



2014/15

Annual Report

& Accounts

PROTECTING PEOPLE'S FUTURES







Pension Protection Fund 2014/15 Annual Report & Accounts

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

Ordered by the House of Commons to be printed on 16 July 2015.





© Pension Protection Fund 2015

The text of this document (this excludes, where present, the Royal Arms and all departmental and agency logos) may be reproduced free of charge in any format or medium providing that it is reproduced accurately and not in a misleading context.

The material must be acknowledged as Pension Protection Fund copyright and the document title specified. Where third party material has been identified, permission from the respective copyright holder must be sought.

Any enquiries regarding this publication can be referred to us at 0845 600 2541.

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

Print ISBN 9781474123136

Web ISBN 9781474123143

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

ID 03071509 07/15

Printed on paper containing 75% recycled fibre content minimum.



Contents

	Page
The top team	7
Chairman's statement	8
Chief Executive's review	10
Directors' and Strategic Report	
This is what we do	12
Highlights	13
Strategic plan	15
Financial performance	16
Managing our balance sheet	18
Risk management	21
The PPF levy	23
Scheme and Member Services	25
HR, Organisational Development and Communications	27
General information	29
Statutory reports	33
Actuarial reports	87
Commonly abbreviated terms	118



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



The top team

Chairman



Lady Judge CBE

Chief Executive



Alan Rubenstein

Executive Board Members



Andy McKinnon



David Taylor
(From 1 Jun 2015)

Non-executive Board Members



Dick Barfield



John Bevington



Alan Jenkins



Tom Joy



Sharmila
Nebhrajani OBE



Arnold Wagner
OBE



Baroness Warwick
of Undercliffe

Members of the Executive Committee



Hans den Boer
(Joined
2 Feb 2015)



Katherine Easter



Barry Kenneth



Sara Protheroe

Chairman's statement

Review



Barbara Judge

Lady Judge CBE
Chairman

I am honoured to be Chairman of the PPF and proud of the fact that we provide protection to our members that makes a real difference to people's lives, and we have been doing that for more than ten years.

Today we are an established part of the pensions landscape, and a much changed organisation since our inception in 2005. I am pleased to say that over the last ten years the PPF has gone from strength to strength.

The results we report this year show a continued surplus and while we remain on track toward our 2030 funding target, a small fall in our estimated probability of success. These measures are important touchstones in the assessment of our performance and demonstrate our commitment to providing security and confidence to our members.

We know, however, that we cannot be complacent and we have a long way to go. There will, as we have experienced in the past, be tough times and large claims between now and 2030 – our target for self-sufficiency.

We know that scheme funding remains volatile and susceptible to the varying demands and pressures of the recovering global economy. We also know that the responsibility we have to our members will stretch into the 22nd Century. Accordingly, to deliver our promise to protect people's pensions, we must continue to grow both our capability and financial strength in order to reach our long-term goal.

Importantly, we know also that a great many of the challenges for pensions that existed in 2005 when we came into operation are not gone. It is also evident from the latest edition of the Purple Book that if we started in 2005 with the hope that defined benefit provision might recover or stabilise, we are realistically past the point of return.

We are looking at the end of an era, but even so, that era still has over 11 million members and over £1 trillion of assets and liabilities to look after, and will play an important part in UK pension provision for some time to come.

I am confident, with our continued excellent performance across all areas of our statutory responsibilities, that the PPF is very well placed for the challenges of the next ten years.

If the Pensions Act 2004 introduced the first wave of substantial change to the pensions landscape in the 21st Century, we are now in the second or third wave of reform, and in the midst of what has been described as a 'Pensions Revolution'.

Great strides have been made with the introduction of auto-enrolment, reforms of the state pension and more recently with freedom and choice. In my opinion these changes have helped address the needs of a new type of pensioner, a different type of consumer and the demands of a changing workplace.



Chairman's statement

Review

It is important to get the balance right. We must encourage individual responsibility, without creating dependency. As a society, and critically as an industry, we will have to adapt to these changes. We must make them work, and we must deliver better pensions, and use our skill and resources to help improve financial literacy.

More broadly we must shift our expectation of old age. We are all living longer – which is good news – but at the same time we need to adjust to the economic and societal effects that change is bringing. In the UK we expect the population of over 65 - who will be healthy, active and should expect to live for another 25 years - will rise by about 300,000 each year for the next 25 years. At the same time, the proportion of working age people to support a growing population of dependents will be fewer and fewer.

This is a very significant change, which will affect us all. The evidence is that older people want to work longer, for better incomes, to see friends, to maintain skills, or simply to gradually ease into retirement rather than come to a sudden stop. Yet a large proportion of these people who are approaching retirement, or over retirement age, are economically inactive, which is a real waste of talent and potential.

I am encouraged by the Government's drive and will for reform to tackle this issue, and I believe that our engagement in these challenges that face our ageing society and the broader pensions landscape remains as important as it has ever been.

Finally, I would like to thank our entire Board, our Executive team and all people at the PPF for their extraordinary efforts and dedication in delivering our mission to provide our members with the service, security and confidence they need in their most difficult times. Having welcomed David Taylor to our Board as General Counsel this June, I would particularly like to take this opportunity to thank David Heslop, our former Chief Operating Officer who left earlier this year, and our non-executive directors, John Bevington and Dick Barfield, who will be leaving us later in the year. They have given sage advice, independent challenge and it has been a real pleasure serving with them on the Board of the PPF during their tenure. They will be sorely missed.

Chief Executive's review



Alan Rubenstein
Chief Executive

I am pleased to report on another year of significant progress for the PPF. We have continued to grow our assets and to make good headway towards achieving our long-term funding strategy. There have been many other successes too, which are set out in more detail in our Directors' and Strategic Report.

This year we celebrate ten years of operation and protecting members' futures. It is a significant milestone, and I am proud to say our commitment to delivering security in retirement to the members we protect is as strong now as it was when the PPF was created.

Looking back it is clear to see that much has changed across the pensions landscape in the last decade. It is hard to believe that prior to the PPF's existence, many people would have had greater certainty of outcome if their holiday provider collapsed than if the sponsor of their pension scheme suffered an insolvency.

From our small beginnings in 2005, there has been a dramatic transformation across all our functions; from levy to operations, and in our investment and risk management functions. In our first full accounts we reported zero members receiving compensation and less than £100 million of assets under management. Today nearly a quarter of a million members have transferred into the PPF, while we manage over £20 billion of assets.

We started with clear goals to achieve our mission: to build our infrastructure; to introduce a risk-based levy, to determine our investment principles and strategy and ensure we established clear communication with our members and developed effective day-to-day operations.

The tangible results of our efforts can be seen in reduced assessment periods, better scheme data, faster and more efficient operating processes and systems, and in our award winning investment and risk management strategy. And with our increasing size, skill and capability we have the capacity to do even more.

There are probably few more fitting milestones to mark our tenth year as the fact that during this year we will bring our member services function in-house. We intend to offer our members an exceptional service with a unique PPF feel, one that allows us to directly interact with the members we protect and to tailor our service to their needs.

It is also fitting that ten years after the initial levy, which was based on broad assumptions and a limited understanding of the scale of risks facing defined benefit schemes and their sponsors, we are moving into the third iteration of our levy model with a revised and refined character which reflects our own experience of defined benefit scheme sponsors insolvency risk and which is substantially more predictive than generic commercial models.

Our investment strategy has evolved on a regular basis as we have grown in size and sophistication. It has served us well through the financial crisis and the early stages of the recovery. We are however mindful that the outlook for the global macro-economy is still uncertain, and operating in a low yield environment continues to be a challenge to pension scheme funding. We remain committed to a prudent approach that strikes a balance between protecting compensation payments for current and future members of the PPF and setting a fair levy.

As part of this, we published our new Statement of Investment Principles during the past year; we expect the Fund to continue to grow and we will continue to evolve our strategy accordingly. In recent years we have expanded our portfolio to include more alternative investments such as secondary private equity, alternative credit, farmland and timberland. We aim to continue this evolution by moving to a hybrid asset allocation strategy - making greater use of illiquid assets which will provide long-term cash-flows and match our liability profile. In our Strategic Plan, published in March 2015, we indicated the next significant change in our investment strategy will be to consider bringing some of our investment functions in-house and during the year ahead we expect to move forward with this project.



Chief Executive's review

Review

On the whole we will continue to have a tolerance for market risk that is significantly less than the risk budget of the schemes we protect – and for good reason. We aim to ensure that our investment strategy is relatively uncorrelated to the funding strategies and levels of these schemes.

Assessing and managing our risks has always been important to the PPF and is crucial to fulfilling our role of protecting peoples' pensions. We are committed to pursuing best practice in risk management and also to communicating how we manage the risks we face. In keeping with this aim, and reflecting the importance we place on risk management, we were delighted to welcome Hans den Boer as our first formal Chief Risk Officer and have re-structured our risk functions to be more like the models used in the banking and insurance industries - which have been at the forefront of changes in risk management following the introduction of Basel III and Solvency II requirements.

Although we have always prided ourselves on our risk management capability, this is an important step for us, because as we grow as an organisation both the financial and operational risks we face continue to change, and as a consequence we will need to ensure we continue to manage them effectively and deploy appropriate processes, systems and capability.

Alongside the Annual Report and Accounts we will be publishing our fifth edition of our Funding Strategy Update. This sets out how we model our long-term risks and the impact that a range of different scenarios could have on our probability of success. It continues to be an important means for us to assess the risks we face and future outcomes, both positive and negative for the PPF and the schemes we protect. Understanding the environment we operate provides us with the opportunity to take a comprehensive view of the risks we face. The data that we gather from schemes, through the Purple Book and publish in the PPF 7800 index helps us to do this, and we remain committed to making this data available to inform the industry and members about the financial health of pension schemes in general.

The last ten years have seen enormous changes in pension provision, and the next ten years promise more of the same as the number of members and employers in auto-enrolment grows and the recently introduced pension freedoms bed in. While the most recent changes to increase access to pensions and improve flexibility have not yet significantly impacted defined benefit schemes, it would be unwise to assume that this will necessarily remain the case or that the behavioural patterns of retirees or the pricing of certain market instruments will not alter. We will continue to follow developments closely and where appropriate will seek to share our knowledge and experience to achieve better outcomes for UK pension schemes and their members.

In conclusion, I would like to thank all the PPF staff for all their hard work and commitment over the past twelve months. Their dedication to our mission and their positive approach to achieving better outcomes for our members, stakeholders and partners make this organisation a joy to lead. And in part explains why we were delighted to be named on the Sunday Times list of 100 Best Companies to Work For in the Not-For-Profit Sector for the second year in a row.



Directors' and Strategic Report

This is what we do

Fraud Compensation Fund

We also pay compensation to members of work-based pension schemes of all types whose employers become insolvent and their schemes have lost out financially because of dishonesty.

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

Financial Assistance Scheme

The Government handed over responsibility for the day-to-day running of the Financial Assistance Scheme (FAS) to the PPF in July 2009, although all FAS activities remain funded by the taxpayer rather than a levy.

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

We protect about 11 million people throughout the United Kingdom who belong to defined benefit, eg final salary, pension schemes.

If their employers become insolvent, and their pension schemes cannot afford to pay people their pensions, we will compensate them financially for the money they have lost.

More than a hundred and fifty thousand people now receive compensation from us and hundreds of thousands more will do so in the future.

We get the money we need to pay compensation in a number of ways. We:

- charge a levy on all eligible pension schemes
- take on the assets of schemes that transfer to the PPF
- recover money, and other assets, from the insolvent employers of the schemes we take on, and
- invest all income and assets, as part of a prudent yet innovative strategy, aimed at making sure we can pay members' compensation for as long as they are entitled to it.

The PPF is a public corporation, set up by the Pensions Act 2004, and is run by an independent Board. It reports to Parliament through the Secretary of State for Work and Pensions.

Directors' and Strategic Report Highlights

	At 31 March 2015	At 31 March 2014	
Funding level calculated on an actuarial basis	115.1 per cent	112.5 per cent	↑2.6pts
Likelihood of meeting target of being financially self-sufficient by 2030	88 per cent	90 per cent	↓2pts
PPF investments	£22.6 billion	£16.3 billion	↑39%
Actuarial liability for members transferred to the PPF	£17.8 billion	£12.9 billion	↑38%
PPF compensation paid to date	£1.8 billion	£1.2 billion	↑50%
	Between 1 April 2014 and 31 March 2015	Between 1 April 2013 and 31 March 2014	
PPF compensation paid to members	£564 million	£445 million	↑27%
FCF compensation paid	£4 million	£nil	-
Net income generated	£1,176 million	£642 million	↑83%
Total levies raised	£574 million	£577 million	↓1%
Operating costs	£56 million	£48 million	↑17%
Values of new claims from schemes entering PPF assessment	£322 million	£619 million	↓48%
Investment return	25.9 per cent	(0.7) per cent	↑ 26.6pts
Total assets from transferred schemes	£1.8 billion	£1.3 billion	↑ 38%

Review

Unless otherwise stated, references in the Directors' and Strategic Report are for the Pension Protection Fund only.

Directors' and Strategic Report Highlights

PPF

Between 1 April 2014 and 31 March 2015:

- 23,470 people transferred to the PPF, making a total of 222,597 deferred and pensioner members
- 30,084 people were members of schemes that completed the PPF assessment period during the year, and
- the excess of assets over liabilities in respect of those schemes already transferred into the PPF has increased from £3.6 billion to £4.9 billion, equivalent to a funding ratio of 128 per cent for schemes already transferred

By the end of the year, we were supporting 113 schemes in the assessment period, which are expected to transfer with assets of £4.9 billion and liabilities of £6.2 billion.

FAS

Between 1 April 2014 and 31 March 2015:

- 89 FAS schemes completed wind-up. A total of £523 million of scheme assets were transferred to Government
- the number of people receiving FAS assistance increased from 40,894 to 48,284 and the FAS paid out £186 million

Since FAS started, a total of £665 million has been paid out and 1,301 schemes have looked to qualify for FAS. By 31 March 2015, 1,060 of these schemes had actually qualified.

Directors' and Strategic Report

Strategic plan

When the PPF was set up a decade ago, it was to protect the millions of people in the UK who belonged to defined benefit pension schemes in case their employer, or former employer, failed and the scheme could no longer afford to pay their promised pension.

Our vision to protect people's futures is as strong now as it was then - if the PPF did not exist, many people could face significant financial uncertainty and hardship. We remain resolutely committed to pay the right people the right amount at the right time.

We have gone from a start-up to an organisation which employs over 250 staff, has over £20 billion of assets under management and is responsible for more than 200,000 members. This brought the physical challenge of space, which we addressed through our office move in May 2014. While we have seen the general economic position of the UK improve over the last year, scheme funding has worsened substantially, mainly reflecting the impact of lower gilt yields on liabilities.

However, despite the risks of the external environment, we remain confident that our key strategic objectives provide us with the right framework to adjust and adapt, ensuring that we remain focused on meeting the challenges of significant growth in the future. Ultimately, the PPF's strategic plan remained robust in the face of external challenges and volatile markets, and will continue to be upheld.

1. Meet our funding target through prudent and effective management of our balance sheets

We need to ensure we can pay members the compensation they are entitled to. Our strategic ambition is to be financially self-sufficient by 2030 which means we will have confidence about being sufficiently funded to meet our long-term liabilities. Our Funding Strategy Update, published alongside our Annual Report and Accounts, details the progress we are making. While our headline funding position has improved, the continued risks we face means our probability of success has fallen.

2. Deliver excellent customer service to our members, levy payers and other stakeholders

Over the past year we have made progress on the major project aimed at bringing our PPF member services operations in-house during 2015. This initiative will ensure the PPF has the control and flexibility to deliver exceptional service as part of its ambition to be a high performing Customer Focused Financial Institution. The new PPF-specific model, developed with Experian following consultation with levy payers and the industry, allows us to offer levy payers greater transparency and certainty.

3. Pursue our mission within a high calibre framework of risk management

As the PPF experiences rapid growth and our environment continues to be volatile, with significant pension scheme deficits, we have worked to ensure that an enhanced risk management framework is embedded across the business. We have a good understanding of the exposure of our risks, using a comprehensive data set that we publish in the form of the PPF 7800 Index and Purple Book. This underlying data set supports our modelling and risk management, which feeds into our funding strategy.

Furthermore, we are committed to pursuing the best risk management practice in the industry and this is reflected in the skills, experience and knowledge that we attract into the business.

Directors' and Strategic Report

Financial performance

Review



Andy McKinnon
Chief Financial Officer

The PPF was set up ten years ago to provide members of defined benefit pension schemes a level of protection that didn't exist before. Our role is to ensure that we pay the right compensation at the right time and help safeguard the future of 11 million people who belong to such schemes.

The cornerstone of fulfilling our role is that we have sufficient funds to pay members' compensation for their entire lifetime. We regularly review and annually update our funding strategy, which describes the framework within which we make our financial decisions, and consider all risks to the PPF. We rigorously analyse our risk policies and conduct sensitivity and stress testing, covering multiple economic scenarios to make sure we remain on track to meet this objective.

Performance for the year

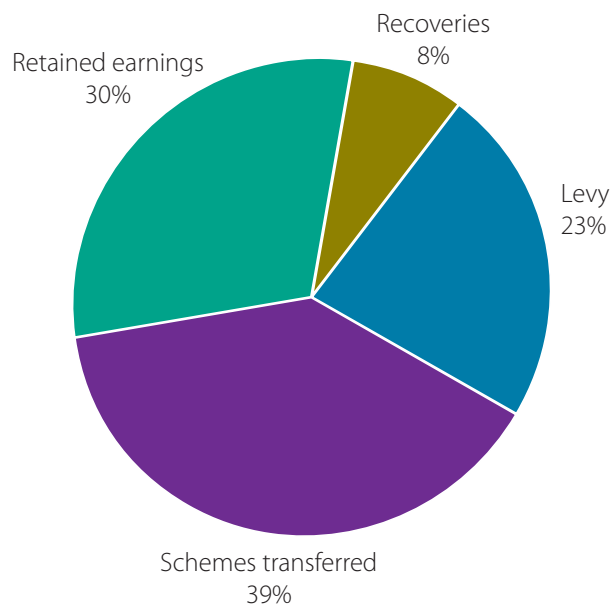
I am pleased to report as at 31 March 2015 a surplus of £3.6 billion and an increase in the funding ratio from 112.5 per cent to 115.1 per cent. New claims on the PPF were low relative to previous years, with 61 schemes bringing a combined PPF deficit of £322.3 million compared to £618.5 million for 2013/14. Levy collections were also slightly lower while total compensation paid to PPF members rose by 27 per cent. However, the greatest impact on our financial position has been the increase in the value of our liabilities caused by falling interest rates. The matching effect of our investment programme has acted to mitigate this and contributed a further £1 billion to the surplus. Overall our investment return in 2014/15 was an impressive 25.9 per cent.

Whilst our financial health has strengthened, the external environment and the universe of schemes we protect continue to present challenges. This is reflected in a change in our probability of success from 90 per cent in March 2014 to 88 per cent in March 2015.

Effective stewardship

The PPF now owns and manages investment assets of £22.6 billion, the result of investing carefully and managing our risks and costs effectively. Over the life of the PPF, we have collected levies of £5.3 billion, transferred in assets of £8.7 billion from schemes in deficit and recovered a further £1.9 billion from insolvent employers. The remaining £6.7 billion represents the earnings we have achieved on those assets, after covering compensation payments and our operating costs.

Owned assets by source





Directors' and Strategic Report

Financial performance

In a further development of our management of these assets, we have appointed Northern Trust to provide global custody, securities lending, collateral management and market risk services. As our assets continue to grow, we will transition from our existing custodian to Northern Trust, who will deliver innovative solutions to support our evolving requirements.

Increasing efficiency

As the PPF grows, we continually challenge ourselves to maintain an efficient and effective, well-run organisation. We moved to larger office space at Renaissance in May 2014 (a short move from our previous location) and replaced our outdated technology infrastructure. We have restructured our business support functions to ensure we can continue to properly control the evolution of the PPF. We have strengthened our capability to manage change and service delivery as well as developing an activity based costing model to enable us to better measure our efficiency and benchmark relevant services externally.

Fund management fees continue to dominate our costs, reflecting the growth in our invested assets. Overall, our operating expenses during 2014/15 were below budget mainly due to the later than expected insourcing of PPF member services through the Customer Experience Programme, lower advisor fees and lower property related costs. Our average administration cost per member reduced from £79 to £78 reflecting continued control over costs as we grow.



Directors' and Strategic Report

Managing our balance sheet

Review



Barry Kenneth
Chief Investment Officer

The financial strength of the PPF continues to grow through prudent and effective management of our balance sheet. A vital part of this is our investment strategy where we strive to strike a balance between protecting compensation payments for current and future members of the PPF while setting an appropriate levy.

Our investment strategy remains robust as it has done throughout the global financial crisis and the early stages of recovery. Our invested assets have returned 4.9 per cent per annum for the three year period to 31 March 2015, outperforming their liability benchmark by an average of 2.5 per cent on an annualised basis. Our assets continued to grow substantially through the year, incorporating the transfer of assets from schemes entering the PPF (£1.1 billion), levy collection (£0.6 billion) and net investment returns (£4.5 billion). Our assets under management now amount to £22.6 billion.

The non-LDI strategies have continued to perform well during 2014/15, and overall positive returns have been seen from most of our strategies without being strongly driven by a single asset class. Our return seeking assets returned 7.0 per cent during the year. Global Government and corporate bond investments have been strong contributors as yields have fallen around the world. Equity markets have continued to perform well during the year and gains have been seen in both our public and private market portfolios. Real Estate assets have also shown returns ahead of our long-term expectations over the period.

Our LDI programme continues to deploy a strategy of fully matching the interest rate and inflation sensitivity of our liabilities. Primarily driven by falling long interest rates (eg 20 year swaps falling from 3.2 per cent yield at the start of the year to 1.9 per cent at the end of the year), the gain in the present value of our liabilities has been significant. The corresponding gain in our LDI program is the main driver to a total return including LDI of 25.9 per cent over the year.

Statement of Investment Principles

Our investment strategy has continued to evolve and in July 2014 we published our new 'Statement of Investment Principles', setting out how we manage our asset allocation to take account of our liability profile.

