

Pension
Protection
Fund

Annual Report & Accounts 2007/08

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

Ordered by the House of Commons to be printed on 28 October 2008.

Role of the Pension Protection Fund

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

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

In addition, in September 2005, the Board of the Pension Protection Fund took over the role of the former Pension Compensation Board to pay compensation to defined benefit and defined contribution pension schemes where these schemes have suffered a loss that is attributable to dishonesty.

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ISBN:9780102957075

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Chairman's Foreword

“Complexity and volatility have been the hallmarks of the past year as the turbulence in global markets put the UK economy under significant stress. In such times, the need for a resilient system of pension protection is keenly felt but sponsoring employers find affording the levies more daunting.”



Over the year, the financial position of the PPF remained about the same as a year ago. Including provisions for schemes in the assessment period our deficit reduced from £609 million to £517 million with a corresponding increase in our funding ratio from 88% to 91%. This result is satisfactory given the extreme problems affecting the credit markets and capital markets more generally, though we recognise that insolvencies commonly lag the lead indicators. We also recognise that the issue of our obligation to equalise compensation for differences arising from GMPs in scheme benefits has yet to be resolved. This could have an impact on our funding ratio.

The really significant risks in our pension universe lie in the off balance sheet future liabilities of the 7,400 schemes outside the PPF rather than the couple of hundred crystallised insolvencies actually now on our balance sheet. The PPF Board believes that it should report separately on these distinct areas of risk (and indeed publishes a monthly index on schemes outside of the PPF). PPF has never held any reserves against the larger risk element and we have concluded that we should build a modest reserve as and when the balance sheet deficit is eliminated.

Last year, I referred to our emerging thinking on recognising more fully in the calculation of levy bills the longer term risks which schemes pose to us. We have been greatly assisted by a technical working group of industry experts and have now exposed our thinking for consultation on whether, how and when to modify the levy formula. As this is a complex topic, it requires ample time for consideration and implementation and is unlikely to be introduced before 2011/12.

PPF compensation payable to our pensioners averages around £4,000 pa, with only 7% receiving more than £10,000 a year and 12% receiving less than £1,000 a year. While most of our payments are relatively modest, they make a big difference to recipients. The Board favours raising the levy towards the levy ceiling (should we need to in future) before considering use of its statutory powers to reduce benefits.

As we look ahead, we will be placing greater emphasis on our operations, particularly in terms of the speed of managing schemes through assessment, the billing and collection of levies, recoveries in insolvency and our investment performance. We continue to regard the quality of scheme and member data and standards of administration as key inhibitors to the assessment process, and will work with the Pensions Regulator and DWP to improve standards in this area.

We have continued to respond to DWP on operational solutions for FAS, particularly following the Ministerial announcement as a result of the Young Review. We are pleased to play whatever role Parliament asks us to play, while keeping any new responsibilities completely separate from our established PPF functions.

During the year we responded to the heavy workload of the Board by the appointment of Martin Clarke as Director of Financial Risk in May and by the appointments of Sir Anthony Holland and Ann Berresford as non-executive members in August. In October, Peter Walker assumed the role of Director of Delivery from his previous board position of Chief Operating Officer.

In August 2008, we made public the decision of Partha Dasgupta, our Chief Executive, not to stand for a second term of office on the expiry of his first term in June 2009. I would like to take this early opportunity to thank Partha for his outstanding contribution to the PPF since 2005, not withstanding that his term of office continues for the current financial year.

Our staff continued to work diligently and with great commitment to support scheme members and their families through the provision of compensation. Their skill and professionalism is of the highest standard and, judging by the Ipsos MORI survey of stakeholders, is highly appreciated by members, trustees and advisors alike.

As the PPF matures, the balance of our challenges will inevitably change. Our ambition is to sustain the PPF as a respected and established institution in the financial landscape, adhering to our principles of simplicity, fairness and proportionality in all that we do.



Lawrence Churchill
Chairman

Chief Executive's Report

“Our third year of operations was an exciting one. We passed £1bn in assets under our management for the first time. We collected a levy much closer to the levy estimate.”



Most importantly, we managed thousands more scheme members through our assessment period, providing them with the assurance that their compensation each month comes from a stable, trusted and secure source. Throughout the year four strands were particularly important for us.

The first strand was the continued strengthening of our financial position. The funding position of the PPF improved from 88% at 31 March 2007 to 91% at 31 March 2008, while during the same period our deficit fell from £609 million to £517 million. This improvement is welcome and, as announced recently, although mindful of prevailing economic conditions, we are committed to eliminating this deficit and building up appropriate reserves over time.

At present the Board has yet to decide on how best to equalise compensation to allow for differences in the GMP formula. Our April 2008 consultation outlined a number of possible approaches and we would expect to pursue these further later in the year.

Despite growing economic uncertainty during the year our claims experience was lower than expected as corporate insolvency rates remained historically good. We are however anticipating the weakening economic situation to result in a rising number of claims.

The second related strand is the development of our investment portfolio to reflect the significant growth in our assets during the year. The Statement of Investment Principles which was adopted in October 2006 gave us a strong structure for this growth. Our investments at the end of the year stood at £1.45 billion up from £717 million at the end of 2006/07. As our detailed investment report shows, overall performance was below our benchmark. The PPF portfolio did not hold any sub-prime mortgage or asset backed securities; however we were not immune to the economic climate.

Our investments at the end of the year

£1.45bn

2006/07: £717m

An important element of our investment strategy has been to seek to hedge out our exposure to changes in inflation and interest rates. Some £110 million of our investment return during 2007/08 was attributable to our swap portfolio. We also sought to track the investments of schemes in assessment more closely during the year so as to better manage the risks to which we are exposed prior to schemes transferring.

The third and arguably most important strand has been the step-change in our operations during the year; 54 schemes had completed assessment by the end of the year (including 41 during the year). If it were not for 14 cases held up by a quirk in regulations (now resolved) we would have met our challenging target of 65 schemes, or sections of schemes having completed assessment by the end of the year. Given that the PPF is only three years old this was a major achievement, particularly given that it has historically taken an average of seven years to wind up pension schemes in the UK.

The fourth strand has been about sharing the experience we have gained taking schemes through our assessment period over the last three years. In the spring we launched our new Trustee Good Practice Guide to help those managing schemes through the assessment period and to provide clarity around expectations for all involved. We also shared our knowledge and experience of passing schemes through our assessment period more widely through the joint regulatory statement on scheme wind ups and a new Trustee Toolkit module published by the Pensions Regulator both of which aimed to speed up pension scheme wind ups.

Data was also an area of particular cooperation during the year given the challenges that poor data has previously posed the PPF. The launch of Exchange, the Pensions Regulator's online scheme return service was a significant step forward, while the consultation published in July 2008 on improving record-keeping by schemes was most welcome.

Underpinning these strands has been continued development of our human resources, the people who make the PPF what it is. We were within both our capital and operating budgets during the year with an increase in staff numbers to reflect our developing workload. While staff turnover remained low, the specialist nature of the PPF's work force, with a range of technical roles, continued to make attracting high quality staff challenging.

More important than simply attracting the right staff, has been the task of creating an organisational culture that encourages the best from our staff. In our last staff survey 93% of our employees believed the PPF to be a good employer. We are looking at how we maintain these levels of satisfaction through strengthening staff development and looking how to identify opportunities for career progression within the PPF.

Already significant challenges have emerged in the current year. While wider economic issues will obviously dominate, two specific themes are likely to be of particular importance for the PPF in 2008/09; the future of the Financial Assistance Scheme (FAS) and the future of the PPF levy.

Chief Executive's Report continued

The Government announced in June 2008, following consultation, that the PPF would take a role in the future development of the FAS through transitioning scheme assets and project managing schemes through wind up. This will mean a new structure for the PPF with new staff dedicated to FAS activities, funded by DWP. The Government has provided levy payers with the reassurance that there will be no cross-subsidy between these activities with a clear separation in resources and governance between PPF and FAS activities, something I welcome.

The year saw much thought on the financial sustainability of the PPF and the development of the levy which has continued during the current year. The publication of the final Levy Scaling Factor for 2008/09 announced in May 2008 further focused attention on the future of the levy. The reasons for this change from the indicative figure have been much discussed over the past months and have highlighted the tensions between modelling long term risk and charging schemes for short term risk¹. We were equally surprised by the degree of change from the indicative figure and recognise that our reputation and credibility have both suffered as a result of this episode. We have learnt from this situation and much thought has been given to how we develop the levy to remove the volatility inherent in charging on the basis of short term risk. In the first instance, as previously announced, 2009/10 will see a revised approach with the final levy scaling factor being published in November 2008 well before the start of the levy year.

Our consultation document on the future of the levy also published in October 2008 has outlined our developing thinking on these issues. We recognise the financial cost to schemes and employers of the protection we provide and the need to give greater certainty as to these costs. Fixing the overall level of levy at £675 million indexed to wages for the three years from 2008/09 onwards has provided one element of certainty, a position we confirmed in September 2008, but we recognise further development is needed. We are therefore considering how we might better reflect long term risks in the levy formula and give credit to those schemes that have taken steps to de-risk their investment strategies. I would encourage all those with an interest in the future of the PPF to consider and, if appropriate, respond to the consultation.

The domination of coverage of the PPF over the last year by the levy has often overshadowed the everyday reality of what the PPF is about; paying compensation to often vulnerable pensioners across the UK who would have received much less when their scheme wound up had we not been here. Given that the average pensioner in receipt of compensation from the PPF is receiving less than £4,000 a year, even small amounts make a real difference to their lives.

Delivering this real difference has made this the most enjoyable, challenging and rewarding job of my career and, when I step down in June next year, I will look back with enormous pride and satisfaction at what the PPF has achieved in such a short space of time.

It has been a great privilege to lead this organisation with its exceptionally talented and committed people. It has also been a privilege to have helped shape the UK's pension protection regime that is now delivering real security in retirement for 12 million pension scheme members.

The rest of this Annual Report and Accounts tells you in detail about what we achieved during 2007/08. For me though the test of what we achieved during the year is a simple one; when we surveyed our stakeholders in early 2008 74% of those who expressed a view believed the PPF was effectively fulfilling its main role and objectives.



Partha Dasgupta
Chief Executive

¹ Details of the reconciliation of the indicative levy scaling factor for 2008/09 to the final levy scaling factor for 2008/09 can be found on the PPF website.

Management Commentary – Report on 2007/08

3.1 Key Themes

3.1.1 Background

During 2007/08 the Pension Protection Fund continued to build upon progress from previous years. During 2006/07 the PPF paid compensation directly to scheme members for the first time, raised a risk-based pension protection levy and had significant levels of assets under management. With the organisation therefore already delivering on its responsibilities under the Pensions Act 2004, 2007/08 saw a particular focus on enhancing its operational activities.

During the year the Pension Protection Fund:

- Had a further 41 schemes complete the assessment period, with 28 of these transferring to the PPF. As at 31 March 2008 3,596 former scheme members were in receipt of compensation from the Fund, with a further 8,577 having a deferred entitlement.
- Built on the experience of setting, invoicing and collecting the levies in 2006/07 with changes being made to the PPF's approach for 2007/08 and discussion and consultation commencing on the future development of the levy.
- Developed its existing investment approach and Statement of Investment Principles, adopted in October 2006, with investments passing £1bn for the first time during the year.
- Strengthened its funding ratio from 88% funded to 91% funded, with the deficit reducing from £609 million to £517 million.

3.1.2 Understanding the UK pensions universe

Accurate data is essential for the PPF's activities. Scheme return data submitted to the Pensions Regulator (TPR) is used by the PPF for many purposes. These include providing an overview of the UK pensions universe at a macro level, determining the levy payable by individual schemes and aiding the assessment process. The launch in December 2007 of TPR's online scheme return system ('Exchange') has better focused the information that schemes need to provide while making it easier for them to do so. From 2008/09 onwards it should significantly reduce the PPF's need to check and correct scheme data.

In December 2007 the PPF and TPR jointly published the second edition of the Pensions Universe Risk Profile (known as the Purple Book) using scheme return data. The first edition published in December 2006 significantly increased knowledge and understanding about the number and characteristics of PPF eligible schemes. The second edition used a revised sample of schemes which was then compared to both the Purple 2006 sample and an extended Purple 2006 sample covering additional schemes. Issues such as comparing the funding position of schemes against the sector of their sponsoring employer(s) can be explored and over time the Purple Book will allow emerging trends and themes to be assessed. Some of the main features were:

- Data was sourced from a sample of around 5,900 schemes representing 10.7 million memberships and around 90% of liabilities. Around 7,800 schemes with 12.5 million memberships are believed to be eligible for the PPF.
- A majority of the schemes, 61% (58% in Purple 2006), were closed to new members or future accrual, with open schemes making up 38% (previously 31%). The category 'part open' which constituted 11% of schemes in 2006 was not used in 2007. A small number of schemes in each year were in the process of winding up.
- Of scheme members, 41% were deferred, 33% were pensioners and 26% were actively employed by the sponsor of the pension scheme, the same proportions as for Purple 2006.
- Employers in the manufacturing sector sponsored around 35% of PPF eligible schemes, representing a particular concentration compared to the wider economy.

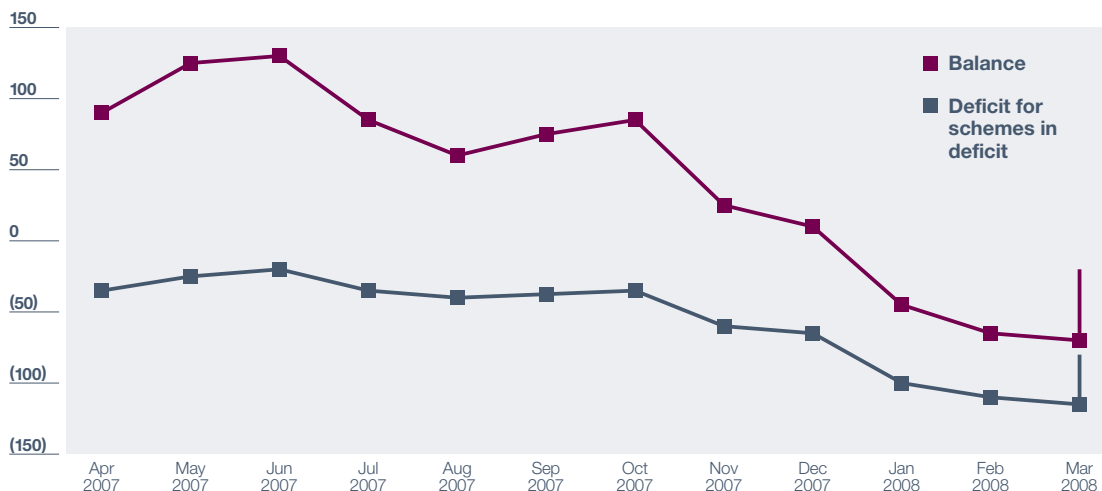
From July 2007 regular monthly updates on scheme funding levels based on the Purple Book sample have been published. Known as the PPF 7,800 Index, this has allowed the PPF to track changes in funding and risk through time. This has highlighted the volatility of funding levels with significant changes in the net deficit/surplus of eligible schemes over relatively short periods of time.

Management Commentary Report on 2007/08

3.1 Key Themes continued

Estimated Section 179 aggregate balance and deficit for schemes in deficit²

£ billion



The continuing development of the levy and assessment processes has also emphasised the importance of high quality scheme data during the year. The strengthened scheme return process has led to improvement but a significant proportion of PPF administration costs were incurred in cleansing data to enable levies to be invoiced. At an individual scheme level dealing with poor data and record keeping has been an important part of the assessment process. Work with TPR to tackle these issues is ongoing, building on the launch of the Exchange system.

3.1.3 Understanding risk

A better understanding of the UK pensions universe has also improved the PPF's understanding of the risks to which it is exposed. The PPF is exposed to a number of interrelated risks; the likelihood of the failure of a sponsoring employer, the size of any associated scheme deficit at the point of that insolvency and then the longevity risks associated with transferring members. Other risks to which the PPF is exposed are discussed in the Statement on Internal Control.

In August 2007 the PPF published a discussion paper on its Long Term Risk Model (LTRM). The model was in use during 2006/07 and had been subjected to audit by external firms but the discussion paper was published so as to seek wider thoughts on the appropriateness of its assumptions and other aspects of the model. A range of responses were received

and a number of meetings were held with external modelling experts to explore how the model might be developed.

Having developed a bespoke model for assessing the levels of claims, the PPF has sought to better understand the implications of the model outcomes. The LTRM is a stochastic model which, based on different economic scenarios, generates five hundred thousand different outcomes over 5 and 10 year time horizons for levels of claims on the PPF. A median point of the probable level of claims can be assessed (a 50% probability of claims either being higher or lower). Other levels of claims at points, such as that at which there would be a 97.5% likelihood of claims being below a certain level over a five year period can also be assessed.

The LTRM is the key tool that the PPF uses to understand and quantify the risks it faces in the future. It therefore has an important role in helping inform the Board of the PPF as they assess the level of resources that are required to meet future potential liabilities and set the annual pension protection levies. The PPF announced in November 2007 that the levy estimate for 2008/09 would remain at the £675m levy estimate for 2007/08, with the intention that it would then be pegged to increases in earnings for the 2009/10 and 2010/11 levy years (subject to there being no significant changes in assessed risk). The PPF announced in September 2008 that, as committed

² The assumptions for Section 179 valuations were changed by the PPF for those on or after 31 March 2008 in light of developments in the buy-out market. As a result, the discount rates used were increased by 0.3 percentage points which has the effect of reducing the estimate of scheme liabilities (and more than offsetting changes in mortality assumptions). This has been treated as a step improvement in scheme funding at 31 March 2008.

to, the levy estimate for 2009/10 would be £700m, the previous level of £675m indexed to wage inflation.

Long term risk

The Long Term Risk Model has also been important for the PPF as it seeks to strengthen the levy methodology and better align the premium charged to the risk posed for each scheme. The model has highlighted two emerging themes.

The first is that schemes with low short term risk can quite quickly experience a weakening in the strength of the employer and funding position of the scheme exposing the PPF to large levels of claim. This tension between the long term risks upon which the overall levy to be raised is set and the short term risk upon which it is charged to individual schemes has generated much thought and discussion throughout 2007/08. This is partly due to the unfairness of the inherent cross subsidy from schemes which have high short term risk characteristics to those with low short term risk, but which the LTRM shows to pose serious longer term risks.

The second theme is that while even volatile levels of claims by smaller schemes pose little threat overall to the PPF's sustainability, the tail of the distribution with much larger claims, albeit with a low probability of occurrence, is of greater concern. This therefore raises questions about the levy needed in any year so as to mitigate these risks, including the balance between pre- and post- funding such claims including the building up of reserves.

Development of the levy

Throughout the year, the PPF signalled its intention to further develop the levy and sought to enter into discussion with the pensions industry to test its emerging thinking.

In August 2007 a consultation document on the future of the PPF levy was published. This announced the intention to set a three year levy estimate and bring forward the date at which insolvency and underfunding risk would be assessed for each levy year. The proposal, which the PPF subsequently adopted, was that the dates for assessing underfunding and insolvency risk would be at 31 March 2008 for 2009/10 (and 31 March 2009 for 2010/11 etc). This timing would give schemes more notice of their likely levy bill, allowing them to plan cash flows with greater certainty.

Changes to the Dun & Bradstreet (D&B) methodology for assessing insolvency risk were also announced with a specific scorecard for not-for-profit organisations and a greater range of bandings for those assessed to have the least chances of becoming insolvent. Views were also sought on the tender process for appointing an insolvency risk provider for 2010 onwards and how the levy might evolve, particularly in moving from assessing short term to long term risk. The consultation process was supported by a number of roadshows held around the UK. The PPF's response to the consultation published in November 2007 highlighted the mixed views amongst stakeholders on these issues although there was broad agreement to the direction of development. It was subsequently announced in September 2008 that Dun & Bradstreet would remain as insolvency risk provider for 2010 onwards.

Toward the end of the year, supported by continued modelling and thought, speaking at external events and in external discussion, the PPF indicated that a movement toward pricing on the basis of long term risk remained central to thinking on the levy. A Technical Reference Group was established from among stakeholders with 20 members. During spring 2008, this considered some of the emerging thoughts on these issues and gave a selection of schemes, advisors and other interested bodies a chance to comment and input their thoughts to the process. We published a further consultation document on the future of the levy after the end of the period under review in October 2008 which proposed a revised levy formula which would charge schemes on the basis of their long term risk.

The year also saw developing thought on how far the PPF might seek to adapt the levy to reflect funding volatility to which the PPF is exposed through individual scheme investment strategies. In May 2007 the PPF published its policy statement on the possible inclusion of investment risk as a risk factor in the risk based levy in response to an earlier consultation. It stated that it was not felt appropriate at the time to pursue this further as the investment strategies of schemes remained broadly similar limiting the benefits of reflecting investment risk as a specific risk factor. Survey work carried out on behalf of the PPF by KPMG and published in March 2008 indicated that only a very limited number of schemes were seeking to hedge their investment risk. The PPF indicated that this was an area that they would revisit, particularly in respect of how to price such unhedged risks.

Management Commentary Report on 2007/08

3.1 Key Themes continued

Longevity risk

As disclosed in last year's Annual Report and Accounts the PPF has taken a prudent view on the mortality of scheme members who have transferred, or who are likely to, transfer to the PPF. In addition during the year in response to developments in the pensions buy-out market, the PPF, having consulted, kept the assumptions used in its Section 143 and Section 179 valuations aligned to those of the market and strengthened the longevity assumptions used (although in response to other changes in the market the assumptions in respect of discount rates were weakened). The increased competitiveness of the buy-out market has seen downward pressure on pricing and the PPF is obliged to reflect this in its valuations which are based on the assumptions used in this sector.

The PPF continues to monitor discussions between the actuarial profession, regulators and the wider pensions industry closely as a range of views on future improvements in mortality is presented. This includes the various financial products that are beginning to emerge which seek more transparently to price longevity risk.

Although budgetary pressures remained strong, administrative spending by the PPF during 2007/08 was within the final agreed budget.

The PPF has been mindful of wider public concerns in respect of the security of personal and other sensitive data. As discussed in the Statement on Internal Control the PPF has reviewed its policies in this area and sought to strengthen its existing safeguards. Related to these issues the PPF has reviewed its business continuity planning leading to the establishment of a back up site.

3.1.4 Building organisational capacity and capability

The PPF has developed a strong team of experienced and committed individuals. Numbers at 31 March 2008 were 162 (including secondments, contractors and temporary staff), an increase of 25 during 2007/08, with turnover remaining low. The increase in numbers was focused on developing the technical capabilities of the organisation primarily in the legal, actuarial and financial risk teams. Additional people were recruited to strengthen the assessment and compensation processes in response to the increasing numbers of schemes being assessed for entry and transitioning to the PPF. The Executive team was also further strengthened with both permanent and interim appointments. Given the specialist nature of many PPF roles and the employers with which the PPF competes (primarily in the financial services sector) attracting staff with competitive remuneration remained a challenge.

Management Commentary Report on 2007/08

3.2 Review of Strategic Objectives

The Board published 'Management Plan 2007/08 – 2009/10', incorporating the Pension Protection Fund's 2007/08 Business Plan, in May 2007. The Board reiterated the five year strategic objectives set in June 2006. While the Management Plan detailed the medium term actions to achieve the objectives, the Business Plan outlined detailed actions for 2007/08 and how they would be implemented.

The PPF was focused during the year on the operational activities required to support its strategic objectives. The 2007/08 Business Plan set three priorities for the organisation within the framework of the strategic objectives. These were:

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

This section discusses how these priorities have been met in relation in each of the five year strategic objectives.

3.2.1 Objective 1:

Maintain the solvency position of the Pension Protection Fund between predetermined limits

As at 31 March 2007 the PPF disclosed a deficit of £609 million; a 88% funding ratio. As at 31 March 2008 the PPF had a deficit of £517 million; a 91% funding ratio, an improvement of 3%.

Confidence and consensus building

Ensuring that stakeholders and compensation beneficiaries retain confidence in the PPF's ability to continue providing the compensation it offers remains key. The PPF is funded from three main sources; transferred schemes' assets, including recoveries made from insolvent employers; the pension protection levy; and returns on those investments.

The Statement of Investment Principles agreed by the Board in October 2006 remained in place throughout a year which saw the PPF's investment portfolio grow substantially. This was supported by a strengthening of the PPF investment management capabilities through the creation of an executive Asset and Liability Committee and the recruitment of additional staff. This is discussed in greater detail in the Investment Report.

As at 31 March 2008 the PPF had:

- £1,328 million invested in accordance with the Statement of Investment Principles, with a further £131 million of assets in course of transition, so that the total value of invested assets was £1,459 million
- transitioned £184 million in assets during the year from schemes which transferred to the PPF.

A detailed discussion of the investment performance of the Pension Protection Fund can be found in Section 3.3.3. The Statement of Investment Principles for the Fraud Compensation Fund remained unchanged.

Maximising the recoveries from insolvent sponsoring employers in an attempt to reduce the pension deficit has also been an important part of the PPF's role.

On the insolvency of a sponsoring employer, the creditor rights of the pension scheme trustees pass to the PPF. As a consequence, the PPF will seek to recover what it can from the former participating employers on behalf of the scheme. When faced with an insolvency the PPF will submit a claim to the insolvency practitioner and vote as it considers appropriate during the process with a view to maximising any return that might be available from the realisations of the former employer's assets. As at 31 March 2008 the PPF had made recoveries since its creation of £429 million.

The PPF continued to be willing to engage in discussions where propositions were brought forward that offered a better return for creditors than the alternative of a straightforward insolvency. It will only agree to such proposals where significantly enhanced realisations for the pension schemes involved are available.

The pension protection levies continued to dominate as the largest source of income for the PPF in 2007/08. In December 2006 the Board set a levy estimate of £675 million and by 31 March 2008 had collected £361 million. Levy invoicing commenced in the autumn of 2007 and 6,888 invoices (98% of schemes for which the PPF held sufficient data) had been issued by 31 March 2008; this was behind the targets originally adopted for 2007/08. By the date of publication it is expected that the final figure collected will amount to £585 million (including £7.4 million in respect of schemes where eligibility is still subject to clarification). The difference between the levy estimate and final

Management Commentary Report on 2007/08

3.2 Review of Strategic Objectives continued

figure is discussed in Section 3.3.3 and is due to factors such as schemes taking advantage of levy incentives after the setting of the estimate and successful appeals since the start of the year.

Risk management and early warning systems

The Long Term Risk Model provides the PPF with an important tool for modelling the possible claims to which it is exposed. The discussion paper issued in August 2007 explained how the model works and the assumptions and sensitivities that are used. The model has been subjected to peer review and audited by external firms. In addition to informing the setting of the levy, the model is used to produce quarterly risk updates. The most serious risks can be monitored regularly and the PPF has undertaken discussions with TPR about how best to approach these schemes and work with them to reduce their risk.

The model feeds into much wider work undertaken by the PPF to understand and manage its financial risks. Much of this is focused on risks to the solvency of the PPF, both in respect of ensuring the PPF Statement of Investment Principles (SIP) remains appropriate and that the PPF is sufficiently financially robust to meet large claims. A financial risk management framework has therefore been developed to measure, monitor and manage these risks.

A major focus has been to track the universe of PPF eligible schemes and hence required to pay the levy.

Encouraging strong levels of scheme funding

Throughout the year the PPF continued to monitor levels of scheme funding closely. This involved the use of the LTRM and the PPF 7,800 Index to monitor the implications of changes in those levels over the course of the year and close cooperation with TPR in respect of scheme-specific funding and recovery plans. As plans were notified to TPR they were then shared with the PPF to ensure that modelling was based on up to date scheme information and behaviour.

This better information about levels of scheme funding, and the degree of volatility in funding levels, fed into the work undertaken by the PPF in developing the incentives structure for the levy. For 2007/08 the levy tapers used in 2006/07 were retained; schemes funded above 104% on a Section 179 basis had a tapering reduction in their risk based levy, while those funded above 125% paid no risk based levy. The intention behind this policy was to reflect those schemes who had a reduced risk of calling on the PPF due to the strength of their funding position.

