



Pension Protection Fund

Protecting people's futures

Annual Report & Accounts

2017/2018



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

Ordered by the House of Commons
to be printed on 12 July 2018.

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The publication is also available for download from our website at www.pensionprotectionfund.org.uk

ISBN no – 978-1-5286-0382-9

CCS no – CCS0518603648 7/18

Printed on paper containing 75% recycled fibre content minimum.

Printed in the UK by the APS Group on behalf of the Controller of Her Majesty's Stationery Office.

Contents

01 Overview	6
Chair's statement	8
02 Performance report	10
Chief Executive's review	12
What we do	14
Strategic plan	16
Key measures 2017/18	17
Year in review	20
Excellent customer service	22
Funding strategy on track	24
Performance analysis	28
Securing the best outcome for members	30
Evolution of the Pension Protection Levy	34
Managing the risks we face	36
A great place to work	40
Giving something back	42
General information	43
Statement of going concern	45
03 Accountability report	46
The Board of the Pension Protection Fund	48
Governance statement	52
Remuneration and staff report	68
Parliamentary accountability	76
Statement of Accounting Officer's responsibilities	78
The certificate and report of the Comptroller and Auditor General	80
04 Financial statements	84
05 Actuarial reports	128
Common terms and abbreviations	174

01

Overview

Who we are

The Pension Protection Fund (PPF) protects people with a Defined Benefit (DB) pension when their employer becomes insolvent. As a public corporation we manage close to £30 billion assets on behalf of our 236,000 members. Our mission is to pay the right people the right amount at the right time.

The following report sets out the PPF's purpose, the key risks we face in achieving our objectives and how we performed during the year.

Our values

- Integrity:**
Doing the right thing
- Collaboration:**
Working as one
- Accountability:**
Owning our actions and their outcomes
- Respect:**
Valuing every voice
- Excellence:**
Being our best



Chair's statement

Arnold Wagner OBE

The past year has been one of significant change, both for us at the PPF and for the wider pensions world.

Firstly, we're delighted to welcome Oliver Morley, our new Chief Executive, who joined us on 19 March from the DVLA. I look forward to Oliver leading the PPF through this next phase of its development.

He takes over from Alan Rubenstein who left the PPF in mid-January after almost nine excellent years as Chief Executive. During his time, the PPF has become an integral, respected and valued part of the pensions landscape. We thank Alan for his work and achievements on behalf of the PPF, our members and stakeholders, and wish him every success for the future.

I also want to thank Andy McKinnon who was Acting Chief Executive between Alan's departure and Oliver's arrival. He not only led the organisation professionally during this period but also managed the transition very effectively. Andy has now returned to his role as Chief Financial Officer.

We also welcome Stephen Wilcox who recently joined us as Chief Risk Officer. Stephen replaces Hans den Boer who left the PPF after three years. Thank you to Hans for all his work in building the robust risk framework that we operate in.

And finally, I want to take this opportunity to thank Sharmila Nebhrajani OBE who is leaving the PPF Board after six years as a non-executive Board member. Sharmila has played an important role in

helping to shape the PPF into the organisation it is today.

The role of the PPF

The PPF exists to provide DB pension members with financial security if their scheme collapses. This year we've assessed some high-profile cases, some with extremely large deficits, and despite this we remain on target to deliver on our objectives and our reserves continue to grow. We're also on track to achieve our funding target to be self-sufficient by our 2030 funding horizon.

We're acutely sensitive to the anxiety many employees inevitably feel if their employer becomes insolvent. Although we can't protect their jobs, I am proud of how effectively our employees respond. We reassure those with DB pensions that the PPF protects them under the terms of the Pensions Act 2004 that established us.

The value of PPF benefits

Without the PPF, most company insolvencies meant members of DB pension schemes suffered very serious reductions in their pension benefits and, too often, the loss of their entire accrued benefit. It had a huge impact on their financial security in retirement.

We are now here to give reassurance through the protection we deliver. So we want scheme members

to have all the information they need about the true value of PPF benefits. But it's not just about that initial reassurance. We also, where necessary, want to help them make the most informed and appropriate decisions when they're faced with complex choices about their future pension arrangements.

That's why we welcome new rules from the Financial Conduct Authority aimed at improving the advice given to DB members who are considering transferring out of their scheme.

Delivering for members

We saw 46 schemes transferred to us and more than 65,000 people enter assessment in 2017/18. We've shown that we're more than capable of managing a very significant increase in activity over relatively short periods of time. Also we saw our member numbers rise to 236,000 and we paid an extra £63 million in benefits.

No complacency

Despite our strong performance and our confidence for the future, we never assume that what has made us successful so far is guaranteed to do so forever. Improvements in the funding status of DB pension schemes over the past year do not detract from the significance of a large net deficit that still exists in our universe of schemes. And the surrounding environment remains uncertain in many respects.

So we continue to test our assumptions and models in order to ensure our analyses are up to date. And we make timely and effective decisions to keep us on track in fulfilling our mission.

Welcoming the White Paper proposals

This March, the Government set out its proposals to further strengthen the DB system and improve security for DB pension scheme members in its White Paper. We welcome these new measures.

More generally, we continue to work with the Department for Work and Pensions (DWP), the Pensions Regulator (TPR) and other organisations on a range of issues to help support the DB system.

Last but certainly not least

Across our employees, leadership team and the Board, we have a great team of people here, all of whom are committed to delivering our mission. I'm proud to be associated with them all and express my appreciation to each one of them.

I'm looking forward to the coming year. It will undoubtedly bring new challenges but I know we have the right people on our team. Their values, skills and commitment will ensure we stay on course and continue to give our stakeholders every reason to be confident in us.

//
We are here to provide reassurance through the protection we deliver."

Arnold Wagner OBE

02

Performance report

//

My favourite part of working at the PPF is when a member calls who doesn't originally understand their options. By the end of the call they are comfortable, confident and reassured."

Holly Wittwer, Contact Centre team member



Chief Executive's review

Oliver Morley

It's an exciting time to join the PPF. The organisation is in great financial shape, our commitment to excellent customer service has been rewarded externally, and we're compensating more members than ever before.

In a year that saw the largest value of claims made on the PPF than in any other year, we not only demonstrated an ability to withstand these events but were able to grow our reserves to £6.7 billion and increase our funding ratio to 122.8 per cent.

We also delivered strong investment performance this year. We exceeded our target and I'm pleased to report that our funding strategy is well on course.

The PPF remains robust despite a backdrop of economic uncertainty and financial volatility, we're confident that we can continue to achieve our mission of paying the right people, the right amount, at the right time.

Keeping the member at the heart of everything we do is critical to the PPF's success. And as our membership grows, we continue to improve our services.

The Institute for Customer Service rewarded this commitment to excellence in March 2018 by recognising us with its prestigious ServiceMark accreditation. The award recognised our efforts to deliver exceptional levels of customer service for our members. We're delighted to add this accreditation to the Best Customer Experience award we received last year.

This recognition is particularly timely because we will complete the insourcing of the Financial Assistance Scheme (FAS) administration later this year. From September, 150,000 FAS members will enjoy the same excellent services we give to other PPF members and we look forward to welcoming them on board.

We are pleased that the levy estimate for 2018/19 is 10 per cent lower than it was in the previous financial year. It is critical that the levy is a fair reflection of insolvency risk and we're pleased that scheme sponsors are acting to manage this risk.

Forward focus

In March this year we published our strategic plan for the next three years, and I'm now focusing on delivering our objectives.

Importantly we'll identify where we can improve digital services across the organisation. This includes enhancing our customer experience and our internal operations.

We'll continue to engage with government, TPR and other stakeholders to reduce the risks in the DB system and improve outcomes for our members and scheme sponsors.

We'll also remain committed to being an employer of choice, attracting the very best talent and building an even more diverse workforce.

But most of all we will continue to put the member at the heart of everything we do. The PPF is critical to safeguarding the financial security of millions of DB members and, while people may not choose to be under our care, we're committed to providing them with the very highest standards.

I would like to thank everyone at the PPF for welcoming me and I look forward to the year ahead.

//

Keeping the member at the heart of everything we do is critical to the PPF's success."

Oliver Morley



What we do

We protect millions of people throughout the United Kingdom who belong to DB pension schemes.

DB pension schemes provide a specified pension payment determined by earnings, length of service and age. If a pension scheme's employer(s) becomes insolvent, and they can't afford to pay their members their promised pensions, we will compensate them financially for the money they have lost.

We take over responsibility for payments following employer insolvencies once we have assessed that a scheme can't afford to buy benefits from an insurance company which are equal to, or more than, what the PPF would pay.

More than 130,000 people now receive benefits from the PPF and hundreds of thousands more are expected to do so in the future. Without us, these people could face significant financial uncertainty and hardship.

Our vision to protect people's futures is as strong now as it was when the PPF first opened its doors in 2005. We remain resolutely committed to paying the right amount to the right people at the right time.

We get the money we need to pay member benefits in a number of ways.

We:

- charge a levy on eligible pension schemes
- take on the assets of schemes that transfer to the PPF

- recover money, and other assets, from the insolvent employers of the schemes we take on, and
- invest all income and assets as part of a prudent, yet innovative strategy with the aim of making sure we can pay members' benefits for as long as they are entitled to it.

The PPF is a statutory public corporation led by the Board of the PPF.

Financial Assistance Scheme

We are also responsible for the day-to-day running of the FAS on behalf of the Government. FAS activities are funded by the tax payer rather than a levy.

FAS pays financial assistance to people who were members of certain DB pension schemes which are ineligible for PPF benefits – in particular, those schemes which started winding up between January 1997 and April 2005.

Fraud Compensation Fund

We also pay benefits to eligible work-based pension schemes – including defined contribution (DC) schemes – where the employer is insolvent and the scheme has lost out financially due to dishonesty. Fraud compensation is paid for through a separate levy on all pension schemes.



230,000+

people are now protected by the PPF

Case study: Steve, MG Rover

I worked at MG Rover for more than 18 years. By the time it went into administration I'd been promoted from production worker to the training instructor for the company and also served as a pension representative for MG Rover Group for a time.

When MG Rover went bust, I was understandably upset but I knew the PPF was there to protect my pension. I knew our scheme trustees would make sure that those receiving pension payments would continue to do so. Since transferring into the PPF, there is nothing I can say to fault it. The Member Services team has always been excellent with their correspondence. It's so much better than the other pension organisation I have a relationship with. The PPF's customer service is always really positive; nothing is ever too much for them.



Strategic plan

We publish a strategic plan for the organisation which sets out our vision for the next three years.

// We remain on course to provide the right benefits to all our members as a result of our investment strategy.”

Barry Kenneth,
Chief Investment Officer



Mission

To pay the right people the right amount at the right time.

Strategic objectives

The PPF's work is focused on three strategic objectives:

- 1 Meet our funding target through prudent and effective management of our balance sheet**

Fundamental to our mission is that we have enough money to pay our members benefits, both now and in the future. Our strategic ambition is to be financially self-sufficient by our funding horizon, which is currently set at 2030, when we aim to be sufficiently funded to be confident of meeting our long-term commitments. We had a strong financial performance this year, with our funding ratio increasing to 122.8 per cent.
- 2 Deliver excellent customer services to our members, levy payers and other stakeholders**

Excellent customer service is at the heart of everything we do and we strive to meet our members' and levy payers' highest expectations. We aim to provide our members with a service that would make them want to choose us if they could. Our customer satisfaction results confirm that we are succeeding in providing a great service.
- 3 Pursue our mission within a high calibre framework of risk management**

Assessing and managing our risks is crucial if we are to succeed in our mission and we have therefore embedded a robust risk management framework to enable us to do this. While we remain in a strong funding position, the external environment poses significant risks.

Key measures 2017/18

Our long-term aim is to pay our members and their beneficiaries their benefits for all of their lives. To achieve this we need to generate investment returns, collect levy and control our costs. The likelihood of us achieving our aim is monitored by our probability of success. In the short term, we monitor investment return, levy collections and operating costs.

The risks associated with these objectives are described in the Accountability Report.



122.8%

Funding level

Increase of 1.2 per cent in the year



2.8%

Investment return

This is the one year return on our investment assets that are not used for hedging our liabilities. After a year with significant market volatility, the strongest contributor was Public Equity. Decreased from 3.9 per cent in 2016/17



91%

Probability of meeting funding target

Decrease of 2 per cent from March 2017



£537m

PPF levy collected

Decrease of £48 million from 2016/17

Key measures 2017/18
continued



£67m

Operating costs

Increase of £7 million from 2016/17 – investment made to enable insourcing providing efficiency savings in the long term



£725m

PPF benefits paid

10 per cent increase from 2016/17 which includes a 2 per cent increase in the annual average benefit paid per member and a 5 per cent increase in average number of members



£6.7b

PPF reserves

Increase of £0.6 billion from 2016/17



£1.2b

Scheme deficits we have taken on

Highest recorded value of deficits taken on by the PPF (including Carillion schemes). £931 million higher than for 2016/17



65,386

New members entered PPF assessment

Includes various large claims such as British Steel, Carillion and Hoover



156,866

FAS members

Net increase of 2,946 from 2016/17



£30b

Assets under management

£1 billion increase on last year

Year in review

// It has been an eventful year for the PPF and it has shown me more than ever why our role is so important in protecting DB pension scheme members."

Oliver Morley, Chief Executive



The organisation has grown and evolved significantly in the last 12 months and several new faces, including a new Chief Executive and a new Chief Risk Officer, have joined the Executive Committee and the senior management team.

Most importantly we continue to deliver excellent customer services to our members and remain on track to achieve our funding target.

Members

We know our members often experience very real challenges and uncertainty before joining the PPF, and we want to make their onward journey the best it can be. We are therefore dedicated to providing a reliable and exemplary service throughout their time as members of the PPF.

Delivering the highest standards of service to our members is critical to the organisation and we are delighted that our commitment to customer service was again recognised this year. In March, our Member Services team received the prestigious Institute of Customer Services ServiceMark accreditation for its customer services and commitment to uphold this standard.

This commitment has also been reflected in the development of our member website where we

have introduced a highly innovative function 'Retire Now' which allows members to retire instantly online.

During the year, we have also made good progress on our project to bring the teams that service the FAS members into our in-house Member Services team and look forward to completing the process and welcoming members later in 2018.

Claims

In the past 12 months, the PPF received the largest total value of claims in our history as the pension schemes for a number of household names entered PPF assessment periods.

After two years of engagement, the British Steel Pension Scheme (BSPS) entered the PPF's assessment period in March 2018. The pension schemes associated with Carillion entered assessment from February 2018 onwards and we saw schemes such as Hoover and Toys 'R' Us entering assessment as well. It is always a difficult and sometimes distressing time for the members of schemes whose sponsoring company becomes insolvent and, as such, we continue to improve the work we do during the assessment period to streamline this process and we work closely with scheme trustees to ensure clear communications with scheme members during this time.

While it has been a record year for the value of claims on the PPF, we are pleased that after nine years of uncertainty for its members, the Nortel Networks scheme will now exit the PPF assessment having secured sufficient recoveries to pay its members benefits above PPF levels.

Funding on course

While we've seen a high value of claims in the past financial year, the PPF remains firmly on course to meet our funding objective. Our funding ratio at 31 March 2018 was 122.8 per cent with £6.7 billion in reserves. Our internal probability of success measure stands at 91 per cent.

The investing environment experienced significant change, going from a period of calm in 2017 to much more volatile conditions at the start of 2018. The PPF investment strategy is designed to mitigate risk and the fund has performed well through this period. We exceeded our three-year rolling target of 1.8 per cent above LIBOR (London Inter Bank Offered Rate) with a return of 2.7 per cent per annum.

We successfully completed the second phase of our investment insourcing project and now operate the majority of our liability-driven investment (LDI) trading and cash fund in-house. This gives us added

control, flexibility and efficiency, which has transformed the capability of our investment operation. We will also insource other investment activities over the coming years, including certain elements of our credit portfolio.

Evolution of the levy

Alongside our strong investment performance, our levy income remains critical to our long-term sustainability. We charge a levy on all 5,649 schemes eligible for PPF protection and in 2017/18 collected £537 million.

Legislation grants us considerable discretion in determining how levies should be calculated. We aim to ensure that the charge on any one scheme reflects as closely as possible the risk it poses.

Over 2017/18 we finalised our approach to levy calculation through to 2021 and introduced some important improvements. In particular, we worked with our partner Experian to develop our approach to assessing insolvency risk. This includes using credit ratings for some of our largest levy payers. We also took steps to make it easier for smaller schemes to get recognition for payments made to reduce scheme deficits.

The future

The ongoing development of the PPF has been against a backdrop of wider regulatory, political and economic uncertainty.

While the strength of the wider economy shapes the risks we face of receiving claims, the scale of deficits in the schemes we protect determines the size of those claims. How quickly schemes are able to reduce their often volatile deficits is one of our key risks. The PPF therefore continues to engage closely with the Government and TPR about the risks members and our levy payers face. The Government's White Paper, 'Protecting Defined Benefit Pension Schemes', published in March 2018, sets out the direction of policy development and we will continue to contribute to that process.

The PPF is in good shape to manage change and uncertainty in the coming years. While we've done much to date, we know there are always opportunities to become more efficient and cost-effective, and continue to develop more innovative solutions for our members. While we will never be complacent about the risks we face – and will continue to make improvements – we look forward to taking the fund forward and protecting millions of pension scheme members today and for as long as we are needed in the future.

Excellent customer service

We know that delivering good customer service not only benefits the member but also improves overall business efficiency and mitigates the risks we face.

This year our commitment to customer service was recognised once again by the Institute of Customer Services after they awarded us with the prestigious ServiceMark accreditation. This is a national standard which recognises an organisation's achievement in customer service and its commitment to upholding these standards.

In its assessment of the PPF, ServiceMark acknowledges that our members "have no choice but to be customers" but was clear that our senior personnel and more junior employees alike "all want to make a difference and want to provide a service that would make the customer choose to use them if they could".

This follows last year's Institute of Customer Service award for Best Customer Experience.

As at 31 March 2018, we were responsible for providing benefits to 236,000 members. During the year 6,000 new members transferred to the PPF as pension schemes completed the assessment period.

With the Carillion pension schemes and the Old British Steel Pension Scheme having entered the assessment period, we are aware that many thousands of new members will likely fall under our care. We are not only ready and able to take on these schemes – and others – we are also able to deliver the very highest standards of service.

We continue to listen to our members and we are committed to delivering

the very best experience, both today and in the future. As part of this we've continued to invest in equipping our staff to ensure they can best help members and are investing in the channels to engage with members.

We know our members want a variety of channels to use when they communicate with us and we remain committed to engaging with members using their media of choice. To date there has been a strong preference for members contacting us by phone. For these members, we are committed to resolving every issue within one call wherever we can and, on the rare occasions where we need to call our members back, we will do so at an agreed time.

We're aware that our members each have individual requirements, and it is our job to ensure everyone can communicate effectively with us. We are currently investing in our services to support vulnerable people, including training our member-facing teams to be 'Dementia Friends', which is an Alzheimer's Society initiative designed to make life easier for people with dementia and their families.

We are seeing increasing interest in the use of digital channels and have continued to develop our member website to offer leading functionality – including the ability to retire online.

Member website

This year we made some key improvements to our member website.



The PPF has made some exciting changes to our member website, including the ability to retire online in minutes."

Sara Protheroe, Chief Customer Officer

We are extremely proud of these updated features and were delighted to hear from our member feedback that 89.6 per cent believe it is effective. We're keen to see more members use our website and will continue to promote it whenever we can.

We have particularly improved how members can understand their benefits and make decisions about them. The PPF has introduced an innovative tool that allows members to retire online. Using 'Retire Now', members can instantly start to receive their benefits at the click of a button, without having to call or write to us.

We also recognise that members need to understand the value of the benefit they are entitled to if they retire earlier or later than the retirement age of their scheme, and whether or not they take a cash lump sum. Our online Benefit Modeller allows members to see how much they will receive, depending on different retirement dates and different sizes of cash lump sums.

Members can also update their details online and amend their data to ensure we hold correct information for them.

We take our responsibilities to protect member data very seriously. Our member website has two-factor authentication, with members receiving a unique security code on their mobile phone as part of the registration and log-in process.

What our members think

Accreditation from the Institute of Customer Service illustrates our commitment to putting the member at the heart everything we do. We particularly value individual feedback, and both members and employees were surveyed as part of the accreditation process.

Every member who calls us or uses the website is given the opportunity to complete a feedback survey. We receive more than 1,000 surveys every month and the responses are overwhelmingly positive – the average member satisfaction for the year on both our phone service and website is 97.8 per cent.

From talking to them we know that members consider the PPF and FAS as 'forces for good' in the pensions industry. We are seen as having their best interests at heart by offering financial security and excellent customer service which exceeds their expectations.

We know, though, that there is always more we can do. Feedback from members informs our continuous improvement.

Completing the FAS insourcing project

In 2004 the Government set up the FAS to provide assistance to people who were members of certain DB pension schemes which are ineligible for PPF benefits from the PPF – in

particular those schemes which started winding up between January 1997 and April 2005.

FAS closed to new applications at the start of September 2016. The final qualifying scheme transferred in April 2018, moving FAS into a new phase.

The PPF is now responsible for administering financial assistance for the 150,000 FAS members, and they are afforded the same high standards of care and customer service as members of the PPF.

In 2016 the PPF, with the support of the DWP, took the decision to bring FAS administration in-house. We believe that having greater control and flexibility, and a consistency within PPF services, will improve the member experience and ultimately improve efficiency.

In the future, FAS members will have access to the same technology as experienced by PPF members.

Our insourcing of FAS has created multiple new roles which will be filled with a combination of our experienced PPF employees and new employees who share our commitment to customer service excellence.

We are on track and on budget to complete the FAS insourcing project by the end of summer 2018.



89.6%

of members fed back that the member website is effective

Funding strategy on track

Funding strategy

Our funding strategy gives us the operating framework to ensure we meet our mission of paying the right people, the right amount at the right time. Within this framework, the Board sets our funding target which is to achieve self-sufficiency by our funding horizon – currently set at 2030.

This year we've broadened the number of measures we use to monitor our progress towards our funding target. However, we continue to use the same key measures to monitor progress against meeting our objective, primarily the 'probability of success'.

The probability of success measures our chance of meeting our funding target if we continue on our current course with no change to our investment strategy or to the PPF levy formula. Our long-term risk model predicts that we will achieve our self-sufficiency objective in 91 per cent of scenarios. We remain ahead of the target we have set ourselves at this point on our journey to our funding horizon.

The benefits we pay to our members and our operating costs are funded by levies on eligible pension schemes, our investment returns, assets from the schemes we take on, and recoveries from insolvent employers.

In the past year, 46 schemes transferred into the PPF, bringing new assets of £507 million. Investment

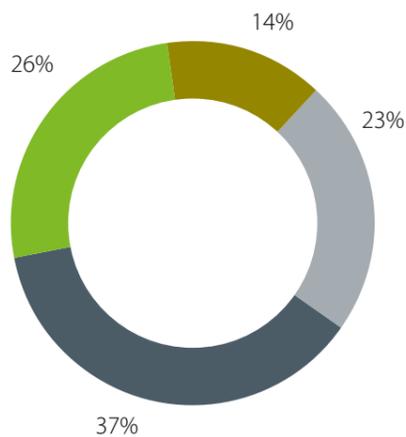
returns contributed to a further £907 million and we collected £537 million in levies. We have also paid £725 million in PPF benefits.

In order to meet our funding target, our first objective is to manage our balance sheet effectively.

Our funding ratio is 122.8 per cent with reserves of £6.7 billion. This means that we have £6.7 billion over and above what we estimate is needed to pay every single current member and their dependants their full benefit for life. In the event of another multi-million-pound insolvency, or indeed a run of them, the PPF has pre-funded reserves to set against new claims.

Despite having this surplus we are not complacent. The aggregate deficit of UK DB pension schemes in deficit amounted to £217.6 billion at the end of March 2018, and the PPF is aware of the importance of managing our liquidity and collateral requirements and ensuring the investment strategy stays on course, so we can remain on track toward our funding objective.

Source of assets since 2005



- Recoveries
- Levy
- Schemes transferred
- Investment return



Despite an unprecedented year of claims on the PPF, we remain on track to achieve our funding target to be self-sufficient by 2030."

Andy McKinnon, Chief Financial Officer

Our investment target

A second measure in meeting our funding target relates to our investments. For 2017/18 our investment target remained that our assets should outperform liabilities by an annualised 1.8 per cent above LIBOR, on a three-year rolling basis.

Our investment strategy is set out in our Statement of Investment Principles (SIP). The SIP was updated in September 2017 and provides the parameters from which the Investment team operates. Within this, the team has the flexibility to respond quickly and effectively to changing economic conditions. This has been helpful given the increased market volatility as we moved from 2017 into 2018. Having experienced relative calm in 2017, global stock markets rose and fell in response to the possibility of trade wars between the US and China, a deterioration in relationships between Russia and the West, and the ongoing economic uncertainty.

The PPF is well prepared for such ups and downs. Our conservative investment strategy paid off over the year with our assets outperforming our liabilities by 3.2 per cent. On our three-year rolling target our assets have outperformed our liabilities by 2.7 per cent per annum. The asset class with the biggest contribution to the Fund in 2017/18 was Public Equity with an 11.2 per cent return.

Our alternative assets also continued to perform well with Private Equity, Infrastructure and Property all making significant contributions to performance.

We continue to make both tactical and strategic changes to the asset allocation based on the economic outlook and regulatory changes in markets.

Hedging strategy

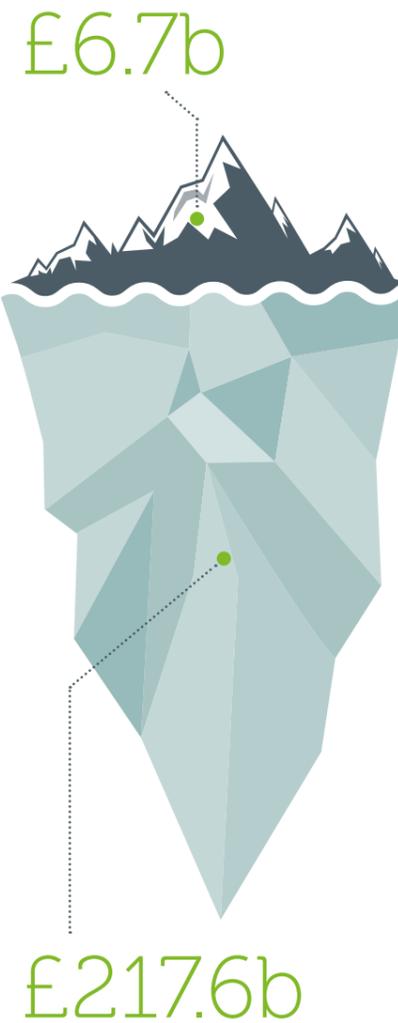
Our hedging strategy continues to protect us from interest and inflation rate fluctuations. Since we run a unique hedging strategy we were keen to bring the operation in-house to give us full control. We are pleased to say that the insourcing of our LDI team was completed in July 2017 and we now have the in-house expertise necessary to run it effectively for the future. This responsive capability is important as volatility comes back to the market.

As we continue through 2018 and into 2019, the PPF's approach will give us the flexibility to respond to changing conditions. We expect some challenging times ahead, but we are confident our strategy will keep the Fund on course.

Insourcing continues

Following the completion of our work on LDI, we also introduced our cash fund in October, and brought this function in-house. We are in the planning phase of bringing part of

PPF reserves v deficits of PPF-eligible schemes



Source: PPF 7800 index at March 2018 – aggregate deficit, not to scale

Funding strategy on track continued

our Credit portfolio in-house as well and expect to insource part of this portfolio in 2018/19. We may also look to insource other asset classes in the future when we have the necessary resource and expertise in place to do so.

The PPF is a unique organisation and needs to manage its assets to build reserves for potential future claims. As we grow, we need a dedicated investment team that has the strategy under its complete control so that, while still adhering to strict governance standards, we can react quickly and efficiently.

As part of the insourcing project, the Investment team and some of its supporting functions moved to a new dedicated office in the City of London in May 2018. While the PPF's Head Office and main operations remain in Croydon, the move provides efficiencies for the Investment team since it will be in the heart of the City where they will be able to hold more face-to-face meetings with fund managers each day. At the same time, it will be easier to attract and retain the best investment talent.

Recoveries for schemes in assessment

One of the four sources of funding for the PPF comes from our work recovering assets and cash from insolvent employers. Our Restructuring and Insolvency team is

responsible for securing these funds, which play an important part in ensuring we compensate members.

For the year to 31 March 2018, the Restructuring and Insolvency team brought in nearly £2 billion in cash and assets.

The Nortel Networks UK Pension Plan, as described later in this report, contributed to the high amount of recoveries from insolvencies. The scheme's trustees received £1.2 billion from their insolvent sponsor which played a large part in the more than £1.3 billion we recovered from insolvencies overall.

The recoveries from restructuring totalled more than £620 million for the financial year. Of this, £611 million came in cash largely from the British Steel and Hoover pension schemes.

In June we agreed a Regulated Apportionment Arrangement (RAA) with Hoover which secured a £60 million cash contribution to the scheme from the company. The scheme will also receive ordinary shares representing a 33 per cent stake in Hoover. The lump sum received by the pension scheme is significantly higher than it would expect to receive if Hoover had fallen into insolvency.

// Our City office will provide us with the infrastructure and networks to continue to manage and grow our assets."