As part of this we announced that the PPF is moving towards a hybrid asset allocation strategy, allocating more of our capital to less liquid assets where we receive excess return and liability matching properties. Investing in hybrid assets enables us to adapt to changing market conditions and financial regulation by acquiring assets that provide long-term cash flows and have less reliance on financial instruments. We aim to complete this allocation in the next two years, with allocation in hybrid assets targeted at 12.5 per cent, cash and bonds moving to 58 per cent (from 70 per cent), alternatives 22.5 per cent (from 20 per cent) and equities seven per cent (from 10 per cent).

The new hybrid investments will enable the PPF to overcome regulatory challenges surrounding the central clearing of Over The Counter derivatives and the need for banks to hold increased capital against these instruments reducing their availability.

As part of this, the PPF awarded new mandates, which allow managers to invest across a range of assets to access illiquidity, credit spread, excess return, inflation, duration and other specific factors. This better integrates our return seeking investments with those that match our liabilities.

The first significant hybrid asset investment was completed on 30 June 2014, when the PPF directly purchased a large office building in central Manchester with a long-term lease to an investment grade tenant. This investment will provide the fund with a lease contract for 23.5 years, with an annual three per cent uplift in rental income, providing good liability matching characteristics.



Directors' and Strategic Report

Managing our balance sheet

Building our expertise

During the year we continued to build on our investment programme with six new fund manager appointments, reflecting our growth and evolution into a more sophisticated investor. We hired three fund managers to invest in private equity through pooled funds in the energy sector; two focused on the exploration and production of oil and gas, and one focused on the pipeline and gathering systems, and power generation. We also appointed three new managers to invest in emerging market fixed income debt.

Over the past year, we have still continued to meet regularly with our 43 managers. Our process requires that the investment team meet formally with each fund manager on a quarterly basis. Panels of managers are used in each asset class and backup managers will often have pre-approved contracts to facilitate portfolio changes that may be required. All information is systematically stored against a range of PPF specific criteria and regularly communicated to the Investment Committee.

We have a commitment to responsible investment across our portfolio as set out in our Statement of Investment Principles. As long-term asset owners, we believe there is value to be gained for long-term performance through the management of environmental, social and governance risk impacting our portfolio. Our approach to responsible investment is integrated throughout our investment processes. This ranges from the selection and appointment of asset managers through to ongoing monitoring and scoring of their approach to responsible investment, in accordance with our requirements.

Recoveries

Recovering assets from insolvent employers or schemes continued to be an important source of assets to reduce the cost to our stakeholders. In our last 10 years of operations, we have made recoveries of more than £1.9 billion.

About half of this money has come from restructuring deals affecting companies which are otherwise certain to become insolvent and whose pension scheme members we would be responsible for compensating. We do not enter into the negotiations lightly. We will only support such deals if they offer a better return to the pension scheme as a creditor than if the company were to become insolvent in the usual way, as set out in our published Guidance to Insolvency Practitioners.

Monarch

One of the notable events of the year involved a deal in respect of Monarch, which provided the PPF with a consideration of £37.5 million and a 10 per cent equity stake to ensure that if the company without its pension liabilities does well in the future, the PPF is able to benefit. Monarch was facing inevitable insolvency, and with an offer that met our published criteria, we reached a deal with great significance for the company's continuation, avoiding insolvency and securing a higher return to the scheme and therefore PPF than otherwise was likely.

The deal with Monarch was completed on 24 October 2014.



Directors' and Strategic Report

Managing our balance sheet

Harworth Estates

Another prominent deal of 2014 was one which we struck with Harworth Estates, formerly Coalfield Resources. This saw assets secured as part of a previous transaction being realised to secure a return for the PPF.

Coalfield Resources went to market and raised approximately £120 million which resulted in a significant uplift in value for the PPF. The PPF acquired the asset from the trustees when the schemes transferred and subsequently we sold it for £97 million and gained 25 per cent of the listed company now renamed Harworth Group.

The deal with Harworth Estates was completed on 24 March 2015.

Awards

During the year, our investment strategy continued to be recognised and highly praised in the industry.

November 2014

Investment Pensions Europe Awards 2014
Real Estate Award

May 2014

aICIO Awards 2014
Best Risk Management

Financial News Awards 2014
Best Investment Strategy

Portfolio Institutional Awards 2014
Best Risk-managed Scheme and Best Scheme (over £1 billion)

Directors' and Strategic Report

Risk management



Hans den Boer
Chief Risk Officer

Effective risk management is key to our ability to fulfil our role to protect millions of people's pensions. We work to ensure that we utilise our experience and insights to identify risks, both financial and non-financial, set an appropriate risk appetite and then manage those risks. We therefore navigate a wide range of risks for the PPF and produce a risk management framework to seek to control and mitigate them.

The PPF is committed to pursuing risk management best practice to make sure we are always in a position to pay members the compensation they are entitled to. It is for this reason, alongside the natural evolution of the PPF, that we appointed our first Chief Risk Officer, Hans den Boer, in February 2015.

The PPF manages two main areas of risk; operational risk, from member services to the levy collection, and financial risk, executing the Strategic Plan to manage the risks associated with investment. One of the ways we manage financial risk is risk modelling, using our long-term risk model to inform our funding strategy, with the aim of securing self-sufficiency by 2030.

During the year we continued to explore possibilities for improving the effectiveness of our risk management approach. As part of this the PPF Board carried out a further reverse stress testing exercise. This considered what might bring about the failure of the PPF and provided a tool to identify potential risks and strategies to address them. Our Long Term Risk Model has continued to provide an important means to consider the financial consequences of our risks and a range of future outcomes of the PPF. Its output is expressed as our probability of success, and is a key measure of our risk management. Alongside this, as reported in the Funding Strategy Update, we have considered a number of deterministic scenarios and their implications for us.

Chief Risk Officer appointment

The PPF has always ensured it has significant risk expertise in the organisation and in February 2015 we announced the appointment of our first Chief Risk Officer (CRO), reflecting the importance the organisation places on implementing best practice as it grows. Hans attends the Board's Risk and Audit Committee as well as chairing the internal Risk Management Committee, both of which take responsibility for implementing best practice with regards to risk. Hans also chairs the Asset and Liability Committee (ALCO) which meets monthly. While the process to appoint Hans was underway we also benefited greatly from having an interim CRO bring his substantial knowledge and experience to bear on our approach to risk.

Assessing investment performance risk

In January 2015, we announced the appointment of Blackrock to deliver our risk and investment performance solution. This is a tool to better monitor and manage our financial risks as our assets grow and we broaden our asset allocation. The increase of diverse and complex investments has required a more sophisticated model to manage the associated risks, and as such, the new solution will offer a broader set of metrics to more effectively cope with our continued expected growth. This gives us greater capability in how we choose to manage our risks.

Understanding our external environment: The PPF 7800 Index and The Purple Book

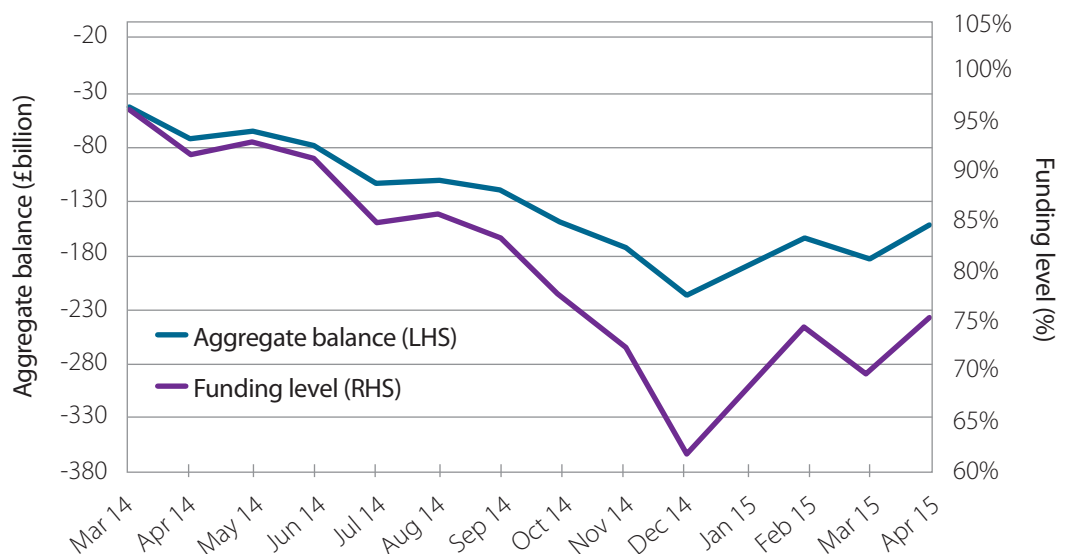
We have a good understanding of the potential risks that the schemes we protect pose. The PPF tracks external risk on an ongoing basis, using the comprehensive data which schemes must provide to the Pensions Regulator through the scheme return process. This provides us with a comprehensive view of UK pension scheme funding, which we are able to update on a monthly basis. The data is therefore not just used to determine the levy paid by schemes, but more importantly, allows analysis of our wider environment which ultimately, through helping us understand our risks, informs our funding strategy.

Directors' and Strategic Report

Risk management

Given the value of this information, we make this data available to the industry in both the PPF 7800 Index, which looks at the monthly aggregate financial position of the pensions schemes we protect, and, with the Pensions Regulator, the 'Purple Book'. This provides unique insight on the universe of PPF eligible schemes. Together these form an invaluable gauge of our risks, which gives us important insight, as we move towards our goal of being financially self-sufficient by 2030.

The PPF 7800 index is a useful barometer for assessing the state of the UK's final salary pension schemes, reflecting market conditions. The past year has seen a steady decline in pension scheme funding, with deficits reaching record levels in January this year, having increased four-fold since the beginning of 2014. This has been driven by continuing falls in gilt yields.



The same data set is published in the annual data book of scheme information called the Purple Book, which illustrates how risks changed during 2013/14. The latest edition, the ninth, was published in October 2014. The marked improvement in scheme funding up to March 2014 was a helpful reminder, given more recent trends, that pension liabilities are long term and that deficits may be very volatile.

In addition to the review of scheme funding this showed that pension schemes had continued to reduce their risk as previous asset allocation trends had continued, while the decrease in equity shares has levelled off. For the second time since the inception of the Purple Book, allocation to gilts and other fixed income instruments fell.

The percentage of schemes closed to new members fell slightly from 54 per cent to 53 per cent, while the percentage of schemes that closed to future accrual rose again in 2014 – from 30 per cent in 2013 to 32 per cent in 2014. This is a continuation of the trend that has been in place since the first edition of the Purple Book in 2006.

Our access to the underlying comprehensive data set of all our eligible pension schemes not only allows us to make much of the information available to the industry, but more importantly, provides a robust base to our risk work. We can use this data to underpin our modelling and at an individual scheme level look, in a well-informed way, at idiosyncratic risks.



Directors' and Strategic Report

The PPF levy



David Taylor
General Counsel

The pension protection levy is one of the ways that the PPF funds the compensation payable to members of defined benefit pension schemes that transfer to the PPF when their current employer or former employer fails and can no longer afford to pay their promised pension.

The levy is a tool for charging schemes for the risks that they pose of making a claim on the PPF. The levy is therefore a tool that helps with fulfilling our funding strategy, by pricing the risk of potential claims. Individual bills also should help individual schemes to better understand their insolvency and funding risk.

The final levy rules for 2015/16 were published in December 2014, supporting a levy estimate of £635 million, compared to £695 million in 2014/15, and including confirmation of the new PPF-specific model developed with Experian for assessing insolvency risk.

Triennial Review of the levy

In 2012, the PPF committed it would aim to keep the levy rules stable for three years, and 2014/15 was the end of that period. A key focus for the PPF over that time, specifically during the past two years, has been the development of our insolvency risk model. Following ongoing engagement and two formal consultations in May and October 2014, with stakeholders and members, a new PPF-specific model has been developed with insolvency risk provider Experian. This tailored model, which has been developed specifically to cover the PPF universe of sponsoring employers rather than UK businesses as a whole, improves predictive accuracy and makes the levy more transparent for levy payers.

Schemes and employers have been able to obtain their scores under the new system since May 2014, when the PPF's Industry Steering Group identified nine criteria to assess the bespoke model, which proved its superiority, particularly with its predictive power. Measurement of insolvency risk was previously carried out for the pension protection levy by Dun & Bradstreet (D&B), who will continue to handle queries in relation to the use of D&B scores in invoices for the 2014/15 levy year and earlier years.

The new levy model provides much greater precision and discriminatory power in assessing employers' insolvency risk, and reflects more accurately that the PPF employer universe is very different to the broader UK corporate landscape that generic models look at. We will work closely with Experian and with our stakeholders to help ensure that the transition to the PPF-specific model for assessing insolvency risk is smooth. The invoices using these scores will be issued from September 2015 onwards, with the pattern of issuing invoices likely to differ from previous years. While the rules are set for three years, the performance of the model will be kept under review throughout this period.

In February 2015, the PPF and Experian won the Chartered Institute of Credit Management British Credit Award (CICM) for Risk Management Achievement of the Year, important recognition for the strength and quality of the new model.



Directors' and Strategic Report

The PPF levy

Recognising risk reduction in the levy

As well as evaluating the way we measure insolvency risk and implementing the new Experian model, we have continued to review the other elements that are used to calculate individual levies. This has included a particular focus on risk reduction measures.

We therefore consulted on and introduced new approaches for the treatment of Asset Backed Contributions, parental guarantees and associated last man standing schemes for levy purposes.

Over the past year, schemes certified 782 contingent assets to us for the 2014/15 levy year, which resulted in a total levy reduction of about £30 million.

The PPF tests a number of guarantees to assess whether the reduction in levy resulting from recognition is consistent with the actual reduction in risk. Overall, in 2014/15 about 20 per cent of the guarantees tested were rejected.

Given this continuing experience, as we have highlighted over the past year, we have consulted on and introduced more stringent requirements to ensure that a Guarantor is able to support the scheme if called upon.

In December 2014, alongside the changes for contingent assets, we also set out our revised approach to the treatment of Asset Backed Contribution arrangements for levy purposes, reflecting responses to our May and October consultations. Our aim was to ensure the value recognised for levy purposes more closely reflected what the investment might be worth in the situation relevant to the PPF.

As part of the same consultation cycle we have also changed the discount available to associated last man standing schemes. The levy discount is intended to better reflect the concentration of members between employers given our experience in respect of these schemes. We also worked with the Pensions Regulator to take steps to ensure that all schemes receiving this discount could demonstrate that their scheme was established on this basis.

Directors' and Strategic Report

Scheme and Member Services



Sara Protheroe
Director of Scheme and
Member Services

Putting customers at the heart of everything we do is an important part of the PPF's ethos and culture, and we acknowledge that individuals often become members of the PPF as a result of circumstances far beyond their control. Therefore, we believe it is very important that they 'feel' like we are the partner of choice, rather than one which has been appointed for them.

We have a clear vision for the organisation which involves meeting the expectations of our members and our people and enhancing the service we provide. With this in mind, in 2012 we announced we would bring PPF member services in-house. Providing member services directly to our members means we'll have more control and flexibility over the service and experience we offer.

During 2014, we advanced this complex insourcing project. We put in place and tested the IT infrastructure and pensions administration system we need, began the process of recruiting the right people for the Member Services operation, and developed an Institute of Customer Services accredited training programme, with full migration planned for the second half of this year. We are committed to delivering our new service right, not fast. As a result, we decided to delay from dates originally set to make sure that when the service does go live, it meets expectations.

The new service will enable multi-channel access so that members can communicate with the PPF by telephone, post and online. We have a dedicated in-house team in place to handle all calls and correspondence. We have developed a new range of member communications, and the communications we send to members will include barcodes, facilitating communication between us and our members.

As part of the excellent service we want to offer our members, the PPF telephony service has also undergone a review. Members will receive a friendly, courteous, knowledgeable and consistent service.

The PPF is also building a new member website with a new look and feel, which members will use to update their information and obtain information from us. Our ambition is that we will extend our online services over time.

Recruitment

To ensure we provide members with a service tailored to their needs and place the PPF in a position to manage growing member numbers and increasing volumes of queries, we have invested significant time in recruiting and training the right people. During 2014, we recruited 19 and expect to recruit a further 30 in 2015 ahead of the launch of the service. By the end of 2015, we will have employed an additional 55 to build a Member Services delivery team focused on providing the best service possible. We have developed and implemented a detailed training schedule, specifically for the Customer Experience Programme.

Customer Services

During the year the Stakeholder Support team, our main point of contact for industry professionals and employers, handled 11,560 telephone calls and 3,039 letters and emails.

Our payments administrator customer services team handled 99,610 written enquiries and 71,423 telephone enquiries for both PPF and FAS throughout 2014/15.

We measure customer services throughout the year via our annual perception audit and a call-back survey. We recorded a 91.1 per cent satisfaction rating at the end of the 2014/15 year.

The assessment process and scheme wind-up

Between the insolvency of the sponsoring employer(s) and any eventual transfer to the PPF, schemes go through an assessment period. During this time we consider whether the scheme might be rescued, whether it is sufficiently funded to secure benefits above PPF level or whether it will transfer to us. For the Financial Assistance Scheme we continue to oversee the winding-up of remaining qualified schemes.

Directors' and Strategic Report

Scheme and Member Services

We aim to complete PPF assessment for most schemes within two years to give certainty and reassurance to members and minimise costs. We recognise that there may be occasions where this is not possible due to legal issues, dividend issues or other insolvency related issues. In the 2014/15 year, 96 cases transitioned to the PPF; 86 of which were appropriate for the 24 month target and were transitioned within that period. Three years ago, the average PPF assessment period was 38 months when transferring into the PPF. Today, we average 17 months in assessment, an excellent achievement that has been key in helping to control assessment period costs.

Panels

During the year, we have consistently used our experience of the last ten years to improve our operating model and systems, particularly through continuing to utilise panels. The purpose of working with a smaller group of core specialists in a panel is to reduce both the time it takes to get a scheme through the assessment period, and the costs associated with this process. In addition to supporting the PPF assessment process we have used these panels to support the FAS wind up process.

Over the past year we have continued to bed in our panels and have refined our processes to accommodate this. There are currently five panels in operation; Actuarial Valuation Panel (July 2011), Specialist Administration Service Panel (August 2012), Trustee Advisory Panel (September 2013), Audit Services Panel (December 2013) and Legal Assessment Period Panel (April 2014). While trustees may continue to use advisors from outside these discrete groups, the knowledge and specialist expertise that panel firms are able to bring, within an agreed costs framework, is greatly valued.

While no new panels have been created in the past twelve months, we have undertaken a detailed review into the benefits of a data panel, in respect of both pre and post transfer work. One of the biggest challenges for the PPF over the past decade has been ensuring that the quality of data received from schemes transferring to the PPF or FAS is adequate. We will be considering therefore how best to continue to drive improvements in this area over the coming year.

We have introduced a number of Key Performance Indicators over all 31 existing panellists with a view to monitoring and improving performance. Ultimately, these cover time, cost, quality and 'the experience' of each transfer. All panellists are currently achieving a rating of 'good' or above.

We have also used the panel framework to support 'Accelerated Scheme Transfers' for PPF schemes. This involves a scheme being transferred to the PPF in a much shorter period of time, often less than a year after the insolvency. In the first instance, the administration of the scheme remains with a panel firm who will complete tasks that would normally be completed during the assessment period, but the trustees would be discharged. This approach provides greater control and gives members earlier certainty through an earlier transfer to us. In July 2014 we transferred the UK Coal schemes in this manner.

Financial Assistance Scheme

Since taking responsibility for the management of the Financial Assistance Scheme in 2009 we have made steady progress in completing scheme wind-ups, taking responsibility for member assistance payments and, where required, transferring assets to Government. In 2014/15 we completed the transition of 89 FAS1 and FAS2 schemes, bringing the total number of FAS schemes transitioned to 1,022 leaving 38 schemes. These have particular data, legal or other complex issues which require further work.

Despite the small number of schemes that continue to qualify, one of our biggest challenges over the past year has been managing and re-aligning our resource model in line with the steady decline of the FAS book. Following the start of the new financial year, this has now been completed and we are well placed to face the challenges in the coming year, and to ensure that the remaining members of qualifying FAS schemes are transitioned as soon as we are able.



Directors' and Strategic Report

HR, Organisational Development and Communications



Katherine Easter
Director of HR, Organisational Development and Communications

At the PPF, we believe our people are the foundation to everything we do; they manage our risks, safeguard our investments and look after the interests of our members and levy payers. In the last year, we have focused on engaging our people on how the work the PPF does comes together to protect people's futures. We want to continually improve the way we do business and the results we achieve.

The focus has been on three key areas; our customers, our commitment to the mission and continuing to drive a commercial mind-set. Our ambition is that our members always experience exceptional service and our levy payers always trust that their money is in expert, safe hands. We want to display a visible commitment to a strong social purpose, whilst emphasising the importance of being efficient and effective.

ICARE

The PPF measures the quality of every activity and action carried out by staff against five core values, our ICARE values.

INTEGRITY – DO THE RIGHT THING

COLLABORATION – WORK AS ONE

ACCOUNTABILITY – OWN YOUR ACTIONS

RESPECT – VALUE EVERY VOICE

EXCELLENCE – BE YOUR BEST

As the PPF continues to evolve toward the high performing financial institution that we want to be, it is increasingly important for the organisation to have a customer-focused behaviour framework. Our ICARE values provide a standard which we expect from all our staff; these behaviours are critical to our success, and it is crucial our staff understand and act in line with these if we are to achieve the required delivery, objective and long-term plans.

To celebrate and emphasise our people's commitment to the ICARE values, we hold the ICARE Awards, where employees nominate a colleague who has shown particular excellence in their behaviour and results. Managers are also able to give token immediate recognition awards to members of their own or other teams who have exemplified our values.

Performance initiatives and employee engagement

Over the past year we have strengthened our performance management process. Formal and informal training has been reviewed to ensure people have the skills needed to excel and continue to improve on the results they achieve. Further, the PPF is utilising best practice from external partners, offering staff the opportunity to be seconded externally to gain insight from other organisations.

We have set up a Senior Manager briefing to ensure consistent focus is brought to areas of improvement and change. We've also continued with our Staff Consultative Body to ensure voices from across the PPF can be heard.

Throughout the year some staff changes at a senior level gave us a chance to review roles and reorganise our Directorate structure and the teams within them. During this period of significant change within the organisation, our employee engagement rating from the Best Companies survey dropped slightly, and we were disappointed not to retain our 'One Star' status. Nonetheless, our results remain strong and we are delighted to have retained our place in The Sunday Times 100 Best Not-for-Profit Organisations to Work for 2015. We will continue to use the feedback the survey provides to guide our continuous improvement and strengthen our reputation as an employer of choice.