Work undertaken during the early part of the year indicated that much higher volatility was apparent in the levels of scheme funding than anticipated when the tapers were originally set. In November 2007 as part of announcing the quantum of the levy for 2008/09 the PPF therefore increased the tapers so that they would commence at 121%. Other elements of the incentives offered to schemes to reduce their risk and hence their levy remained in place. The PPF received notification of 153 new contingent assets (112 Type A, 26 Type B and 15 Type C) and of £18bn of deficit reduction contributions in respect of the 2007/08 levy year. For the 2008/09 levy year the PPF received new notification of 241 new contingent assets (180 Type A, 44 Type B and 17 Type C).

The 31 March 2008 deadline for the submission of contingent assets and Section 179 valuations highlighted a number of issues. Submission by schemes of their first Section 179 valuation by midnight was mandatory but 376 schemes failed to do so (although 143 were either fully or partially in a PPF assessment period and a further 23 schemes submitted valuations after the deadline). For those schemes eligible to pay the levy a disincentive will be applied in the calculation of the scheme's 2008/09 levy to reflect the increased risk that failure to meet such a deadline reflects. While increased notification of contingent assets was a successful aspect of the 31 March deadline, technical problems with the online submission mechanisms has led to a process of improvement to ensure no repetition of the issues in March 2009.

As indicated in Section 3.1.3 it is the intention of the PPF to continue to develop the incentives available to levy payers to encourage them to reduce their risk or better allow them to notify the PPF of steps they have taken to do so. This will be reflected in the consultation undertaken during 2008/09.

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

Confidence and consensus building

An important part of the PPF's work during the year was to better explain what it does and the compensation it provides. During the year the PPF launched its 'Protecting Peoples' Pensions' series of publications. This provides dedicated literature aimed at scheme members, with the intention that trustees of schemes entering the assessment period would distribute it to members. These leaflets were written with a non-technical audience in mind and to provide reassurance about PPF compensation at what can often, given the PPF becomes involved after employer insolvency, be a stressful time. The leaflets published during the period under review were as follows:

- 'Help, my employer has gone bust' – an introduction to compensation payable by the PPF with a range of useful examples.
- 'Your journey to becoming a member of the PPF' – an overview of the assessment process to help members understand the activities being undertaken behind the scenes by the scheme and the PPF.
- 'Ten things you should know about the Pension Protection Fund' – a question and answer format which acts as a brief introduction to the PPF and aims to answer frequently asked questions.

Some 83,000 of these leaflets were distributed during the year. In addition they were available for download from the PPF website.

The PPF also changed the materials available to those members entering compensation. The 'Welcome Pack' provided to those transferring to the PPF was revamped and rewritten to improve member understanding of the PPF and their compensation. This was done in response to feedback from compensation beneficiaries and we have received positive feedback from members in the PPF's 2008 Perception Audit with 84% of members indicating that the pack contained all the information they needed and 87% stating they were able to understand the information.

Work was also undertaken during the year to help trustees, actuaries and others to better understand the assessment and compensation processes. Through encouraging a better understanding of PPF requirements the intention was that trustees and their advisors would be able to more quickly progress schemes through the assessment period and tackle any issues that may arise more easily. The PPF worked with TPR to develop a dedicated module for the Trustee Toolkit which was launched in May 2008. This reflected revised Trustee Guidance which was developed during the year, working with trustees with experience of the assessment process.

The PPF also continued to fulfil its broader role in discussions on the future direction of pensions in the UK. The Purple Book and PPF 7,800 Index provided important tools to help evidence based debate. In addition the PPF commented during the year on the appropriate aspects of DWP's Deregulatory Review, liaised with the FSA on possible changes to the Financial Services Compensation Scheme and the discussion which occurred within the pensions industry on the merits of risk sharing schemes.

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

Confidence and consensus building

The PPF set itself a target of 65 cases (schemes or sections of schemes) to complete the assessment period by 31 March 2008. This target was not met as only 54 schemes had completed the assessment period by the year end. This however was primarily due to a legal issue being identified which prevented a further 14 schemes transferring to the PPF. New regulations came into force on 2 August 2008 to allow those schemes, where the insolvent employer had been dissolved during an assessment period, to transfer and they did during that month.

A full list of the schemes which completed the assessment period during the year can be found at Appendix A.

The PPF remains committed to the target of 75% of schemes and 75% of scheme members completing the assessment period within two years. This is consistent with the joint regulatory statement published by the PPF, TPR and the Department for Work and Pensions on 3 March 2008 that indicated that this two year target would not just apply to the assessment period

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3.2 Review of Strategic Objectives continued

but also to pension scheme wind-ups more generally. Historically pensions wind-ups have been a lengthy process with significant uncertainty for members. The PPF has therefore worked to share its experience of managing schemes through the assessment process so as to benefit schemes which commenced wind-up prior to the establishment of the PPF.

The PPF has sought to strengthen all aspects of the assessment process during the year. Steps have been taken to speed up the validation of Section 120 notices and encourage insolvency practitioners to submit them in a timelier manner. Volumes of Section 120 notices, increased during the year, as discussed in Section 3.3.3.4. While rejecting those in respect of ineligible defined contribution schemes remained relatively straightforward, more complex cases remain an issue. Seeking to establish eligibility has proved to require significant work where issues such as multiple employers, winding-up, different jurisdictions and other legal issues are involved. A wider project to automate the validation of Section 120 notices commenced in the period under review.

We have experienced a range of challenges in seeking to pass schemes through the assessment process; member data, GMP reconciliation, legal issues, apportionment of employer debt, quality issues about Section 143 valuations and the employer dissolution issue discussed above. While many of these are beyond the control of the PPF much effort has been undertaken to seek to support trustees and schemes advisors to prevent such issues arising or reduce the delays caused. Project plans for schemes in assessment have also been pursued more vigorously with visits to support trustees and administrators and revised guidance for schemes in assessment.

We have also developed initiatives to speed up data cleansing and reconciliation during assessment including automated processes and clear guidelines on data integrity. The quality of member information and other data held by schemes remains a continuing cause for concern and a source of delays in the assessment process. During the year a Memorandum of Understanding and Service Level Agreement were agreed with HMRC, a standard format for interfacing scheme data established, new data cleansing tools introduced and trustees of schemes in assessment supported in carrying out data audits. The PPF has also sought to engage more broadly with administrators on data quality issues.

Schemes transferring to the PPF during the year frequently included money purchase benefits that trustees had been unable to discharge as they were below the minimum size for which a realistic market exists. The PPF is required to discharge these money purchase benefits and a cost-effective solution is being sought in conjunction with DWP, HMRC and providers although this is proving problematic. At the year-end the total money purchase benefits not yet discharged by the PPF amounted to £438,000.

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

Confidence and consensus building

The employees of the PPF are central to what the PPF does. Much of the knowledge and organisational strength of the organisation is that which has been built up over the last three years amongst its staff. This creates concentration risk and therefore during 2007/08 the PPF has sought to develop a rolling resource plan to enable the PPF to ensure it can better anticipate its future staffing needs.

Part of better anticipating these needs, has been in respect of the Board. During the year the Non-Executive members were all reappointed to new terms, including the Chairman. Two further non-Executive Members, Ann Berresford and Sir Anthony Holland also joined the Board.

The Executive team of the PPF was substantially strengthened during the year. Martin Clarke was appointed Director of Financial Risk on a permanent basis, while Peter Walker moved from the role of Chief Operating Officer to Director of Delivery. His previous role was filled by Derek Cribb on an interim basis.

The PPF has also considered how better to support its current staff. All staff had Learning and Development plans covering both technical and soft skills in place during 2007/08. The staff appraisal was further developed to seek to better attract, motivate and retain high-quality staff with relevant skills and experience. As noted in Section 3.1.4 challenges have however arisen in recruiting suitable staff. As such staff turnover and the reasons for it have also been closely monitored.

The PPF has also continued to develop its successful secondment programme. This has benefited the organisation through having people with a wide range of experience and skills from both private and public sectors working with the permanent staff. This has helped enhance the PPF's understanding of external issues and contributed towards the continual improvement of PPF operations. Those such as insolvency practitioners, actuaries and lawyers who have taken advantage of the programme have found it to be a benefit not just to their understanding of the PPF but also that of their organisations and clients.

Risk management and early warning systems

Changes in the risks to which the PPF is exposed are key to understanding and anticipating future staffing demands. The LTRM and other such work provide appropriate early warning to ensure that the PPF can respond to any increases in corporate insolvencies and therefore increasing numbers of schemes entering the assessment period.

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

Confidence and consensus building

The PPF remains committed to effective two way communication with stakeholders. Clear, open and honest communication is a prerequisite for maintaining the trust of those with whom the PPF works and those who have an interest in our work. There is also a need to ensure that the communication methods of the PPF are appropriate to the audience. The PPF has strengthened its communications team to support the communications strategy agreed by the Board.

The PPF continued to seek to demonstrate its commitment to working with stakeholders through a range of activities:

- issued 40 different publications during the year. These included the formal levy determination, guidance to trustees and professionals and the leaflets for scheme members discussed above
- held seven workshops on the PPF levy and assessment process. These were attended by a range of pension professionals. The roadshows accompanied the publication of the levy consultation in August 2007 and guidance to actuaries on completing Section 143 valuations, and

- the PPF Chairman and Chief Executive between them spoke at or attended over 150 meetings and events with stakeholders.

There was recognition of the strength of the PPF's approach to communications with its in-house team being a finalist for the prestigious PR Week Awards Public Sector Department of the Year during 2007.

The main point of contact at the PPF for members, trustees, employers or others with whom the PPF works with is the Stakeholder Support Team (SST).

- The team dealt with over 12,000 telephone calls and almost 7,000 pieces of written correspondence (either letters or emails). Where appropriate, the specific PPF team with responsibility for the issue raised was involved in the response. The majority of the enquiries continued to be from trustees and pension scheme professionals in respect of levy invoicing.
- The SST adopted exacting service level standards; 92% of all telephone calls received during the year were answered within three rings and 86% of all letters and emails, including those raising queries of a technical nature, received substantive answers within 15 working days.

Those receiving compensation have access to a similar dedicated team provided by Capita, the PPF's outsourced compensation provider. In addition all scheme members receive a 'Welcome Pack' upon transferring to the PPF and access to a dedicated secure website area where they can view details of their compensation and amend their personal details.

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

During 2007/08:

- the PPF made available major announcements, consultations and other documents on its website. This included the draft and final 2008/09 levy determination
- the website had over 222,000 unique visits and nearly 1.27 million page views. The most popular sections were those in respect of the levies and voluntary certificates, and

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3.2 Review of Strategic Objectives continued

→ a facility was provided on the website for interested stakeholders to register an email address with the PPF. Over 5,800 email addresses were registered with the PPF as at 31 March 2008 and 35 email alerts were sent out during 2007/08. In addition the PPF sent its twice yearly newsletter and a number of other email alerts to all those (about 25,000) who had provided email addresses as part of TPR's scheme return process.

During 2008/09 the PPF intends to continue developing this approach with a major revision of its website, following a survey of users carried out during the year.

Encouraging strong levels of scheme funding

The PPF has strengthened its relationships with both TPR and DWP throughout the year. From June 2007 onwards the PPF and TPR worked to implement the recommendations of the Review of Pensions Institutions. A revised tri-partite memorandum of understanding was agreed with TPR and DWP, with a more detailed Partnering Agreement being established to strengthen working relationships between PPF and TPR. This has been supported by a number of joint Board meetings, attendance of the Chairs of the two organisations at each other's Board meetings and other similar initiatives.

The PPF has sought to encourage innovation in the capital markets and the buy-out market. The intention is that this will support continuing risk reduction amongst schemes. The PPF supported a specific conference looking at Risk and Innovation in Autumn 2007 and has held regular meetings with those in the buy-out market. This has been both to understand the products being developed and how they manage risk, and to inform the PPF on where it might learn from their activities.

3.2.6 Objective 6:

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

Confidence and consensus building

The PPF undertook a number of actions during the year with the aim of improving levels of stakeholder satisfaction.

The PPF commissioned a Stakeholder Perception Audit in spring 2008 to understand the concerns of its stakeholders and how successful the PPF was being in reaching those stakeholders. This was undertaken by Ipsos MORI on behalf of the PPF and built on that carried out in spring 2007. The results from the quantitative research were encouraging; the key findings were as follows:

- 40% of respondents said they knew a fair amount about the PPF; 20% said they knew a great deal
- 58% of those surveyed believed the PPF has been fairly effective in fulfilling its main role and objectives; 15% believed the PPF has been very effective. This compares with 40% and 7% in the previous Audit
- 62% believed that the PPF had been fairly or very effective in explaining the levy and their levy bill to them, and
- 77% of those who raised a query in respect of the levy with the PPF were satisfied with the way in which it was handled.

Encouraging strong levels of scheme funding

During 2007/08 the PPF continued to seek to work with industry to develop the pension protection levy. The confidence of those who pay the levy in the design and implementation of the levy system is of particular importance to the PPF. The work carried out with stakeholders was both for the specific details of the 2008/09 levy year and the direction of travel for 2009/10, 2010/11 and beyond. As noted above a consultation on the future development of the levy was launched in October 2008.

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3.3 Financial Review

3.3.1 Accounting Officer Statement

In accordance with the standard practice for public bodies contained in HM Treasury guidance, as Chief Executive of the Board of the Pension Protection Fund, I was appointed Accounting Officer for the Board on 12 May 2006.

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

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

Audit

The Pensions Act 2004 requires the Board of the Pension Protection Fund's accounts to be audited by the Comptroller and Auditor General. His certificate and report are on pages 50-51. The cost of the audit is shown in Note 3.3b and no services other than the audit are provided by the Comptroller and Auditor General.

3.3.2 Introduction to the Funds

The PPF is responsible for two funds created under the Pensions Act 2004, the Pension Protection Fund and the Fraud Compensation Fund. The PPF is also self-accounting in respect of its operating expenses and so effectively runs its own Administration Fund. This review considers each of these three funds separately.

3.3.3 Pension Protection Fund

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

3.3.3.1 Levies & other income

For 2007/08, the Pension Protection Levies were raised, incorporating risk based factors (principally scheme underfunding and employer insolvency risks) and a scheme based factor (the value of scheme liabilities). Modelling carried out by the PPF led the Board in December 2006 to agree a levy estimate of £675 million based on its judgement and on projections of possible levels of claims from the LTRM. An indicative scaling factor was published alongside the publication of the levy estimate and the draft Determination for the levy year. Based on the experience of undercollection in 2006/07, the final scaling factor was set in April 2007, using the scheme funding and insolvency probabilities upon which the levy would be based as at 31 March 2007.

The calculation, billing and collection of the Pension Protection Levy were undertaken by the PPF. By the end of the period under review, £361 million had been collected and had been invested in accordance with the Fund's SIP. As at the date of this report, a further £161 million had been collected. As part of this billing process the PPF had rigorous credit control procedures in place. Where a scheme had failed to provide sufficient information upon which a levy invoice could be based appropriate approximations or roll forwards/back

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3.3 Financial Review continued

were used and in 13 cases since 31 March 2008 the PPF has used its powers under Section 191 of the Pensions Act to require the provision of information.

The amount of levy collected for 2007/08 differed from that estimated in December 2006 due to a combination of factors. The notification of contingent assets and deficit-reduction contributions to the PPF reduced the quantum to be collected in 2007/08. Schemes and sponsoring employers were also able to challenge either the probability of insolvency provided to the PPF by D&B (who provide insolvency risk measurement services to the PPF) or the data held by the PPF which resulted in a number of invoices being reissued.

Chart 2 details the specific contribution of these factors to the difference between the levy estimate of £675 million and the expected final total of £585 million (including £7.4 million in respect of schemes where eligibility is still subject to clarification).

As disclosed in the 2006/07 Annual Report and Accounts, collection of the 2006/07 levy continued into 2007/08. £4.6 million remained outstanding as at 31 March 2008 and was being actively pursued. £65 million was collected during 2007/08 as data became available. Remaining outstanding amounts either remain subject to the statutory appeals process or are subject to recovery action.

In November 2007 the Board announced a levy estimate of £675 million for 2008/09.

During 2007/08, the Pension Protection Fund assumed responsibility for assets totalling £216 million following the transfer during the year of a further 28 schemes into the Fund. These are now incorporated into the Fund.

3.3.3.2 Investment report

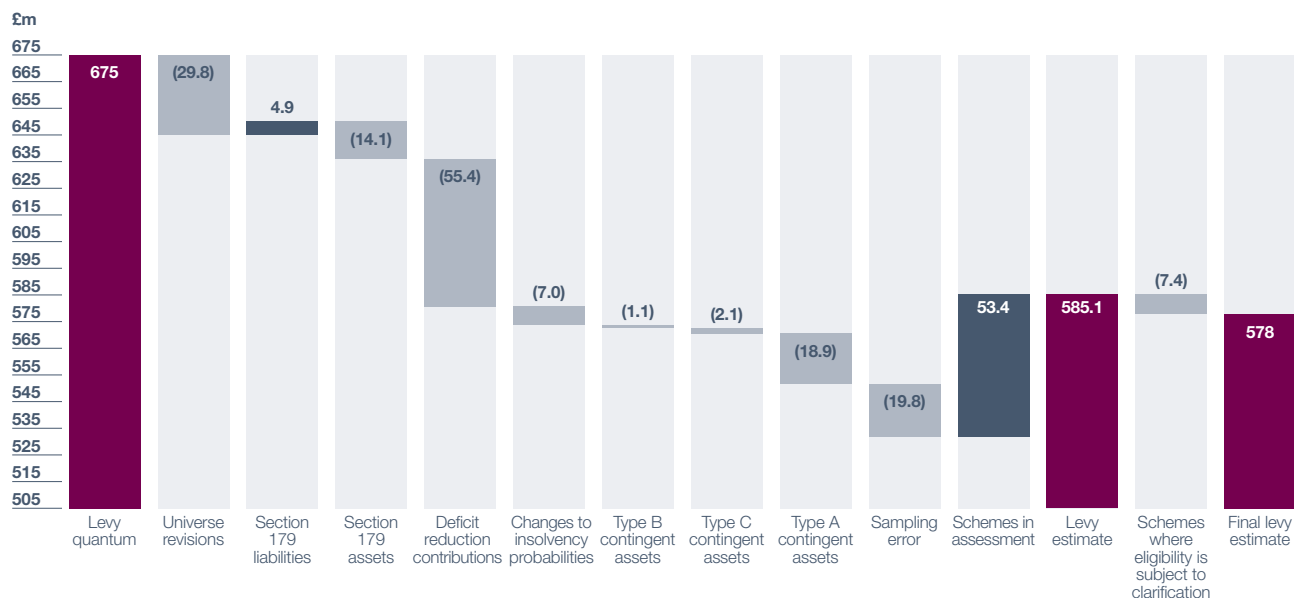
As the Fund's assets have grown, so too has the activity within its investment function. This section provides a summary of these activities, including details of cash flows into the Fund, the liability-driven investment (LDI) strategy, risk management and fund manager performance.

i. Governance

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

Over the year the Board's 'Asset and Liability Committee' (ALCO) continued to meet and review the financial risk management activities of the PPF and provide reports to the Investment Committee.

Chart 2



Changes were made to the Statement of Investment Principles (SIP) to reflect the introduction of tolerance ranges in the asset allocation and the expansion of the transition manager panel. In addition, the LDI strategy (the swap portfolio) was expanded to hedge exposure from schemes in assessment to fluctuations in interest rates and inflation. These changes are discussed in more detail throughout the report.

ii. Strategy

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

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

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

iii. Asset allocation

On the advice of the Investment Committee the Board reviewed the asset allocation during 2007/08 and agreed to introduce tolerance ranges. These ranges allow deviation from the strategic allocation and provide the Board with flexibility around the investment of its cash flows. The flexibility is particularly important given the volumes of schemes that transfer into the PPF. The SIP has been updated to reflect this change and ALCO and the Investment Committee monitor the application of these ranges. The new ranges are outlined in the table, below.

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

Given the market backdrop, at times during the year the Fund experienced high levels of volatility across the asset classes in which it invests. From time to time this resulted in valuations pressing against asset allocation tolerance limits (such an instance was experienced at the year end). ALCO regularly monitors asset allocations against the SIP, taking appropriate corrective action, principally using cash-flows into the Fund. Any significant deviations are reported immediately to the Investment Committee.

iv. Cash flows

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

a. Contributions to the Fund

The collection of levy payments and ongoing transfer of scheme assets helped grow the assets of the Fund considerably over the last financial year. The Fund's invested assets plus cash deposits doubled from £743 million to £1,472 million as at 31 March 2008, a gain of £729 million.

During 2007/08 levy receipts and assets transferred (including parked transition assets – see right for a further explanation) totalled £607 million. Adjusting for other cash flows (e.g. compensation payments) the net inflows were £589 million for the year. The £140 million difference between the gain in the Fund's assets and net inflows is the return on investments made by the Board. This return is largely attributable to the swap portfolio, which produced a gain of £110 million.

Asset class	Strategic allocation	Tolerance range	Asset benchmark
Cash collateral	20%	20-30%	3-month Libor
Global bonds	50%	45%-55%	JP Morgan Government Bond Index ¹
UK equities	12.5%	10%-15%	FTSE All-Share Index
Global equities	7.5%	5%-10%	FTSE All-World Index ¹
Property	7.5%	2.5%-10%	Investment Property Databank Index
Currency	2.5%	1.5%-3.5%	3-month Libor

¹ Hedged to sterling

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3.3 Financial Review continued

b. Transitions

As the volume of schemes accepted by the PPF grows, transition volumes increase. In order to minimise the costs and risks associated with transferring assets, the Board has expanded its panel of transition managers. The panel now comprises State Street, Goldman Sachs and Blackrock.

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

As a further measure to improve process efficiencies the Board took the decision to temporarily park legacy assets from accepted schemes within the most widely held pooled investment products. By accumulating assets in this way the number and cost of transitions can be minimised.

The temporarily parked assets are predominantly in UK fixed income products, with a small amount in UK equity products. A PPF omnibus account is in place to park assets within Legal & General pooled products; similar agreements with Blackrock and Barclays Global Investors are currently under negotiation.

As these assets accumulate they present a minor deviation from the SIP until the point at which they are transitioned and transferred to the relevant investment mandate. At 31 March 2008 approximately £130 million of assets from accepted schemes were parked in this manner, awaiting transition. ALCO receives regular updates on this process.

v. Manager allocation

The Board invested just under £470 million across its return seeking and matching strategies in 2007/08,

using its discretion to allocate assets tactically within the tolerance ranges and to support the hedging activities in the swap portfolio.

As well as allocating to existing managers, funds were also allocated in 2007/08 to the five new active manager mandates (i.e. for UK and global equities, property and currency) that were agreed during 2006/07. At financial year end the Board had the following eight mandates in operation:

- Insight Investment Management – UK bonds
- PIMCO – global bonds
- Goldman Sachs Asset Management (GSAM) – global bonds
- State Street Global Advisors (SSgA)¹ – quantitative UK equity
- Lazard¹ – diversified UK equity
- Newton Investment Management¹ – thematic global equity
- Morley Fund Management¹ – multi-manager UK property
- Auriel¹ – global currency

¹ Denotes mandates receiving initial funding during 2007/08.

During the year the Investment Committee took the decision, following review, to extend the mandates for PIMCO, Insight and Mercer (the Board's investment adviser).

The chart below illustrates the actual manager allocations as at 31 March 2008. The figures reflect the SIP deviations permitted as a result of the new tolerance ranges.

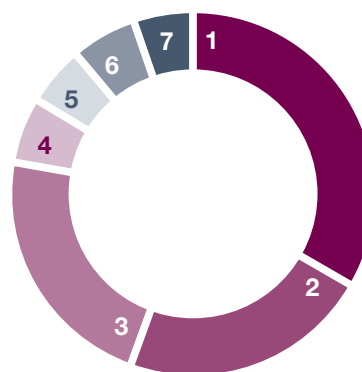
Manager allocations as at 31 March 2008

1	Insight Investment Management	33%
2	PIMCO	22%
3	GSAM	22%
4	Lazard	6%
5	SSgA	5%
6	Newton Investment Management	6%
7	Morley Fund Management	5%
8	Auriel	1%

Notes:

a) Owing to market movements towards the end of the financial year, some of these allocations are outside of the permitted tolerance range. Rebalancing in April 2008 restored the allocations to within their range;

b) the £130 million of transition assets parked in pooled investment funds is not included in the above chart.



vi. LDI – the swap portfolio

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

The swap portfolio is managed by Insight, using money market instruments, bonds and derivatives. It was implemented in February 2007 and was applied initially to the Fund’s compensation cash flows, before being extended towards the end of the year to include the liabilities of schemes in assessment. As new schemes enter the assessment period the hedge will be extended to include their liabilities.

Over the year the effect of interest rate and inflation expectations was to increase the Fund’s liabilities. At the same time the swap portfolio delivered a gain of £110 million.

vii. Responsible investment

The Board intends to develop its approach to responsible investment (RI) whilst continuing to meet its fiduciary and statutory duties.

It has signalled this intent by signing the UN Principles for Responsible Investment (UN PRI). In 2007/08 the Board made significant further progress in its RI activities by:

- defining the focus of its RI activities as the UK equity assets initially, with the intention of expanding to other asset classes over time;
- recruiting an RI and corporate governance specialist within the investment team to develop its approach to RI; and
- developing a manager monitoring process for RI.

Further RI activities are planned for 2008/09 and will be announced by the Board as they are implemented.

viii. Risk management

The Board considers a wide range of risks on an ongoing basis in order to meet its objective of targeting an appropriate funding level. A full list of these risks is included in the SIP.

The risks that are relevant to the investment function of the PPF, and the means in place to monitor and address them, are as follows:

- **Financial mismatching risk** – The swap portfolio, described in the section on LDI, was implemented

to manage the sensitivity of asset and liability values to financial factors such as interest and inflation rates;

- **Manager risk** – Initial manager appointments are made on the basis of a detailed tender process. The Board actively monitors the performance of its fund managers on a monthly, quarterly and annual basis via the Investment Committee, ALCO and investment function of the Board. The Board’s investment adviser provides advice throughout this process;
- **Concentration risk** – The investment strategy and asset allocation provide for diversification of the Board’s assets to the extent necessary to meet its strategic objectives. The Board has initiated a search for a new global bond manager to provide additional diversification;
- **Credit risk** – The Board has set clear guidelines and investment restrictions within the Investment Management Agreements (IMAs) of each fund manager to limit exposure to investments with high credit risk;
- **Transition risk** – As discussed above, a panel of three transition managers has been established, enabling the Board to reduce costs and mitigate risks in the transition process. Including the T-Charter in the TMAs is an additional measure to promote best practice and mitigate risk.

c. Tracking error

Each asset class is actively managed with tracking error limits (the amount of divergence of the performance of the fund against the specified benchmark) and out-performance targets. The ex-ante (predicted) tracking error (TE) figures for the year ending 31 March 2008 for each of the PPF’s investment mandates are as follows:

Manager	Mandate	Ex-ante TE at 31 March 2008	TE maximum
Auriel ¹	Global currency	8.0%	8-10%
GSAM	Global bonds	1.07%	2%
Insight	UK bonds	0.88%	2%
Lazard ¹	Diversified UK equity	1.7%	4%
Morley ¹	Multi-manager UK property	3.19% ²	4%
Newton ¹	Thematic global equity	3.6%	5%
PIMCO	Global bonds	1.15%	2%
SSgA ¹	Quantitative UK equity	1.5%	4%

¹ These mandates have been in place for less than 12 months therefore TE data is since inception.

² The TE figure listed for Morley is ex-post (realised).

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3.3 Financial Review continued

The ex-ante TE figures for all mandates were within the allowable limits. ALCO regularly monitors manager tracking error, and reports on a quarterly basis to the Investment Committee.

d. Compliance issues

State Street, the custodian to the Fund, monitors how the managers meet their requirements under the SIP and the IMA (e.g. regarding investment restrictions). The Board receives a compliance report annually from the custodian. No material compliance issues were raised over the year.

Managers are also required to provide reports on their internal controls on an annual basis prepared to Audit and Assurance Faculty of the ICAEW (AAF01/06) or equivalent standard.

ix. Market and investment commentary

The dominant theme over the last financial year has been the global “credit crunch” and the resulting market volatility and liquidity problems in the financial sector. This section provides commentary on the impact of the economic environment on the PPF’s asset classes.