Barry Kenneth,
Chief Investment Officer

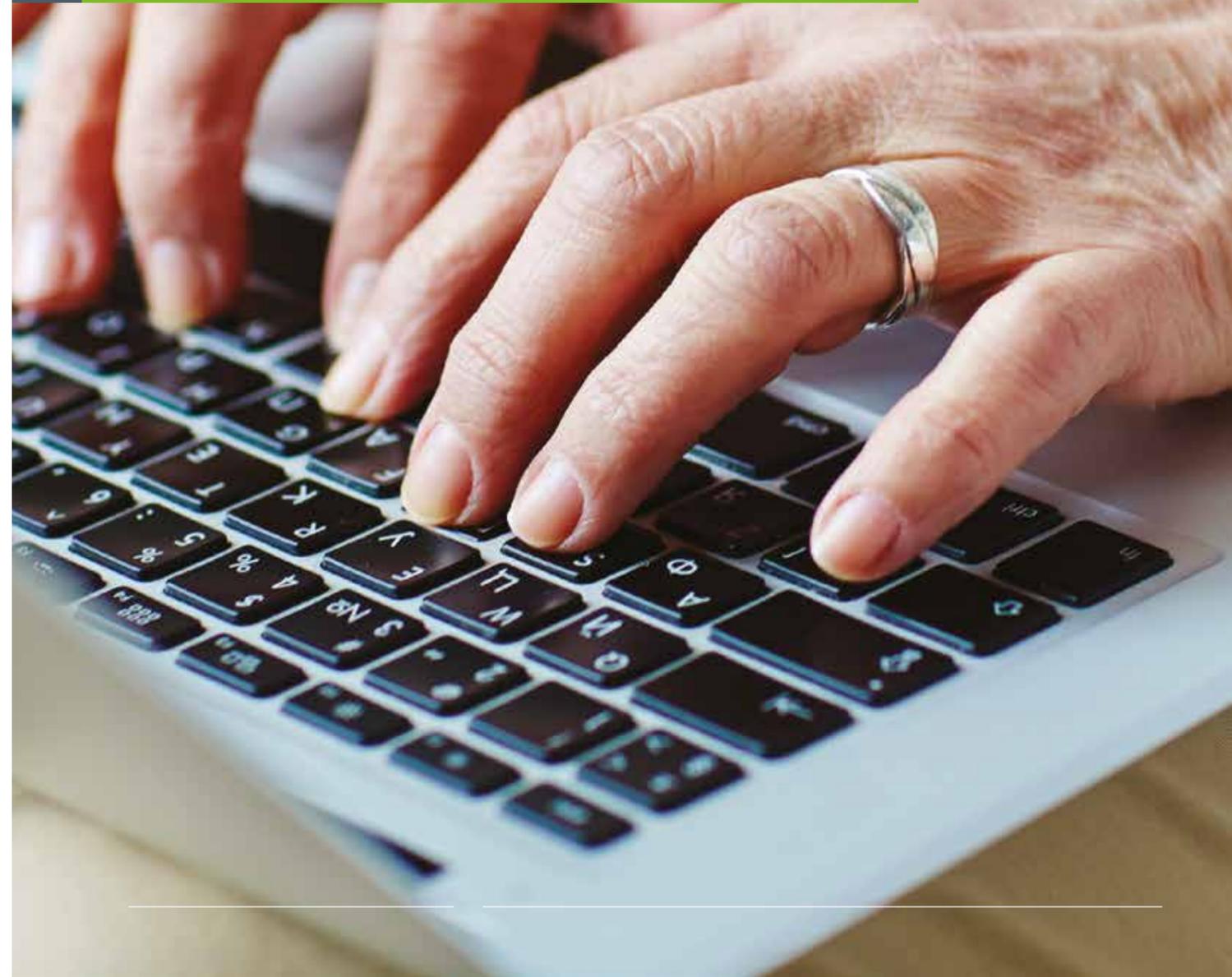


Case Study: Janet, first member to retire online

I worked at a bakery group for 25 years before it went bust. My husband, who also is a member of the PPF, retired a number of years ago and found the paperwork easy to understand, especially with the support he received from the PPF's Member Services team. Like my husband, when it came time for me to retire, I got in contact with the PPF by phone to start the process. However, during the call, the Member Services representative let me know that a new service on the member website called 'Retire Now' had just been launched, which meant I could retire online.

I'm comfortable using technology, and knew the PPF's member website well, having been online to plan my retirement and calculate my PPF benefit payments in the past, so this option really interested me. However, I didn't expect retiring online to be so easy and hassle free. The website is really easy to use. You don't need to be a whizz on the computer to get around at all and retiring online was literally as simple as clicking a button. It really took the hassle out of retiring and unlike my husband, who had to wait until the paperwork had been sent out, returned and processed before he could receive his first pension payment, my money arrived in my bank account within a week!

My husband and I are so grateful for the PPF. Without the PPF we both would have lost our pensions and we would have had to work for the rest of our lives.



Performance analysis

Performance analysis

2017/18 was an eventful year for the PPF with the receipt of several large claims, notably the Carillion and Hoover schemes, and a volatile investment environment. Despite this, we have seen an increase in reserves of 11 per cent, from £6.1 billion to £6.7 billion. The funding ratio increased by 1.2 points from 121.6 per cent to 122.8 per cent.

The increase in reserves primarily arises from a continuing strong investment performance contributing £0.9 billion and favourable mortality and expense assumption and data changes adding £0.8 billion. These factors, together with levy receipts and other movements, have been enough to offset the impact of the record level of claims, which amounted to £1.2 billion. While we

continue to build the reserves, they remain modest compared to the aggregate deficits of all DB pension schemes, which amounted to £217.6 billion at the end of March 2018.

Our investment strategy aims to ensure that our LDI hedges the impact of financial risk on our actuarial liabilities, meaning that the net investment return of £0.9 billion is mostly arising from assets not used for hedging. This represents a return of 2.8 per cent.

As levy receipts decrease we will become increasingly reliant on building our reserves from a strong investment performance and the continuing success of the LDI programme. Our strengthening financial health will enable us to withstand the continuing volatile operating environment.



11%

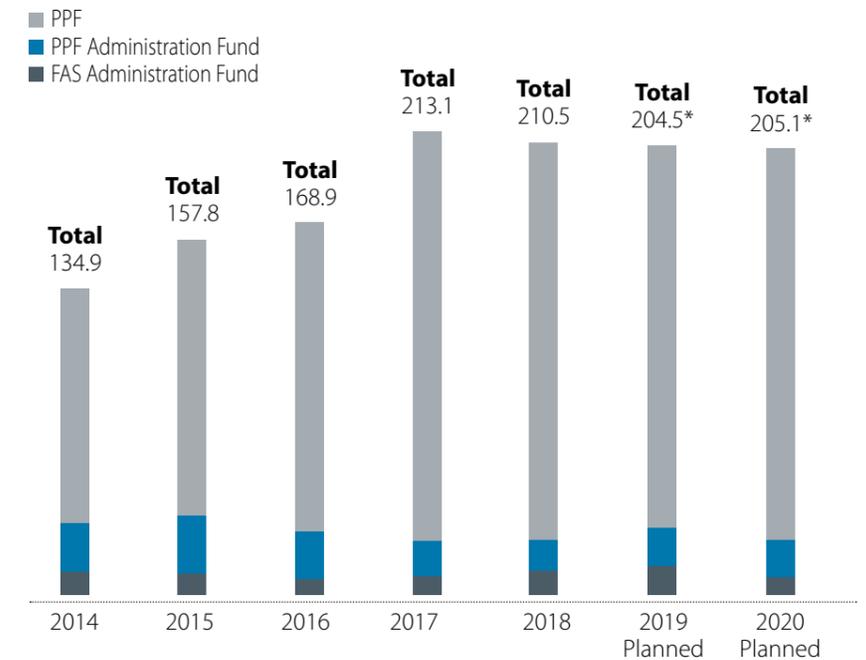
increase in our reserves, from £6.1 billion to £6.7 billion



Long-term expenditure trends

Our costs are accounted for in three funds as explained on page 94 and further analysed on note 11 on pages 121-123. Total expenditure over the last five years, and planned over the next two, is shown in the table below.

Long-term expenditure trends (£m)



*excludes investment transaction fees (2018: £13.9 million)

Total expenditure is expected to increase due to higher membership and assets under management but costs will be contained by achieving efficiencies in our operations. The impact of the third levy triennium increases costs in the PPF Administration Fund in 2018/19. The insourcing of FAS operations in 2018/19 increases costs in that year, reverting to lower costs in the following year.

Securing the best outcome for members

// A streamlined Legal Panel means each of our chosen firms can now work with us and become experts in PPF specific areas."

David Taylor,
General Counsel



The PPF understands and appreciates the difficulties pension scheme members face when their sponsoring employer becomes insolvent. We know that reassuring them about their pensions and giving them certainty for the future is key. We therefore continue to look at what we can do to strengthen the assessment process, working with trustees as they administer their schemes during that time.

The assessment process is usually triggered by the insolvency of a pension scheme's sponsoring employer. We aim for the process to be completed within two years, although in complex cases it may take longer. During this time the trustees are responsible for their members, including communicating with members and making payments to them. At the conclusion of the process a scheme will either transfer to the PPF, be 'rescued' by a new sponsoring company, or be able to secure its members' benefits equal to or greater than PPF benefit levels.

Improvements to assessment process

Throughout the assessment period, the PPF works closely with the scheme's trustees, administrators and specialist advisors. These advisors are from carefully selected companies who are experts in what needs to be done during a PPF assessment period and form dedicated panels to work with the PPF.

In part a recognition of the risk of failing to effectively manage and procure third party services, we have continued our work to streamline our PPF assessment panels to reduce costs and improve efficiency. In the last year our broader Legal Panel has been reduced from 23 firms to six. The six chosen firms will work closely with the PPF on all of its external legal needs, and three of the firms have been chosen to deliver specialist advice while a scheme is in PPF assessment. All firms on the Legal Panel have agreed a set rate card which provides greater cost certainty for us and trustees.

Insolvencies and deficits

The UK's DB pension schemes are in better shape than they were a year ago. Aggregate deficits stood at £217.6 billion as at the end of March 2018, compared to £295.4 billion the same time a year earlier.

An improvement in overall scheme funding is welcome, but deficits remain volatile and scheme funding could worsen in future.

In 2017/18 the total value of claims on the PPF was £1,183 million. The collapse of Carillion following on from several other large claims including Hoover and BSPS which resulted in a total of 65,000 new members entering assessment, which is 54,000 more than in the previous year.



//

Insolvency is never a good news story but we have tried to make the assessment process as stress free as possible for schemes and members."

Sara Protheroe, Chief Customer Officer

The PPF is designed to withstand claims of this size. Our strategy is intended to ensure we could absorb a number of large claims the size of Carillion and remain on target.

The PPF carefully reviews all relevant insolvency cases and our Restructuring and Insolvency team is staffed by experienced insolvency professionals. This team is actively engaged in cases involving restructuring proposals for companies with DB pension schemes and they also exercise creditor powers on behalf of the schemes to maximise recoveries after an insolvency has taken place. The team works closely with TPR and if there are concerns, TPR will assess the case to consider whether to use its powers against those involved.

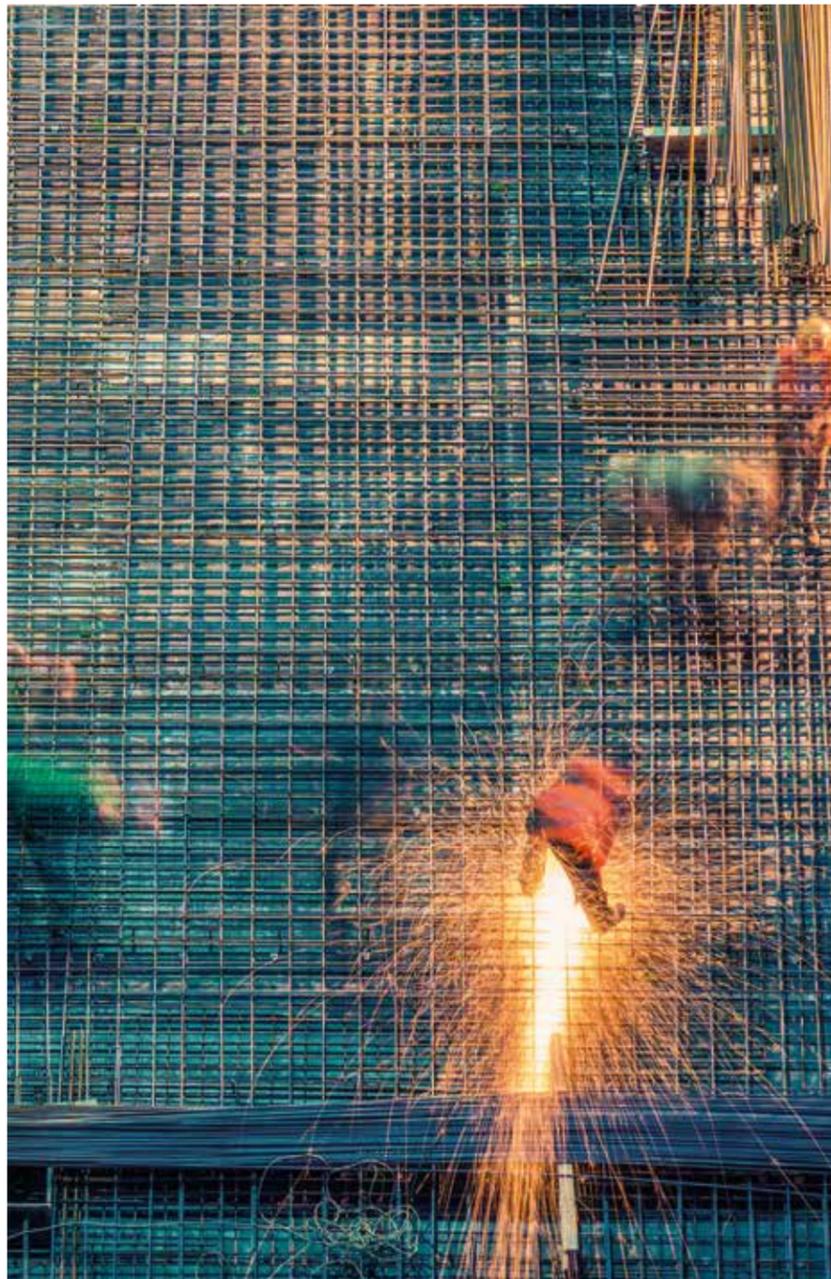
A Government White Paper published in March 2018 reiterated the findings of the 2017 Green Paper that there is no 'crisis' in DB pensions and that the regulatory and legislative framework remains fit for purpose. However, the paper identified three key areas for further work: strengthening TPR's powers, providing greater clarity within the scheme funding regime, and establishing a regulatory framework for commercial consolidators. The PPF will continue to work closely with policy makers, using our experience and data to help inform policy development.

Nortel

The conclusion of the Nortel Networks UK Limited case will see 30,000 members exit the assessment period. We worked closely with the trustees of the Nortel Networks UK Pension Plan and their advisors to recover the maximum assets possible. The fund is expected to officially leave the assessment period in October 2018.

Following the 2009 collapse of Nortel Networks UK Limited with a £2.1 billion deficit, the UK pension scheme was the group's single largest creditor in a complex global insolvency. The near decade-long litigation extended across France, Canada, the USA and the UK, and the trustees managed to secure recoveries of over £1 billion. This has allowed them to begin securing members' benefits above PPF levels.

Securing the best outcome for members continued



British Steel Pension Scheme

In August 2017, Tata Steel UK and the BSPS trustee were granted a RAA. The RAA allowed Tata Steel to continue operating with a new DB pension scheme and allowed members to choose to either move into the new scheme, or remain in the old scheme, which would enter PPF assessment. The RAA, agreed by TPR and the PPF, saw 34,500 members remain in the old scheme and the remainder of the 120,000 members move into the new scheme.

On March 29 2018 the old BSPS entered PPF assessment and we are well prepared for the scheme's smooth transition into the PPF.

Carillion

In January 2018 one of the UK's largest construction companies, Carillion, went into liquidation, which resulted in 27,500 members entering the PPF assessment period.

Shortly after Carillion's insolvency announcement, 12 of the company's schemes entered assessment, while the 13th is expected to enter the assessment period following the eventual insolvency of its sponsoring employer.

The PPF has been crucial in providing security and stability for the thousands of Carillion pension scheme members. Our assessment process, with our flexible panel

// The PPF remains robust and well-equipped to meet the financial challenges that exist within the DB universe we protect, and this includes absorbing large insolvencies like Carillion. This is what we are here to do."

Andy McKinnon,
Chief Financial
Officer



model, is designed to absorb cases of this size and we were able to move quickly to support the members.

Toys 'R' Us

The Toys 'R' Us case highlighted both the important role the PPF plays in protecting pension scheme members and the actions we will take to protect our levy payers.

The Toys 'R' Us pension scheme entered PPF assessment following the company entering administration in February 2018. Before this, in December 2017, the company had secured agreement to a Company Voluntary Arrangement (CVA) in an attempt to avoid insolvency. The PPF, having taken over the creditor rights of the scheme in the CVA process, voted

in favour of the CVA after extended discussions with the company. We only did so having secured additional commitments that meant if the company did become insolvent, as it eventually did, the pension scheme would be in a better funded position posing lower risk to the PPF.

Evolution of the Pension Protection Levy

The PPF exists to protect members of DB pension schemes and one of our main sources of funding comes from a levy paid by those pension schemes.

In September 2017 we announced a levy estimate of £550 million to be collected in 2018/19. By comparison, the estimate for 2017/18 was £615 million. This reduction in the amount we are seeking to collect reflects our view that, while risks remain significant, the PPF is in a robust financial position and on track to meet our long-term funding target.

Developing our levy methodology

In December 2017 we published our levy calculation methodology for 2018/19. Although we will continue to consult on the levy rules annually, our aim is to keep this methodology

broadly stable for at least the next three years.

The rules published in December followed consultations run over the course of 2017 and introduced some important improvements to our existing approach. Where available we will now be using credit ratings (and industry specific credit models for financial institutions) to inform our assessment of the insolvency risk of DB pension scheme sponsors. We also reviewed and updated our core insolvency risk model and made changes so that the certification of deficit-reduction contributions will be more accessible and affordable, particularly for smaller schemes.

In parallel we have updated our standard form contingent asset agreements (used for group company guarantees, security over certain assets, or bank guarantees) and have



We constantly review and monitor the way we calculate the levy to ensure it remains appropriate."

David Taylor, General Counsel



strengthened the requirements that group company guarantees must meet if they are to secure a reduction in the levy. These changes will ensure that contingent assets continue to be effective in reducing the risks of employer insolvency to pension schemes and that the corresponding levy reductions are appropriate.

Overall we believe the changes made will ensure our levy continues to be strongly reflective of the risk individual schemes pose to us. Our focus this year will be on successfully implementing these changes, ensuring we accurately calculate levy invoices for each of the eligible schemes we protect and that we provide a high standard of customer service to our levy payers and their advisors.

Fraud Compensation Fund

The PPF also operates the Fraud Compensation Fund (FCF). The FCF protects members of occupational pension schemes where the employer is insolvent and the scheme has lost out financially as a result of dishonesty. In view of potential future claims on the PPF, we announced that we would raise a levy this year of 25 pence per member of DB and DC pension schemes for 2017/18. We intend to raise a levy at the same level in 2018/19 which will help ensure we are prepared for potential claims while smoothing the costs for levy payers over time.

Managing the risks we face

The PPF has grown quickly and significantly since our start in 2005. We appreciate the risks that arise as the PPF develops and the need to maintain the highest standards of governance, manage risk effectively and ensure we are accountable across every part of the organisation.

Risk assessment

The PPF has identified four key categories of risk to us delivering our organisational objectives. These are financial, operational, funding and strategic. We have set out our risk appetite for each of these, and we monitor them closely. We have a clear framework which allows us to take appropriate risk to achieve our objectives without jeopardising our ability to operate.

Our risk framework provides the structure for assessing and managing our risks. Each team manages its own risk, which feeds critical information into the wider risk management framework and the risks considered at Board level. While the PPF is not a regulated entity, we carried out our second annual Own Risk and Solvency Assessment (ORSA), which provided additional analysis of the whole operation. The ORSA is a required practice for regulated financial service entities such as insurance companies and provides a useful framework for benchmarking an organisation's approach to risk.



Reverse stress-testing

As part of a three-year programme of scenario analyses and stress-testing, during the year we undertook a reverse stress-testing exercise (RST).

Unlike stress-testing, where the objective is to assess the impact of a pre-specified scenario, RST starts with an adverse outcome and seeks to identify scenarios that might lead to such an outcome. The RST should identify and quantify points of failure and analyse potential vulnerabilities.

The testing established the probability of these scenarios to be remote and that our risk controls were appropriate.

Data protection

In May 2018 new EU-wide data protection rules came into force under the General Data Protection Regulation (GDPR). The regime is designed to give individuals greater control over their data and to improve transparency. Our members', levy payers' and employees' data are of paramount importance to us and we are pleased to report that the PPF carried out a thorough review of our operations and implemented new processes to ensure we were ready for the new regulations coming into force.



Our members', levy payers' and employees' data are of paramount importance to us."

Katherine Easter, Chief of People Officer



Cyber-security

Cyber-security has always been a key priority for the PPF. We have robust systems in place and have continued to invest in the security of our data, such as with the introduction of two-factor authentication for our member website.

However, the PPF has received an unprecedented level of media attention in the past three years

as household names such as BHS, Carillion and Toys 'R' Us became insolvent. Schemes with many thousands of members entering the assessment period have brought a new wave of interest from the press and public. Once we have insured the FAS later this year, we will hold more member data in-house than ever before.

We are aware that a higher public profile may attract more attention

Managing the risks we face continued

// The work our Compliance and Ethics team does is instrumental in ensuring we are all accountable for operating within our legislative, regulatory and ethical parameters.”

David Taylor,
General Counsel



from cyber-criminals and we are taking steps to ensure the organisation remains robust.

We regularly carry out simulation exercises and in 2017 we conducted a simulation exercise on how the organisation would respond to a potential cyber-attack. The exercise tested our ability to work collectively and make appropriate decisions, and demonstrated that the PPF's underlying incident management plan operates as expected.

As cyber-threats evolve and change constantly, we regularly evaluate our services, partners and solutions in order to eliminate complacency and to minimise risks. We always strive to improve our security position and services, so we can continue to provide a safe and secure environment for our external stakeholders, members and staff.

Compliance and Ethics team

In last year's Report we announced the formalisation of our compliance and conduct activities under the supervision of a newly created Compliance and Ethics team. The team has a broad remit across the whole organisation. Its initial priority was having the right compliance framework in place for the first phases of our insourced investment management arrangements. Since then the team has focused on its wider remit to oversee compliance and ethics across the entire business. This is reflected in an ongoing programme of activities that include training, policies, advice and monitoring. This year the team refreshed the compliance training module, rolling out mandatory training to all staff incorporating topics including modern slavery, conduct, anti-bribery and anti-corruption.



Case study: PPF volunteer literacy programme

The ability to give something back to our community is important for staff of the PPF. As part of our volunteering programme for 2017/18, we have developed a literacy programme with St Mary's High School in Croydon. The programme aims to assist Year 7 students, identified by the school as falling below the nationally recognised standards, with their literacy skills.

Twice a week, our PPF volunteers provide one-to-one support with the selected students for one hour twice a week. The scheme is a huge success with the school and is extremely popular.

We are proud to report that feedback from the school confirms that every student involved in the scheme has made significant progress against their literacy targets. Our volunteers have provided a total of 540 hours and have also helped to identify children with additional learning requirements who now receive additional support from the school.

A great place to work

The PPF is a unique organisation and we are extremely proud of the work we do in protecting millions of DB pension scheme members.

We recognise that there is a risk to the organisation if we are unable to attract the right people who are committed to our members and levy payers, and who are committed to our values, particularly as we grow in size and significance.

The PPF must be a place that will develop people professionally and where they can be proud to work.

That is why we were delighted that 86 per cent of staff responding to our employee survey say they would recommend the PPF to their friends and family as a great place to work.

Our values

Integrity:
Doing the right thing

Collaboration:
Working as one

Accountability:
Owning our actions and their outcomes

Respect:
Valuing every voice

Excellence:
Being our best

Investment in people

As our organisation continues to grow, our people are critical to achieving our mission of paying the right people the right amount at the right time. We are proud to have a talented, committed and diverse workforce with a wide range of professional skills.

In addition to investing in new staff across the organisation, we have also implemented new processes to improve workflow and improve efficiency and our employees' experience. We are committed to listening to and acting on our employees' feedback.

In particular we have focused on improving accountability to better reflect the demands an organisation of the PPF's size faces today. This has involved a specific programme of activity across the PPF with a focus on better equipping our managers to understand what they are accountable for and how to engender accountability in their teams. It is crucial that our people own their actions and their outcomes.

Diversity

The PPF already has a diverse workforce but we are committed to improving the recruitment of under-represented groups at senior levels and throughout the organisation.

Senior management along with the Board are also working to create and implement a transparent diversity strategy, building on the work already in place.

In February 2018 we reported our gender pay gap. With a median gender pay gap of 20.4 per cent the PPF is much better than the average for the financial services sector, but clearly not where we want to be.

Our gender pay gap is driven predominantly by two things: the under-representation of women in senior roles across the organisation, and the predominantly male investment and risk teams.



We are proud to have a talented, committed and diverse workforce with a wide range of professional skills."

Katherine Easter, Chief People Officer



86%

of staff say they would recommend the PPF to their friends and family as a great place to work

Additionally, the Investment team has a different reward structure due to their specialist skills and how the wider financial services sector rewards the successful use of those skills. Recent appointments will help redress this balance and we will continue to take further steps in the future.

We have joined the Women in Finance Charter and have committed to increase the number of women in senior roles from 37 to 40 per cent within three years. We also provide flexible working arrangements for staff at all levels to help balance family and other commitments with roles they may otherwise struggle to stay in. We have also extended our health benefits offering and provide

equal maternity and paternity leave entitlements to staff.

We intend to enhance our successful return to work programme. Since January 2017, we have provided coaching for women returning from maternity leave and we use an independent panel of skilled coaches to provide one-to-one support to help employees continue to develop successful careers after taking time away from the office.

The PPF understands the risks to the organisation if we fail to be an employer of choice. We will listen to staff feedback and continue to work to be an attractive, diverse and inclusive business that attracts the very best people.



Giving something back



// Your team was absolutely fantastic! They worked their socks off. Please send them back again! They really were such lovely people and it was a pleasure to have them at Heathfield. Please tell your CEO that he has every reason to be proud of his staff. Thank you for sending them to us."

Ms Chatfield, Warden and
Chairman of The Ecology Centre

The PPF has been based in Croydon since inception and we are closely involved with the local community. Through the work of our Charity Committee, we raise money and provide volunteer services within the local community. Our work supporting schools and charities is among our proudest contributions to the local area.

In the last year, following our annual organisational vote for a charity to support, the PPF was proud to support MIND UK through our 'Giving Something Back through financial support' initiative.

The PPF held seven fund raising activities throughout the year, including a 5km run; a pool competition, football, badminton and golf tournaments; a bake sale; and quiz night. We set an initial target of raising £1,000 from individual employee donations which we are thrilled to have almost doubled in the year. For the coming year we expect to surpass this again and have more events planned. Collections of donations were also undertaken following the Grenfell Tower fire and for the Save Humanity Croydon Foodbank.

Volunteering

During the year PPF staff provided 777 hours of volunteering to support various local initiatives.

We held three events working with Croydon Ecology Centre and Frylands Wood Outdoor Scout Centre and, as is now a PPF tradition, cooked and delivered the Christmas lunch for elderly people at Parchmore Community Centre.

A major development for the PPF's work in the community has been our involvement in our lunchtime literacy scheme. Since April 2017, we have volunteered twice a week at a local secondary school, St Mary's High, to support year seven pupils with reading and comprehension. We have also worked with St Mark's Academy, helping to deliver employability skills workshops.

General information

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

Reviewable matters

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

Levy-related reviewable matters

	2017/18	2016/17
Review decisions issued	45	64
of which		
schemes in respect of which the levy was held to be correct	24	43
we agreed with some or all of the scheme's appeal	21	21
Cases dealt with by the Reconsideration Committee	6	17

During 2017/18 we re-examined 34 invoices (relating to 9 schemes) from previous years, following an analysis of those schemes' rules.

One scheme appealed to the Reconsideration Committee in the 2017/18 period following a similar exercise in 2016/17.

Non-levy-related reviewable matters

	2017/18	2016/17
Review decisions issued	8	10
Cases dealt with by the Reconsideration Committee	4	7

Maladministration complaints

	2017/18	2016/17
Formal complaints of maladministration considered	3	3
of which		
maladministration was found to have occurred	3	2
None of these cases also involved a reviewable matter (2016/17: none)		
Cases dealt with by the Reconsideration Committee of which	1	1
maladministration was found to have occurred	0	0

General information continued

Freedom of Information requests

	2017/18	2016/17
Freedom of Information requests received of which	32	35
we fully disclosed the information	17	14
we partially disclosed the information	6	6
we did not hold the information	1	3
the request was withdrawn	1	2
we declined to disclose the information	7	10

We declined to disclose information in seven instances by applying statutory exemptions because the information was either restricted information, personal data, commercially sensitive, already published, provided to the PPF in confidence, too costly to disclose, or its release would prejudice the effective conduct of PPF business.

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

General complaints

The following tables provide an analysis of the complaints received and dealt with by the PPF during the year ended 31 March 2018.

