S1PMA: Male pensioner amounts
S1PFA: Female pensioner amounts
S1DFA: Female dependant amounts

Appendix 1

Annex M2 continued

The amount of compensation was used to divide members into three mortality bands; heavy mortality, medium mortality and light mortality. The amounts chosen as the limits for the bands were those used by the CMI to produce its heavy and light tables. I have used these heavy and light tables for the PPF's heavy and light bands. The CMI did not publish a table for use with the middle band so I have made a manual adjustment to the death probabilities in the tables constructed from the whole data set as shown in the following table. This adjustment is necessary because the exclusion of the light amounts means that the mortality experienced by the middle band is significantly heavier than the mortality rates in the all-data table.

Sex	Status	Compensation amount pa	Members' mortality	Dependents' mortality
Male	Deferred	Less than £1,350	S1PMA_H	S1DFA_H
Male	Deferred	£1,350 to £11,700	110% of S1PMA	105% of S1DFA
Male	Deferred	Over £11,700	S1PMA_L	S1DFA_L
Female	Deferred	Less than £675	S1PFA_H	S1PMA_H
Female	Deferred	£675 to £4,275	105% of S1PFA	110% of S1PMA
Female	Deferred	Over £4,275	S1PFA_L	S1PMA_L
Male	Pensioner	Less than £1,500	S1PMA_H	S1DFA_H
Male	Pensioner	£1,500 to £13,000	110% of S1PMA	105% of S1DFA
Male	Pensioner	Over £13,000	S1PMA_L	S1DFA_L
Female	Pensioner	Less than £750	S1PFA_H	S1PMA_H
Female	Pensioner	£750 to £4,750	105% of S1PFA	110% of S1PMA
Female	Pensioner	Over £4,750	S1PFA_L	S1PMA_L
Male	Dependant	Less than £1,500	S1PMA_H	n/a
Male	Dependant	£1,500 to £13,000	110% of S1PMA	n/a
Male	Dependant	Over £13,000	S1PMA_L	n/a
Female	Dependant	Less than £1,500	S1DFA_H	n/a
Female	Dependant	£1,500 to £4,750	105% of S1DFA	n/a
Female	Dependant	Over £4,750	S1DFA_L	n/a

→ **Allowance for improvements**

For the valuation as at 31 March 2008, I adopted the long-cohort projection, overlaying the projections which had originally been included in the PMA92/PFA92 tables published by the CMI.

I additionally considered it appropriate, for the valuation as at 31 March 2008, to underpin the rate of each future year's mortality improvements. I decided to underpin the male improvement rate by 1.5 per cent per annum and the female improvement rate by 1.0 per cent per annum, both from 2000 onwards.

Population statistics for actual improvements in mortality rates over time are demonstrated in the table below, produced in June 2008 by the Office for National Statistics (ONS):

Actual overall annual rates of mortality improvements

	Males %	Females %
Last 24 years	2.1	1.5
Last 44 years	1.5	1.3
Last 74 years	1.2	1.3

Analysis relates to England and Wales. Based on comparison of 2004-06 Interim Life Tables with English Life Tables for 1930-32, 1960-62 and 1980-82.
Source: ONS (June 2008)

In the light of the evidence in this table regarding the rate of mortality improvements as well as the indications from statistical projections of future mortality, I have decided to retain the same assumptions for the valuation as at 31 March 2009 but with a starting year for the improvements of 2003.

I recognise that there is an 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.

The following table illustrates the cohort life expectancy of pensioners aged 65 on 31 March 2009 (based on the mortality assumptions being used for this valuation).

		Life expectancy (years)	
	Males	Female pensioners	Female dependents
Compensation amount pa			
Lower band	20.0	24.0	23.1
Middle band	21.8	24.6	24.3
Upper band	24.7	25.8	26.0

The following table illustrates the life expectancy at age 65 of deferred pensioners aged 40 on 31 March 2009 (based on the mortality assumptions being used for this valuation).

		Life expectancy (years)	
	Males	Female pensioners	Female dependents
Compensation amount pa			
Lower band	23.9	26.5	25.8
Middle band	25.5	27.0	26.8
Upper band	28.4	28.2	28.4

The compensation bands vary for males, female pensioners and female dependants. Please see the table earlier in this section for further information.

Appendix 1

Annex M2 continued

ii) Commutation
No allowance is made for commutation of compensation because, even though estimated cash flows would be affected by making allowances, nonetheless these member options are roughly cost-neutral.

iii) Early retirement
No allowance is made for early retirement because, even though estimated cash flows would be affected by making allowances, nonetheless these member options are roughly cost-neutral.

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).

v) Age difference between member and dependant
Females assumed to be three years younger than males.

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) Administration expenses
Since 1 April 2008 certain administration expenses are being met from the PPF rather than from the Administration Fund as happened before that date.

An allowance equal to 0.5 per cent of the value of the liabilities in respect of former members of schemes that have transferred into the PPF before 1 April 2009 has been made in respect of the future cost of administration for these members. 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 administration expenses actually being incurred by the PPF towards the end of the 2008/2009 financial year.

Appendix 1
Actuary's Supplementary Report as at 31 March 2009

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 PPF as at 31 March 2009

1. Introduction
The Board of the PPF (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 PPF. This actuarial valuation is set out in my report to the Board dated 14 October 2009.

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 PPF 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.

This report does not contain advice on the funding of compensation payable from the PPF.

In my view, whilst the Professional Conduct Standards of the UK Actuarial Profession apply to the preparation of this report, there are no professional practice standards which directly apply.

2. Provisions
Under FRS 12 of the UK 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 2009 is set out in Annex S1.

3. Contingent liabilities
Under FRS 12, 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 FRS 12 (i.e. 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 2009 is set out in Annex S2.

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 PPF
The compensation provided by the PPF is summarised in Annex M1 of my report to the Board dated 14 October 2009.

Appendix 1
Actuary's Supplementary Report continued

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 14 October 2009.

A consistent but, for practical reasons, not identical set of assumptions is used in order to calculate the provisions and contingent liabilities as at 31 March 2009. 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 PPF website:

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 14 October 2009.

b) Provisions

The method of calculating the provisions varied according to the data that the Board was holding about the scheme as at 1 June 2009.

→ If the Board was in possession of a section 143 or a section 179 valuation, then the methodology consistent with that to be applied for the financial year 1 April 2008 to 31 March 2009 was used to roll forward the valuation results on the basis described in paragraph 6 above. The 08/09 methodology is available in the pension protection levy section of the PPF website at:

www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/0809_determination_appendix_1_-_feb_2008.pdf

→ If the Board was not in possession of a section 143 or a section 179 valuation, but did have a Minimum Funding Requirement (MFR) valuation, then 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 PPF website at:

www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/0708_levy_determination_appendix_2.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 hence whether it should be included in the provisions.

→ If the scheme was in deficit the resulting section 179 valuation was then rolled forward to 31 March 2009 on the valuation basis using the same methodology .

→ If the Board was not in possession of any scheme valuation report then 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.

Updated asset value information (as at 31 March 2009) and cash flow information for the period from the latest section 143, section 179 or MFR valuation (as appropriate) up until 31 March 2009 was sought from certain schemes classified as 'material schemes'. Material schemes are schemes where:

i) the scheme satisfied the definition of a provision as set out in Annex S1, and

ii) one of the following applied:

1. where an MFR valuation was used as the basis of the roll-forward and the MFR liabilities at the MFR valuation date were at least £30 million, or
2. where a section 179 (or section 143) valuation was used as the basis of the roll-forward and the section 179 (or section 143) liabilities at the section 179 (or section 143) valuation date were at least £40 million.

In aggregate at least 75 per cent of the total liabilities for the schemes which generate the provisions at 31 March 2009 are treated as material (under test 1 or 2 above).

Where cash flow information was forthcoming from these schemes, this information was used to provide a more precise estimate of the scheme assets and liabilities as at 31 March 2009 than was available solely using the roll-forward methodology. In addition, where a material scheme provided an updated asset value at 31 March 2009 this was used in lieu of a roll-forward asset value. Some schemes provided an updated asset value at a date other than 31 March 2009 and this was used if it was felt it would increase precision.

Where neither of these items was available, the roll-forward methodology was used without adjustment.

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 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 taken external professional advice and obtained a broad estimate of the costs of equalising compensation to allow for differences in the GMP formula for UK pension schemes as a whole in line with the Board's proposed equalisation solution. This estimate has been used to establish a provision for the cost of equalising compensation for GMPs. This provision is approximately 1.2 per cent of the actuarial liabilities and liabilities of schemes forming the 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 neither cash flow information nor an updated asset value as at 31 March 2009 was sought. Where only an MFR valuation was available the methodology consistent with the determination to be used for the financial year 1 April 2008 to 31 March 2009 was used.

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 2008 using the assumptions set out in the Report and Accounts as at 31 March 2008.

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 PPF. 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.

Appendix 1
Actuary's Supplementary Report continued

9. Actuarial Balance Sheets

Annex S7 sets out the actuarial balance sheets for the PPF as at 31 March 2009, 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 PPF 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 £1,737,103,000, the same figure as was used in my actuarial valuation report of 14 October 2009,

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 amount to £8,691,238,000, 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 £131,800,000.

Accordingly I have taken the liabilities of the PPF as at 31 March 2009 as £10,560,141,000.

In the actuarial balance sheets for the PPF as at 31 March 2009, the assets are:

a) the value of the PPF 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 £3,200,302,000, the same figure as was used in my actuarial valuation report of 14 October 2009, 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 (£214,433,000); this figure amounts to £6,130,046,000.