Fixed income: As central banks in the UK and North America cut rates and considered further policy measures in response to the credit crunch, bond prices rose. The effect of this was to increase the Fund’s liabilities, highlighting the importance of the Board’s LDI strategy. As a result of the credit crunch the yield spread between corporate and government bonds widened meaning that the value of corporate bonds fell.

Equity: Equity returns were generally negative over the year, with the UK equity market ending lower despite a positive start to the year. Global equity markets endured exceptional volatility in early 2008 as fears over the ongoing impact of the credit crunch and a possible US recession spread across the globe. Emerging market economies were more insulated, benefiting from strong economic momentum and high commodity prices, with strong returns in some areas such as the Asia Pacific region (excluding Japan).

Currency: It was a difficult year for active currency managers, with popular trades failing to deliver and the strengthening of low interest rate currencies (e.g. the Japanese Yen) producing negative returns for investors.

Property: UK commercial property also suffered as a result of the wider problems in the financial markets i.e. the increasing cost of capital and decreased availability of debt. Both demand for property and property values declined significantly over the year.

x. Performance of the Fund’s assets

The impact on the Fund of the difficult market conditions highlighted above is likely to have been lower than the average UK defined benefit pension plan due to the relatively low risk nature of the Board’s investment strategy.

The Fund’s assets (excluding gains from the swap portfolio) earned a return of 3.6% over the year to 31 March 2008. The benchmark for this return is the return that would have been achieved on cash earning the 3-month Libor rate over the same period, which was 6.3%. The Board targets a return of 1.4% above the benchmark, giving a target return of 7.7% over the year. The shortfall of 4.1% can be broken down into several factors as described in the table below:

Component of return	Contribution
Impact of the asset allocation as described in the SIP	-4.0%
Impact of deviations from the SIP asset allocation (ie the tolerance ranges)	+0.6%
Combined impact of fund manager out performance/underperformance relative to their benchmarks	-0.3%
Timing impact caused by the cash inflows	-0.4%
Total	-4.1%

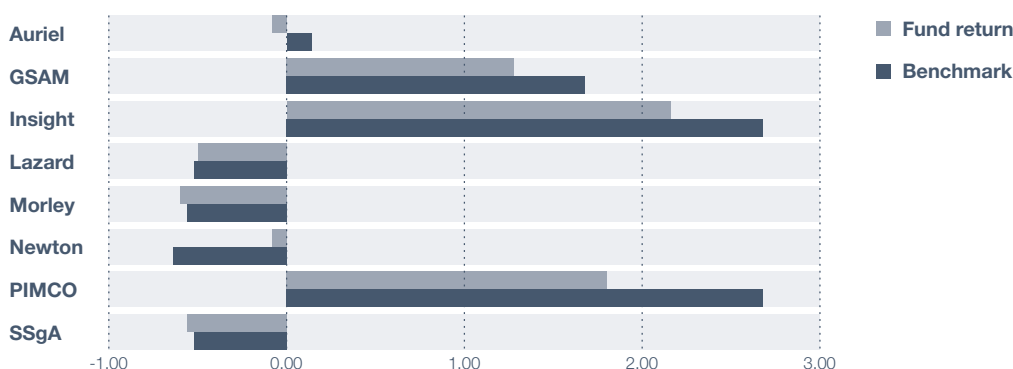
The largest contribution comes from the investment strategy itself, which was largely a result of equities and property producing negative returns relative to cash.

Deviations from the asset allocation within the allowable tolerance ranges added marginally to performance as a result of an underweight allocation to the worst performing asset classes.

The annualised performance of the individual managers against their benchmark is shown in the table below, weighted to account for the asset allocation. Mandates with Auriel, Lazard, Morley, Newton and SSgA have been in place for less than a year so performance figures for these managers are since inception.

Financial year 2007/08 – weighted performance contribution by fund manager

% weighted contribution



3.3.3.3 Provisions for compensation payments

As at 31 March 2007 compensation was in payment to 1,457 individuals transferred to the PPF. A further 5,621 individuals had a deferred compensation entitlement with the PPF. During 2007/08 a further 28 schemes' assets and liabilities were transferred into the Fund. As at 31 March 2008 3,596 individuals were in receipt of compensation from the Fund, with a further 8,577 having a deferred entitlement. The accounts as at 31 March 2008 disclose liabilities associated with these beneficiaries valued at £876 million (plus an additional £4.38 million for future administration expenses).

During 2007/08, Transfer Notices were issued by the PPF accepting the assets and taking on responsibility to pay compensation in relation to 28 pension schemes. A further 7 schemes were rescued and 6 schemes completed the assessment period with sufficient assets to secure their liabilities outside of the PPF. The schemes which transferred to the PPF involved some 5,000 scheme members.

The accounts of the Fund show that the PPF has also recognised provisions in respect of 263 pension schemes (including those already in an assessment period) totalling £1,355 million where the PPF judges eventual entry into the Fund to be probable. "Probable" in this context is defined as schemes where the employer insolvency event occurred on or before the Fund's accounting date; where no scheme rescue is judged likely; and where protected liabilities are estimated to exceed scheme assets (including recoveries from insolvent employers) at the assessment date. This is the same basis applied in previous Financial Reviews.

The provisions for claims are arrived at as follows:

For schemes where eventual entry is considered probable	£ million
Scheme assets valued at	3,800
Estimates of recoveries from insolvent employers	35
Protected liabilities valued at	5,190
Provision for claims	1,355

Management Commentary Report on 2007/08

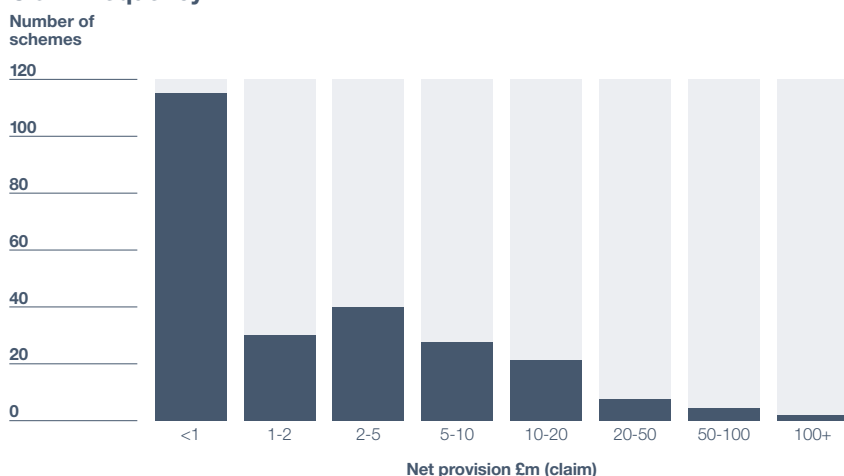
3.3 Financial Review continued

The schemes included in these provisions are, therefore, in aggregate 74% funded against their protected liabilities, after asset recoveries, on the Fund's ongoing actuarial basis.

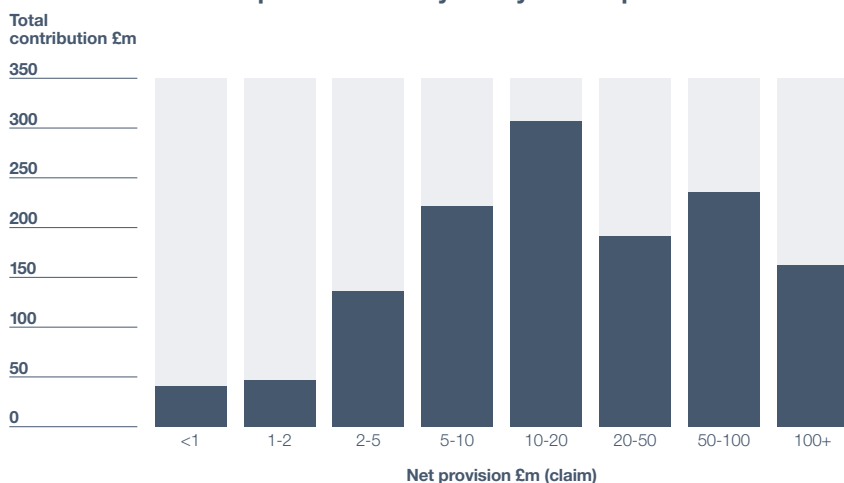
The largest single scheme contributes £160 million to the total provision for claims, while the top 5

schemes contribute £441 million. 50% of the total provision for claims is concentrated in just 6% of schemes. This pattern of contribution is shown in the two charts below – note that the provisions for schemes where we hold no specific data are excluded from the charts.

Claim frequency



Contribution to total provisions analysed by size of provision¹



¹ Chart excludes provisions for schemes where we hold no specific data.

3.3.3.4 Contingent liabilities for compensation payments

The accounts as at 31 March 2008 disclose contingent liabilities (excluding Type 5 contingent liabilities) associated with 79 schemes valued at £735 million. This is where the PPF judges eventual entry into

the Fund to be less than probable but higher than remote. The value represents the PPF's estimate of the contingent liabilities for claims of all these 79 schemes, and of these 69 schemes with an aggregate provision of £454 million fall into the Type 4 category (as defined in the Actuary's Supplementary Report).

Type 4 schemes are where the risk of employer insolvency is considered significant, that is an assessed probability of insolvency of greater than or equal to 0.044 in any one year; however the PPF has decided to include 100% of the aggregate allowance for claims value in contingent liabilities.

This level of probable and possible claims is broadly in line with the PPF's expectations, in the context of a period which has previously been relatively benign for the UK economy; albeit one now substantially changing. The rate of corporate insolvencies in England and Wales during the year was 0.6% (stable compared with 0.6% in 2006/07 and a ten year average of 0.8%). The economic outlook during the year did however worsen with substantial reductions in the availability of, and increases in the cost of credit (the credit crunch), a significant slowing in economic growth and inflationary pressures in respect of a range of commodities. While these did not affect the rate of corporate insolvencies in 2007/08 the PPF is expecting increased rates of insolvency in 2008/09 and particularly in 2009/10.

The PPF continued to note in some cases a time lag between the date of insolvency event and the submission of insolvency notices required under Section 120 of the Pensions Act 2004 despite work undertaken with the organisations which regulate insolvency practitioners to improve the quality of reporting. In December 2007 the PPF undertook an 'amnesty' exercise to encourage the reporting of insolvency events where the statutory deadlines had already passed. Subsequent to this the PPF has begun reporting all cases where the statutory reporting deadlines appear to have been breached, to the appropriate regulatory body.

The PPF received 1813 Section 120 notices during the year. This increase was partly due to the amnesty exercise. 1553 were rejected, mainly because they were in respect of defined contribution schemes and, therefore, not relevant to the Fund. By the year end 114 notices were validated, and 146 were in the process of validation. Validating insolvency notices remained a demanding task, given the range of assessments that are required to be made; however average times to validate from the receipt of all required information remained swift.

Expenses

Investment expenses consist of fund management fees and custody fees charged to the Fund, as per the Pension Protection Fund (Payments to meet Investment Costs) Regulations 2005. From 2008/09 onwards the costs of administering ongoing compensation payments will also be treated as an expense on the Pension Protection Fund rather than the Administration Fund. The amount of administration expenses will continue to be disclosed separately in the Annual Report and Accounts.

Solvency

The PPF measures its solvency position in the following way:

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

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

This can be summarised as follows:

	£ million
Pension Protection Fund net assets	1,719
Scheme assets valued at	3,800
Estimated outstanding recoveries from insolvent employers	35
Total assets	5,554
Pension Protection Fund liabilities valued at	881
Protected scheme liabilities valued at	5,190
Total liabilities	6,071
Deficit	517
Solvency = total assets/total liabilities	91%

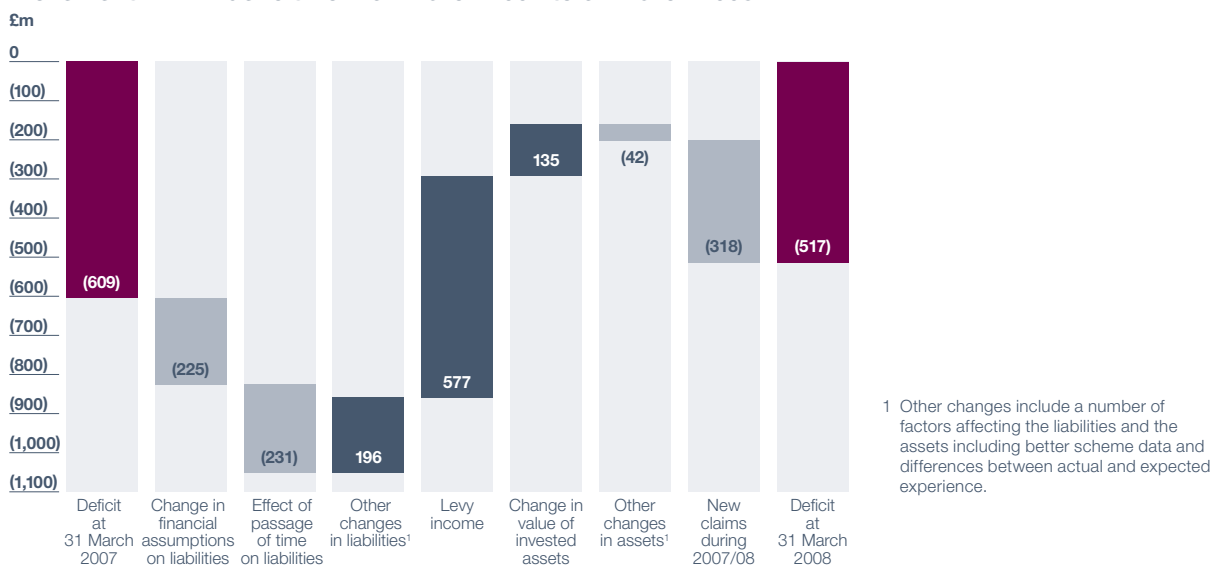
Management Commentary Report on 2007/08

3.3 Financial Review continued

The PPF has retained the mortality assumptions and longevity improvements used in the preparation of its 2006/07 assessment of its actuarial liabilities for the 2007/08 assessment. The PPF continues to use, where appropriate, on an evidential basis, a scheme specific mortality basis for larger schemes in assessment.

The diagram below provides a reconciliation of the major factors influencing the movement in deficit in the financial year.

Movement in PPF deficit from 31 March 2007 to 31 March 2008



3.3.4 Fraud Compensation Fund

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

Levies

The PPF did not consider it necessary to raise a Fraud Compensation Levy in 2007/08 and will not be raising a levy in 2008/09. This is based on the PPF's view of the level of funds it already controls compared with the level of claims in process and its current view that the likely incidence of future claims will continue to be very low.

The PPF will keep under review the level of assets compared with the level of claims, and plans to announce a decision on any levy to be raised in 2009/10 in due course.

Claims

There was one outstanding claim as at 1 April 2007 and, while a number of cases were kept under review, no new claims judged likely to be successful were received by the PPF during 2007/08. The PPF discloses in its accounts contingent liabilities of £3,020,000 reflecting the one claim which may possibly result in payment.

Investment

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

Expenses

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

3.3.5 Administration Fund

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

The PPF is funded by drawing down grant-in-aid from DWP as empowered by Section 116 of the Pensions Act 2004. These grant-in-aid payments are in turn funded by the DWP raising an annual PPF administration levy on eligible pension schemes as set out in Section 117 of the same Act. The Board and DWP's powers, together with processes described below by which these powers are utilised, led the PPF to consider it appropriate for accounts of its Administration Fund to be prepared on a going concern basis.

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

These risks are mitigated by robust financial disciplines such as:

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

The PPF had sufficient funding on hand throughout 2007/08 to meet operating and capital expenditure requirements. At no time were payments to staff or suppliers delayed due to inadequate funding.

The PPF operated within both its final operating and final capital expenditure budgets during 2007/08. Total operating expenditure amounted to £17.1 million compared with the budget of £17.7 million. Capital expenditure amounted to £0.89 million compared with the budget of £1.2 million.

Expenditure in 2007/08 was higher than that in 2006/07. This was due to the need to ensure that the PPF had sufficient capability and capacity to fulfil its responsibilities. The continued maturing of the PPF as a financial institution created particular staffing needs in the areas of financial risk management, asset management, actuarial and legal support. Overall the administrative cost of the PPF per scheme member in assessment or compensation has fallen from £171 in 2006/07 to £155 in 2007/08. The PPF has sought to benchmark costs against suitable external comparators such as the annual Watson Wyatt survey of pension scheme administration costs.

The PPF budget for 2008/09 was agreed with the DWP in September 2007 to inform the setting of the PPF administration levy for 2008/09. This budget covered all aspects of operating expenditure including staff costs, outsourced services and consultancy and advisory services. As a result of this budgeting process following the required consultation, the DWP decided to increase the rates of the administration levy for 2008/09. Operating expenditure was forecast to be around £19.9 million while capital expenditure was forecast to fall to £0.7 million. The total administration levy will rise from £20 million in 2007/08 to £22 million in 2008/09.

The processes developed during 2005/06 and established in 2006/07 covering the financial operations of the PPF continued to be developed during the year. These included financial controls, procurement processes and procedures for appointing suppliers and service providers and assignment of levels of authority for staff.

Management Commentary Report on 2007/08

3.3 Financial Review continued

3.3.6 Going concern

The Pension Protection Fund

The Board considers that the Fund remains solvent and that its accounts can be prepared on a going concern basis. This is because:

- cash flows out of the Fund for compensation payments will be at a very low level during the early years of the Fund's operation, and the current level of funding is considered adequate to ensure cash will be available to meet compensation payments as they fall due
- relevant accounting standards require the Fund to immediately recognise the full present value of probable scheme deficits but the Fund cannot recognise the future streams of protection levy income which will effectively bridge the gap between the assets and liabilities of schemes it transfers in
- the PPF considers that its levy raising powers (and its powers to increase levies up to a ceiling set by the Secretary of State for Work and Pensions), and the processes for calculating, billing and collecting levies which it is developing, justify viewing the Fund as a going concern. The PPF's levy-raising powers are set out in Sections 174 to 181 of the Pensions Act 2004, and
- the PPF also has the reserve powers (in extreme circumstances after due consultation and with approval of the Secretary of State) to reduce benefit payments both for scheme members already within the Fund and for new scheme members entering the Fund. These powers are set out in the Pensions Act 2004, Schedule 7, paragraph 29 and 30 covering powers to alter rates of revaluation and indexation, and to vary the percentage paid as compensation.

The Fraud Compensation Fund

The Board considers that the Fraud Compensation Fund is solvent, and that its accounts can be prepared on a going concern basis. This is because:

- The Fund would be 110% funded against its liabilities even if all the claims currently regarded as likely were to result in compensation payments.
- The PPF has powers to raise further fraud compensation levies to reflect further claims made on the Fund. The PPF's powers are set out in Section 189 of the Pensions Act 2004 and in the Occupational Pension Schemes (Fraud Compensation Levy) Regulations 2006.
- The time required to investigate and decide whether payment (including any interim settlements) should be made has in the past proved adequate to raise any required further levy income.

The Administration Fund

The Board is fully confident that the accounts of the Administration Fund can be prepared on a going concern basis because of the robust financial procedures, as set out under Section 6.2, governing the setting of operating budgets, in-year reviews and forecasts and the drawing down of grant-in-aid.

Corporate Responsibility

“The PPF recognises the wider responsibilities it has to stakeholders and scheme members. Its role as a financial institution is discussed in Section 3.3.3.2, but the PPF is also aware it has a role as an employer that contributes to its local community.”

A part of the local community

The PPF is keen to make an active contribution to the local community in Croydon where it is based. The PPF has supported activities and in December 2007 facilitated a ‘Community Day’ when staff packed hampers to be provided by Croydon Neighbourhood Care Association to older local residents over the Christmas period. The PPF continues to look for opportunities to support local charities and groups; after the end of the period under review a further ‘Community Day’ was held in support of Croydon MIND. In addition, the PPF staff social committee raised over £900 for the Royal Marsden Hospital.

A responsible employer

The PPF is also committed to acting in a socially responsible manner in the other aspects of its work. The organisation has an environmental policy including a recycling programme and encouraging the use of electronic communications. During the year the PPF also revised its equal opportunities and diversity policies to ensure all staff continue to be treated appropriately and valued solely on the basis of their contribution to the work of the organisation.

A responsible investor

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

Complaints and Appeals

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

Management Commentary Report on 2007/08

The following flow charts show applications dealt with through the statutory procedure for review of levy invoices for the 2006/07 and 2007/08 financial years. No requests were made for review of other reviewable matters. The charts capture information about all reviews commenced on or before 31 March 2008, and track all developments in those cases up to the date of publication of these accounts.

In relation to the separate maladministration jurisdiction, the single case outstanding with the Pension Protection Fund Ombudsman as at the date of publication of the Board's 2006/07 accounts was subsequently rejected by the Ombudsman. The Board received two new complaints of maladministration during the 2007/08 financial year. Both were considered and rejected by the Board.

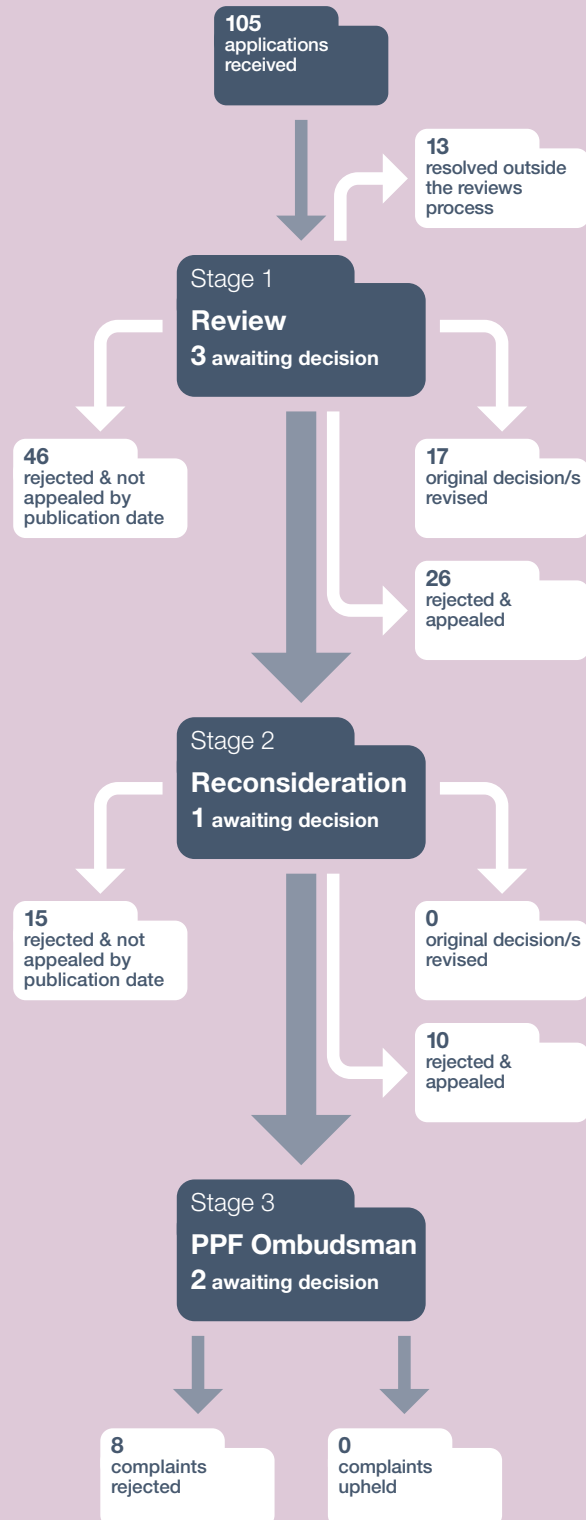
As at 31 March 2008 the PPF had also been informed of one outstanding case with the Pensions Ombudsman in respect of a scheme for which the Fund had assumed responsibility. The Ombudsman published his decision in this case in July 2008.

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

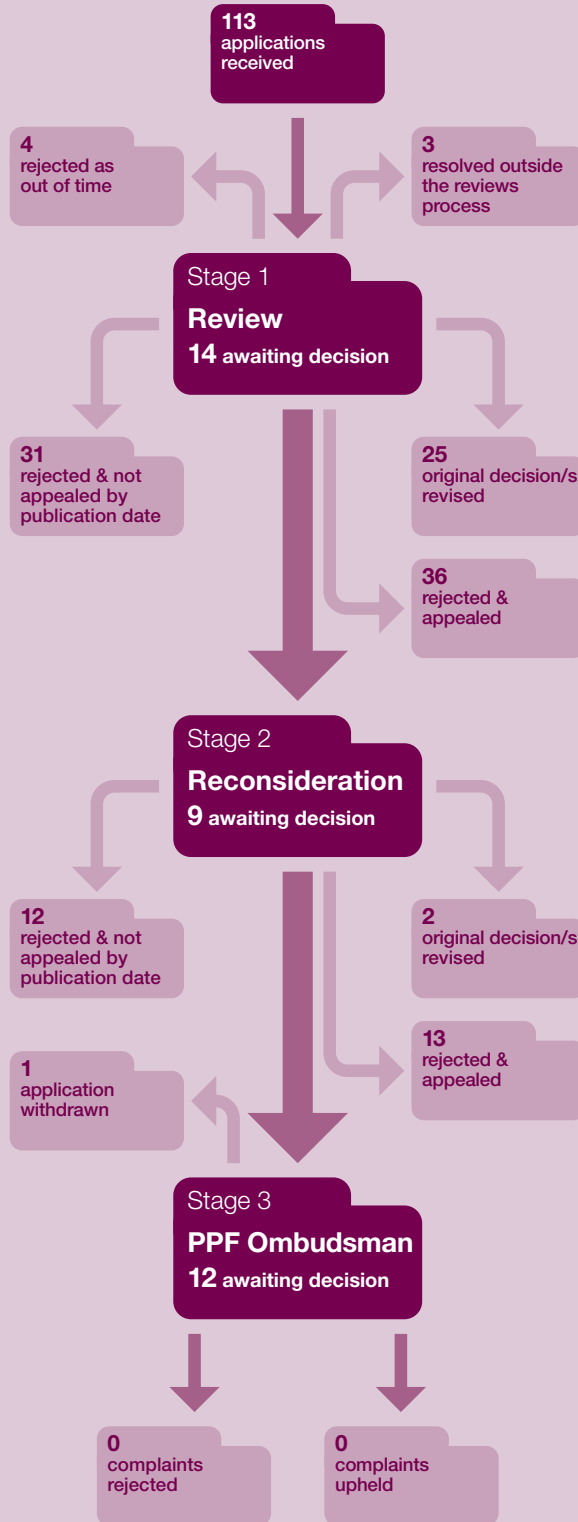
An incident occurred during the year where 41 schemes' probabilities of insolvency were incorrectly adjusted. This was in respect of discounting the effects of FRS 17 on company accounts. No such change was made as part of D&B's standard scoring methodology and no allowance made in the Board's Determination, under Section 175 of the Pensions Act, for the use of such an adjustment. As such the changes were overridden with all 41 schemes being contacted directly by both PPF and D&B.

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

2006/07 levy year



2007/08 levy year



Freedom of Information

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

- The PPF received 18 requests for information which were considered under the Act during 2007/08.
- In 10 cases the PPF was able to fully disclose the information requested.
- In 4 cases the PPF was able to partially disclose the information requested with other information requested not being disclosed.
- In 3 instances the PPF would not disclose any of the information requested.
- In 1 instance clarification was sought from the enquirer about the information being sought.

Where the PPF was unable to disclose all information requested, in 3 cases this related to restricted information, the release of which is prohibited by the Pensions Act 2004, in 3 cases information was not provided on cost grounds and in 1 case the information requested included personal data.

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

Directors' Report

4.1 Introduction to the Directors' Report

The structure and functions of the Board of the Pension Protection Fund are defined by the Pensions Act 2004 and associated regulations. The Members of the Board comprise the Chairman, the Chief Executive and at least 5 ordinary Members, at least 2 of whom must be appointed from the staff of the Board of the Pension Protection Fund (subject to a majority of the Board being Non-executive members). The Chief Executive and the Members who are appointed from the staff of the Pension Protection Fund are 'Executive Members'. The other members are 'Non-executive Members'. A majority of the Board must comprise Non-executive Members.