PPF complaints		FAS complaints	
Complaints brought forward from previous year	9	Complaints brought forward from previous year	9
Complaints received	396	Complaints received	143
of which:		of which:	
resolved at stage one	386	resolved at stage one	132
resolved at stage two	9	resolved at stage two	8
resolved at stage three	0	resolved at stage three	0
cleared for other reasons	1	cleared for other reasons	5
carried forward	9	carried forward	7
PPF complaint categories		FAS complaint categories	
Process/Regulation	91	Overpayment	39
Entitlement	78	Entitlement	34
Overpayment	46	Communication	17
Tracing	43	Delay	17
Communication	39	Other	13
Other	34	Tracing	10
Delay	32	Process/Regulation	9
Website	27	Website	2
Tax	6	Tax	1
		Eligibility	1

Guidance on how we handle complaints and appeals can be found on our website www.pensionprotectionfund.org.uk/About-Us/complaintsandconcerns

Statement of going concern

In order to comply with the Government Financial Reporting Manual (FRM) when preparing this annual report and accounts, we have to explain why we have adopted a 'going concern' basis for the organisation. An organisation deems itself a going concern if its management believes that the organisation will continue to operate and there is no intention, or need, to close down its functions. After reviewing the three funds which we operate, cash flow forecasts and our powers to raise levies and control outgoings, we believe it appropriate to adopt a going concern basis for the PPF as a whole because we believe we have enough resources to continue operating for the foreseeable future.

Pension Protection Fund

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

- our cash flow forecasts, which indicate that cash and other asset inflows will significantly exceed outflows for the foreseeable future, supported by:
 - our levy raising powers – see (www.pensionprotectionfund.org.uk/levy/aboutlevy/Pages/AbouttheLevy.aspx) and
 - our reserve powers on benefit levels – see (www.pensionprotectionfund.org.uk/Pages/Compensation.aspx).

Fraud Compensation Fund

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

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

- while this year there have been significant claims relating to pension liberation cases, the eligibility of the claims and FCF's liability remain unclear
- claims take some time to investigate and validate, which gives us time to plan how we will settle them
- we have powers to settle claims in instalments in order to ease any strain on the Fund's cash flow, and
- during the year, the Board maintained its funding strategy for the FCF which is to build up a reserve in the Fund by raising a levy where necessary.

Administration Fund

In considering the going concern status of the Administration Fund, we took into account the status of the Board as an independent statutory

corporation, while also recognising that the Board receives funding from its sponsor department, the DWP, in the form of grant-in-aid, to cover all of its expenditure on its functions as FAS scheme manager, and its expenditure on certain PPF administration functions. We also considered the regulations under which DWP finances its payments to the Board on grant-in-aid for PPF administration functions by raising a PPF Administration Levy from eligible pension schemes.



Oliver Morley
Accounting Officer
26 June 2018

03

Accountability report

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It really brings a smile to my face when members call in and I'm able to put their mind at ease. It's wonderful knowing that I can make a true difference."

Deanne Copeland, Contact Centre team member

The Board of the Pension Protection Fund



ARNOLD WAGNER OBE

*Chair of the Board
Chair of the Nomination Committee
Member of the Remuneration Committee*

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

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



OLIVER MORLEY

*Chief Executive
Member of the Decision Committee and
of the Investment Committee*

Oliver joined the PPF as Chief Executive in March 2018. Prior to joining the PPF Oliver was CEO of the DVLA where he led the digital and business transformation of one of the UK's biggest multi-channel service organisations.

Before that, Oliver was Chief Executive and Keeper of The National Archives. Before this, Oliver worked at Thomson Reuters and in the technology and shipping industries. Oliver was awarded a CBE in 2017 for his work in digital services.



ROSEMARY HILARY

*Non-executive Board member
Chair of the Risk and Audit Committee
Member of the Decision Committee and
of the Investment Committee*

In her executive career Rosemary held a number of senior financial services regulatory roles: at the Bank of England, the FSA and then the FCA. She went on to be the Chief Audit Officer at TSB Bank.

Rosemary's early career was in insurance at Sun Alliance and in banking at Girobank. She is a qualified accountant.

Rosemary is also a non-executive director of Willis; of Vitality Life and Vitality Health; and of Record plc. She is a member of the MBA Advisory Board at Cass Business School. She was on the Board of Shelter, the national homelessness charity, from 2010 to 2016.



ALAN JENKINS

*Senior Independent Director
Chair of the Decision Committee
Member of the Reconsideration Committee
and of the Remuneration Committee*

Alan currently holds non-executive appointments at the Financial Ombudsman Service, where he is Senior Independent Director; the Sydney and London Properties group; and Northcourt Limited, an insurance broker and Lloyd's managing agent. He currently chairs the board of Roehampton Club Ltd. He is also a trustee of Kids for Kids, a charity working in Darfur, Sudan.

He has held board appointments with the Crown Prosecution Service and UKTI as well as Mencap Trust Company Ltd, which he chaired, and other charities. He served on the Council of the Institute of Directors for nine years. He used to be a solicitor until his retirement in 2011 from Eversheds, of which he was Global Chairman.



KATE JONES

*Non-executive Board member
Member of the Investment Committee
and of the Reconsideration Committee*

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

She played an instrumental role in the growth of BlackRock's LDI business where she built and led the portfolio management function with responsibility for over £300 billion of assets.

Kate now works as a consultant with the senior leaders of asset management organisations, and she is also an executive coach with a focus on female leaders in the financial sector.



TOM JOY

*Non-executive Board member
Chair of the Investment Committee
Member of the Remuneration Committee
and of the Risk and Audit Committee*

Tom has been Director of Investments at the Church Commissioners for England since 2009.

Prior to this, Tom worked at Royal Sun Alliance Investment Management, Schroders and as Chief Investment Officer at RMB Asset Management. He is an associate member of the CFA Society of the UK.

Tom is also a member of the Board of Trustees and the Chair of the Investment Committee for Guy's and St Thomas' Charity.

The Board of the Pension Protection Fund continued



ANDY MCKINNON

Chief Financial Officer
Member of the Investment Committee

Andy has been Chief Financial Officer at the PPF since September 2012 and served as Acting Chief Executive from January to March 2018. Prior to this, he held a variety of senior positions at Legal & General plc, including Finance Director (Retail Investments), Commercial Director (Investment Platforms) and Product Director (Retail Savings). He is a qualified accountant.

Andy's earlier roles include positions at BAE Systems, Ernst & Young, Swiss Re and JP Morgan.



SHARMILA NEBHRAJANI OBE

Non-executive Board member
Chair of the Remuneration Committee

Sharmila has been Chief Executive at Wilton Park since November 2017, and is a non-executive director at organisations including NS&I, the BMJ, and the Trustee Board of the Lifesight Master Trust.

She has had a varied career spanning medical research, business, technology and the media. She was previously Chair of the Human Tissue Authority, Director of External Affairs for the Medical Research Council, and Chief Executive of the Association of Medical Research Charities (AMRC). She spent 12 years at the BBC, latterly as COO of BBC Future Media and Technology. Sharmila was awarded an OBE in 2014 for services to medical research.



JAYNE NICKALLS

Non-executive Board member
Member of the Risk and Audit Committee

Jayne has an extensive level of digital, IT and change experience and is currently a non-executive director at UK-based web experience supplier Jadu, where she advises on business development and strategy. She was recently also a non-executive director at the Financial Services Compensation Scheme.

During her executive career Jayne was CEO of Directgov, the Government's central public services website. Prior to that, Jayne was VP Consulting Services at US company Chordiant Software.



DAVID TAYLOR

General Counsel
Member of the Decision Committee

David Taylor was appointed to the PPF Board as an Executive Director and General Counsel in June 2015. David joined the PPF shortly after its establishment in 2005, becoming Head of Legal in 2007, Director of Legal Services from 2009 and, from 2012, Director of Strategy and Legal Affairs.

He is a qualified solicitor.

Earlier in his career, David specialised in corporate and commercial law. He spent 10 years in private practice at Linklaters and US firm WilmerHale.



BARONESS WARWICK OF UNDERCLIFFE

Non-executive Board member
Chair of the Reconsideration Committee

Diana is Chair of the National Housing Federation. She was previously Chair of the Human Tissue Authority and of the charity Voluntary Service Overseas. Diana was Chief Executive of Universities UK for 14 years and held the same role at the Westminster Foundation for Democracy.

Diana's career includes roles as a leading trade unionist, and non-executive roles at pension schemes, listed companies and public interest bodies.

She was a member of the Nolan/Neill Committee on standards in public life. Diana was awarded a life peerage in 1999 in recognition for her public service.

MEMBERS OF THE EXECUTIVE COMMITTEE at 31 March 2018

HANS DEN BOER
Chief Risk Officer

KATHERINE EASTER
Chief People Officer

BARRY KENNETH
Chief Investment Officer

ANDY MCKINNON
Chief Financial Officer

SARA PROTHEROE
Chief Customer Officer

DAVID TAYLOR
General Counsel

Michael Corcoran was appointed to the Executive Committee from January 2018 as Interim Chief Financial Officer while Andy McKinnon was Acting Chief Executive and Accounting Officer, prior to the arrival of Oliver Morley.

Stephen Wilcox was appointed as Chief Risk Officer on 14 May 2018 following Hans den Boer's departure on 30 April 2018.

Further information about Board members, including their registered interests, is available on the PPF website.

www.pensionprotectionfund.org.uk/About-Us/TheBoard/Pages/BoardMembers.aspx

Governance statement

Governance framework

During 2017/18, the Board had eight non-executive members, including the Chair, and three executive members, including the Chief Executive. Board members' attendance at Board and committee meetings is set out on page 53.

On 19 January 2018, Alan Rubenstein resigned from his position as Chief Executive and stepped down from the Board. On 19 March 2018, Oliver Morley took up the position of Chief Executive and his appointment as a Board member. On 21 March 2018, the Board agreed to the appointment of two non-executive directors: Chris Cheetham, with effect from 1 May 2018, and Emmy Labovitch, with effect from 1 July 2018. Sharmila Nebhrajani's term as a non-executive director ends on 26 June 2018 at which point she leaves the Board.

The Board has established a number of committees so that it can conduct its business in line with its Statement of Operating Principles. The Board has also given the Chief Executive delegated powers so he can take decisions to ensure operational effectiveness and provide regular updates to the Board on performance, risks and strategy. The Chief Executive has established a number of internal committees to oversee operations. Further details of the governance framework are provided in Appendix 2.

Board performance

The Board met nine times in 2017/18 and also held Board training sessions on legal privilege, cyber-security and responsible investment.



Attendance at Board and Committee meetings during 2017/18

Board member details and committee memberships are on pages 48-51. Board appointments and terms are in the Remuneration and staff report on page 68.

	Board	Remuneration Committee	Risk & Audit Committee	Investment Committee	Reconsideration Committee ¹	Decision Committee	Nomination Committee	Non-executive Committee
Arnold Wagner OBE	9 of 9	3 of 3	n/a	n/a	n/a	2 of 2	11 of 11	3 of 3
Rosemary Hilary	9 of 9	n/a	5 of 5	4 of 4	n/a	2 of 2	5 of 5	3 of 3
Alan Jenkins	8 of 9	2 of 3	n/a	n/a	7 of 7	2 of 2	10 of 10	2 of 3
Kate Jones	9 of 9	n/a	n/a	4 of 4	8 of 8	n/a	2 of 2	3 of 3
Tom Joy	8 of 9	2 of 3	4 of 5	4 of 4	n/a	n/a	1 of 1	2 of 3
Andy McKinnon	7 of 9	1 of 1*	5 of 5*	4 of 4	n/a	1 of 1*	n/a	n/a
Oliver Morley ²	1 of 1	0 of 0*	0 of 0*	0 of 0	n/a	0 of 0	n/a	n/a
Sharmila Nebhrajani OBE	7 of 9	3 of 3	0 of 2	n/a	n/a	n/a	1 of 1	1 of 3
Jayne Nickalls	9 of 9	n/a	5 of 5	1 of 1*	n/a	n/a	6 of 6	3 of 3
Alan Rubenstein ³	7 of 7	3 of 3*	4 of 4*	3 of 3	n/a	2 of 2	n/a	n/a
David Taylor	9 of 9	n/a	5 of 5*	4 of 4*	1 of 1*	2 of 2	n/a	n/a
Baroness Warwick of Undercliffe	6 of 9	n/a	n/a	n/a	8 of 8	n/a	2 of 2	2 of 3

¹ The Reconsideration Committee forms a panel of non-executive members of the Board without prior involvement in the matter. When a matter is remitted from the PPF Ombudsman the panel does not include the same members as were previously involved

² Joined the Board on 19 March 2018

³ Stepped down from the Board on 19 January 2018

* Attended meetings as an observer

Board activity

While the Board has delegated some of its powers to the Chief Executive, it retains a focus on strategic issues, provides leadership and challenge to the Executive team, and remains the ultimate decision-making body in the organisation. During the year, the Board took decisions and considered matters within its normal cycle of work. Details of these, and reports from the Board's committees, are in Appendix 1.

Governance statement continued

Account of corporate governance

The Board is committed to adhering to high standards of corporate governance and reviews its compliance against the UK Corporate Governance Code and the HM Treasury/Cabinet Office 'Corporate governance in central government departments: Code of good practice'. Formal reporting of compliance with the HM Treasury/Cabinet Office Code on a 'comply or explain' basis is a requirement and is set out in this statement.

The latest review of compliance with the Code was considered by the Chair, the Senior Independent Director and the Chair of the Risk and Audit Committee in March 2018. The Board meets the provisions of the Code where they apply to the PPF. The next review of the PPF's compliance against the Code will be carried out in 2018/19. Full details of the review can be found in Appendix 3.

The risk and control environment

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

During the period under review, the Board agreed that the following categories remain the most significant sources of risk to achieving its objectives:

- strategic
- funding, and
- operational (including financial management).

The Board determines its risk appetite on an annual basis, which is then passed down to risk owners within the PPF who report annually about how they are adhering to the risk appetite. The risk appetite can be found on the PPF website www.pensionprotectionfund.org.uk/About-Us/Documents/Risk_Appetite_Statement.pdf.

Significant risks

We have identified 12 key risks across the risk categories, which can arise as a result of internal or external factors and which have the potential to adversely impact our strategic aims, funding objective, solvency, operations and reputation:

- conduct risk – operating without effective governance due to inappropriate conduct, management practice or behaviour, or failing to meet member needs or expected outcomes
- political risk – as a result of political or legislative change, the core functions of the Board are impeded

- investment performance risk – our funding strategy fails and as a result we conclude we will be unable to pay benefits to our members in the long term. This may result from a period of sustained poor investment performance or a significant market decline
- solvency risk – we suffer a liquidity shortfall and as a result are unable to pay a margin call
- funding risk – we fail to offset the risks of our liabilities in extreme market conditions and cannot unwind our positions without substantial cost. This may lead to a requirement to increase levy contributions or reduce future benefits
- data risk – failure to protect personal, commercial or other sensitive data which may be subject to third party cyber-crime
- fraud risk – can arise from internal or external parties who circumvent our processes and controls or the controls operated by third party providers
- reputational risk – a serious ethical lapse at Board or Executive level, or by a supplier acting on our behalf, or in our relationships with members and other stakeholders, can have a significant impact on our reputation
- member service risk – we fail to make regular monthly payments to our members as they fall due. This may lead to remedial work, additional costs and reputational damage
- business change risk – a significant failure to deliver a major project within our time and budgetary forecasts
- people risk – failure to attract and retain at the level of expertise we need or to develop appropriate management structures, and
- investment selection risk – we invest in something illegal or clearly unethical.

The risks above are maintained and managed as part of the normal course of business. Further details of our risk and control environment can be found in Appendix 4.

Ministerial directions

No directions have been issued.

Personal data related incidents

There are no material data incidents to disclose.

Significant control issues

There are no significant control issues to disclose.

Governance statement continued

Role of the Accounting Officer

The DWP's Principal Accounting Officer, acting on behalf on HM Treasury, has designated the Chief Executive of the PPF as its Accounting Officer. The duties of the Accounting Officer, as set out in 'Managing Public Money', include responsibility for the propriety and regularity of public finances, keeping proper records and safeguarding the PPF's assets.

I was appointed Accounting Officer on 19 March 2018. I held meetings with Andy McKinnon, outgoing Acting Accounting Officer, to provide myself with the necessary assurances that a sound system of internal control was in place that supports the achievement of the PPF's policies, aims and objectives. In addition, a full schedule of induction meetings with executive directors was put in place which allowed me to discuss the local controls in place within Directorates.

Prior to this, Andy McKinnon, as incoming Acting Accounting Officer, held similar meetings with Alan Rubenstein in January 2018 to provide himself with those assurances. An interim audit opinion on the quality of the systems of governance, management and risk control, reported by the Head of Internal Audit, and attestations from directors and senior managers were also prepared at 31 December 2017 to provide further assurances on the system of internal control in place on that date. Andy was appointed Acting Accounting Officer from 19 January 2018 to 18 March 2018.

For the period 1 April 2017 until 18 January 2018, Alan Rubenstein had responsibility as Accounting Officer. This statement therefore represents a consolidation of the interim statements made by Alan Rubenstein and Andy McKinnon in respect of their period of office, with my view in respect of my period of office.

Review of effectiveness

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

- the material I received from the Acting Accounting Officer during his handover to me (set out above)
- the assurances I sought and received from other Board members and from PPF senior staff which detailed the work carried out to make sure management of risk and control is addressed in their areas of responsibility
- the work of the executive directors and senior managers within the PPF who have responsibility for developing and maintaining the internal control framework
- comments made by the external auditor in their management letter and other reports, and
- the opinion of the Head of Internal Audit on the overall adequacy and effectiveness of the PPF's framework of governance, management of risk and control. This states that the PPF's risk management, control and governance processes are effective on the assumption that recommendations from audit reviews are implemented.

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



Appendix 1

Board and Committee reports

Board

The Board met nine times during the year, and also held training sessions on responsible investment, cyber-security and legal privilege.

The Board reviewed the funding strategy, and approved updated modelling assumptions for the long-term funding strategy. For the 2017/18 Valuation, the Board agreed the appointment of the Appointed Actuary and the assumptions used in the Valuation. A change in the investment liability benchmark and a new strategic asset allocation were also approved.

Proposals for changes to the levy calculation, including the introduction of credit ratings into the calculation of insolvency risk, were assessed and the PPF's approach for the Third Levy Triennium was approved following consideration of input from the public consultation. The Levy Consultation, Determination and Estimate of £550m for 2018/19 were all agreed. The Board also approved a reduction in the Risk Based Levy Cap. The Board noted the decision to raise a FCF levy in 2018/19.

The Board discussed a number of staff-related matters, including the PPF's Gender Pay Gap report, staff survey results, organisational culture and succession planning. The strong customer satisfaction scores achieved by the Member Services team were also noted, alongside updates on performance against the organisation's KPIs.

Updates on the organisation's IT strategy and on high-profile projects were received, including the insourcing of the administration of member services for members of the FAS. The Board agreed in principle to open additional office space, primarily for the Investment team, in the City of London.

The Board agreed the set of Board risks and the Risk Appetite Statement, and the 2017/18 ORSA. The Board also approved a number of publications, including the 2018-21 Strategic Plan, the 2016/17 Annual Report and Accounts, and a statement on Modern Slavery and Human Trafficking. The Board also assessed progress against the actions from the Board and Committee effectiveness review, agreed updates to the Board Manual, and appointed Oliver Morley as Chief Executive.

Remuneration Committee

The Remuneration Committee is chaired by Sharmila Nebhrajani OBE.

The Committee met three times during the year and agreed objectives for executive directors for the 2017/18 financial year. The Committee also undertook yearly and half-yearly performance reviews of executive directors and approved bonus payments for them based on performance against the objectives set. The Committee discussed the development of the Investment team's overall reward strategy.



Risk and Audit Committee

The Risk and Audit Committee is chaired by Rosemary Hilary. The Committee met five times during the year. The scope of the Committee covers risk, including monitoring compliance with the Board's risk appetite, and the effectiveness of internal controls.

Under its risk management remit, the Committee oversaw work to create a new set of Board risks and to set out how these link to the risk taxonomy, prior to their agreement by the Board. It contributed to the development of the reverse stress-test exercise undertaken for the Board, and also reviewed the draft ORSA prior to its agreement by the Board.

The Committee has worked with the Investment Committee to enhance mutual understanding of the role each committee plays regarding the oversight of risks relating to the PPF's investment function and the teams in other Directorates which support it. The links between the committees are strengthened by the chairs of each sitting on the other. In addition, from 2018/19 the Investment Committee will adjust how it reports to the Risk and Audit Committee on activities relating to its oversight of investment risk.

The Committee continued its programme of receiving reports from directors on the key risks and controls within their Directorate. Reports were received from David Taylor (General Counsel), Barry Kenneth (Chief Investment Officer) and Sara Protheroe (Chief Customer Officer). It also received an update on the insourcing of the liability-driven investment function.

The Committee also supported the Chief Risk Officer's development of further improvements to the risk management information pack received at the Committee.

The Compliance and Ethics function is now well established within the PPF. The Committee received a regular report from the Director of Legal, Compliance and Ethics on outputs from the Compliance Monitoring Plan and on work to embed a culture of employee accountability. The Committee also approved the Compliance Monitoring Plan for 2018/19.

The Committee received updates on improvements to the PPF's change and project management systems. These also included progress reports on major projects.

As part of its normal cycle of work, the Committee reviewed the risk management policy and risk appetite, the key risk indicators, the Governance Statement, the annual Actuarial Valuation, and the whistleblowing policy. The whistleblowing policy applies widely in the PPF, including to employees, agency workers, contractors, consultants, volunteers, secondees, interns, non-executives, suppliers and members of the public. The PPF encourages

Appendix 1 continued

staff to raise concerns which are in the public interest, without fear of reprisal or victimisation. The policy, which was updated at the start of the year to make it more engaging for staff, was approved by the Committee. No matters were raised using the formal process during the year. All staff affirmed awareness and understanding of the policy during the year.

The Committee reviewed the appropriateness and consistency of accounting policies and the integrity of the accounts. It received and considered reports from the External Auditor and reviewed and recommended the 2016/17 Annual Report and Accounts for approval by the Board. It has worked closely with the Head of Internal Audit during the year, initially to approve the internal audit strategy and plan and subsequently to review regular reports on progress against the plan, the results of audit work, sufficiency of audit resources, and the continuous improvement of the function.

Colin Smith was reappointed for a further year as a co-opted member of the Committee to provide additional independent risk management knowledge and experience.

Investment Committee

The Investment Committee is chaired by Tom Joy. The Committee met four times during the year and agreed a number of key proposals, including an update to the long-term investment assumptions, the strategic investment risk budget, and an updated statement of compliance with the UK Stewardship Code.

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

- quarterly investment update reports including investment activities and the implementation of investment policies
- formal and informal reports from the investment advisor
- quarterly reports on the markets and investment strategy
- an annual responsible investment report, and
- the SIP.

The requirement under section 114 of the Pensions Act 2004 for the Committee to prepare and maintain a SIP was fulfilled.

The Committee received additional updates on the investment approach to real estate, credit hybrids, the alternatives programme, and from the Head of Investment Operations. The Committee has also worked with the Risk and Audit Committee to ensure that each committee's work on the oversight of risks relating to the PPF's investment functions is fully understood and supported.

Responsible Investment

We have a commitment to responsible investment across our portfolio as set out in our SIP. The PPF believes that environmental, social and governance (ESG) factors can have an impact on the long-term performance of its investments, and that the management of ESG risks and opportunities can add value to its portfolio. Our approach to responsible investment and the consideration of ESG factors is integrated throughout our investment processes. This ranges from the selection, appointment and scoring of external asset managers through to ongoing monitoring of all our investment mandates, in accordance with our requirements.

Our responsible investment strategy is complemented and supported by our specialist engagement and voting provider, and other service providers, and together we are confident that we are engaging on material ESG risks to our portfolio. During the last year, our voting and engagement provider engaged with a number of companies in our portfolio on a range of ESG issues and objectives. Engagement and voting reports are published on our website on a quarterly basis. We are pleased to have delivered against all areas of our responsible investment strategy, and will remain focused on this area in 2018/19.

Michael O'Brien, co-opted specialist member of the Investment Committee, continued to provide additional independent investment knowledge and experience.

Reconsideration Committee

The Reconsideration Committee is chaired by Baroness Warwick of Undercliffe. Christopher Hughes, co-opted member of the Reconsideration Committee, continued to provide input based on his considerable experience to support robust decision making. The Committee met on eight occasions during the year. It considered, and issued, decisions relating to six cases where levy payers challenged their levy. Of these six, one (a multi-year levy reconsideration) was referred to the PPF Ombudsman.

The Committee also considered four non-levy review cases: one relating to compensation entitlement, one relating to an overpayments recovery, one relating to maladministration and one relating to a valuation review. Two cases were referred to the PPF Ombudsman.

Decision Committee

The Decision Committee is chaired by Alan Jenkins. The Committee met twice during the year.

The Decision Committee takes decisions on matters that are normally delegated to the Chief Executive which he refers back to the Committee, as well as any specific cases assigned to it by the Board. This may be due to the particular circumstances of the matter, where additional Board member input is thought valuable, or where it is judged necessary in the light of the possibility of future review or complaint.

Nomination Committee

The Nomination Committee met 11 times during the year to appoint a Chief Executive, and make two non-executive appointments. The Chair of the Nomination Panel was Arnold Wagner OBE. The Committee used the outcomes of previous Board effectiveness reviews and a skills matrix to evaluate the balance of Board members' skills, and the Chair of the Committee agreed the role descriptions in line with the Board's needs.

Non-executive Committee

The non-executive members of the Board met three times during the year. Among other issues, the Committee discussed the design and outcome of the Chief Executive appointment process. It also received reports from the Remuneration and the Risk and Audit Committees.

Board appointments

The Secretary of State for Work and Pensions is responsible for appointing the Chair of the PPF and as a ministerial appointment this is governed by the Code of Practice for Ministerial Appointments to Public Bodies. All other Board appointments are made by the Board on the recommendation of the Nomination Committee. However, the Secretary of State must approve the appointment, remuneration and terms and conditions for the Chief Executive and the remuneration for other executive Board members. The Secretary of State also determines the fee for non-executive members.

The appointment of 'ordinary' members to the Board is governed by regulations under which the Board must include an independent member as part of its appointment panel.



Case study: British Steel

In August 2017, a Regulated Apportionment Arrangement was agreed to separate the British Steel Pension Scheme from Tata Steel UK – a transaction that was vital in securing the long-term financial security of over 120,000 pension scheme members.

The PPF was at the forefront of these negotiations, and played an instrumental role in the successful completion of the final transaction. The deal saw multiple teams from across the business work together for the duration of the negotiations to get the best outcome for scheme members and our levy payers. A deal of this significance had never been completed before, and to date it remains the largest of its kind the PPF together with TPR has ever negotiated.

Appendix 2

Governance Framework

The Pensions Act 2004 requires that the Board:

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

The Board is compliant with all of these requirements.

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

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

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

As well as the Non-executive and Reconsideration Committees, the Board has established a Risk and Audit Committee and a Remuneration Committee as sub-committees of the Non-executive Committee. Investment, Nomination and Decision Committees have been established as committees of the Board. Each committee has a majority of non-executive members. The terms of reference for these committees can be accessed at www.pensionprotectionfund.org.uk/About-Us/TheBoard/Pages/TheBoard.aspx and their activities during the year are reported in Appendix 1.

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

The roles of internal committees established by the Chief Executive and those of individual post holders are set out in the Authorisations from the Chief Executive document.

Appendix 3

Account of corporate governance

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

The principal areas of compliance are met as follows:

Board leadership

The structure of the Board is underpinned by the framework set out in the Pensions Act 2004 as well as governance and operational requirements. Committees have been established to serve particular needs. The composition of the Board is determined by the skills, experience and diversity needed to deliver the PPF's statutory functions and is supported by its members' financial, investment, legal, risk management, operational and customer service knowledge.

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

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

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

Board effectiveness

The Board has an operational framework in place and has determined its behavioural values. The actual operation of this framework and these values, as well as Board balance, is reviewed through annual Board effectiveness evaluations. These evaluations are conducted internally, and facilitated by external consultants every three years. The most recent externally facilitated review was in 2016/17.

This year, the Board Secretary conducted a review of the Board and its sub-committees which concluded that both the Board and its sub-committees continue to be effective and operate well. The Board Secretary will take forward any outstanding recommendations for improvements to the Board's operations as part of the Board's regular cycle of work, providing updates to the Chair and the Board as necessary.

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

The Board is provided with detailed appropriate information as part of its decision making processes. The financial and performance data provided to the Board is extracted from the PPF's accounting and operational systems. This means it is subject to regular, planned, internal assurance checks and independent audits. As part of the Board effectiveness review it was asked about the quality and frequency of information received and no concerns were raised.

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

Management of risk

The Board has set its risk appetite, which it reviews at least annually. An ORSA has been agreed by the Board. The Board is supported in its risk management role by its Risk and Audit Committee, which is chaired by a non-executive member with audit and risk management experience, its internal and external auditors, and its Investment Committee.

Risk management is embedded throughout the organisation, working up from team-level Risk and Control Self Assessments and issues logs through to the risks considered significant to the Board. Regular reports are received from members of the Executive Committee. The Chief Executive has established a Risk Management Committee and an Asset and Liability Committee to ensure effective day-to-day oversight of operational and investment risks. Information on risks and risk management processes is provided in Appendix 4.



Appendix 4

The risk and control environment

Our system of internal control is designed to manage risk within our risk appetite rather than to eliminate all risk of failing to achieve policies, aims and objectives.

The system of internal control is based on an ongoing process designed to identify and prioritise the management of risks to the Board achieving the PPF's policies, aims and objectives. This process is also designed to evaluate the likelihood of those risks being realised, their impact should they be realised, and how to manage them efficiently, effectively and economically.

The system of internal control has been in place within the Board of the PPF for the year ending 31 March 2018 and up to the date of signing of this annual report and accounts, and accords with HM Treasury guidance.

Audits are undertaken in accordance with an internal audit plan approved by the Risk and Audit Committee.

The risk and control environment

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

Risk processes are embedded throughout the organisation and individuals' responsibilities are reinforced through training and an annual communication.