Accordingly I have taken the value of the assets of the PPF as at 31 March 2009 as £9,330,348,000.

10. Reconciliation of the change in the deficit

Annex S8 shows a reconciliation of the opening and closing net deficit in the actuarial balance sheet for the PPF, including the schemes that generate the provisions.

Stephen Rice

Stephen Rice
Chief Actuary – the Board of the Pension Protection Fund
Fellow of the Institute of Actuaries
14 October 2009

Appendix 1

Annex S1

Provisions in the Statement of Accounts for the financial period ending on 31 March 2008

The statement of accounts as at 31 March 2009 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 13 May 2009,

→ the Board had not stated on or before 31 May 2009 that the insolvency event was not a qualifying insolvency event,

→ the insolvency date was on or before 31 March 2009,

→ a withdrawal notice under section 122(2)(b) of the Pensions Act 2004 had not been received on or before 31 May 2009 (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).

Additionally, an allowance for insolvency events that occurred on or before 31 March 2009 that have yet to be reported has also been made. This takes the form of an IBNR 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 solvency 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 section 120 notice	Cumulative proportion of notifications received by each point in time
0	79%
1	89%
2	95%
6	97%
9	98%
12	98%
18	99%
28	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 deficit in respect of schemes forming the provisions from 13 May 2009 to 14 October 2009 and our figures include the observed changes of sufficient materiality.

Appendix 1

Annex S2

Contingent liabilities in the Statement of Accounts for the financial period ending on 31 March 2009

Five types of contingent liabilities are disclosed in footnotes to the statement of accounts.

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 13 May 2009,

→ the Board had stated on or before 31 May 2009 that the insolvency event was a qualifying insolvency event,

→ the insolvency date was on or after 1 April 2009,

→ a withdrawal notice under section 122(2)(b) of the Pensions Act 2004 had not been received on or before 31 May 2009 (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 31 May 2009,

→ the Board had stated on or before 31 May 2009 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 2009, 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 31 May 2009, 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 D&B failure scores are available to the Board and, based on the data available as at 31 May 2009, the score corresponding to the weighted insolvency probability of the scheme's participating employers was less than 10, and

→ the Board in its view had sufficient information as at 31 May 2009 about the scheme to enable the funding level as at 31 March 2009 to be estimated, and

→ as at 31 March 2009, 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 7,300 schemes considered, 99 had a failure score of less than 10 associated with them. Of these 99 schemes, 84 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 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.

   In addition to the above contingent liabilities I considered those schemes where a section 143 valuation had been completed by the trustees and this showed a surplus 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 6 months of the section 143 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). Having reviewed the magnitude of any possible additional deficit that could arise from such schemes, I consider that this is not material in terms of the total provisions and have not, therefore, made any allowance for these schemes in the provisions or contingent liabilities.

Appendix 1

Annex S3

Data

a) Data in respect of former members of schemes that were transferred to the Board on or before 31 March 2009

This data was shown in my report to the Board dated 14 October 2009.

b) Data in respect of provisions and contingent liabilities

There are 287 schemes which contribute to the provisions figure in the statement of accounts for the financial period ending on 31 March 2009 (and a further 5 schemes included via the IBNR estimate); liabilities in respect of another 39 schemes have not been recognised (i.e. 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.

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

		Number of schemes recognised	Number of pensioners[1]	Number of deferred pensioners[1]
Liability				
Provision	2009	287 (326 in total)[2]	71,130	118,302
	2008	258 (288 in total)	41,903	71,674
Provision – IBNR	2009	5 (5 in total)	n/a	n/a
	2008	5 (5 in total)	n/a	n/a
Type 1 contingent liability	2009	1 (1 in total)	273	763
	2008	1 (1 in total)	23	92
Type 2 contingent liability	2009	3 (3 in total)	472	521
	2008	1 (2 in total)	26	67
Type 3 contingent liability	2009	15 (15 in total)	6,335	9,256
	2008	8 (8 in total)	3,510	6,699
Type 4 contingent liability	2009	84 (99 in total)	9,456	16,111
	2008	69 (99 in total)	8,215	18,174

1 Data in respect of recognised schemes only.

2 As at 31 March 2009 we have sought to recognise all segregated parts of schemes as separate schemes. This is the same treatment as was adopted at 31 March 2008.

The valuation of the liabilities of the schemes forming the provisions and contingent liabilities has not been undertaken using member-by-member 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 membership data for each scheme. This approach, whilst 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.

Annex S4

Assumptions

a) Actuarial liabilities

The assumptions adopted were described in my report to the Board dated 14 October 2009.

b) Basis adopted for provisions and contingent liabilities

1. Discount, inflation and pension increase rates

For the provisions 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).
- → 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 PPF liabilities (with the exclusion of one scheme which we believe distorts the cash flows due to the fact that there was a high incidence of early retirement and due to the relative size of the cash flows of this scheme).

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.

	% pa
Net discount rate	
In deferment	0.9
In payment for non-increasing compensation for current pensioners	4.0
In payment for non-increasing compensation for deferred pensioners	4.5
In payment for increasing compensation for current pensioners	1.9
In payment for increasing compensation for deferred pensioners	2.2

2. Mortality

The mortality in respect of a member is S1PMA, with S1DFA being used in respect of the member's dependant, in each case with the long cohort mortality improvement rates with an underpin of 1.5 per cent per annum (males) and an underpin of 1.0 per cent per annum (females). The S1PMA and S1DFA tables have been issued by the CMI.

However, because the liabilities are calculated by rolling forward the results of an earlier valuation, it is not possible to use the chosen assumptions precisely. Instead, ratios of annuity values using male mortality are used in the transformation of the valuation result. This has the effect of broadly retaining the sex-specific differences in the original valuation and where the starting valuation is prepared in accordance with section 143, any age ratings applied relating to the size of compensation.

Appendix 1

Annex S4 continued

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 3 per cent.

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 PPF. Allowance has also been made for certain administration expenses incurred after transfer to the PPF, in respect of schemes which are likely to transfer to the PPF. In total these allowances amount to 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. Also an analysis has been undertaken of the sensitivity of the actuarial liabilities, provisions and assets to variations in the discount rates and mortality assumptions. Results are also shown using assumptions based purely on the swaps curve at 31 March 2009 (scenario 1), using assumptions based purely on the gilts curve at 31 March 2009 (scenario 2) and using the identical assumptions as were used for the 31 March 2008 valuation (scenario 3). Under scenarios 1, 2 and 3 the main effect of the basis change is on the actuarial liabilities and the liabilities forming the provisions. There is however a small effect on the value of assets represented by annuity policies. For the avoidance of doubt, scenario 3 assumes that the discount rates used for the 31 March 2008 valuation applied as at 31 March 2009. Scenario 4 assumes nominal yields increase by 0.5 per cent, scenario 5 assumes that real yields fall by 0.5 per cent, scenario 6 looks at the effect of reducing the underpin on future levels of mortality improvement by 0.5 per cent per annum whilst scenario 7 looks at the effect of increasing this underpin by 0.5 per cent per annum. In scenarios 4 to 7 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. A summary of the assumptions is shown below:

	Main assumptions	Scenario 1	Scenario 2	Scenario 3
Discount rate in deferment	0.9%	0.3%	0.9%	0.9%
Discount rate in payment for non-increasing compensation for current pensioners	4.0%	3.8%	3.9%	4.8%
Discount rate in payment for non-increasing compensation for future pensioners	4.5%	3.9%	4.5%	4.5%
Discount rate in payment for increasing compensation for current pensioners	1.9%	1.7%	1.8%	2.4%
Discount rate in payment for increasing compensation for future pensioners	2.2%	1.6%	2.2%	2.0%
Mortality	As described in Annex S4	As described in Annex S4	As described in Annex S4	As described in 2008 Report and Accounts

	Scenario 4	Scenario 5	Scenario 6	Scenario 7
Discount rate in deferment	1.4%	0.4%	0.9%	0.9%
Discount rate in payment for non-increasing compensation for current pensioners	4.5%	4.0%	4.0%	4.0%
Discount rate in payment for non-increasing compensation for future pensioners	5.0%	4.5%	4.5%	4.5%
Discount rate in payment for increasing compensation for current pensioners	2.4%	1.4%	1.9%	1.9%
Discount rate in payment for increasing compensation for future pensioners	2.7%	1.7%	2.2%	2.2%
Mortality	As described in Annex S4	As described in Annex S4	As described in Annex S4 except underpins on the future levels of improvements are reduced by 0.5% pa	As described in Annex S4 except underpins on the future levels of improvements are increased by 0.5% pa

Appendix 1

Annex S6

Calculation results

a) Calculation of actuarial liabilities for members who have transferred into the PPF

The actuarial liabilities in respect of former members of schemes for which the Board assumed responsibility on or before 31 March 2009 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 £1,737,103,000.

b) Calculation of provisions

338 schemes were considered in relation to the provisions in the statement of accounts for the financial period ending on 31 March 2009, yielding the following estimated provisions (a comparison is shown with the equivalent figures from the 2008 Report and Accounts using the assumptions described in that report):

The table below shows the estimated assets held at 31 March 2009 in the 338 schemes forming the provisions. It also shows the outstanding anticipated recoveries, the resulting total assets and estimated deficit in respect of those 338 schemes.