To fulfil the functions laid down in the Pensions Act 2004 and to comply with its statutory remit, the Board has produced a Statement of Operating Principles and Scheme of Delegations. This details the functions which are reserved to the Board and where functions have been delegated to the Chief Executive.

This document is available at:
www.pensionprotectionfund.org.uk/statement_of_operating_principles.pdf

Biographies³

01 Lawrence Churchill

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

02 Ian Abrams

Ian has been Non-executive Director of Mizuho International plc since 2003 prior to which he was its managing director. Ian holds a number of non-executive positions and is a member of the Financial Services and Markets Tribunal.

03 Mark Baker CBE

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

04 Ann Berresford

Ann was Finance Director for the Bank of Ireland's UK Financial Services Division and Bristol & West plc until 2006. She was also a Board member of Bristol & West Pension Trustees Ltd from 2001 to 2006. Prior to this, Ann held a range of senior roles in Clyde Petroleum plc. Ann is now an independent trustee to the local government Avon Pension Fund and a non-executive Director at the Bath Building Society.

05 Michael Deakin

Michael set up a consultancy business in October 2003 providing strategic investment advice to pension funds. Prior to this, Michael was Chief Investment Officer and an Executive Director of Insight Investment. He is also currently Chairman of Manifest Information Services Ltd, a trustee of the HBOS Final Salary Pension Scheme and a member of the board of the London Pension Fund Authority.

06 Jeannie Drake CBE

Jeannie has been Deputy General Secretary of the Communications Workers Union since 1995 and is Non-executive member of the Board of the Personal Accounts Delivery Authority. She also currently serves as a Commissioner of the Equality and Human Rights Commission and is a member of the Employment Appeals Tribunal. Between 2002 and 2006 she served on the Pensions Commission. Jeannie is also a past President of the TUC.

07 Sir Anthony Holland

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

³ This includes all members of the Board at date of publication.

08 Christopher Hughes

Christopher is Head of International at the solicitors' practice Wragge & Co LLP, of which he was formerly managing partner. Christopher has also been a board member of Severn Trent Water Authority and the Chairman of Newman Tonks Group plc, a manufacturer and distributor of industrial and domestic hardware. Christopher is the Senior Independent Director of the Board of the Pension Protection Fund.

09 Partha Dasgupta

Partha is Chief Executive and Accounting Officer.

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

10 Martin Clarke

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

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

11 Peter Walker

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

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

12 Derek Cribb

Although not a formal member of the Board, Derek Cribb, Interim Chief Operating Officer, who was appointed in October 2007, also attends meetings of the Board as an observer.



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Directors' Report

4.2 Corporate Governance

The Board is committed to adhering to high standards of corporate governance and its compliance with HM Treasury's 'Corporate governance in central government departments: Code of good practice', originally published in July 2005, was monitored by the Audit Committee.

In accordance with the Pensions Act 2004, the Board has a majority of Non-Executive Members, including a Non-executive Chairman. All Non-Executive Members are independent, having no current or previous material relationship with the organisation as an employee, officer or contractor. All Board Committees are chaired by Non-executive Members. The Board Secretary acted as Secretary to the Board and its Committees during the reporting period.

Attendance at meetings from 1 April 2007 to 31 March 2008

	Board	Non-executive	Audit	Remuneration	Investment	Reconsideration ⁶	Nomination ⁵
Total Number of Meetings	11	3	5	5	4	11	2
Lawrence Churchill	11	3	n/a	4 ¹	n/a	n/a	2
Ian Abrams	10	3	5	n/a	4	11	n/a
Mark Baker CBE	10	3	n/a	5	4	n/a	1
Ann Berresford ²	7	2	3 ⁷ (2 ¹ + 1)	0	1 ¹	n/a	n/a
Michael Deakin	10	3	4	0	4	2	n/a
Jeannie Drake CBE	10	3	n/a	4	n/a	9	n/a
Sir Anthony Holland ²	5	2	n/a	3 ⁷ (1 ¹ + 2)	n/a	0	n/a
Christopher Hughes	11	3	5	3 ⁷	n/a	10	2
Partha Dasgupta	11	n/a	n/a	n/a	4	n/a	2
Martin Clarke ³	10	n/a	n/a	n/a	4	n/a	n/a
Derek Cribb ⁴	5	n/a	n/a	n/a	n/a	n/a	n/a
Peter Walker	11	n/a	n/a	n/a	n/a	n/a	n/a

1 Exercising rights of attendance – Non-executive Board Members may elect to attend meetings of Audit and Remuneration Committees and all Board Members may elect to attend meetings of the Investment Committee.

2 Ann Berresford and Sir Anthony Holland were appointed in August 2007, formally joining the Board in September 2007.

3 Martin Clarke was appointed as a member of the Board in May 2007.

4 Joined in October 2007 as Interim Chief Operating Officer and is in attendance at Board meetings.

5 The Nomination Committee is formed from a panel of available Non-executive Board Members for Non-executive appointments and the Chief Executive and Non-executive Board Members for executive appointments.

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

7 From 1 January 2008 Ann Berresford joined the Audit Committee as its Chair; Tony Holland became a member of the Reconsideration and Remuneration Committees; and, Christopher Hughes stepped down as a member of the Remuneration Committee.

The Decision Committee did not meet during the year.

Directors' Report

4.3 Board and Committee Structure and Membership⁴



The Chairman of the Board is appointed by the Secretary of State for Work and Pensions.

⁴ This includes all members of the Board at date of publication.

Directors' Report

4.4 Board Report

Strategy and objectives

The Board has continued to set the strategic direction of the PPF as it has developed. It has also sought to assess the performance of the organisation against the objectives that stem from the strategy. A full written review of the PPF's performance in meeting its objectives for 2006/07 was considered by the Board at its October 2007 meeting.

The Board published its 'Management Plan 2007/08 – 2009/10' in May 2007. To better allow cross referencing and avoid repetition the organisation's 2007/08 Business Plan was incorporated into the Management Plan. At each of its meetings the Board received regular reports on the progress of the organisation toward meeting the objectives laid down in these Plans. The Board had discussions on the broad strategic direction of the organisation at dedicated strategy days in April 2007 and November 2007.

Levy

The Board agreed a levy estimate of £675 million for 2008/09 in November 2007. The Board also stated its intention, subject to claims remaining in line with expectations, to set a levy estimate of £675 million, indexed to wage inflation, for 2009/10 and 2010/11. The Board remained mindful of the need to balance the interests of compensation beneficiaries and levy payers and consulted on the levy estimate figure.

Contracts

The Board considered the approach to be adopted in respect of appointing an insolvency risk provider for the 2010/11 and 2011/12 levy years in July 2007. The criteria against which tenders would be assessed were subject to consultation with stakeholders. Following the end of the period under review, in June 2008 the Board approved the appointment of D&B, to continue as risk insolvency provider, following a competitive procurement exercise which commenced during 2007/08.

Co-operation with the Board of the Pensions Regulator

The independent Review of Pensions Institutions, carried out by Paul Thornton for the Department for Work and Pensions, published in June 2007 made a number of recommendations in respect of how the Boards of the two organisations might better co-operate.

Since September 2007 the Chairs of the Board of the Pension Protection Fund and of the Pensions Regulator have regularly attended the meetings of the other Board, as observers. The Boards of the two organisations held a joint meeting in August 2007 to discuss strategic issues with a further meeting held after the ending of the period under review in June 2008. A revised Memorandum of Understanding and a new Partnering Agreement were also published in March 2008.

The relationships of the Board with the Department for Work and Pensions and the Pensions Regulator were further strengthened during the year. A revised tripartite Memorandum of Understanding was published in February 2008.

Communication strategy and stakeholder engagement

The Board maintained the communications themes adopted in 2005/06 and 2006/07, agreeing a revised Communications Strategy in June 2007. The Board remain committed to developing and maintaining good relationships with stakeholders. The Communications Strategy aims to further this through implementing the recommendations arising from the annual Stakeholder Perception Audit and continuing the range of activities undertaken to provide guidance to, and to listen to, stakeholders.

Board performance

A commitment to continuous improvement in the performance of the Board and its Committees through regular assessment remained important. A review of performance of the Board and governance was led by the Chairman of the Board through individual interviews with, and feedback from, Board Members. This repeated the previous reviews carried out during 2005/06 and 2006/07. The outcome of the review was reported back to the full Board in March 2008. As

with the previous review a number of proposals came out of the review and are being implemented. These included changes to the way in which the Board received information on operational issues from the Executive and greater reporting of investment information to the Board.

Standards

Board Members adhered to a code of conduct which complied with the Cabinet Office's model code. The Code encompasses the Seven Principles of Public Life as defined by the Committee on Standards in Public Life. It includes sections on openness and responsiveness; accountability; personal responsibility; conflicts of interest and confidentiality.

Board Members register interests with the Board Secretary throughout the year. The register of interests can be viewed at:

www.pensionprotectionfund.org.uk/board_register_of_interests.pdf

Where Board Members were aware of a conflict of interest in respect of a matter under discussion, the Chairman and Board Secretary were advised of this and the Board Member did not participate in the discussion of that item or, where appropriate, left the meeting for that item.

4.4.1 The Non-executive Committee

The Non-executive Committee met on three occasions between 1 April 2007 and 31 March 2008. The Committee is constituted of all Non-executive members of the Board.

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

- a) the duty to keep under review the question whether the Board's internal financial controls secure the proper conduct of its financial affairs
- b) the duty to determine under sub-paragraph (5) (a) of paragraph 12 of Schedule 5, subject to the approval of the Secretary of State, the terms and conditions as to remuneration of any Chief Executive appointed under sub-paragraph (4) of that paragraph

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

The Committee has established Audit and Remuneration Committees.

In 2007/08, the Non-executive Committee:

- agreed arrangements for better use of Board member time including a rebalancing of the numbers of Board and Committee meetings
- oversaw the appointment of two further Non-executive Members to the Board, ensuring that the Board continues to be resourced adequately and contains an appropriate balance of skills and experience, as its committee work increases
- considered the composition of the Board Committees, including in relationship to Committee memberships
- considered the outcomes and recommendations of the Review of Pensions Institutions
- received reports from the Audit and Remuneration Committees at each of its meetings, and
- continued to consider means of reviewing the effectiveness of the Board.

The Audit and Remuneration Committees are sub-committees of the Non-executive Committee and report to it.

Audit Committee

The Audit Committee met on five occasions between 1 April 2007 and 31 March 2008.

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

Directors' Report

4.4 Board Report continued

In 2007/08, the Committee:

- reviewed, considered and recommended the Annual Report and Accounts for 2006/07 for the Board's approval. It also commenced planning for the 2007/08 and 2008/09 Annual Report and Accounts
- reviewed reports received from the internal auditors and the Executive's action plan to implement recommendations
- monitored the organisation's top down risk register, receiving quarterly reports on how these risks were managed and on any specific risk related issues that had arisen
- reviewed the organisation's accounting policies
- reviewed the organisation's whistle blowing policy.

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

Remuneration Committee

The Remuneration Committee met on five occasions between 1 April 2007 and 31 March 2008.

In 2007/08, the Committee:

- recommended the remuneration of the Director of Financial Risk at appointment for the approval of the Secretary of State
- reviewed the performance of the Chief Executive and that of the executive Directors and agreed annual bonus payments
- considered the desirability of Executive Directors taking up external non-executive roles and the terms on which such posts might be taken. This involved discussion with both the Department for Work and Pensions and the Cabinet Office. The Committee subsequently agreed to the Chief Executive becoming a Non-executive member of the UK Statistics Authority and to the Director of Financial Risk becoming a non-executive Director of Congregational & General Insurance plc.

- ensured that appropriate objectives were in place for the Executive Directors against which performance would be measured in 2007/08 and 2008/09, and
- was involved in the proposals for staff remuneration arrangements including the reward and remuneration strategies, and pay remits for 2007/08 and 2008/09.

4.4.2 Board Committees

Decision Committee

The Decision Committee did not meet during 2007/08.

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

Reconsideration Committee

The Reconsideration Committee is a Committee of the Board required to be established by the Pensions Act⁵ for the purpose of carrying out the second stage of the formal appeals process for reviews and complaints. The Committee also acts as the investigatory committee for the purposes of stage 2 maladministration complaints.

The Reconsideration Committee met on eleven occasions between 1 April 2007 and 31 March 2008.

In 2007/08, the Committee:

- considered a number of briefing papers on issues such as the scope of its discretion and the treatment of insurance policies by the PPF
- considered separately 23 cases where the levy payer challenged the level of levy invoiced. In each of these cases the levy figure was found to have been correctly calculated in accordance with the Determination of the Board and on the basis of the information notified to the PPF by the appropriate deadlines. The complaints were therefore not upheld

⁵ Its precise remit is set out in Sections 207 and 208 and in the following Regulations: The Pension Protection Fund (Review and Reconsideration of Reviewable Matters) Regulations 2005 (2005 No. 669) as amended and The Pension Protection Fund (Maladministration) Regulations 2005 (2005 No.650).

- considered an application that they consider a case despite the scheme referring it to the Committee after the appropriate deadline. It was agreed that the application should be rejected as it had been received substantially out of time and there were no reasons offered as to why the Committee should exercise its discretion, and
- as in 2006/07, was attended, on a single occasion, by a representative of the Council on Tribunals to observe its proceedings.

Where the Reconsideration Committee has not upheld a complaint the applicants may take their case to the Pension Protection Fund Ombudsman (this must normally be within 28 days of issue of the Reconsideration Committee's written decision). Further details of the PPF's complaints process can be found on page 31.

Nomination Committee

The Nomination Committee met on two occasions between 1 April 2007 and 31 March 2008.

In 2007/08, the Committee:

- considered the appointment of the Director of Delivery
- considered the future size, scope and composition of the Board, and
- considered succession planning for both executive and non-executive Board members.

Investment Committee

The Investment Committee met on four occasions between 1 April 2007 and 31 March 2008.

In 2007/08, the Committee:

- reviewed the Statement of Investment Principles approved by the Board in October 2006. Various changes to the SIP, particularly in respect of hedging in respect of schemes in assessment, have been considered during the year but it remains broadly unchanged. The Statement of Investment Principles is reviewed annually; that in place during 2007/08 can be found at:
www.pensionprotectionfund.org.uk/sip2006.pdf

- received quarterly updates from Mercer Investment Consulting, the Investment Advisor to the Fund, and monitored their compliance with agreed standards
- reviewed reports from State Street, Custodian to the Fund, and monitored its compliance with agreed standards. State Street's role as transition manager to the Fund was also monitored
- considered the continuing development of the transition process to reflect increasing asset transitions from schemes passing into compensation
- considered how to best manage the financial instruments which the PPF has acquired as a result of agreeing to the re-structuring of insolvent companies
- considered the strategy of the Fund in respect of Responsible Investment, what weight the Board is obliged to give RI considerations and the appointment of an external advisor on voting and engagement, and
- agreed that the Statement of Investment Principles for the Fraud Compensation Fund would remain substantively unchanged.

Remuneration Report

Salary and Pension Entitlements (subject to audit – see Auditor’s Report pages 50-51)

	Salary (in bands of £5000) including bonuses		Real increase in pension and related lump sum	Total accrued pension at pension age at 31 March 2008	Cash Equivalent Transfer Value at 31 March 2008	Cash Equivalent Transfer Value at 31 March 2007	Pensions
	Period end 31 March 2008	Period end 31 March 2007					Real Increase in Cash Equivalent Transfer Value
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Lawrence Churchill							
Chairman	85-90	80-85	0-2.5	5-7.5	112	81	23
Partha Dasgupta							
Chief Executive from 21 June 2006 (formerly Director of Investment and Finance)	180-185	165-170	0-2.5	5-7.5	71	41	17
Martin Clarke							
Director of Financial Risk (Board member from May 2007)	195-200	n/a	n/a ¹	n/a	n/a	n/a	n/a
Peter Walker							
Director of Delivery (Chief Operating Officer until October 2007)	160-165	10-15	0-2.5	0-2.5	39	7	26
Ian Abrams							
Non-executive member	20-25	15-20	n/a	n/a	n/a	n/a	n/a
Mark Baker CBE							
Non-executive member	20-25	15-20	n/a	n/a	n/a	n/a	n/a
Ann Berresford							
Non-executive member	10-15	n/a	n/a	n/a	n/a	n/a	n/a
Michael Deakin							
Non-executive member	20-25	15-20	n/a	n/a	n/a	n/a	n/a
Jeannie Drake CBE							
Non-executive member	20-25	15-20	n/a	n/a	n/a	n/a	n/a
Sir Anthony Holland							
Non-executive member	10-15	n/a	n/a	n/a	n/a	n/a	n/a
Christopher Hughes							
Non-executive member	20-25	15-20	n/a	n/a	n/a	n/a	n/a
Derek Cribb							
Interim Chief Operating Officer (from October 2007)	165-170	n/a	n/a	n/a	n/a	n/a	n/a

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

This report is based on payments made by (or accrued by) the Board and so recorded in the accompanying financial statements (rather than, for example, on annual rates of salary). The values displayed for Derek Cribb, Interim Chief Operating Officer, represent amounts payable to the interim agency through which his services are provided, and include that agency’s fees.

Contracts

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

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

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

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

Executive Directors – Outside Appointments

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

External appointments currently held by Executive Directors:

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

In both cases it is expected that these roles will be undertaken outside of PPF time through a combination of paid and unpaid leave, and personal time. Fees are therefore retained by the Executive Director.

Remuneration

The Executive Directors received a fixed salary which is reviewable annually by the Remuneration Committee. The Remuneration Committee during this period comprised Mark Baker CBE (Chairman), Jeannie Drake CBE, Christopher Hughes (until January 2008) and Tony Holland (from January 2008 onwards), who are all Non-executive Members of the Board.

The Chairman of the Board was paid a fixed salary together with a pension contribution and was contracted to work for the PPF for two days a week. All other Non-executive Members received a fixed fee of £20,288 per annum based on an estimated time commitment of 26 days per annum. Non-executive Board Members' salary was not performance-related and there was no provision for compensation in the event of termination.

Bonuses

Executive Directors were eligible for an annual bonus of up to 20% of their base salary. The bonus level was set by the Remuneration Committee and was determined by reference to Executive Directors within comparable organisations. Base pay covered normal competent performance and any bonus paid represented a significant contribution or achievement in addition to this. Bonuses were determined by the Remuneration Committee which assesses the performance of each Executive Director against the objectives and the targets for meeting these objectives for the year. There was no contractual undertaking to make termination payments for any of the Executive Directors.

Remuneration Report continued

Notice periods

The Chief Executive, the Director of Delivery and the Director of Financial Risk have notice periods of six months.

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

Pensions

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

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

In all cases members may opt to give up (commute) pension for lump sum up to the limits set by the Finance Act 2004.

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

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of **classic**, **premium** and **classic plus** and 65 for members of **nuvos**.

Further details about the Civil Service pension arrangements can be found at:
www.civilservice-pensions.gov.uk

Cash Equivalent Transfer Values (CETV)

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

of their purchasing additional pension benefits at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Real increase in CETV

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



Partha Dasgupta
Accounting Officer
3 October 2008

Financial Statements for the year 1 April 2007 to 31 March 2008

6.1 Statement of the Board of the Pension Protection Fund's and the Accounting Officer's responsibilities for these accounts

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

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

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

- the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual in force for the financial year;
- other guidance which HM Treasury may issue from time to time in respect of accounts which are required to give a true and fair view;
- the Management Statement and Financial Memorandum between the Board of the Pension Protection Fund and the Department for Work and Pensions;
- any other specific disclosure or other requirements required by the Secretary of State for Work and Pensions.

I was the appointed Accounting Officer for the Board throughout the financial year, and up to the date of signing these accounts. The relevant responsibilities of Accounting Officers, including the responsibility for the propriety and regularity of the public finances and for the keeping of proper records and financial procedures are set out in the model "Non-Departmental Public Bodies Accounting Officers' Memorandum" issued by the Treasury and published in Government Accounting. Although the Board of the Pension Protection Fund is classified as a Public Corporation rather than a Non-Departmental Public Body, I still consider this guidance to be the most appropriate for me to follow as Accounting Officer for the Board.



Partha Dasgupta
Accounting Officer
3 October 2008

Financial Statements

6.2 Statement on Internal Control

Scope of responsibility

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

My responsibility to ensure compliance with the requirements of the Board of the Pension Protection Fund's Framework Document with the Department for Work and Pensions has been supplemented by regular meetings with our departmental Stewardship team, the Board and the executive team of the Pensions Regulator. These meetings covered updates on the implementation of our strategic objectives, helped formulate our future business direction and highlighted the inherent risks and opportunities in implementing our policies.

The purpose of the system of internal control

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

The system of internal control has been in place in the Board of the Pension Protection Fund for the year ended 31 March 2008 and up to the date of signing of these accounts and accords with Treasury guidance.

Key systems and procedures were subject to internal audit review during the year ended 31 March 2008.

Capacity to handle risk

The Board of the Pension Protection Fund has delegated responsibility to the Audit Committee for monitoring the significant risks to achieving our strategic goals and for ensuring that an appropriate risk management framework is in place and embedded throughout the organisation.

The Chief Executive established the Risk Management Committee with executive authority to take action to manage the risks faced by the Board of the Pension Protection Fund. The Committee, which is chaired by the Chief Operating Officer, is responsible for leading and overseeing the Risk Management Strategy and processes of the Pension Protection Fund. The membership includes a wide spread of skills and knowledge including a specialist risk manager. We have consciously enlisted heads of teams into the membership of the Risk Management Committee to embed risk responsibility and ownership deeper into the organisation.

The Chief Executive also established the Asset and Liability Committee to monitor the balance sheet risk management activities of the Board of the Pension Protection Fund including insolvency, market, longevity and investment (risk and performance) management.

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

In my opinion, the Board of the Pension Protection Fund has made steady progress in developing its risk management processes in its third year of operation including:

- Risk workshop led by the Chief Executive to highlight the risks he considers the most important with the Executive team and set his expectations in the management of these.
- Greater clarity in the oversight of financial risks.
- Developed the current business continuity capability.
- Internal communication of risk management through the intranet including the publishing of team risk registers and incident report templates.

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

Financial Statements

6.2 Statement on Internal Control continued

The risk and control environment

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

The Board of the Pension Protection Fund has identified risks at three levels:

- **Top down risk profile:** This is the process whereby we capture the key risks to the achievement of our strategic objectives including a risk appetite for each risk.
- **Process or team assessment:** This process drives at the heart of our operational capability and considers those risks which may adversely impact on the objectives of a process or team. Additionally the risks identified will inform the top down risk profile.
- **Project assessment:** The final aspect of our risk identification approach looks at the risks that accrue from our change management activities.

Risk management information is recorded in risk registers and the assessment of the level of risk informs both the priority and ownership of risks. Risks are identified and controlled by:

- Identifying the objective and the risks which may prevent the achievement of that objective
- Assessing the inherent risk with reference to predetermined criteria covering impact and likelihood
- Considering risk against the appetite set by the Board
- Determining appropriate control strategy (tolerate, treat, transfer, terminate)
- Identifying controls in place to manage the risk
- Assessing the residual risk after the application of controls
- Preparing an action plan for activities to achieve the control strategy
- Assigning responsibility for ownership of risk and action plans.

The Risk Management Committee and the Asset and Liability Committee meet monthly and consider risk and internal control matters across the organisation. There is an independent Audit Committee chaired by a non-executive Board member with appropriate

financial expertise which meets quarterly. This committee oversees the control environment and risk management framework and receives reports from our internal and external auditors on our system of internal control.

As an Arms Length Body (ALB) we are required to operate in accordance with the Data Security guidance issued by HMG. To achieve this we have incepted an Information Risk Committee, which reports into the Risk Management Committee and is tasked with reviewing HMG guidance in relation to Data Security and taking forward actions required to ensure both initial and ongoing compliance.

Building on the PPF's already robust information security arrangements, actions taken to date include:

- Production of electronic media and information security policies that are consistent with current Cabinet Office advice and apply to all PPF staff; including contractors working on our behalf
- Update of our supplier contracts to include clauses specifying their responsibilities in respect of information security
- Provision of fully encrypted laptops to support off-site working
- Requiring that all data held on redundant or faulty PC equipment is wiped before disposal or return to the supplier for repair
- Enhancement of the PPF network security to prevent the unauthorised transfer of data to portable media and to ensure that authorised downloads are strongly encrypted.

Internal audit services are supplied by BDO Stoy Hayward LLP. Internal audits are undertaken on those processes which are considered to be higher risk or as specifically agreed with management.

The work undertaken by internal audit is agreed with management and the Audit Committee. All work undertaken by BDO Stoy Hayward is operated to criteria in the Government Internal Audit Standards. They submit reports that include their independent opinion on the appropriateness and effectiveness of the Board of the PPF's internal controls, together with their recommendations for improvement.

In my opinion, the Board of the Pension Protection Fund has maintained the standard of risk management reported in the last annual accounts. We continually strive to achieve high standards of risk management and have the opportunity to enhance the framework further with the following developments planned for implementation by 31 December 2008:

- Developing interactions between the Asset and Liability Committee and Risk Management Committee
- Developing the governance and compliance manual

Review of effectiveness

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

- The assurances I sought and received from other Board members and senior staff of the Board of the Pension Protection Fund detailing the work undertaken to ensure risk management and control is addressed in their areas of responsibility
- The work of the internal auditors, the Board members and Executive managers who have responsibility for the development and maintenance of the internal control framework and
- Comments made by the external auditors in their management letter and other reports.

I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Audit Committee and a plan to address any reported weaknesses and to ensure continuous improvement of the system is in place.



Partha Dasgupta
Accounting Officer
3 October 2008

Financial Statements

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

I certify that I have audited the financial statements of the Board of the Pension Protection Fund for the year ended 31 March 2008 under the Pensions Act 2004. These comprise the Operating Statement, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Board of the Pension Protection Fund, the Accounting Officer and Auditor

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

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

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

In addition, I report to you if the Board of the Pension Protection Fund has not kept proper accounting records, if I have not received all the information and

explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

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

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

Basis of audit opinion

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

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

Opinions

Audit Opinion

In my opinion:

the financial statements give a true and fair view, in accordance with the Pensions Act 2004 and directions made thereunder by the Secretary of State for Work and Pensions, of the state of the Board of the Pension Protection Fund's affairs as at 31 March 2008 and of its deficit (net result) for the year then ended;

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

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

Audit Opinion on Regularity

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

Report

I have no observations to make on these financial statements.

T J Burr

Comptroller and Auditor General
National Audit Office
151 Buckingham Palace Road
Victoria
London SW1W 9SS

Date: 16 October 2008

Financial Statements

6.4 Operating Statement

For the year 1 April 2007 to 31 March 2008

	Pension Protection Fund Appendix 1		Fraud Compensation Fund Appendix 2		Administration Fund Appendix 3		Total Funds	Total Funds
	Notes	£000s	Notes	£000s	Notes	£000s	Year ended 31 March 2008 £000s	Year ended 31 March 2007 £000s
Statutory operating activities								
Operating income								
Income from levies	1.2	576,565	2.2	–		–	576,565	270,255
Total operating income		576,565					576,565	270,255
Operating expenses								
Staff costs		–		–	3.3a	(9,616)	(9,616)	(6,534)
Other costs		(3)		–	3.3b	(6,686)	(6,689)	(6,149)
Depreciation and impairment charges		–		–	3.5	(768)	(768)	(484)
Total operating expenses		(3)		–		(17,070)	(17,073)	(13,167)
Net operating surplus/(deficit)		576,562		–		(17,070)	559,492	257,088
Investment activities								
Interest on operating bank accounts	1.3	1,280	2.3	–	3.4	113	1,393	672
Investment income	1.4	33,693	2.4	185		–	33,878	6,827
Change in fair value of investments	1.5	107,558		–		–	107,558	(13,311)
Income from annuity policies		113		–		–	113	–
Investment expenses	1.6	(3,278)		–		–	(3,278)	(543)
Net investment return		139,366		185		113	139,664	(6,355)
Claims activities								
Losses on actuarial liabilities	1.7	(95,078)		–		–	(95,078)	(5,434)
Current year claims for compensation	1.8	(349,073)		–		–	(349,073)	(442,120)
Revaluation of prior year claims for compensation	1.9	(179,478)		–		–	(179,478)	(82,188)
Net cost of claims		(623,629)		–		–	(623,629)	(529,742)
Transfers to reserves		–		–	3.7	16,957	16,957	13,092
Net result for the year		92,299		185		–	92,484	(265,917)
Net result brought forward		(609,145)		210		–	(608,935)	(343,018)
Net result carried forward		(516,846)		395		–	(516,451)	(608,935)

6.4 Statement of Total Recognised Gains and Losses

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

The accounting policies and notes on pages 55 to 113 form part of these financial statements.