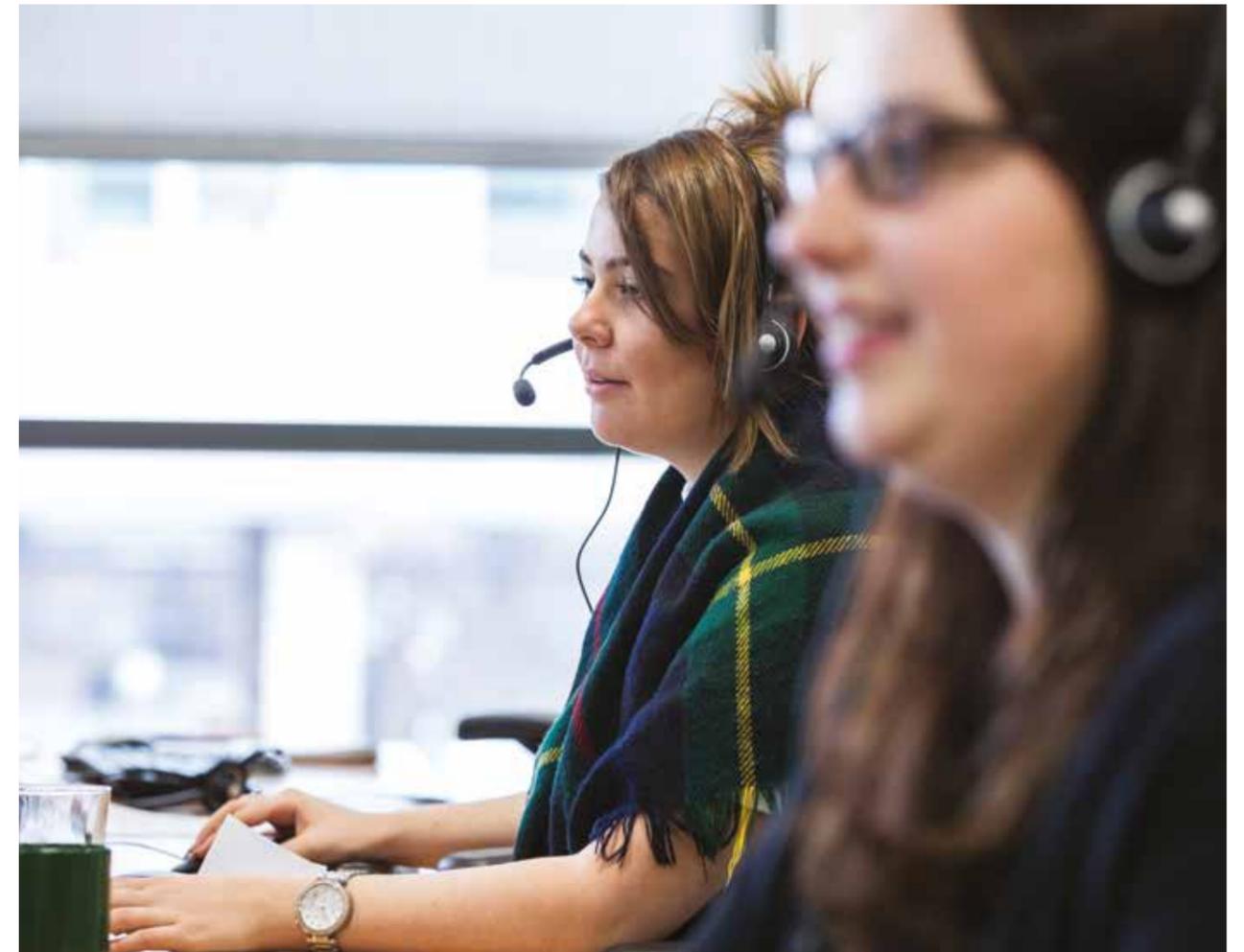
During 2017/18, we delivered a number of improvements to the management of risk, including:

- refining the risks that are escalated to the Board
- risk policy framework, including signing off the process, off-balance sheet, technology & information, and investment
- completion of the Funding Strategy Dashboard
- development of management information in respect of our risk management framework
- undertaking a reverse stress exercise with the Board
- the further development of producing an ORSA document
- successful business continuity simulation exercise with the major incident management team
- review of our risk framework tools, such as taxonomy and quantifications, and
- review of the risk management policy.

The PPF relies on various models, of which some are identified as critical. There is an appropriate quality assurance framework (as defined in the 'Macpherson Report' of March 2014) in place for these models.

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

The PPF recognises the importance of managing information effectively. We therefore operate in accordance with the Security Policy Framework and related Data Security guidance issued by the Government. To help achieve this we gained certification to the ISO27001 Information Security standard in 2009 (successfully recertified in 2016) and carry out annual ISO27001 surveillance audits to ensure we maintain compliance with the standard.



Remuneration and staff report

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

Remuneration policy

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

Remuneration and bonuses of directors

Executive directors receive a salary that is reviewed annually by the Remuneration Committee and signed off by the Secretary of State for Works and Pensions. Their contracts allow for the payment of an annual performance related bonus.

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

Contracts

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

Name	Contract type	Start date	End date
Arnold Wagner OBE (Chair)	Term of office (first)	1 July 2016	30 June 2021
Oliver Morley	Fixed Term Contract (first)	19 March 2018	18 March 2022
Alan Rubenstein	Fixed Term Contract (third)	1 July 2015	19 January 2018
Andy McKinnon	Fixed Term Contract (second)	1 January 2016	31 December 2018
David Taylor	Fixed Term Contract (second)	1 June 2018	31 May 2021
Rosemary Hilary	Term of office (first)	4 January 2016	3 January 2019
Alan Jenkins	Term of office (second)	7 August 2016	6 August 2019
Kate Jones	Term of office (first)	15 February 2016	14 February 2019
Tom Joy	Term of office (second)	7 August 2016	6 August 2019
Sharmila Nebhrajani OBE	Term of office (second)	27 June 2015	26 June 2018
Jayne Nickalls	Term of office (first)	1 July 2016	30 June 2019
Baroness Warwick of Undercliffe	Term of office (third)	7 March 2017	6 March 2020

Notice periods

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

Executive directors – outside appointments

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

Alan Rubenstein; non-executive director of esure Group plc; investment advisor to the British Coal Staff Superannuation Scheme.

Cash equivalent transfer values

This is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme.

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

Remuneration and staff report continued

Directors' salary and pension entitlements*

Year ending 31 March 2018	Salary (in bands of £5,000)	Bonus ¹ (in bands of £5,000)	Benefits- in-kind ³ (to nearest £100)	Pension benefits (to nearest £1,000)	Total (in bands of £5,000)
	£'000	£'000	£'000	£'000	£'000
Executive directors					
Oliver Morley, Chief Executive (from 19 March 2018)	5-10 (200-205) ²	-	-	-	5-10
Alan Rubenstein, Chief Executive (to 19 January 2018)	160-165 (200-205) ²	30-35	0.4	-	195-200
Andy McKinnon, Chief Financial Officer	165-170	20-25	0.6	-	185-190
David Taylor, General Counsel	130-135	10-15	0.3	39	185-190
Non-executive directors					
Arnold Wagner OBE, Chair	55-60	-	-	-	55-60
Rosemary Hilary	15-20	-	-	-	15-20
Alan Jenkins	15-20	-	-	-	15-20
Kate Jones	15-20	-	-	-	15-20
Tom Joy	15-20	-	-	-	15-20
Sharmila Nebhrajani OBE	15-20	-	-	-	15-20
Jayne Nickalls	15-20	-	-	-	15-20
Baroness Warwick of Undercliffe	15-20	-	-	-	15-20
Year ending 31 March 2017					
Executive directors					
Alan Rubenstein, Chief Executive	200-205	40-45	-	-	240-245
Andy McKinnon, Chief Financial Officer	155-160	10-15	-	-	170-175
David Taylor, General Counsel	130-135	10-15	-	61	205-210
Non-executive directors					
Arnold Wagner OBE, Chair (appointed Chair from 1 July 2016)	45-50 (55-60) ²	-	-	-	45-50
Lady Judge CBE, Chair (until 30 June 2016)	10-15 (55-60) ²	-	-	-	10-15
Rosemary Hilary	15-20	-	-	-	15-20
Alan Jenkins	15-20	-	-	-	15-20
Kate Jones	15-20	-	-	-	15-20
Tom Joy	15-20	-	-	-	15-20
Sharmila Nebhrajani OBE	15-20	-	-	-	15-20
Jayne Nickalls (from 1 July 2016)	10-15 (15-20) ²	-	-	-	10-15
Baroness Warwick of Undercliffe	15-20	-	-	-	15-20

¹ The bonus values disclosed here relate to the executive directors' performance in the year

² Full year equivalent

³ Benefits-in-kind relate to private medical, critical illness and healthcare costs insurances

*Subject to audit

Directors' pension benefits*

	Total accrued pension at at 31 March 2018 (in bands of £5,000)	Real increase in pension at pension age (in bands of £2,500)	Cash equivalent transfer value as at 31 March 2018	Cash equivalent transfer value as at 31 March 2017	Real increase in CETV	Employer Contribution to partnership pension account (to nearest £100)
	£'000	£'000	£'000	£'000	£'000	£'000
Oliver Morley, Chief Executive	-	-	-	-	-	1.4
Alan Rubenstein ¹ , Chief Executive	-	-	-	-	-	-
Andy McKinnon, Chief Financial Officer	-	-	-	-	-	24.5
David Taylor, General Counsel	35-40	2.5-5	462	412	10	-

¹ Alan Rubenstein chose not to be covered by the Civil Service pension arrangement as he has reached the maximum lifetime allowance. PPF paid £1,112 to provide insurance cover.

Staff report

Salary multiples*

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

	2017/18	2016/17
Annualised Band of highest paid Board member's total remuneration	£200-£205,000	£240-£245,000
Median remuneration of the workforce	£49,000	£49,000
Ratio	4.1	4.9

In 2017/18 nine employees (2016/17: three) received remuneration in excess of the highest paid Board member. Remuneration ranged from £21,000 to £775-£780,000 (2016/17: £20,000 to £525-£530,000).

Total remuneration includes salary, non-consolidated performance-related pay and benefits-in-kind. It does not include severance payments, employer pension contributions and the CETV of pensions.

*Subject to audit

Remuneration and staff report continued

Staff numbers and costs*

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

	2018		2017	
	Average no. employees	Staff costs £m	Average no. employees	Staff costs £m
Permanent employees and fixed term contracts	363	30.1	333	25.8
Short-term, seconded and temporary staff	2	0.3	14	2.2
Total	365	30.4	347	28.0

Sickness, absence and staff turnover

The number of days we lost to sickness during the year averaged 4.9 days per person. This included long-term absences of more than 28 days of which we had two cases of over six months for serious health issues. Excluding long-term absences, we only lost 3.1 days per person.

Staff turnover increased from 13.9 per cent in 2016/17 to 15.7 per cent in 2017/18.

Staff composition

As at 31 March we had:

	2018		2017	
	Men	Women	Men	Women
Total employees	183	173	180	169
Senior management	12	7	8	7
Other management	26	17	34	20

*Subject to audit

Other employee matters

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

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the PPF continues and that appropriate adjustments are made. It is the policy of the PPF that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees. Three of our staff have registered themselves as disabled. We are a Level 2 employer under the Disability Confident Employer scheme which recognises that we take action to meet commitments regarding employment, retention, training and career development of disabled employees.

The PPF published its Gender Pay Gap Report in February 2018. As of 31 March 2017 payroll, our median gender pay gap stood at 20.4 per cent. Our goal is that 40 per cent of senior managers are women by 2021. This equates to an increase of three per cent over three years, as we currently have 37 per cent of women in senior manager roles. The PPF is a signatory to the Women in Finance Charter. Further information is available at www.gov.uk/government/publications/women-in-finance-charter.

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

Remuneration and staff report continued

Off-payroll staff

For all off-payroll engagements as of 31 March for more than £245 per day and that last for longer than six months:

	2018	2017
Number of existing engagements	1	10
Number that have existed for less than one year	1	8
Number that have existed for between one and two years	-	2
Number that have existed for more than two years	-	-
Number of new engagements, or those that reached six months in duration, between 1 April and 31 March	-	10

The off-payroll engagement undertaken during 2018 has been assessed as compliant with the requirements of IR35.

One senior manager role with significant financial responsibility was undertaken as an off-payroll engagement for three months during the year. This engagement was an interim measure to provide cover for the Chief Financial Officer who acted as the Acting Chief Executive during the transition of that role from Alan Rubenstein to Oliver Morley. During the year, nine individuals held senior manager roles with significant financial responsibility.



Staff exit packages*

Exit package payments agreed to former staff are summarised as follows:

Exit package cost band	Total number of exit packages by cost band	
	2018	2017
£10,000-£25,000	4	1
£25,000-£50,000	6	-
£50,000-£100,000	1	-
Total number of exit packages	11	1
Total cost	£335,641	£15,832[#]

There was one compulsory redundancy in 2017/18 (2016/17: none).

[#]This figure may differ from that disclosed in the 2016/17 financial statements as it includes top-up payments that have been made following the quashing at Judicial Review of the 2016 amendments to the Civil Service Compensation Scheme.

Consultancy costs

We occasionally use professional service providers to help with specialist work, including consultancy and contingent labour, where it is necessary and prudent to do so. Total expenditure on consultancy during the year amounted to £10.9 million (2016/17: £7.6 million).

*Subject to audit

Parliamentary accountability

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

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

The Chief Executive of the PPF is also its Accounting Officer. Compliance with Accounting Officer responsibilities is supported through the Board's risk management procedures and through a shared objective for senior management to support the Accounting Officer in fulfilling his responsibilities.

Losses and special payments*

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

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

Our policy for overpayments is to seek recovery by offset against future compensation payments or by immediate settlement where this is not possible (or if the member prefers to do so). If the amount is below the level deemed uneconomic to recover, or where the member can demonstrate financial hardship, the overpaid amount will be written off. During the year, the total of overpayments written off was less than the threshold prescribed by 'Managing Public Money'.

*Subject to audit

Remote contingent liabilities

Claims which are considered possible are recognised as contingent liabilities. The aggregate value of all other potential claims at 31 March 2018 is estimated at £210 billion, calculated on the same basis as for the PPF 7800 index.

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



Statement of Accounting Officer's responsibilities

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

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

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

The Secretary of State for Work and Pensions has appointed the Chief Executive as the Accounting Officer for the Board. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the Board's assets, are set out in 'Managing Public Money' published by HM Treasury.

The Accounting Officer confirms:

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



Oliver Morley
Accounting Officer
26 June 2018



Case study: Rose, Reader's Digest

I worked as a picture researcher at the Reader's Digest for 30 years before insolvency proceedings began. It was such a tremendous shock to be made redundant and lose my 'work family' overnight. The shock of being made redundant meant I didn't really think about my pension – I always thought it would be safe though – so when I found out that it wasn't I was really upset and worried. I was so relieved that the PPF existed. I've always had regular communications from the PPF and I can't fault the customer service or the organisation. After a period of great uncertainty and the feeling like you've have had the rug pulled out from under you, I've taken comfort in knowing that there is a PPF and that my pension is protected.

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

Opinion on the financial statements

I certify that I have audited the financial statements of the Board of the PPF for the year ended 31 March 2018 under the Pensions Act 2004. The financial statements comprise: the Consolidated Statements of Comprehensive Net Income, Financial Position, Cash Flows, Changes in Reserves; and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Accountability Report that are described in that report as having been audited.

In my opinion:

- the financial statements give a true and fair view of the state of the Board of the PPF's affairs as at 31 March 2018 and of the net income for the year then ended, and
- the financial statements have been properly prepared in accordance with the Pensions Act 2004 and Secretary of State directions issued thereunder.

Opinion on regularity

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

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the Board of the PPF in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Board of the Pension Protection Fund and Accounting Officer for the financial statements

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Board of the PPF and the Accounting Officer are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Auditor's responsibilities for the audit of the financial statements

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

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Board of the PPF's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management

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

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Board of the PPF's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern, and
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

Other information

The Board of the PPF and the Accounting Officer are responsible for the other information. The other information comprises information included in the Annual Report, other than the parts of the Accountability Report described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters

In my opinion:

- the parts of the Accountability Report to be audited have been properly prepared in accordance with Secretary of State directions made under the Pensions Act 2004
- in the light of the knowledge and understanding of the Board of the PPF and its environment obtained in the course of the audit, I have not identified any material misstatements in the Performance Report or the Accountability Report, and
- the information given in the Performance Report and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept, or
- the financial statements and the parts of the Accountability Report to be audited are not in agreement with the accounting records, or
- I have not received all of the information and explanations I require for my audit, or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse

Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP
3 July 2018

04

Financial statements



"

I really enjoy talking to our members and helping them with their queries. It's nice to be able to reassure members that they have not lost everything following their employer's insolvency event and reassure them that the PPF will make payments to them for the rest of their life."

Anne Marie Goode, Senior Contact Centre team member

Financial statements

	Note Ref	Page
Chief Financial Officer's review		87
Financial Statements		
Consolidated Statement of Comprehensive Net Income		90
Consolidated Statement of Financial Position		91
Consolidated Statement of Changes in Reserves		92
Consolidated Statement of Cash Flows		93
Notes to the financial statements		
Funds for which the Board is responsible		94
Core accounting policies		95
Paying compensation		98
Liabilities to pay compensation to members	1	98
Provisions for claims on the PPF and the FCF	2	100
Funding compensation – levy income, grants and investment management		103
Operating income	3	103
Financial instruments	4	105
Net investment return	5	112
Financial risk management		113
PPF credit risk	6	113
PPF liquidity risk	7	115
PPF market risk	8	117
FCF financial risks	9	120
Administration Funds risks	10	120
Operating the business		121
Operating expenses	11	121
Property, equipment and intangible assets	12	124
Operating lease commitments	13	125
Segmental analysis	14	125
Subsidiaries	15	127
Related party transactions	16	127
Events after the reporting period	17	127

Chief Financial Officer's review

Summary

The excess of our assets over our liabilities is a measure of our progress towards building sufficient reserves to allow for future claims. This can be expressed in terms of the absolute amount of our consolidated reserves (£6.8b) or as a percentage in the form of our funding ratio (122.8 per cent).

The consolidated reserves of the PPF have increased from £6.1b to £6.8b, including a release of provisions reflecting the effect of updating our assumptions.

The value of new schemes that has entered PPF assessment this year has been high at £1.2b. The impact of taking on these deficits has been much greater than the levy we have charged this year (£0.5b), although the impact has been mitigated by a very strong investment performance and the effect of updated assumptions.

Including the effect of hedging liability movements, the total investment return was 3.2 per cent, compared to 16.0 per cent in 2016/17 and 1.7 per cent in 2015/16. Our investment assets other than those used for hedging our liabilities have returned 2.8 per cent for the year. This is above our strategic objective of 1.8 per cent above LIBOR, and our target to achieve this on a rolling three-year basis was exceeded by an annualised 0.4 per cent.

While claim volumes continue to be relatively low (albeit high in value this year), the outlook for future claims remains uncertain. Type 2 contingent liabilities (where insolvency events are predicted to happen soon after the year-end) remain high at £1.4b, slightly higher than 2016/17. The total exposure across all DB pension schemes in deficit, which we exist to protect, remains high at £217.6b.

Note disclosures and commentary

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

The report from the Comptroller and Auditor General on pages 80-83 confirms that there are no matters that need to be brought to the reader's attention.

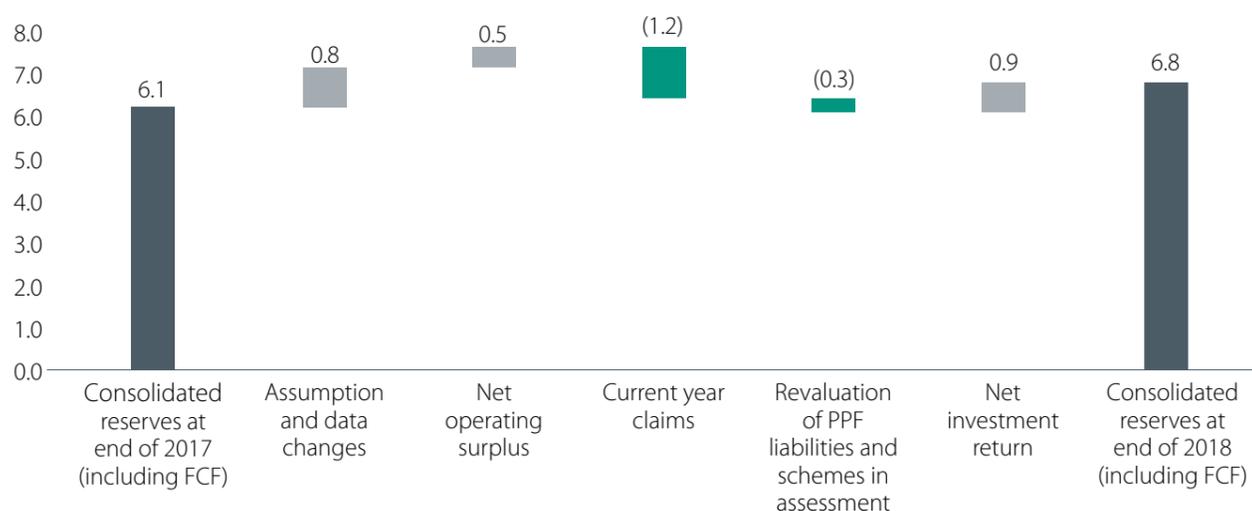
Andy McKinnon
Chief Financial Officer

Chief Financial Officer's review continued

Review of the Consolidated Statement of Comprehensive Net Income

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

Movement in reserves 2018 (£b)



The consolidated reserves have increased by £0.7b over the year. Actuarial assumption changes, notably for mortality and data changes have contributed £0.8b to the increase in reserves.

Net operating surplus (levy receipts after operating expenses) remains at the same level as last year, at £0.5b. Total levy income fell by £43.9m to £541m due in part to the collection of last man standing scheme levies in 2016/17. Operating costs increased by 11 per cent on 2016/17, reflecting the costs of establishing insourcing. Current year claims include the Carillion and Hoover schemes, which have increased the value of claims in the year to an historic peak. The net investment return reflects the revaluation of liabilities due to our LDI hedging strategy as well as providing a return of 2.8 per cent on assets not used for hedging.

The Consolidated Statement of Financial Position

The Consolidated Statement of Financial Position sets out the details, at 31 March 2018, of the assets and liabilities held in all the funds for which the Board is responsible.

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

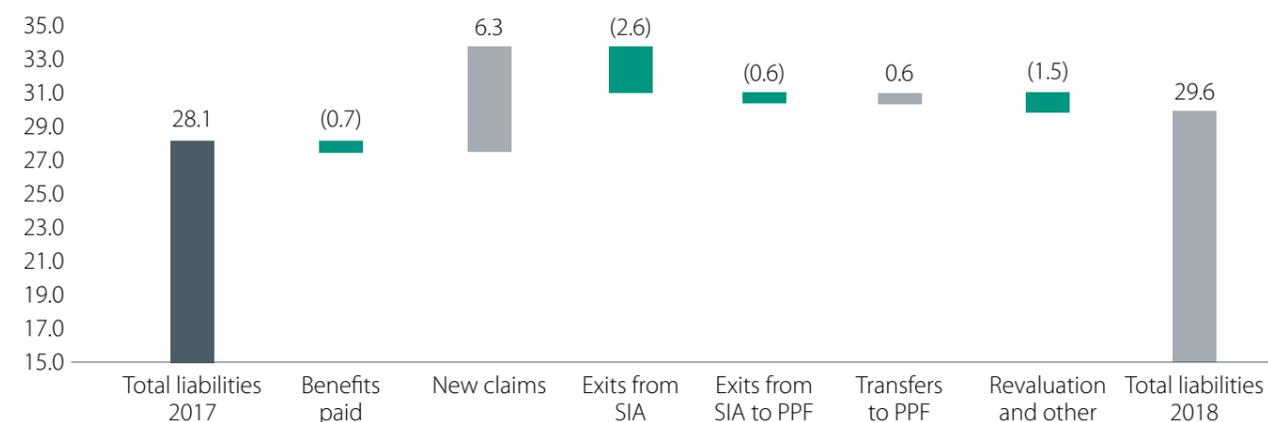
Consolidated reserves at 31 March 2018

	Consolidated Statement of Financial Position excluding claims provisions for SIA	Claims provisions for SIA	Total
	£m	£m	£m
Total assets	38,368.1	6,399.7	44,767.8
Investment and other liabilities	(8,457.2)	-	(8,457.2)
Net assets	29,910.9	6,399.7	36,310.6
Actuarial estimate of liabilities	(21,511.5)	(8,039.0)	(29,550.5)
Total reserves	8,399.4	(1,639.3)	6,760.1

The following graph summarises the movements in actuarial liabilities, including those schemes included in the provision for scheme in assessment, from £28.1b at the beginning of the year to the closing figure of £29.6b. The impact of new claims is an increase of £6.3b liabilities, but this is offset by the release of £2.6b scheme liabilities, mostly due to the Nortel Network UK Pension Plan's expected exit from assessment.

The actuarial liabilities comprise £29.6b (2017: £28.1b) for the PPF and £nil (2017: £1.3m) for the FCF.

Movement in actuarial liabilities and claims provisions for scheme in assessment (£b)



Consolidated Statement of Comprehensive Net Income

For the year ended 31 March		2018	2017
		£m	£m
Operating income	Notes		
Income from levies	3	541.3	585.2
Income from grants	3	22.2	24.9
Total operating income		563.5	610.1
Operating expenses			
Staff costs	11	(30.4)	(28.0)
Other costs	11	(36.8)	(32.4)
Total operating expenses		(67.2)	(60.4)
Net operating surplus		496.3	549.7
Investment activities			
Net investment income	5	610.9	701.8
Change in fair value of investments	5	439.4	3,414.8
Investment expenses	5	(143.3)	(152.7)
Net investment return		907.0	3,963.9
Claims activities			
Current year claims for compensation	2	(1,183.0)	(252.4)
Revaluation of claims for compensation	2	163.6	325.5
Gains/(losses) on actuarial liabilities	1	303.6	(2,578.2)
Net cost of claims		(715.8)	(2,505.1)
Comprehensive net income for the year		687.5	2,008.5

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

The accounting policies and notes on pages 94 to 127 form part of these financial statements.

Consolidated Statement of Financial Position

As at 31 March		2018	2017
		£m	£m
Assets	Notes		
Cash and cash equivalents		17.3	43.1
Investment assets	4a	38,264.1	46,957.9
Levy receivables		8.5	16.3
Transfer-in receivables		23.3	21.1
Other assets		47.7	45.2
Property, equipment and intangible assets	12	7.2	9.2
Total assets		38,368.1	47,092.8
Liabilities			
Investment liabilities	4a	(8,398.4)	(18,295.5)
Other liabilities		(58.8)	(70.0)
Actuarial liabilities	1	(21,511.5)	(21,979.0)
Claims provisions	2	(1,639.3)	(675.7)
Total liabilities		(31,608.0)	(41,020.2)
Total assets less total liabilities		6,760.1	6,072.6
Represented by:			
Total levy and tax payer funds		6,760.1	6,072.6

The Board of the PPF approved the financial statements on 25 June 2018 and authorised the Accounting Officer to sign this Consolidated Statement of Financial Position on the same date.



Oliver Morley
Accounting Officer

26 June 2018

The accounting policies and notes on pages 94 to 127 form part of these financial statements.

Consolidated Statement of Changes in Reserves

For the year ended 31 March	Levy payer funds £m	Tax payer funds £m	Total Reserves £m
At 1 April 2016	4,065.4	(1.3)	4,064.1
Total recognised net income for 2016/17	2,004.7	3.8	2,008.5
Balance at 31 March 2017	6,070.1	2.5	6,072.6
Total recognised net income for 2017/18	688.3	(0.8)	687.5
Balance at 31 March 2018	6,758.4	1.7	6,760.1

The accounting policies and notes on pages 94 to 127 form part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 March	2018 £m	2017 £m
Cash flows from operating activities		
Net operating surplus	496.3	549.7
Compensation payments	(725.9)	(661.3)
Cash receivable from schemes transferring into the PPF	301.6	398.3
Items reported in investment return but settled through operating bank accounts	3.6	(18.4)
Purchase of property and equipment	(1.9)	(3.0)
Depreciation, amortisation and impairment charges	3.9	3.6
Movement in current liabilities	(11.2)	22.3
Movement in receivables	3.1	(47.7)
Net cash inflow from operating activities	69.5	243.5
Cash flows to investing activities		
Cash transfers to investment managers	(518.2)	(796.1)
Cash transfers from investment managers	422.9	380.3
Net cash outflow to investing activities	(95.3)	(415.8)
Net decrease in cash and cash equivalents in the year	(25.8)	(172.3)
Cash and cash equivalents at beginning of the year	43.1	215.4
Cash and cash equivalents at end of the year	17.3	43.1

Cash and cash equivalents comprise cash and short-term cash deposits.

The accounting policies and notes on pages 94 to 127 form part of these financial statements.

Funds for which the Board is responsible

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

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

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

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

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

Core accounting policies

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

Basis of preparation

These financial statements have been prepared in accordance with an Accounts Direction dated 18 February 2010 issued by the Secretary of State for the DWP, with the approval of the Treasury, in line with the Pensions Act 2004. The Accounts Direction stipulates compliance with the 2017/18 FReM, which requires accounts to follow, as far as appropriate, private sector practice based on International Financial Reporting Standards (IFRS).

The financial statements have been prepared on the going concern basis under the historical cost convention, except for the measurement at fair value through profit and loss of financial instruments and investment property, deposits with banks at amortised cost and the measurement of compensation benefits and associated provisions at the present value of the obligation.