	31 March 2009 £000s	31 March 2008 £000s
Assets excluding anticipated recoveries	5,915,613	3,800,299
Anticipated recoveries	214,433	34,684
Total assets	6,130,046	3,834,983
Provisions	8,823,038	5,190,131
Deficit	2,692,992	1,355,148

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 increased by £2,295,063,000 and this can be reconciled as follows:

	£m	£m
Assets as at 31 March 2008		**3,835**
New schemes coming into assessment	3,243	
Schemes accepted into the PPF (assets as at the transfer date)	(616)	
Change in schemes' assets on account of known benefits paid out	(124)	
Claims no longer considered probable (exits or schemes estimated to be in surplus at their assessment date)	(159)	
Claims now considered probable (schemes estimated to be in deficit at their assessment date)	19	
Change in schemes' assets on account of other changes (including updated valuation information, changes in recoveries and investment returns)	(68)	
		2,295
Assets as at 31 March 2009		**6,130**

The provision liabilities have increased by £3,632,907,000 and this can be reconciled as follows:

	£m	£m
Provision liabilities as at 31 March 2008		**5,190**
New schemes coming into assessment	4,546	
Schemes accepted into the PPF (liabilities as at the transfer date)	(938)	
Claims no longer considered probable (exits or schemes estimated to be in surplus as at their assessment date)	(205)	
Claims now considered probable (schemes estimated to be in deficit as at their assessment date)	20	
Effect of passage of time on discounting	239	
Change in schemes' liabilities on account of changes in swap yields	1,185	
Change in schemes' liabilities on account of change in assumptions derivation from swaps to higher of swaps and gilts	(1,090)	
Change in mortality assumptions	(218)	
Change in schemes' liabilities on account of known benefits paid out	(124)	
Change in allowance for equalisation of GMPs	132	
Change in schemes' liabilities on account of updated valuation information	86	
		3,633
Provision liabilities as at 31 March 2009		**8,823**

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 2008 Report and Accounts under the main assumptions basis as described in that report):

	Estimated scheme deficits/ GMP equalisation costs (for Type 5 contingent liabilities) as at 31 March 2009 £000s	Estimated scheme deficits/ GMP equalisation costs (for Type 5 contingent liabilities) as at 31 March 2008 £000s
Type of contingent liability		
1	17,395	2,937
2	22,873	725
3	291,809	64,611
4	315,317	454,161
5	47,984	212,827
Total	**695,378**	**735,261**

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

Appendix 1

Annex S6 continued

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 2008 Report and Accounts under the main assumptions basis.

	31 March 2009 Assets £000s	31 March 2009 Liabilities £000s	31 March 2008 Assets £000s	31 March 2008 Liabilities £000s
Type of contingent liability				
1	22,959[1]	40,354	2,703[1]	5,639
2	37,190	60,063	4,941	5,666
3	757,793	1,049,602	579,063	643,674
4	933,873	1,249,190	1,269,378	1,723,540
5	n/a	47,984	n/a	212,827[2]
Total	**1,751,815**	**2,447,193**	**1,856,085**	**2,591,346**

1 No recoveries are anticipated for this type of contingent liability (based on the current information available).

2 This included equalisation for GMPs for the PPF liabilities and the provisions as well as the contingent liabilities.

Annex S7

Actuarial balance sheet

On the main 31 March 2009 basis the PPF actuarial balance sheet is as follows:

Assets	£000s	Liabilities	£000s
The value of the PPF assets determined in accordance with the Pension Protection Fund (Valuation of the Assets and Liabilities of the Pension Protection Fund) Regulations 2006	3,200,302	The present value of the liabilities of the PPF to pay sums or transfer property as required under section 173(3) of the Pensions Act 2004	1,737,103
The sum of the estimated values of the assets in the schemes that generated the provisions, plus any anticipated recoveries[1]	6,130,046[2]	The present value of the liabilities of the schemes forming the provisions (inclusive of the cost of equalisation for GMP for both the PPF liabilities and the provision liabilities)	8,823,038
Total assets	9,330,348	Total liabilities	10,560,141
Surplus/(deficit)			(1,229,793)
Funding ratio (assets/liabilities)			88%

1 Inclusive of an allowance for IBNR (scheme assets of £16,326,000 and liabilities of £25,102,000).

2 Inclusive of anticipated recoveries of £214,433,000.

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:

	Main basis £000s	Scenario 1 2009 swaps £000s	Scenario 2 2009 gilts £000s	Scenario 3 2008 yields and mortality assumptions £000s
Assets				
The value of the PPF assets	3,200,302	3,201,453	3,200,811	3,197,756
The values of the assets in the schemes that generated the provisions	6,130,046[1]	6,130,046[1]	6,130,046[1]	6,130,046[1]
Total assets	9,330,348	9,331,499	9,330,857	9,327,802
Liabilities				
The present value of the liabilities of the PPF	1,737,103	1,927,232	1,748,296	1,715,840
The present value of the liabilities of the schemes forming the provisions	8,823,038	9,912,717	8,888,227	8,945,061
Total liabilities	10,560,141	11,839,949	10,636,523	10,660,901
Surplus/(deficit)	**(1,229,793)**	**(2,508,450)**	**(1,305,666)**	**(1,333,099)**
Funding ratio (assets/liabilities)	88%	79%	88%	87%

1 Inclusive of anticipated recoveries of £214,433,000.

Appendix 1

Annex S7 continued

	Scenario 4 2009 nominal plus 0.5% £000s	Scenario 5 2009 real less 0.5% £000s	Scenario 6 Mortality improvement underpin less 0.5% pa £000s	Scenario 7 Mortality improvement underpin plus 0.5% pa £000s
Assets				
The value of the PPF assets	2,638,042	3,219,075	3,200,029	3,200,710
The values of the assets in the schemes that generated the provisions	5,894,046[1]	6,215,046[1]	6,130,046[1]	6,130,046[1]
Total assets	8,532,088	9,434,121	9,330,075	9,330,756
Liabilities				
The present value of the liabilities of the PPF	1,578,677	1,857,792	1,711,968	1,772,355
The present value of the liabilities of the schemes forming the provisions	7,985,936	9,519,802	8,670,875	9,032,463
Total liabilities	9,564,613	11,377,594	10,382,843	10,804,818
Surplus/(deficit)	**(1,032,525)**	**(1,943,473)**	**(1,052,768)**	**(1,474,062)**
Funding ratio (assets/liabilities)	89%	83%	90%	86%

1 Inclusive of anticipated recoveries of £214,433,000.

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 deficit as at 31 March 2008

Under FRS 12 a reconciliation is required of the opening and closing net deficit on the actuarial balance sheet, including schemes that generate the provisions. I show this as a table below:

	£m
Reconciling item	
Surplus/(deficit) on the actuarial balance sheet as at 31 March 2008	**(517)**
Change in actuarial liabilities (this is further broken down in Section 7 of my report on the actuarial valuation of the PPF)	(856)
Change in liabilities for schemes forming the provisions (this is further broken down in Annex S6)	(3,633)
Change in PPF assets (this is further broken down in Section 6 of my report on the actuarial valuation of the PPF)	1,481
Change in assets for schemes forming the provisions (this is further broken down in Annex S6)	2,295
Surplus/(deficit) on the actuarial balance sheet as at 31 March 2009	**(1,230)**

The overall impact on the PPF liabilities and the provision liabilities as a result of the change in mortality assumptions for 2009 was a reduction in liability of £243 million.

The overall impact on the PPF liabilities and the provision liabilities as a result of the change in derivation of financial assumptions from swaps to the higher of swaps and gilts for 2009 was a reduction in liability of £1,279 million.

Appendix 2

Accounting policies and notes relating to the operation of the Fraud Compensation Fund for the year 1 April 2008 to 31 March 2009

Note 2.1 Accounting policies

a) Income recognition

Interest income arising from cash deposits and liquidity funds is accounted for using the effective interest rate.

Under the Pensions Act 2004, section 184, trustees of schemes making claims on the Fraud Compensation Fund are obliged to make all reasonable efforts to obtain any recoveries of value before the Fraud Compensation Fund can settle the claim. Under certain circumstances the Board may (and the predecessor body, the Pensions Compensation Board, did) enter into arrangements where a claim is settled contingent on the Board receiving reimbursement of any recoveries made after settlement. These recoveries are accounted for on an accruals basis.

b) Financial instruments

i) Definition

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

A financial asset is any asset that is cash, equity, a contractual right to receive cash or another financial asset from another entity, or a contractual right to exchange financial instruments with another entity under conditions that are potentially favourable.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity, or a contractual obligation to exchange financial instruments with another entity under conditions that are potentially unfavourable.

ii) Recognition

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

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

iii) Classification of financial instruments

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

→ financial assets/liabilities at fair value through the Operating Statement separated by:
(a) those designated at fair value through the Operating Statement 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.

The Fraud Compensation Fund holds financial instruments under the loans and receivables category.

iv) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are not classified as available for sale. Loans and receivables are initially recognised at fair value and subsequently held at amortised cost.

Included in this category are funds held in the form of units in liquidity funds managed by external fund managers, recoveries due from prior year claims and cash at bank.

c) Current assets and liabilities

Current assets and liabilities arise as a consequence of the accruals basis of accounting for income and expenditure, to ensure all income and expenditure incurred on or before the accounting date which had not been settled by the accounting date are disclosed within the Board's Accounts.

d) Claims

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 (i.e. that the likelihood is greater than remote but lower than probable) a contingent liability will be disclosed. Where the Board judges that the likelihood of validation is remote, the Fraud Compensation Fund will not recognise any provisions nor disclose any specific contingent liabilities.