Financial Statements

6.4 Balance Sheet

As at 31 March 2008

	Pension Protection Fund Appendix 1		Fraud Compensation Fund Appendix 2		Administration Fund Appendix 3		Total Funds	Total Funds
	Notes	£000s	Notes	£000s	Notes	£000s	Year ended 31 March 2008 £000s	Year ended 31 March 2007 £000s
Fixed assets		–		–	3.5	1,922	1,922	2,532
Total investment assets	1.10	1,459,179	2.6	3,329		–	1,462,508	720,047
Cash	1.11a	13,458	2.7a	3	3.6a	841	14,302	27,238
Levy debtors	1.11b	218,983		–		–	218,983	71,849
Transfer-in debtors	1.11c	29,111		–		–	29,111	23,095
Other current assets	1.11d	438	2.7b	–	3.6b	83	521	2,572
Current liabilities	1.11e	(2,575)		–	3.6b	(3,571)	(6,146)	(8,868)
Net current assets/(liabilities)		259,415		3		(2,647)	256,771	115,886
Total assets less current liabilities		1,718,594		3,332		(725)	1,721,201	838,465
Non-current liabilities								
Actuarial liabilities	1.12a	(880,292)		–		–	(880,292)	(536,166)
Claims provisions	1.12b	(1,355,148)		–		–	(1,355,148)	(908,493)
Total non-current liabilities		(2,235,440)		–		–	(2,235,440)	(1,444,659)
Total net assets/(liabilities)		(516,846)		3,332		(725)	(514,239)	(606,194)
Represented by:								
Net result carried forward		(516,846)		395		–	(516,451)	(608,935)
Revaluation and other reserves		–	2.8	2,937	3.7	(725)	2,212	2,741
Total levy payers' funds		(516,846)		3,332		(725)	(514,239)	(606,194)

The accounting policies and notes on pages 55 to 113 form part of these financial statements.

The Board of the Pension Protection Fund approved these accounts on 23 September 2008 and authorised the Accounting Officer to sign this Balance Sheet on the same date.



Partha Dasgupta
Accounting Officer
3 October 2008

Financial Statements

6.4 Cash Flow Statement

For the year 1 April 2007 to 31 March 2008

	Pension Protection Fund	Fraud Compensation Fund	Administration Fund	Total Funds	Total Funds
	£000s	£000s	£000s	Year ended 31 March 2008 £000s	Year ended 31 March 2007 £000s
Cash balance at start of year	26,861	3	374	27,238	20,262
Cash flow from operating activities	455,960	–	1,357	457,317	251,845
Cash transfers from/(to) fund managers	(469,363)	–	–	(469,363)	(242,814)
Capital expenditure	–	–	(890)	(890)	(2,055)
Net cash flow	(13,403)	–	467	(12,936)	6,976
Cash balance at end of year	13,458	3	841	14,302	27,238
Reconciliation of the operating surplus/(deficit) to the cash flow from operating activities					
Operating surplus/(deficit)	576,562	–	(17,070)	559,492	257,088
Compensation payments	(17,313)	–	–	(17,313)	(1,402)
Assets from schemes transferring into the PPF receivable as cash	52,803	–	–	52,803	36,251
Financing from DWP	–	–	17,160	17,160	10,011
Items reported in “Investment return” but settled through operating bank accounts	(1,885)	–	113	(1,772)	158
Depreciation and impairment	–	–	768	768	484
Movement in current liabilities	(3,153)	–	431	(2,722)	7,522
Movement in debtors	(151,054)	–	(45)	(151,099)	(58,267)
Cash flow from operating activities	455,960	–	1,357	457,317	251,845

Financial Statements

6.4 Notes to the accounts

General accounting policies

a) Basis of preparation

These accounts are prepared in accordance with the Accounts Direction dated 18 July 2007 given to the Board of the Pension Protection Fund by the Secretary of State, with the approval of the Treasury, in accordance with the Pensions Act 2004 (Schedule 5, Part 4, Paragraph 22 (2) (b)). It requires the Board's accounts to give a true and fair view of the income and expenditure, total recognised gains and losses and cash flows for the financial year, and the state of affairs at the year end. It requires the Board to prepare accounts in accordance with the Government Financial Reporting Manual. This Manual in turn requires accounts to be produced on an accruals basis following, as far as appropriate, private sector practice based on generally accepted accounting practice in the United Kingdom (UK GAAP), i.e. the requirements of the Companies Act and on the accounting standards issued or adopted by the Accounting Standards Board, including, where appropriate, Statements of Recommended Practice (SORPs).

These financial statements have been prepared on an historical cost basis, modified to account for the revaluation of fixed assets and investments.

The specific accounting policies adopted by the Board in order to comply with these requirements include the following:

b) Segmental reporting

The Board of the Pension Protection Fund was created by the Pensions Act 2004 and this Act specifies that the Board must hold, manage and apply two ring-fenced funds:

- The Pension Protection Fund; and
- The Fraud Compensation Fund.

Additionally, as a separate statutory corporate body, the Board is responsible for the management and control of its own administration functions, funded by grant in aid from DWP.

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

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

c) Accruals basis

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

d) Going concern

These accounts have been prepared on a going concern basis.

Financial Statements

6.4 Notes to the accounts continued

e) Related parties

The Board considers the following to be related parties for the purposes of these accounts:

- a) Individual Board members and staff;
- b) The Department for Work and Pensions, to whom the Board is accountable as a Public Corporation for the achievement of a number of pensions policy objectives;
- c) The Pensions Regulator, a Non-Departmental Public Body, also accountable to the Department for Work and Pensions, with whom the Board shares certain pensions policy objectives.

Transactions with these parties are discussed below.

- a) Transactions relating to the remuneration of individual Board members and staff are disclosed in Note 3.3a and in the Remuneration Report section of the Annual Report. There were no transactions other than the payment of salaries and expenses during the accounting period.

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

- b) Transactions relating to the provision of funding to the Board to cover its operating expenses by the Department for Work and Pensions through the grant-in-aid process, and the related Administration Levy, are disclosed in Note 3.2.

Expenditure incurred by DWP in establishing the Board and its functions prior to the Pension Protection Fund opening for business on 6 April 2005 is also discussed in Note 3.2. In particular, the information and communication technology (ICT) assets acquired by DWP as part of this establishment project, and brought into use by the Board on 6 April 2005, are disclosed in Note 3.5.

The Board has also been able to procure goods and services at discounted rates by having access to central purchasing arrangements managed by DWP's Commercial Policy and Procurement Division and by the Office for Government Commerce. It is not practical to quantify the value-for-money benefit to the Board from these arrangements.

Of the accommodation costs disclosed in Note 3.3b, £804,000 (year to 31 March 2007: £564,000) was payable to the Estates Division of DWP who manage the facility occupied by the Board and its staff and through whom all related facilities costs, including rent, rates and property service charges, are routed. DWP Estates charge no explicit fee for these property management services.

- c) As set out in Note 1.2, protection levies for the levy year 2005/06 were calculated, billed and collected on the Board's behalf by the Pensions Regulator. As disclosed in Note 3.3b, in the year to 31 March 2007 the Board contributed £60,000 to the Pensions Regulator's costs of carrying out these data collection, data processing, billing and collection activities; no further contributions were incurred in the year to 31 March 2008 however.

f) Whole of Government Accounts

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

g) Post balance sheet events

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

The Board’s financial statements are laid before the Houses of Parliament by the Secretary of State of the Department for Work and Pensions.

FRS21 requires the Board of the Pension Protection Fund to disclose the date on which the accounts are authorised for issue. This is the date on which the Comptroller and Auditor General certifies the accounts.

The authorised date for issue is 16 October 2008.

Appendix 1

Accounting policies and notes relating to the operation of the Pension Protection Fund for the period 1 April 2007 to 31 March 2008

Note 1.1 Accounting policies

a) Recognition of Protection Levy income

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

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

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

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

b) Investment assets and investment return

Investment assets are included in these accounts at fair value, which is defined as follows:

- Quoted securities and other exchange-traded assets, including derivative contracts, are valued at closing prices, which may be defined as mid-market price or last traded price depending on the convention of the stock exchange or other market on which they are quoted.
- Derivative contracts which are not exchange-traded (often referred to as over-the counter contracts) are valued at prices calculated by the fund managers, using valuation methodologies based on market sources.
- All other assets for which a recognised investment exchange does not exist are valued at a fair value estimated by the appointed custodian, fund manager or other appropriately qualified professional adviser, and approved by the Board.
- Pooled investment vehicles are valued at the average of the closing bid and offer prices (if both prices are published) or, if single-priced, at the closing single price.
- Investments denominated in foreign currency are valued in sterling using the closing spot rates of exchange from a recognised information source.

Investment return is defined as the net total of:

- Investment income earned on invested assets, including interest, dividends and (where appropriate) rental income on properties; plus
- The "change in the fair value of investments" defined above, including gains and losses realised on the disposal of investments; unrealised gains and losses on investments held at the accounting date, that is, the difference between acquisition cost and current market value; and gains and losses arising on the translation of investments (including cash, payables and receivables) denominated in foreign currencies into sterling; less
- Fund management fees and custody charges charged to the Protection Fund, as permitted by the Pension Protection Fund (Payments to meet Investment Costs) Regulations 2005 (SI 2005/1610).
- "Acquisition cost" includes the costs associated with purchase transactions such as brokers' fees and commissions, and sales proceeds are stated net of the same costs associated with disposal transactions.

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

- Interest income arising from cash deposits, fixed interest securities and similar investments is accounted for on a daily basis as interest is earned;
- Dividends are accounted for when the dividend is declared, for example, when the quoted security is quoted in its investment exchange as “ex-dividend”;
- Rents are accounted for in accordance with the terms of the relevant leases or other governing documentation.

c) Actuarial liabilities and changes in value of actuarial liabilities

i) Actuarial liabilities

The Board recognises the full value of the liabilities of the Fund disclosed in the annual actuarial valuation of the Fund, prepared and signed by the appointed actuary in accordance with the Pensions Act 2004 (Schedule 5, Part 4, Paragraph 22 (2)(a)). This represents the present value, as at the balance sheet date, of the liability to pay compensation to the members, both deferred and retired, of all pension schemes in respect of which Transfer Notices have been issued, valued on the assumptions set out in the actuary’s report.

ii) Changes in value

The movement in the value of actuarial liabilities arises:

- In the year of Transfer, from the Transfer Notice date to the balance sheet date;
- Subsequently, between the opening and closing balance sheet dates.

The movement in value will be analysed to distinguish between:

- The effects of discounting due to the passage of time;
- The effects of changes in discount rates;
- The effects of changes in actuarial assumptions;
- Other actuarial gains and losses;
- The payment of benefits during the period.

iii) Recognition of payments of compensation

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

For recurring periodic compensation payments, this policy is interpreted as follows:

- The Fund’s usual payment policy is to make recurring compensation payments monthly, on the first day of each calendar month, in advance for that month. If the first calendar day is not a banking day, the payment will usually be brought forward to the last banking day of the previous calendar month, and will be treated in the financial statements as a prepayment.
- If the payment of periodic compensation to any individual member due in respect of periods within the accounting period is delayed until after the end of the accounting period, the compensation due up to the accounting date will be accrued as a current liability.
- Any overpayments of periodic compensation, including overpayments made by trustees that they have not been able to recover, will be accounted for as a current debtor.

Appendix 1

Notes to the accounts continued

For lump sum compensation payments, this policy is interpreted as follows:

- Where the member has a choice about the form in which to take compensation, the liability to pay compensation does not arise before the choice is made; for example, if the member on retirement is entitled to either full compensation or a lump sum plus reduced compensation (including total commutation of a trivial compensation amount), and has reached retirement date before the end of the accounting period but as at the accounting date has not made his choice, then there is no liability at the accounting date to pay any lump sum. Any compensation (at the unreduced rate) due in respect of periods within the accounting period remaining unpaid at the accounting date will be accrued as a current liability.
- For a member with less than 3 months' service at their scheme's assessment date with no relevant accrued rights but with a right under the scheme rules to a contribution refund or transfer payment, the member is entitled to compensation by way of a lump sum payable to the member at a rate of 90% of his contribution payments or a transfer payment at a rate of 90%. The refund should be accounted for as at the effective date of the Transfer Notice, and the transfer value only when the member has completed all the necessary consents and approvals and has irrevocably instructed the Fund to make the payment.

d) Money purchase assets and benefits

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

e) Provisions and contingent liabilities for claims

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

i) Population of schemes

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

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

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

ii) Likelihood

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

Schemes judged "probable" for eventual entry include:

1. Schemes in Assessment for which a Scheme Failure Notice has been validated;
2.
 - i Schemes in Assessment at the accounting date for which no Scheme Failure Notice has yet been received;
 - ii schemes accepted into Assessment after the accounting date but where the effective Assessment Date is within the accounting period;
 - iii and schemes, in respect of whose employer a Notice of Insolvency had been received but not validated up to the date of approval of the actuarial report, but where the potential effective Assessment Date would be within the accounting period;

in all cases

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

Schemes judged "possible" for eventual entry include:

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

Schemes judged "unlikely" eventually to enter the Protection Fund include:

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

Appendix 1 Notes to the accounts continued

iii) Materiality

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

- the scheme's MFR liabilities according to the latest MFR valuation exceeded £15 million, or
- the scheme's protected liabilities according to the latest valuation prepared under either Section 179 or Section 143 of the Pensions Act 2004 exceeded £25 million,
- and with an overriding requirement that at least 65% in aggregate of the Fund's liabilities generating provisions must relate to material schemes.

The materiality limit on a scheme's protected liabilities has this year been reduced to £25 million from the £30 million applied at 31 March 2007, leading to a slight improvement in the robustness of the estimation techniques applied.

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

iv) Scheme assets

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

1. For schemes which are considered material to the Fund's liabilities, actual asset information at the Fund's accounting date has been obtained from scheme trustees and used in the calculations;
2. For schemes which are not considered material to the Fund's liabilities, scheme asset information has been extracted from other information readily available to the Board, such as the latest actuarial valuation or audited scheme accounts. These asset values have then been indexed forward to the Fund's accounting date using generally accepted investment return indices appropriate to the asset classes in which the schemes' investments are held. Further adjustments are then made to allow for benefit payments between the valuation date and the Fund's accounting date using assumptions consistent with those used to estimate scheme liabilities. The Board consulted in June 2006 with the actuarial profession on the methodology for making these adjustments.

v) Asset recoveries from insolvent employers

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

The Board's policy for valuing these recoverable assets is guided by the principle of prudence. Specifically:

1. Unsecured claims recoverable as cash out of the liquidation of the employer company will be valued at the amount assessed by the Board to be recoverable as dividends from the liquidation (adjusted as necessary to account for the time value of money over the projected future period of dividend distributions). The Board's assessment of recoverable amounts will be based on available evidence. For example, where the liquidator has not yet made any dividend distributions nor produced any estimate of likely dividends, the Board assesses the recoverable value as nil. Where a liquidator has produced an estimate of likely dividends, the Board will test this estimate against any history of actual dividend distributions to assess its probable accuracy. Where a liquidator has produced a range of estimates of likely dividends, the Board assesses the recoverable value using the lowest value in the range.
2. Secured claims will be valued by the Board at the full face value of the claim, provided the Board is satisfied that the value of the security at least covers the claim value. If the Board assesses the value of the security as less than the face value of the claim, it will provide against the shortfall.
3. Other assets acquired by the Board on behalf of trustees will be valued at fair value, in compliance with accounting standards or valuation guidelines appropriate to the type of asset, for example:
 - Quoted securities are valued at closing prices, which may be defined as mid-market price or last traded price depending on the convention of the stock exchange or other market on which they are quoted.
 - Unquoted securities including private equity will be valued in accordance with the "International Private Equity and Venture Capital Valuation Guidelines" issued by the British, French and European venture capital associations. These guidelines emphasise the evidence base required to produce reliable valuations, for example, the enterprise's value implied by a history of dividend payments; the net asset value from the latest audited accounts; the value of recent share dealings, adjusted to take account of the non-open market nature of those dealings; or (for recent acquisitions) the acquisition cost. Where the Board uses acquisition cost to value these assets, the value will normally be assessed at nil, since no explicit purchase price has been paid to acquire the asset.

vi) Scheme liabilities

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

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

Appendix 1 Notes to the accounts continued

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

1. For schemes which are considered material to the Fund's liabilities, further liability information has been obtained from scheme trustees, such as details of changes to benefit designs, material changes to the membership, and significant benefit payments or bulk transfers between the scheme's valuation date and the Fund's accounting date, and used in the calculations;
2. For schemes which are not considered material to the Fund's liabilities, further adjustments may then be made to allow for benefit payments between the valuation date and the Fund's accounting date using assumptions consistent with those used to estimate scheme assets. The Board consulted in June 2006 with the actuarial profession on the methodology for making these adjustments.

f) Current assets

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

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

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

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

g) Current liabilities

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

h) Impact of the issue of Transfer Notices

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

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

- Asset recoveries from insolvent employers are recognised where the Board judges that the assets are virtually certain of recovery, and are valued using the same policies set out in Note 1.1e(v), governing the valuation of the same assets prior to transfer to the PPF. In appropriate circumstances, the Board will also disclose contingent assets in respect of recoveries which are less than virtually certain of recovery.
- Current assets and current liabilities are transferred to the Board at fair value using the accruals basis of accounting. Debtors which are virtually certain of recovery are recognised; creditors are recognised on an accruals basis including, for example, all outstanding fees to trustees, actuaries, auditors, administrators and other advisers for work commissioned prior to transfer and necessary to complete the transfer of the scheme to the PPF and its subsequent winding-up.
- Actuarial liabilities are transferred to the Board as at the effective date of the Transfer Notice and are valued using the same policies set out in Note 1.1e(vi), that is, as assessed by the Board's appointed actuary as being the realistic cost of settling the liabilities for compensation on a continuing basis from the Fund as a going concern.
- Where the net deficit of a transferring-in scheme has been provided for at the previous balance sheet date, changes in the value of the deficit due to changes in the value of the scheme's assets and liabilities up to the effective date of the Transfer Notice are accounted for as "revaluation of prior year claims".

Note 1.2 Income from levies

Income from protection levies derives from:

	Notes	Year ended 31 March 2008 £000s	Year ended 31 March 2007 £000s
Initial Levy in respect of 2005/06	i	–	(852)
Risk-based levies in respect of 2006/07	ii	(1,257)	162,553
Scheme-based levies in respect of 2006/07	ii	118	108,554
Risk-based levies in respect of 2007/08	ii	459,567	–
Scheme-based levies in respect of 2007/08	ii	118,137	–
Total income from protection levies		576,565	270,255

i) Initial Levy

In respect of the levy year 2005/06 an Initial Levy is chargeable to eligible pension schemes, calculated on standard per capita rates for different categories of members (active, deferred, retired etc.).

Billing and collection activities in respect of the Initial Levy are administered on the Board's behalf by the Pensions Regulator under the provisions of Section 181 of the Pensions Act 2004 and have continued throughout 2007/08. The Board's accounts therefore continue to place significant reliance on the levy accounting records of the Pensions Regulator and the control environment in which its initial levy calculation, billing and collection activities are undertaken. The Board has received appropriate assurances from the Pensions Regulator as to the effectiveness of controls over these processes. The Board has supplemented these assurances with its own controls over the transfer of levy receipts from the Pensions Regulator to the Board and the reconciliation of transfers to the records of levy collections.

Appendix 1 Notes to the accounts continued

Initial Levy income is accounted for on an accruals basis, that is, by recognising the best estimate of the levy to be collected in respect of 2005/06, net of provisions for bad debts and levies deemed to be uncollectible. The Initial Levy income disclosed in the prior year financial statements reflect adjustments to this estimate following resolution of a wide variety of issues, such as eligibility for pension protection, and accuracy of membership statistics. The resolution of these issues resulted in the issue of credit notes to cancel previously issued invoices; the issue of revised invoices, frequently at lower values than the original invoices, reflecting the lower membership numbers now reported; the payment of refunds to schemes to correct overpayments; and the issue of new invoices to schemes whose eligibility has been confirmed. No material adjustments of this nature arose in the current year.

The Board is aware however that a number of Initial Levy issues remain to be resolved, particularly concerning the specific provisions of the PPF Entry Rules and related regulations, and their impact on certain schemes. There is significant disagreement between the trustees (and sponsoring employers) of those schemes and the Board on eligibility for pension protection and hence on their liability to pay protection levies. The Board believes that these issues may only be resolved through binding legal processes and may take considerable time to conclude. If these processes eventually conclude that the schemes involved are liable to pay protection levies, the Board estimates a further £4,398,000 of Initial Levy will be receivable. The Initial Levy income disclosed in the prior year includes the impact of setting up a provision for £1,031,000 which may be refundable to schemes should these processes conclude the schemes are ineligible. Where appropriate, the Board has negotiated specific arrangements with the relevant scheme to allow necessary legal processes to continue and to secure that the Board will receive interest on any amounts ultimately found to be payable.

ii) Risk-based and scheme-based levies

In respect of the levy year 2007/08, as was the case in 2006/07, protection levies are chargeable to eligible pension schemes incorporating risk-based factors (principally scheme underfunding and employer insolvency risks) and scheme-based factors (principally the value of scheme liabilities). These two separate sets of factors generate separate levies, known as the risk-based levy ('RBL') and the scheme-based levy ('SBL'). The calculation, billing and collection activities for these levies have been carried out in-house by the Board's staff and are therefore subject to the regime of internal control (including internal audit) described in the Statement on Internal Control in Section 6.2 of these financial statements.

Protection levy income is accounted for in these financial statements on an accruals basis, that is, including amounts billed in respect of the year but after 31 March 2008, and including amounts unbilled at the date of preparing these financial statements. Estimates of amounts unbilled have however only been prepared for schemes where the Board is virtually certain of the schemes' eligibility for pension protection and consequent liability to pay protection levies; accruals of levies chargeable have been set up on a best estimate basis for schemes where only issues such as clarification of scheme and employer data necessary to calculate levies are outstanding.

Similar considerations apply to risk-based and scheme-based levies in respect of specific schemes and the Entry Rules as have been described in respect of the Initial Levy, and may similarly only be resolved through binding legal processes. If these processes eventually conclude that the schemes involved are liable to pay protection levies, the Board estimates a further £13,255,000 will be receivable (£7,413,000 in respect of 2007/08 and £5,842,000 in respect of 2006/07 levy year); the Board is not aware of any material amounts that would be refundable should these processes conclude the schemes are ineligible. Again, specific arrangements have been made where necessary to allow legal processes to continue and to secure that the Board will receive interest on any amounts ultimately found to be payable.

Note 1.3 Interest on operating bank account

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

Note 1.4 Investment income

Investment income earned during the year consists of:

	Year ended 31 March 2008 £000s	Year ended 31 March 2007 £000s
Income arising from:		
UK Government Fixed Interest Stocks	6,824	4,443
UK Government Index Linked Stocks	495	1,083
Non UK Government Stocks	11,243	6
Corporate Bonds	2,874	362
Mortgage Backed Securities	3,994	73
UK Equity	3,834	–
Non UK Equity	1,071	–
Property	1,359	–
Deposit Interest	2,286	485
Other	(287)	229
Total investment income	33,693	6,681

Note 1.5 Change in fair value of investments

The total change in fair value of investments during the year consists of:

	Year ended 31 March 2008 £000s	Year ended 31 March 2007 £000s
Arising on:		
Asset classes further analysed in Note 1.10	84,780	(10,074)
Other investment assets	22,778	(3,237)
Total change in fair value of investments	107,558	(13,311)

Note 1.6 Investment expenses

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

Appendix 1 Notes to the accounts continued

Note 1.7 Gains/losses on actuarial liabilities

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

- a) in respect of liabilities transferred in in prior years, from the start of the year to the balance sheet date
- b) in respect of scheme liabilities transferring in during the year, from the schemes' Transfer Notice dates to the balance sheet date.

The causes of the changes in value are described in detail in the accompanying Actuarial Valuation report, and can be summarised as follows:

	Notes	Year ended 31 March 2008 £000s	Year ended 31 March 2007 £000s
Gain/(loss) arising from:			
Compensation amendments	i	(14,116)	–
Effect of discounting due to the passage of time		(26,011)	(803)
Changes in discount rates		(8,933)	(54,203)
Changes in compensation increase assumptions		(38,435)	–
Changes in mortality assumptions		–	(30,780)
Allowance for administration expenses	ii	(4,380)	–
Other actuarial gains and losses		(3,203)	80,352
Total net loss on actuarial liabilities		(95,078)	(5,434)

- i) The cost of Compensation Amendments refers to the impact on the valuation of differences in the application of early retirement factors by previous scheme trustees and administrators on benefit calculations in respect of schemes that completed the transfer process in the prior year, which the Board is required to correct.
- ii) With effect from 1 April 2008, the expenses of administering the records of beneficiaries of the Protection Fund, including maintaining the records of deferred beneficiaries and running a payroll for beneficiaries in receipt of compensation, are to be charged to the Protection Fund. In prior years, these expenses have been charged to the Board's Administration Fund. This change has been effected by the Pension Protection Fund (Prescribed Payments) Regulations 2008 (SI2008/664). The allowance made in the valuation represents the net present value of the estimated costs of administering the records of the population of beneficiaries included in the Actuarial Valuation of the Fund.

Note 1.8 Current year claims for compensation

The claims value recognised consists of the aggregate value, as at 31 March 2008, of provisions for schemes where eventual entry into the Fund is considered probable, and where reliable estimates can be made of the impact on the Fund, in accordance with the policies and processes set out in Note 1.1e, where the Board has reached the judgment in the current year that the schemes are likely to enter the Fund in the future. Also included are claims in respect of a further two schemes with net deficits totalling £221,000 relating to claims arising in the 2006/07 year, which were not provided for at 31 March 2007 because the schemes were then estimated to be in surplus at their Assessment Dates, but which completed the assessment process during 2007/08 and were found to be unable to meet their PPF liabilities at their Assessment Dates. The values of these two schemes assets and liabilities as at their Assessment Dates are therefore included as current year costs of claims.

New claims in respect of 107 schemes (or individual sections of schemes) (year to 31 March 2007: 90 schemes) are detailed below.

	Year ended 31 March 2008 £000s	Year ended 31 March 2007 £000s
Scheme assets	827,236	2,133,380
Asset recoveries	11,595	60,301
Protected liabilities	(1,187,904)	(2,635,801)
New claims recognised	(349,073)	(442,120)

These values include 3 schemes, with an aggregate net deficit of £25,170,000, relating to claims arising in the 2006/07 year which were not provided for at 31 March 2007 because the schemes were then estimated to be in surplus at their Assessment Dates. Updated estimates have led the Board to judge as at 31 March 2008 that provisions should now be created for these schemes.

Readers should refer to the Actuary's Supplementary Report as at 31 March 2008, in particular Annexes S6 and S7, for further detailed information on the calculation of these provisions.