As part of our continuous investment in people over the past year, we have moved to new offices that reflect the growth of the organisation and have made 15 internal promotions.



Directors' and Strategic Report

HR, Organisational Development and Communications

Communications

The growth of the PPF has led us to think more closely about how we are perceived. Throughout the year, engaging properly with our stakeholders has been key to ensuring changes such as those related to the levy are properly developed and explained.

While our strategy of focusing on building knowledge and understanding through our communications has remained constant, we have thought carefully about how our increasing complexity and range of activities are best communicated. We therefore commenced a tender process in July 2014 and in December appointed Lansons, a communications agency, to act as our partner to provide communications and external relations support on a retainer basis. The partnership enables the PPF to communicate a broader range of issues, adding extra resource and experience to the communications process to match the evolution of the organisation.

In parallel we have also identified the need to strengthen how we engage with and inspire our staff. In May 2014 we appointed our first dedicated Head of Internal Communications and have then implemented our first specific strategy focused on the communications needs of our staff.

We recognise that the PPF website and intranet are not wholly fit for purpose and plan to redevelop both of these in the coming year. Increased sophistication of the systems will increase efficiency; making it easier to navigate to find material and provide additional services.

Community

Continuing to be rooted in our local community in Croydon was an important part of deciding to remain in the area when we considered options prior to our office move.

Over the past year, we have continued to partner with Croydon Commitment, the charitable trust that helps Croydon businesses help their local community. This provides a link between local businesses, charities and voluntary groups, which we have been able to support in a number of ways. Staff have been given a greater direct role in our community activity with our Sports, Social and Charity Committee running events and consulting with staff on which charities they would like to support.



Directors' and Strategic Report

General information

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

Reviewable matters – 2014/15 levy year

We run a statutory appeals process in respect of 'reviewable matters' listed in the Pensions Act 2004. The majority of appeals under this process relate to the pension protection levy.

During 2014/15, we issued 53 review decisions in response to levy appeals, the same as in the previous year. In 28 of these cases, the scheme was found to be levied correctly. In the remaining 25 cases, we agreed with some or all of the scheme's appeal. In 12 cases, the applicants further appealed the review decision to our Reconsideration Committee. We issued 9 review decisions in relation to other levy related reviewable matters. In 3 cases, the applicants further appealed the review decision to our Reconsideration Committee.

We also issued 35 review decisions in relation to non levy related reviewable matters (primarily related to individuals' compensation) during 2014/15. In 7 cases, the applicants further appealed the review decision to our Reconsideration Committee.

Maladministration complaints

We dealt with 6 formal complaints of maladministration during 2014/15. In 3 of the cases, our Board at Stage One or Two of the process found that maladministration had occurred. These were cases where we failed to meet the high standards of customer service we set ourselves. As such we apologised to the members concerned and compensated them appropriately.

Freedom of Information (Fol) requests

During the year, we received 39 Fol requests and we disclosed fully the information requested in 29 cases, partially disclosed in one case and did not hold the information asked for in 4 cases.

We declined to disclose information in 5 instances by applying statutory exemptions because the information was restricted, commercially sensitive or too costly to disclose.

We do not charge for disclosing information. In this way, we comply, as a public sector information holder, with the cost allocation and charging requirements set out in the relevant HM Treasury and Office of Public Sector Information Guidance.



Directors' and Strategic Report

General information

General complaints

During the year, we received 187 PPF complaints, 185 were resolved at Stage One and 2 were escalated to Stage Two.

We logged 214 FAS complaint cases, of which 206 were resolved at Stage One and 7 cases were escalated to Stage Two and 1 to Stage Three.

For the PPF the focus of complaints was around recovery of overpayments and members disputing their compensation entitlements, including the way that legislation affects members' compensation.

For FAS, complaints were mostly about overpayments.

Guidance on how we handle complaints and appeals can be found on our website.

People

As at 31 March 2015, we had 279 employees, compared to 270 as at 31 March 2014, of which 143 are men and 136 are women.

The gender mix of our top team is 10 men and 5 women, and at senior management level and above is 26 men and 20 women.

The number of days we lost to sickness during the year averaged 5.3 days per person. This included long-term absences of more than 28 days of which we had four cases of long term absence over 6 months for serious health issues.

Excluding long-term absences, we only lost 4.4 days per person which compares favourably with the Civil Service average of 7.4 days per person.

Staff turnover rose slightly from 9.4 per cent in 2013/14 to 10.0 per cent in 2014/15.

None of our staff has registered themselves as disabled.



Alan Rubenstein
Chief Executive

10 July 2015







Statutory Reports

	Page
Statement of Accounting Officer's responsibilities	34
Governance statement	35
Remuneration report	45
Statement on going concern	48
The certificate and report of the Comptroller and Auditor General	49
Financial Statements for the year ended 31 March 2015	51
Notes to the financial statements	59


Statement of Accounting Officer's responsibilities

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

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

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

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



Alan Rubenstein
Accounting Officer
10 July 2015

Governance statement

Governance Framework

The Board has eight non-executive members, including the Chairman. There are three executive members, including the Chief Executive. Two executive Board members stepped down from the Board in 2014/15.

The Board has established a number of committees so that it can conduct its business in line with its Statement of Operating Principles.

The Board has also given the Chief Executive delegated powers so he can take decisions to ensure operational effectiveness and provide regular updates to the Board on performance, risks and strategic briefings. The Chief Executive has established a number of internal committees to oversee operations.

Further details of the governance framework are provided in Appendix 1.

Board Performance

During 2014/15, the Board and Board Committees conducted an evaluation of their effectiveness looking back over the previous year. This was carried out using a questionnaire and the Chairman met each Board member to discuss their feedback in relation to the Board meetings. The feedback provided culminated in a report to the Board and each committee, including the comments provided (in an anonymised format), and set out an action plan to address any outstanding points.

The Board met nine times in 2014/15 and also held Board training sessions on responsible investment, the PPF levy and PPF funding margin assumptions.

Board member details, committee memberships and attendance at Board and committee meetings are set out in Appendix 2.

Highlights of Reports

The Board and its committees considered a number of matters during the year which are described more fully in Appendix 3, including:

- 2014/15 valuation assumptions
- Strategic Plan 2015-2018
- funding strategy review
- Board risks and risk appetite
- identified actions in the Board and Committee effectiveness review
- implemented the revised role of the Risk and Audit Committee
- compliance update including the Bribery Act and Health and Safety matters
- regular progress reports on insourcing of member services
- consultations on the second Levy Triennium and the Levy Determination for 2015/16 and approval of the Determination
- implementation of new IT system and office move, and
- proposed partial insourcing of investment management.

Governance statement continued

Account of Corporate Governance

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

The latest review of compliance with the code was considered by the Chairman, the Senior Independent Director and the Chair of the Audit Committee in February 2012. The Board meets the provisions of the code where they apply to the PPF. The next review of the PPF's compliance against the code will be carried out in 2015.

Full details of the review can be found in Appendix 4.

The risk and control environment

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

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

- funding
- operational, and
- external

The Board determines its risk appetite on an annual basis, which is then passed down to risk owners within the PPF who report twice-yearly about how they are adhering to the risk appetite. The risk appetite can be found on the PPF website

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

Significant risks

We have identified the following risks, which have the potential to adversely impact on our ability to deliver on our strategic aims and may jeopardise the achievement of the three-year business plan or the long-term funding objective:

- changes in the PPF's environment arising from adverse economic conditions and/or a failure of the regulatory system may mean we cannot achieve our funding objective by 2030
- unexpected material off balance sheet (defined benefit liabilities) risk materialises that may significantly and adversely impact PPF's funding plan
- lower than expected investment returns
- failure to deliver excellent customer service leading to member (PPF and FAS) and/or stakeholder dissatisfaction
- failure to effectively procure and manage third party suppliers including a change in our strategic suppliers may result in poor value for money, member/stakeholder dissatisfaction, operational ineffectiveness and/or reputational damage
- failure to manage our significant change portfolio as the PPF operating model is evolving rapidly and may have an adverse impact on our ability to deliver our objectives, and
- the remuneration controls imposed under Schedule 5 of the Pensions Act possibly having the effect of creating a significant risk to the PPF's ability to retain and/or attract executive directors.

The risks above are maintained and managed as part of the normal course of business.

Further details of our risk and control environment can be found in Appendix 5.

Governance statement continued

Ministerial directions

No directions have been issued.

Personal data related incidents

No material data incidents to disclose.

Significant control issues

There are no significant control issues to disclose.

Review of effectiveness

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

- the assurances I sought and received from other Board members and senior staff of the PPF which detailed the work carried out to make sure management of risk and control is addressed in their areas of responsibility
- the work of the executive directors and senior managers within the PPF who have responsibility for the development and maintenance of the internal control framework
- comments made by the external auditors in their management letter and other reports, and
- the opinion of the Head of Internal Audit on the overall adequacy and effectiveness of PPF's framework of governance, management of risk and control. This states "It is our opinion that within the scope of work undertaken, and on the assumption that all agreed Internal Audit recommendations are implemented, the PPF's risk management, control and governance processes are effective. The PPF has a control framework in the areas reviewed which we are satisfied is operating as intended to mitigate the key risks in the specific area. Where the assurance provided on internal control design or operational effectiveness has been highlighted as less than high, the remediation of identified findings should elevate the assurance to a high level".

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



Alan Rubenstein
Accounting Officer
10 July 2015

Governance statement continued

Appendix 1 - Governance Framework

The Pensions Act 2004 requires that the Board has a majority of non-executive members, including a non-executive Chairman. All non-executive members were independent at appointment having no current or previous material relationship with the organisation as an employee, officer or contractor.

The Board must appoint a Chief Executive and at least two further executive Board members. There are currently three executive members, including the Chief Executive, the Chief Financial Officer and the General Counsel.

The Board is required under the Pensions Act 2004 to have a Non-Executive Committee. The functions of the Non-Executive Committee are set out under section 112 of the Pensions Act 2004:

- the duty to keep under review the question of whether the Board's internal financial controls secure the proper conduct of its financial affairs
- the duty to determine 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
- 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
- the duty to determine under paragraph 13(3)(b) of that Schedule, the terms and conditions as to the remuneration of any member of staff of a description prescribed for the purposes of that provision.

The Board is also required to have a Reconsideration Committee to reconsider reviewable matters, cases and maladministration complaints.

The Board has also established a Risk and Audit Committee and a Remuneration Committee as the sub-committees of the Non-Executive Committee. Investment, Nomination and Decision Committees have been established as Committees of the Board.

Each committee has a majority of non-executive members. The terms of reference for these committees can be accessed at www.pensionprotectionfund.org.uk/About-Us/TheBoard/Pages/TheBoard.aspx and their activities during the 2014/15 financial year are reported below.

Board procedures are governed by its Statement of Operating Principles and its decision making role by the Schedule of Delegations and Matters Reserved to the Board. The Chief Executive reports to the Board monthly on performance against strategic objectives, the Chief Executive's report and other briefings as required. Papers are circulated a week in advance of meetings and feedback on the quality and timeliness of the information provided was sought as part of the review of the Board and Committees' effectiveness.

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

Governance statement continued

Appendix 2 - Board's performance

Board member details, committee memberships and attendance at Board and committee meetings are set out below.

Chairman

Lady Judge CBE

Chief Executive

Alan Rubenstein

Executive Members

Martin Clarke

(stepped down from the Board on 31 July 2014)

David Heslop

(stepped down from the Board on 31 December 2014)

Andy McKinnon

David Taylor (joined the Board on 01 June 2015)

Non-Executive Members

Dick Barfield

John Bevington

Alan Jenkins

Tom Joy

Sharmila Nebhrajani OBE

Arnold Wagner OBE (also Senior Independent Director of the Pension Protection Fund)

Baroness Warwick of Undercliffe

All biographies are on the PPF website

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

Attendance at Board and Committee meetings during 2014/15

	Board	Remuneration Committee	Risk & Audit Committee	Investment Committee	Reconsideration Committee*	Decision Committee
Lady Judge CBE	9 of 9	4 of 4	n/a	n/a	n/a	n/a
Dick Barfield	8 of 9	n/a	4 of 5	5 of 5	n/a	n/a
John Bevington	6 of 9	3 of 5	n/a	5 of 5	n/a	6 of 7
Martin Clarke**	1 of 2	n/a	1 of 1	n/a	n/a	n/a
David Heslop***	5 of 7	n/a	n/a	n/a	n/a	n/a
Alan Jenkins	9 of 9	4 of 5	n/a	n/a	11 of 11	n/a
Tom Joy	7 of 9	5 of 5	n/a	5 of 5	n/a	n/a
Andy McKinnon	9 of 9	n/a	5 of 5	4 of 4	n/a	1 of 1
Sharmila Nebhrajani OBE	5 of 9	n/a	5 of 5	n/a	1 of 1	n/a
Alan Rubenstein	9 of 9	5 of 5	5 of 5	5 of 5	n/a	7 of 7
Arnold Wagner OBE	8 of 9	5 of 5	n/a	n/a	n/a	6 of 7
Baroness Warwick of Undercliffe	9 of 9	n/a	5 of 5	n/a	10 of 10	n/a

The Board's Nomination Committee did not need to meet during the year as no Board appointments were made.

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

** Stepped down from the Board on 31 July 2014

*** Stepped down from the Board on 31 December 2014

Governance statement continued

Appendix 2 - Board's performance continued

The committee memberships are as follows:

Risk and Audit Committee (Sub-Committee of the Non-Executive Committee)

Sharmila Nebhrajani OBE – Chair
Dick Barfield
Baroness Warwick of Undercliffe
Other attendees: Alan Rubenstein, Andy McKinnon, National Audit Office attendee, Internal Audit attendee.

Remuneration Committee (Sub-Committee of the Non-Executive Committee)

Arnold Wagner OBE - Chair
John Bevington
Alan Jenkins
Tom Joy
Other attendees: As appropriate – Lady Barbara Judge CBE, Alan Rubenstein

Investment Committee

Dick Barfield - Chair
John Bevington
Tom Joy
Alan Rubenstein
Andy McKinnon
Co-opted member: Michael O'Brien

Reconsideration Committee

Baroness Warwick of Undercliffe – Chair
Alan Jenkins – Non-Executive Member
Co-opted member: Christopher Hughes

Decision Committee

John Bevington – Chair
Arnold Wagner OBE
Alan Rubenstein
Panel: Other Board members as appropriate. Those members considering a subsequent Reconsideration application must not have been involved at the Decision Committee stage.

Nomination Committee

In the case of non-executive appointments, members of the panel will be formed from non-executive Board members. In the case of executive Board member appointments, the Chief Executive will normally chair the panel.

Board decisions

A number of decisions that fall within the Board's normal cycle of work were also taken. These included:

- approved the Levy Consultation and Determination for 2015/16
- approved the audited Annual Report and Accounts 2013/14
- reviewed Board Risks and Risk Appetite
- approved the investment risk appetite
- took forward actions recommended by the Board effectiveness review
- approved the 2015-2018 Strategic Plan
- approved the 2014/15 valuation assumptions
- approved the modelling assumptions for the long term funding strategy
- approved the levy estimate of £635 million for 2015/16, and
- approved the Responsible Investment Policy.

Governance statement continued

Appendix 3 - Highlights of reports

The Risk and Audit Committee

The Risk and Audit Committee is chaired by Sharmila Nebhrajani OBE. The Committee met five times during the year. The scope of the Committee covers risk, including monitoring compliance with the Board's risk appetite. Six internal audit reports and three 'deep dives' on operational risks and controls (insourcing of member services, office move and implementation of new IT and procurement and supplier management) were presented.

As part of its normal cycle of work, the Committee reviewed the risk management policy, the Governance Statement, annual Actuarial Valuation and the internal audit reports. The Committee also reviewed and recommended the Annual Report and Accounts 2013/14 for approval by the Board. In addition the Committee reviewed the whistleblowing policy. Interim and permanent Chief Risk Officer appointments were made. The Interim Chief Risk Officer has been co-opted to the Committee in order to strengthen the oversight of risk management.

Grant Thornton LLP, PPF's current internal auditors, continued to provide the internal audit service.

Remuneration Committee

The Remuneration Committee is chaired by Arnold Wagner OBE. The Committee met five times during the year and agreed objectives for executive directors in 2014/15. The Committee also undertook yearly and half-yearly performance reviews of executive directors and approved bonus payments for them based on performance against the objectives set.

The Committee was briefed on relevant market trends and discussed the development of the overall reward strategy of the PPF.

Investment Committee

The Investment Committee is chaired by Dick Barfield. The Committee met five times during the year and the Committee agreed a number of key proposals including the investment in fixed rate investment grade loans and illiquid assets, the use of fixed income hedging strategies to hedge the Fund's exposure to global sovereign bond risk and the appointment of panels of managers for emerging market debt, private equity and global equity. The Committee also reviewed proposals to insource investment management and appoint a global custodian.

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

- four investment update reports including investment activities and the implementation of investment policies
- four reports from the investment advisor (Mercer)
- two reports on the markets and investment strategy
- four risk policy reviews: including strategic risk, implementation risk, market risk of schemes in assessment and concentration risk
- two asset class reviews: alternative credit and investment grade
- a report on responsible investment including the PPF's ethical investment policy and voting policies
- the investment risk appetite for review by the Board, and
- the Statement of Investment Principles.

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

Governance statement continued

Decision Committee

The Decision Committee is chaired by John Bevington. The Committee met seven times during the year.

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

Reconsideration Committee

The Reconsideration Committee is chaired by Baroness Warwick of Undercliffe. The Committee co-opted two specialist members, one of whom stepped down during the year, who had an appropriate level of experience to ensure robust decision making. The Committee met on eleven occasions during the year and considered, and issued decisions relating to 16 cases where levy payers challenged their levy. Of these 16, four were referred to the Pension Protection Fund Ombudsman.

The Committee also considered 12 non-levy review cases relating to compensation payments, two in relation to the recovery of overpayments, five in relation to compensation entitlement, and five maladministration complaints. Two cases were referred to the Pension Protection Fund Ombudsman.

Nomination Committee

The Nomination Committee did not need to meet during the year as no non-executive or executive appointments were made.

Board appointments

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

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



Governance statement continued

Appendix 4 - Account of Corporate Governance

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

The principal areas of compliance are met as follows:

Parliamentary accountability

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

The Chief Executive of the PPF is also its Accounting Officer. Compliance with Accounting Officer responsibilities is supported through the Board's risk management procedures and through a shared objective for senior management to support the Accounting Officer in fulfilling his responsibilities. On one occasion I have acted in the best interests of the PPF against the guidance of HM Treasury by securing a settlement on a legal challenge without referral to a Court of Law.

The Board and Board composition

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

The Board focuses on strategic issues, supporting the PPF's performance against its strategic objectives, risk management and ensuring that these all support the long-term success of the organisation.

The Board recognises that effective behaviours and culture support organisational delivery and management of risk. The Board operates in accordance with its Board Manual which identifies how meetings should be conducted. Individual members also adhere to the code of conduct, guidance on dealing with potential conflicts of interest and on expenses and hospitality.

Board effectiveness

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

The Board has regulations in place for the appointment of 'ordinary' Board members and both the Board and its Nomination Committee consider the current and future needs of the Board in order to facilitate the Board appointment process. New Board members receive induction training and ongoing briefings are provided to support non-executive members' understanding of the organisation's operations and key risks. Board and Committee papers are dispatched a week in advance and the Board is supported by a dedicated secretariat.

Management of risk

The Board has set its risk appetite which it reviews at least annually. The Board is supported in its risk management role by its Risk and Audit Committee, its internal and external auditors and its Investment Committee. Regular reports are received from the members of the Executive Committee. The Chief Executive has established a Risk Management Committee and an Asset and Liability Committee to ensure effective day-to-day oversight of operational and financial risks. Information on risks and risk management processes is provided in Appendix 5.



Governance statement continued

Appendix 5 – The risk and control environment

Our 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 management of risks to the achievement of the Board of the PPF's policies, aims and objectives. This process is also designed to evaluate the likelihood of those risks being realised and their impact should they be realised and to manage them efficiently, effectively and economically.

The system of internal control has been in place within the Board of the PPF for the year ending 31 March 2015 and up to the date of signing of this report and accounts, and accords with Treasury guidance.

Internal audit services are provided on an outsourced basis in accordance with 'Government Internal Audit Standards'. Audits are undertaken in accordance with an internal audit plan approved by the Risk and Audit Committee. Grant Thornton LLP, PPF's internal auditors, continue to provide internal audit services.

The risk and control environment

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

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

Risk processes are embedded throughout the organisation and individuals' responsibilities are reinforced through an annual communication. During 2014/15, we have delivered a number of improvements to managing risk, including:

- appointment of a new Chief Risk Officer
- revision to our risk taxonomy
- enhancement to our stress testing process
- refinement to the Key Risk Indicators for our Board risks
- introduction of two e-learning courses on understanding and owning operational risk to all staff and senior managers respectively
- enhancements to our capability for horizon scanning
- development to our approach to the ongoing monitoring of the risk controls of third parties
- procurement of a new risk system that will provide enhanced monitoring of financial risks
- development of the approach to operational readiness for central clearing, including appointment of Clearing Members and Central Counterparties to our Panel, and
- strengthening of our in-house risk management team with industry specialists.

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

We have identified three business-critical models. These are the Long-term Risk Model (LTRM), the actuarial liability model, and the Actuarial Calculation Tool (ACT). LTRM is a stochastic model used to assess the long-term changes in the PPF's funding position and that of eligible schemes, based on a range of economic and insolvency scenarios. The actuarial liability model is used to calculate our liabilities in relation to compensation payments. ACT is an in-house system which rolls forward actuarial liabilities and assets. We can confirm that an appropriate quality assurance framework (as defined in the Macpherson Report of March 2013) is in place for these models. The quality assurance framework for these models includes, but is not limited to, external audit, internal and external peer review, governance structures for review and challenge of model assumptions and outputs, developer testing and consideration of the relevant actuarial standards.