Note 2.2 Income from levies

The Board of the PPF did not raise any Fraud Compensation Levy in the year to 31 March 2009 (year to 31 March 2008: £nil).

Note 2.3 Interest income

The bank account operated by the Board of the PPF for the Fraud Compensation Fund is interest bearing. However, the cash held in this account has been kept at a minimum during the year, such that the interest income earned was less than £1,000.

Note 2.4 Investment income

Interest on the liquidity funds held by the Fraud Compensation Fund is accounted for using the effective interest rate.

Note 2.5 Current year claims for compensation

	Year ended 31 March 2009 £000s	Year ended 31 March 2008 £000s
Claims arising during the year	12,350	–
Claims paid	37	–
Total	**12,387**	**–**

The claims arising in the year of £12,350,000 relate to the situation discussed in Note 2.9, in respect of five schemes where the Board judges it probable that the Fund has a obligation to settle future claims to compensate them for losses suffered as a result of offences of dishonesty.

During the year, the Board also accepted, investigated and settled a claim for £37,000 from the trustees of a scheme whose employer failed to pay over pension contributions to the scheme's money purchase investment manager. On the insolvency of the employer, there were insufficient funds available to meet this obligation. The Board were of the opinion that the deduction of these monies by the employer from pay and the failure to repay constituted an act of dishonesty and that the claim could therefore be settled.

Appendix 2
Accounting policies and notes continued

Note 2.6 Revaluation of prior year claims for compensation

The Fraud Compensation Fund's predecessor body, the Pension Compensation Board, settled a claim from the trustees of the Cheney Pension Scheme in December 2004, when a final payment brought the total paid out to the trustees to £2.9 million. This settlement was made under an arrangement whereby any recoveries of value made by the trustees from other parties after the final settlement would be shared with the Board. The individuals who were prosecuted for the fraud which generated the claim have been pursued by the Serious Fraud Office and at various times during 2008, a number of Confiscation Orders were made against those individuals. These Orders require them to repay specified sums to the Cheney Pension Scheme and, in compliance with the December 2004 settlement agreement, to the Board. The total value of the Confiscation Orders issued by the SFO in favour of the Board was £1,115,000, and the Board is of the opinion that the individuals will satisfy those orders in full. As at the date of signing these Accounts, a total of £503,000 had been received by the Board.

Note 2.7 Cash deposits

Cash deposits are held in the form of units in liquidity funds managed by external fund managers. Interest is accounted on these funds using the effective interest rate and is settled by the fund managers issuing new units in the liquidity funds which are added to the Board's holdings in those funds. These liquidity funds are therefore valued as cash, at £1 per unit. The closing values of the funds were:

	As at 31 March 2009 £000s	As at 31 March 2008 £000s
Liquidity fund managed by:		
Insight Investment Management	1,712	1,657
Fidelity Investments	1,729	1,672
Total investment assets	**3,441**	**3,329**

Note 2.8 Current assets

Other current assets consisted of:

	Notes	As at 31 March 2009 £000s	As at 31 March 2008 £000s
Recoveries due from prior year claims (see Note 2.6)		1,115	–
Levy debtors	i	2	2
Provisions for levy collection costs and doubtful debts		(2)	(2)
Other current assets		**1,115**	**–**
Cash and cash equivalents	ii	**1**	**3**
Total current assets		**1,116**	**3**

i) The Board of the PPF did not raise any Fraud Compensation Levy during the accounting period, and the levy debtors disclosed in the Fraud Compensation Fund relate to debtors transferred by Pensions Compensation Board (PCB) when it was closed on 31 August 2005. Billing and collection activity was carried out on PCB's behalf by the Pensions Regulator and this activity has continued throughout the year under the supervision of the Board. This has resulted in the crediting of previously billed amounts as it has been established that the scheme has completed wind-up or was otherwise ineligible to pay the levy. The impact of this has been to reduce the gross amount of levy debtors still outstanding, but as all levy debtors were fully provided for as at 31 March 2009, this has had no effect on the Fraud Compensation Fund's income or net assets at the end of the year.

The value of debtors that falls inside the Whole of Government Accounts boundary is: nil.

ii) As described in the accounting policy on 'Segmental Reporting', the Board of the PPF is responsible for three ring-fenced funds. To improve controls over the three funds and ensure that only allowable items of income and expenditure are transacted within each fund, the Board has opened separate bank accounts for the three funds. The Fraud Compensation Fund account is used to collect fraud compensation levies, to transfer cash to the fund managers and to pay out compensation claims.

All bank accounts are interest bearing, at rates that the Board consider competitive given the operating requirements of the accounts.

Note 2.9 Claims provisions

The Board has considered in preparing these Accounts potential claims from a group of nine pension schemes which shared the same corporate trustee until the Pensions Regulator took action to replace it in August 2008. The present existence, location and value of the schemes' investment portfolios are currently being investigated by the independent trustee appointed by the Pensions Regulator in August 2008, and the Board is working closely with the independent trustee and the Pensions Regulator to assist in these investigations. The Board is also aware that the Serious Fraud Office (SFO) is carrying out investigations into the situation. As part of these investigations, the SFO (with the support of the independent trustee) have obtained orders freezing significant asset portfolios in overseas jurisdictions and they continue to work to repatriate these funds, and to locate and secure the other invested assets.

Based on information currently available from the independent trustee, the Board is of the opinion that:

→ five of the schemes are probably eligible to claim on the Fraud Compensation Fund, and the Board should set up provisions for the net losses suffered by these schemes;

→ two of the schemes may be eligible to claim but the status of the employers associated with the scheme has yet to be finally confirmed. Specifically, it has not yet been established whether all employers associated with the schemes as at the date winding-up commenced are insolvent (which is the relevant test for eligibility to claim on the Fund). The Board has therefore disclosed contingent liabilities for the net losses suffered by these schemes, see Note 2.10;

→ two of the schemes are almost certainly ineligible to claim, as there are employers associated with the scheme as at the date winding up commenced which appear still to be solvent. Therefore the Board believes the likelihood that any liability will fall on the Fraud Compensation Fund to be remote. No provision is accounted for, and no contingent liability disclosed, in respect of these schemes, and the information on these schemes is contained here for completeness only.

The Board has also considered the likelihood of securing the recovery of investment assets currently traced to overseas jurisdictions, and based on information currently available, believes it is probable that some recoveries will be made, as set out in the table below. Probable recoveries are stated after allowing for an estimated £2,000,000 in legal and other costs necessary to succeed in recovery actions.

Appendix 2
Accounting policies and notes continued

	Schemes probably eligible to claim	Schemes which may be eligible to claim	Schemes almost certainly ineligible	Grand total
Number of schemes	5	2	2	9
	£000s	£000s	£000s	£000s
Gross losses	24,700	7,500	19,800	52,000
Probable recoveries	(12,350)	(3,750)	(9,900)	(26,000)
Net losses	12,350	3,750	9,900	26,000

Based on the information currently available, the Board is also of the opinion that it is probable that it will eventually find that it has reasonable grounds to consider that the losses suffered by this group of schemes are attributable to acts of dishonesty. This is the test the Board must apply under the Pensions Act 2004 (section 182) in order to accept and settle fraud compensation claims.

The total net value of claims for which provisions are recognised in these Accounts from this group of schemes is therefore £12,350,000.

Note 2.10 Contingent liabilities

As at 31 March 2008, a contingent liability of £3,020,000 was disclosed in respect of one claim for compensation which was then under consideration. The trustees of the scheme making the claim withdrew it during the year, and the Board believes the likelihood that any liability will fall on the Fraud Compensation Fund to be remote.

The Board discloses as at 31 March 2009 a contingent liability of £3,750,000 relating to the two schemes discussed in Note 2.9 which may be eligible to claim on the Fraud Compensation Fund. The Board continues to work with the recently appointed independent trustee of these schemes to establish the status of the employers of these schemes. Information currently available indicates there may be employers associated with the schemes which are still solvent, which would render the schemes ineligible to claim on the Fund. The Board considers it possible however that this information may prove to be inaccurate or out-of-date, and that the schemes may be able to claim. The Board therefore considers it appropriate to disclose a contingent liability in respect of the net potential claims from these schemes.

Note 2.11 Reserves

	£000s
Opening balance	2,937
Movement in the year	–
Closing balance	**2,937**

The reserves figure of £2,937,000 represents the net assets of the PCB, valued at fair value as at 5 April 2005, which have been brought onto the balance sheet of the Fraud Compensation Fund under the operation of merger accounting.

Note 2.12 Financial instruments

FRS 29, 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 Fraud Compensation Fund's activities and the way it is financed, the Fraud Compensation Fund is not exposed in this area to the same financial risks faced by business entities.

Financial instruments by category

	As at 31 March 2009 £000s	As at 31 March 2008 £000s
Loans and receivables		
Cash and cash equivalents	3,442	3,332
Recoveries due from prior year claims	1,115	–
Total financial instruments	**4,557**	**3,332**

	As at 31 March 2009 £000s	As at 31 March 2008 £000s
Reconciliation to total net assets/(liabilities)		
Total financial instruments	4,557	3,332
Claims provisions	(12,350)	–
Total net assets/(liabilities)	**(7,793)**	**3,332**

Funding risk – The Fraud Compensation Fund's SIP describes the major risk facing the Fraud Compensation Fund as not having sufficient funds to pay compensation as required under the Pensions Act 2004. The Board has no powers to raise income other than by raising Fraud Compensation Levies and no powers to borrow to fund compensation payments. The Fraud Compensation Fund's assets arise from the receipt of Fraud Compensation Levies, so the Fraud Compensation Fund's funding strategy is designed to mitigate the risks, both in the short and the long term, that the Fraud Compensation Fund's assets will be inadequate to meet its liabilities. Specifically, the Board will target the Fraud Compensation Fund towards a balance between securing the compensation payments for schemes whilst setting a fair and proportionate levy. All fund investments will therefore be held in cash deposits or equivalent vehicles such as liquidity funds.