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

- IFRS 7 Financial Instruments: Disclosures
- IFRS 13 Fair Value Measurement
- IAS 20 Accounting for Government Grants and Disclosure of Government Assistance
- IAS 32 Financial Instruments: Presentation
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets
- IAS 39 Financial Instruments: Recognition and Measurement, and
- IAS 40 Investment Property.

Standards likely to affect future financial statements include:

- IFRS 9 Financial Instruments (effective for periods beginning on or after 1 January 2018). Among other changes, IFRS 9 introduces an expected credit loss model for impairment which will replace the current incurred loss model in IAS 39. An impairment loss may now be recognised prior to a loss event occurring. The Board has assessed that the impact of IFRS 9 will not be material to the financial statements
- IFRS 15 Revenue from contracts with customers (effective for periods beginning on or after 1 January 2018). The standard's core principle is that an entity will recognise revenue when it transfers goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard provides a single, principles based five-step model to be applied to all contracts with customers. The Board has assessed that the impact of IFRS 15 will not be material to the financial statements
- IFRS 16 Leases (effective for the periods beginning on or after 1 January 2019). The new standard replaces IAS 17 Leases and introduces a new single accounting approach for lessees for all leases (with limited exceptions). As a result, there is no longer a distinction between operating leases and finance leases, and lessees will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. The Board leases two properties for use as office space which are currently classified as operating leases. When implementing IFRS 16, the Board expects to recognise a right of use asset and a lease liability on the balance sheet, both of approximately £12m.

Consolidated financial statements

The financial statements consolidate the financial positions and results of the PPF, the FCF and the Administration Funds. The Board holds some investment assets through subsidiaries formed solely for that purpose. The underlying investments, income, gains and losses are recorded in the total investment portfolio. The subsidiaries are listed in note 15.

Segmental reporting

To comply with IFRS 8 Operating Segments, note 14 summarises the financial transactions and balances of the three separate activity streams described in the introduction: the PPF, the FCF and the Administration Funds. Further information is available in the notes on provisions for claims, levy income and operating expenses.

Foreign currency translation

These financial statements are presented in sterling, which is the functional currency of the Board.

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

Impact of the Board assuming responsibility for schemes

Before entering the PPF, schemes go through an Assessment Period described at:

www.pensionprotectionfund.org.uk/AssessmentPeriod/Pages/AssessmentPeriod.aspx

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

Taxation

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

Core accounting policies continued

Significant estimates and judgements

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

- actuarial liabilities and gains or losses on actuarial liabilities (note 1)
- claims provisions and contingent liabilities (note 2), and
- techniques for valuing financial instruments for which there is not a quoted price (note 4).

Paying compensation

This section describes:

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

1. Liabilities to pay compensation to members

The Consolidated Statement of Financial Position shows that at 31 March 2018 the PPF estimated the value of existing liabilities to pay compensation to members at £21.5b. During the year, the PPF paid members compensation of £724.5m. After the Actuarial Valuation as at March 31 2018 was completed, a net gain of £303.6m to the income statement was recognised to reduce estimated liabilities to the amount needed to pay compensation to members.

The amount of the PPF's liabilities to pay compensation to members (actuarial liabilities) is calculated by the Appointed Actuary – see the Actuarial Valuation starting on page 130.

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

Accounting policy

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

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

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

Key judgements and estimates

The calculation of the actuarial liabilities of the PPF relies on assumptions about a number of financial and demographic factors, explained in Annex M2 of the Actuarial Valuation. In particular, attention is drawn to the method used to compute a market-consistent discount rate.

Paying compensation continued

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

Actuarial liabilities

	2018 £m	2017 £m
Opening value of actuarial liabilities	21,979.0	18,284.0
Actuarial liabilities of schemes which transferred to the PPF during the year	561.0	1,778.1
Decrease in AVCs to be discharged	(0.4)	-
Actuarial (gains)/losses	(303.6)	2,578.2
Benefits paid to members	(724.5)	(661.3)
Total actuarial liabilities	21,511.5	21,979.0

The amount of the total actuarial liabilities expected to be settled within 12 months is £632m (2017: £624m). Further details can be found in the Actuarial Valuation on page 137.

Actuarial (gains)/losses are the net adjustment required to the outstanding amount of actuarial liabilities after accounting for schemes which have transferred into the PPF and the amount of benefits paid during the year. Actuarial (gains)/losses can be analysed as follows:

Actuarial (gains)/losses

	2018 £m	2017 £m
Effect of passage of time on discounting	97.5	89.5
Change in assumptions	(420.2)	2,515.2
Change in experience	91.1	(80.6)
Other	(72.0)	54.1
Total actuarial (gains)/losses	(303.6)	2,578.2

2. Provisions for claims on the PPF and the FCF

The Consolidated Statement of Financial Position shows **total provisions of £1.6b for claims from pension schemes**, with £1.6b being for the PPF (see page 101) and £nil for the FCF (see page 102). The Consolidated Statement of Comprehensive Net Income shows **net cost of claims of £715.8m**, £715.7m being the PPF and £0.1m being the FCF, and also showed a benefit in a net **decrease to the values of claims previously recorded of £163.6m**, £163.7m in relation to the PPF, offset by an increase of £0.1m for the FCF.

The PPF provision relates to schemes in assessment and is calculated by the Appointed Actuary as the present value of estimated future compensation payments to be made by the PPF, less the value of existing assets in such pension schemes. The claims activities disclosed in the Consolidated Statement of Comprehensive Net Income is affected by two elements of claims: the amount of new claims received in the year, and the effect of reassessing the value of previously reported claims.

The FCF maintains a provision for claims that a pension scheme, with an insolvent sponsor, has lost money through dishonesty.

Accounting policies

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

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

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

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

Within the FCF, the Board recognises provisions for claims where it is probable that an eligible pension scheme has suffered a loss due to an act of dishonesty. Where the success of a claim is judged possible, but less than probable, a contingent liability is disclosed.

Key judgements and estimates

The calculation of the costs of claims on both the PPF and the FCF relies on actuarial assumptions for the valuation of scheme liabilities and techniques such as rolling forward asset values as at a date prior to the Board's accounting date using investment indices (see page 135 for the PPF).

Paying compensation continued

Claims on the PPF

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

	Number of schemes		2018	2017
	2018	2017	£m	£m
Claims provisions at start of year	98	120	674.4	1,262.9
Current year claims for compensation				
Protected liabilities			6,338.7	837.4
Scheme assets including recoveries			(5,155.7)	(585.6)
Total current year claims for compensation	47	44	1,183.0	251.8
Revaluation of claims for compensation				
Release of provision for schemes no longer considered probable for entry	(10)	(4)	6.9	(5.0)
Revaluation of provisions brought forward from previous year end			(123.7)	(285.8)
Change in provisions for schemes transferring into the Protection Fund during the year			(46.9)	(34.7)
Revaluation of claims			(163.7)	(325.5)
Release of provisions for claims transferred to the PPF	(46)	(62)	(54.4)	(514.8)
Claims provisions at end of year	89	98	1,639.3	674.4

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

	2018	2017
	£m	£m
Total estimated actuarial liabilities for schemes in assessment	8,039.0	6,080.2
Total assets owned by schemes in assessment	(6,399.7)	(5,405.8)
Total net deficits of schemes in assessment	1,639.3	674.4

Claim provisions at the end of the year comprise 42 schemes for which provisions were made at the end of the previous year and have been revalued (2017: 54), and 47 new claims (2017: 42). New claims include the 10 Carillion pension schemes which are in deficit on a PPF basis.

Total current year claims for compensation include no schemes in assessment estimated to be surplus at the previous year end but which are now estimated to be in deficit (2017: 2 schemes).

The Appointed Actuary's Supplementary Report, in particular Annex S6, gives further information on these provisions.

Contingent liabilities for possible claims on the PPF

The total value of claims on the PPF identified by the Appointed Actuary as reasonably foreseeable at 31 March 2018, net of the value of related scheme assets, was estimated as £2,843.7m (2017: £1,869.9m). Further analysis is given in Annex S6 of the Actuarial Valuation.

This does not include any increase to the PPF compensation payable to individuals if the judgment from the European Court of Justice follows the opinion of its Advocate General (given in April 2018) in respect of a directly effective minimum individual level of insolvency protection. It is not possible to establish the extent of any financial impact until judgment has been handed down and there is clarity on the scope of any further compensation obligations.

Claims on the FCF

Claims provisions, current year claims for compensation, the revaluation of claims for compensation and the total estimate of contingent liabilities relating to the FCF are summarised below. There were no new claims and three claims were settled.

	Number of schemes	2018 £m	Number of schemes	2017 £m
Claims provisions at start of year	3	1.3	2	0.7
Revaluation of claims for compensation		0.1		-
New claims	-	-	1	0.6
Paid claims	(3)	(1.4)	-	-
Claims provisions at end of year	-	-	3	1.3

Contingent liabilities for possible claims on the FCF

The value of possible future claims on the FCF at 31 March 2018 was estimated at £nil (2017: £2.5m relating to two schemes). We have received four applications for claims amounting to £35.4m but for which there is uncertainty as to their eligibility and to the validity of the amounts claimed. Therefore these have not been included.

Funding compensation

Levy income, grants and investment management

This section describes how the PPF and the FCF fund their obligations to pay compensation to members.

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

The PPF is funded principally from four main sources:

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

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

3. Operating income

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

Income from levies

*The Consolidated Statement of Comprehensive Net Income shows that **total levy income decreased by £43.9m to £541.3m, £537.0m for the PPF itself and £4.3m for the FCF**. The decrease was due in part to income from last man standing schemes of £20.4m in 2016/17.*

The current year's PPF levy of £542.6m was £72.4m less than the levy estimate of £615m. This was primarily due to better than expected scheme funding, largely driven by new scheme data and market movements that were more favourable than anticipated.

The principles, policies and procedures for levy assessment and invoicing are explained at www.pensionprotectionfund.org.uk/levy/Pages/PensionProtectionLevy.aspx.

Accounting policy

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

Provisions are made for amounts which may have to be credited or repaid following levy payers' appeals. Movements on these provisions are accounted for as adjustments to levy income. Invoiced amounts which cannot be collected from schemes are written off to operating expenses.

Funding compensation continued

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

	2018 £m	2017 £m
Risk-based levies in respect of the current year	514.1	542.8
Scheme-based levies in respect of the current year	28.5	26.8
Total protection levies in respect of the current year	542.6	569.6
Risk-based levies in respect of prior years	(5.5)	15.5
Scheme-based levies in respect of prior years	(0.1)	0.1
Total protection levies in respect of prior years	(5.6)	15.6
Income from protection levies	537.0	585.2
Income from fraud compensation levy	4.3	-
Total income from levies	541.3	585.2

Risk-based levies in respect of prior years for 2016/17 include £20.4m relating to a review of invoices for schemes where there was a question about whether they have a last man standing scheme structure in place. Last man standing schemes are multi-employer schemes with rules that do not include an option or requirement to segregate assets if an employer ceases to participate but are not centralised schemes.

The Board raised a fraud compensation levy of £4.3m in 2017/18 (2016/17: no levy raised). The levy is collected by TPR on the Board's behalf.

Income from grants

The Consolidated Statement of Comprehensive Net Income shows that income from grants decreased by £2.7m to £22.2m. Grants are received from the DWP to fund PPF and FAS operational expenses. Grants from the DWP relating to the PPF are funded by an administration levy applied to eligible UK pension schemes.

Accounting policy

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

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

	2018 £m	2017 £m
Levy payer funds	14.2	13.2
Tax payer funds	8.0	11.7
Total	22.2	24.9

4. Financial instruments

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

Accounting policy

Classification

Financial instruments are classified at initial recognition as one of:

- financial assets or liabilities at fair value through profit or loss, separated by:
 - (a) those designated at fair value through profit or loss upon initial recognition
 - (b) those classified as held for trading (mainly derivatives – interest rate swaps, inflation rate swaps, options, credit default swaps and forward foreign exchange contracts to support LDI), or
- other financial assets or liabilities are categorised as:
 - (a) loans and receivables
 - (b) financial liabilities held at amortised cost.

Recognition and derecognition

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

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

Measurement

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

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

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

Key judgements and estimates

The choice of valuation technique and inputs to the valuation methodology (whether based on observable market data or not) are matters of judgement and involve the use of estimates. The amounts eventually realised from these financial instruments may differ from the estimated values disclosed in these accounts.

Funding compensation continued

Classification of financial instruments at 31 March 2018

	Financial instruments designated at fair value through profit and loss	Financial instruments held for trading	Total financial instruments measured at fair value	Loans and receivables	Financial liabilities held at amortised cost	Total financial instruments
	£m	£m	£m	£m	£m	£m
Net investment portfolio	26,497.2	143.6	26,640.8	3,431.5	(206.6)	29,865.7
Cash and cash equivalents	-	-	-	17.3	-	17.3
Levy receivables	-	-	-	8.5	-	8.5
Transfer-in receivables	-	-	-	23.3	-	23.3
Other assets	-	-	-	0.6	-	0.6
Other liabilities	-	-	-	-	(58.0)	(58.0)
Total	26,497.2	143.6	26,640.8	3,481.2	(264.6)	29,857.4

Classification of financial instruments at 31 March 2017

	Financial instruments designated at fair value through profit and loss	Financial instruments held for trading	Total financial instruments measured at fair value	Loans and receivables	Financial liabilities held at amortised cost	Total financial instruments
	£m	£m	£m	£m	£m	£m
Net investment portfolio	26,937.4	(1,039.8)	25,897.6	3,097.9	(333.1)	28,662.4
Cash and cash equivalents	-	-	-	43.1	-	43.1
Levy receivables	-	-	-	16.3	-	16.3
Transfer-in receivables	-	-	-	21.1	-	21.1
Other assets	-	-	-	0.5	-	0.5
Other liabilities	-	-	-	-	(68.0)	(68.0)
Total	26,937.4	(1,039.8)	25,897.6	3,178.9	(401.1)	28,675.4

4a. Net investment portfolio

The Consolidated Statement of Financial Position shows that at the year end the PPF and the FCF together had **gross investment assets valued at £38.3b and investment liabilities of £8.4b, a net investment portfolio of £29.9b.** The Consolidated Statement of Comprehensive Net Income shows **a net investment return (income and gains less investment expenses) of £907.0m.**

The Board's approach to investment is summarised in the SIP Principles (www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/SIP_September_2017.pdf) (SIP) which summarises investment management governance, objectives, risk management, strategy, fund management and custody. The FCF has its own SIP. The day to day fund management of the assets is performed by external fund managers and an in-house team of investment professionals.

The Board holds a wide range of investment assets and liabilities including UK Government bonds, bonds issued by other governments and corporate entities, public equity and alternative investments. To help manage the risks associated with its long-term liabilities to pay compensation to members, the Board has a programme of UK Government bonds sale and repurchase agreement transactions and derivatives (principally interest rate and inflation swaps). The Performance Report 'Funding strategy on track' section (pages 24-26) comments on the PPF's investment performance.

Funding compensation continued

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

	2017	Assets transferred from schemes in assessment	Net purchases/ (sales)	Net gains/ (losses)	Other movements	2018
	£m	£m	£m	£m	£m	£m
Annuities	388.1	40.0	0.1	(63.1)	-	365.1
Corporate bonds	2,892.9	-	1,302.0	(101.6)	(80.1)	4,013.2
Index-linked corporate bonds	383.9	-	(47.4)	(4.2)	3.7	336.0
Government bonds	14,748.2	75.6	(1,928.4)	(46.3)	(84.7)	12,764.4
Index-linked government bonds	2,209.9	87.0	(1,890.3)	(33.9)	17.3	390.0
Other debt	3,677.1	-	(119.7)	(71.9)	(11.3)	3,474.2
Public equity	2,122.1	-	307.7	95.0	(1.0)	2,523.8
Private equity	1,000.7	0.8	7.7	17.5	-	1,026.7
Global tactical asset allocation	601.2	0.2	160.5	25.1	-	787.0
Investment property funds	906.5	1.1	53.4	46.4	(4.8)	1,002.6
Investment property held directly	623.6	-	(36.1)	41.1	-	628.6
Infrastructure	458.9	0.3	74.2	18.3	-	551.7
Timberland & farmland	362.4	-	15.3	(1.4)	-	376.3
	30,375.5	205.0	(2,101.0)	(79.0)	(160.9)	28,239.6
Other investment assets						
Unsettled trades	117.7					166.9
Derivatives	13,484.5					6,222.8
Cash at fund managers	2,869.3					3,164.9
Repurchase agreements	-					362.6
Accrued income	110.9					107.3
Total investment assets	46,957.9					38,264.1
Other investment liabilities						
Unsettled trades	(333.1)					(206.6)
Derivatives	(14,524.3)					(6,079.2)
Repurchase agreements	(3,438.1)					(2,105.0)
Interest payable	-					(7.6)
Total investment liabilities	(18,295.5)					(8,398.4)
Net investment portfolio	28,662.4					29,865.7

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

The value of derivative assets and liabilities have decreased by £7,261.7m and £8,445.1m respectively due to a reduction in the number of positions held.

The amount of the net investment portfolio expected to be recovered or settled within 12 months are assets of £4,091.1m and liabilities of £1,979.9m (2017: assets of £3,528.7m and liabilities of £4,013.2m).

4b. Financial instruments measured at fair value

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

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

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

- sovereign and corporate debt instruments
- managed funds investing in securities and properties
- derivatives, and
- repurchase agreement liabilities.

Sovereign and corporate debt instruments are valued using prices provided by price aggregation services, which source prices from authorised brokers and dealers. These debt instruments are readily realisable.

Holdings of managed funds are normally valued based on unit prices based on the current net asset values of the underlying assets. Derivative assets and liabilities are valued using discounted cash flow and options pricing models. These models use independently sourced market parameters as their basis including, for example, interest rate yield curves, inflation rates, option volatilities and currency rates.

The valuation of repurchase agreement liabilities reflects amounts borrowed from counterparties.

Level 3 instruments are valued using valuation techniques utilising unobservable inputs. Level 3 assets are largely private equity funds and other funds not traded in active markets. These funds are asked to supply audited annual accounts, which are mostly presented in accordance with IFRS or US generally accepted accounting principles. Insurance policy assets are valued by the PPF using actuarial models.

Various valuation techniques are used to value Level 3 instruments. The diversity of instruments held and techniques used makes the disclosure of quantitative information, including the sensitivity of fair value measurement to significant unobservable inputs, impractical.

Funding compensation continued

Financial instruments measured at fair value at 31 March 2018

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Annuities	-	-	365.1	365.1
Corporate bonds	1.2	2,424.9	1,587.1	4,013.2
Index-linked corporate bonds	-	207.3	128.7	336.0
Government bonds	-	12,754.5	9.9	12,764.4
Index-linked government bonds	-	371.2	18.8	390.0
Other debt	395.9	2,183.2	895.1	3,474.2
Public equity	2,000.5	514.0	9.3	2,523.8
Private equity	-	-	1,026.7	1,026.7
Global tactical asset allocation	-	497.7	289.3	787.0
Investment property funds	106.1	464.8	431.7	1,002.6
Investment property held directly	-	-	628.6	628.6
Infrastructure	-	-	551.7	551.7
Timberland & farmland	-	-	376.3	376.3
Derivatives	(2.1)	145.7	-	143.6
Repurchase agreements	-	(1,742.4)	-	(1,742.4)
Total	2,501.6	17,820.9	6,318.3	26,640.8

Financial instruments measured at fair value at 31 March 2017

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Annuities	-	-	388.1	388.1
Corporate bonds	1.8	2,276.8	614.3	2,892.9
Index-linked corporate bonds	-	285.7	98.2	383.9
Government bonds	-	14,748.2	-	14,748.2
Index-linked government bonds	-	2,207.0	2.9	2,209.9
Other debt	316.0	2,551.6	809.5	3,677.1
Public equity	1,583.7	528.3	10.1	2,122.1
Private equity	-	-	1,000.7	1,000.7
Global tactical asset allocation	-	601.2	-	601.2
Investment property funds	104.4	462.2	339.9	906.5
Investment property held directly	-	-	623.6	623.6
Infrastructure	-	-	458.9	458.9
Timberland & farmland	-	-	362.4	362.4
Derivatives	(1.1)	(1,038.7)	-	(1,039.8)
Repurchase agreements	-	(3,438.1)	-	(3,438.1)
Total	2,004.8	19,184.2	4,708.6	25,897.6

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

Level 3 financial instruments

	2018 £m	2017 £m
Balance at start of year	4,708.6	2,556.3
(Losses)/gains included in the statement of comprehensive net income	(106.9)	583.2
Purchases and assets transferred in	1,810.1	1,303.2
Sales	(575.0)	(328.8)
Transfers into Level 3	481.5	840.4
Transfers out of Level 3	-	(245.7)
Balance at end of year	6,318.3	4,708.6

Transfers into Level 3 during the year relate to corporate bonds, index-linked corporate bonds, government bonds, other debt, equity and investment property funds reclassified from Level 2.

In addition to the above, £54.1m of equities previously shown as Level 2 were transferred to Level 1.

4c. Investment property held directly

Accounting policy

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

At 31 March 2018, the Board owned 30 (2017: 32) commercial properties in the UK, with a total fair value of £628.6m (2017: £623.6m). Rental income recognised was £35.2m (2017: £32.8m). Direct operating expenses were not material. There were no restrictions on the realisation of property, income or disposal proceeds.

As at the year end, total future rental income under the leases was:

	2018 £m	2017 £m
Not later than one year	34.6	32.1
Later than one year but not later than five years	128.3	127.0
Later than five years	398.8	422.7
Total	561.7	581.8

Funding compensation continued

5. Net investment return

Accounting policy

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

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

Change in fair value of investments includes:

- gains and losses realised on the disposal of investments
- unrealised gains and losses on investments held at the accounting date (the difference between acquisition cost and current fair value), and
- gains and losses arising from the translation of investments (including cash, payables and receivables) denominated in foreign currencies into sterling.

Investment expenses are accounted for on an accruals basis.

	Net investment income	Change in fair value of investment	Total 2018	Net investment income	Change in fair value of investment	Total 2017
	£m	£m	£m	£m	£m	£m
Investment return						
Financial instruments designated at fair value through profit and loss	540.3	(4.1)	536.2	560.2	3,513.1	4,073.3
Financial instruments held for trading	21.9	536.1	558.0	95.4	(119.3)	(23.9)
Interest from loans and receivables	48.7	(93.0)	(44.3)	46.2	16.4	62.6
Financial liabilities held at amortised cost	-	0.4	0.4	-	4.6	4.6
Total investment return	610.9	439.4	1,050.3	701.8	3,414.8	4,116.6
Investment expenses						
Fund management fees			(127.5)			(140.4)
Custody charges			(1.9)			(1.8)
Transaction costs			(13.9)			(10.5)
Total investment expenses			(143.3)			(152.7)
Net investment return			907.0			3,963.9

Financial risk management

Managing the payment and funding of member compensation described in the previous sections involves financial risk. The most important categories of financial risk, and the ways in which the Board manages them, are described in Section 4 of the PPF SIP (www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/SIP_September_2017.pdf).

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

- **PPF credit risk** (which also includes SIP counterparty risk) – note 6
- **PPF liquidity risk** – note 7, and
- **PPF market risk** (which includes SIP valuation risk and currency risk) – note 8.

These disclosures are followed by notes on:

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

6. PPF credit risk

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

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

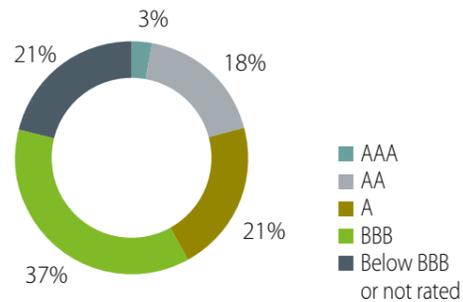
- counterparties to derivative contracts are subject to overall exposure limits and, where credit quality requires, are subject to increased collateral requirements
- a range of limits apply to counterparties to derivatives contracts and repurchase agreements
- fund managers invest in credit-sensitive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

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

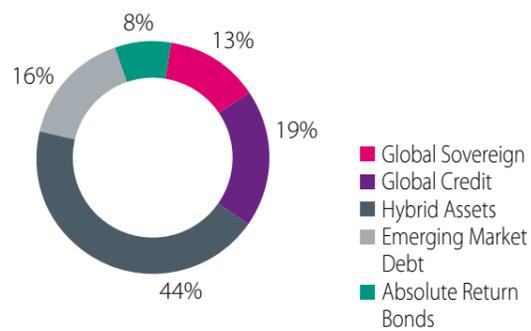
Financial risk management continued

As at 31 March 2018, the rating distribution of the fixed income investment portfolio (excluding UK gilts and derivatives) was as follows:

Fixed Income Portfolio Allocation (£6.8b) by Rating Category

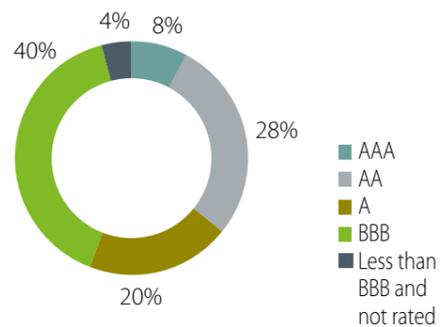


Fixed Income Portfolio Allocation (£6.8b) by Asset Type

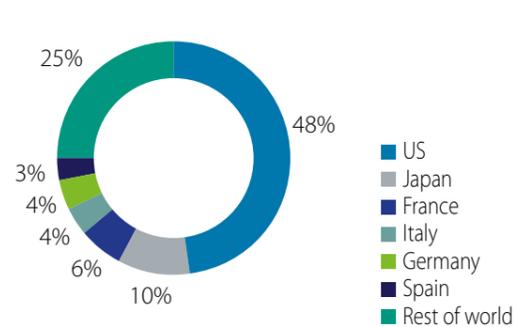


Within fixed income, the Global Credit portfolio is further analysed below:

Global Credit and Global Sovereign Allocation (£2.1b) by Rating Category



Global Credit and Global Sovereign Allocation (£2.1b) by Country



A one basis point move in credit spread across the Fund's fixed income portfolio results in a change in market value of approximately £5.4m, the largest contributors to this being Hybrid Assets and Global Credit.

Levy receivables

Levy receivables at 31 March are summarised below. 'Past due' is defined as older than 28 days, the time allowed for levy payers either to pay or to request a review of their levy invoice.

	Not yet due	Up to 3 months past due	3-6 months past due	Over 3-6 months past due	Total
	£m	£m	£m	£m	£m
2018	0.6	1.0	0.3	6.6	8.5
2017	8.4	0.4	0.1	7.4	16.3

7. PPF liquidity risk

Liquidity risk is the possibility that the PPF has insufficient cash available to settle its financial liabilities as they fall due. These liabilities include:

- compensation to members
- collateral calls on the derivative portfolio
- repurchase agreements
- investment commitments to fund managers, for example, capital calls on private equity and infrastructure investments, and
- staff pay and associated costs, and other operating expenses.

We are averse to liquidity risk. Cash requirements and operational cash balances are monitored and forecast regularly. A significant volume of financial instruments could readily be liquidated should the need arise. Additionally, we monitor liquidity risk in certain stress scenarios and maintain contingency plans should any liquidity constraints arise.

Financial risk management continued

Financial liabilities

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

	Within 1 year £m	1-5 years £m	5-10 years £m	Over 10 years £m	Total £m
2018	73.9	211.5	652.3	5,141.5	6,079.2
2017	242.0	428.0	502.8	13,351.5	14,524.3

Paying compensation to members

Future payments to members are projected in estimating the actuarial liabilities reported in the Consolidated Statement of Financial Position – see note 1 and the Actuarial Valuation. Payments to members in the year totalled £724.5m (2016: £661.3m).

Collateral arrangements

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

	2018 £m	2017 £m (restated)
Securities subject to sale and repurchase agreements	2,145.0	3,486.3*
Funds paid as collateral for reverse sale and repurchase agreements	362.6	-
Securities lent to market counterparties	376.0	550.6
Total assets provided subject to collateral and similar arrangements with counterparties	2,883.6	4,036.9
Funds received as collateral for sale and repurchase agreements	2,105.0	3,438.1
Securities subject to reverse sale and repurchase agreements	355.0	-
Collateral received from counterparties	391.2	571.5
Total assets received subject to collateral and similar arrangements from counterparties	2,851.2	4,009.6

* The value previously disclosed for securities subject to sale and repurchase agreements of £6,091.2m represented the total value of bonds subject to repurchase agreements. This has been restated to reflect the proportional value of the bonds subject to repurchase agreements.

Capital commitments

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

	2018	2018 £m	2017	2017 £m
Denominated in US dollars	\$2,064.6m	1,473.9	\$2,054.7m	1,645.5
Denominated in Euros	€654.2m	575.6	€652.8m	554.4
Denominated in Australian dollars	A\$191.2m	104.9	A\$149.4m	91.5
Denominated in Sterling	£27.9m	27.9	£56.1m	56.1
Total		2,182.3		2,347.5

8. PPF market risk

Market risk is the risk that the fair value of 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.

Overall exposure to market risk is managed and illustrated in a number of ways.

Annexes S5 and S7 of the Appointed Actuary's Supplementary Report illustrates the sensitivity of the PPF's assets and liabilities to changes in the rates of a wide variety of financial and non-financial factors including interest rates, inflation rates, changes in market prices and mortality assumptions.

We measure, monitor and manage our market risk exposures using a combination of sensitivities, spread measures, tail risk measures and stress tests. Sensitivities we use encompass market standard metrics. Where we want to look at the potential impact of an event or specified shock on the portfolio as a whole, we run stress tests to enable us to quantify the net income impact.