The PPF recognises the importance of managing information effectively. We therefore operate in accordance with the Security Policy Framework and related Data Security guidance issued by the UK Government. To help achieve this we gained certification to the ISO27001 Information Security standard in 2009 (successfully recertified in 2012) and carry out annual ISO27001 surveillance audits to ensure we maintain compliance with the standard. In 2014, the audit was completed with only one minor issue, which has since been addressed. During the year, we successfully gained PSN accreditation for our new IT infrastructure, in line with our move to our new building.

Remuneration report

Remuneration and bonuses

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

Their contracts allow for the payment of an annual performance related bonus.

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

Contracts

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

Name	Contract type	Start date	End date
Lady Judge CBE	Term of office (second)	01 July 2013	30 June 2016
Alan Rubenstein	Fixed Term Contract (third)	01 July 2015	30 June 2018
Martin Clarke	Fixed Term Contract (third)	17 May 2013	31 July 2014
David Heslop	Fixed Term Contract (second)	01 July 2012	31 December 2014
Andy McKinnon	Fixed Term Contract (first)	02 January 2013	01 January 2016
David Taylor	Fixed Term Contract (first)	01 June 2015	31 May 2018
Dick Barfield	Term of office (second)	01 October 2012	30 September 2015
John Bevington	Term of office (second)	19 October 2012	18 October 2015
Alan Jenkins	Term of office (first)	07 August 2013	06 August 2016
Tom Joy	Term of office (first)	07 August 2013	06 August 2016
Sharmila Nebhrajani OBE	Term of office (second)	27 June 2015	26 June 2018
Arnold Wagner OBE	Term of office (second)	04 January 2014	03 January 2017
Baroness Warwick of Undercliffe	Term of office (second)	07 March 2014	06 March 2017

Notice periods

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

Executive directors – outside appointments

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

Alan Rubenstein, non-executive member of the Supervisory Board of Robeco, a Netherlands based asset manager. Investment advisor to the British Coal Staff Superannuation Scheme.

Cash equivalent transfer values

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

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

Remuneration continued

Salary and pension entitlements (subject to audit - see auditor's report pages 49-50)

	Salary (in bands of £5,000)				Pensions				
	Year ending 31 March 2015		Year ending 31 March 2014		Real increase in pension and related lump sum	Total accrued pension at age at 31/03/2015	Cash equivalent transfer value at 31/03/2015	Cash equivalent transfer value at 31/03/2014	Real increase in CETV
	Salary £'000	Bonus ² £'000	Salary £'000	Bonus ¹ £'000	£'000	£'000	£'000	£'000	£'000
Lady Judge CBE Chairman	55-60	n/a	55-60	n/a	n/a	n/a	n/a	n/a	n/a
Alan Rubenstein ⁴ Chief Executive	200-205	40-45	195-200	35-40	n/a	n/a	n/a	214	n/a
Martin Clarke Director of Financial Risk (until 31 July 2014)	55-60 (Full year equivalent: 165-170)	n/a	165-170	20-25	0-5	0-5	71	51	16
David Heslop ^{3,4} Chief Operating Officer (until 31 December 2014)	100-105 (Full year equivalent: 135-140)	10-15	135-140	20-25	n/a	n/a	n/a	129	n/a
Andy McKinnon Chief Financial Officer	155-160	15-20	150-155	15-20	0-5	5-10	89	47	25
Dick Barfield Non-executive member	15-20	n/a	15-20	n/a	n/a	n/a	n/a	n/a	n/a
John Bevington Non-executive member	15-20	n/a	15-20	n/a	n/a	n/a	n/a	n/a	n/a
Alan Jenkins Non-executive member (from 7 August 2013)	15-20	n/a	10-15 (Full year equivalent: 15-20)	n/a	n/a	n/a	n/a	n/a	n/a
Tom Joy Non-executive member (from 7 August 2013)	15-20	n/a	10-15 (Full year equivalent: 15-20)	n/a	n/a	n/a	n/a	n/a	n/a
Sharmila Nebhrajani OBE Non-executive member	15-20	n/a	15-20	n/a	n/a	n/a	n/a	n/a	n/a
Arnold Wagner OBE Non-executive member	15-20	n/a	15-20	n/a	n/a	n/a	n/a	n/a	n/a
Baroness Warwick of Undercliffe Non-executive member	15-20	n/a	15-20	n/a	n/a	n/a	n/a	n/a	n/a

¹ The bonus values disclosed here relate to the executive directors' performance in the 2013/14 year and paid in 2014/15.

² The bonus values disclosed here relate to the executive directors' performance in the 2014/15 year and paid in 2015/16 (paid in 2014/15 for David Heslop).

³ David Heslop received a compensation payment of £55-60,000 in line with the terms of his contract and those of the Civil Service Compensation Scheme.

⁴ Alan Rubenstein and David Heslop chose not to be covered by the Civil Service pension arrangement during 2014/15.

Two directors have life insurance cover provided by the PPF as in both cases the individuals reached the maximum lifetime allowance so could no longer contribute to the pension scheme. PPF paid £366 for David Heslop and £890 for Alan Rubenstein in respect of this cover.

Remuneration continued

Salary multiples

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

	2014/15	2013/14
Band of highest paid Board member's total remuneration	£240-£245k	£235-£240k
Median total remuneration	£52k	£52k
Ratio	4.7	4.6

In 2014/15 one employee (2013/14: one) received remuneration in excess of the highest paid Board member. Remuneration ranged from £18k to £295-£300k (2013/14: £18k to £295-300k).

Off-payroll staff

For all off-payroll engagements as of 31 March 2015, for more than £220 per day and that last for longer than six months:

Number of existing engagements	34
Number that have existed for less than one year	26
Number that have existed for between one and two years	7
Number that have existed for between two and three years	1
Number of new engagements, or those that reached six months in duration, between 1 April 2014 and 31 March 2015	32

All off-payroll engagements as of 31 March 2015 have been subject to a risk-based assessment as to whether assurance is required that the individual was paying the right amount of tax and, where necessary, that assurance has been received.

There were no off-payroll engagements of Board members and/or senior officials with significant financial responsibility during 2014/15. We had three Board members and/or senior officials with significant financial responsibility.



Alan Rubenstein
Accounting Officer
10 July 2015

Statement on going concern

In order to comply with the Government Financial Reporting Manual when preparing this annual report and accounts, we have to explain why we have adopted a 'going concern' basis for the organisation. An organisation deems itself a going concern if its management believe that the organisation will continue to operate and there is no intention, nor need, to close down its functions. After reviewing the three funds which we operate, cash flow forecasts and our powers to raise levies and control outgoings, we decided to adopt a going concern basis for the PPF as a whole because we believe we have enough resources to continue operating for the foreseeable future.

Pension Protection Fund

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

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

Fraud Compensation Fund

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

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

- none of the claims which the FCF has received and which it will probably have to pay out on are from schemes that have immediate cash flow requirements
- claims take some time to investigate and validate, which gives us time to plan how we will settle them
- we have powers to settle claims in instalments in order to ease any strain on the Fund's cash flow, and
- during the year, the Board maintained its funding strategy for the FCF which is to build up a small surplus in the Fund by raising a levy where necessary.

Administration Fund

In considering the going concern status of the Administration Fund, we took into account the status of the Board as an independent statutory corporation, while also recognising that the Board receives funding from its sponsor department, the Department for Work and Pensions (DWP), in the form of grant-in-aid, to cover all of its expenditure on its functions as FAS scheme manager, and its expenditure on certain PPF administration functions. We also considered the regulations under which DWP finances its payments to the Board on grant-in-aid for PPF administration functions by raising a PPF Administration Levy from eligible pension schemes. We decided that the going concern basis for the Administration Fund remains appropriate because of the robust financial procedures governing:

- the setting of operating budgets, including administration budgets which inform the setting by DWP of the rates of the PPF Administration Levy
- in-year reviews and forecasts of administration expenditure
- controls over applying for grant-in-aid from DWP, and
- the segregation of levy payer-funded PPF activities and Government-funded FAS-related activities.

Audit disclosures

I confirm that I have taken all appropriate steps to make myself aware of any relevant audit information and made sure that the Board's auditors are aware of that information. As far as I am aware, there is no information that the Board's auditors are unaware of. I also confirm that no remuneration for any work other than the statutory audit has been paid to the auditors.



Alan Rubenstein
Accounting Officer
10 July 2015

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 2015 under the Pensions Act 2004. The financial statements comprise: the Consolidated Statements of Comprehensive Net Income, Financial Position, Cash Flows, Changes in Reserves, and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

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

As explained more fully in the Statement of Accounting Officer's Responsibilities the Board of the Pension Protection Fund and the Chief Executive as the Accounting Officer are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Pensions Act 2004. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

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

Opinion on regularity

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

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Board of the Pension Protection Fund's affairs as at 31 March 2015 and of the net income for the year then ended; and
- the financial statements have been properly prepared in accordance with the Pensions Act 2004 and Secretary of State directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with Secretary of State directions issued under the Pensions Act 2004; and
- the information given in the Directors' and Strategic Report and the Chief Financial Officer's Review for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception:

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

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

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse

Comptroller and Auditor General

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

13 July 2015

The Board of the Pension Protection Fund

	Note Ref	Page
Financial Statements		
Chief Financial Officer's Review		52
Consolidated Statement of Comprehensive Net Income		55
Consolidated Statement of Financial Position		56
Consolidated Statement of Changes in Reserves		57
Consolidated Statement of Cash Flows		58
Notes to the financial statements		
Funds for which the Board is responsible		59
Core accounting policies		60
Paying compensation		62
Liabilities to pay compensation to members	1	62
Provisions for claims on the PPF and FCF	2	63
Funding compensation – levy income and investment management		66
Income from levies	3	66
Investment assets and liabilities	4	67
Investment return	5	72
Financial risk management		75
PPF credit risk	6	75
PPF liquidity risk	7	76
PPF market risk	8	77
FCF financial risks	9	79
Administration Funds financial risks	10	79
Operating the business		80
Operating expenses	11	80
Property and equipment and intangible assets	12	82
Operating lease commitments	13	83
Segmental analysis	14	84
Subsidiaries	15	85
Related party transactions	16	85
Events after the reporting period	17	85

Chief Financial Officer's Review

Within the financial statements of the Pension Protection Fund we endeavour to provide readers with information presented in the clearest manner possible to understand the Board's financial position.

Over the following pages, I set out an overview of the financial performance of the PPF during the past year. Gilt and swap yields have fallen over the year meaning that pension schemes funding levels have fallen. However, the impact on the PPF is mitigated due to the LDI hedging programme. The funding ratio has benefitted from the growth investment performance (which exceeded its target of LIBOR + 1.8 per cent by 4.6 pts) and changes to actuarial assumptions. A relatively benign economy with low interest rates has helped claims levels to be low. Levy income was sufficient to cover claims and operational expenses.

The financial position of the PPF at 31 March 2015 can be summarised by the funding ratio of 115.1 per cent compared to 112.5 per cent at the same point last year.

Note disclosures and commentary

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

The report from the Comptroller and Auditor General on pages 49-50 confirms that there are no matters that need to be brought to readers' attention.

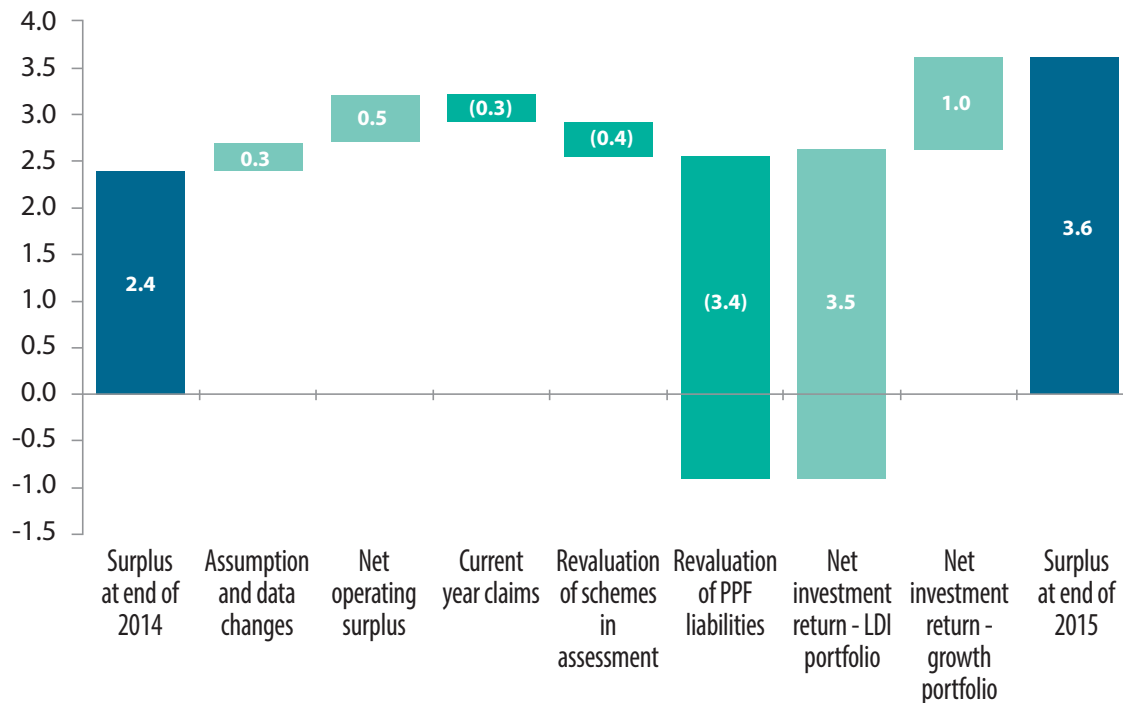
Andy McKinnon
Chief Financial Officer

Chief Financial Officer's review continued

Review of the Consolidated Statement of Comprehensive Net Income

The consolidated statement of comprehensive net income together with the statement of changes in reserves shows the movement in surplus during the reporting year. These are summarised in the following diagram and further explained in the subsequent commentary.

Movement in consolidated surplus 2015 (£bn)



The surplus has increased in the year, from £2.4bn to £3.6bn.

During the year actuarial assumptions and data in the Valuation were updated, having the impact of rebasing the surplus by +£0.3bn.

Net operating surplus is levy receipts after deducting operating expenses:

- levy income was sufficient to contribute a surplus of £0.2bn (2014: deficit £(0.1)bn) after operational expenses of £56m and current year claims of £322m.
- levy income was £574m (2014: £577m), comprising £584m (2014: £583m) current year protection levy and reductions relating to prior levy years of £10m (2014: £6m). Levy income was lower than our original published estimate of £695m as a result of the original underfunding and insolvency risk estimates used in the risk-based levy assessment process being higher than had been assumed.
- operating expenses were £56m, an increase of £8m from last year due to investment in our infrastructure and the setting up of Customer Experience. Administration expenses have fallen to £78 for each of the 329,732 members of the PPF or schemes in assessment (2014: £79) and, as a percentage of year end total assets, costs reduced to 0.16 per cent (2014: 0.20 per cent).
- the number and value of PPF claims were particularly low in the year at 61 (£322m) compared to 107 (£619m) in 2014 and 114 (£1,028m) in 2013.

The other major contribution to surplus was the net investment return. The net investment return on the LDI portfolio of £3.5bn (2014: £(0.5)bn) offsets the impact of the gilt yield movements. The net investment return on the growth portfolio was £1.0bn (2014: £0.4bn), mostly attributable to equities, global sovereign funds and GTAA.

Chief Financial Officer's review continued

The consolidated statement of financial position

The consolidated statement of financial position sets out the details at 31 March 2015 of the assets and liabilities held in all the funds for which the Board is responsible.

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

Net assets, including schemes in assessment, now stand well in excess of £25bn and at 31 March 2015, represented 115.1 per cent (2014: 112.5 per cent) funding of the total liabilities.

Consolidated net surplus at 31 March 2015

	Consolidated Statement of Financial Position	Not separately recorded in the Statement of Financial Position	Total
	£m	£m	£m
Total assets	35,251.1	4,877.8	40,128.9
Investment and other financial liabilities	(12,492.1)	-	(12,492.1)
Net assets	22,759.0	4,877.8	27,636.8
Actuarial estimate of liabilities	(17,812.2)	(6,188.9)	(24,001.1)
Total net surplus/(deficit)	4,946.8	(1,311.1)	3,635.7

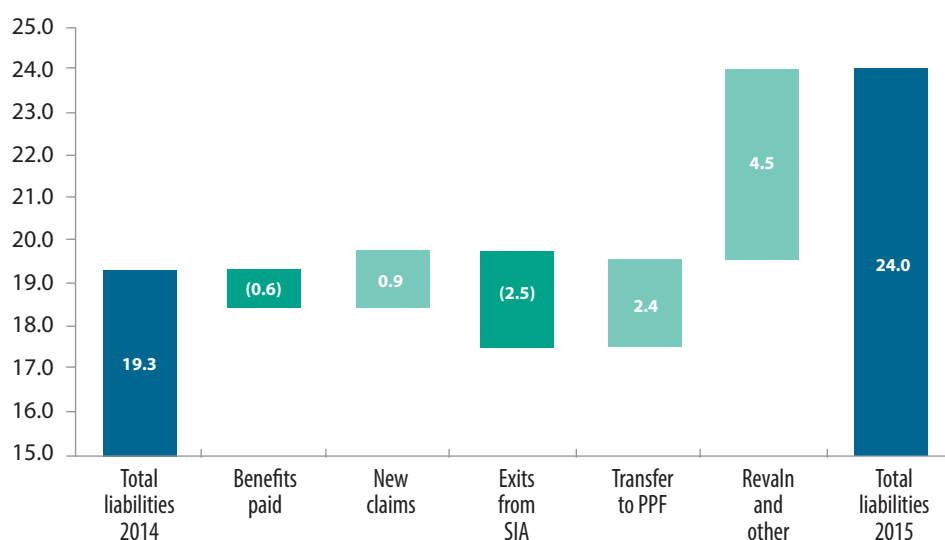
Net assets, excluding those for schemes in assessment, have significantly increased in the year, from £16.4bn to £22.8bn. 83 per cent of investment assets are debt instruments, and falling yields have contributed £2bn to this increase. Assets received from schemes transferred to the PPF were £1.8bn, including £648m from the UK Coal schemes.

The year has seen the development of illiquid assets the largest being £222m in the Spinningfields development in Manchester.

We continue to look to hold anti-embarrassment stakes when negotiating restructuring deals. During the year we restructured our holding in Harworth Estates, obtained from the UK Coal schemes, realising £97m in cash and receiving a 25% equity holding in Harworth Group plc.

The following graph summarises the movements of the actuarial liabilities from £19,334.3m at the beginning of the year to the closing figure of £24,001.1m. The actuarial liabilities comprise £23,998.3m (2014: £19,327.8m) for the PPF and £2.8m (2014: £6.5m) for the FCF.

Movement in actuarial liabilities & schemes in assessment (£bn)



The Board of the Pension Protection Fund

CONSOLIDATED STATEMENT OF COMPREHENSIVE NET INCOME

For the year ended 31 March

	Notes	2015 £m	2014 £m
Operating income			
Income from levies	3	574.0	576.6
Total operating income		574.0	576.6
Operating expenses			
Staff costs	11	(24.1)	(22.3)
Other costs	11	(31.6)	(25.5)
Total operating expenses		(55.7)	(47.8)
Net operating surplus		518.3	528.8
Investment activities			
Investment income	5	393.1	822.0
Change in fair value of investments	5	4,232.2	(837.9)
Investment expenses	5	(102.1)	(87.1)
Net investment return		4,523.2	(103.0)
Claims activities			
Current year claims for compensation	2	(322.3)	(620.8)
Revaluation of claims for compensation	2	(395.4)	311.8
(Losses)/gains on actuarial liabilities	1	(3,147.4)	525.6
Net cost of claims		(3,865.1)	216.6
Comprehensive net income for the year		1,176.4	642.4

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

The accounting policies and notes on pages 59 to 85 form part of these financial statements.

The Board of the Pension Protection Fund

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the year ended 31 March

	Notes	2015 £m	2014 £m
Assets			
Operational cash		176.9	145.4
Investment assets	4	35,021.8	23,180.9
Levy receivables		5.2	44.8
Transfer-in receivables		32.6	30.6
Other financial assets		2.3	4.3
Property and equipment	12	11.8	8.1
Intangible assets	12	0.5	0.8
Total assets		35,251.1	23,414.9
Liabilities			
Investment liabilities	4	(12,441.4)	(6,926.5)
Other financial liabilities		(50.7)	(43.4)
Actuarial liabilities	1	(17,812.2)	(12,859.4)
Claims provisions	2	(1,311.1)	(1,154.9)
Total liabilities		(31,615.4)	(20,984.2)
Total assets less total liabilities		3,635.7	2,430.7
Represented by			
Total levy and tax payer funds		3,635.7	2,430.7

The Board of the PPF approved the accounts on 11 June 2015 and authorised the Accounting Officer to sign this Consolidated Statement of Financial Position on the same date.



Alan Rubenstein
Accounting Officer
10 July 2015

The accounting policies and notes on pages 59 to 85 form part of these financial statements.



The Board of the Pension Protection Fund

CONSOLIDATED STATEMENT OF CHANGES IN RESERVES

For the year ended 31 March

	Levy payer funds £m	Tax payer funds £m	Total Reserves £m
Balance at 31 March 2013	1,761.8	(0.2)	1,761.6
Total recognised net income for 2013/14	650.9	(8.5)	642.4
Grant-in-aid received in the year	18.8	7.9	26.7
Balance at 31 March 2014	2,431.5	(0.8)	2,430.7
Total recognised net income for 2014/15	1,184.6	(8.2)	1,176.4
Grant-in-aid received in the year	20.3	8.3	28.6
Balance at 31 March 2015	3,636.4	(0.7)	3,635.7

The accounting policies and notes on pages 59 to 85 form part of these financial statements.

The Board of the Pension Protection Fund

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March

	2015	2014
	£m	£m
Cash flows from operating activities		
Net operating surplus	518.3	528.8
Compensation payments	(568.3)	(445.1)
Assets receivable from schemes transferring into the PPF	646.4	373.3
Items reported in investment return but settled through operating bank accounts	0.2	(16.7)
Purchase of intangible assets	-	(0.4)
Purchase of property and equipment	(5.6)	(8.1)
Depreciation, amortisation and impairment charges	2.2	0.8
Movement in current liabilities	7.3	5.8
Movement in receivables	39.6	110.0
Net cash inflow from operating activities	640.1	548.4
Cash flows to investing activities		
Cash transfers to investment managers	(3,274.4)	(2,071.3)
Cash transfers from investment managers	2,637.2	1,559.3
Net cash outflow to investing activities	(637.2)	(512.0)
Cash flows from financing activities		
Financing from DWP for PPF activities (levy payer funded)	20.3	18.8
Financing from DWP for FAS activities (tax payer funded)	8.3	7.9
Net cash inflow from financing activities	28.6	26.7
Net increase in cash and cash equivalents in the year	31.5	63.1
Cash and cash equivalents at beginning of the year	145.4	82.3
Cash and cash equivalents at end of the year	176.9	145.4

The accounting policies and notes on pages 59 to 85 form part of these financial statements.