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

→ the assets of the Fraud Compensation Fund, including its investment assets, are highly liquid and readily realisable, and

→ the time required to investigate claims and decide whether payment (including any interim 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 – Claimants on the Fraud Compensation Fund who lodged their claim prior to 31 August 2005 would be entitled to interest based on 100 per cent of 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. (Claimants who lodge their claim after 31 August 2005 are entitled to receive only the value of the net loss suffered.) The Fraud Compensation Fund therefore faces the risk that the return on its investments will be inadequate to cover the interest payments due to pre-31 August 2005 claimants. The Fraud Compensation Fund's SIP recognises this risk and describes the investment strategy designed to mitigate it.

Appendix 2
Accounting policies and notes continued

Foreign currency risk – The Fraud Compensation Fund 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 Fraud Compensation Fund's loans and receivables are exposed to credit risk. As explained in Note 2.6, receivables of £1,115,000 relate to Confiscation Orders issued by the SFO, and the Board is of the opinion that the individuals will satisfy those orders in full. As at the date of signing these Accounts, a total of £503,000 had been received by the Board. 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.

Appendix 3

Accounting policies and notes relating to the operation of the Administration Fund for the year 1 April 2008 to 31 March 2009

Note 3.1 Accounting policies

a) Income recognition

Interest income arising from cash deposits is accounted for using the effective interest rate.

b) Fixed assets and capitalisation policies

→ **Intangible fixed assets**

The costs of purchasing major software licences are capitalised as intangible fixed assets.

The costs of major software and software development and enhancement including related consultancy costs, are capitalised as intangible fixed 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.

→ **Tangible fixed assets**

The costs of purchasing hardware are capitalised as tangible fixed assets provided the cost of the hardware, either as a single item or as a group of related items bought for a common purpose, exceeds £1,000.

→ **Leasehold improvements**

The costs of leasehold improvements, including the refurbishment and fitting out of new premises ready for occupation by the Board's staff, are capitalised as fixed assets. Property repairs and maintenance, and the costs of purchasing individual items of furniture and equipment not exceeding £1,000, are written off in the year of purchase.

c) Depreciation/amortisation policies

Depreciation is provided on all fixed 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 or the life of the licence if shorter
→ Software & software development	3 years
→ Leasehold improvements	5 years

In previous years, fixed assets were valued at current replacement cost which was calculated by applying appropriate ONS indices to the historical cost of the asset. Any surplus on revaluation of fixed assets was credited to a revaluation reserve through the Statement of Total Recognised Gains and Losses; any permanent diminution in the value of a fixed asset on revaluation was charged (and captioned as an impairment charge) to the Operating Statement in the year when it occurred. This year, the Board has continued to take advantage of the exemption not to apply this revaluation policy to assets which have short useful lives or are of low original cost.

d) Current liabilities

The Board's policy for current liabilities is to account on an accruals basis for all liabilities falling due on or before the accounting date which had not been settled by the accounting date. This includes all goods and services supplied during the accounting year but not paid for as at the accounting date.

Accounting for these liabilities may involve the use of estimates.

Appendix 3
Accounting policies and notes continued

e) Financial instruments
i) Definition
A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

A financial asset is any asset that is cash, equity, a contractual right to receive cash or another financial asset from another entity, or a contractual right to exchange financial instruments with another entity under conditions that are potentially favourable.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity, or a contractual obligation to exchange financial instruments with another entity under conditions that are potentially unfavourable.

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

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

iii) Classification of financial instruments
Financial instruments are classified under the following categories which are determined at initial recognition:

→ financial assets/liabilities at fair value through the Operating Statement separated by:
  (e) those designated at fair value through the Operating Statement upon recognition, and
  (f) 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.

The PPF Administration Fund holds financial instruments under the categories of loans and receivables and financial liabilities measured at amortised cost.

iv) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are not classified as available for sale. Loans and receivables are initially recognised at fair value and subsequently held at amortised cost.

Included in this category are travel loans to staff, other receivables and cash at bank.

vii) Financial liabilities measured at amortised cost
Trade creditors and accruals are non interest bearing and are stated at amortised cost. Included in this category are amounts due to suppliers.

Note 3.2 Grant in aid

a) Grant in aid in respect of the Board's PPF functions

Grant-in-aid received by the Board from DWP is used to finance activities and expenditure which support the statutory and other objectives of the Board. These receipts are treated as financing and credited to the general reserve, because they are regarded as contributions from a controlling party.

The Board is authorised to draw down grant-in-aid from the DWP under section 116 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.

The Pensions Act 2004 also empowers the Secretary of State to raise an Administration Levy to recover these (and other) costs from qualifying defined benefit and hybrid occupational pension schemes. These powers are detailed in section 117 (1) of the Act. This levy is raised on an annual basis, using the Board's resource expenditure budget for the relevant year as one source of information in setting the overall levy.

The Board have been advised by the DWP that the total Administration Levy raised by the Secretary of State, and its disposition during the year, can be summarised as follows:

	Year ended 31 March 2009 £000s	Year ended 31 March 2008 £000s
Deficit brought forward	(1,733)	(1,355)
Total Administration Levy raised (including adjustments to prior year levies raised)	20,864	19,574
Retained by DWP to recover establishment costs	–	(2,995)
Resource expenditure of the Board	(18,245)	(16,957)
Surplus/(deficit) carried forward to future levy years	**886**	**(1,733)**

It should be noted that grant-in-aid is used by the Board to finance its capital expenditure; however, the PPF Administration Levy is designed to cover the Board's resource expenditure, which only includes the depreciation on those capital assets. The deficit in the prior year disclosed above therefore included in part the DWP's financing of the net book value of the Board's capital assets, and this deficit has recovered as the DWP raises Administration Levy in future years to cover the depreciation charge. Similarly, the surplus disclosed in the current year would have been higher but for the effect of financing the Board's capital expenditure.

The value of Administration Levy raised disclosed in the above table is on an accruals basis, that is, it includes Administration Levy debtors at the year end. These debtors were valued at 31 March 2009 at £1,396,000 (31 March 2008: £1,015,000). The grant-in-aid process ensures that the DWP finance the Board's resource expenditure independent of Administration Levy collections.

b) Grant in aid in respect of the Board's FAS functions

In July 2008, the Financial Assistance Scheme (Miscellaneous Amendments) Regulations 2008 came into force. These regulations permit the Board to provide advice and consultancy to the DWP in connection with the current and future management of the scheme; and to manage relationships with the trustees of qualifying pension schemes which have not yet wound-up, in connection with the transfer of their assets and liabilities.

As the FAS is taxpayer funded, these activities have been funded by separate grants provided by the DWP, and have been separately accounted for by the Board. In order to provide assurance to both levy payers and tax payers that funding and expenditure have been adequately segregated, the Board's activities relating to the FAS are presented separately from the Board's PPF's activities in the Notes to these Accounts.

Appendix 3
Accounting policies and notes continued

Note 3.3 Operating expenses

a) Staff costs

Staff costs charged to the Administration Fund consisted of:

	£000s PPF	£000s FAS	Year ended 31 March 2009 £000s Total	Year ended 31 March 2008 £000s Total
Salaries and wages	6,794	807	7,601	5,898
Social security costs	589	87	676	495
Other pension costs	1,267	144	1,411	1,101
Temporary staff	312	–	312	364
Contractors and secondees	2,072	444	2,516	1,758
Total	**11,034**	**1,482**	**12,516**	**9,616**

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

	Year ended 31 March 2009 Number	Year ended 31 March 2008 Number
Permanent employees	142	136
Short term contract, seconded and temporary staff	39	15
Total	**181**	**151**

Details of the remuneration of members of the Board of the PPF are given in the Remuneration Report in Section 5 of the Annual Report. The staff costs 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 2007 and details can be found in the Cabinet Office: Civil Superannuation Resource Accounts (www.civilservice-pensions.gov.uk).

During the year to 31 March 2009, employer's contributions of £1,000,000 (year to 31 March 2008: £953,000) 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 2008: 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 £411,000 (year to 31 March 2008: £148,000) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions were age-related and range from 3 per cent to 12.5 per cent of pensionable pay, and employers also match employee contributions up to 3 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 2009, pension contributions in respect of the month of March 2009 totalling £165,000 were outstanding, and were paid over to PCSPS in April 2009 in accordance with legislative requirements.

b) Other costs

Other costs charged to the Administration Fund consisted of:

	£000s PPF	£000s FAS	Year ended 31 March 2009 £000s Total	Year ended 31 March 2008 £000s Total
Training and recruitment costs	369	164	533	462
Staff travel, expenses and hospitality	165	40	205	126
Advisory and other professional services	3,402	95	3,497	3,313
Statutory audit costs	153	–	153	125
Accommodation	622	139	761	861
General office expenses	278	73	351	316
IT and telephony	1,179	212	1,391	1,312
Publicity and communications	235	–	235	171
Total	**6,403**	**723**	**7,126**	**6,686**

The audit fee includes £13,000 in relation to the IFRS transition process.