Note 1.9 Revaluation of prior year claims

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

	Notes	Year ended 31 March 2008 £000s	Year ended 31 March 2007 £000s
Release of provisions no longer considered necessary		33,343	749
Revaluation of provisions brought forward from the previous year end	a	(210,653)	(133,987)
Changes in provisions for schemes transferring into the Fund during the year	b	(2,168)	51,050
Total revaluation of prior year claims		(179,478)	(82,188)

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

Of the 170 schemes (consisting of 207 individual scheme sections) for which provisions were made as at 31 March 2007, 26 schemes (consisting of a total of 30 scheme sections) were transferred into the Protection Fund during the year, while provisions in respect of a further 17 schemes have been released as they are no longer considered necessary. The Board considers that the remaining 127 schemes (consisting of 160 scheme sections) are still likely to enter the Fund in the future and has therefore retained the associated provisions, and revalued them to 31 March 2008. The revaluation impact can be analysed as follows:

	Year ended 31 March 2008 £000s	Year ended 31 March 2007 £000s
Changes in value of scheme assets	(118,287)	(77,960)
Changes in value of asset recoveries	(57,750)	(14,045)
Changes in value of scheme liabilities	(34,616)	(41,982)
Total changes in provisions for schemes remaining in assessment	(210,653)	(133,987)

b) Changes in provisions for schemes transferring into the Fund

During the year 28 schemes (consisting of a total of 32 scheme sections) transferred into the Protection Fund. Provisions had been created as at 31 March 2007 in respect of 30 of these sections. As noted in Note 1.8, 2 scheme sections completed the assessment process during the year and transferred into the Protection Fund

Appendix 1 Notes to the accounts continued

in respect of which no provision had been created as at 31 March 2007, and the net deficit of these two sections as at their assessment dates have been accounted for as current year costs of claims. These assets and liabilities changed in value up to their Transfer Notice dates (when they were incorporated into the assets and liabilities of the Fund); this change in value is made up as follows:

	Year ended 31 March 2008 £000s	Year ended 31 March 2007 £000s
Changes in value of scheme assets	(20,929)	(12,726)
Changes in value of asset recoveries	(3,515)	(8,758)
Changes in value of scheme liabilities	22,276	72,534
Total changes in provisions for schemes transferring into the Fund	(2,168)	51,050

Note 1.10 Investments

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

	Market value as at 1 April 2007 £000s	Asset transfers £000s	Purchases £000s	Sales £000s	Gain/(loss) £000s	Market value as at 31 March 2008 £000s
Investments						
UK Government Fixed Interest Stocks	146,748		611,922	(412,048)	4,256	350,878
UK Government Index Linked Stocks	12,612		58,781	(29,399)	4,562	46,556
Non UK Government Fixed Interest Stocks	205,109		523,269	(347,904)	17,615	398,089
Non UK Government Index Linked Stocks	2,308		5,069	(4,531)	442	3,288
Mortgage Backed Securities	37,046		764,895	(677,459)	(36,631)	87,851
UK Corporate Bonds	1,020		12,260	(7,175)	(561)	5,544
Non UK Corporate Bonds	3,074		47,060	(16,363)	25,663	59,434
Money Market Funds	180,881		–	(155,477)	(88)	25,316
Interest and Inflation Rate Swaps	(5,397)		–	(11,515)	109,708	92,796
Managed Funds	167,063	116,993	–	(167,063)	(130)	116,863
UK Equity	–		262,626	(109,482)	(15,041)	138,103
Non UK Equity	–		158,189	(100,445)	2,962	60,706
Insurance Policies	791	14,668	–	–	(155)	15,304
Property	–		62,942	(7)	(7,268)	55,667
Asset Backed Securities	–		67,174	(1,397)	(21,920)	43,857
Other	(114)	1	333,005	(331,841)	1,366	2,417
Total investments	751,141	131,662	2,907,192	(2,372,106)	84,780	1,502,669
Other investment assets						
Cash deposits (sterling and foreign)	7,277					49,084
Foreign exchange contracts	229					(7,272)
Income receivable	3,923					13,758
Amounts payable, net of amounts receivable, for outstanding settlements	(45,667)					(99,060)
Total other investment assets	(34,238)					(43,490)
Total market value	716,903					1,459,179

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

The cash flows for the Interest Rate Swaps, Inflation Rate Swaps and Money Markets are accounted for on a gross basis. The Board has decided to disclose the net cash flow for these instruments in Note 1.10 in order that the total purchase and sales activities of the Pension Protection Fund are not overstated.

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

	Value at 1 April 2007 £000s	Capital invested £000s	Investment return £000s	Value at 31 March 2008 £000s
Managed by:				
Insight Investment Management	81,277	307,954	129,473	518,704
PIMCO	121,865	136,800	17,023	275,688
Goldman Sachs Asset Management	118,417	136,900	12,751	268,068
Auriel Capital Management	–	8,000	(608)	7,392
Lazard Asset Management	–	75,749	(5,119)	70,630
Morley Fund Management	–	63,469	(6,092)	57,377
Newton Investment Management	–	68,804	575	69,379
State Street Global Advisors	–	65,697	(5,939)	59,758
Transition Account	395,344	(262,348)	(813)	132,183
Total	716,903	601,025	141,251	1,459,179

Investment return in this table includes investment income and changes in fair value of investments.

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

Note 1.11 Net current assets

a) Cash at Bank

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

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

Appendix 1 Notes to the accounts continued

b) Levy debtors

Levy debtors consist of:

	Notes	As at 31 March 2008 £000s	As at 31 March 2007 £000s
Invoiced debtors for 2007/08 and 2006/07 levies	i	198,078	70,580
Accrued 2007/08 and 2006/07 levies	ii	20,870	447
Invoiced debtors for 2005/06 levy (Initial)	iii	35	822
Total levy debtors		218,983	71,849

- i Invoiced debtors for both 2007/08 and 2006/07 levies consist of scheme-based and risk-based levies billed to qualifying pension schemes remaining unpaid at the accounting date. They are stated after allowing for provisions of £16,906,000 (£15,486,000 in respect of 2007/08, £1,420,000 in respect of 2006/07) (31 March 2007: £2,148,000 in respect of 2006/07) for bad debts and levies deemed to be uncollectable.
- ii Accrued levies for both 2007/08 and 2006/07 represent the estimated value of scheme-based and risk-based levies due from eligible pension schemes not yet billed as at the accounting date.
- iii Initial Levy debtors represent levies billed to qualifying pension schemes remaining unpaid at the accounting date.

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

c) Transfer-in debtors

These debtors consist of:

	Notes	As at 31 March 2008 £000s	As at 31 March 2007 £000s
Assets receivable from schemes in respect of which Transfer Notices were issued during the year	i	12,871	8,006
Asset recoveries	ii	16,240	15,089
Total		29,111	23,095

- i All the assets receivable from schemes in respect of which Transfer Notices were issued during the year were received in the immediate post year-end period.
- ii Asset recoveries represent the best estimate of the value of debts and other assets recoverable from the previous sponsoring employers of schemes which have now transferred into the Pension Protection Fund. These assets arise under the operation of Section 75 of the Pensions Act 1995 and associated regulations, and the rights of recovery of these debts and other assets transferred to the Board when the schemes transferred in to the Pension Protection Fund. However, only assets which are virtually certain of recovery are accounted for here as debtors. The Board is aware of further debts arising in the same way where the Board judges that recoverability is less than virtually certain. The Board believes that these situations may only be resolved through binding legal or similar processes and may take considerable time to conclude. If these processes eventually conclude that the assets involved are recoverable, the Board estimates a further £5,738,000 (31 March 2007: £5,408,000) will be recovered.

d) Other current assets

Other current assets consisted of:

	Notes	As at 31 March 2008 £000s	As at 31 March 2007 £000s
Money purchase assets awaiting discharge		438	2,066
Prepayments of compensation	i	–	468
Total other current assets		438	2,534

i Prepayment of compensation represented the compensation payroll paid on 30 March 2007, in advance of the due date of 1 April 2007, which was not a banking day.

e) Current liabilities

Current liabilities consist of:

		As at 31 March 2008 £000s	As at 31 March 2007 £000s
Money purchase benefits payable		438	2,066
Levy refunds due		1,049	2,394
Compensation payments due		–	795
Accruals and other creditors		1,088	473
Total current liabilities		2,575	5,728

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

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

Note 1.12 Non-current liabilities

a) Actuarial liabilities

During the year to 31 March 2008, the Pension Protection Fund accepted 28 schemes (consisting of a total of 32 scheme sections) in to the Protection Fund, to add to the 9 schemes which were accepted in the previous year. The value of actuarial liabilities disclosed here is the aggregate value of the actuarial liabilities for the members of all these schemes, now beneficiaries of the Protection Fund, revalued to 31 March 2008. It can be analysed as follows:

	As at 31 March 2008 £000s	Year ended 31 March 2007 £000s
Opening value of actuarial liabilities	536,166	–
Actuarial liabilities at dates of Transfer	266,361	532,134
Actuarial losses (see Note 1.7)	95,078	5,434
Benefits paid since transfer	(17,313)	(1,402)
Total actuarial liabilities	880,292	536,166

Appendix 1 Notes to the accounts continued

b) Provisions for claims on the Pension Protection Fund

As at 31 March 2008, the Pension Protection Fund recognises provisions in respect of 263 pension schemes or individual sections of pension schemes (31 March 2007: 170 schemes, consisting of 207 scheme sections) where the Board considers that eventual entry into the Fund is probable (as defined in Note 1.1e(ii)), and where reliable estimates of the difference between those schemes' protected liabilities and assets (including any recoveries from insolvent employers) can be made (as defined in Note 1.1e(iv) to (vi)). The total value of provisions also includes an amount of £5,779,000 to provide for an estimated number of 3 claims incurred but not reported (IBNR reserve) following a review of statistical information on the reporting of insolvency events to the Board by insolvency practitioners.

Notes 1.8 and 1.9 give further detail of how the values in the table below were arrived at.

The aggregate value of provisions can be analysed as follows:

	Year ended 31 March 2008 £000s	Year ended 31 March 2007 £000s
Claims provisions at 31 March 2007	908,493	484,511
Release of provisions for schemes transferring into the Protection Fund	(79,507)	(151,376)
Release of provisions for schemes no longer considered probable for entry	(33,343)	(749)
Revaluation of remaining provisions (see Note 1.9a)	210,653	133,987
Provision for new claims arising in the year and remaining outstanding at year end	348,852	442,120
Total claims provisions at 31 March 2008	1,355,148	908,493

Note 1.13 Contingent assets and contingent liabilities

As described in Note 1.2, the Pension Protection Fund discloses contingent assets of £17,653,000 (31 March 2007: £10,240,000) relating to initial and protection levies which may be due from pension schemes depending on the outcome of the consideration of their eligibility for pension protection and hence their liability to pay protection levies.

As further described in Note 1.11c(ii), the Pension Protection Fund also discloses contingent assets of £5,738,000 (31 March 2007: £5,408,000) relating to assets which may be recoverable from the previous sponsoring employers of schemes which have transferred into the Pension Protection Fund.

As at 31 March 2008, the Pension Protection Fund discloses contingent liabilities in respect of 80 schemes, valued at £735,261,000 (31 March 2007: 94 schemes valued at £201,081,000) where the Board considers that eventual entry into the Fund is possible (that is, the likelihood of entry is less than probable, but higher than remote). The Actuary's Supplementary Report as at 31 March 2008 included in the Annual Report and Accounts classifies these contingent liabilities into four types and readers should refer to the Supplementary Report, in particular Annex S2, for definitions and further detail of these contingent liabilities types.

Type of contingent liability	Assets £000s	Liabilities £000s	Net deficit £000s
1	2,703	5,639	2,936
2	4,941	5,666	725
3	579,063	643,674	64,611
4	1,269,378	1,723,540	454,162
Sub total for specific schemes	1,856,085	2,378,519	522,434
5 (see note below)	n/a	212,827	212,827
Total	1,856,085	2,591,346	735,261

Type 5 contingent liabilities – equalisation of compensation

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. The Board has received legal advice that, in meeting this requirement, it must take into account any differences in scheme benefits that have arisen due to differences in the calculation of Guaranteed Minimum Pensions (GMPs) due to gender. The Board issued a consultation document earlier this year on this requirement. This addressed both its own responsibilities for schemes that have already transferred in to the PPF and the responsibilities of trustees of pension schemes in a PPF assessment period to consider the issue of gender inequalities in compensation/benefit calculations. The consultation period closed on 28 July 2008.

As at the date of signing these accounts, the Board has not yet concluded its response to that consultation, nor yet determined how to advise trustees of schemes in assessment to deal with equalising compensation to allow for differences in the GMP formula in actuarial valuations produced in the assessment period, nor finalised any policy for implementing equalisation of compensation for members whose schemes have already entered the PPF. The Board has received from Mercer, a firm of actuarial consultants, a broad estimate of the costs of equalising compensation to allow for differences in the GMP formula for UK pension schemes as a whole in line with the Board's proposed equalisation solution, but the Board is not yet in a position to determine the costs of the additional liability associated with compensation equalisation with sufficient confidence to establish any provision within its financial statements. This broad estimate translates approximately to 2.5% of gross compensation liabilities.

The Board therefore discloses a contingent liability of £212,827,000 as the additional liability to the PPF, and to schemes in PPF assessment periods judged likely to enter the PPF eventually, for compensation equalisation. No equivalent contingent liability was disclosed in prior years.

Note 1.14 Financial Instruments

FRS 13, Derivatives and Other Financial Instruments, requires disclosure of the role which financial instruments have had during the year in creating or changing the risks an entity faces in undertaking its activities. Because of the non-trading nature of the Protection Fund's activities and the way it is financed, the Fund is not exposed in this area to the same financial risks faced by business entities.

Funding risk – The Fund's Statement of Investment Principles (www.pensionprotectionfund.org.uk/sip2006.pdf) describes the major risk facing the Fund as not having sufficient funds to pay compensation as required under the Pensions Act 2004. The Board's primary objective is to achieve a balance between protecting and securing the compensation payments for actual and potential members of schemes that come into the Fund whilst setting a fair and proportionate levy. The Fund's funding strategy is designed to mitigate the risks, both in the

Appendix 1 Notes to the accounts continued

short- and the long-term, that the Fund's assets will be inadequate to meet its liabilities. The Fund's investment strategy is described in detail in the Investment Report in Section 3.3.3.2 of the Annual Report, together with a commentary on the implementation of this strategy and the investment performance achieved during the year. The report describes the role played by derivatives and financial instruments of other asset classes (equities, bonds, property funds and currency funds) in the Fund's investment strategy.

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

Cash inflows from the collection of Protection Levies will significantly exceed outflows on compensation payments for the foreseeable future; and

The assets of the Fund, including its investment assets, are mostly readily realisable.

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

Interest-bearing assets and derivatives that closely match the liability sensitivities to nominal and real interest rates. A swap overlay is applied to minimise the Fund's exposure to interest rate or inflation risk.

Assets expected to generate additional returns, avoiding unrewarded risks wherever possible.

The Annual Report (in Section 3.3.3.2) includes a description of the approved ranges for the permitted classes of financial instruments.

Foreign currency risk – The Fund's liabilities are entirely designated in sterling, and investment in assets denominated in currencies other than sterling is permitted only on condition that the foreign currency exposure is hedged to sterling.

Appendix 1

Actuarial Valuation of the Pension Protection Fund

To: The Board of the Pension Protection Fund
From: Stephen Rice, Appointed Actuary

The actuarial valuation of the Pension Protection Fund as at 31 March 2008

1. Introduction

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

This is the third actuarial valuation of the Pension Protection Fund. The effective date of this valuation is 31 March 2008 which coincides with the end of the Fund's third financial period. The previous report on the actuarial valuation as at 31 March 2007 was dated 17 October 2007.

At its meeting on 26 April 2006 the Board appointed me to prepare the annual actuarial valuations of the assets and liabilities of the Pension Protection Fund. Accordingly I am addressing this report on the valuation as at 31 March 2008 to the Board. As required by paragraph 22(5) of Schedule 5 to the Pensions Act 2004, the Board will be sending a copy of this report, as part of the statement of accounts, to the Secretary of State and also to the Comptroller and Auditor General. No party, apart from the Board, the Secretary of State and the Comptroller and Auditor General, should rely on any part of this report.

This report does not contain advice on the funding of compensation payable from the Pension Protection Fund.

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

2. Data

In respect of former members of schemes for which the Board assumed responsibility on or before 31 March 2008, individual member data was obtained from Capita (the administrators). I have carried out some overall checks on this data to ensure that it is consistent with the data summaries produced as part of the Section 143 (entry) valuation reports and that used in the actuarial valuation at 31 March 2007. A summary of the data as at 31 March 2008 is as follows:

Deferred pensioners

	Number	Average age	Total accrued pension revalued to 31 March 2007 (uncapped) £000s pa
Sex			
Male	7,235	46	36,401
Female	1,342	45	3,461
Total	8,577	46	39,862

Appendix 1 Actuarial Valuation of the Pension Protection Fund continued

Pensioners

	Sex	Number	Average age	Total compensation at 31 March 2008 (capped where applicable) £000s pa
Status				
Members	Male	2,686	63	14,224
	Female	457	68	967
Dependants (excluding children)	Male	28	66	87
	Female	386	72	1,212
Children	Male	16	13	33
	Female	23	16	52
Total		3,596	64	16,575

A person who is in receipt of compensation in respect of one tranche of compensation and entitled to compensation beginning after 31 March 2008 in respect of another tranche of pension is included in both tables.

3. Compensation

The compensation in respect of former members of schemes for which the Board assumed responsibility on or before 31 March 2008 has been determined in accordance with the provisions of Schedule 7 to the Pensions Act 2004 and consequent regulations. A summary of the compensation provisions is shown in Annex M1.

4. Method

In respect of each former member of schemes for which the Board assumed responsibility on or before 31 March 2008, the expected compensation cash flows for each future year are estimated. In estimating each yearly compensation cash flow for each former member, account is taken of the initial amount of compensation or accrued pension, mortality, the Normal Pension Age (NPA) for deferred members, compensation increases and the probability of survivors' compensation being paid.

The resulting yearly compensation cash flows are discounted back to a present value at the valuation date, 31 March 2008, and summed to obtain the actuarial present value of each former member's liability.

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

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

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

5. Assumptions

In order to estimate future compensation cash flows, it is necessary to make assumptions about the demographics (including future mortality) of the former members of schemes for which the Board assumed responsibility on or before 31 March 2008.

In order to determine the present value of the liabilities in respect of the estimated future compensation cash flows five financial assumptions are made:

- discount rate in deferment (net of revaluation increases in deferment – see Annex M2 for a description of these increases),
- discount rate in payment for non-increasing compensation for current pensioners,
- discount rate in payment for non-increasing compensation for future pensioners,
- discount rate in payment for increasing compensation for current pensioners (net of increases in payment – see Annex M2 for a description of these increases),
- discount rate in payment for increasing compensation for future pensioners (net of increases in payment – see Annex M2 for a description of these increases).

These financial assumptions are derived from zero-coupon swap yield curves. Zero-coupon swaps:

- can be used to match estimated compensation cash-flows with precision, and
- are issued by investment banks where, in the context of full collateralisation, the risk and impact of default is small.

Given this minimal default risk, no reduction to these yields is considered necessary. Also this approach takes no credit in advance for any possible outperformance that may be achieved by the actual assets held in the Pension Protection Fund.

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

I have also carried out a sensitivity analysis in which the effect on the assets and liabilities is shown by changes in certain key assumptions. The results of this analysis may be seen in the supplementary report which I have prepared concerning the provisions of the Pension Protection Fund as at 31 March 2008.

6. Value of assets

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

I have adopted the value of the assets of the Fund as stated in the relevant accounts prepared by the Board for the financial period ending on 31 March 2008. I have not adopted either of the adjustments made available by regulations 4 and 5.

Accordingly I have taken the value of the assets of the Pension Protection Fund as at 31 March 2008 as £1,719,032,000. This includes £438,000 in respect of AVC assets that match AVC liabilities yet to be discharged.

This compares with £841,242,000 as at 31 March 2007.

Appendix 1

Actuarial Valuation of the Pension Protection Fund continued

7 Value of liabilities

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

- the liabilities of the Pension Protection Fund shall be any sums or properties falling to be paid or transferred out of the Fund required to meet liabilities listed in Section 173(3) of the Pensions Act 2004; and
- the value of a liability shall be the present value of that liability at the valuation date.

The actuarial liabilities in respect of former members of schemes for which the Board assumed responsibility on or before 31 March 2008, on the assumptions described in Section 5 and Annex M2, are summarised in the table below:

	£000s
Type of member	
Deferred pensioners	612,712
Pensioners	263,200
Total	875,912

I have also included an allowance of £4,380,000 in respect of certain administration expenses that are met from the Pension Protection Fund. There was no corresponding allowance as at 31 March 2007 as prior to 1 April 2008, these expenses were met from the Administration Levy.

Additionally, according to the relevant accounts prepared by the Board for the financial period ending on 31 March 2008 a sum of £438,000 was required, as at 31 March 2008, to meet other liabilities listed in Section 173(3) of the Pensions Act 2004 (e.g. in respect of AVC assets that match AVC liabilities yet to be discharged).

Accordingly I have taken the value of the liabilities of the PPF as at 31 March 2008 as £880,730,000.

This compares with £541,894,000 as at 31 March 2007.

A reconciliation between the actuarial liabilities (i.e. the liabilities in respect of former members of schemes for which the Board has assumed responsibility – this excludes the current liabilities) as at 31 March 2008 and those disclosed as at 31 March 2007 (£536,166,000) is as follows:

	£000s
Actuarial liabilities at the start of the year (31 March 2007)	536,166
Liabilities for schemes entering the PPF during the year to 31 March 2008 (measured at their transfer dates)	266,361
Compensation amendments	14,116
Effect of passage of time on discounting	26,011
Actuarial (gain)/loss due to changes in discount rates	8,933
Actuarial (gain)/loss due to compensation increase assumptions changes	38,435
Actuarial (gain)/loss due to data changes and experience being different from what was assumed	3,203
Compensation paid	(17,313)
Change in expense allowance	4,380
Actuarial liabilities at the end of the year (31 March 2008)	880,292

8. Conclusion

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

	£000s
Assets	
The value of the Pension Protection Fund assets determined in accordance with the Pension Protection Fund (Valuation of the Assets and Liabilities of the Pension Protection Fund) Regulations 2006	1,719,032
Total assets	1,719,032
Liabilities	
The actuarial liabilities in respect of former members of schemes for which the Board assumed responsibility on or before 31 March 2008	875,912
Allowance for certain expenses that are met from the Pension Protection Fund	4,380
The remaining liabilities under Regulation 3 of the Pension Protection Fund (Valuation of the Assets and Liabilities of the Pension Protection Fund) Regulations 2006	438
Total liabilities	880,730
Surplus/(deficit) – before provisions	838,302
Assets/liabilities – before provisions	195%

In respect of the Pension Protection Fund as at 31 March 2008, the value of the assets was £1,719,032,000 and the value of the liabilities (including those in respect of former members of schemes for which the Board assumed responsibility on or before 31 March 2008) was £880,730,000.

The surplus of £838,302,000 in the Pension Protection Fund as at 31 March 2008 needs to be understood in the context of additional pension schemes that had entered into an assessment period, as defined in Section 132 of the Pensions Act 2004, with effect from a date on or before 31 March 2008. Therefore, in addition to this formal report on the assets and liabilities, I have estimated provisions in respect of the assets, potential recoveries and liabilities of those schemes which, in the Board's judgement, are likely to be transferred into the Pension Protection Fund. These provisions will be shown in the statement of accounts being prepared by the Board for the financial period ending on 31 March 2008.

I have also estimated contingent liabilities as at 31 March 2008, including those in respect of other pension schemes which, in the Board's judgement, are likely to be transferred into the Pension Protection Fund in the near future. These contingent liabilities will be disclosed in footnotes to the statement of accounts prepared by the Board for the financial period ending on 31 March 2008.



Stephen Rice

Appointed Actuary
3 October 2008
Chief Actuary
Fellow of the Institute of Actuaries
The Board of the Pension Protection Fund

Appendix 1 continued

Annex M1

Summary of compensation provided by the Pension Protection Fund

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

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

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

The part of this compensation that is derived from pensionable service on or after 6 April 1997 will be increased each year in line with the increase in the Retail Prices Index capped at 2.5%.

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

In broad terms and in normal circumstances, this means 90% of the pension an individual had accrued immediately before the assessment date (subject to a review of the rules of the scheme by the Board) plus revaluation in line with the increase in the Retail Prices Index between the assessment date and the commencement of compensation payments (subject to a maximum increase for the whole period calculated by assuming RPI rose by 5% each year). This compensation is subject to an overall cap, which as at 31 March 2008 equates to £30,856.35 at age 65 (the cap is adjusted according to the age at which compensation comes into payment).

Once compensation is in payment, the part that derives from pensionable service on or after 6 April 1997 will be increased each year in line with the increase in the Retail Prices Index capped at 2.5%.

In addition there is also compensation for certain survivors.

Under the Pensions Act 2004, the Board has a duty to pay compensation on a basis that is no more or less favourable to a woman (or man) than it would be to a comparable man (or woman) in respect of pensionable service on or after 17 May 1990. The Board has received legal advice that, in meeting this requirement, it must take into account any differences in scheme benefits that have arisen due to differences in the calculation of Guaranteed Minimum Pensions (GMPs) due to gender. The Board issued a consultation document earlier this year on this requirement. This addressed both its own responsibilities for schemes that have already transferred in to the PPF and the responsibilities of trustees of pension schemes in a PPF assessment period to consider the issue of gender inequalities in compensation/benefit calculations. The consultation period closed on 28 July 2008.

As at the date of signing these accounts, the Board has not yet concluded its response to that consultation, nor yet determined how to advise trustees of schemes in assessment to deal with GMP equalisation in actuarial valuations produced in the assessment period, nor finalised any policy for implementing equalisation of compensation for members whose schemes have already entered the PPF. In this context it is not possible to estimate with any precision the additional liabilities that will arise on account of equalising compensation for unequal GMPs and this report consequently includes no such estimate in the total liabilities. A contingent liability is, however, disclosed in footnotes to the statement of accounts prepared by the Board for the financial period ending on 31 March 2008.

The Board has the power to alter the amount of the levy that it collects to meet its liabilities. Additionally the Board;

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

Annex M2

Assumptions

a) Discount rates

I consider that assets that consist of cash plus zero-coupon swaps provide the best match to the Pension Protection Fund liability cash flows. In my opinion, the Pension Protection Fund's Statement of Investment Principles is consistent with this principle, albeit that some extra investment risk is taken in the expectation of outperformance.

I have therefore decided that zero-coupon swap yields should be used to derive the five discount rates required to value the liabilities. The objective was to derive five level discount rates that result in the valuation of members' compensation (with attaching survivors' compensation) broadly equal to the value obtained by using the zero coupon swap curve, the RPI swap curve and the LPI (0, 2.5%) swap curve as at 31 March 2008 to determine and discount future compensation payments.

In carrying out the comparison of the value of liabilities to determine the level discount rates, account was taken of:

- the average age of pensioners and deferred pensioners entitled to non-increasing compensation;
- the average age of pensioners and deferred pensioners entitled to increasing compensation;
- for deferred pensioners, the number of years between their average age and normal pension age.

The net discount rates (described in Section 5) determined by these comparison calculations are set out in the following table:

Net discount rate	% p.a.
In deferment	0.9%
In payment for non-increasing compensation for current pensioners	4.8%
In payment for non-increasing compensation for deferred pensioners	4.5%
In payment for increasing compensation for current pensioners	2.4%
In payment for increasing compensation for deferred pensioners	2.0%

For the pensioner calculation in respect of non-increasing compensation, the value of an immediate annuity (including allowance for survivor's compensation) was calculated by discounting each payment by the swap rate for the term at which the payment was due. The level discount rate was then determined as that which would give the immediate annuity rate equal to the swap rate annuity value.

For increasing compensation, the level of increases to apply in each future year was determined using the LPI (0, 2.5%) swap curve and the amount of each future payment calculated. These payments were then discounted at the swap rate for the term at which the payment was due. As for the non-increasing compensation, the net discount rate was then determined such that it would give an annuity value equal to that calculated using the swap yields.

Appendix 1 continued

For the deferred pensioners, the rate of revaluation prior to retirement was determined from the RPI swap curve for the term to normal pension age. For the non-increasing compensation, the payments were then discounted at the swap rate for the term at which the payment was due to calculate the swap rate deferred annuity. The level discount rate in payment and the level pre-retirement gross discount rate are equal as they both relate to payments made at the same term. The discount rate is that which results in a deferred annuity value (allowing for the assumed rate of RPI for revaluation in deferment) equal to the swap rate deferred annuity.