The Board of the Pension Protection Fund

Funds for which the Board is responsible

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

- the **Pension Protection Fund** itself
- the **Fraud Compensation Fund**
- the **Administration Funds**.

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

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

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

Core accounting policies

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

Basis of preparation

These accounts have been prepared in accordance with an Accounts Direction dated 18 February 2010 issued by the Secretary of State for the Department for Work and Pensions, with the approval of the Treasury, in line with the Pensions Act 2004. The Accounts Direction stipulates compliance with the 2014/15 Government Financial Reporting Manual (FRM), which requires accounts to follow, as far as appropriate, private sector practice based on International Financial Reporting Standards (IFRS).

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

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

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
- IFRS 7 Financial Instruments: Disclosures
- IAS 32 Financial Instruments: Presentation
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets
- IAS 39 Financial Instruments: Recognition and Measurement
- IAS 40 Investment Property

Standards which are likely to affect future financial statements include:

- IFRS 9 Financial Instruments (currently expected to be effective for periods beginning on or after 1 January 2017)
- IFRS 13 Fair Value Measurement (currently expected to be effective for the Board for the period beginning 1 April 2015)

These standards are not expected to have a material effect on the Board's financial statements.

Consolidated financial statements

The financial statements consolidate the financial positions and results of the PPF, the FCF and the Administration Funds. The Board holds some investment assets through subsidiaries formed solely for that purpose. The underlying investments, income and gains and losses are recorded in the total investment portfolio. The subsidiaries are listed in note 15. Additionally, the Board holds one investment which it classifies as held for sale. The disposal of this investment is considered highly probable and is valued at the lower of its carrying amount and fair value less costs to sell.

Segmental reporting

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

Foreign currency translation

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

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

Impact of the Board assuming responsibility for schemes

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

Taxation

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

Significant estimates and judgements

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

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

Paying compensation

This section describes:

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

1 - Liabilities to pay compensation to members

*The consolidated statement of financial position shows that at 31 March 2015 the PPF estimated the value of **existing liabilities to pay compensation to members at £17,812.2m**. During the year **the PPF paid members compensation of £564.4m**. After the Actuarial Valuation as at March 31 2015 was completed, **a net loss of £3,147.4m to the income statement** was recognised to increase estimated liabilities to the amount needed to pay compensation to members.*

The amount of the PPF's liabilities to pay compensation to members (actuarial liabilities) is calculated by the Appointed Actuary – see the Actuarial Valuation starting on page 87.

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

Accounting policy

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

- the present value of the liability to pay compensation to the members, both deferred and retired, of all pension schemes for which the Board has assumed responsibility, valued on the assumptions set out in the Actuary's Report
- an allowance for operating expenses permitted to be charged against the PPF, and
- a provision for the cost of eliminating inequalities caused by Guaranteed Minimum Pensions (GMPs).

Key judgements and estimates

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

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

	2015	2014
	£m	£m
Actuarial liabilities		
Opening value of actuarial liabilities	12,859.4	11,827.3
Actuarial liabilities of schemes which transferred to the PPF during the year	2,372.0	2,001.6
(Decrease)/increase in AVCs to be discharged	(2.2)	1.2
Actuarial losses/(gains)	3,147.4	(525.6)
Benefits paid to members	(564.4)	(445.1)
Total actuarial liabilities	17,812.2	12,859.4

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

	2015 £m	2014 £m
Actuarial losses/(gains)		
Effect of passage of time on discounting	70.9	52.6
Change in assumptions	3,448.7	(698.6)
Change in experience	(107.6)	(81.6)
Other	(37.3)	88.9
Revaluation of current year transfers at 31 March	(227.3)	113.1
Total actuarial losses/(gains)	3,147.4	(525.6)

2 – Provisions for claims on the PPF and the FCF

The consolidated statement of financial position shows **total provisions of £1,311.1m for claims from pension schemes** with £1,308.3m being PPF (see page 64) and £2.8m for FCF (see page 65). The consolidated statement of comprehensive net income shows **net cost of claims of £3,865.1m** and also showed a benefit in net **increase to the values of claims previously recorded of £395.4m** with £395.2m being PPF and £0.2m for FCF.

The PPF provision relates to schemes in assessment and is calculated by the Appointed Actuary as the present value of estimated future compensation payments to be made by the PPF, less the value of existing assets in such pension schemes. The consolidated statement of comprehensive net income is affected by two elements of claims: the amount of new claims received in the year, and the effect of re-assessing the value of previously reported claims.

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

Accounting policies

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

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

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

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

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

Key judgements and estimates

The calculation of the costs of claims on both the PPF and the FCF relies on actuarial assumptions for the valuation of scheme liabilities and techniques such as rolling forward asset values as at a prior date to the Board's accounting date using investment indices (see pages 90-91 for the PPF).

Claims on the PPF

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

Paying compensation continued

Claims on the PPF

	Number of schemes	2015 £m	Number of schemes	2014 £m
Claims provisions at start of year	160	1,148.4	191	1,499.1
Current year claims for compensation				
Protected liabilities		1,429.6		2,596.9
Scheme assets including recoveries		(1,107.3)		(1,978.4)
Total current year claims for compensation	61	322.3	107	618.5
Revaluation of claims for compensation				
Release of provision for schemes no longer considered probable for entry	(12)	8.6	(16)	(29.2)
Revaluation of provisions brought forward from previous year end		416.5		(264.1)
Change in provisions for schemes transferring into the Protection Fund during the year		(29.9)		(18.1)
Revaluation of claims		395.2		(311.4)
Release of provisions for claims transferred to the PPF	(96)	(557.6)	(122)	(657.8)
Claims provisions at end of year	113	1,308.3	160	1,148.4

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

	2015 £m	2014 £m
Total estimated actuarial liabilities for schemes in assessment	(6,186.1)	(6,468.4)
Total assets owned by schemes in assessment	4,877.8	5,320.0
Total net deficits of schemes in assessment	(1,308.3)	(1,148.4)

Current year claims for compensation on the PPF

Current year claims totalled £322.3m (2014: £618.5m) in respect of 61 (2014: 107) schemes. Provisions were made for 55 new schemes (or individual sections of schemes) (2014: 102 schemes) where eventual entry into the PPF is considered probable, and where reliable estimates can be made of the impact on the PPF. Also included are claims in respect of a further 6 schemes (2014: 5 schemes) in assessment estimated to be in surplus at the prior year end but now estimated to be in deficit.

Protected liabilities include provisions for equalisation of GMPs and expenses. The Appointed Actuary's Supplementary Report, in particular Annex S6, gives further information on these provisions

Revaluation of claims for compensation on the PPF

In the PPF, of the 160 (2014: 191) schemes for which provisions were made as at the end of the previous year:

- 88 (2014: 104) schemes were transferred into the PPF during the year
- 12 (2014: 16) schemes' provisions have been released because the Board no longer considers it probable that the schemes will eventually transfer to the PPF, and
- the remaining 60 schemes, or scheme sections, (2014: 71) are judged likely to enter the PPF. The associated provisions have been retained and revalued.

Paying compensation continued

Release of provisions for claims transferred to the PPF

During the year 96 schemes (2014: 122) transferred into the PPF. Provisions had been created as at 31 March 2015 in respect of 88 of these schemes (2014: 104). A further 8 schemes (2014: 18) completed the assessment process during the year and transferred into the PPF, including 1 (2014: 1) which entered assessment during 2013/14.

Contingent liabilities for possible claims on the PPF

The total value of possible future claims on the PPF at 31 March 2015, net of the value of related scheme assets, was estimated as £1,223.1m (2014: £776.5m). This includes an allowance for the impact of changes to way the PPF compensation cap operates. Further analysis is given in Annex S6 of the Actuarial Valuation.

Claims on the FCF

Claims provisions, current year claims for compensation, the revaluation of claims for compensation and the total estimate of contingent liabilities relating to the FCF are summarised below. There were 3 new claims and 2 claims were settled.

	Number of schemes	2015 £m	Number of schemes	2014 £m
Claims provisions at start of year	8	6.5	7	4.6
Current year claims for compensation	-	-	3	2.3
Revaluation of claims for compensation		0.2		(0.4)
Claims paid	(6)	(3.9)	(2)	-
Claims provisions at end of year	2	2.8	8	6.5

Contingent liabilities for possible claims on the FCF

The total value of possible future claims on the FCF at 31 March 2015 was estimated at less than £0.1m relating to 1 scheme (2014: £8.4m relating to 4 schemes).

Funding compensation – levy income and investment management

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

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

The PPF is funded principally from three main sources:

- private sector defined benefit schemes are charged a protection levy
- certain costs are covered by an administration levy, invoiced by the Pensions Regulator to schemes, which funds payments of grant-in-aid by the DWP to the PPF, and
- funds to pay compensation in the future are invested by external fund managers to earn an investment return.

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

3 - Income from levies

*The consolidated statement of comprehensive net income shows that **total levy income fell by £2.6m to £574.0m, £574.0m for the PPF itself and less than £0.1m for the FCF.** The PPF levy was £121m less than the estimate of £695m mainly because under the risk-based levy assessment process, the original underfunding and insolvency risk estimates turned out to be lower than had been assumed.*

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

Accounting policy

Protection levy and fraud compensation levy income is recognised on an accrual basis. As required by the FReM, DWP GIA, the mechanism used to receive administration levy funds, is credited directly to the General Reserve as contributions from a controlling party.

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

The Board did not raise a fraud compensation levy in 2014/15 (2013/14: no levy raised). Any levy is collected by the Pensions Regulator on the Board's behalf.

Funding compensation – levy income and investment management continued

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

	2015	2014
	£m	£m
Risk-based levies in respect of the current year	526.1	529.0
Scheme-based levies in respect of the current year	57.5	53.8
Total protection levies in respect of the current year	583.6	582.8
Risk-based levies in respect of prior years	(9.8)	(9.3)
Scheme-based levies in respect of prior years	0.2	3.0
Total protection levies in respect of prior years	(9.6)	(6.3)
Income from protection levies	574.0	576.5
Income from fraud compensation levy	-	0.1
Total income from levies	574.0	576.6

Contingent liabilities relating to levy protection income

The above figures exclude DWP GIA funding which is included in movement in reserves. The consolidated statement of changes in reserves shows that the PPF also received administration levy funding through DWP GIA of £20.3m (2014: £18.8m).

The Board considers that there are no contingent liabilities relating to levy protection income (2014: £88.7m).

4 - Investment assets and liabilities

*The consolidated statement of financial position shows that at the year end the PPF and the FCF together had **gross investment assets valued at £35,021.8m and investment liabilities of £12,441.4m, a net investment portfolio of £22,580.4m. The consolidated statement of comprehensive net income shows a net investment return (income and gains less investment expenses) of £4,523.2m.***

The Board's approach to investment is summarised in the Statement of Investment Principles (www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/SIP_July_2014.pdf) which summarises investment management governance, objectives, risk management, strategy, fund management and custody. The FCF has its own SIP. The day to day fund management of the assets is performed by external fund managers.

The Board holds a wide range of investment assets and liabilities including UK Government bonds, bonds issued by other governments and corporate entities, public equity and alternative investments. To help manage the risks associated with its long-term liabilities to pay compensation to members, the Board has a programme of UK Government bonds sale and repurchase agreement transactions and derivatives (principally interest rate and inflation swaps). The Directors' and Strategic Report 'Managing our balance sheet' section (pages 18-20) comments on the PPF's investment performance.

Funding compensation – levy income and investment management continued

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

	2014	Assets transferred from Schemes in Assessment	Net purchases / (sales)	Net gains/ (losses)	Other movements	2015
	£m	£m	£m	£m	£m	£m
Financial assets designated at fair value through profit or loss						
Debt instruments	15,403.0	127.1	505.4	2,454.5	204.6	18,694.6
Money market funds	1,069.0	-	308.8	3.0	(90.0)	1,290.8
Equity	1,608.0	8.7	14.0	326.9	(1.1)	1,956.5
Securities funds	865.1	708.8	(1,085.3)	220.7	(21.7)	687.6
Private equity funds	444.0	15.9	(7.5)	135.1	(10.1)	577.4
Infrastructure funds	71.9	-	16.1	27.8	(4.1)	111.7
Farm and timberland	10.1	-	91.0	(7.3)	(0.6)	93.2
Investment property funds	583.9	70.8	(91.3)	65.6	-	629.0
Investment property held directly	181.9	-	486.9	15.3	(1.5)	682.6
Non-current assets held for sale	-	114.8	(97.0)	35.2	-	53.0
Insurance policies	284.3	68.2	-	(0.2)	-	352.3
Other financial assets	8.4	3.1	(1.3)	-	-	10.2
	20,529.6	1,117.4	139.8	3,276.6	75.5	25,138.9
Other investment assets	2,651.3					9,882.9
Total investment assets	23,180.9					35,021.8
Total investment liabilities	(6,926.5)					(12,441.4)
Net investment portfolio	16,254.4					22,580.4

Other movements include amortisation and fund manager fees settled through disinvestment.

Assets transferred are in specie movements from schemes coming into the PPF.

Other investment assets and investment liabilities at 31 March comprise:

	2014 £m	2015 £m
Other investment assets		
Foreign exchange contracts	4.8	(43.7)
Other derivative financial instruments	2,076.7	9,503.4
Investment income receivable	98.1	76.7
Amounts receivable from investments sold	213.4	53.2
Cash at fund managers	258.3	293.3
Total other investment assets	2,651.3	9,882.9
Other investment liabilities		
Repurchase agreements	(4,291.9)	(2,480.3)
Amounts payable for investments purchased	(446.2)	(237.3)
Derivative financial instruments	(2,188.4)	(9,723.8)
Total investment liabilities	(6,926.5)	(12,441.4)

Funding compensation – levy income and investment management continued

	2015 £m	2014 £m
Debt instruments form the main element of our portfolio and consist of		
UK Government securities	12,167.5	9,259.2
Other government securities	2,306.2	3,504.5
Total government securities	14,473.7	12,763.7
UK corporate debt	352.4	178.4
Other corporate debt	1,013.6	890.8
Other debt instruments	2,854.9	1,570.1
Total debt instruments	18,694.6	15,403.0

UK Government securities include £2,480.3m (2014: £4,291.9m) sold under agreements to repurchase. Other debt instruments include mortgage-backed securities, alternative credit instruments, asset-backed securities and senior loans.

Financial instruments

Investment assets are all financial instruments except for investment property held directly and non-current assets held for sale.

Accounting policies

Classification

Financial instruments are classified at initial recognition as one of:

- Financial assets or liabilities at fair value through profit or loss, separated by:
 - (a) those designated at fair value through profit or loss upon initial recognition and
 - (b) those classified as held for trading (mainly derivatives - interest rate swaps, inflation rate swaps, options, credit default swaps and forward foreign exchange contracts to support liability driven investment)
- Loans and receivables.

Recognition and derecognition

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

Securities sold subject to repurchase agreements remain on the consolidated statement of financial position and a liability is recorded for the consideration received.

Measurement

Financial instruments are measured at fair value, defined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

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

Key judgements and estimates

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

Funding compensation – levy income and investment management continued

Financial instruments measured at fair value

The following table analyses the financial instruments of the PPF in accordance with IFRS 7 to reflect the significance of inputs used in assessing fair value.

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

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

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

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

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

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

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

	Level 1 £m	Level 2 £m	Level 3 £m	2015 £m
Financial instruments measured at fair value at 31 March				
Debt instruments	126.5	18,419.5	148.6	18,694.6
Money market funds	1,279.6	-	-	1,279.6
Equity	1,928.3	28.0	0.2	1,956.5
Securities funds	-	687.6	-	687.6
Private equity funds	-	-	577.4	577.4
Infrastructure funds	-	-	111.7	111.7
Farm and timberland	-	-	93.2	93.2
Investment property funds	-	608.5	20.5	629.0
Investment property held directly	-	682.6	-	682.6
Non-current assets held for sale	-	53.0	-	53.0
Insurance policies	-	-	352.3	352.3
Other financial assets	-	-	10.2	10.2
Foreign exchange contracts	(43.7)	-	-	(43.7)
Other derivative financial instruments	3.3	9,500.1	-	9,503.4
Investment income receivable	79.0	(2.3)	-	76.7
Amounts receivable from investments sold	53.2	-	-	53.2
Cash at fund managers	293.3	-	-	293.3
Repurchase agreements	-	(2,480.3)	-	(2,480.3)
Amounts payable for investments purchased	(237.3)	-	-	(237.3)
Derivative financial liabilities	(5.7)	(9,718.1)	-	(9,723.8)
Total	3,476.5	17,778.6	1,314.1	22,569.2

Funding compensation – levy income and investment management continued

	Level 1 £m	Level 2 £m	Level 3 £m	2014 £m
Financial instruments measured at fair value at 31 March				
Debt instruments	462.1	14,940.9	-	15,403.0
Money market funds	1,053.9	-	-	1,053.9
Equity	1,608.0	-	-	1,608.0
Securities funds	-	856.4	8.7	865.1
Private equity funds	-	-	444.0	444.0
Infrastructure funds	-	-	71.9	71.9
Farm and timberland	-	-	10.1	10.1
Investment property funds	-	583.9	-	583.9
Investment property held directly	-	181.9	-	181.9
Insurance policies	-	-	284.3	284.3
Other financial assets	-	-	8.4	8.4
Foreign exchange contracts	4.8	-	-	4.8
Other derivative financial instruments	-	2,076.7	-	2,076.7
Investment income receivable	98.1	-	-	98.1
Amounts receivable from investments sold	213.4	-	-	213.4
Cash at fund managers	258.3	-	-	258.3
Repurchase agreements	-	(4,291.9)	-	(4,291.9)
Amounts payable for investments purchased	(446.2)	-	-	(446.2)
Derivative financial liabilities	-	(2,188.4)	-	(2,188.4)
Total	3,252.4	12,159.5	827.4	16,239.3

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

	2015 £m	2014 £m
Financial assets		
Balance at start of year	827.4	695.8
Gains/(losses) in the statement of comprehensive net income	133.7	(7.5)
Purchases and assets transferred in	824.7	402.1
Sales	(471.7)	(239.4)
Transfers out of Level 3	-	(23.6)
Balance at end of year	1,314.1	827.4

Funding compensation – levy income and investment management continued

Investment property held directly

Accounting policies

Investment properties held directly are measured initially at cost, including transaction costs. The PPF follows the fair value model option in IAS 40 Investment Property. Investment properties are valued at their fair value by independent valuers with recognised and relevant qualifications and recent and relevant experience. Gains or losses arising from a change in the fair value are recognised in the consolidated statement of comprehensive net income for the period in which it arises.

At 31 March 2015 the Board owned 34 (2014: 18) commercial properties in the UK, with a total fair value of £682.6m (2014: £181.9m).

Rental income recognised was £26.6m (2014: £6.5m). Direct operating expenses were not material. There were no restrictions on the realisability of property, income or disposal proceeds. At 31 March 2015 the PPF had not exchanged contracts to buy any investment properties subject to approval by the local council (2014: £9.6m).

Non-current assets held for sale

Accounting policies

The Board owns one investment which it classifies as being held for sale under the guidance in IFRS 5. The Board believe that the sale of this investment is highly probable. This asset is valued at the lower of its carrying value and fair value less costs to sell.

The Board received 25 per cent of the issued capital of Harworth Group plc. The Board is entitled to appoint a director at the company but does not consider it can exert significant influence over its operations.

5 - Investment return

Accounting policies

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

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

Change in fair value of investments includes:

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

Investment expenses are accounted for on an accrual basis.

Funding compensation – levy income and investment management continued

	Net investment income 2015 £m	Change in fair value of investment 2015 £m	Total 2015 £m
Financial assets designated at fair value through profit and loss			
Debt instruments	649.9	2,454.5	3,104.4
Money market funds	4.8	3.0	7.8
Equity	18.8	326.9	345.7
Securities funds	1.8	220.7	222.5
Private equity funds	-	135.1	135.1
Infrastructure funds	1.7	27.8	29.5
Farm and timberland	0.1	(7.3)	(7.2)
Investment property funds	20.8	65.6	86.4
Investment property held directly	26.6	15.3	41.9
Non-current assets held for sale	-	35.2	35.2
Insurance policies	26.3	(0.2)	26.1
Foreign exchange contracts	(237.9)	(48.5)	(286.4)
Interest payable	(24.4)	1.1	(23.3)
Net gain from financial assets designated at fair value through profit and loss	488.5	3,229.2	3,717.7
Deposit interest	7.5	3.4	10.9
Held for trading			
Derivative financial instruments	(103.6)	999.1	895.5
Loans and receivables			
Other investment assets	0.7	0.5	1.2
Total investment return	393.1	4,232.2	4,625.3
Total investment expenses			
Fund management fees			(92.7)
Custody charges			(1.9)
Transaction costs			(7.5)
Total investment expenses			(102.1)
Net investment return			4,523.2

Statutory Reports

Funding compensation – levy income and investment management continued

	Net investment income 2014 £m	Change in fair value of investment 2014 £m	Total 2014 £m
Financial assets designated at fair value through profit and loss			
Debt instruments	436.4	(885.6)	(449.2)
Money market funds	11.4	0.7	12.1
Equity	24.1	169.1	193.2
Securities funds	0.1	(88.6)	(88.5)
Private equity funds	0.3	22.2	22.5
Infrastructure funds	0.1	4.7	4.8
Farm and timberland	-	0.7	0.7
Investment property funds	23.0	10.8	33.8
Investment property held directly	6.5	1.2	7.7
Insurance policies	20.2	(29.3)	(9.1)
Foreign exchange contracts	415.6	(6.3)	409.3
Interest payable	(29.2)	-	(29.2)
Net gain/(loss) from financial assets designated at fair value through profit and loss	908.5	(800.4)	108.1
Deposit interest	0.6	-	0.6
Held for trading			
Derivative financial instruments	(87.8)	(23.3)	(111.1)
Loans and receivables			
Other investment assets	0.7	(14.2)	(13.5)
Total investment return	822.0	(837.9)	(15.9)
Total investment expenses			
Fund management fees			(81.1)
Custody charges			(2.0)
Transaction costs			(4.0)
Total investment expenses			(87.1)
Net investment return			(103.0)

Net gains arising from foreign exchange previously included in Deposit interest is now reclassified as Foreign exchange contracts.