Other costs include where appropriate Value Added Tax (VAT) which the Board is not able to recover. In compliance with SSAP5, this irrecoverable VAT is included in the cost of the items reported in the Accounts.

c) Depreciation and impairment charges

Depreciation charges are made in relation to fixed assets in accordance with the policy set out in Note 3.1c. The charge to the Operating Statement is arrived at as follows:

	£000s PPF	£000s FAS	Year ended 31 March 2009 £000s Total	Year ended 31 March 2008 £000s Total
Total depreciation charges in the year (see Note 3.5)	882	136	1,018	1,500
Offset against fixed asset reserve (see Note 3.8b)	–	–	–	(732)
Net charge to Operating Statement	**882**	**136**	**1,018**	**768**

Note 3.4 Interest income

As described in Note 3.2, the Board draws down grant in aid from DWP on a periodic (normally quarterly) basis to cover forecast expenditure, and these funds are held in interest bearing accounts to cover, for example, monthly salary payments and regular supplier payments. The Board therefore earns interest income on these funds, and this income is used to reduce the grant in aid requirement in the subsequent period. This process applies to funds drawn down to cover expenditure on the FAS functions as well as the PPF functions of the Board; however, the interest attributable to funds drawn for FAS purposes amounted to less than £1,000 during the year.

Appendix 3
Accounting policies and notes continued

Note 3.5 Fixed assets

The fixed assets included in the Administration Fund consist of information and communication technology assets held for the purposes of the Board's operations and administration and leasehold improvements on premises occupied by the Board.

Analysis of fixed assets

The net book value of fixed assets at 31 March 2009 is arrived at as follows:

	Tangible fixed assets £000s	Intangible assets £000s	Leasehold improvements £000s	Total £000s
Cost				
At 1 April 2008	4,508	704	569	5,781
Additions in the year	823	24	–	847
Disposals in the year	–	–	–	–
At 31 March 2009	5,331	728	569	6,628
Depreciation/amortisation				
At 1 April 2008	(3,442)	(284)	(133)	(3,859)
Depreciation/amortisation charged in the year	(688)	(216)	(114)	(1,018)
At 31 March 2009	(4,130)	(500)	(247)	(4,877)
Net Book Value at 31 March 2009	1,201	228	322	1,751
Net Book Value at 31 March 2008	1,066	420	436	1,922

Tangible fixed assets consist of installed computer hardware and operating systems; intangible assets consist of software licences.

Note 3.6 Current assets

	Notes	As at 31 March 2009 £000s	As at 31 March 2008 £000s
Prepayments		144	33
Staff loans		38	24
Other debtors		32	26
Other current assets	i	**214**	**83**
Cash and cash equivalents	ii	**362**	**841**
Total current assets		**576**	**924**

i) The value of current assets that falls inside the Whole of Government Accounts boundary is: nil.

ii) As described in the accounting policy on 'Segmental Reporting', the Board of the PPF is responsible for three ring-fenced funds. To improve controls over the three funds and ensure that only allowable items of income and expenditure are transacted within each fund, the Board has opened separate bank accounts for the three funds. The Administration Fund account is used to receive grant in aid from the DWP and to pay staff and other suppliers of goods and services.

All bank accounts are interest bearing, at rates that the Board consider competitive given the operating requirements of the accounts.

Note 3.7 Current liabilities

	As at 31 March 2009 £000s	As at 31 March 2008 £000s
Amounts due to suppliers	258	637
Taxation and social security	248	189
Other creditors	165	120
Accruals	2,491	2,625
Total current liabilities	**3,162**	**3,571**

The value of current liabilities that falls inside the Whole of Government Accounts boundary is £413,000 (2008: £309,000).

Note 3.8 Reserves

Administration Fund reserves consist of:

	As at 31 March 2009 £000s	As at 31 March 2008 £000s
General reserve	(835)	(725)
Fixed asset reserve	–	–
Closing balance	**(835)**	**(725)**

a) The general reserve consists of:

	£000s PPF	£000s FAS	As at 31 March 2009 £000s Total	As at 31 March 2008 £000s Total
Opening balance	(725)	–	(725)	(928)
PPF grant-in-aid received in the year	18,216	–	18,216	17,160
Grant-in-aid to finance FAS activities	–	2,260	2,260	–
Net result for the year	(18,245)	(2,341)	(20,586)	(16,957)
Closing balance	**(754)**	**(81)**	**(835)**	**(725)**

b) The fixed asset reserve consists of:

	As at 31 March 2009 £000s	As at 31 March 2008 £000s
Opening balance	–	732
Movement in the year	–	(732)
Closing balance	**–**	**–**

Fixed assets to the value of £2,498,000 were brought into use when the Board of the PPF opened for business on 6 April 2005, having been acquired by the DWP as part of the project to establish the PPF. The book cost of these assets was brought into the Board's Administration Fund accounts as at 6 April 2005 through reserves, analogous to donated assets.

Appendix 3
Accounting policies and notes continued

The movement in the prior year represents depreciation charges on these assets which had been charged to operating expenses in the first instance (see Note 3.5) but then offset against the fixed asset reserve with the intention of writing off the reserve over the useful life of the fixed assets concerned. As these assets had been depreciated for the three prior years (their estimated useful life), they were fully depreciated and the reserve fully written off at the end of the prior year.

Note 3.9 Financial instruments

FRS 29, 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. For example, the Board has no powers to borrow to fund administration activities or to raise income other than by the grant-in-aid process described in Note 3.2. 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

	As at 31 March 2009 £000s	As at 31 March 2008 £000s
Loans and receivables		
Cash and cash equivalents	362	841
Staff loans	38	24
Other receivables	32	26
	432	**891**
Financial liabilities measured at amortised cost		
Amounts due to suppliers	(258)	(637)
Accruals	(2,491)	(2,625)
	(2,749)	**(3,262)**
Total financial instruments	**(2,317)**	**(2,371)**

	As at 31 March 2009 £000s	As at 31 March 2008 £000s
Reconciliation to total net assets/(liabilities)		
Total financial instruments	(2,317)	(2,371)
Fixed assets	1,751	1,922
Prepayments	144	33
Taxation and social security	(248)	(189)
Other creditors	(165)	(120)
Total net assets/(liabilities)	**(835)**	**(725)**

Liquidity risk – Both the Board's resource and capital requirements are funded by grant-in-aid from its sponsor department, the DWP. The Board is therefore 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 – see Note 3.6.

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 3.10 Related party transactions

i) Note 3.3a gives details of transactions relating to the remuneration of all staff, further detail relating to Board members is given in the Remuneration Report section of the Annual Report. Note 3.3b gives details of staff travel, expenses and hospitality. There were no transactions other than the payment of remuneration and travel and other expenses during the accounting period.

ii) Transactions relating to the provision of funding to the Board to cover its operating expenses by the DWP through the grant-in-aid process, and the related Administration Levy, are disclosed in Note 3.2. Grant-in-aid received from the DWP to fund the Board's FAS related activities, which is sourced from tax payer funds and collected by the Pensions Regulator, are disclosed in the same note.

The Board has also been able to procure goods and services at discounted rates by having access to central purchasing arrangements managed by the DWP's Commercial Policy and Procurement Division and by the Office for Government Commerce. The Board does not consider it practical to quantify the value-for-money benefit from these arrangements.

Of the accommodation costs disclosed in Note 3.3b, £761,000 (year to 31 March 2008: £804,000) was payable to the Estates Division of the DWP who manage the facility 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.

Appendix A
Schemes entering an assessment period during 2008/09

April 2008
- Arkle Print Ltd Retirement Benefits Scheme
- British Diamalt Employee Pension Scheme
- Essex Careers & Business Partnership Limited Pension Scheme – Essex Careers & Business Partnership Limited section
- LAWDC Pension Scheme – Erinaceous Group PLC section
- Prudential Platinum – Erinaceous Managed Services Limited section
- WTL International Limited Retirement Benefits Scheme

May 2008
- AMF Reece (UK) Pension Plan – AMF Reece Incorporated section
- GBR Staff Benefits Plan – GBR Limited section
- The G C Bateman Group of Companies Pension and Life Assurance Scheme – P R W Realisations Limited section
- The G C Bateman Group of Companies Pension and Life Assurance Scheme – B.LA 123 Realisations Limited section
- The G C Bateman Group of Companies Pension and Life Assurance Scheme – Tremellen Realisations Limited section
- The G C Bateman Group of Companies Pension and Life Assurance Scheme – G.C. Bateman Limited section
- The G C Bateman Group of Companies Pension and Life Assurance Scheme – B.O.L. Realisations Limited section

June 2008
- Lyndale Foods Pension Scheme – Lyndale Foods Ltd section
- Lyndale Foods Pension Scheme – Sayers Confectioners Ltd section
- Lyndale Foods Pension Scheme – Hampsons (Bolton) Ltd section
- Lyndale Foods Pension Scheme – Peter Hunt Ltd section
- Sayers 1997 Pension Scheme – Sayers Confectioners Ltd section
- Sayers 1997 Pension Scheme – Lyndale Foods Ltd section
- Sayers 1997 Pension Scheme – Hampsons (Bolton) Ltd section
- Sayers 1997 Pension Scheme – Peter Hunt Ltd section
- The Ellison Employees Pension and Life Assurance Scheme
- The Labgear Limited Pension and Life Assurance Scheme – Turner-Smith Investments Limited section
- The Watson Construction Group Retirement Benefit Scheme – Watson Construction Ltd section
- The Watson Construction Group Retirement Benefit Scheme – Scottish Natural Stones Ltd section
- The Watson Construction Group Retirement Benefit Scheme – WSTO Realisations Ltd section
- Castleblair Group Limited (1991) Retirement & Death Benefit Scheme – Castleblair Group Limited section
- Castleblair Group Limited (1991) Retirement & Death Benefit Scheme – Happit Limited section
- Castleblair Group Limited (1991) Retirement & Death Benefit Scheme – Substance Limited section
- Carrs (West Heath) Pension Fund – Carrs Paint Limited section