Financial risk management continued

Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting similar financial instruments traded in the market. The PPF's financial instruments are carried at fair value and fair value changes are recognised in the Consolidated Statement of Comprehensive Net Income,, therefore all changes in market conditions will directly affect total investment return.

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

Asset class

	2018 £m	Actual %	Tolerance range
Global bonds	4,185.8		
UK bonds and cash	13,621.4		
Cash and Bonds	17,807.2	60.5%	44%-74%
Public equity	2,726.1	9.4%	7%-12%
Alternatives (including property)	5,771.6	19.6%	18%-23%
Hybrid assets	3,048.6	10.5%	8%-13%
Total assets allocated per SIP	29,353.5	100.0%	

Alongside the strategic allocation, the SIP permits tactical investment to enhance return or to control risk within the overall risk appetite set by the Board. The actual investment values disclosed above incorporate tactical positions held at 31 March 2018 but exclude assets and liabilities held solely for hedging purposes.

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 valuation of the PPF's liabilities is sensitive to movements in interest rates. This interest rate risk is hedged as part of the LDI programme. The fixed income assets in which the PPF invests as part of its SIP are also sensitive to movements in interest rates.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The PPF's liabilities are in sterling. The PPF's investment policy is to operate a currency management strategy to apply an optimal currency hedging ratio based on the characteristics of the related asset classes. At 31 March the residual unhedged foreign currency exposure is as follows:

Asset class

	2018 £m	2018 %	2017 £m	2017 %
Euro	97.8	10.7%	186.1	16.7%
US dollar	108.0	11.8%	331.9	29.9%
Australian dollar	56.6	6.2%	73.8	6.6%
Egyptian Pound	172.7	18.9%	39.6	3.6%
Nigerian Naira	83.0	9.1%	(14.3)	(1.3)%
Other currencies	395.7	43.3%	493.9	44.5%
Total	913.8	100.0%	1,111.0	100.0%

Financial risk management continued

9. FCF financial risks

The FCF has £12.2m (2017: £11.3m) of money market funds and provisions valued at £nil (2017: £1.3m). The Board's policy is to build up a reserve in the Fund by raising levies over a number of years. The FCF is at risk of a large and urgent claim, or a number of such claims occurring closely together which would require prompt settlement. The Board is aware of the potential for significant claims with regard to pensions liberation cases and during the year four claims have been received. There remains uncertainty as to their eligibility and the validity of the amounts claimed.

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

Liquidity risk – the FCF is not exposed to significant liquidity risks as assets are readily realisable. Additionally, the time required to assess new claims would allow the FCF to raise any further funding needed.

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

10. Administration Funds risks

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

Operating the business

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

11. Operating expenses

Operating expenses have increased by £6.8m to £67.2m. Insourcing investment and FAS administration services has contributed to an increase in costs in the year. The costs of investment insourcing are more than offset by the reduction in external fund manager fees in the LDI portfolio of over 75 per cent. The cost of FAS insourcing will provide efficiency savings in the long-term.

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

Total operating expenses in 2018 are summarised as follows:

	PPF	PPF Administration Fund	FAS Administration Fund	2018
	£m	£m	£m	£m
Staff costs				
Wages and salaries	16.0	5.8	1.6	23.4
Social security costs	1.9	0.7	0.2	2.8
Other pension costs	2.6	1.0	0.3	3.9
Short-term, seconded and temporary staff	0.2	0.1	-	0.3
Total staff costs	20.7	7.6	2.1	30.4
Other costs				
Member payroll services	0.4	-	4.3	4.7
Staff related and recruitment	1.2	0.4	0.1	1.7
Advisory and other professional services	6.2	3.1	1.6	10.9
Statutory audit costs	0.2	-	-	0.2
Accommodation and general office	2.6	0.6	0.2	3.4
IT and telephony	9.3	2.2	0.5	12.0
Depreciation and amortisation charges	3.9	-	-	3.9
Total other operating expenses	23.8	6.3	6.7	36.8
Total operating expenses	44.5	13.9	8.8	67.2

Statutory audit costs were £180,000 (2017: £170,000).

Operating the business continued

	PPF	PPF Administration Fund	FAS Administration Fund	2017
	£m	£m	£m	£m
Staff costs				
Wages and salaries	13.5	4.9	1.6	20.0
Social security costs	1.6	0.5	0.2	2.3
Other pension costs	2.3	1.0	0.2	3.5
Short-term, seconded and temporary staff	1.5	0.6	0.1	2.2
Total staff costs	18.9	7.0	2.1	28.0
Other costs				
Member payroll services	0.3	0.1	5.0	5.4
Staff related and recruitment	0.5	0.6	-	1.1
Advisory and other professional services	4.2	3.2	0.2	7.6
Statutory audit costs	0.2	-	-	0.2
Accommodation and general office	2.0	0.8	0.1	2.9
IT and telephony	8.6	2.5	0.5	11.6
Depreciation and amortisation charges	3.6	-	-	3.6
Total other operating expenses	19.4	7.2	5.8	32.4
Total operating expenses	38.3	14.2	7.9	60.4

Information on the staff numbers and exit packages can be found in the Remuneration and staff report on pages 68 to 75.

Pensions

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

The PCSPS is an unfunded, multi-employer DB salary related scheme and the Board is unable to identify its share of underlying assets and liabilities. DB contributions are therefore accounted for by the Board as if they were contributions to a DC scheme. A full actuarial valuation of PCSPS was carried out as at 31 March 2015 and details can be found in the Cabinet Office: Civil Superannuation Resource Accounts (www.civilservicepensionscheme.org.uk/about-us/resource-accounts).

During the year to 31 March 2018, employer contributions of £3.9m (2017: £3.4m) were payable to the DB section of the PCSPS at one of four rates in the range 20 per cent to 24.5 per cent (2017: 20 per cent to 24.5 per cent). Employer contributions for the year ended 31 March 2019 are expected to be approximately £5.0m. The scheme's actuary reviews employer contributions every four years following a full scheme valuation. These contribution rates reflect the benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme. Employees of the Board can opt to open a partnership pension account, which is a stakeholder pension with an employer contribution. Employer contributions of £69,000 (2017: £51,000) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions were age-related and range from eight per cent to 14.75 per cent (2017: eight per cent to 14.75 per cent) of pensionable pay, and employers also match employee contributions up to three per cent of pensionable pay. In addition, employer contributions were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees. Accrued pension contributions at 31 March 2018 were £331,000 (2017: £307,000) and were paid in April 2018.

Operating the business continued

12. Property, equipment and intangible assets

The PPF's property and equipment comprise IT hardware, furniture and fittings. Intangible assets are mainly the value of internally developed software.

Accounting policy

All property, equipment and intangible assets are initially recorded at cost.

Property and equipment – IT hardware and furniture and fittings are capitalised if the cost of purchase, either as a single item or as a group of related items bought for a common purpose, exceeds £1,000.

Intangible assets – the costs of major software licences, development and enhancement are capitalised and amortised over their expected useful lives. Software maintenance costs are written off as incurred.

Depreciation and amortisation – depreciation and amortisation are provided at rates calculated to write down the cost (less any estimated residual value) of each asset on a straight line basis over its expected useful life as follows:

IT hardware	four years
Other assets (including intangibles)	three years

	IT hardware	Furniture & fittings	Assets under construction	Intangible assets	Total
	£m	£m	£m	£m	£m
Cost					
At 1 April 2017	13.9	0.7	2.8	2.9	20.3
Additions in the year	-	-	1.9	-	1.9
Assets brought into use	0.7	-	(0.7)	-	-
At 31 March 2018	14.6	0.7	4.0	2.9	22.2
Depreciation and amortisation					
At 1 April 2017	(8.5)	(0.5)	-	(2.1)	(11.1)
Charged in the year	(3.4)	(0.2)	-	(0.3)	(3.9)
At 31 March 2018	(11.9)	(0.7)	-	(2.4)	(15.0)
Net book value at 31 March 2018	2.7	-	4.0	0.5	7.2

	IT hardware	Furniture & fittings	Assets under construction	Intangible assets	Total
	£m	£m	£m	£m	£m
Cost					
At 1 April 2016	13.8	0.7	0.7	2.1	17.3
Additions in the year	-	-	3.0	-	3.0
Assets brought into use	0.1	-	(0.9)	0.8	-
At 31 March 2017	13.9	0.7	2.8	2.9	20.3
Depreciation and amortisation					
At 1 April 2016	(5.2)	(0.3)	-	(2.0)	(7.5)
Charged in the year	(3.3)	(0.2)	-	(0.1)	(3.6)
At 31 March 2017	(8.5)	(0.5)	-	(2.1)	(11.1)
Net book value at 31 March 2017	5.4	0.2	2.8	0.8	9.2

13. Operating lease commitments

The Board occupies two business premises under commercial leases, comprising rent, property service charges and the installation of certain fixtures and fittings. The lease for our Croydon premises has a period of 15 years from March 2014 with a rent review due after five years. The lease for our Cannon Street premises has a period of 10 years from December 2017 with a rent review due after five years.

Accounting policy

The commercial leases are treated as an operating lease as defined in IAS 17 Leases. Payments under these leases are charged to the Consolidated Statement of Comprehensive Net Income on the basis of amounts payable in the year.

During the year, the PPF made lease payments of £1.1m (2017: £1.1m). As at the year end the total future minimum payments under these arrangements were:

	2018	2017
	£m	£m
Not later than one year	1.3	1.1
Later than one year but not later than five years	5.6	4.3
Later than five years	6.8	7.5
Total	13.7	12.9

14. Segmental analysis

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

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

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

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

Operating the business continued

Consolidated Statement of Comprehensive Net Income

For the year ended 31 March	2018 £m	2017 £m
PPF		
Net operating surplus	492.5	546.9
Net investment return	907.0	3,963.9
Net cost of claims	(715.7)	(2,504.5)
Net comprehensive income	683.8	2,006.3
FCF		
Net comprehensive income/(expense)	4.2	(0.6)
Administration Funds		
Income from grants	22.2	24.9
Operating expenses	(22.7)	(22.1)
Net comprehensive (expense)/ income	(0.5)	2.8
Consolidated net comprehensive income	687.5	2,008.5

Consolidated Statement of Financial Position

For the year ended 31 March	2018 £m	2017 £m
Total assets less total liabilities		
PPF	6,746.1	6,062.3
FCF	14.3	10.1
Administration Funds	(0.3)	0.2
Consolidated Statement of Financial Position	6,760.1	6,072.6

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

15. Subsidiaries

A small proportion of the Board's investment portfolio is held through subsidiaries. As at 31 March 2018 these were:

- PPF Nominee 1 B.V. (a company registered in the Netherlands)
- PPF Nominee 2 B.V. (a company registered in the Netherlands)
- Crown Secondary Placement Plc (a company registered in Ireland)
- PPF Real Estate Nominee 1 Limited (a company registered in the United Kingdom)
- PPF Real Estate Nominee 2 Limited (a company registered in the United Kingdom)
- PPF Real Estate Nominee 3 Limited (a company registered in the United Kingdom)
- PPF Real Estate Nominee 4 Limited (a company registered in the United Kingdom)
- Emso Opportunity Strategies Fund 2 Ltd (a company registered in the Cayman Islands), and
- III Absolute Return Fund Ltd (a company registered in the Cayman Islands).

The subsidiaries do not operate separately from the PPF's overall investment management processes, and the relevant assets, liabilities, income and expenses are fully consolidated and recorded within the appropriate asset classes in the PPF's accounting records. All subsidiaries are 100 per cent owned by the Board. The Cayman Islands registered companies have 31 December year ends and all the others have 31 March year ends.

16. Related party transactions

£22.2m (2017: £24.9m) was received from DWP in grants. DWP is the sponsoring department of the PPF. There are no other related party transactions to disclose other than transactions with subsidiaries shown in note 15.

17. Events after the reporting period

There have been no material events after the reporting period.

The financial statements were authorised for issue by the Accounting Officer on 3 July 2018, the date the Comptroller and Auditor General certified them.

The financial statements do not reflect events after this date.

05

Actuarial reports



Summary of the principal findings of the two actuarial valuation reports

Over the year to 31 March 2018 the PPF's surplus (across both transferred schemes and those in assessment) increased to £6.7b, from £6.1b at 31 March 2017. (This corresponds to an increase in funding level to 122.8 per cent from 121.6 per cent). The main factors influencing this improvement in funding were:

- a total investment return from return-seeking assets of £0.8b, along with levy receipts of £0.5b, have acted to increase our assets and surplus, and
- changes in data, the expenses loading and the assumptions used to value the liabilities to reflect the most recent trends, mainly updates to best estimates of future Consumer Price Index (CPI) inflation and mortality improvements, have also increased the surplus by £0.8b.

These items have been offset by a shortfall of assets compared with liabilities of £1.2b in respect of new schemes entering a PPF assessment period. Although there were 47 such claims, almost all of the shortfall arose from a small number of large claims.

Although the reported funding level has not materially changed, the liabilities in respect of schemes in an assessment period has increased by around £2b. This is largely due to the small number of large claims over the year.

The number of members receiving compensation from the PPF has increased by around 6,000, reflecting both the 46 schemes that have transferred to the PPF over the year and retirements in those schemes that had transferred before that.

The table below summarises the results, broken down between schemes that are already in the PPF (and covered in my main valuation report) and those that are currently in an assessment period but are expected to transfer (covered in my supplementary valuation report, which also provides information on the contingent liabilities).

	Transferred schemes	Schemes in an assessment period	Total
Assets (£m)	29,896.9	6,399.7	36,296.6
Liabilities (£m)	21,511.5	8,039.0	29,550.5
Surplus (£m)	8,385.4	(1,639.3)	6,746.1
Funding level (assets/liabilities)	139.0%	79.6%	122.8%
Number of pensioners	135,366	51,595	186,961
Number of deferred pensioners	108,020	52,786	160,806

Actuarial valuation of the Pension Protection Fund

To: The Board of the PPF

From: Lisa McCrory, Appointed Actuary to the Board of the PPF

The actuarial valuation of the PPF as at 31 March 2018¹

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 13th actuarial valuation of the PPF. The effective date of this valuation is 31 March 2018. The previous actuarial valuation was carried out as at 31 March 2017 by Danny Wilding (Barnett Waddingham), and the report on that valuation was dated 21 June 2017.

At its meeting on 19 September 2017, the Board appointed me to prepare this annual actuarial valuation of the assets and liabilities of the PPF for inclusion in its annual report and accounts as at 31 March 2018. As required by paragraph 22(S) 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 for Work and Pensions and also to the Comptroller and Auditor General. However, this report is not intended to assist any user other than the Board in making decisions or for any other purpose.

This report does not contain advice on the funding of compensation payable from the PPF. In particular, the results of this valuation are not used directly in the setting of the PPF levy.

This valuation complies with the principles set out in the Technical Actuarial Standard TAS 100 ('Principles for Technical Actuarial Work') which came into force in July 2017. This report should be considered alongside my supplementary report dated 25 June 2018 and included below. Given the scope of the work, the processes and calculations underlying the report, together with the report itself, are subject to an independent peer review under the Actuarial Profession's practice standard APS X2 ('Review of Actuarial Work'). This has been done by the Government Actuary's Department.

The methodology used for the valuation as at 31 March 2018 is broadly the same as that adopted for the valuation as at 31 March 2017. Consistent with last year's approach, liabilities were initially calculated as at 28 February 2018 using membership data in January 2018 (or in a few cases, just after) and market conditions as at 28 February 2018, and then adjusted to reflect the passage of time and changes to market conditions between 28 February 2018 and 31 March 2018. Based on the experience to 31 March 2018, adopting this approach does not materially affect the accuracy of the results compared with using data and market conditions as at 31 March 2018.

¹ This report deals solely with schemes that have transferred before 31 March 2018. My supplementary report also includes those schemes that are currently in assessment but are expected to transfer.

Actuarial valuation of the Pension Protection Fund continued

2. Membership data

As at 31 March 2018, 939 schemes had transferred to the PPF. Compensation payments due to members of these schemes and their associated expenses form the liabilities reported on in this report. Data in respect of the 939 transferred schemes has been received from two sources:

- for the 931 schemes where responsibility for the administration transferred to the PPF on or before 28 February 2018, individual member data has been provided by the PPF's internal administration team. For schemes that transferred before 31 January, the effective date of this data is 17 January 2018. For schemes that transferred in February, the effective date is 21 February 2018, and
- for the eight schemes transferring in March 2018, the liabilities were determined from the latest s179 valuation provided as part of the scheme returns submitted to the Exchange database maintained by The Pensions Regulator. Liabilities calculated in this way account for about 0.2 per cent of the total liabilities in respect of schemes which have transferred to the PPF.

Owing to the timescale for providing valuation results, it was necessary to receive extracts of data at a date before the effective date of the valuation. This is the same process as adopted for the valuation at 31 March 2017. Adjustments have been applied to ensure the data is consistent with the valuation date and that the accuracy of the valuation results is not materially affected.

Some overall checks have been carried out on this data for general reasonableness and to ensure that it is consistent with that used in the actuarial valuation at 31 March 2017. No material concerns relating to the accuracy of the data provided have arisen.

A summary of the individual member data for the 931 schemes that transferred to the PPF before 28 February 2018 is as follows (figures in brackets are the corresponding figures used for the valuation at 31 March 2017, in respect of schemes that transferred to the PPF before 31 January 2017):

Deferred pensioners

Sex	Number	Average age (unweighted)	Total accrued compensation at data effective date (uncapped) (£'000 pa)
Male	71,872 (73,775)	52.9 (52.2)	281,675 (290,108)
Female	35,715 (35,870)	51.4 (50.7)	80,112 (78,798)
Total	107,587 (109,645)	52.4 (51.7)	361,787 (368,906)

Pensioners

Status	Sex	Number	Average age (unweighted)	Total compensation at data effective date (capped where applicable) (£'000 pa)
Members	Male	83,074 (79,265)	70.2 (69.9)	459,999 (432,821)
	Female	31,012 (29,769)	70.9 (70.5)	70,690 (65,164)
Dependants (excluding children)	Male	2,055 (1,907)	73.7 (73.4)	2,925 (2,653)
	Female	18,412 (17,438)	75.8 (75.5)	57,288 (53,672)
Children	Male	218 (214)	15.6 (15.6)	338 (319)
	Female	208 (200)	16.1 (16.1)	269 (246)
Total		134,979 (128,793)	71.0 (70.7)	591,509 (554,874)

Individuals who are already receiving one tranche of compensation but are entitled to a further tranche of compensation to be brought into payment after the data effective date are included in both tables.

A summary of the data used for the eight schemes that transferred to the PPF during March 2018, where individual data was not available, is as follows:

	Number of members	Average age (unweighted)	Estimated compensation as at 31 March 2018 (£'000 pa)
Deferred pensioners	433	52.2	1,194
Pensioners	387	71.7	1,080

There were also around 450 pensioner members whose compensation payments had been suspended (and not put back into payment) by 17 January 2018. This suspension occurred because the PPF is uncertain about whether these members continue to be eligible to receive compensation. In practice, a small number of these members may have their compensation put back into payment after 17 January 2018.

A liability will be recognised for any such member if and when his or her entitlement to continuing compensation is established. This matches the approach taken in previous years.

Additionally, there are a presently unknown number of people whom HMRC has on record as having paid contracted-out rate National Insurance contributions in respect of membership of a scheme which has now transferred to the PPF, but who were not deemed by the trustees to be members of that scheme at the time of the transfer to the PPF. Schemes would have had a liability to pay a Guaranteed Minimum Pension (GMP) in respect of individuals who were contracted-out, unless this liability had been discharged. It is expected that these people will receive a letter in 2018 from HMRC to confirm that they paid contracted-out rate National Insurance contributions in respect of their former scheme. This letter may be evidence that they are entitled to PPF compensation.

A liability will be recognised for any such member if and when their entitlement to compensation is established.

Actuarial valuation of the Pension Protection Fund continued

3. Compensation

Compensation for PPF members has been determined in accordance with the provisions of Schedule 7 of the Pensions Act 2004 and consequent regulations. A summary of the compensation provisions is shown in Annex M1.

4. Method for calculating liabilities

The approach to placing a value on the liabilities depends on whether individual membership data is available or not.

Method where individual membership data is available

The expected compensation cash flows have been estimated for PPF members for whom individual data was provided by the internal administration team. In estimating each yearly compensation cash flow for each member, account is taken of:

- the initial amount of compensation or accrued pension
- expected mortality
- the Normal Pension Age (NPA) for deferred members
- compensation increases
- the PPF compensation cap, and
- the probability of survivors' compensation being paid.

The resulting yearly compensation cash flows are discounted back to a present value, and summed to obtain the total present value of each member's liability.

Initially, liabilities were calculated as at 28 February 2018 and based on assumptions derived from market conditions as at 28 February 2018. The change in market conditions between 28 February 2018 and 31 March 2018 was then allowed for. The change in calculation date to 31 March 2018 was also allowed for by unwinding the discount rate for one month and deducting the benefits paid in respect of March 2018.

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

A further adjustment has been applied to the liabilities for the long service cap and future expenses. Details of the adjustment applied can be found in Annex M2.

Method where individual membership data is not available

Individual membership data was not available for schemes which transferred to the PPF in March 2018. For these eight schemes, the s179 values of the liabilities and assets were rolled forward to 31 March 2018 based on market conditions on that date.

The methodology used to roll the s179 liabilities and asset values forward to 31 March 2018, while at the same time changing the valuation assumptions to those described in Annex M2, is broadly consistent with that to be applied for the calculation of levy in the financial year 1 April 2018 to 31 March 2019 (ignoring smoothing and stressing of assets

and liabilities, and noting that no scheme for which this roll forward approach was adopted had any Asset-Backed Contributions). The methodology is available in the Pension Protection Levy section of the PPF website at: www.pensionprotectionfund.org.uk/levy/Pages/1819_LevyDetermination.aspx

An adjustment was also made to these rolled-forward assets and liabilities to allow for the payment of benefits from the effective date of the s179 valuation up to the valuation date.

An additional adjustment was then applied to the resulting liabilities. The roll forward methodology ignores certain items that are expected to impact assets and liabilities by similar amounts so that the calculated deficit is more reliable than the corresponding asset or liability values in isolation. The roll forward was therefore used to calculate the expected deficit for each of these schemes and then the liabilities were adjusted for each scheme by the difference between the actual value of assets that transferred to the PPF and the value of assets anticipated by the roll forward (after deduction of benefits paid). By adjusting the liabilities in this way, the deficit recorded for each scheme remains unchanged from that calculated in the roll forward.

A further adjustment has been applied to the liabilities for the expected cost of GMP equalisation (since the s179 valuation used will not have allowed for this), the long service cap and future expenses. Details on the adjustment applied can be found in Annex M2.

5. Assumptions

The approach to deriving the assumptions also depends on the availability of individual membership data. Where individual data was available, term-dependent financial assumptions were adopted and cash flows were generated. Also, mortality rates related to the circumstances of the individual member were adopted, taking into account the member's status (i.e. deferred or current pensioner, or dependant), sex, postcode and amount of compensation. Where individual data was not available, average assumptions were used. Annex M2 describes in more detail both approaches to deriving the assumptions.

In order to estimate cash flows in respect of future compensation payments to PPF members, assumptions have been made about:

- annual increases in payment to elements of compensation which were accrued after 5 April 1997
- revaluation of compensation in deferment for those members whose compensation was not due to be paid until after the valuation date of 31 March 2018
- future expected mortality and other demographic features, and
- whether the Secretary of State exercises their 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, the compensation cash flows, estimated as described above, were discounted back to the valuation date 31 March 2018.

As Appointed Actuary, I have responsibility for the assumptions used in the statutory valuation of the PPF's assets and the transferred liabilities, which are the subject of this report. The Board has responsibility for the assumptions used to value the assets and liabilities for schemes forming the provisions, as well as contingent liabilities, which are the subject of my supplementary report. Past practice has been to adopt the same assumptions, as far as possible, which are recommended by the Appointed Actuary and agreed by the Board.

Actuarial valuation of the Pension Protection Fund continued

In proposing the assumptions for the 2018 actuarial valuation, regard has been taken of the Accounts Direction which is given by the Secretary of State for Work and Pensions with the approval of HM Treasury in accordance with Schedule 5, Part 4 of the Pensions Act 2004.

Under this direction, the Board is required to prepare accounts in compliance with:

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

The existing Accounts Direction also states that the discount rate used to discount future cash flows and liabilities should be that advised by the PPF's actuary (in accordance with Schedule 5 Part 4, section 22(4)(b) of the Pensions Act 2004 and the PPF valuation regulations 2005 and 2006).

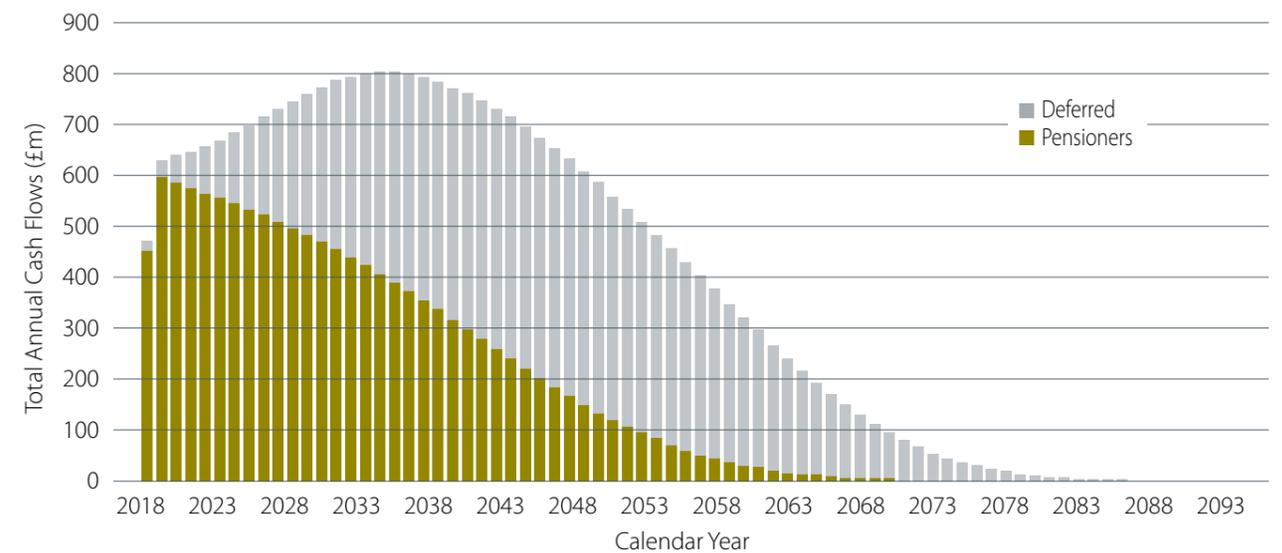
None of the above provides specific direction on the choice of assumptions made for the valuation. However, in taking account of these documents and the Accounts Direction, the Board is required to place a best estimate value on the provisions, i.e. one which is equally likely to overstate as to understate the actual value.

This follows from International Accounting Standard IAS 37, which the Board is required to take into account in accordance with the FReM. As the same choices of assumptions are made as far as possible for this report as for valuing the provisions, the value placed on PPF's liabilities is also a best estimate. This has been done using market pricing where possible. A full description of the assumptions made can be found in Annex M2.

A sensitivity analysis has also been carried out in which the effect of changes in certain key assumptions on the assets and liabilities is shown. The results of this analysis may be seen in Annex S7 of my supplementary report concerning provisions in respect of the PPF as at 31 March 2018.

6. Total cash flows expected after 31 March 2018

The chart below summarises the expected cash flows for all schemes that had transferred to the PPF on or before 31 March 2018. It was initially calculated using the membership data, assumptions and valuation process set out in section 2 to section 5 for the 931 schemes that had transferred to the PPF on or before 28 February 2018. The amounts were then scaled up to reflect the additional liabilities in respect of schemes that transferred between then and 31 March 2018. In calculating the cash flows, deferred pensioners are assumed not to retire early or late, or commute any of their annual compensation for a lump sum.



7. 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).

The value of the PPF assets has been adopted as stated in the relevant accounts prepared by the Board for the financial period ending 31 March 2018. Neither of the adjustments made available by regulations 4 and 5 have been adopted.

Accordingly, the value of the PPF assets as at 31 March 2018 has been taken as £29,896.9m. This includes £0.1m in respect of AVC (Additional Voluntary Contribution) assets that match AVC liabilities yet to be discharged. This compares with an asset value of £28,715.7m as at 31 March 2017.

Actuarial valuation of the Pension Protection Fund continued

An analysis of the change in the value of the PPF's assets between 31 March 2017 and 31 March 2018 is as follows:

	£m
Value of assets at the start of the year (31 March 2017)	28,715.7
Assets for schemes entering the PPF during the year to 31 March 2018 (measured at their transfer dates)	500.8
Assets received in respect of schemes transferred in previous years	5.8
Income from Pension Protection Levies	537.0
Compensation paid	(724.5)
Change in current assets (AVCs to be discharged)	(0.4)
Change in value of hedging assets	139.5
Change in value of other invested assets	767.5
Non-investment expenses	(44.5)
Value of assets at the end of the year (31 March 2018)	29,896.9

8. 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:

- 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
- the value of a liability shall be the present value of that liability at the valuation date.

The actuarial liabilities in respect of PPF members, based on the assumptions described in section 5 and Annex M2, are summarised in the table below:

Type of member/liability	£m
Deferred pensioners	10,236.0
Pensioners	10,668.5
Administration expenses to be met by the PPF	606.9
Current liabilities (AVCs to be discharged)	0.1
Total	21,511.5

Accordingly, the value of the liabilities of the PPF as at 31 March 2018 has been taken as £21,511.5m. This compares with £21,979.0m as at 31 March 2017.