Financial risk management

Managing the payment and funding of member compensation described in the previous sections involves financial risk. The most important categories of financial risk, and the ways in which the Board manages them, are described in Section 4 of the PPF SIP (www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/SIP_July_2014.pdf).

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

- **PPF credit risk** (referred to in the SIP as counterparty risk) – note 6
- **PPF liquidity risk** – note 7
- **PPF market risk** (which includes SIP valuation risk and currency risk) – note 8

These disclosures are followed by notes on:

- **FCF financial risks** – note 9
- **Administration Funds financial risks** – note 10

6 - PPF credit risk

Credit risk is the risk that a counterparty to a financial instrument will cause a financial loss for the PPF by failing to discharge an obligation. The main exposure to credit risk in the PPF's financial instruments arises from investments in sovereign, corporate and other debt instruments (further analysis is given in note 4). The PPF is also exposed to credit risk on derivatives, insurance policies, cash, transfer-in receivables and other receivables.

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

- counterparties to derivative contracts should be rated at least A- (or subject to increased collateral) and are subject to overall exposure limits
- a range of limits applies to counterparties to derivatives contracts and repurchase agreements
- investment management agreements require fund managers to deal with the highest-rated counterparties consistent with best execution, and
- collateral is taken under the terms of the relevant CSA to the ISDA Master Agreement.

The Board is satisfied that credit exposure is in accordance with the risk appetite described in the SIP. Financial assets exposed to credit risk at 31 March were:

	2015	2014
	£m	£m
Debt instruments	18,694.6	15,403.0
Insurance policies	352.3	284.3
Other derivative financial instruments	9,503.4	2,076.7
Amounts receivable from investments sold	53.2	213.4
Cash at fund managers	293.3	258.3
Investment income receivable	76.7	98.1
Operational cash	175.6	144.9
Levy receivables	5.2	44.8
Transfer-in receivables	32.6	30.6
Total	29,186.9	18,554.1

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

	Not yet due	Up to 3 months past due	3-6 months past due	Over 3-6 months past due	Total £m
2015	1.7	1.4	-	2.1	5.2
2014	1.4	1.8	8.5	33.1	44.8

Financial risk management continued

7 - PPF liquidity risk

Liquidity risk is the possibility that the PPF has insufficient cash available to:

- settle its financial liabilities including repurchase agreements when they fall due
- pay compensation to members
- pay for staff and other operating expenses
- meet investment commitments to fund managers, for example, capital calls on private equity and infrastructure investments, and purchases of investment property, or
- meet collateral calls on the derivative portfolio.

Cash requirements and operational cash balances are regularly forecast. Significant amounts of financial instruments could readily be liquidated should the need arise. Additionally, we have a liquidity risk dashboard and contingency/action plans should we be threatened by liquidity risk issues.

Financial liabilities

Financial liabilities are all due within one year, except for derivative financial instruments, as follows:

	Within 1 year £m	1-5 years £m	5-10 years £m	Over 10 years £m	Total £m
2015	11.6	254.8	357.6	9,099.8	9,723.8
2014	11.3	89.3	134.1	1,953.7	2,188.4

Paying compensation to members

Payments to members are projected in estimating the actuarial liabilities reported in the consolidated statement of financial position – see note 1 and the Actuarial Valuation. Payments to members in the year totalled £564.4m (2014: £445.1m).

Collateral arrangements

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

	2015 £m	2014 £m
UK Government securities subject to sale and repurchase agreements	5,856.8	5,337.5
Securities lent to market counterparties	81.0	352.3
Total assets provided subject to collateral and similar arrangements with counterparties	5,937.8	5,689.8
Funds received as collateral for sale and repurchase agreements	2,480.3	4,291.9
Collateral received from counterparties	86.0	378.5
Total assets received subject to collateral and similar arrangements from counterparties	2,566.3	4,670.4

Capital commitments

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

	2015	2014
Denominated in US dollars	\$1,823.4m	\$1,551.1m
Denominated in euros	€269.6m	€92.0m
Denominated in Australian dollars	A\$74.6m	A\$126.8m
Denominated in sterling	£16.3m	£42.2m

Financial risk management continued

8 - PPF market risk

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

Overall exposure to market risk is managed and illustrated in a number of ways. Annex S5 of the Appointed Actuary's Supplementary Report illustrates the sensitivity of the values of the Fund's assets and liabilities to changes in the rates of a wide variety of financial and non-financial factors. The scenarios modelled in this analysis cover changes in interest rates, changes in inflation rates (including where CPI rates diverge from RPI), changes in UK Government bond yields and changes in mortality assumptions and other demographic factors.

We estimate the sensitivity of the Fund's financial position to adverse changes in financial markets using a value at risk analysis as part of calculating the risk-based levy. The approach is described in the document Pension Protection Fund Consultation: Guidance for the Bespoke Investment Risk Calculation (www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/1415_investment_risk_guidance.pdf). Investment risk is monitored by reference to the impact of stress scenarios on assets and liabilities. Data on market movements and asset allocations is used to test the sensitivity of funding ratios across our schemes in assessment to changes in these factors. The asset and risk factor stresses applied reflect an immediate one standard deviation fall in funding (or asset value) calibrated over a one year period.

As at 31 March 2015, an immediate combination of the circumstances reflected in this scenario would result in an increase in assets of £2.4 bn (2014: £1.8 bn) and an increase in liabilities of £3.4 bn (2014: £2.5 bn), a net negative impact on the statement of financial position of £1.0 bn (2014: negative £0.7 bn).

Price Risk

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

The Board manages price risk by diversifying its investments across a range of asset types, both within the UK and globally, and sets asset allocation guidelines for the fund managers as per the table below at 31 March.

	2015 £m	Actual %	Tolerance range
Asset Class			
Global bonds	5,553.0		
UK bonds and cash	8,661.0		
Cash and bonds	14,214.0	69.5%	65% - 85%
Public equity	1,841.0	9.0%	3% - 12%
Alternatives (including property)	3,824.8	18.7%	10% - 25%
Hybrid assets	566.0	2.8%	0% - 15%
Total assets allocated per SIP	20,445.8	100%	

Alongside the strategic allocation, the SIP permits tactical investment views to enhance return or to control risk, within the overall risk appetite set by the Board. The actual investment values disclosed above incorporate tactical positions held at 31 March 2015 but exclude assets and liabilities held solely for hedging purposes.

Financial risk management continued

Interest rate risk

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

The valuation of the PPF's liabilities is sensitive to interest rates, which is taken into account in setting the PPF's strategic asset allocation. The Board mitigates interest rate risk by using bonds, derivatives and repurchase agreements to closely match the sensitivities of liabilities to interest rates.

At the 31 March, PPF financial instruments exposed to interest rate risk were:

	Fixed rate	Variable	Non-interest	2015
	£m	rate	bearing	£m
		£m	£m	
Debt instruments	15,826.3	2,868.3	-	18,694.6
Money market funds	-	-	1,279.6	1,279.6
Equity	-	-	1,956.5	1,956.5
Securities funds	13.9	32.1	641.6	687.6
Private equity funds	-	-	577.4	577.4
Infrastructure funds	-	-	111.7	111.7
Farm and timberland	-	-	93.2	93.2
Investment property funds	-	-	629.0	629.0
Investment property held directly	-	-	682.6	682.6
Non-current assets held for sale	-	-	53.0	53.0
Insurance policies	-	-	352.3	352.3
Other financial assets	10.2	-	-	10.2
Foreign exchange contracts	-	-	(43.7)	(43.7)
Other derivative financial instruments	-	9,503.4	-	9,503.4
Investment income receivable	-	-	76.7	76.7
Amounts receivable from investments sold	-	-	53.2	53.2
Cash at fund managers	-	293.3	-	293.3
Repurchase agreements	(2,480.3)	-	-	(2,480.3)
Amounts payable for investments purchased	-	-	(237.3)	(237.3)
Derivative financial liabilities	-	(9,723.8)	-	(9,723.8)
Total	13,370.1	2,973.3	6,225.8	22,569.2

Financial risk management continued

	Fixed rate	Variable rate	Non-interest bearing	2014
	£m	£m	£m	£m
Debt instruments	12,866.3	2,536.7	-	15,403.0
Money market funds	-	-	1,053.9	1,053.9
Equity	-	-	1,608.0	1,608.0
Securities funds	98.6	163.8	602.7	865.1
Private equity funds	-	-	444.0	444.0
Infrastructure funds	-	-	71.9	71.9
Farm and timberland	-	-	10.1	10.1
Investment property funds	-	-	583.9	583.9
Investment property held directly	-	-	181.9	181.9
Insurance policies	-	-	284.3	284.3
Other financial assets	8.4	-	-	8.4
Foreign exchange contracts	-	-	4.8	4.8
Other derivative financial instruments	-	2,076.7	-	2,076.7
Investment income receivable	-	-	98.1	98.1
Amounts receivable from investments sold	-	-	213.4	213.4
Cash at fund managers	-	258.3	-	258.3
Repurchase agreements	(4,291.9)	-	-	(4,291.9)
Amounts payable for investments purchased	-	-	(446.2)	(446.2)
Derivative financial liabilities	-	(2,188.4)	-	(2,188.4)
Total	8,681.4	2,847.1	4,710.8	16,239.3

Currency risk

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

Asset Class	2015 £m	2015 %	2014 £m	2014 %
Euro	84.4	12.0%	56.1	6.6%
US dollar	424.0	60.6%	313.3	37.1%
Other currencies	191.7	27.4%	475.4	56.3%
Total	700.1	100.0%	844.8	100.0%

9 - FCF financial risks

The FCF has £11.2m (2014: £15.1m) of money market funds, and provisions valued at £2.8m (2014: £6.5m). The Board's policy is to build up a small surplus in the Fund by raising levies over a number of years. The FCF is at risk of a large and urgent claim, or a number of such claims occurring closely together. The Board considers this possibility unlikely however, and does not consider it proportionate to build up a large surplus, which would help to mitigate the risk, at the expense of levy payers.

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

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

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

10 - Administration Funds financial risks

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.

Operating the business

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

11 - Operating expenses

Operating expenses rose by £7.9m to £55.7m. Staff costs rose by £1.8m to £24.1m as we equip ourselves to insource member services. IT and telephony costs have risen from £3.9m to £6.1m as we invest in new information and processing systems. Depreciation has increased accordingly.

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

Total operating expenses are summarised as follows:

	Pension Protection Fund £m	PPF Administration Fund £m	FAS Administration Fund £m	2015 £m
Staff Costs				
Wages and salaries	6.3	7.4	2.3	16.0
Social security costs	0.6	0.6	0.2	1.4
Other pension costs	1.2	1.3	0.4	2.9
Short term, seconded and temporary staff	1.3	2.3	0.2	3.8
Total staff costs	9.4	11.6	3.1	24.1
Other Costs				
Member payroll services	6.2	0.6	4.2	11.0
Staff related and recruitment	0.6	1.0	-	1.6
Advisory and other professional services	4.5	3.2	0.1	7.8
Statutory audit costs	-	0.1	-	0.1
Accommodation and general office	0.9	1.7	0.3	2.9
IT and telephony	3.2	2.4	0.5	6.1
Depreciation and amortisation charges	1.9	0.2	-	2.1
Total other operating expenses	17.3	9.2	5.1	31.6
Total operating expenses	26.7	20.8	8.2	55.7

Statutory audit costs were £133,000 (2014: £133,000).

Operating the business continued

	Pension Protection Fund £m	PPF Administration Fund £m	FAS Administration Fund £m	2014 £m
Staff Costs				
Wages and salaries	4.6	7.3	2.5	14.4
Social security costs	0.5	0.6	0.2	1.3
Other pension costs	0.9	1.3	0.5	2.7
Short term, seconded and temporary staff	1.6	2.0	0.3	3.9
Total staff costs	7.6	11.2	3.5	22.3
Other Costs				
Member payroll services	5.2	0.7	3.5	9.4
Staff related and recruitment	0.3	1.0	-	1.3
Advisory and other professional services	5.0	2.0	0.1	7.1
Statutory audit costs	-	0.1	-	0.1
Accommodation and general office	0.3	1.7	0.8	2.8
IT and telephony	2.6	1.0	0.3	3.9
Depreciation and amortisation charges	-	0.6	0.2	0.8
Write off receivables	0.1	-	-	0.1
Total other operating expenses	13.5	7.1	4.9	25.5
Total operating expenses	21.1	18.3	8.4	47.8

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

	2015	2014
Permanent employees and fixed term contracts	278	255
Short term, seconded and temporary staff	28	28
Total staff	306	283

Pensions

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 2012 and details can be found in the Cabinet Office: Civil Superannuation Resource Accounts (www.civilservice.gov.uk/pensions).

During the year to 31 March 2015, employer contributions of £2.8m (2014: £2.6m) were payable to the defined benefit section of the PCSPS at one of four rates in the range 16.7% to 24.3% (2014: 16.7% to 25.8%). The scheme's actuary reviews employer contributions every four years following a full scheme valuation. These contribution rates reflect the benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme. Employees of the Board can opt to open a partnership pension account, which is a stakeholder pension with an employer contribution. Employer contributions of £64k (2014:£39k) 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% (2014: 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. Accrued pension contributions at 31 March 2015 were £244k (2014: £239k) and were paid in April 2015.

Operating the business continued

Staff exit packages

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

Exit package cost band	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band	
	2015	2014	2015	2014	2015	2014
< £10,000	-	-	-	2	-	2
£10,000 - £25,000	-	1	2	-	2	1
£25,000 - £50,000	-	3	2	-	2	3
£50,000 - £100,000	-	-	1	-	1	-
Total number of exit packages	-	4	5	2	5	6
Total cost	-	£128,563	£173,594	£3,083	£173,594	£131,646

12 - Property and equipment and intangible assets

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

Accounting policies

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

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

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

Leasehold improvements	5 years
IT hardware	4 years
Other assets (including intangibles)	3 years

	IT hardware	Furniture & fittings	Assets under construction	Total property and equipment	Intangible assets
	£m	£m	£m	£m	£m
Cost					
At 1 April 2014	4.9	1.0	8.1	14.0	4.8
Additions in the year	-	-	5.6	5.6	-
Disposals in the year	(4.4)	(0.9)	-	(5.3)	(2.8)
Assets brought into use	8.4	0.6	(9.1)	(0.1)	0.1
At 31 March 2015	8.9	0.7	4.6	14.2	2.1
Depreciation and amortisation					
At 1 April 2014	(4.9)	(1.0)	-	(5.9)	(4.0)
Charged in the year	(1.6)	(0.1)	-	(1.7)	(0.4)
Disposals in the year	4.3	0.9	-	5.2	2.8
At 31 March 2015	(2.2)	(0.2)	-	(2.4)	(1.6)
Net book value at 31 March 2015	6.7	0.5	4.6	11.8	0.5

Operating the business continued

	IT hardware	Furniture & fittings	Assets under construction	Total property and equipment	Intangible assets
	£m	£m	£m	£m	£m
Cost					
At 1 April 2013	4.8	1.0	0.1	5.9	4.4
Additions in the year	-	-	8.5	8.5	-
Disposals in the year	-	-	-	-	-
Assets brought into use	0.1	-	(0.5)	(0.4)	0.4
At 31 March 2014	4.9	1.0	8.1	14.0	4.8
Depreciation and amortisation					
At 1 April 2013	(4.7)	(0.9)	-	(5.6)	(3.5)
Charged in the year	(0.2)	(0.1)	-	(0.3)	(0.5)
Disposals in the year	-	-	-	-	-
At 31 March 2014	(4.9)	(1.0)	-	(5.9)	(4.0)
Net book value at 31 March 2014	-	-	8.1	8.1	0.8

In April 2014 the Board took occupancy of new business premises as described in note 13. As a result of this relocation, a number of substantially and fully depreciated items of property and equipment were written off.

13 - Operating lease commitments

In April 2014 the Board took occupancy of new business premises under a commercial lease, comprising rent, property service charges and the installation of certain fixtures and fittings. The lease has a period of 15 years from March 2014 with a rent review due after 5 years.

During the year, the Board permanently vacated premises leased under a number of Memoranda of Terms of Occupancy (MOTO) with DWP as part of a planned notice period.

Accounting policy

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

As at the year end the total future minimum payments under these arrangements were:

	2015 £m	2014 £m
Not later than one year	1.1	1.3
Later than one year and not later than five years	4.3	4.7
Later than five years	9.6	10.7
Total	15.0	16.7

Operating the business continued

14 - Segmental analysis

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

- The Pension Protection Fund itself
- The Fraud Compensation Fund, and
- The Administration Funds.

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

- Provisions for claims (note 2)
- Levy income (note 3)
- Operating expenses (note 11).

Consolidated statement of comprehensive net income

For the year ended 31 March	2015 £m	2014 £m
Pension Protection Fund		
Net operating surplus	547.4	555.4
Net investment return	4,523.1	(103.0)
Net cost of claims	(3,864.9)	218.5
Net comprehensive income	1,205.6	670.9
Fraud Compensation Fund		
Net comprehensive income	(0.2)	(1.8)
Administration Funds		
Operating expenses	(29.0)	(26.7)
Consolidated net comprehensive income	1,176.4	642.4

Consolidated statement of financial position

For the year ended 31 March	2015 £m	2014 £m
Total assets less total liabilities		
Pension Protection Fund	3,629.1	2,423.6
Fraud Compensation Fund	8.5	8.7
Administration Funds	(1.9)	(1.6)
Consolidated statement of financial position	3,635.7	2,430.7

Operating the business continued

15 - Subsidiaries

The Board holds a small proportion of its investment portfolio through subsidiaries. As at 31 March 2015 these were:

PPF Nominee 1 B.V. (a company registered in the Netherlands)

PPF Nominee 2 B.V. (a company registered in the Netherlands)

Crown Secondary Placement Plc (a company registered in Ireland)

PPF Real Estate Nominee 1 Limited (a company registered in the United Kingdom)

PPF Real Estate Nominee 2 Limited (a company registered in the United Kingdom)

PPF Real Estate Nominee 3 Limited (a company registered in the United Kingdom)

PPF Real Estate Nominee 4 Limited (a company registered in the United Kingdom)

The subsidiaries do not operate separately from the PPF's overall investment management processes, and the relevant assets, liabilities, income and expense are recorded with the appropriate asset classes in the PPF's accounting records. All subsidiaries are 100% owned by the Board and have a 31 March year end.

16 - Related party transactions

Accommodation costs totalling £1.4m (2014: £1.9m) were paid to the Estates Division of DWP under the arrangements described in note 13, Operating lease commitments. DWP is the sponsoring department of the PPF. In addition to the accommodation costs in the year £28.6m (2014: £26.7m) was received from DWP in GIA. There are no other related party transactions to disclose.

17 - Events after the reporting period

There have been no reportable events after the reporting period.

The accounts were authorised for issue on 13 July 2015, the date the Comptroller and Auditor General certified them. The accounts do not reflect events after this date.



Summary of Principal Findings of the Two Actuarial Valuation Reports

Since the previous valuation as at 31 March 2014:

- 96 schemes have transferred into the PPF, bringing the total number of schemes which have transferred into the PPF as at 31 March 2015 to 799
- as at 31 January 2015, the number of members receiving compensation from the PPF has grown from 95,599 to 112,392 and the number of future retirees who will receive compensation from the PPF has increased from 100,070 to 109,102
- the excess of assets over liabilities in respect of those schemes already transferred into the PPF has increased from £3,572.0m to £4,937.4m, with the funding level remaining at 128 per cent
- the number of schemes in the assessment process which contribute to the provisions figure (schemes considered likely to transfer) has decreased from 158 to 111 as at 31 March 2015
- the excess of liabilities over assets in respect of those schemes forming the provisions has increased from £1,148.4m to £1,308.3m.

The combined assets in respect of those schemes already transferred into the PPF and those schemes which are considered likely to transfer into the PPF exceeds the combined liabilities, resulting in an overall surplus of £3,629.1m as at 31 March 2015, as summarised below:

	Assets £m	Liabilities £m
Schemes already transferred into the PPF	22,749.6	17,812.2
Estimated provisions in respect of schemes likely to be transferred	4,877.8	6,186.1
Total	27,627.4	23,998.3
Excess of assets over liabilities		3,629.1
Funding Ratio (assets / liabilities)		115.1%

This compares to a funding ratio of 112.5 per cent as at 31 March 2014.

The key factors that have contributed to the change in funding since last year are as follows:

- over the year to 31 March 2015 gilt yields fell dramatically, resulting in a significant increase in our liabilities for both transferred schemes and provisions. Our hedging programme provided considerable protection against these movements; however the overall impact was to worsen the funding position
- this loss was more than offset by positive returns on our non-hedging assets which delivered a net return over the year in excess of £1 billion
- I have updated some of my demographic assumptions to more closely reflect actual experience; these changes have acted to improve the funding position
- in addition, actual experience compared to expected, including updated data and inflation-linked increases to PPF compensation, has also had a positive impact
- finally, as we have now completed GMP equalisation for a large proportion of our population, I was able to place a more accurate estimate on the likely cost. This resulted in a reduction in the reserve held, thereby improving the funding position.

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 2015

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 tenth actuarial valuation of the Pension Protection Fund. The effective date of this valuation is 31 March 2015. The previous actuarial valuation was as at 31 March 2014, and the report on that valuation was dated 9 July 2014.

At its meeting on 26 April 2006, the Board appointed me to prepare the annual actuarial valuation of the assets and liabilities of the Pension Protection Fund. I intend my report to help the Board prepare the annual report and accounts as at 31 March 2015 and so I see the Board as the user of this report. As required by paragraph 22(5) of Schedule 5 to the Pensions Act 2004, the Board will be sending a copy of this report, as part of the statement of accounts, to the Secretary of State and also to the Comptroller and Auditor General. No party, apart from the Board, the Secretary of State and the Comptroller and Auditor General, should rely on any part of this report.