For the increasing compensation, the LPI (0, 2.5%) swap curve is used to determine the level of increase that will apply in payment. The payments were then discounted at the swap rate for the term at which the payment was due, to calculate the swap rate deferred annuity. The level gross discount rate was taken to be equal to that determined for non-increasing compensation and the level net discount rate in payment calculated to give a deferred annuity rate equal to the swap rate deferred annuity.

b) Mortality

The assumption for mortality is dependent on the amount of a member's compensation and includes an allowance for future expected improvements in longevity.

→ Current mortality

As for the previous valuation as at 31 March 2007, the standard table PCMA00/PCFA00 appropriate to each individual member's year of birth was used and adjusted as follows based on the amount of the member's compensation (or the dependant's compensation, where that was in payment as at 31 March 2008).

	Males PCMA00 with age rating	Females PCFA00 with age rating
Compensation at the valuation date relative to the compensation cap applicable at age 65		
Less than 25% of the compensation cap	+ 3 years	+ 1 year
Between 25% and 50% of the compensation cap	+ 1 year	- 1 year
More than 50% of the compensation cap	- 3 years	- 5 years

This standard table has been issued by the Continuous Mortality Investigation (CMI) of the UK Actuarial Profession.

At this early stage in the establishment of the Pension Protection Fund the fund has yet to accumulate its own mortality experience to assist in the setting of the mortality assumptions. The assumptions above have therefore been set prudently having regard to the recent Self-Administered Pension Schemes mortality survey conducted by the Continuous Mortality Investigation of the UK Actuarial Profession.

→ Allowance for improvements

For the valuation as at 31 March 2007, I adopted the long-cohort projection in addition to the levels of future improvement already contained in the PMA92/PFA92 tables published by the CMI. The long-cohort projection assumes that additional amounts of improvement experienced in the 1980s by those born around 1926 will continue for a period, tailing off to zero additional improvement by 2040.

I additionally considered it appropriate, for the valuation as at 31 March 2007, to underpin the rate of each future year's mortality improvements. I decided to underpin the male improvement rate by 1.5% per annum and the female improvement rate by 1.0% per annum.

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

Actual overall annual rates of mortality improvements

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

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

In the light of the evidence in this table regarding the rate of mortality improvements as well as the indications from statistical projections of future mortality, I have decided to retain the same assumptions for the valuation as at 31 March 2008.

I recognise that there is an element of subjectivity about mortality assumptions and that different actuaries will come to different conclusions. The appropriate mortality assumption for future valuations will be kept under review.

The following table illustrates the life expectancy of pensioners aged 65 on 31 March 2008 (based on the mortality assumptions being used for this valuation).

	Life expectancy (years)	
	Males	Females
Amount of compensation at valuation date		
Less than 25% of the compensation cap	21.2	25.1
Between 25% and 50% of the compensation cap	23.1	27.1
More than 50% of the compensation cap	27.0	31.0

The following table illustrates the life expectancy at age 65 of deferred pensioners aged 40 on 31 March 2008 (based on the mortality assumptions being used for this valuation).

	Life expectancy (years)	
	Males	Females
Amount of compensation at valuation date		
Less than 25% of the compensation cap	24.9	27.5
Between 25% and 50% of the compensation cap	26.9	29.5
More than 50% of the compensation cap	31.1	33.7

c) Proportion married

For pensioners:

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

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

Appendix 1 continued

For deferred pensioners:

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

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

d) Age difference between member and dependant

Females assumed to be 3 years younger than males.

e) Children's pensions

No specific additional allowance is included for prospective children's pensions. Children's pensions already in payment are assumed to cease at age 18 or age 23 in accordance with the compensation entitlement.

f) Administration expenses

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

An allowance equal to 0.5% of the value of the liabilities in respect of former members of schemes that have transferred into the Pension Protection Fund before 1 April 2008 has been made in respect of the future cost of administration for these members. This has been derived from a calculation of the present value of the expected future expenses that will be incurred in respect of these members. This calculation was based on the administration expenses actually being incurred by the Administration Fund towards the end of the 2007/08 financial year.

Appendix 1

Actuary's Supplementary Report as at 31 March 2008

To: The Board of the Pension Protection Fund

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

Actuarial liabilities, provisions and contingent liabilities of the Pension Protection Fund as at 31 March 2008

1. Introduction

The Board of the Pension Protection Fund ("the Board") is required by paragraph 22 of Schedule 5 to the Pensions Act 2004 to prepare a statement of accounts in respect of each financial year. Each statement of accounts must contain an actuarial valuation of the assets and liabilities of the Pension Protection Fund. This actuarial valuation is set out in my report to the Board dated 3 October 2008.

The statement of accounts also contains provisions and discloses contingent liabilities that require actuarial estimation. This report contains these estimates. It also contains actuarial balance sheets for the Pension Protection Fund showing actuarial liabilities and provisions in comparison with the corresponding assets. The Board is responsible for the accounting policies, and this report has been prepared within the framework which it has determined.

This report does not contain advice on the funding of compensation payable from the Pension Protection Fund.

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

2. Provisions

Under Financial Reporting Standard 12 (FRS 12) of the UK Accounting Standards Board, a provision should be recognised when:

- an entity has a present obligation (legal or constructive) as a result of a past event;
- it is probable that a transfer of economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

The application of this requirement in the accounting standard to the Board's statement of accounts as at 31 March 2008 is set out in Annex S1.

3. Contingent liabilities

Under FRS 12, a contingent liability is not recognised as a liability because it is either:

- a possible obligation (it has not yet been confirmed whether there is an obligation that could lead to a transfer of economic benefits); or
- a present obligation that does not meet the recognition criteria in FRS 12 (i.e. it is not probable that a transfer of economic benefits will be required to settle the obligation, or a sufficiently reliable estimate of the amount of the obligation cannot be made).

A contingent liability should, however, be disclosed if the possibility of an outflow of economic benefit to settle an obligation is more than remote. The application of this requirement in the accounting standard to the Board's statement of accounts for the financial period ending on 31 March 2008 is set out in Annex S2.

Appendix 1

Actuary's Supplementary Report as at 31 March 2008 continued

4. Data

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

5. Compensation provided by the Pension Protection Fund

The compensation provided by the Pension Protection Fund is summarised in Annex M1 of my report to the Board dated 3 October 2008.

6. Assumptions

Calculations of actuarial liabilities, provisions and contingent liabilities are performed using a single set of assumptions. The assumptions used to calculate the actuarial liabilities are set out in full in my report to the Board dated 3 October 2008.

Some different assumptions are made from these in order to calculate the provisions and contingent liabilities as at 31 March 2008. The differences are shown in Annex S4.

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

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

www.pensionprotectionfund.org.uk/index/other_guidance/valuation_guidance.htm

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

a) Actuarial liabilities

The method of calculating the actuarial liabilities is set out in my report to the Board dated 3 October 2008.

b) Provisions

The method of calculating the provisions varied according to the data that the Board was holding about the scheme as at 1 June 2008.

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

www.pensionprotectionfund.org.uk/determination_appendix_1_-_feb_2008.pdf

→ If the Board was not in possession of a Section 143 or a Section 179 valuation, but did have a Minimum Funding Requirement (MFR) valuation, then the MFR valuation was initially transformed to a Section 179 valuation (guidance version G3/A3) at the MFR valuation date using a methodology consistent with that available in the Pension Protection Levy section of the Pension Protection Fund website at:

www.pensionprotectionfund.org.uk/mfr_methodology_mar07.pdf

The resulting Section 179 valuation was then rolled forward to 31 March 2008 using the methodology described in the previous bullet.

→ If the Board was not in possession of any scheme valuation report then that scheme's provision was estimated as the median provision for schemes where data was available.

Updated asset value information (as at 31 March 2008) and cash flow information for the period from the latest Section 143, Section 179 or MFR valuation (as appropriate) up until 31 March 2008 was sought from certain schemes classified as 'material schemes'. Material schemes are schemes where:

- i) the scheme satisfied the definition of a provision as set out in Annex S1; and
- ii) one of the following applied:
 - 1. Where an MFR valuation was used as the basis of the roll-forward and the MFR liabilities at the MFR valuation date were at least £15 million; or
 - 2. Where a Section 179 (or Section 143) valuation was used as the basis of the roll-forward and the Section 179 (or Section 143) liabilities at the Section 179 (or Section 143) valuation date were at least £25 million

In aggregate at least 65% of the total liabilities for the schemes which generate the provisions at 31 March 2008 are treated as material (under test 1 or 2 above).

Where cash flow information was forthcoming from these schemes, this information was used to provide a more precise estimate of the scheme assets and liabilities as at 31 March 2008 than was available solely using the roll-forward methodology. In addition, where a material scheme provided an updated asset value at 31 March 2008 this was used in lieu of a roll-forward asset value. Some schemes provided an updated asset value at a date other than 31 March 2008 and this was used if it was felt it would increase precision.

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

c) Contingent liabilities

The method adopted for contingent liabilities was identical to that for provisions where the Board was in possession of a Section 179 valuation, except that neither cash flow information nor an updated asset value as at 31 March 2008 were sought. Where only an MFR valuation was available the methodology consistent with the determination to be used for the financial year 1 April 2008 to 31 March 2009 was used.

8. Results of the calculations

The results of the calculations of the actuarial liabilities, provisions and contingent liabilities are set out in annex S6. We also show the results as at 31 March 2007 using the assumptions set out in the Report and Accounts as at 31 March 2007.

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

Appendix 1

Actuary's Supplementary Report as at 31 March 2008 continued

9. Actuarial balance sheets

Annex S7 sets out the actuarial balance sheets for the Pension Protection Fund as at 31 March 2008, including the liabilities of the schemes forming the provisions. For this purpose the liabilities are taken to be:

- a) the present value of the liabilities of the Pension Protection Fund to pay sums or transfer property, as required under Section 173(3) of the Pensions Act 2004. This includes the liabilities in respect of compensation to members of schemes for which the Board has assumed responsibility. The total value is taken as £880,730,000, the same figure as was used in my actuarial valuation report of 3 October 2008; and
- b) my estimate of the present value of the liabilities of the schemes forming the provisions, as set out in annex S6 of this report, which amount to £5,190,131,000.

Accordingly I have taken the liabilities of the Pension Protection Fund as at 31 March 2008 as £6,070,861,000.

In the actuarial balance sheets for the Pension Protection Fund as at 31 March 2008, the assets are:

- a) the value of the Pension Protection Fund assets determined in accordance with regulations 2, 4 and 5 of the Pension Protection Fund (Valuation of the Assets and Liabilities of the Pension Protection Fund) Regulations 2006 (SI 2006/597); this value is taken as £1,719,032,000, the same figure as was used in my actuarial valuation report of 3 October 2008; 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 (£34,684,000); this figure amounts to £3,834,983,000.

Accordingly I have taken the value of the assets of the Pension Protection Fund as at 31 March 2008 as £5,554,015,000.

10. Reconciliation of the change in the deficit

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



Stephen Rice

Appointed Actuary
3 October 2008
Chief Actuary
Fellow of the Institute of Actuaries
The Board of the Pension Protection Fund

Appendix 1 continued

Annex S1

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

The statement of accounts as at 31 March 2008 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 15 May 2008,
- the Board had not stated on or before 15 May 2008 that the insolvency event was not a qualifying insolvency event,
- the insolvency date was on or before 31 March 2008,
- a withdrawal notice under Section 122(2)(b) of the Pensions Act 2004 had not been received on or before 15 May 2008 (and, in the Board's judgement, is unlikely to be received) from the insolvency practitioner, and
- as at the insolvency date, the value of the assets was, in the Board's judgement (if the scheme had not yet transferred to the PPF), likely to have been less than the amount of the protected liabilities as defined in Section 131 of the Pensions Act 2004 (determined on the Section 179 basis as at the insolvency date).

Additionally, an allowance for insolvency events that occurred on or before 31 March 2008 that have yet to be reported has also been made. This takes the form of an 'IBNR reserve' (Incurred But Not Reported reserve) which is determined by estimating the number of schemes where a claim has been incurred but not reported. This is calculated as a percentage addition to the number of schemes which have been reported and included as provisions. This percentage has been determined from an analysis of the average time lag between solvency event occurrence and notification of such an event to the Board (via a Section 120 notice) with consideration of the proportion of events resulting in a claim, as shown in the following table:

Number of months between insolvency event and Board receipt of Section 120 notice	Cumulative proportion of notifications received by each point in time
0	79%
1	88%
2	93%
6	95%
9	97%
12	98%
18	98%
24	99%
30	100%

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

Additionally, we have monitored the movement of the deficit in respect of schemes forming the provisions from 15 May 2008 to 31 August 2008 and note that the observed changes were not of sufficient materiality to necessitate the updating of this valuation.

Appendix 1 continued

Annex S2

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

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

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

- an insolvency event notice under Section 120 of the Pensions Act 2004 had been received by the Board from an insolvency practitioner on or before 15 May 2008,
- the Board had stated on or before 31 May 2008 that the insolvency event was a qualifying insolvency event,
- the insolvency date was on or after 1 April 2008,
- a withdrawal notice under Section 122(2)(b) of the Pensions Act 2004 had not been received on or before 31 May 2008 (and, in the Board's judgement, is unlikely to be received) from the insolvency practitioner, and
- as at the insolvency date, the value of the assets was, in the Board's judgement, likely to have been less than the amount of the protected liabilities as defined in Section 131 of the Pensions Act 2004.

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

- an insolvency event notice under Section 120 of the Pensions Act 2004 was received by the Board from an insolvency practitioner on or before 31 May 2008,
- the Board had stated on or before 31 May 2008 that the insolvency event was NOT a qualifying insolvency event,
- in the Board's judgement, a subsequent insolvency event, which will be a qualifying insolvency event, is likely, and
- as at 31 March 2008, the value of the assets was, in the Board's judgement, likely to have been less than the amount of the protected liabilities, as defined in Section 131 of the Pensions Act 2004.

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

- in the Board's judgement, as at 31 May 2008, no insolvency event has taken place, but the Board is nonetheless expecting to receive an insolvency event notice under Section 120 of the Pensions Act 2004 from an insolvency practitioner in the future, and
- the Board has sufficient data about the scheme to be able to make an estimate of a contingent liability.

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

- the Dun & Bradstreet failure scores are available to the Board and, based on the data available as at 31 May 2008, the score corresponding to the weighted insolvency probability of the scheme's participating employers was less than 10, and
- the Board in its view had sufficient information as at 31 May 2008 about the scheme to enable the funding level as at 31 March 2008 to be estimated, and
- as at 31 March 2008, the value of the assets was, in the Board's judgement, likely to have been less than the amount of the protected liabilities as defined in Section 131 of the Pensions Act 2004.

Out of a population of 6,900 schemes considered, 99 had a failure score of less than 10 associated with them. Of these 99 schemes, 69 were in deficit.

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

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

Under the Pensions Act 2004, the Board has a duty to pay compensation on a basis that is no more or less favourable to a woman (or man) than it would be to a comparable man (or woman) in respect of pensionable service on or after 17 May 1990. The Board has received legal advice that, in meeting this requirement, it must take into account any differences in scheme benefits that have arisen due to differences in the calculation of Guaranteed Minimum Pensions (GMPs) due to gender. The Board issued a consultation document earlier this year on this requirement. This addressed both its own responsibilities for schemes that have already transferred in to the PPF and the responsibilities of trustees of pension schemes in a PPF assessment period to consider the issue of gender inequalities in compensation/benefit calculations. The consultation period closed on 28 July 2008.

As at the date of signing these accounts, the Board has not yet concluded its response to that consultation, nor yet determined how to advise trustees of schemes in assessment to deal with equalising compensation to allow for differences in the GMP formula in actuarial valuations produced in the assessment period, nor finalised any policy for implementing equalisation of compensation for members whose schemes have already entered the PPF. The Board has received from Mercer, a firm of actuarial consultants, a broad estimate of the costs of equalising compensation to allow for differences in the GMP formula for UK pension schemes as a whole in line with the Board's proposed equalisation solution, but the Board is not yet in a position to determine the costs of the additional liability associated with compensation equalisation with sufficient confidence to establish any provision within its financial statements. This broad estimate translates approximately to 2.5% of gross compensation liabilities.

The Board therefore discloses a contingent liability of £213 million as the additional liability to the PPF, and to schemes in PPF assessment periods judged likely to enter the PPF eventually, for compensation equalisation.

Appendix 1 continued

Annex S3

Data

a) Data in respect of former members of schemes that were transferred to the Board on or before 31 March 2008

This data was shown in my report to the Board dated 3 October 2008.

b) Data in respect of provisions and contingent liabilities

There are 258 schemes which contribute to the provisions figure in the statement of accounts for the financial period ending on 31 March 2008 (and a further 5 schemes included via the IBNR estimate); liabilities in respect of another 30 schemes have not been recognised (i.e. not included in the provisions) because the value of their assets was, in the Board's judgement, likely to have exceeded the amount of the protected liabilities at their insolvency date. For Type 1 contingent liabilities this recognition test was also undertaken at the insolvency date. For Type 2, Type 3 and Type 4 contingent liabilities the recognition test assessment was undertaken at the valuation date since a qualifying insolvency event had not occurred.

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

Liability		Number of schemes recognised	Number of pensioners ¹	Number of deferred pensioners ¹
Provision	2008	258 (288 in total) ²	41,903	71,674
	2007	167 (187 in total)	39,250	64,261
Provision – IBNR	2008	5	n/a	n/a
	2007	3	n/a	n/a
Type 1 contingent liability	2008	1 (1 in total)	23	92
	2007	0	0	0
Type 2 contingent liability	2008	1 (2 in total)	26	67
	2007	1 (1 in total)	10	24
Type 3 contingent liability	2008	8 (8 in total)	3,510	6,699
	2007	9 (10 in total)	1,446	4,127
Type 4 contingent liability	2008	69 (99 in total)	8,215	18,174
	2007	84 (136 in total)	n/a	n/a

¹ Data in respect of recognised schemes only.

² It should be noted that as at 31 March 2008 we have sought to recognise all segregated parts of schemes as separate schemes. For the valuation at 31 March 2007, segregated parts were recognised with the main scheme only, i.e. only one recognition per scheme was shown.

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

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

Annex S4

Assumptions

a) Actuarial liabilities

The assumptions adopted were described in my report to the Board dated 3 October 2008.

b) Basis adopted for Provisions and Contingent liabilities

1. Discount rates

The same discount rates have been adopted as for the actuarial liabilities calculations.

2. Mortality

The mortality in respect of a member is PCMA00, with PCFA00 being used in respect of the member's dependant, in each case with an age rating of 1 year (males) and -1 year (females) and the long cohort mortality improvement rates with an underpin of 1.5% per annum (males) and an underpin of 1.0% per annum (females). The PCMA00 and PCFA00 tables have been issued by the CMI.

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

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

- Where an MFR valuation was used as the basis of the roll-forward and the MFR liabilities at the MFR valuation date were at least £100 million; or
- Where a Section 179 (or Section 143) valuation was used as the basis of the roll-forward and the Section 179 (or Section 143) liabilities at the Section 179 (or Section 143) valuation date were at least £200 million

Scheme-specific mortality was adopted where the Board had evidence that future mortality for large schemes as defined above was likely to be significantly different from the assumptions set out in the first paragraph. In consequence, in respect of one large scheme where in my opinion there is evidence that mortality is likely to prove significantly heavier than that described above, an age rating of + 2.5 years (for males) instead of + 1 year and + 0.5 years (for females) instead of - 1 year has been adopted for pensioners and dependants in the calculation of the provision.

3. Proportion married

80% of members are assumed to be married or to have a relevant partner.

4. Age difference between member and dependant

Females assumed to be 3 years younger than males.

5. Children's pensions

No specific allowance.

6. Expenses

Allowance has been made for expenses incurred by the trustees prior to transfer into the Pension Protection Fund. Allowance has also been made for certain administration expenses incurred after transfer to the Pension Protection Fund, in respect of schemes which are likely to transfer to the Pension Protection Fund. In total these allowances amount to the standard expenses allowances under the Section 179 valuation methodology.

Appendix 1 continued

Annex S5

Sensitivity analysis

Results have been calculated on the basis described in Annex S4. Also an analysis has been undertaken of the sensitivity of the actuarial liabilities, provisions and assets to variations in the discount rates and mortality assumptions. Results are also shown, as scenario 1, using the assumptions from the 2007 Report and Accounts. A summary of the assumptions is shown below:

	Main assumptions	Scenario 1	Scenario 2
Discount rate in deferment	0.9%	1.3%	1.4%
Discount rate in payment for non-increasing compensation for current pensioners	4.8%	5.0%	5.3%
Discount rate in payment for non-increasing compensation for future pensioners	4.5%	4.5%	5.0%
Discount rate in payment for increasing compensation for current pensioners	2.4%	2.6%	2.9%
Discount rate in payment for increasing compensation for future pensioners	2.0%	2.1%	2.5%
Mortality	As described in annex S4	As described in annex S4	As described in annex S4
		Scenario 3	Scenario 4
Discount rate in deferment		0.4%	0.9%
Discount rate in payment for non-increasing compensation for current pensioners		4.8%	4.8%
Discount rate in payment for non-increasing compensation for future pensioners		4.5%	4.5%
Discount rate in payment for increasing compensation for current pensioners		1.9%	2.4%
Discount rate in payment for increasing compensation for future pensioners		1.5%	2.0%
Mortality		As described in annex S4	As described in annex S4 except without any underpins on the future levels of improvements

Annex S6

Calculation results

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

The actuarial liabilities in respect of former members of schemes for which the Board assumed responsibility on or before 31 March 2008 plus a sum required to meet the remaining liabilities under Regulation 3 of the Pension Protection Fund (Valuation of the Assets and Liabilities of the Pension Protection Fund) Regulations 2006 amount to £880,730,000.

b) Calculation of provisions

263 schemes were considered in relation to the provisions in the statement of accounts for the financial period ending on 31 March 2008, yielding the following estimated provisions (a comparison is shown with the equivalent figures from the 2007 Report and Accounts using the assumptions described in that report):

The table below shows the estimated assets held at 31 March 2008 in the 263 schemes forming the provisions. It also shows the outstanding anticipated recoveries, the resulting total assets and estimated deficit in respect of those 263 schemes.

	31 March 2008 £000s	31 March 2007 £000s
Assets excluding anticipated recoveries	3,800,299	3,489,616
Anticipated recoveries	34,684	84,815
Total assets	3,834,983	3,574,431
Provisions	5,190,131	4,482,924
Deficit	1,355,148	908,493

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

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 2007 Report and Accounts under the Main Assumptions basis as described in that report):

Type of contingent liability	Estimated scheme deficits/ GMP equalisation costs (for type 5 contingent liabilities) as at 31 March 2008 £000s	Estimated scheme deficits as at 31 March 2007 £000s
1	2,936	0
2	725	1,843
3	64,612	38,720
4	454,161	160,518
5	212,827	n/a
Total	735,261	201,081

Appendix 1 continued

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

Shown below are the total assets and total liabilities that correspond to the above deficits (contingent liabilities). A comparison is shown with the equivalent figures from the 2007 Report and Accounts under the Main Assumptions basis.

Type of contingent liability	31 March	31 March	31 March	31 March
	2008	2008	2007	2007
	Assets	Liabilities	Assets	Liabilities
	£000s	£000s	£000s	£000s
1	2,703 ¹	5,639	0	0
2	4,941	5,666	754	2,597
3	579,063	643,674	279,331	318,051
4	1,269,378	1,723,540	704,006	864,524
5	n/a	212,827	n/a	n/a
Total	1,856,085	2,591,346	984,091	1,185,172

¹ No recoveries are anticipated for this type of contingent liability (based on the current information available).

Annex S7

Actuarial balance sheet

On the main 31 March 2008 basis the Pension Protection Fund actuarial balance sheet is as follows:

Assets	£000s	Liabilities	£000s
The value of the Pension Protection Fund assets determined in accordance with the Pension Protection Fund (Valuation of the Assets and Liabilities of the Pension Protection Fund) Regulations 2006	1,719,032	The present value of the liabilities of the Protection Fund to pay sums or transfer property as required under section 173(3) of the Pensions Act 2004	880,730
The sum of the estimated values of the assets in the schemes that generated the provisions, plus any anticipated recoveries ¹	3,834,983 ²	The present value of the liabilities of the schemes forming the provisions	5,190,131
Total assets	5,554,015	Total liabilities	6,070,861
Total assets less total liabilities			(516,846)
Assets/liabilities			91%

1 Inclusive of an allowance for IBNR (scheme assets of £19,438,000 and provisions of £25,217,000).

2 Inclusive of anticipated recoveries of £34,684,000.

I have also calculated the actuarial liabilities and the liabilities of the schemes forming the provisions using the bases set out in Annex S5.

The balance sheet on the various scenarios (as described in the section on sensitivity analysis in Annex S5) is as follows:

	Main Basis £000s	Scenario 1 £000s	Scenario 2 £000s	Scenario 3 £000s	Scenario 4 £000s
Assets					
The value of the Pension Protection Fund assets determined in accordance with the Pension Protection Fund (Valuation of the Assets and Liabilities of the Pension Protection Fund) Regulations 2006	1,719,032	1,524,519	1,377,213	1,816,525	1,718,851
The sum of the estimated values of the assets in the schemes that generated the provisions, plus any anticipated recoveries	3,834,983 ¹	3,783,999 ¹	3,709,925 ¹	3,883,951 ¹	3,833,684 ¹
Total assets	5,554,015	5,308,518	5,087,138	5,700,476	5,552,535
Liabilities					
The present value of the liabilities of the Pension Protection Fund to pay sums or transfer property as required under Section 173(3) of the Pensions Act 2004	880,730	830,970	781,524	967,650	849,361
The present value of the liabilities of the schemes forming the provisions	5,190,131	4,964,924	4,682,240	5,508,034	5,028,785
Total liabilities	6,070,861	5,795,894	5,463,764	6,475,684	5,878,146
Total assets less total liabilities	(516,846)	(487,376)	(376,626)	(775,208)	(325,611)
Assets/liabilities	91%	92%	93%	88%	94%

1 Inclusive of anticipated recoveries of £34,684,000.

None of these scenarios should be interpreted as upper or lower bounds of the range of reasonable estimates which might be made.

Appendix 1 continued

Annex S8

Comparison with the deficit as at 31 March 2007

Under FRS 12 a reconciliation is required of the opening and closing net deficit on the actuarial balance sheet, including schemes that generate the provisions. I show this as a table below:

	£m	£m
Reconciling item		
Surplus/(deficit) on the actuarial balance sheet at 31 March 2007		(609)
Change in actuarial liabilities (this is further broken down in Section 7 of my report on the actuarial valuation of the Pension Protection Fund)		(344)
Change in current liabilities (AVCs to be discharged)		5
New claims arising		(318)
Change in liabilities for schemes forming the provisions		
Schemes accepted into the PPF (liabilities as at the Transfer Date)	266	
Claims no longer considered probable (exits or schemes estimated to be in surplus as at their assessment date)	201	
Claims now considered probable (schemes estimated to be in deficit as at their assessment date)	(140)	
Effect of passage of time on discounting	(205)	
Change in schemes' liabilities on account of change in discount rate	(39)	
Change in schemes' liabilities on account of changes in financial assumptions other than discount rate	(139)	
Change in schemes' liabilities on account of benefits paid out	217	
Change in schemes' liabilities on account of better information about the size of the parts of segregated schemes in assessment	91	
Change in schemes' liabilities on account of updated valuation information	62	
		314
Change in assets for schemes forming the provisions		
Schemes accepted into the PPF (assets as at the Transfer Date)	(184)	
Change in schemes' assets on account of benefits paid out	(217)	
Change in schemes' assets on account of better information about the size of parts of segregated schemes in assessment	(73)	
Change in schemes' assets on account of other changes (including changes in recoveries from employers)	30	
		(444)
Change in PPF assets		
Income from Pension Protection Levies	577	
Schemes accepted into the PPF (assets as at the Transfer Date)	184	
Compensation paid	(17)	
Change in value of interest and inflation swaps	112	
Change in value of invested assets on account of changes in bond yields	20	
Change in value of invested assets on account of other changes excluding bond yields, interest swaps and inflation swaps	3	
		879
Surplus/(deficit) on the actuarial balance sheet at 31 March 2008		(517)

Appendix 2

Accounting policies and notes relating to the operation of the Fraud Compensation Fund for the year 1 April 2007 to 31 March 2008

Note 2.1 Accounting policies

a) Income recognition

Interest income arising from cash deposits, fixed interest securities and similar investments is accounted for on a daily basis as interest is earned.

b) Investments

The investment assets of the Fraud Compensation Fund are held in the form of units in liquidity funds managed by external fund managers. Interest is accounted on these funds on a daily basis and is settled by the fund managers issuing new units in the liquidity funds which are added to the Board's holdings in those funds. These liquidity funds are therefore valued as cash, at £1 per unit.

c) Current assets and liabilities

Current assets and liabilities arise as a consequence of the accruals basis of accounting for income and expenditure, to ensure all income and expenditure incurred on or before the accounting date which had not been settled by the accounting date are disclosed within the Board's accounts.

d) Claims

Within the Fraud Compensation Fund, the Board recognises provisions for claims where it judges that it is probable that the claim will be validated and a compensation payment to the claimant scheme be made from the Fund. Where the Board judges that validation of the claim is possible (i.e. that the likelihood is greater than remote but lower than probable) a contingent liability will be disclosed. Where the Board judges that the likelihood of validation is remote, the Fund will not recognise any provisions nor disclose any specific contingent liabilities.