An analysis of the change in the actuarial liabilities between 31 March 2017 and 31 March 2018 is as follows:

	£m
Actuarial liabilities at the start of the year (31 March 2017)	21,979.0
Liabilities for schemes entering the PPF during the year to 31 March 2018 (measured at schemes' transfer dates)	561.0
Compensation paid	(724.5)
Actuarial (gain)/loss due to inflation being different from what was assumed	35.9
Accumulated interest	97.5
Actuarial (gain)/loss due to changes in market yields	83.5
Actuarial (gain)/loss due to data changes	33.4
Actuarial (gain)/loss due to changes in mortality assumptions	(293.1)
Actuarial (gain)/loss due to changes in CPI assumptions	(129.3)
Actuarial (gain)/loss due to other experience	21.4
Change in expense reserve due to new data	(81.3)
Change in valuation methodology	(72.0)
Actuarial liabilities at the end of the year (31 March 2018)	21,511.5

It should be noted that the exact values attributed to each driver of change would be slightly different if the order of calculation were different. This does not affect the total liabilities at 31 March 2018.

Although we seek to minimise our interest and inflation risk through our liability-driven investment (LDI) strategy, it should be noted that the actuarial (gain)/loss on the liabilities due to changes in market yields is not comparable to the equivalent items in the analysis of change in the assets. For example, for the purpose of our LDI strategy we assume a different rate of inflation than for this valuation. In addition, some of the LDI assets are used to hedge the interest and inflation risk in respect of some schemes in assessment or those expected to suffer an insolvency event in the near future.

Actuarial valuation of the Pension Protection Fund continued

9. Conclusion

	Value at 31 March 2018
Assets (£m)	29,896.9
Liabilities (£m)	21,511.5
Surplus (£m)	8,385.4
Funding level (assets/liabilities)	139.0%

These values have been determined in accordance with the Pension Protection Fund (Valuation of the Assets and Liabilities of the Pension Protection Fund) Regulations 2006 (SI 2006/597).

This excess of assets over liabilities needs to be understood in the context of additional pension schemes that had entered an assessment period, as defined in section 132 of the Pensions Act 2004, on or before 31 March 2018.

Therefore, in addition to this formal report on the assets and liabilities, 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 have been estimated. These provisions are shown in my supplementary report to the Board dated 25 June 2018 and will be shown in the statement of accounts being prepared by the Board for the financial period ending on 31 March 2018.

Contingent liabilities as at 31 March 2018 have also been estimated. For contingent liabilities types I, II and III, the liabilities are in respect of other pension schemes which, in the Board's judgement, may possibly enter a PPF assessment period in the near future. These are shown in my supplementary report to the Board dated 25 June 2018 and will be disclosed in footnotes to the statement of accounts prepared by the Board for the financial period ending on 31 March 2018.



Name: Lisa McCrory

Date: 25 June 2018

Job Title: Appointed Actuary

Qualification: Fellow of the Institute and Faculty of Actuaries

Employer: The Board of the Pension Protection Fund

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 PPF pays a compensation level of **100 per cent**.

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

2. for most people aged below their scheme's normal pension age on the assessment date, the PPF pays a compensation level of **90 per cent**.

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 the Board's review of the scheme rules).

Compensation is revalued in line with the increase in the Retail Price Index (RPI) between the assessment date and March 2011, and the increase in the Consumer Price Index (CPI) between March 2011 and the start of compensation payments. This is subject to a minimum increase of zero over the whole period. The revaluation is also subject to a maximum increase over the whole period of five per cent a year for compensation accrued before 6 April 2009 and 2.5 per cent a year for compensation accrued thereafter.

Compensation is subject to an overall cap, which from 1 April 2018 equates to £39,006.18 a year at age 65 (the cap is adjusted according to the age at which compensation comes into payment). For members who have 21 or more years' service in their transferred scheme, the cap will be increased by three per cent for each full year of pensionable service above 20 years, up to a maximum of double the standard cap.

For both categories of member, once compensation is in payment, the part that derives from pensionable service on or after 6 April 1997 is increased on 1 January each year in line with increase in the CPI, capped at 2.5 per cent each year and with a floor of zero per cent.

Towards the end of February 2018, legislation came into force that meant any step-down pension payable under a scheme's rules would also be reflected in compensation paid to members. As this change only applies to schemes entering an assessment period after the legislation came into force it does not yet impact compensation payable to members who have transferred to the PPF.

After a member's death, compensation is paid to any children who are under 18 years old, under 23 if they are in full-time education, or at any age if they have a disability. Generally, compensation will also be paid to any legal spouse, civil partner or other relevant partner. However, individual circumstances may differ in this regard depending on the rules of the former pension scheme.

Under the Pensions Act 2004, the Board has a duty to pay compensation on a basis that is no more or less favourable to a woman (or man) than it would be to a comparable man (or woman) in respect of pensionable service on or after 17 May 1990. In meeting this requirement, the Board must take into account any differences in scheme benefits that have arisen owing to differences in the calculation of Guaranteed Minimum Pensions (GMPs) for men and women – see Annex M2 for further details.

Annex M1 continued

Under paragraphs 29 and 30 of Schedule 7 of the Pensions Act 2004, the Board:

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

It is expected that such provisions would only be used in exceptional circumstances, as the Board has other powers it could use if the financial position did deteriorate – for example, the ability to amend the amount of levy it collects.

Annex M2 Assumptions

Assumptions in respect of schemes for which the Board assumed responsibility on or before 31 March 2018 will be either the same as, or derived in the same way as, those derived for the valuation as at 31 March 2017, unless stated otherwise.

a) Compensation levels

As for previous valuations of the PPF, it has been assumed that the Secretary of State will not exercise their 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 one of Annex M1 and the 90 per cent level of compensation for those members in category two of Annex M1.

b) Future legislative changes

No allowance for any future legislative changes has been made in this valuation.

c) Financial assumptions

Financial assumptions where individual membership data is available

For the liabilities in respect of transferred schemes where individual data is available, the same rationale has been applied in setting the financial assumptions as for the valuation as at 31 March 2017. I consider that it is still appropriate for the financial assumptions to vary according to the term of the particular cash flow being estimated and discounted.

i) Discount rates

I consider that a notional portfolio of assets consisting of cash, appropriate zero-coupon interest rate swap contracts, nominal gilt strips (or notional gilt strips), and inflation swap contracts provides the most appropriate match to the PPF liability cash flows for the purposes of this valuation. Setting the financial assumptions equal to the returns on the elements of this notional portfolio represents a low-risk approach to setting the financial assumptions. If the PPF were fully funded (given these assumptions) and invested in the notional portfolio, then ignoring non-investment risks such as future claims on the PPF or demographic experience, the PPF would have a high probability of being able to pay full compensation to all current PPF members and their eligible dependants.

Since around August 2008, zero-coupon interest rate swap yields over longer durations have been lower than the gilt strip yields at the same duration. I therefore consider it reasonable to construct a notional portfolio that contains gilt strips (or more often notional gilt strips) at longer durations and cash and swaps contracts at shorter durations.

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

For each term, the notional portfolio is assumed to be invested in the higher yielding of the zero-coupon interest rate swaps, less 15 basis points and gilt strips. In practice, at the valuation date this broadly leads to the use of swaps rate less 15 basis points for terms up to eight years and gilt strip yields thereafter.

A zero-coupon interest rate swaps yield curve constructed from cash rates, future strips and semi-annual swap rates as at 31 March 2018 was obtained from BlackRock which constructed the curve by seeking indicative prices from a combination of major counterparties and inter-dealer brokers.

A gilt strips yield curve as at 31 March 2018 was also obtained from BlackRock, which was derived from information available from the UK Debt Management Office. This curve shows gilt strips yields at terms of one year to 100 years inclusive. Yields at each of these terms are representative of bonds (or notional bonds) with similar maturities to the indicative terms.

Annex M2 continued

In my opinion, this discount rate derivation is consistent over the long term with the PPF's Statement of Investment Principles, despite the fact that the PPF currently takes some extra investment risk in the expectation of outperformance.

ii) Revaluation rates

It has been assumed that the Board will not exercise its power under paragraph 29 of Schedule 7 of the Pensions Act 2004 to amend the maximum revaluation rate of five per cent a year in respect of compensation deriving from service before 6 April 2009, and 2.5 per cent a year in respect of compensation deriving from service thereafter.

Future revaluations of deferred compensation are linked to increases in the CPI. In considering what assumption would be appropriate for future CPI increases, it has been noted that at present there is no sufficient market in CPI swaps or indeed any other instruments from which CPI prices can reliably be inferred. Current market pricing information available from insurance companies and swap contracts would suggest an assumption of CPI increases being 0.7 per cent a year less than RPI increases, which is therefore the assumption that has been made. This compares with an assumption of 0.6 per cent a year less than RPI increases used for the 2017 valuation. It has also been assumed that the rate of future RPI increases, for the period from the valuation date to normal pension age, is derived from the RPI inflation swap curve (supplied as at 31 March 2018 by BlackRock).

There are other methods of deriving a CPI assumption and these include, for example, deducting a best estimate of the future gap between RPI and CPI from the market-implied measure of RPI. However, in my opinion, this method would be less consistent with the way the other financial assumptions have been set. Should a deeper CPI market develop, the implied gap between RPI and CPI may further increase, although the actual gap that would apply in these circumstances is very uncertain. We have shown the sensitivity of the balance sheet to a gap of 1.0 per cent compared with 0.7 per cent in the main results. This can be seen in Annex S7 of my supplementary report, which concerns the provisions of the PPF as at 31 March 2018.

The revaluation rate over a particular period of deferment is assumed to be equal to the increase in the CPI index over that period, restricted to the revaluation cap applied to that same period. On the current inflation assumptions, the maximum revaluation rate of five per cent a year is not currently expected to apply at any term for compensation deriving from service before 6 April 2009. The maximum revaluation rate of 2.5 per cent a year applies to compensation for all terms greater than three years, for compensation deriving from service after 5 April 2009.

iii) Pension increase rates

It is assumed that the Board 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 a year for compensation accrued after 5 April 1997.

For this compensation increase, therefore, an assumption is needed for each term for the increase in the CPI capped at 2.5 per cent each year and with a floor of zero (referred to as CPI [0, 2.5 per cent]). If there were a market in CPI [0, 2.5 per cent] inflation swaps then a curve of prices for each term would be derivable directly. However such a market does not exist. Therefore, as last year, a CPI [0, 2.5 per cent] curve has been used, derived from the Stochastic Alpha Beta Rho (SABR) model, calibrated primarily on market price data from securities that are uncapped and those that are capped at three and five per cent. This curve was supplied by BlackRock.

The table below shows the annualised, average term-dependent discount rates, CPI revaluation rates, and increases to pensions in payment, as at 31 March 2018 that have been assumed over the given term. The rates are presented as spot rates. Figures shown in brackets are as at 31 March 2017.

Term	Discount rate pa	CPI revaluation rate pa	Post 1997 pension increase rate pa
1	0.802% (0.385%)	2.305% (3.328%)	1.946% (2.285%)
2	0.970% (0.468%)	2.410% (3.122%)	1.962% (2.203%)
3	1.087% (0.549%)	2.473% (3.037%)	1.971% (2.165%)
4	1.159% (0.627%)	2.515% (2.982%)	1.977% (2.141%)
5	1.207% (0.703%)	2.537% (2.937%)	1.981% (2.124%)
10	1.448% (1.179%)	2.627% (2.893%)	2.010% (2.105%)
15	1.651% (1.568%)	2.722% (2.950%)	2.052% (2.121%)
20	1.764% (1.822%)	2.768% (2.945%)	2.090% (2.136%)
30	1.706% (1.779%)	2.728% (2.870%)	2.139% (2.168%)
40	1.520% (1.590%)	2.583% (2.765%)	2.138% (2.183%)
50	1.392% (1.524%)	2.555% (2.767%)	2.144% (2.206%)
70	1.242% (1.459%)	2.545% (2.794%)	2.134% (2.272%)
90	1.159% (1.422%)	2.539% (2.808%)	2.148% (2.343%)

Source: BlackRock with, in some cases, additional PPF calculations.

Financial assumptions where individual membership data is not available

For these schemes it is not possible to use term-dependent rates, as individual member data is required to project cash flows. A roll forward methodology is therefore needed, together with assumptions about the following (on both our valuation basis and the s179 basis):

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

For the PPF valuation basis, single rates of discount, inflation and pension increases were determined so that the present values placed on the cash flows for both the pensioners and the deferred pensioners were equal to the present value determined using term-dependent rates. To do this, cash flows of schemes for which individual member data is held by the PPF were used. These single rates of discount, inflation and pension increase were then used to determine the net discount rates as set out in the following table. The figures in brackets are those as at 31 March 2017.

Annex M2 continued

Net discount rate as at 31 March 2018

	pa
In deferment for compensation accrued before April 2009	-1.0% (-1.2%)
In deferment for compensation accrued after April 2009	-0.9% (-0.8%)
In payment for non-increasing compensation for current pensioners	1.6% (1.5%)
In payment for non-increasing compensation for deferred pensioners	1.6% (1.7%)
In payment for increasing compensation for current pensioners	-0.4% (-0.5%)
In payment for increasing compensation for deferred pensioners	-0.5% (-0.5%)

For the s179 basis, assumptions are needed at both the effective date of the original s179 valuation and at 31 March 2018. These have been derived using the assumptions guidance in force at the required date.

d) Demographic assumptions

i) Mortality

The assumption for mortality is in two parts. The first part is the assumption about baseline mortality. This reflects the assumed rates of mortality at the valuation date. The second part of the assumption is an estimate of how mortality rates will change over time. Taken together, these assumptions reflect a best estimate of the mortality that will be experienced by members of the PPF, i.e. that the assumption is equally likely to overstate as to understate actual experience.

Baseline mortality

For last year's valuation as at 31 March 2017, a mortality analyst, Club Vita, provided 250 different mortality curves to apply to individual members based on:

- member status, i.e. deferred pensioner, pensioner, or dependant
- sex
- lifestyle (based on postcode)
- amount of compensation, and
- whether allowance for ill-health retirement is included.

Club Vita has updated its experience dataset since the previous valuation and so has provided more up-to-date mortality curves to use this year. A total of 250 different mortality curves have been used for the valuation as at 31 March 2018.

These curves have been derived by analysing a large amount of data from Club Vita's members (including the PPF). These curves are based on mortality experienced over the period 2013-2015.

Where individual life expectancy curves were not available (for example where individual member data was received after the mortality curves were mapped), Club Vita provided mortality curves that reflect average assumed mortality across the whole PPF membership. There were 10 average mortality curves, which varied according to the factors set out above. The 10 average curves are included in the count of the curves used in the valuations.

Allowance for changes in mortality over time

For the valuation as at 31 March 2017, the CMI 2015 core model of mortality projections was adopted, with a long-term improvement rate of 1.5 per cent a year for both men and women.

The CMI updates its model annually to reflect more up-to-date data. A feature of the last few years' data has been that while life expectancy is still increasing, it is at a lower rate than expected. The CMI 2016 model also incorporated numerous methodological amendments. The most significant of these is the introduction of a 'smoothing factor' which enables the user to determine the weight that should be placed upon recent mortality data as opposed to historic data. Under the core parameterisation the smoothing factor is 7.5.

I believe that it is appropriate to adopt the CMI 2016 model for this valuation, but that a higher smoothing factor than under the core parameterisation is appropriate. The CMI model is calibrated to the population data for England and Wales. Generally, members of DB pension schemes might be expected to exhibit different patterns of mortality than the general population as, among other things, they will generally have a higher level of wealth. Indeed, there is evidence of a different pattern of mortality improvement rates in recent years. For this reason I have chosen to use a smoothing factor of 8.0, which will place a higher value on liabilities than under the core parameterisation.

Although there is evidence to show that the rate of improvement in mortality has slowed, in my opinion there is insufficient evidence to suggest that the long-term improvement rate should be changed from the assumption adopted last year.

For this valuation, the CMI 2016 mortality projection has therefore been adopted, with a long-term improvement rate of 1.5 per cent a year for both men and women and a smoothing factor of 8.0.

It should be recognised that there is a substantial element of subjectivity about mortality improvement assumptions and that different actuaries will come to different conclusions. The appropriate assumption for future valuations should be kept under review and the sensitivity of the balance sheet to some of the assumptions may be seen in Annex S7 of my supplementary report which has been prepared concerning the provisions of the PPF as at 31 March 2018.

Life expectancies implied by the mortality assumptions

The following table illustrates the life expectancies of pensioners and dependants aged 65 on 31 March 2018, and life expectancies for members aged 40 on 31 March 2018 once they reach age 65 in 2043. These are based on the range of mortality assumptions being used for this valuation for different members, including the allowance for projected changes in mortality. The figures in brackets show the life expectancies based on the assumptions adopted in the valuation as at 31 March 2017.

Annex M2 continued

Men				
Membership group	Median life expectancy, in years	Minimum life expectancy, in years	Maximum life expectancy, in years	Range of life expectancies, in years, which covers 75% of compensation
2018:				
- Male pensioners	21.8 (22.2)	15.2 (14.7)	24.7 (24.7)	20.1-23.7 (20.4-24.2)
- Future widowers	20.4 (20.5)	15.2 (14.7)	23.3 (21.1)	18.0-20.9 (18.4-21.1)
2043:				
- Male pensioners	24.0 (24.6)	20.1 (20.6)	26.9 (27.5)	22.1-25.3 (23.3-25.9)
- Future widowers	22.9 (23.4)	18.0 (17.7)	25.6 (24.0)	21.3-23.4 (21.8-24.0)

Women				
Membership group	Median life expectancy, in years	Minimum life expectancy, in years	Maximum life expectancy, in years	Range of life expectancies, in years, which covers 75% of compensation
2018:				
- Female pensioners	24.0 (24.2)	19.7 (18.7)	26.4 (27.0)	22.7-25.1 (23.0-25.4)
- Future widows	23.3 (23.9)	19.7 (18.7)	26.4 (27.0)	22.7-24.9 (23.0-25.2)
2043:				
- Female pensioners	26.4 (27.2)	23.0 (23.3)	27.9 (29.2)	25.4-27.2 (26.1-28.2)
- Future widows	25.6 (26.3)	22.7 (22.2)	28.5 (29.7)	24.2-26.3 (26.0-27.3)

Note that the minimum life expectancy is the shortest life expectancy of the member in the particular category across the various Club Vita groupings (which vary according to postcode and compensation amount). The maximum life expectancy is determined in a corresponding way.

Note also that some of the change in life expectancy from year to year will be due to the membership changing (for example, because of newly transferring schemes) and not solely due to changes in experience.

For deferred members, different Club Vita mortality curves are used before and after retirement. In particular, the pre-retirement curves are based on data for members deemed to be in normal health, whereas the pensioner curves also include data for members who have taken ill-health early retirement.

ii) Commutation, early retirement and late retirement

No allowance is made for commutation of compensation, early retirement or late retirement. This is because the option terms are anticipated to be set (and monitored in future) in such a way that the value of a member's benefits is broadly unchanged by them exercising one of these options. Therefore, members exercising these options would only change the pattern of compensation cash flows and not the value placed on the liabilities for this purpose.

iii) Proportion married or with a relevant partner

For pensioners:

- where there was provision in the former scheme for survivor pensions for relevant partners, an assumption consistent with 85 per cent (men) or 70 per cent (women) at normal pension age, and
- where there is no provision for survivor pensions for relevant partners other than legal spouses, an assumption consistent with 75 per cent (men) or 60 per cent (women) at normal pension age.

For deferred pensioners:

- where there was provision in the former scheme for survivor pensions for relevant partners, an assumption, at the assumed date of retirement or earlier death, of 85 per cent (men) or 70 per cent (women), and
- 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 75 per cent (men) or 60 per cent (women).

The assumptions are the same as the assumptions adopted last year for men but for women they are five per cent lower. The change has been made for women to ensure the assumption is consistent with the actual experience of the Fund.

iv) Age difference between member and dependant

Women assumed to be three years younger than men.

This assumption is the same as the assumption adopted last year.

v) Children's pensions

No specific additional allowance is included for prospective children's pensions. Children's pensions that are already in payment are allowed for. They are assumed to cease in accordance with the compensation entitlement, with no allowance for death prior to cessation. Compensation ceases at age 18, or when the person finishes full-time education (up to a maximum of age 23). Where an anticipated end date for full-time education is not held by the PPF, age 23 is assumed.

vi) Expenses

Certain administration expenses are met from the PPF rather than from the Administration Fund. These are the costs associated with paying members compensation and the investment management expenses.

An allowance equal to 2.9 per cent of the value of the liabilities in respect of members who have transferred into the PPF before 1 April 2018 has been made in respect of the expected future cost of these expenses.

When estimating the future cost associated with paying members, the current expected cost of the relevant business areas (including an allowance for the relevant support functions) has been converted to a per member cost. This cost has been projected to increase in line with assumed CPI in each future year and then compared to the projected membership at the relevant time. The projected membership has been determined using the demographic assumptions set out above. Finally, the projected cost in each future year has then been discounted to a present value using the discount rates set out above.

The investment management expenses have been taken as the estimated current Annual Management Charge that would apply to a passive LDI fund as a proxy for the cost of investing the notional portfolio being used to determine the appropriate discount rate.

Annex M2 continued

An allowance has also been made for the expected cost to the PPF of overseeing this fund – these costs have been projected to increase in line with assumed CPI in each future year and discounted to a present value using the PPF valuation discount rate.

This year's approach to determine the cost associated with paying compensation and investment management is consistent with that adopted previously and has resulted in an allowance of 2.9 per cent of liabilities, compared with an allowance of 3.3 per cent in the previous year's valuation.

vii) GMP equalisation

Schemes for which the Board assumed responsibility on or after 1 June 2013 were required to equalise members' compensation prior to transfer (with a small number of exceptions). For these schemes, the data therefore includes compensation amounts that have already been adjusted for any inequalities on account of Guaranteed Minimum Pension (GMP).

For former members of all other schemes, the Board has undertaken, although has not yet completed, work to adjust compensation that is unequal (between men and women) on account of inequalities in GMPs. For those members where the Board's equalisation work is not yet complete, an allowance needs to be made for the expected cost of increasing compensation in order to achieve equalisation.

This year I have made a nil allowance for outstanding GMP equalisation on the grounds that so few members (under 1,000) are yet to have their compensation equalised for GMP, and the expected liability is immaterial in the context of the PPF as a whole. For those schemes that transferred in March 2018 I have included an additional cost adjustment for GMP equalisation of 0.6 per cent of the liabilities of these schemes, as it is unlikely to have been allowed for in the source s179 valuation results. This allowance remains the same as in previous years, as based on PPF experience data. I have not investigated whether the particular value of this allowance remains appropriate, on the grounds of materiality.

viii) The long service cap

From 6 April 2017 the long service cap came into effect for members who have 21 or more years' service in their transferred scheme. For these members the cap will be increased by three per cent for each full year of pensionable service above 20 years, up to a maximum of double the standard cap. This additional compensation was included in the data received for pensioner members that transferred prior to 28 February 2018.

The data used for assessing the liabilities for the deferred members did not include enough information to accurately assess the impact of this change. To allow for this additional liability, I assumed that the impact on the liability for deferred members would be the same in percentage terms as for pensioner members, as determined for the 2017 valuation. This was calculated as equivalent to an overall increase in liabilities of 0.25 per cent.

This uplift was also applied to both the deferred and pensioner liabilities for schemes that transferred in March, as not enough information was available to accurately determine the extra liability, and it is unlikely to have been allowed for in the source s179 valuation results.

Actuary's supplementary report as at 31 March 2018

To: The Board of the PPF

From: Lisa McCrory, Appointed Actuary to the Board of the PPF

Actuarial liabilities, provisions and contingent liabilities of the PPF as at 31 March 2018

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 PPF's assets and liabilities. This actuarial valuation is set out in my report to the Board dated 25 June 2018.

The statement of accounts also contains provisions and discloses contingent liabilities that require actuarial estimation. This supplementary report contains these estimates. This supplementary report also contains the PPF's actuarial balance sheets 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 it has determined. I have been commissioned to produce this report to assist the Board with the preparation of the Annual Report and Accounts as at 31 March 2018. I therefore see the Board as the user of this report and no other party should rely on any part of this report.

This report does not contain advice on the funding of compensation payable by the PPF. In particular, the results of this valuation are not used directly in setting the PPF levy.

This valuation complies with the principles set out in the Technical Actuarial Standard TAS 100 ('Principles for Technical Actuarial Work'). This report should be considered alongside my report to the Board dated 25 June 2018. Given the scope of the work, the processes and calculations underlying the report, together with the report itself, are subject to an independent peer review under the Actuarial Profession's practice standard APS X2 ('Review of Actuarial Work'). This has been done by the Government Actuary's Department.

2. Provisions

Under International Accounting Standard 37 (IAS 37) of the International Accounting Standards Board, a provision should be recognised when:

- an entity has a present obligation (legal or constructive) as a result of a past event
- it is probable that a transfer of economic benefits will be required to settle the obligation, and
- a reliable estimate can be made of the amount of the obligation.

The application of this requirement to the Board's statement of accounts as at 31 March 2018 is set out in Annex S1.

Actuary's supplementary report as at 31 March 2018 continued

3. Contingent liabilities

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

- a possible obligation (it has not yet been confirmed whether there is an obligation that could lead to a transfer of economic benefits), or
- a present obligation that does not meet the recognition criteria in IAS 37, 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 2018 is set out in Annex S2.

The schemes forming the contingent liabilities of types I, II and III (as defined in Annex S2) are determined by the Board and the values have been calculated accordingly. However, it should be noted that claims arising after 31 March 2018 could come from sources other than those described in the definitions of these contingent liabilities. Therefore it is important to note that the contingent liabilities of types I, II and III are not meant to represent the expected level of claims in the coming year.

The Government Financial Reporting Manual (FRoM) also requires the PPF's material remote contingent liabilities to be disclosed and, where practical, their financial impact. The schemes forming these are those remaining DB pension schemes that may in the future make a claim on the PPF, but which are not included in the provisions or contingent liabilities. The remote contingent liability figure disclosed in the annual report is prepared for the purpose of the FRoM disclosure requirements. This does not form part of this actuarial valuation report.

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 25 June 2018.

6. Assumptions

The assumptions used to calculate the actuarial liabilities are set out in full in Annex M2 of my report to the Board dated 25 June 2018.

The set of assumptions used to calculate the provisions and contingent liabilities as at 31 March 2018 are, in most respects, the same as those used to calculate the actuarial liabilities. The differences are shown in Annex S4.

A sensitivity analysis has been performed by amending the valuation basis in key areas. The assumptions adopted for the sensitivity analysis are shown in Annex S5.

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

a) Actuarial liabilities

The method of calculating the actuarial liabilities is set out in my report to the Board dated 25 June 2018.

b) Provisions

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). This is determined in the first instance from consideration of any notice issued in respect of the scheme under section 144 or 145 of the Pensions Act 2004. Where no such notice has been issued, consideration is then given to any internal reports indicating the likely funded status of the scheme at the insolvency date. For all schemes not already categorised under the two preceding steps, assumptions to determine the funded status at the insolvency date are derived from market conditions as at the insolvency date following the published guidance on undertaking a valuation in accordance with s179 of the Pensions Act 2004 (version in force at the insolvency date). This guidance is available on the PPF's website:

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

In addition to the steps above, if more recent information is available that gives a better indication of the likelihood of the scheme transferring, this is used to determine whether a provision is required. This approach has been used for nine schemes.

The method of calculating the provisions varied according to the data the Board held about the relevant schemes as at 31 March 2018.

1. Updated asset value information and recent membership data

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

- (i) satisfy the definition of a provision as set out in Annex S1
- (ii) are sufficiently large (broadly those included as material schemes in the valuation as at 31 March 2017 that are still in assessment and expected to transfer, plus new schemes which entered assessment since 31 March 2017 and have estimated liabilities of at least £100m), and
- (iii) actually did provide individual membership data and updated asset information when requested.

There are 21 schemes in the provisions this year that we classify as 'material'.

For all material schemes, the asset value at 31 March 2018 was determined by rolling forward the latest available asset value, in line with the change in a total return index of an appropriate kind for each asset class, and making an adjustment for benefits paid between the effective date of the assets and 31 March 2018. For material schemes where no updated asset information was requested, the roll forward value of the assets was checked against updated asset information available for other purposes. These comparisons disclosed no material differences.

For all but one material scheme, liabilities were initially calculated as at 28 February 2018, based on the individual data provided and the assumptions derived from market conditions as at 28 February 2018. The change in market conditions to 31 March 2018 was then allowed for by applying a ratio of the discounted projected cash flows for these schemes payable after 28 February 2018, calculated using the assumptions at the respective dates. The change in calculation date to 31 March 2018 is also allowed for by unwinding the discount rate for one month and deducting the benefit paid in respect of March 2018.

Actuary's supplementary report as at 31 March 2018 continued

For the remaining material scheme, the Scheme Actuary provided liabilities for each member as at 31 January 2018 using the s179 assumptions applicable at the time, along with some basic member information. Each member's liabilities were converted to our accounting assumptions at 31 January 2018 by applying a ratio of annuity rates applicable to that member. The change in calculation date and market conditions to 31 March 2018 is also allowed for in a similar manner to that described above for the other material schemes.

Allowance has been made for expected member movements between the effective date of the data and the valuation date.

Material schemes in assessment and schemes which have already transferred to the PPF (excluding those valued by rolling forward a s179 valuation) account for approximately 96 per cent of the total liabilities and provisions.

2. A s179 valuation or a s143 valuation, but not updated asset and membership data

If the scheme were to be included in the provisions, the s179 or s143 valuation was rolled forward to 31 March 2018 on the valuation basis.