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

In my view, while the Actuaries' Code issued by the Actuarial Profession applies to the preparation of this report, there are no professional practice standards which directly apply. I have, however, prepared this report having regard to the principles in three Technical Actuarial Standards, namely TAS R (Reporting Actuarial Information), TAS D (Data) and TAS M (Modelling). This report should be considered alongside my supplementary report dated 10 July 2015. As my reports are prepared solely for the purpose of the PPF's annual report and accounts, I have not produced any projections of future accounting positions in either this or my supplementary report because the Board does not require them for its accounting disclosures.

The data and methodology used for the valuation as at 31 March 2015 are the same as those introduced for the valuation at 31 March 2014. Consistent with last year's approach, liabilities were initially calculated as at 28 February 2015 using membership data as at 16 January 2015 (or in a few cases, at an earlier date) and market conditions as at 28 February 2015, and then adjusted to reflect the passage of time and expected member movements to 31 March 2015, together with market conditions at this later date. I believe that adopting this approach does not materially affect the accuracy of the results that would otherwise have been provided.

2. Membership data

As at 31 March 2015 799 schemes had transferred to the PPF. Compensation payments due in respect of the members of these schemes form the liabilities reported on in this report. Data in respect of the 799 transferred schemes has been received from four sources:

- For the 777 schemes where responsibility for the administration transferred to the PPF on or before 31 January 2015, individual member data has been provided by the PPF's administrators, Capita. The effective date of the data was 16 January 2015.
- For five schemes which had formally transferred to the PPF, but for whom as at 31 January 2015 the administration had yet to pass to Capita, individual member data has been provided by the administrator who was administering the scheme during the assessment period. The effective date of the data was 1 November 2014.
- Finally, for the remaining 17 schemes (schemes which transferred in February or March 2015), liabilities were determined from the latest section 179 valuation provided as part of the scheme returns submitted on to the Exchange database maintained by the Pensions Regulator. Liabilities calculated in this way account for about 1.1 per cent of the total liabilities transferred to the PPF.

Due to the timescale for providing valuation results, it was necessary to receive extracts of data at an earlier date than the effective date of the valuation. This is the same process as adopted for the valuation at 31 March 2014. Adjustments have been applied to ensure the data is consistent with the valuation date and that the accuracy of the valuation results is not materially affected.

I have carried out some overall checks on this data for general reasonableness and to ensure that it is consistent with that used in the actuarial valuation at 31 March 2014 and have no material concerns relating to the accuracy of the data provided.

A summary of the individual member data is as follows (figures in brackets are the corresponding figures used in the valuation at 31 March 2014):

Deferred pensioners

Sex	Number	Average age	Total accrued pension revalued to 16 January 2015 (uncapped) £000s pa
Male	74,025 (67,309)	51.2 (50.8)	309,964 (266,341)
Female	35,077 (32,761)	49.7 (49.1)	78,286 (69,423)
Total	109,102 (100,070)	50.7 (50.2)	388,250 (335,764)

Pensioners

Status	Sex	Number	Average age	Total Compensation at 16 January 2015 (capped where applicable) £000s pa
Members	Male	69,261 (57,314)	69.3 (69.7)	362,883 (302,951)
	Female	26,268 (23,481)	70.0 (69.5)	55,171 (48,061)
Dependants (excluding children)	Male	1,578 (1,375)	72.5 (72.1)	2,241 (1,908)
	Female	14,943 (13,117)	75.1 (75.0)	44,532 (37,513)
Children	Male	166 (152)	15.3 (15.1)	225 (221)
	Female	176 (160)	15.6 (15.6)	232 (229)
Total		112,392 (95,599)	70.1 (70.2)	465,284 (390,883)

Individuals who are receiving one tranche of compensation as well as being entitled to a further tranche of compensation, beginning after 16 January 2015, are included in both tables.

A summary of the data used for the 17 schemes where individual data was not available is as follows:

	Number of members	Average age	Estimated pension as at 31 March 2015 £000s pa
Deferred Pensioners	2,153	49.9	4,120
Pensioners	1,446	70.9	5,367

3. Compensation

Compensation for PPF members 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 for calculating liabilities

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

Method where individual membership data is available

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

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

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

Initially liabilities were calculated as at 28 February 2015 and based on assumptions derived from market conditions at 28 February 2015. We then allowed for the change in market conditions to 31 March 2015 by applying a ratio of the discounted projected cash flows payable after 28 February 2015, calculated using the assumptions at the respective dates. We also allowed for the change in calculation date to 31 March 2015 by unwinding the discount rate for one month and deducting the corresponding benefit outgo.

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

A further adjustment has been applied to the liabilities for the expected cost of GMP equalisation and future expenses. Further details on the adjustment applied can be found in Annexes M1 and M2.

Method where individual membership data is not available

Individual membership data was not available for schemes which transferred to the PPF in February or March 2015. For these 17 schemes, the section 179 values of the liabilities and assets were rolled forward to 31 March 2015 based on market conditions at that date.

The methodology used to roll the section 179 liabilities and asset values forward to 31 March 2015, at the same time changing the valuation assumptions to those described in Annex M2, is broadly consistent with that to be applied for the calculation of levy in the financial year 1 April 2015 to 31 March 2016 (ignoring smoothing and stressing of assets and liabilities, and noting that no scheme for which this roll-forward approach was adopted had any Asset Backed Contributions). The 15/16 methodology is available in the Pension Protection Levy section of the Pension Protection Fund web-site at:

http://www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/1516_transformation_appendix.pdf

An adjustment was also made to these rolled-forward assets and liabilities to allow for the payment of benefits from the effective date of the section 179 valuation up to the valuation date.

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

A further adjustment has been applied to the liabilities for the expected cost of GMP equalisation and future expenses. Further details on the adjustment applied can be found in Annexes M1 and M2.

5. Assumptions

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

In order to estimate future compensation cash flows in respect of PPF members, I have needed to make assumptions about:

- annual increases in payment to that element of their compensation which accrued after 5 April 1997
- revaluation of compensation in deferment for those whose compensation does not begin to be paid until after the valuation date, 31 March 2015
- their future mortality and other demographic features, and
- whether the Secretary of State exercises his power under paragraph 30 of Schedule 7 of the Pensions Act 2004 to vary the 100 per cent level of compensation for those members in category 1 of Annex M1 and the 90 per cent level of compensation for those members in category 2 of Annex M1.

In order to determine the present value of the liabilities, I have needed to discount the compensation cash flows, estimated as described above, back to the valuation date, 31 March 2015.

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

In proposing the assumptions for the 2015 actuarial valuation, I have taken note of the Accounts Direction which is given by the Secretary of State for Work and Pensions with the approval of HM Treasury in accordance with Schedule 5, Part 4 of the Pensions Act 2004.

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

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

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

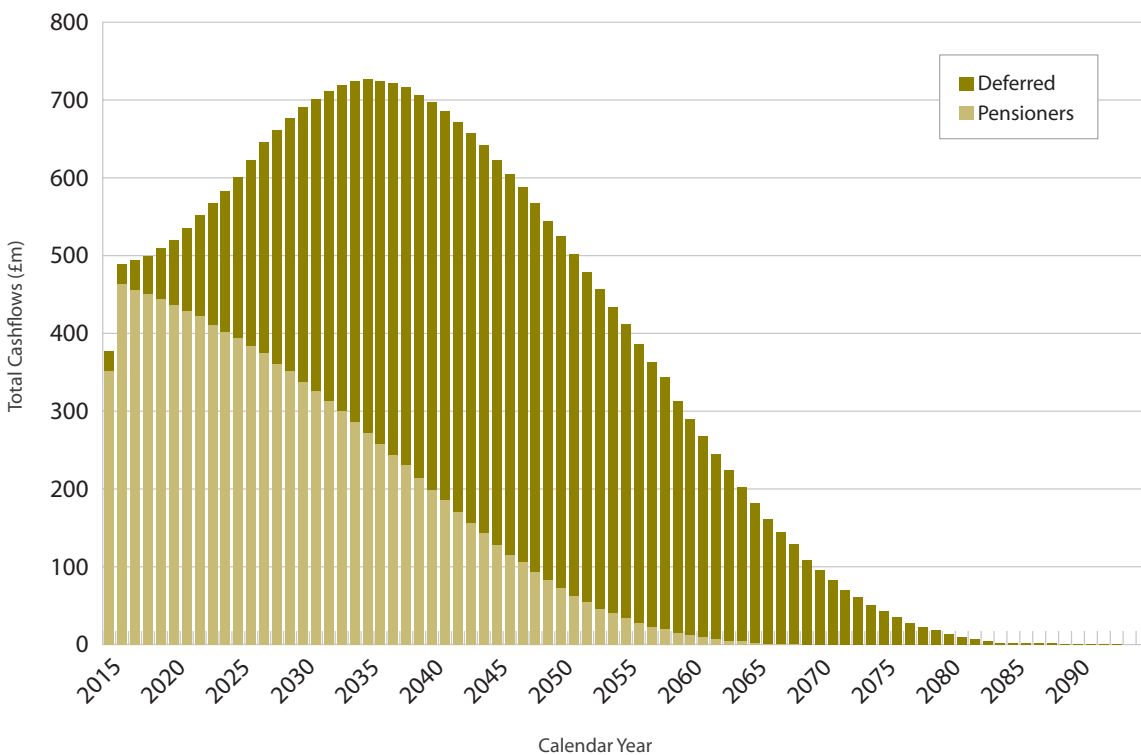
None of the above provides specific direction on the choice of assumptions made for the valuation. However, in taking account of these documents and the Accounts Direction, the Board is required to place a value on the provisions which is best estimate, i.e. is equally likely to overstate as to understate the actual value. This follows from IAS 37, which the Board is required to take into account in accordance with the FReM. As the same choices of assumptions are made as far as possible for this report as for valuing the provisions, the value placed on liabilities of the PPF is also best estimate. I have chosen to do this using market pricing where possible. 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 of changes in certain key assumptions. The results of this analysis may be seen in Annex S7 of my supplementary report which I have prepared concerning provisions in respect of the PPF as at 31 March 2015.

6. Total cash flows expected after 31 March 2015

The chart below summarises the expected cash flows for all schemes that had transferred to the PPF on or before 31 March 2015. It was initially calculated using the membership data, assumptions and valuation process set out in section 2 to section 5 for all schemes that had transferred to the PPF on or before 31 January 2015. The amounts were then scaled up to reflect the additional liabilities in respect of schemes that transferred in February and March 2015. It should be noted that some of the assumptions used in calculating the cash flows are that deferred pensioners do not retire early or late, or commute any of their annual compensation for a lump sum).

Total Cashflows



Actuarial Valuation

7. Value of assets

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

I have adopted the value of the PPF assets as stated in the relevant accounts prepared by the Board for the financial period ending on 31 March 2015. I have not adopted either of the adjustments made available by regulations 4 and 5 as I considered that it was not appropriate to do so.

Accordingly, I have taken the value of the PPF assets as at 31 March 2015 as £22,749.6m. This includes £1.3m in respect of AVC assets that match AVC liabilities yet to be discharged.

This compares with £16,431.4m as at 31 March 2014.

An analysis of the change in the value of the assets of the Fund between 31 March 2014 and 31 March 2015 is as follows:

	£m
Value of assets at the start of the year (31 March 2014)	16,431.4
Assets for schemes entering the PPF during the year to 31 March 2015 (measured at their transfer dates)	1,798.3
Assets received in respect of schemes transferred in prior years	16.0
Income from Pension Protection Levies	574.0
Compensation paid	(564.4)
Change in current assets (AVCs to be discharged)	(2.2)
Change in value of interest rate swaps and inflation swaps	3,206.7
Change in value of repurchase agreements	(364.0)
Change in value of invested assets on account of changes in bond yields	645.6
Change in value of illiquid hedging assets	23.0
Change in value of invested assets on account of other changes (excluding bond yields, interest rate swaps, inflation swaps and repurchase agreements) net of investment management expenses	1,114.0
Investment expenses charged directly to the PPF	(102.1)
Staff and other costs	(26.7)
Value of assets at the end of the year (31 March 2015)	22,749.6

8. Value of liabilities

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

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

Type of member	£m
Deferred pensioners	9,032.0
Pensioners	8,284.9
Administration expenses to be met from the Fund	494.0
Current liabilities (AVCs to be discharged)	1.3
Total	17,812.2

Accordingly I have taken the value of the liabilities of the Pension Protection Fund as at 31 March 2015 as £17,812.2m. This compares with £12,859.4m as at 31 March 2014.

An analysis of the change in the actuarial liabilities between 31 March 2014 and 31 March 2015 is as follows:

	£m
Actuarial liabilities at the start of the year (31 March 2014)	12,859.4
Effect of passage of time on discounting	70.9
Compensation paid	(564.4)
Actuarial (gain) / loss due to inflation being different from what was assumed	(126.1)
Actuarial (gain) / loss due to data changes and other experience	18.5
Liabilities for schemes entering the PPF during the year to 31 March 2015 (measured at schemes' transfer dates)	2,372.0
Actuarial (gain)/loss due to revaluation between transfer date and 31 March 2015 for schemes that entered the PPF during the year differing from that assumed	(227.3)
Actuarial (gain)/loss due to changes in financial assumptions	3,701.4
Actuarial (gain)/loss due to changes in demographic assumptions	(172.9)
Change in GMP equalisation loading	(100.7)
Change in expense loading	20.9
Miscellaneous	(39.5)
Actuarial liabilities at the end of the year (31 March 2015)	17,812.2

9. Conclusion

As at 31 March 2015, the value of the PPF's assets was £22,749.6m and the value of the liabilities was £17,812.2m. These values have been determined in accordance with the Pension Protection Fund (Valuation of the Assets and Liabilities of the Pension Protection Fund) Regulations 2006 (SI 2006 / 597).

The excess of assets over liabilities was £4,937.4m as at 31 March 2015, which corresponds to a funding ratio of 128 per cent.

This excess of assets over liabilities 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 2015.

Therefore, in addition to this formal report on the assets and liabilities, I have estimated provisions in respect of the assets, potential recoveries and liabilities of those schemes which, in the Board's judgement, are likely to be transferred into the PPF. These provisions are shown in my supplementary report to the Board dated 10 July 2015 and will be shown in the statement of accounts being prepared by the Board for the financial period ending on 31 March 2015.

I have also estimated contingent liabilities as at 31 March 2015, in respect of other pension schemes which, in the Board's judgement, may possibly be transferred into the PPF in the near future. These contingent liabilities are shown in my supplementary report to the Board dated 10 July 2015 and will be disclosed in footnotes to the statement of accounts prepared by the Board for the financial period ending on 31 March 2015.

Signed: 

Date: 10 July 2015

Name: Stephen Rice, Appointed Actuary

Job Title: Chief Actuary

Qualification: Fellow of the Institute and Faculty of Actuaries

Employer: The Board of the Pension Protection Fund

Annex M1 Summary of compensation provided by the Pension Protection Fund

Broadly speaking, the PPF provides two levels of compensation:

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

In broad terms and in normal circumstances, this means a starting level of compensation that equates to 100 per cent of the pension 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.

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

In broad terms and in normal circumstances, this means 90 per cent of the pension an individual had accrued immediately before the assessment date (subject to a review of the rules of the scheme by the Board).

Compensation is revalued in line with the increase in the Retail Prices Index ("RPI") between the assessment date and March 2011, and the increase in the Consumer Prices Index ("CPI") between March 2011 and the commencement of compensation payments. This is subject to a floor of 0 per cent over the whole period, and to a maximum increase of 5 per cent a year for the whole period (2.5 per cent a year for pension accrued on or after 6 April 2009). Compensation is subject to an overall cap, which from 1 April 2015 equates to £36,401.19 a year at age 65 (the cap is adjusted according to the age at which compensation comes into payment).

On 25 June 2013 the Pensions Minister announced his intention to introduce a service-related compensation cap, but there are currently no specific timescales for its implementation. The new legislation was therefore not in force on 31 March 2015. Consequently, I have made no allowance for it in this statutory valuation of the assets and transferred liabilities of the PPF, although it is included as a contingent liability in my supplementary report dated 10 July 2015.

For both categories of members, once compensation is in payment, the part that derives from pensionable service on or after 6 April 1997 is increased on 1 January each year in line with:

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

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

Under the Pensions Act 2004, the Board has a duty to pay compensation on a basis that is no more or less favourable to a woman (or man) than it would be to a comparable man (or woman) in respect of pensionable service on or after 17 May 1990. In meeting this requirement, the Board must take into account any differences in scheme benefits that have arisen owing to differences in the calculation of Guaranteed Minimum Pensions (GMPs) for males and females. All schemes for which the Board assumed responsibility on or after 1 June 2013 were required to equalise members' compensation prior to transfer. For schemes for which the Board assumed responsibility before 1 June 2013, Annex M2 sets out the allowance I have made for GMP equalisation.

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

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

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

Annex M2 Assumptions

Assumptions in respect of schemes for which the Board assumed responsibility on or before 31 March 2015 will be either the same as, or derived in the same way as, those derived for the valuation as at 31 March 2014, unless stated otherwise.

a) Compensation levels

As for previous valuations of the Pension Protection Fund, I have continued to assume that the Secretary of State will not exercise his power under paragraph 30 of Schedule 7 of the Pensions Act 2004 to vary the 100 per cent level of compensation for those members in category 1 of Annex M1 and the 90 per cent level of compensation for those members in category 2 of Annex M1.

b) Future legislative changes

The new legislation introducing a service-related compensation cap was not in force on 31 March 2015 but there are still no specific timescales for its implementation. As such, I have made no allowance for it in this statutory valuation of the assets and transferred liabilities of the PPF, although it is included as a contingent liability in my supplementary report dated 10 July 2015.

c) Financial assumptions

Financial assumptions where individual membership data is available

For the liabilities in respect of transferred schemes where individual data is available, I have applied the same rationale in setting the financial assumptions as I did in my report as at 31 March 2014. I consider that it is still appropriate for the financial assumptions to vary according to the term of the particular cash flow being estimated and discounted.

i) Discount rates

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

Under the terms of a zero-coupon interest rate swap contract with notional principal P and tenor (=duration) N, the PPF would at time N pay interest to the counterparty on P of the six month London Interbank Offered Rate ("LIBOR") while the counterparty would at the same time pay to the PPF a fixed interest rate specified in the contract.

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

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

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

I obtained a zero-coupon interest rate swaps yield curve constructed from cash rates, future strips and semi-annual swap rates as at 31 March 2015 from Insight Investment who constructed the curve by seeking indicative prices from a combination of major counterparties and inter-dealer brokers.

I also obtained a gilt strips yield curve as at 31 March 2015 from Insight Investment, which was derived from information available from the UK Debt Management Office. This curve shows gilt strips yields at terms of one year to 50 years inclusive. Yields at each of these terms are representative of bonds (or notional bonds) with similar maturities to the indicative terms. As the zero-coupon swaps curve and gilt strips curve both extend only as far as term 50, I have assumed that the forward rate applying in each year after year 50 is the same as that applying at year 50.

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

ii) Revaluation rates

I have assumed that the Board will not exercise its power under paragraph 29 of Schedule 7 of the Pensions Act 2004 to amend the maximum revaluation rate of 5 per cent a year in respect of compensation which derives from service before 6 April 2009 and 2.5 per cent a year in respect of compensation which derives from service thereafter.

Future revaluations of deferred compensation are linked to increases in the CPI. In considering what assumption would be appropriate for future CPI increases, I have noted that at present there is almost no market in CPI swaps or indeed any other instruments from which CPI prices can reasonably be inferred. Such limited current market pricing information as is available from insurance companies would suggest an assumption of CPI increases being 0.4 per cent a year less than RPI increases. I have therefore assumed the same. I have further assumed that the rate of future RPI increases, for the period from the valuation date to normal pension age, is determined from the RPI inflation swap curve (supplied as at 31 March 2015 by Insight Investment).

I am aware that there are other methods of deriving a CPI assumption and these include, for example, deducing a best estimate of the future gap between RPI and CPI from the market implied measure of RPI. I do not feel that this method is consistent with the setting of the other financial assumptions. Should a deeper market develop, I expect that the implied gap between RPI and CPI will further increase, although the actual gap that would apply in these circumstances is very uncertain. I have shown the sensitivity of the balance sheet to there being a gap of 0.9 per cent (compared to 0.4 per cent in the main results). This may be seen in Annex S7 of my supplementary report which I have prepared concerning the provisions of the PPF as at 31 March 2015.

The revaluation rate is assumed to be equal to the assumed CPI spot rate, restricted to the revaluation cap applied over the whole period of deferment. The maximum revaluation rate of 5 per cent a year does not apply at any term, for compensation deriving from service before 6 April 2009. The maximum revaluation rate of 2.5 per cent a year applies for all terms greater than ten years, for compensation deriving from service after 5 April 2009.

iii) Pension increase rates

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

For this compensation increase, therefore, I need an assumption, for each term, for the increase in the CPI capped at 2.5 per cent and with a floor of 0 per cent (referred to as CPI[0, 2.5 per cent]). If there was a market in CPI[0, 2.5 per cent] inflation swaps then a curve of prices for each term would be derivable directly. However such a market does not exist. Furthermore, the market for the equivalent swaps based on RPI capped at 2.5 per cent, which does exist, is very small and hence the derived curve can be unsatisfactorily affected by a small amount of data. Therefore, as last year, I have used a CPI[0, 2.5 per cent] curve derived using the Stochastic Alpha Beta Rho ("SABR") model calibrated primarily on market price data from securities that are uncapped and those which are capped at 3 per cent and 5 per cent. This curve was supplied by Insight Investment.

For each year beyond 50 years, I have assumed that the pension increase assumption applying is the same as that at term 50.

The table below shows the annualised average term-dependent rates of discount, inflation and increases to pensions in payment as at 31 March 2015 that I have assumed over the given term. The rates are presented as spot rates. Figures shown in brackets are as at 31 March 2014.

Term	Discount rate pa	CPI revaluation rate pa	Post 1997 pension increase rate pa
1	0.564% (0.551%)	1.353% (2.380%)	1.375% (2.069%)
2	0.736% (0.911%)	1.773% (2.475%)	1.633% (2.062%)
3	0.919% (1.317%)	2.025% (2.578%)	1.752% (2.074%)
4	1.074% (1.654%)	2.183% (2.652%)	1.828% (2.078%)
5	1.200% (1.921%)	2.288% (2.700%)	1.881% (2.069%)
10	1.658% (2.912%)	2.534% (2.890%)	1.966% (2.081%)
15	2.016% (3.396%)	2.750% (3.089%)	2.022% (2.106%)
20	2.343% (3.621%)	2.887% (3.204%)	2.059% (2.125%)
30	2.478% (3.724%)	2.957% (3.265%)	2.092% (2.146%)
40	2.344% (3.613%)	2.928% (3.245%)	2.108% (2.146%)
50	2.347% (3.557%)	2.948% (3.266%)	2.117% (2.154%)

Source: Insight Investment with, in some cases, additional PPF calculations.