July 2008
- The Crabtree Pension Scheme – LTG (Gateshead) Ltd Section
- The Aascent Retirement Benefits Scheme
- The Chesterton Pension and Life Assurance Scheme – CPAM Realisations Limited part
- Curtis Fine Papers Pension Plan – Curtis Fine Papers Limited section
- Curtis Fine Papers Pension Plan – GB Papers Limited section
- Curtis Fine Papers Pension Plan – Scotflow Limited section
- LTX (Europe) Limited Pension and Life Assurance Scheme

August 2008
- The Railways Pension Scheme Omnibus – Bridgen Group Limited section
- Alstom Energy Systems SHG Limited Pension & Assurance Scheme
- Brian Reed (Northern) Ltd Pension & Assurance Scheme – Reed Print & Design Limited section
- The Unipoly UK Pension Plan

September 2008
- Dunlop Latex Foam Pension Scheme – Dunlop Latex Foam Limited section
- Dunlop Latex Foam Pension Scheme – Dunlop Latex Foam (Holdings) Limited section
- Intermet Refractory Products Staff and Works Scheme
- The Bicknell Holdings PLC Retirement Benefits Scheme – Bicknell Construction Limited section
- The Lehman Brothers Pension Scheme – Lehman Brothers Limited Section
- Webley & Scott Retirement Benefits Scheme
- CBI Members' Pension Scheme – Abbotts Creative Print Limited section
- Watson Norie Ltd Executive and Staff Retirement Benefits Plan

October 2008
- Singer & Friedlander Limited Pension and Assurance Scheme
- Wintrust Plc Staff Benefits Plan (1986)
- Thompson (Builders Merchants) Limited Pension and Life Assurance Scheme
- A.B Butt Ltd Retirement Benefit Scheme
- The Bison Group Pension Scheme – BH Realisations (2008) Limited section
- The Bison Group Pension Scheme – BCP Realisations (2008) Limited section
- Greenberg Glass Limited Pension Scheme
- The Brookside Garden Centre Limited 1977 Retirement Benefits Scheme – Brookside Garden Centre Limited section

November 2008

Regalian Properties Retirement Benefit Plan
Palgrave Brown (UK) Ltd Pension Scheme
The Royal Worcester & Spode Executive Pension Scheme
The Royal Worcester & Spode Pension Scheme
Biddles Limited Pension and Assurance Scheme
The Bridisco Limited (1989) Staff Pension Scheme
Woolworths Group Pension Scheme – Woolworths Public Limited Company section
Woolworths Group Pension Scheme – Entertainment UK Limited section
London Scottish Pension Fund – London Scottish Bank Public Limited Company section

December 2008

London Scottish Pension Fund – London Scottish Finance Limited section
Wagon Retirement and Benefits Plan – Wagon Industrial Ltd section
Wagon Retirement and Benefits Plan – Wagon Services Ltd section
Wagon Retirement and Benefits Plan – Wagon Plc section
Bristow's of Devon Ltd Retirement Benefits Scheme – Bristow's of Devon Limited section
Michael Gerson Retirement Benefits Scheme – Whetstone Movers Limited section
Motokov UK Pension Scheme
The Motor Industry Pension Plan – Oates Garage (Willington) Limited section
D J Newson Ltd Pension and Life Assurance Scheme

January 2009

Stuart & Sons Staff Pension Scheme
The Royal Doulton Pension Plan – Royal Doulton (UK) Limited section
The Royal Doulton Pension Plan – Royal Doulton Limited section
Findus Pension Limited
The Motor Industry Pension Plan – Gurney Limited (63) section
Nortel Networks UK Pension Plan
Anglo Overseas Pension Scheme
The George Carter (Pressings) Ltd Cash Benefit and Life Assurance Scheme
Instem Pension and Life Assurance Scheme – Instem Associates Limited section
Findlay Publications Ltd Pension & Assurance Scheme
Equity Pension & Life Assurance Scheme
The Alitalia Italian Airlines Pension & Assurance Scheme
Stylo Group Pension Scheme – Stylo Barratt Shoes Limited section
Stylo Group Pension Scheme – Stylo Barratt Properties Limited section
Woolworths Group Pension Scheme – Woolworths Group Public Limited Company section
Hurrans Garden Centres Limited Retirement & Death Benefits Plan – Hurrans Garden Centres Limited section

February 2009

Tally Limited Pension Scheme
Woolworths Group Pension Scheme – Flogistics Limited section
Cheverton & Laidler Limited Pension Fund

March 2009

The Motor Industry Pension Plan – Thompson Motor Company Limited (704) section
Dunlop Latex Foam Pension Scheme – Wavelynn Holdings Ltd section
National Wool Textile Export Corporation Pension Fund
Polaroid (UK) Pension Fund
Dunfermline Building Society 1974 Pension and Life Assurance Scheme
Shires Group Pension Scheme
The Visteon UK Pension Scheme

NB: Schemes are listed by date of insolvency and formal entry to an assessment period rather than by the date that entry was validated, following consideration of the section 120 notice and supporting information, by the Board.

Appendix B
Schemes ending an assessment period during 2008/09

Schemes that transferred to the PPF

May 2008
- Lionweld Kennedy Group Pension and Life Assurance Scheme

August 2008
- Asprey Group Staff Pension Scheme
- Electroconnect Limited Pension Scheme (Macrocom (265) Limited section)
- Hamilton Pension Plan
- LDV Ltd Pension Scheme
- Motor Industry Pension Plan – Marsden Vanplan Section
- Pearce Group Staff Pension Scheme
- Robert H Lowe Retirement and Death Benefit Scheme
- Trianco Redfyre Limited Pension & Life Assurance Scheme
- Westair Group Pension Fund
- WHL Group Pension & Life Assurance Scheme
- WHL Group Pension & Life Assurance Scheme – Worldfast Ltd section
- WHL Group Pension & Life Assurance Scheme – Trans-Port UK Ltd section
- WHL Group Pension & Life Assurance Scheme – Ocean Despatch Ltd section
- WHL Group Pension & Life Assurance Scheme – Globeport Ltd section
- Wimco Staff (RBK) Retirement Benefit Scheme

September 2008
- Automotive Products Pension Scheme 1995 – Automotive Products Group Ltd section
- Automotive Products Pension Scheme 1995 – AP Hydraulics Limited section
- Automotive Products Pension Scheme 1995 – APTEC technologies Ltd section
- Moorland Poultry Pension Scheme

October 2008
- Holmes Group Retirement Benefits Scheme
- The McCowans Limited 1989 Pension Scheme
- North Eastern Farmers Limited Pension Plan
- Radix Employees Defined Contribution Plan – Final Salary section
- Tomkinsons Carpets Limited Pension Scheme

November 2008
- Bonas Group Pension Scheme

December 2008
- Babs International Staff Pension Scheme

January 2009
- Davies & Newman Pension Plan
- Newton Derby Ltd Pension & Life Assurance Scheme
- Project Office Furniture Plc Retirement Benefits Plan

February 2009
- Haden Staff (HDI) Pension Scheme
- Haden Staff (HDS) Pension Scheme
- Thorndyke Ltd Retirement & Life Assurance Scheme

March 2009
- Aerotech World Trade Pensions Assurance Scheme
- Audnel Group Pension Scheme
- Brand Packaging Group Pension Scheme
- Brooks Service Group Plc Retirement Benefits Scheme
- Calderburn PLC Retirement Benefits Scheme
- Carborundum Abrasives Pension Scheme
- Concurrent Computer Corporation Ltd Pension Plan
- Datapoint 21 Plan
- Drummond Group Pension & Life Assurance
- G Clancey Ltd Staff Pension & Life Assurance 1973.
- George Waterston & Sons Ltd Retirement Benefits
- Hedinair 1989 Staff Pension Scheme
- Kemutec Group Pension & Benefit Plan
- Lincoln Floor Maintenance Pension Scheme
- Magna Seating Systems Pension Scheme
- Mainland Car Deliveries Ltd Pension & Life
- Multicolour CMS Ltd Pension & Assurance Scheme
- NACAB Pension & Assurance Plan (1991) – CAB Islington section
- Norprint Labelling Systems Pension Scheme
- Regency Spinning Pension Scheme
- Samuel Eden & Son Ltd Retirement Benefit Scheme
- Sheffield Forgemasters Pension Scheme
- Statomat Special Machines Ltd Retirement Benefits
- TF Sampson Limited Retirement Benefits Scheme
- Thermal Engineering International Ltd
- W&J Pye Limited Pension Fund

Schemes that were rescued

May 2008
- Harris & Sheldon Group Ltd Pension Scheme – JFL Mecelec Automation & Test Ltd section