The methodology used to roll the s179 or a s143 valuation results forward to 31 March 2018, while at the same time changing the valuation assumptions to those described in Annex S4, is consistent with that to be applied for the calculation of levy in the financial year 1 April 2018 to 31 March 2019 (ignoring smoothing and stressing of assets and liabilities and noting that no scheme for which this roll forward approach was adopted had any Asset-Backed Contributions). The methodology is available in the Pension Protection Levy section of the PPF website at:

www.pensionprotectionfund.org.uk/levy/Pages/1819_LevyDetermination.aspx

3. A Minimum Funding Requirement (MFR) valuation, but not updated asset and membership data, nor a s179 valuation or a s143 valuation

The MFR valuation was initially transformed to a s179 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 using the link above.

Only one scheme has been assessed based on an MFR valuation and the transformed s179 valuation has been used for the purpose of the calculations:

- the resulting s179 valuation was rolled forward to the insolvency date and used as a proxy for a s143 valuation to determine whether the scheme was in deficit at the insolvency date and hence whether it should be included in the provisions, and
- if the scheme were to be included in the provisions, the resulting s179 valuation was then rolled forward to 31 March 2018 on the valuation basis using the same methodology.

A provision has been included for the cost of GMP equalisation, the long-service cap, and future expenses – see Annex S4 for further details.

c) Contingent liabilities

The method adopted for contingent liabilities of type I, II or III is the same as that for the provisions where the Board was in possession of a s179 valuation. This is the same method as adopted last year.

Additionally, loadings to reflect the impact of GMP equalisation, the long-service cap and future expenses have been applied to the liabilities forming the contingent liabilities of type I, II or III. These loadings are equal to the loadings applied to the provisions, as set out in Annex S4.

The valuation of schemes based on a roll forward method will not be as accurate as one undertaken using individual or grouped membership data for each scheme. 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.

8. Results of the calculations

The results of the calculations of the actuarial liabilities, provisions and contingent liabilities as at 31 March 2018 (and a comparison with the results as at 31 March 2017) are set out in Annex S6.

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. It should be recognised that the use of summary data and roll forward methodologies inevitably introduce approximations into the calculations, but I consider that they remain appropriate for calculating aggregate provisions and contingent liabilities for the purposes of this supplementary report.

9. Actuarial balance sheets

Annex S7 sets out the actuarial balance sheet for the PPF as at 31 March 2018, including the liabilities of the schemes forming the provisions. For this purpose the liabilities are taken to be:

(a) the present value of the PPF's liabilities 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 £21,511.5m, the same figure as was used in my actuarial valuation report of 25 June 2018; and

(b) an estimate of the present value of the liabilities of the schemes forming the provisions, as set out in Annex S6 of this report, which amounts to £8,039m.

Accordingly the total liabilities, including provisions of the PPF as at 31 March 2018, have been taken as £29,550.5m.

In the actuarial balance sheets for the PPF as at 31 March 2018, the assets are:

(a) the value of the PPF's 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 £29,896.9m, the same figure as was used in my actuarial valuation report of 25 June 2018; 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 (£88.0m). This figure amounts to £6,399.7m.

The value of the PPF's assets as at 31 March 2018 has been taken as £36,296.6m.

Actuary's supplementary report as at 31 March 2018 continued

10. Reconciliation of the change in the funding position

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



Name: Lisa McCrory

Date: 25 June 2018

Job Title: Appointed Actuary

Qualification: Fellow of the Institute and Faculty of Actuaries

Employer: The Board of the Pension Protection Fund

Annex S1

Provisions in the Statement of Accounts for the financial period ending on 31 March 2018

The Statement of Accounts as at 31 March 2018 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 31 March 2018
- the Board had not stated on or before 31 March 2018 that the insolvency event was not a qualifying insolvency event
- the insolvency date was on or before 31 March 2018
- a withdrawal notice under section 122(2)(b) of the Pensions Act 2004 had not been received on or before 31 March 2018 (and, in the Board's judgement, is unlikely to be received) from the insolvency practitioner
- 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 (determined on the s143 basis as at the insolvency date), and
- transfer to the PPF had not taken place on or before 31 March 2018.

It also contains provisions in respect of schemes that have completed an assessment period and which are expected to enter the PPF in due course. For these schemes, a s143 valuation (or funding determination) has already been completed by the schemes' trustees and this showed an excess of assets over Protected Liabilities. They are included as provisions if there is an expectation that they will successfully reapply for PPF entry before expiry of the s143 six-month period, during which the trustees can attempt to secure a buy-out. One such scheme is included in the provisions.

The Board has also considered the following in the provisions:

One scheme had an insolvency date after 31 March 2018. While this scheme does not strictly meet the criteria set by the Board for inclusion in the provisions, the Board believes the substance of the scheme's situation is such that excluding it from the provisions would not result in a true and fair view.

For a small number of schemes, the results of the valuation process will show a surplus of assets over the estimated value of the Protected Liabilities at the valuation date, and therefore would contribute a negative amount to the provisions. In total there were 11 schemes with a surplus of assets at the valuation date. To avoid the risk of overstating the funding position for these schemes, the assets (including assumed recoveries) have been restricted to the value of the liabilities for 10 of these schemes. The remaining scheme has had its s143 approved and will shortly transfer to the PPF, so this adjustment has not been applied.

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

When carrying out the sensitivity analysis, as set out in Annex S5, for the schemes discussed above that have been assumed to contribute a nil amount to the provisions, the assets have been unchanged from the main valuation results, meaning the assets will not exactly match the liabilities for these alternative scenarios.

Some schemes may have experienced insolvency events that occurred on or before 31 March 2018 but which have not yet been reported. It might be appropriate to set up an 'IBNR' (Incurred But Not Reported) reserve to cover these schemes. Analysis of recent years' claim patterns suggests that there will be very few, if any such schemes, and that such schemes are likely to be immaterial and in any case almost impossible to place a reliable value on. Therefore, consistent with the approach adopted last year, an IBNR reserve has not been set up.

Annex S2

Contingent liabilities in the Statement of Accounts for the financial period ending on 31 March 2018

Three types of contingent liabilities are disclosed in footnotes to the Statement of Accounts. In some previous years a type IV contingent liability was also included relating to legislative changes anticipated to be passed by Parliament. No allowance has been made this year for any legislative change. The definitions of the three categories are given below.

1. Type I contingent liabilities are in respect of eligible schemes where:

- 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 March 2018
- the Board had stated on or before 31 March 2018 that the insolvency event was NOT a qualifying insolvency event
- in the Board's judgement, it is likely that a subsequent insolvency event will be a qualifying insolvency
- the Board has sufficient data about the scheme to be able to make an estimate of a contingent liability, and
- as at 28 February 2018, 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 II contingent liabilities are in respect of eligible schemes where:

- as at 31 March 2018, no insolvency event had 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
- the Board has sufficient data about the scheme to be able to make an estimate of a contingent liability, and
- as at 28 February 2018, 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 III contingent liabilities are in respect of eligible schemes where:

- Either:
 - i. the Experian insolvency scores at 31 January 2018 would place the schemes in Levy Band 10 as set out in the Levy Rate Table in the Insolvency Risk Appendix to the Board's Determination for Levy Year 2018/19 (a link to this page can be found in section 7 of my supplementary report), or
 - ii. the employer has a credit rating in the lowest category, and the scheme is estimated to be in the top 500 schemes based on the size of its liabilities, and
- the Board has sufficient data about the scheme to be able to make an estimate of a contingent liability, and
- as at 28 February 2018, 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.

For the purpose of (ii) above, the employers' credit ratings are determined using either actual or market-implied ratings.

Type III contingent liabilities exclude any scheme already within the provisions for type I or type II contingent liabilities.

Out of a population of around 5,600 schemes considered as part of (i) above, 223 which had not already been included in the allowance for type II contingent liabilities had an insolvency score which placed them in Levy Band 10. Of these 223 schemes, 156 were in deficit on the assumptions used to assess entry to the PPF.

Out of the top 500 risks considered as part of (ii) above, one employer had the lowest credit rating available but had not already been included in the 223 schemes identified as part of (i) above.

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

Annex S3

Data

a) Data in respect of PPF members

This data was shown in my report to the Board dated 25 June 2018.

b) Data in respect of provisions and contingent liabilities

There are 89 schemes which contribute to the provisions figure in the statement of accounts for the financial period ending on 31 March 2018. Liabilities in respect of another 17 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 I, type II, and type III contingent liabilities, the recognition test assessment was undertaken at 28 February 2018, since a qualifying insolvency event had not occurred.

A database is maintained for schemes forming the provisions. Data used to identify these schemes is obtained from information sent to the PPF upon an employer's insolvency. This data is updated when new information arises. For instance, when a claim is rejected by the PPF, the database is updated to reflect this information and the scheme is no longer included in the provisions calculations.

For material schemes, the PPF actively seeks up-to-date individual member data and current asset values from the scheme trustees, where appropriate. There are 21 schemes in the provisions this year that we classify as 'material'. Of these:

- two are schemes that came into assessment during the year, for which we obtained membership and asset data with effective dates of April and November 2017
- four are schemes that were also in assessment at 31 March 2017, for which we obtained updated membership and asset data with effective dates between October and December 2017
- one scheme entered assessment at the end of year, for which we obtained s179 liability and asset data for the relevant membership expected to transfer to the PPF. Some basic membership data was also provided
- six are schemes sponsored by the same employer, where we obtained the member data provided for the most recent s179 valuations of the schemes. For five of these schemes the valuation was at 31 December 2016, and the other one was at 31 December 2017, and
- for the remaining schemes, we used the same information as provided for the 31 March 2017 valuation which had an effective date of October or November 2016.

In general the data was provided in a standard template and gives compensation at a current date split between the various service dates. The exceptions to this being:

- the six schemes sponsored by the same employer who provided scheme benefits and details of the benefit structure to enable PPF compensation to be derived, and
- the scheme that provided s179 liabilities, where total compensation was provided.

Checks have been carried out on all the data received for general reasonableness and where appropriate, to ensure that it is consistent with that used in the actuarial valuation at 31 March 2017. For the schemes where a non-standard approach was taken, extra steps were taken to reconcile our liability calculations with those carried out by the Scheme Actuary. I have no material concerns about the data for the purpose of assessing the total liabilities for all schemes in assessment.

For all other schemes, the latest s179 valuation provided for levy purposes or the s143 valuation is used to assess asset and liability values. The s179 valuation used will be that held on Exchange at the 31 March preceding insolvency. Although there is no reason to doubt the quality of the information provided within a particular scheme's valuation report, checks have been carried out on the general reasonableness of the data submitted. Again, I have no material concerns relating to the data provided.

In order to identify the schemes to be included in the type I, II and III contingent liabilities, the information used has been gathered by the PPF from sources such as Experian, negotiations with companies, and information submitted by the Pensions Regulator. The data used to place a value on the scheme assets and liabilities is taken from the latest s179 valuation provided for levy invoicing purposes.

The number of schemes contributing to the various types of provisions and contingent liabilities of type I, II and III is given in the table below. Figures in brackets relate to the total number of schemes considered for inclusion, i.e. it includes schemes where 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 provisions and the calculation date for contingent liabilities. All of the figures seek to recognise all segregated parts of schemes as separate schemes. This is the same treatment as was adopted at 31 March 2017.

Liability		Number of schemes recognised	Number of pensioners *	Number of deferred pensioners *
Provision	2018	89 (106 in total)	51,595	52,786
	2017	98 (103 in total)	40,037	42,467
Provision – IBNR	2018	0 (0 in total)	0	0
	2017	0 (0 in total)	0	0
Type I contingent liability	2018	0 (0 in total)	0	0
	2017	0 (0 in total)	0	0
Type II contingent liability	2018	9 (9 in total)	14,096	13,455
	2017	9 (9 in total)	100,007	63,293
Type III contingent liability	2018	157 (224 in total)	18,712	27,567
	2017	133 (185 in total)	9,802	13,307

* Data in respect of recognised schemes only.

Information regarding membership splits by sex, category, and benefit amounts is not generally collected for the schemes forming the provisions and contingent liabilities, hence it has not been possible to provide such summary data about schemes in the various liability categories.

As the PPF does not hold member-by-member data for all the schemes forming the provisions, it is not possible to establish the size and shape of cash flows relating to the schemes forming the provisions. However, when collecting data for material schemes, information was obtained relating to the individual pensioners in payment and deferred pensioners. This indicates that the shape of the cash flows for schemes forming the provisions is not dissimilar to that for transferred schemes.

Annex S4

Assumptions

All assumptions will be either the same as, or derived in the same way as, those derived for the valuation as at 31 March 2017, unless stated otherwise.

a) Actuarial liabilities

The assumptions adopted were described in my report to the Board dated 25 June 2018.

b) Basis adopted for provisions and contingent liabilities

1. Financial and demographic assumptions

In general, the same financial and demographic assumptions have been used to assess the provisions and contingent liabilities as for the liabilities. These assumptions relate to:

- discount rates
- revaluation rates
- pension increase rates
- mortality rates
- the proportion married or with a relevant partner
- the age difference between member and dependant, and
- the long service cap.

Full details can be found in Annex M2. The assumptions used for GMP equalisation and expenses have been derived in a similar way and are discussed further below.

2. GMP equalisation

Allowance has been made for the cost of equalising compensation that is unequal on account of inequalities in Guaranteed Minimum Pensions (GMPs) accrued between 17 May 1990 and 5 April 1997. This provision is to cover the cost of equalisation of the liabilities of schemes forming the provisions. A single loading was applied to the liabilities forming the provisions (with the exception of four material schemes that provided equalised individual member data), of 0.6 per cent of the relevant liabilities. This loading includes allowance for backdated arrears on all schemes forming the provisions, other than the material schemes that have already been equalised.

The allowance for GMP equalisation is unchanged from the valuation as at 31 March 2017.

3. Expenses

Allowance has been made for expenses incurred by the trustees prior to transfer into the PPF. It has been assumed that these will be the same as the wind-up expenses calculated in accordance with the s179 methodology. Schemes are assumed to be, on average, midway through the assessment period. Allowance is therefore made for only 50 per cent of the full s179 wind-up expense cost and, for schemes where the asset value is based on a roll forward of a valuation that pre-dates the insolvency, 50 per cent of the full s179 wind-up cost is also deducted from the asset value.

In addition, allowance has been made for costs incurred by the PPF in transitioning members across to the PPF. This cost has been calculated as a per-member cost and has been determined by dividing the cost to the PPF of transitioning members over the year to 31 March 2017 divided by the number of members that transitioned over the same period.

Allowance has also been made for certain expenses incurred after transfer to the PPF in respect of schemes which are likely to transfer to the PPF (see Annex M2 of my report to the Board dated 25 June 2018 for an explanation of the expenses that are to be met from the Fund after a scheme transfers to the PPF). The same allowance is used as for transferred schemes (2.9 per cent). Expressed as a percentage of the provisions, the aggregate allowance for expenses incurred during the assessment process, during transition to the PPF and then after transfer is 3.8 per cent. The equivalent figure from last year is 4.1 per cent.

Annex S5

Sensitivity analysis

Results have been calculated on the basis described in Annex S4. In this annex we set out what the results would be were different assumptions to be used. Some of these relate to different methods that could be used in the derivation of the assumptions – sensitivities 1 to 4. Others – sensitivities 5 to 10 – show how sensitive the results are to plausible changes in the underlying financial and demographic realities.

It should be noted that, in some cases, the results of the scenarios shown below are calculated in a more approximate manner than the results set out earlier in the report.

10 scenarios have been considered covering the main uncertainties.

Scenario 1: Assumptions based on 25 per cent of the swaps curve at 31 March 2018 but with a deduction of 15 basis points at each term, and 75 per cent of the gilts curve at 31 March 2018. This is an alternative to the notional portfolio that we have used for the main valuation.

Scenario 2: Assumptions based purely on the swaps curve less 15 basis points at each term at 31 March 2018. This is an alternative to the notional portfolio that we have used for the main valuation.

Scenario 3: Increases in the Consumer Prices Index (CPI) are assumed to be 1.0 per cent lower than increases in the Retail Prices Index (RPI). This is an alternative way to derive the CPI assumption relative to RPI – using our estimate of the future difference between RPI and CPI, rather than our best estimate of the market's current view.

Scenario 4: Assumptions and expenses calculations based on the s143 valuation basis (version B7 as effective from 1 December 2016). This serves to illustrate the difference between the PPF's accounting valuation basis and the s143 basis.

Scenario 5: Nominal yields are assumed to increase by 0.5 per cent per annum at each term. This is an illustration of a plausible move in yields.

Scenario 6: Inflation is assumed to increase by 0.5 per cent per annum at each term. This is an illustration of a plausible move in market-implied inflation rates.

Scenario 7: Mortality rates are assumed to be 10 per cent lower per annum than those assumed in the main valuation. This is an illustration of a plausible move in mortality experience.

Scenario 8: The long-term rate of mortality improvements is two per cent per annum rather than 1.5 per cent per annum. This is an illustration of a plausible change in expectation of long-term future life expectancy improvement.

Scenario 9: We use the CMI_14 model for mortality improvements, which is still used by some pension schemes.

Scenario 10: The value of return-seeking assets (excluding those which are used to hedge against liabilities) is assumed to decrease by 10 per cent at 31 March 2018. This is an illustration of a plausible move in asset values.

A summary of the assumptions is shown below, with the corresponding results set out in Annex S7:

Main Basis and Scenarios 1-5

	Main Basis	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5
Discount rate in deferment for compensation accrued before April 2009 (% pa)	-1.0	-1.1	-1.3	-0.7	-1.6	-0.5
Discount rate in deferment for compensation accrued after April 2009 (% pa)	-0.9	-1.0	-1.2	-0.8	-0.8	-0.4
Discount rate in payment for non-increasing compensation for current pensioners (% pa)	1.6	1.5	1.4	1.6	1.7	2.1
Discount rate in payment for non-increasing compensation for future pensioners (% pa)	1.6	1.5	1.3	1.6	1.3	2.1
Discount rate in payment for increasing compensation for current pensioners (% pa)	-0.4	-0.5	-0.7	-0.4	-0.2	0.0
Discount rate in payment for increasing compensation for future pensioners (% pa)	-0.5	-0.6	-0.8	-0.5	-0.9	-0.0
Non-LDI assets	Market value	Market value	Market value	Market value	Market value	Market value
Proportion married and assumed age difference between member and dependant	As in Annexes S4 and M2	As in Annexes S4 and M2	As in Annexes S4 and M2	As in Annexes S4 and M2	As in valuation guidance B7	As in Annexes S4 and M2
Mortality	As in Annexes S4 and M2	As in Annexes S4 and M2	As in Annexes S4 and M2	As in Annexes S4 and M2	As in s143 valuation guidance B7	As in Annexes S4 and M2

Annex S5 continued

Scenarios 6-10

	Main Basis	Scenario 6	Scenario 7	Scenario 8	Scenario 9	Scenario 10
Discount rate in deferment for compensation accrued before April 2009 (% pa)	-1.0	-1.5	-1.0	-1.0	-1.0	-1.0
Discount rate in deferment for compensation accrued after April 2009 (% pa)	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9
Discount rate in payment for non-increasing compensation for current pensioners (% pa)	1.6	1.6	1.6	1.6	1.6	1.6
Discount rate in payment for non-increasing compensation for future pensioners (% pa)	1.6	1.6	1.6	1.6	1.6	1.6
Discount rate in payment for increasing compensation for current pensioners (% pa)	-0.4	-0.5	-0.4	-0.4	-0.4	-0.4
Discount rate in payment for increasing compensation for future pensioners (% pa)	-0.5	-0.6	-0.5	-0.5	-0.5	-0.5
Non-LDI assets	Market value	Market value	Market value	Market value	Market value	Fall by 10%
Proportion married and assumed age difference between member and dependant	As in Annexes S4 and M2	As in Annexes S4 and M2	As in Annexes S4 and M2	As in Annexes S4 and M2	As in Annexes S4 and M2	As in Annexes S4 and M2
Mortality	As in Annexes S4 and M2	As in Annexes S4 and M2	As in Annexes S4 and M2 but with a 10% reduction applied to base mortality rates	As in Annexes S4 and M2 but with the long-term rate of mortality improvements set to 2.0% pa	As in s143 Annexes S4 and M2 but with mortality projection table set to CMI14	As in Annexes S4 and M2

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

(a) The present value of the PPF's liabilities 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 £21,511.5m.

(b) The value of the PPF's 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 £29,896.9m.

These are the same figures as appear in my actuarial valuation report of 25 June 2018.

b) Calculation of provisions

89 schemes were included in the provisions in the statement of accounts for the financial period ending on 31 March 2018. The table below shows the estimated assets held as at 31 March 2018 in respect of the 89 schemes forming the provisions. It also shows the outstanding anticipated recoveries, the resulting total assets, and estimated funding position in respect of those 89 schemes. A comparison is shown with the equivalent figures for the year to 31 March 2017 (using the assumptions described in my report as at that date):

	31 March 2018 £m	31 March 2017 £m
Assets excluding anticipated recoveries	6,311.7	4,628.3
Anticipated recoveries	88.0	777.5
Total assets	6,399.7	5,405.8
Provisions	8,039.0	6,080.2
Excess of liabilities over assets	1,639.3	674.4
Funding level (assets/liabilities)	79.6%	88.9%

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

Annex S6

Calculation results

The provision assets have increased by £993.9m and this can be reconciled as follows:

	£m
Assets as at 31 March 2017	5,405.8
New claims arising in the year (includes new schemes in assessment and schemes now thought to be in deficit)	5,155.7
Claims no longer considered probable (exits or schemes estimated to be in surplus at their assessment date)	(2,620.3)
Schemes accepted into the PPF (assets as at transfer date)	(500.8)
Changes in schemes' assets due to benefits paid out	(174.9)
Investment return	(63.2)
Change to adjust the asset value to equal liabilities throughout the year	(100.4)
Data changes (including updated valuation information)	(100.9)
Impact of restructuring one scheme in assessment	(690.0)
Recovery changes	80.4
Miscellaneous	8.3
Assets as at 31 March 2018	6,399.7

The provision liabilities have decreased by £1,958.8m and this can be reconciled as follows:

	£m
Provision liabilities at 31 March 2017	6,080.2
New claims arising in the year (includes new schemes entering assessment and schemes now thought to be in deficit), valued at month of entry	6,338.7
Claims no longer considered probable (exits or schemes estimated to be in surplus at their assessment date)	(2,613.5)
Schemes accepted into the PPF (liabilities as at transfer date)	(561.0)
Change in schemes' liabilities due to benefits paid out	(174.9)
Actual inflation experience being different from that assumed	(2.7)
Accumulated interest	53.8
Actuarial (gain)/loss due to changes in market yields	(3.7)
Actuarial (gain)/loss due to data changes	(191.3)
Actuarial (gain)/loss due to restructuring of one scheme in assessment	(694.0)
Actuarial (gain)/loss due to changes in CPI assumptions	(49.5)
Actuarial (gain)/loss due to changes in mortality assumptions	(109.2)
Actuarial (gain)/loss due to other experience	(2.7)
Change in valuation methodology	(8.0)
Change in expense reserve for new data	(23.2)
Provision liabilities at 31 March 2018	8,039.0

Please note that the exact values attributed to each driver of change would be slightly different if the order of calculation were different. This does not affect the total liabilities at 31 March 2018.

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 2016/17 Annual Report & Accounts under the Main Assumptions basis as described in that report):

Type of contingent liability	Estimated net liability as at 31 March 2018	Estimated net liability as at 31 March 2017
	£m	£m
I	0	0
II	1,406.7	1,262.9
III	1,437.0	607.0
Total	2,843.7	1,869.9

The net liabilities recognised as contingent liabilities are the present value of the aggregate scheme deficits (for types I, II and III) calculated at each valuation dates.

Shown below are the total assets and total liabilities that correspond to the above net liabilities. A comparison is shown with the equivalent figures for the year to 31 March 2017 under the main assumptions basis.

Type of contingent liability	31 March 2018		31 March 2017	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
I	0	0	0	0
II	1,887.5	3,294.2	15,697.9	16,960.8
III	4,429.9	5,866.9	1,750.4	2,357.4
Total	6,317.4	9,161.1	17,448.3	19,318.2

At this stage it is too early to assess whether any recovery is available for type II or III contingent liability so none has been assumed.

Annex S7

Actuarial balance sheet

On the main basis the PPF actuarial balance sheet as at 31 March 2018 is as follows:

Assets	£m	Liabilities	£m
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	29,896.9	The present value of the PPF's liabilities of to pay sums or transfer property as required under section 173(3) of the Pensions Act 2004	21,511.5
The sum of the estimated values of the assets in the schemes that generated the provisions, plus any anticipated recoveries	6,399.7	The present value of the liabilities of the schemes forming the provisions	8,039.0
Total assets	36,296.6	Total liabilities	29,550.5
Excess of assets over liabilities			6,746.1
Funding level (assets/liabilities)			122.8%

The actuarial liabilities and the liabilities of the schemes forming the provisions have been calculated 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 set out below. The results show that, had a slightly different approach been taken when setting the assumptions, the funding position remains healthy, and also that the fund is resilient to individual items of experience being different to those assumed. These sensitivities do not consider the risk from a large claim.

Scenarios 1-5

	Main Basis	Scenario 1 25% swaps less 15 basis points and 75% gilts	Scenario 2 100% swaps less 15 basis points	Scenario 3 CPI is 1.0% pa lower than RPI	Scenario 4 s143 basis	Scenario 5 Nominal yields + 0.5% pa
Assets	£b	£b	£b	£b	£b	£b
The value of the PPF assets	29.90	29.90	29.90	29.90	29.90	27.49
The values of the assets in the schemes that generated the provisions	6.40	6.40	6.40	6.40	6.40	6.08
Total assets	36.30	36.30	36.30	36.30	36.30	33.57
Liabilities						
The present value of the PPF's liabilities	21.51	21.81	22.67	21.10	23.12	19.65
The present value of the liabilities of the schemes forming the provisions	8.04	8.15	8.47	7.88	8.85	7.34
Total liabilities	29.55	29.96	31.14	28.98	31.97	26.99
Excess of assets over liabilities	6.75	6.34	5.16	7.32	4.33	6.58
Funding level (assets/liabilities)	122.8%	121.2%	116.6%	125.3%	113.5%	124.4%

None of these scenarios should be interpreted as upper or lower bounds of the range of reasonable estimates which might be made (figures in this table are subject to rounding discrepancies).

Annex S7 continued

Scenarios 6-10

	Main Basis	Scenario 6 Inflation rate + 0.5% pa	Scenario 7 Mortality rates 10% lower pa	Scenario 8 Long-term mortality improvement + 0.5% pa	Scenario 9 CMI 2014 mortality improvement model	Scenario 10 Non-LDI assets fall by 10%
	£b	£b	£b	£b	£b	£b
Assets						
The value of the PPF assets	29.90	30.78	29.90	29.90	29.90	28.11
The values of the assets in the schemes that generated the provisions	6.40	6.61	6.40	6.40	6.40	6.13
Total assets	36.30	37.39	36.30	36.30	36.30	34.24
Liabilities						
The present value of the PPF's liabilities	21.51	22.18	22.28	21.96	21.81	21.51
The present value of the liabilities of the schemes forming the provisions	8.04	8.29	8.33	8.21	8.15	8.04
Total liabilities	29.55	30.47	30.61	30.17	29.96	29.55
Excess of assets over liabilities	6.75	6.92	5.69	6.13	6.34	4.69
Funding level (assets/liabilities)	122.8%	122.7%	118.6%	120.3%	121.2%	115.9%

None of these scenarios should be interpreted as upper or lower bounds of the range of reasonable estimates which might be made (figures in this table are subject to rounding discrepancies).

Annex S8

Comparison with the funding position as at 31 March 2017

Under IAS 37, reconciliation is required of the opening and closing net funding position on the actuarial balance sheet, including schemes that generate the provisions. This is shown in the table below:

Reconciling item	£m
Excess of assets over liabilities on the actuarial balance sheet at 31 March 2017	6,062.3
Change in actuarial liabilities (this is further broken down in section 8 of my report on the actuarial valuation of the PPF)	467.5
Change in liabilities for schemes forming the provisions (this is further broken down in Annex S6)	(1,958.8)
Change in the PPF's assets (this is further broken down in section 7 of my report on the actuarial valuation of the PPF)	1,181.2
Change in assets for schemes forming the provisions (this is further broken down in Annex S6)	993.9
Excess of assets over liabilities on the actuarial balance sheet at 31 March 2018	6,746.1

Common terms and abbreviations

AVC – Additional Voluntary Contribution

BSPS – British Steel Pension Scheme

CETV – Cash Equivalent Transfer Value

CMI – Continuous Mortality Investigation

CPI – Consumer Prices Index

CVA – Company Voluntary Arrangement

DB – Defined Benefit

DC – Defined Contribution

DWP – Department for Work and Pensions

FAS – Financial Assistance Scheme

FCF – Fraud Compensation Fund

FReM – Government Financial Reporting Manual

GMP – Guaranteed Minimum Pension

Hybrid assets – Investments which possess attributes of both liability hedging and growth assets

IAS – International Accounting Standard

IBNR – Incurred But Not Reported

IFRS – International Financial Reporting Standard

ISO – International Organization for Standardization

KPI – Key Performance Indicator

LDI – Liability-Driven Investments

LIBOR – London Inter Bank Offered Rate

MFR – Minimum Funding Requirement

ORSA – Own Risk and Solvency Assessment

PPF – Pension Protection Fund

RAA – Regulated Apportionment Arrangement

RPI – Retail Prices Index

SIA – Schemes In Assessment

SIP – Statement of Investment Principles

TAS – Technical Actuarial Standard

TPR – The Pensions Regulator



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ISBN no – 978-1-5286-0382-9
CCS no – CCS0518603648

Designed and produced by Sequel Group
www.sequelgroup.co.uk