Note 2.2 Income from levies

The Board of the Pension Protection Fund did not raise any Fraud Compensation Levy in the year to 31 March 2008, nor in the year to 31 March 2007.

Note 2.3 Interest income

The bank account operated by the Board of the Pension Protection Fund for the Fraud Compensation Fund is interest bearing. However, the cash held in this account has been kept at a minimum during the year, such that the interest income earned was less than £1,000.

Note 2.4 Investment income

The investment assets of the Fraud Compensation Fund are held in the form of units in liquidity funds managed by external fund managers. Interest is accounted on these funds on a daily basis and is settled by the fund managers issuing new units in the liquidity funds which are added to the Board's holdings in those funds.

Note 2.5 Compensation payments and provisions for claims

As described in more detail in Note 2.9, the Board does not consider it appropriate at this time to recognise provisions for any claims currently under consideration by the Board, as it considers it does not yet have adequate evidence to judge whether it is probable that these claims will be validated and subsequently paid.

Note 2.6 Investment assets

The investment assets of the Fraud Compensation Fund are held in the form of units in liquidity funds managed by external fund managers. Interest is accounted on these funds on a daily basis and is settled by the fund managers issuing new units in the liquidity funds which are added to the Board's holdings in those funds. These liquidity funds are therefore valued as cash, at £1 per unit. The closing values of the funds were:

	As at 31 March 2008 £000s	As at 31 March 2007 £000s
Liquidity fund managed by:		
Insight Investment Management	1,657	1,564
Fidelity Investments	1,672	1,580
Total Investment assets	3,329	3,144

Note 2.7 Net current assets

a) Cash at Bank

As described in the accounting policy on "Segmental Reporting", the Board of the Pension Protection Fund is responsible for three ring-fenced funds. To improve controls over the three funds and ensure that only allowable items of income and expenditure are transacted within each fund, the Board has opened separate bank accounts for the three funds. The Fraud Compensation Fund account is used to collect fraud compensation levies, to transfer cash to the fund managers and to pay out compensation claims.

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

b) Other current assets consisted of:

	As at 31 March 2008 £000s	As at 31 March 2007 £000s
Levy debtors	2	6
Provisions for levy collection costs and doubtful debts	(2)	(6)
Total other current assets	-	-

The Board of the Pension Protection Fund did not raise any Fraud Compensation Levy during the accounting period, and the levy debtors disclosed in the Fraud Compensation Fund relate to debtors transferred by the PCB when it was closed on 31 August 2005. Billing and collection activity was carried out on PCB's behalf by the Pensions Regulator and this activity has continued throughout the year under the supervision of the Board. This has resulted in the crediting of previously billed amounts as it has been established that the scheme has completed wind-up or was otherwise ineligible to pay the levy. The impact of this has been to reduce the gross amount of levy debtors still outstanding, but as all levy debtors were fully provided for as at 31 March 2007, this has had no effect on the Fund's income or net assets at the end of the year.

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

Appendix 2 continued

Note 2.8 Reserves

	£000s
Opening balance	2,937
Movement in the year	–
Closing balance	2,937

The reserves figure of £2,937,000 represents the net assets of the Pension Compensation Board, valued at fair value as at 5 April 2005, which have been brought onto the balance sheet of the Fraud Compensation Fund under the operation of merger accounting.

Note 2.9 Contingent liabilities

One claim for compensation was under consideration at 31 March 2007 and no new claims have been received during the year. Further investigation of the outstanding claim has been carried out to verify both the loss of assets by the claimant scheme, and to verify that the loss was caused by dishonesty. Claims may eventually fail on either of these counts.

Final determination of the case will depend on evidence being produced to the Board's satisfaction on these points, as well as evidence that reasonable efforts have been made to recover losses from other sources, so that losses paid by the Board are minimised. These processes could take a considerable time to complete and may extend over several years. In the meantime the Board does have powers to make discretionary interim awards in case of immediate need. No such awards were made during the accounting period.

The Board has continued to work with the trustees of the one claimant scheme and has monitored the progress of their activities, including litigation against third parties. The Board's current judgement remains that the claim may possibly result in a payment from the Fraud Compensation Fund, and its status as a contingent liability is therefore retained in the analysis below.

Should this claim be validated, the rules for compensation which governed the PCB would apply to this claim, as the Board took over the claim from PCB. Under these rules, the successful claimant scheme would be entitled to interest based on 100% of the value of the validated loss, to be calculated at a rate of 2% above base rate, for the period between the effective date of loss and the date of payment of compensation. The contingent liabilities disclosed below include interest calculated on this basis up to 31 March 2008.

	At 31 March 2008	At 31 March 2007
Number of claims	1	1
Value of contingent liabilities	£3,020	£2,835

The movement from 1 April 2007 to 31 March 2008 can be summarised as follows:

	Values in £000s	Number of claims
Value disclosed at 31 March 2007	2,835	1
Further interest on pre-31 August 2005 claims	185	–
Value disclosed at 31 March 2008	3,020	

The rules governing compensation payments in respect of claims made on the Fraud Compensation Fund after 31 August 2005 are different to those which governed payments made by PCB. Under the Pensions Act 2004, Section 185(3), the Board is only authorised to pay the value of the loss suffered by the claimant scheme, net of any recoveries made by the scheme trustees from other parties.

The Board is aware of certain situations currently being investigated by other relevant authorities which have the potential to lead to claims being lodged with the Fund in the future. As at the date of signing these accounts, however, no formal claims have been lodged by the trustees of the pension schemes involved; no assessment of any losses suffered by those schemes has been completed; no assessment of potential recoveries from other parties (including, for example, professional indemnity insurers) has been completed; and no evidence has been provided to verify that any losses were attributable to dishonesty. The Board considers therefore that it is not in a position to disclose any contingent liability in respect of these situations. The Board continues to monitor developments.

Note 2.10 Financial instruments

FRS 13, Derivatives and Other Financial Instruments, requires disclosure of the role which financial instruments have had during the year in creating or changing the risks an entity faces in undertaking its activities. Because of the non-trading nature of the Fraud Compensation Fund's activities and the way it is financed, the Fund is not exposed in this area to the same financial risks faced by business entities.

Funding risk – The Fund's Statement of Investment Principles describes the major risk facing the Fund as not having sufficient funds to pay compensation as required under the Pensions Act 2004. The Board has no powers to raise income other than by raising Fraud Compensation levies and no powers to borrow to fund compensation payments. The Fund's assets arise from the receipt of Fraud Compensation Levies, so the Fund's funding strategy is designed to mitigate the risks, both in the short- and the long-term, that the Fund's assets will be inadequate to meet its liabilities. Specifically, the Board will target the Fund towards a balance between securing the compensation payments for schemes whilst setting a fair and proportionate levy. All Fund investments will therefore be held in cash deposits or equivalent vehicles such as liquidity funds.

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

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

Interest rate risk – As described in Note 2.9, claimants on the Fund who lodged their claim prior to 31 August 2005 would be entitled to interest based on 100% of the value of the validated loss, to be calculated at a rate of 2% above base rate, for the period between the effective date of loss and the date of payment of compensation. (Claimants who lodge their claim after 31 August 2005 are entitled to receive only the value of the net loss suffered.) The Fund therefore faces the risk that the return on its investments will be inadequate to cover the interest payments due to pre-31 August 2005 claimants. The Fund's Statement of Investment Principles recognises this risk and describes the investment strategy designed to mitigate it.

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

Appendix 3

Accounting policies and notes relating to the operation of the Board of the Pension Protection Fund's Administration Fund for the year 1 April 2007 to 31 March 2008

Note 3.1 Accounting policies

a) Income recognition

Interest income arising from cash deposits is accrued on a daily basis.

b) Fixed assets and capitalisation policies

→ Intangible fixed assets

The costs of purchasing major software licences are capitalised as intangible fixed assets.

The costs of major software and software development and enhancement including related consultancy costs, are capitalised as tangible fixed assets, where it is considered that the resulting software has an extended useful life. Ongoing software maintenance costs are written off in the year they occurred.

→ Tangible fixed assets

The costs of purchasing hardware are capitalised as tangible fixed assets provided the cost of the hardware, either as a single item or as a group of related items bought for a common purpose, exceeds £1,000.

→ Leasehold improvements

The costs of leasehold improvements, including the refurbishment and fitting out of new premises ready for occupation by the Board's staff, are capitalised as fixed assets. Property repairs and maintenance, and the costs of purchasing individual items of furniture and equipment not exceeding £1,000, are written off in the year of purchase.

c) Depreciation/amortisation policies

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

- Information technology equipment 3 years
- Major software licences 3 years or the life of the licence if shorter
- Software & software development 3 years
- Leasehold improvements 5 years

In previous years, fixed assets were valued at current replacement cost which was calculated by applying appropriate Office for National Statistics indices to the historical cost of the asset. Any surplus on revaluation of fixed assets was credited to a revaluation reserve through the Statement of Total Recognised Gains and Losses; any permanent diminution in the value of a fixed asset on revaluation was charged (and captioned as an impairment charge) to the Operating Statement in the year when it occurred. This year, the Board has decided to take advantage of the exemption not to apply this revaluation policy to assets which have short useful lives or are of low original cost.

d) Current liabilities

The Board's policy for current liabilities is to account on an accruals basis for all liabilities falling due on or before the accounting date which had not been settled by the accounting date. This includes all goods and services supplied during the accounting year but not paid for as at the accounting date.

Accounting for these liabilities may involve the use of estimates.

Note 3.2 Grant in aid

Grant-in-aid received by the Board from DWP is used to finance activities and expenditure which support the statutory and other objectives of the Board. These receipts are treated as financing and credited to the General Reserve, because they are regarded as contributions from a controlling party.

The Board is authorised to draw down grant-in-aid from DWP under Section 116 of the Pensions Act 2004. Grant-in-aid is normally drawn down on a quarterly basis to fund the forecast operating and capital expenditure of the Board.

The Pensions Act 2004 also empowers the Secretary of State to raise an Administration Levy to recover these (and other) costs from qualifying defined benefit and hybrid occupational pension schemes. These powers are detailed in Section 117 (1) of the Act. This levy is raised on an annual basis, using the Board's resource expenditure budget for the relevant year as one source of information in setting the overall levy – see the note below.

Administration Levy

The Pensions Act 2004 empowers the Secretary of State for Work and Pensions to raise a Pension Protection Fund Administration Levy, from which to fund the operating costs of the Board and other associated costs. These other costs consist of the expenses incurred by the DWP in establishing the Board and its operating infrastructures prior to the Board opening for business on 6 April 2005. These establishment costs include the expenses of appointing and remunerating Board members and staff prior to 6 April 2005; of developing policies and processes for the initial operating functions of the Board, particularly in the legal, HR, accounting and procurement areas; of identifying and fitting out the premises from which the Board would begin its operations; and of specifying and installing the ICT systems to support the Board's initial operating functions. The Board understands that it is DWP's intention to recover these costs over the first three financial years of the Administration Levy.

The establishment costs can be analysed as follows:

	£000s
Treated as operating expenses	6,487
Treated as capital expenditure (ICT systems)	2,498
Total establishment costs	8,985

Appendix 3 continued

The Board have been advised by DWP that the total Administration Levy raised by the Secretary of State, and its disposition during the year, can be summarised as follows:

	Year to 31 March 2008 £000s	Year to 31 March 2007 £000s
Deficit brought forward	(1,355)	2,812
Total Administration Levy raised (including adjustments to prior year levies raised)	19,574	11,920
Retained by DWP to recover establishment costs	(2,995)	(2,995)
Resource expenditure of the Board	(16,957)	(13,092)
Surplus/(deficit) carried forward to future levy years	(1,733)	(1,355)

It should be noted that grant-in-aid is used by the Board to finance its capital expenditure; however, the PPF Administration Levy is designed to cover the Board's resource expenditure, which only includes the depreciation on those capital assets. The deficit disclosed above therefore includes in part the DWP's financing of the net book value of the Board's capital assets, and this deficit will be recovered as the DWP raises Administration Levy in future years to cover the depreciation charge.

The value of Administration Levy raised disclosed in the above table is on an accruals basis, that is, it includes Administration Levy debtors at the year end. These debtors were valued at 31 March 2008 at £1,015,000 (31 March 2007: £2,806,000). The grant-in-aid process ensures that DWP finance the Board's resource expenditure independent of Administration Levy collections.

Note 3.3 Operating expenses

a) Staff costs

Staff costs charged to the Administration Fund consisted of:

	Year to 31 March 2008 £000s	Year to 31 March 2007 £000s
Salaries and wages	5,898	3,537
Social security costs	495	328
Other pension costs	1,101	708
Temporary staff	364	505
Seconded staff	1,758	1,456
Total	9,616	6,534

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

	Year to 31 March 2008 Number	Year to 31 March 2007 Number
Permanent employees	136	83
Secondment and temporary staff	15	16
Total	151	99

Details of the remuneration of members of the Board of the Pension Protection Fund are given in the Remuneration Report in Section 5 of the Annual Report. The staff costs reported include the costs of all Board members.

Employees of the Board of the Pension Protection Fund are eligible for membership of the Principal Civil Service Pension Scheme (PCSPS) and can opt to join the defined benefit section, or to contribute to a stakeholder (defined contribution) arrangement. The PCSPS is an unfunded multi-employer defined benefit salary related scheme but the Board is unable to identify its share of the underlying assets and liabilities. Defined benefit contributions are therefore accounted for by the Board as if they were contributions to a defined contribution scheme. A full actuarial valuation of PCSPS was carried out as at 31 March 2007 and details can be found in the Cabinet Office: Civil Superannuation Resource Accounts (www.civilservice-pensions.gov.uk).

During the year to 31 March 2008, employer's contributions of £953,000 (year to 31 March 2006: £701,000) were payable to the defined benefit section of the PCSPS at one of four rates in the range 17.1% to 25.5% (year to 31 March 2007, same range). The scheme's actuary reviews employer contributions every four years following a full scheme valuation. These contribution rates reflect the benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Employees of the Board can opt to open a partnership pension account, which is a stakeholder pension with an employer contribution. Employers' contributions of £148,000 (year to 31 March 2007, £7,000) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions were age-related and range from 3% to 12.5% of pensionable pay, and employers also match employee contributions up to 3% of pensionable pay.

In addition, employer contributions were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

At 31 March 2008, pension contributions in respect of the month of March 2008 totalling £120,000 were outstanding, and were paid over to PCSPS in April 2008 in accordance with legislative requirements.

b) Other costs

Other costs charged to the Administration Fund consisted of:

	Year to 31 March 2008 £000s	Year to 31 March 2007 £000s
Training and recruitment costs	462	776
Staff travel, expenses and hospitality	126	88
Advisory and other professional services	3,313	3,052
Statutory audit costs	125	137
Accommodation	861	624
General office expenses	316	194
IT and telephony	1,312	1,061
Levy billing and collection costs	-	60
Publicity & Communications	171	146
Total	6,686	6,138

Other costs include where appropriate Value Added Tax which the Board is not able to recover. In compliance with SSAP5, this irrecoverable VAT is included in the cost of the items reported in the financial statements.

Appendix 3 continued

Note 3.4 Interest income

As described in Note 3.2, the Board draws down grant in aid from DWP on a periodic (normally quarterly) basis to cover forecast expenditure, and these funds are held in interest bearing accounts to cover, for example, monthly salary payments and regular supplier payments. The Board therefore earns interest income on these funds, and this income is used to reduce the grant in aid requirement in the subsequent period.

Note 3.5 Fixed assets

The fixed assets included in the Administration Fund consist of information and communication technology assets held for the purposes of the Board's operations and administration and leasehold improvements on premises occupied by the Board. They include the IT hardware and software assets acquired by DWP as part of the project to establish the Board of the Pension Protection Fund and brought into use by the Board from 6 April 2005. The book cost of these assets has been brought into the Board's Administration Fund accounts as at 6 April 2005 through reserves, analogous to donated assets. "Additions in the year" represents further fixed assets acquired directly by the Board during the year.

Depreciation charges (and, in prior years, impairment charges) are made in relation to these assets in accordance with the policy set out in Note 3.1c. However, charges that relate to the assets transferred to the Board by DWP are then offset against the fixed asset reserve, with the intention of writing off the reserve over the useful life of the fixed assets concerned (see Note 3.7).

The net charge to the Operating Statement is arrived at as follows:

	Note	Year to 31 March 2008 £000s	Year to 31 March 2007 £000s
Total impairment charges in the year (see below)	i	–	207
Total depreciation charges in the year (see below)	i	1,500	1,121
Offset against fixed asset reserve (see below)	ii	(732)	(844)
Net charge to Operating Statement		768	484

In accordance with the accounting policy described in Note 3.1c, no impairment charges have been made in the current year, and no adjustment made to impairment charges recorded in prior years.

i Analysis of fixed assets

The net book value of fixed assets at 31 March 2008 is arrived at as follows:

	Tangible fixed assets £000s	Intangible assets £000s	Leasehold improvements £000s	Total £000s
Cost				
At 1 April 2007	3,645	573	673	4,891
Reclassification during the year	104	–	(104)	–
Additions in the year	759	131	–	890
Disposals in the year	–	–	–	–
At 31 March 2008	4,508	704	569	5,781
Depreciation / Amortisation				
At 1 April 2007	(2,255)	(85)	(19)	(2,359)
Depreciation/amortisation charged in the year	(1,187)	(199)	(114)	(1,500)
At 31 March 2008	(3,442)	(284)	(133)	(3,859)
Net Book Value at 31 March 2008	1,066	420	436	1,922
Net Book Value at 31 March 2007	1,390	488	654	2,532

Tangible fixed assets consist of installed computer hardware and operating systems; intangible assets consist of software licences.

ii Transfer to fixed asset reserve

As indicated above, impairment and depreciation charges on the assets acquired by DWP as part of the project to establish the Board are written off directly to the associated fixed asset reserve. The total value written off in this way is as follows:

	Year to 31 March 2008 £000s	Year to 31 March 2007 £000s
Impairment charges on tangible fixed assets	–	170
Depreciation charges on tangible fixed assets	716	658
Depreciation on intangible assets	16	16
Total transferred to fixed asset reserve	732	844

Note 3.6 Net current assets

a) Cash at Bank

As described in the accounting policy on “Segmental Reporting”, the Board of the Pension Protection Fund is responsible for three ring-fenced funds. To improve controls over the three funds and ensure that only allowable items of income and expenditure are transacted within each fund, the Board has opened separate bank accounts for the three funds. The Administration Fund account is used to receive grant in aid from DWP and to pay staff and other suppliers of goods and services.

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

b) Other current assets

Other current assets consist of amounts recoverable from staff in respect of season ticket and other similar loans, and prepayments of certain costs. The value of debtors that falls inside the Whole of Government Accounts boundary is: nil.

c) Current liabilities consist of:

	As at 31 March 2008 £000s	As at 31 March 2007 £000s
Amounts due to suppliers	637	182
Taxation and social security	189	130
Other creditors	120	93
Accruals	2,625	2,735
Total current liabilities	3,571	3,140

The value of creditors that falls inside the Whole of Government Accounts boundary is £309,000 (2007: £577,000).

Appendix 3 continued

Note 3.7 Reserves

Administration Fund reserves consist of:

	As at 31 March 2008 £000s	As at 31 March 2007 £000s
General reserve	(725)	(928)
Fixed asset reserve	–	732
Closing balance	(725)	(196)

a) The general reserve consists of:

	As at 31 March 2008 £000s	As at 31 March 2007 £000s
Opening balance	(928)	2,153
Grant-in-aid received in the year	17,160	10,011
Net result for the year	(16,957)	(13,092)
Closing balance	(725)	(928)

b) The fixed asset reserve consists of:

	As at 31 March 2008 £000s	As at 31 March 2007 £000s
Opening balance	732	1,576
Movement in the year (see Note 3.5 ii above)	(732)	(844)
Closing balance	–	732

Fixed assets to the value of £2,498,000 were brought into use when the Board of the Pension Protection Fund opened for business on 6 April 2005, having been acquired by DWP as part of the project to establish the Pension Protection Fund. The book cost of these assets has been brought into the Board's Administration Fund accounts as at 6 April 2005 through reserves, analogous to donated assets.

The movement in the year represents depreciation charges on these assets which has been charged to operating expenses in the first instance (see Note 3.5) but then offset against the fixed asset reserve with the intention of writing off the reserve over the useful life of the fixed assets concerned. As these assets have been depreciated for the past three years (their estimated useful life), they are now fully depreciated and the reserve fully written off.

Note 3.8 Financial Instruments

FRS 13, Derivatives and Other Financial Instruments, requires disclosure of the role which financial instruments have had during the year in creating or changing the risks an entity faces in undertaking its activities. Because of the non-trading nature of the Board of the Pension Protection Fund's administration activities and the way it is financed, the Board is not exposed in this area to the degree of financial risk faced by business entities. For example, the Board has no powers to borrow to fund administration activities or to raise income other than by the grant-in-aid process described in Note 3.2. Financial assets and liabilities are generated by the Board's routine operational activities, and are not held to change the risks facing the Board in carrying out its administration functions.

Liquidity risk – Both the Board's resource and capital requirements are funded by grant-in-aid from its sponsor department, DWP. The Board is therefore not exposed to significant liquidity risks.

Interest rate risk – The Board has no power to borrow to fund administration activities and therefore is not exposed to any interest rate risk. Any surplus funds on its Administration account are held in interest-bearing accounts – see Note 3.6a.

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

Appendix A

Schemes ending an Assessment Period during 2007/08

Schemes that transferred to the PPF

July 2007

John Millar & Sons (1844) Limited Retirement Benefits Scheme

October 2007

Walsall Print Group Pension Scheme – the Walsall Print Company Ltd section

Instem Technologies Pension Scheme

November 2007

Marlow Ropes Pension Scheme

December 2007

Pattern Equipment Company Ltd Pension & Life Assurance Scheme

J W Arrowsmith Ltd Pension & Life Assurance Scheme

January 2008

Waddie & Company Limited Pension & Life Assurance Scheme

February 2008

AIPS Clean Brite Pension & Life Assurance Scheme

Jones Stroud Retirement Benefits Plan

Rapra 1972 Staff Employees Scheme

Wiggins Group Plc Kia Retirement Benefits Scheme

March 2008

Automotive Products Executives Pension Scheme – AP Hydraulics Limited section

Automotive Products Executives Pension Scheme – Automotive Products Group Limited section

Automotive Products Executives Pension Scheme – Pointburst Limited section

BIP Limited Retirement Benefit Scheme

Cintel International Plan

Collins & Aikman Automotive Systems (St Neots) Pension Scheme

Edinburgh Crystal Retirements Plan

Electroconnect Limited Pension Scheme – Electroconnect Limited section

Eliza Tinsley plc Pension and Life Assurance Plan

JR Crompton Ltd Retirement Benefits Plan

Linguaphone Pension Plan

Motor Industry Pension Plan – Coredale

New Berners Pension Scheme

Openshaw Group Pension Scheme – Openshaw Logistics Limited section

Openshaw Group Pension Scheme – Openshaw Limited section

Openshaw Group Pension Scheme – Wolstenholme Graphic Industries Limited section

Rothley Burn Pension Scheme

Shenkin Group Pension Scheme

Thomas Carr Ltd Retirement Benefits Scheme

Toomeys Limited Pension Scheme 2

Welpac PLC Pension & Life Assurance Plan

Schemes that were rescued

September 2007

The Owen Owen Pension Fund

October 2007

TFL Pension Fund (Metronet Rail SSL Ltd Section)

TFL Pension Fund (Metronet Rail BCV Ltd Section)

January 2008

Harris & Sheldon Group Limited Pension Scheme

The Dartington Hall Estate Pension Fund – Dartington Tech section

Volcrepe Limited (1966) Pension & Life Assurance

PGR Powerhouse Protected Persons Pension Plan

February 2008

The Football league Ltd Pension & Life Assurance Scheme – Leeds United

Schemes that were sufficiently funded to seek to buy-out outside of the PPF

March 2008

AEP Industries UK Pension Scheme

Firmin and Sons Plc Retirement Benefits Scheme

International Bottle Company Limited Pension & Life Assurance Scheme

John Laing of Hawick Ltd Retirement Benefits Scheme

Thomas A Metcalfe Limited Pension and Life Assurance Scheme

Wiggins Group Plc Retirement Life Assurance & Disability Plan

Appendix B

Glossary

The PPF

The Board of the Pension Protection Fund was established as a body corporate under the Pensions Act 2004 and is run by a Board which must consist of:

- a) a Chairman
- b) the Chief Executive of the Board, and
- c) at least five other persons (ordinary members).

The Board

The Members of the Board of the Pension Protection Fund are referred to in the Directors' Report as the Board.

The DWP

The Department for Work and Pensions is the PPF's sponsoring department. The PPF is accountable to Parliament through the Secretary of State for Work and Pensions.

D&B

D&B (also known as Dun & Bradstreet) were appointed by the Board of the Pension Protection Fund in August 2005 to measure the insolvency risk of employers who sponsor eligible defined benefit pension schemes as part of the calculation of each schemes' pension protection levy. Further details of D&B can be found at: www.dnb.com/uk

The Pensions Regulator

The Pensions Regulator is the UK regulator of work-based pension schemes. One of its statutory duties is "to reduce the risk of situations arising which may lead to compensation being payable from the Pension Protection Fund".

PPF Compensation

The compensation payable by the PPF is set by the Pensions Act 2004. Full details can be found on the PPF website.

Members who have reached their scheme's normal pension age, will receive 100% compensation for what they should have received at the time their employer went bust.

The PPF will also pay 100% compensation to those who have retired on legitimate ill-health grounds, regardless of age, and those receiving a pension in relation to someone who has died at the time that the employer went bust.

Those members who have not yet retired will generally receive 90% compensation on reaching retirement age.

PPF compensation continued

Members who have retired but have not reached the normal pension age of their scheme will generally receive up to 90% compensation. This is subject to a cap which is recalculated every year for new pensioners.

Increases in future payments are based only on any pension accrued after April 1997 and may not be as much as would have been under the pension scheme.

Section 120 notices

A prescribed notice to the PPF required under the Pensions Act 2004 which must be completed by an insolvency practitioner when he becomes aware that an insolvent employer has sponsored an occupational pension scheme.

Section 143 valuations

An actuarial valuation carried out on a prescribed basis, required under the Pensions Act 2004 to determine whether, as at the assessment date, the value of the pension scheme's assets was less than the amount of its protected liabilities.

Section 179 valuations

An actuarial valuation carried out on a prescribed basis, required under the Pensions Act 2004 to determine, for the purposes of calculating the risk-based levy, the funding of an eligible pension scheme.

Contingent Assets

A contingent asset is an asset that will produce cash for a pension scheme if certain events happen, in particular when the sponsoring employer suffers an insolvency event.

The PPF recognises three types of contingent asset:

- Guarantees given by parent/group companies and undertakings (Type A)
- Security over cash, real estate and securities (Type B)
- Letters of credit and bank guarantees (Type C).

Printed in the UK by The Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office
ID5941667 10/08

Printed on Paper containing 75% recycled fibre content minimum.

Pension Protection Fund



Published by TSO (The Stationery Office) and available from:

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ISBN 978-0-10-295707-5