August 2008
- Laurel Pub Pension Scheme
- The Yates Group Pension Scheme

December 2008
- Sea Containers 1990 Pension Scheme – Sea Containers Ferries Scotland section
- Sea Containers 1990 Pension Scheme – SeaCat Scotland Guernsey Ltd section
- The Green Group Retirement Benefits Plan – CT Structures Limited section

March 2009

The Football League Limited Pension & Life Assurance Scheme – Luton Town Football Club Limited

The Football League Limited Pension & Life Assurance Scheme – Bournemouth & Boscombe Athletic Community FC Ltd

The Football League Limited Pension & Life Assurance Scheme – Rotherham United FC Ltd

March 2009

GSS Group Limited Pension Fund & Life Assurance Scheme – GSS Developments Limited section

GSS Group Limited Pension Fund and Life Assurance Scheme – GSS Projects Limited section

GSS Group Limited Pension Fund and Life Assurance Scheme – GSS Personnel Services Limited section

Ferrotech Supplementary Pension Scheme

Schemes that were sufficiently funded to seek to buy-out outside of the PPF

December 2008

E Walters (Ludlow) Ltd Retirement Benefit Scheme

Hedinair 1985 Cash Benefit Scheme

January 2009

Thermal Engineering International Limited Executive Pension Scheme

February 2009

John R Oliver Limited Pension and Life Assurance Fund

March 2009

Bernard Wardle Group Pension and Life Assurance Scheme

UK Can Pension and Assurance Plan

Schemes that were rejected subsequent to entering an assessment period

August 2008

Professional Footballers' Pension Scheme – Bournemouth & Boscombe Athletic Community Club

Professional Footballers' Pension Scheme – Boston United Football Club

Professional Footballers' Pension Scheme – Luton Town Football Club

October 2008

Professional Footballers' Pension Scheme – Rotherham United FC Limited

December 2008

Motor Industry Pension Plan – Cotelamp Ltd

Appendix C
Voting record

The Board has appointed F&C Asset Management as the PPF's dedicated voting and engagement specialist for its UK equity portfolio, and publishes its voting record on its website. The table below lists any oppose or abstain votes cast on behalf of the PPF during 2008/09.

Company	Meeting type	Meeting date	Resolution number	Resolution type	Resolution text	Vote cast	Reason
BP plc	AGM	17.04.08	2	Mgmt	Approve Remuneration Report	Abstain	Concern regarding the use of discretionary and retention awards with no performance conditions
Persimmon	AGM	24.04.08	5	Mgmt	Re-elect Hamish Melville as Director	Against	Proposed director has served on the board for more than 10 years
Reckitt Benckiser Group	AGM	01.05.08	4	Mgmt	Re-elect Adrian Bellamy as Director	Against	Non-independent member of the Remuneration Committee
Smith & Nephew	AGM	01.05.08	2	Mgmt	Approve Remuneration Report	Against	Fundamental concerns regarding the company's remuneration arrangements
Xstrata	AGM	06.05.08	4	Mgmt	Re-elect Willy Strothotte as Director	Abstain	Non-independent Chair of the Remuneration Committee
Centrica	AGM	12.05.08	6	Mgmt	Re-elect Jake Ulrich as Director	Abstain	Proposed director not standing for re-election
ITV	AGM	15.05.08	4	Mgmt	Elect Dawn Airey as Director	Against	Proposed director not standing for re-election
New Star Asset Management Group	AGM	15.05.08	13	Mgmt	Re-elect Martin Smith as Director	Against	Non-independent member of the Audit Committee
Royal Dutch Shell	AGM	20.05.08	14	Mgmt	Amend Royal Dutch Shell plc Restricted Share Plan	Abstain	Concern regarding the use of discretionary and retention awards with no performance conditions
GlaxoSmithKline	AGM	21.05.08	2	Mgmt	Approve Remuneration Report	Abstain	Concern regarding the use of retention awards
JKX Oil & Gas	AGM	29.05.08	2	Mgmt	Approve Remuneration Report	Against	Fundamental concerns regarding the company's remuneration arrangements
JKX Oil & Gas	AGM	29.05.08	3	Mgmt	Re-elect Lord Fraser of Carmyllie as Director	Abstain	Non-independent member of the Audit Committee

Company	Meeting type	Meeting date	Resolution number	Resolution type	Resolution text	Vote cast	Reason
JKX Oil & Gas	AGM	29.05.08	4	Mgmt	Re-elect Viscount Asquith as Director	Against	Concern regarding the independence of the proposed candidate
WPP Group	AGM	24.06.08	5	Mgmt	Re-elect Stanley Morten as Director	Abstain	Non-independent member of the Audit Committee
Man Group	AGM	10.07.08	7	Mgmt	Re-elect Glen Moreno as Director	Against	Non-independent SID and member of the Audit and Remuneration Committees
Taylor Nelson Sofres	EGM	18.07.08	1	Mgmt	Approve merger with GfK Aktiengesellschaft	Against	Terms of proposed merger are not in shareholders' interests
Taylor Nelson Sofres	EGM	18.07.08	2	Mgmt	Adopt new articles of association	Against	Shareholder rights significantly reduced by proposed new articles
Taylor Nelson Sofres	EGM	18.07.08	3	Mgmt	Approve change of company name to GfK TNS plc	Against	Terms of proposed merger are not in shareholders' interests
Investec	AGM	07.08.08	2	Mgmt	Re-elect Samual Abrahams as Director	Against	Non-independent member of the Audit Committee
Investec	AGM	07.08.08	11	Mgmt	Re-elect Peter Thomas as Director	Against	Non-independent member of the Audit Committee
Diageo plc	AGM	15.10.08	6	Mgmt	Re-elect William Shanahan as Director	Abstain	We abstained because Mr Shanahan sits on the Audit and Remuneration Committees, but does not meet the combined code independence requirements and was appointed in May 1999. We recommend that the company review board independence.
AB Foods	AGM	05.12.08	2	Mgmt	Approve Remuneration Report	Abstain	Lack of disclosure targets associated with interim payments. In addition we strongly encourage the company to satisy such awards in deferred shares. We also note the sustained increase in total compensation. Although we recognise the remuneration may have fallen behind sector peers, we question the timing of the increase.

Appendix C
Voting record continued

Company	Meeting type	Meeting date	Resolution number	Resolution type	Resolution text	Vote cast	Reason
Britvic Plc, Chelmsford	AGM	28.01.09	6	Mgmt	Approve Remuneration Report	Against	We voted against as we have significant concern over the general increase in total compensation, particularly in light of the current economic climate. We do not consider that the performance conditions are adequately stretching and are not the impact of increases grant sizes given the depressed share price. In addition, we did not see clear justification for the use of different peer groups for different elements of the incentive arrangements.

Appendix D
Glossary

The Board
The Members of the Board of the Pension Protection Fund are referred to in the Directors' Report as the Board.

Contingent assets
In the context of the risk-based levy a contingent asset is an asset that will produce cash for a pension scheme if certain events happen, in particular when the sponsoring employer suffers an insolvency event.

For the purposes of the risk-based levy the PPF recognises three types of contingent asset:

→ Guarantees given by parent/group companies and undertakings (Type A).

→ Security over cash, real estate and securities (Type B).

→ Letters of credit and bank guarantees (Type C).

The Department for Works and Pensions (DWP)
The DWP is the PPF's sponsoring department. The PPF is accountable to Parliament through the Secretary of State for Work and Pensions.

D&B
D&B (also known as Dun & Bradstreet) were first appointed by the Board of the Pension Protection Fund in August 2005, and reappointed in September 2008, to measure the insolvency risk of employers who sponsor eligible defined benefit pension schemes as part of the calculation of each schemes' pension protection levy. Further details of D&B can be found at: **www.dnb.com/uk**

The Financial Assistance Scheme (FAS)
It provides financial assistance to members of underfunded defined benefit pension schemes who had lost all, or part of, their pensions after their schemes began to wind up between 1 January 1997 and (with a few very limited exceptions) 5 April 2005.

The FAS was set up under the Pensions Act 2004 and began operating in September 2005.

The Fund
The Fund known as the Pension Protection Fund which is administered by the PPF in accordance with the Pensions Act 2004.

Global Tactical Asset Allocation (GTAA)
An investment strategy that attempts to exploit market inefficiencies by establishing positions in an assortment of global asset classes with a goal to profit from relative movements across those markets. This is usually a top-down strategy to focus on general movements in the market rather than on performance of individual securities.

The Pensions Regulator
The Pensions Regulator is the UK regulator of work-based pension schemes. One of its statutory duties is "to reduce the risk of situations arising which may lead to compensation being payable from the Pension Protection Fund".

The Pension Protection Fund (PPF)
The Board of the Pension Protection Fund was established as a body corporate under the Pensions Act 2004. The Board of the Pension Protection Fund must consist of:

(a) a Chairman
(b) the Chief Executive of the Board, and
(c) at least five other persons ('ordinary Members').

PPF compensation
The compensation payable by the PPF is set by the Pensions Act 2004. Full details can be found on the PPF website.

Section 120 notices
A notice to the PPF required under the Pensions Act 2004 which must be completed by an insolvency practitioner when he becomes aware that an insolvent employer has sponsored an occupational pension scheme.

Section 143 valuations
An actuarial valuation carried out on a prescribed basis, required under the Pensions Act 2004 to determine whether, as at the assessment date, the value of the pension scheme's assets was less than the amount of its protected liabilities.

Section 179 valuations
An actuarial valuation carried out on a prescribed basis, required under the Pensions Act 2004 to determine, for the purposes of calculating the risk-based levy, the funding of an eligible pension scheme.

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