Financial assumptions where individual membership data is not available

It is not possible to use term-dependent rates as I do not have individual member data to be able to project cash flows. I have therefore made assumptions about the following:

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

These financial assumptions have been derived from the term-dependent rates described earlier, i.e. from those rates used to value the liabilities of transferred schemes where individual membership data is available. This has been done by assuming that cash flows for schemes where individual data is not available will follow the same shape as cash flows for those schemes where individual data is available.

Single rates of discount, inflation and pension increases were determined so that the present values placed on the cash flows for both the pensioners and the deferred pensioners were equal to the present value determined using term-dependent rates. These single rates of discount, inflation and pension increase were then used to determine the net discount rates as set out in the following table. The figures in brackets are those as at 31 March 2014.

Net discount rate	% pa
In deferment for compensation accrued before April 2009	-0.4 (0.5)
In deferment for compensation accrued after April 2009	-0.1 (1.1)
In payment for non-increasing compensation for current pensioners	2.1 (3.2)
In payment for non-increasing compensation for deferred pensioners	2.3 (3.6)
In payment for increasing compensation for current pensioners	0.0 (1.1)
In payment for increasing compensation for deferred pensioners	0.2 (1.4)

d) Demographic assumptions

i) Mortality

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

- Baseline mortality

For last year's valuation as at 31 March 2014, a mortality analyst, Club Vita, provided us with 239 different mortality curves to apply to individual members based on:

- member status, i.e. deferred pensioner, pensioner, or dependant
- sex
- lifestyle (based on postcode)
- amount of compensation, and
- applicable period (pre-retirement or post-retirement).

Club Vita has updated their experience dataset since the previous valuation and so has provided us with more up-to-date mortality curves to use this year. A total of 240 different mortality curves have been used for the valuation as at 31 March 2015.

These curves have been derived by analysing a large amount of data from Club Vita's members (including the PPF). These curves are based on mortality experienced over the period 2010-2012.

Where individual membership data is not available Club Vita provided us with mortality curves which reflect average mortality across the whole PPF membership. Because the liabilities of these schemes without individual membership data are calculated by rolling forward the results of an earlier section 179 valuation, it is not possible to use the chosen assumptions precisely. Instead, ratios of annuity values based on male members and female spouses are used in the transformation of the valuation result. This straightforward and tractable approach is fit for purpose since men comprise the majority of pension scheme liabilities.

- Allowance for changes in mortality over time

For the valuation as at 31 March 2014, I adopted the CMI-2013 mortality projection model in its core form, without advanced parameterisation, with a long-term improvement rate of 1.5 per cent a year for both men and women. In standard notation, my assumption for men is denoted CMI_2013_M [1.5 per cent] and for women is denoted CMI_2013_F [1.5 per cent].

I have seen no evidence to suggest that the long-term improvement rate should be changed from my assumption adopted last year. However, since the previous valuation, the CMI has updated the CMI-2013 model to take account of more up-to-date data.

For this valuation, I have therefore adopted the CMI-2014 mortality projection model in its core form, without advanced parameterisation, with a long-term improvement rate of 1.5 per cent a year for both men and women. In standard notation, my assumption for men is denoted CMI_2014_M [1.5 per cent] and for women is denoted CMI_2014_F [1.5 per cent].

It should be recognised that there is a substantial element of subjectivity about mortality assumptions and that different actuaries will come to different conclusions. The appropriate mortality assumption for future valuations will be kept under review and I have shown the sensitivity of the balance sheet to both the assumed long-term rate of improvement and the use of advanced parameterisation (i.e. a non-uniform convergence to the long-term rate). These results may be seen in Annex S7 of my supplementary report which I have prepared concerning the provisions of the PPF as at 31 March 2015.

- Life expectancies implied by the mortality assumptions

The following table illustrates the range of cohort life expectancies of pensioners aged 65 on 31 March 2015 and, for non-pensioners the range of cohort life expectancies once they reach age 65 (based on the mortality assumptions being used for this valuation). The non-pensioners are assumed to be aged 40 currently. Cohort life expectancies are based on the age-specific mortality rates allowing for projected changes in mortality. The figures in brackets show the cohort life expectancies based on the assumptions adopted in my valuation as at 31 March 2014.

Men

Membership group	Minimum life expectancy in years	Maximum life expectancy in years	Range of life expectancies, in years, within which 75% of all accrued compensation lies	Median life expectancy in years (weighted by annual compensation)
Pensioners:				
- Members	18.0 (17.8)	24.3 (23.6)	20.4-23.6 (20.1-23.6)	22.0 (22.1)
- Dependants	16.0 (15.3)	21.5 (21.0)	18.6-21.3 (18.9-20.9)	19.8 (19.7)
Non-pensioners:				
- Members	21.1 (20.9)	27.2 (26.5)	23.5-26.0 (23.1-25.9)	24.8 (24.7)
- Dependants	19.2 (18.3)	24.6 (24.1)	21.7-24.6 (22.0-24.1)	22.9 (22.9)

Women

Membership group	Minimum life expectancy in years	Maximum life expectancy in years	Range of life expectancies, in years, within which 75% of all accrued compensation lies	Median life expectancy in years (weighted by annual compensation)
Pensioners:				
- Members	21.1 (21.4)	26.3 (26.1)	23.1-25.5 (23.1-25.5)	24.5 (24.7)
- Dependants	19.7 (19.7)	26.9 (26.8)	22.4-25.2 (22.3-25.3)	23.7 (23.0)
Non-pensioners:				
- Members	24.2 (24.6)	29.3 (29.1)	26.2-28.1 (26.2-28.4)	27.5 (27.7)
- Dependants	23.2 (23.2)	29.6 (29.5)	25.6-27.2 (25.5-27.3)	26.1 (26.2)

Note that the minimum life expectancy is the shortest life expectancy of the member in the particular category across the various Club Vita groupings (which vary according to sex, postcode and pension amount). The maximum life expectancy is determined in a corresponding way.

ii) Commutation, early retirement and late retirement

No allowance is made for commutation of compensation, early retirement or late retirement. Even though estimated cash flows would be affected by making allowances, nonetheless these member options are roughly cost-neutral in that the value of the liabilities is roughly the same whether or not a member exercises the option. The factors used to determine the amount of compensation given up for cash, early retirement compensation or late retirement compensation are determined using assumptions consistent with those adopted for this valuation and are monitored to ensure they remain in line.

iii) Proportion married

For pensioners:

Where there is provision for survivor pensions for relevant partners an assumption consistent with 85 per cent (males) or 75 per cent (females) at normal pension age.

Where there is no provision for survivor pensions for relevant partners other than legal spouses an assumption consistent with 75 per cent (males) or 65 per cent (females) at normal pension age.

For deferred pensioners:

Where there is provision for survivor pensions for relevant partners an assumption, at the assumed date of retirement or earlier death, of 85 per cent (males) or 75 per cent (females).

Where there is no provision for survivor pensions for relevant partners other than legal spouses an assumption, at the assumed date of retirement or earlier death, of 75 per cent (males) or 65 per cent (females).

These assumptions are each five percentage points lower than the corresponding assumptions adopted for the valuation as at 31 March 2014. The assumptions have been revised in the light of our actual experience (as determined by Club Vita), which indicated that the previous assumptions were now looking unduly prudent.

iv) Age difference between member and dependant

Females assumed to be three years younger than males.

This is a standard assumption normally considered reasonable by actuaries measuring liabilities of UK pension funds and is broadly consistent with the recent experience of the Fund.

v) Children's pensions

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

vi) Expenses

Certain administration expenses are met from the Pension Protection Fund rather than from the Administration Fund.

An allowance equal to 2.8 per cent of the value of the liabilities in respect of members who have transferred into the Pension Protection Fund before 1 April 2015 has been made in respect of the expected future cost of these expenses. 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. The starting point for the calculation is the expected budgeted expenses (including the expenses of running a notional, rather than the actual, portfolio of investments) which would be incurred by the PPF in the three years following the valuation date.

The budgeted costs are separated between

- one-off costs,
- annual expenses which will increase in line with the size of the PPF fund, mainly investment management fees,
- expenses which are dependent on the number of members in the Fund and which are expected to increase in line with inflation and
- non-member related expenses which are expected to increase in line with inflation.

In carrying out the calculations, projections of our assets and liabilities in each future year are required. In addition, an estimate of how these values are split between pre 1 April 2015 and post 31 March 2015 transfers is needed; this is because expenses in respect of post 31 March 2015 transfers are not included in the calculation of the expense allowance. To determine this split of expenses, estimates from our Long-Term Risk Model (used to assess progress towards achieving the PPF's funding objective) have been used for the first 20 years and values extrapolated thereafter.

When applying the member-related costs I have assumed that the membership as at 31 March 2015 reduces in line with our cash flow projections.

This year's allowance of 2.8 per cent of liabilities compares to an allowance of 2.7 per cent in the previous year's valuation.

vii) GMP equalisation

Schemes for which the Board assumed responsibility on or after 1 June 2013 were required to equalise members' compensation prior to transfer. For these schemes therefore, data provided by Capita includes compensation amounts that have already been adjusted for any inequalities on account of GMP.

For former members of all other schemes, the Board is undertaking, but has not yet completed, work to adjust compensation that is unequal (between men and women) on account of inequalities in GMPs. In no case does the membership data used for this valuation for these former members of other schemes include an adjustment for GMP inequalities. I need therefore to make an allowance for the expected cost of increasing these members' compensation in order to achieve equalisation. I have calculated this allowance based on the cost of the compensation increases for that part of the transferred membership whose compensation increases had been calculated by 1 February 2015.

The cost included is 0.6 per cent of the actuarial liabilities in respect of schemes that were unequalised at the point of transfer to the PPF.

This allowance was calculated by reference to:

- the proportion of the total membership (excluding schemes that were already equalised at the point of transfer to the PPF) eligible for GMP equalisation
- the actual impact of GMP equalisation implemented for around 55,000 eligible members (deferred pensioners and pensioners) in February 2015 (note that these 55,000 or so equalised compensation calculations were only finalised after the effective date of the valuation data extract). This equates to around 60 per cent of the membership that will be assessed for potential liabilities in their GMP entitlement.

The allowance has decreased from that used in the valuation as at 31 March 2014 (1.3 per cent). However, it should be noted that the two figures are not directly comparable as the previous figure included an allowance for backdated arrears in respect of all unequalised schemes. The current loading is net of the arrears that were paid to members in February 2015 as part of the GMP equalisation exercise.

Actuary's supplementary report as at 31 March 2015

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 2015

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 PPF. This actuarial valuation is set out in my report to the Board dated 10 July 2015.

The statement of accounts also contains provisions and discloses contingent liabilities that require actuarial estimation. This supplementary report contains these estimates. This supplementary report also contains actuarial balance sheets for the PPF showing actuarial liabilities and provisions in comparison with the corresponding assets.

The Board is responsible for the accounting policies, and this report has been prepared within the framework which it has determined. Although I have not been explicitly commissioned to provide this report, I have, nevertheless, prepared it for the Board and I intend my report to assist the Board with the preparation of the annual report and accounts as at 31 March 2015. I therefore see the Board as the user of this report and no other party should rely on any part of this report.

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

In my view, while the Actuaries' Code issued by the Actuarial Profession applies to the preparation of this report, there are no professional practice standards which directly apply. I have, however, prepared this report having regard to the principles in three Technical Actuarial Standards, namely TAS R (Reporting Actuarial Information), TAS D (Data) and TAS M (Modelling). This report should be considered alongside my report to the Board dated 10 July 2015. As my reports are prepared solely for the purpose of the PPF Annual Report and Accounts, I have not produced any projections of future accounting positions in this report because the Board does not require them for its accounting disclosures.

2. Provisions

Under International Accounting Standard 37 (IAS 37) of the International Accounting Standards Board a provision should be recognised when:

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

The application of this requirement in the accounting standard to the Board's statement of accounts as at 31 March 2015 is set out in Annex S1.

3. Contingent liabilities

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

- a possible obligation (it has not yet been confirmed whether there is an obligation that could lead to a transfer of economic benefits), or
- a present obligation that does not meet the recognition criteria in IAS 37, 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 2015 is set out in Annex S2.

The schemes forming the contingent liabilities of types 1, 2 and 3 (as defined in Annex S2) are determined by the Board and I have calculated the values accordingly. However, it should be noted that claims arising after 31 March 2015 could arise from sources other than those described in the definitions for these contingent liabilities. For the avoidance of doubt, the contingent liabilities of types 1, 2 and 3 are not meant to represent the expected claims in the coming year.

4. Data

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

5. Compensation provided by the Pension Protection Fund

The compensation provided by the Pension Protection Fund is summarised in Annex M1 of my report to the Board dated 10 July 2015.

6. Assumptions

The assumptions used to calculate the actuarial liabilities are set out in full in Annex M2 of my report to the Board dated 10 July 2015.

The set of assumptions used in order to calculate the provisions and contingent liabilities as at 31 March 2015 are in most respects the same as those used to calculate the actuarial liabilities. The differences are shown in Annex S4.

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

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

a) Actuarial liabilities

The method of calculating the actuarial liabilities is set out in my report to the Board dated 10 July 2015.

b) Provisions

To determine whether a provision is required for a scheme it is necessary to determine whether as at the insolvency date the value of the assets was less than the amount of Protected Liabilities (see Annex S1). This is determined in the first instance from consideration of any notice issued in respect of the scheme under section 144 or 145 of the Pensions Act 2004. Where no such notice has been issued, consideration is then given to any internal reports indicating the likely funded status of the scheme at the insolvency date. Finally, for all schemes not already categorised under the two preceding steps, assumptions to determine the funded status at the insolvency date are derived from market conditions as at the insolvency date following the published guidance on undertaking a valuation in accordance with section 179 of the Pensions Act 2004 (version as in force as at the insolvency date). This guidance is available on the Pension Protection Fund web-site; www.pensionprotectionfund.org.uk/TechnicalGuidance/Pages/ValuationGuidance.aspx

The method of calculating the provisions varied according to the data that the Board was holding about the relevant schemes as at 31 March 2015.

1. Updated asset value information and recent membership data

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

- (i) satisfy the definition of a provision as set out in Annex S1
- (ii) are sufficiently large (broadly those which were included as material schemes in the valuation as at 31 March 2014 and are still in assessment and expected to transfer, plus new schemes which entered assessment since 31 March 2014 and have estimated liabilities of at least £75m), and
- (iii) actually did provide individual membership data and updated asset information when so requested.

For four of the ten material schemes, membership data and updated asset information were provided at effective dates in October or November 2014. No further data was provided for the remaining six schemes as no material changes to the data had occurred since the previous valuation; for these schemes the membership data was taken to be the same as that used for the 2014 valuation and no update to the asset information was requested.

For all material schemes, the asset value at 31 March 2015 was determined by rolling forward the latest available asset value and making an adjustment for benefits paid between the effective date of the assets and 31 March 2015. For material schemes where no updated asset information was requested, the roll forward value of the assets was checked against updated asset information available for other purposes. These comparisons disclosed no material differences.

Similarly as for transferred schemes, initially liabilities were calculated as at 28 February 2015 and based on assumptions derived from market conditions at 28 February 2015. We then allowed for the change in market conditions to 31 March 2015 by applying a ratio of the discounted projected cash flows payable after 28 February 2015, calculated using the assumptions at the respective dates. We also allowed for the change in calculation date to 31 March 2015 by unwinding the discount rate for one month and deducting the corresponding benefit outgo.

Allowance has been made for expected member movements between the effective date of the data provided and the valuation date.

Material schemes in assessment and schemes which have already transferred to the PPF (excluding those valued by rolling forward a section 179 valuation) account for 92 per cent of the total liabilities and provisions.

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

If the scheme was to be included in the provisions, the section 179 or section 143 valuation was rolled forward to 31 March 2015 on the valuation basis.

The methodology used to roll the section 179 or a section 143 valuation results forward to 31 March 2015, at the same time changing the valuation assumptions to those described in Annex S4, is consistent with that to be applied for the calculation of levy in the financial year 1 April 2015 to 31 March 2016 (ignoring smoothing and stressing of assets and liabilities and noting that no scheme for which this roll-forward approach was adopted had any Asset Backed Contributions). The 15/16 methodology is available in the Pension Protection Levy section of the Pension Protection Fund web-site at: http://www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/1516_transformation_appendix.pdf

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

The MFR valuation was initially transformed to a section 179 valuation (guidance version G3/A3) at the MFR valuation date using a methodology consistent with that available in the Pension Protection Levy section of the Pension Protection Fund website at: http://www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/1516_mfr_conversion_appendix.pdf

In practice only six schemes are assessed based on an MFR valuation and in all such cases the transformed section 179 valuation has been used for the purpose of the calculations.

- The resulting section 179 valuation was rolled forward to the insolvency date and used as a proxy for a section 143 valuation to determine whether the scheme was in deficit at the insolvency date and hence whether it should be included in the provisions.
- If the scheme was to be included in the provisions, the resulting section 179 valuation was then rolled forward to 31 March 2015 on the valuation basis using the same methodology.

4. Schemes withdrawn from assessment (as overfunded on a section 143 valuation) and operating or anticipated to operate as a closed fund

For schemes currently operating as a closed fund where it is considered probable that they will ultimately transfer to the PPF, an allowance has been made based on a roll forward of the assets and liabilities, with an adjustment where necessary to reflect the expectation that such schemes will be close to 100 per cent funded at the point of transfer. The roll forward was based on the latest available out of the s179, s143 or s158 valuations.

A similar allowance has been made for schemes that are expected to operate as a closed fund in the future, again where it is considered probable that they will ultimately transfer to the PPF.

5. No updated asset and membership information, nor a section 179 valuation, nor a section 143 valuation, nor an MFR valuation

It was assumed that the scheme was in deficit at the insolvency date. The scheme's provision was estimated as the median provision for schemes where data was available. In total three schemes have been valued in this way.

In a similar way as for schemes that have transferred to the PPF, a provision has been included for the cost of GMP equalisation and future expenses, see Annex S4 for further details.

c) Contingent liabilities

The method adopted for contingent liabilities of type 1, 2 or 3 was identical to that for provisions where the Board was in possession of a section 179 valuation. This was the same method as adopted last year. The method adopted for type 4 contingent liabilities is set out in Annex S2.

Additionally, loadings to reflect the impact of GMP equalisation and future expenses were applied to the liabilities forming the contingent liabilities of type 1, 2 or 3. These loadings were equal to the loadings applied to the provisions, as set out in Annex S4.

8. Results of the calculations

The results of the calculations of the actuarial liabilities, provisions and contingent liabilities are set out in Annex S6. I also show the results as at 31 March 2014 using the assumptions set out in the Report and Accounts as at 31 March 2014.

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

9. Actuarial Balance Sheets

Annex S7 sets out the actuarial balance sheets for the Pension Protection Fund as at 31 March 2015, 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 and the cost of equalising compensation for GMPs on these liabilities. The total value is taken as £17,812.2m, the same figure as was used in my actuarial valuation report of 10 July 2015, 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 amounts to £6,186.1m.

Accordingly I have taken the total liabilities including provisions of the Pension Protection Fund as at 31 March 2015 as £23,998.3m.

In the actuarial balance sheets for the Pension Protection Fund as at 31 March 2015, 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 £22,749.6m, the same figure as was used in my actuarial valuation report of 10 July 2015, and
- (b) the sum of the estimated values of the assets in the schemes that generated the provisions described in section 2 of this report, plus any anticipated recoveries estimated on a prudent basis (£436.6m) – this figure amounts to £4,877.8m.

Accordingly I have taken the value of the assets of the Pension Protection Fund as at 31 March 2015 as £27,627.4m.

10. Reconciliation of the change in the funding position

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

Signed:

Stephen Rice

Date: 10 July 2015

Name: Stephen Rice, Appointed Actuary

Job Title: Chief Actuary

Qualification: Fellow of the Institute and Faculty of Actuaries

Employer: The Board of the Pension Protection Fund

Annex S1 Provisions in the Statement of Accounts for the financial period ending on 31 March 2015

The Statement of Accounts as at 31 March 2015 contains provisions in respect of eligible schemes as defined in section 126 of the Pensions Act 2004 in relation to which:

- an insolvency event notice under section 120 of the Pensions Act 2004 had been received by the Board from an insolvency practitioner on or before 31 March 2015
- the Board had not stated on or before 31 March 2015 that the insolvency event was not a qualifying insolvency event
- the insolvency date was on or before 31 March 2015
- a withdrawal notice under section 122(2)(b) of the Pensions Act 2004 had not been received on or before 31 March 2015 (and, in the Board's judgement, is unlikely to be received) from the insolvency practitioner
- as at the insolvency date, the value of the assets was, in the Board's judgement, likely to have been less than the amount of the Protected Liabilities as defined in section 131 of the Pensions Act 2004 (determined on the section 179 basis as at the insolvency date), and
- transfer to the PPF had not taken place on or before 31 March 2015.

The Board has also considered, for inclusion in the provisions:

- schemes which had, in the Board's judgement, a surplus of assets over the value of the protected liabilities at the insolvency date, but which may ultimately enter the PPF. A provision might be appropriate if there are a significant number of schemes in this position. Based on an analysis of our recent experience, I do not consider that this is so.
- schemes which as a result of the valuation process set out in Annex S3, have a surplus of assets over the estimated value of the protected liabilities at the valuation date, and therefore contribute a negative amount to the provisions. It might be appropriate to offset some of this negative provision if there are a significant number of schemes in this position because some of these schemes may not ultimately enter the PPF. Again, I do not consider that this is so.
- schemes which have completed the assessment period and have been operating as closed schemes. There is a possibility that some of these schemes will return to the PPF (for instance if the trustees can demonstrate that there are now insufficient assets to provide PPF levels of compensation). I consider it probable that nine such schemes will ultimately transfer to the PPF and a provision has therefore been included for these cases. Information relating to them is limited and out of date. An allowance has been made for these schemes based on a roll-forward of the section 179, section 143 or section 158 assets and liabilities to 31 March 2015, with an adjustment where necessary to reflect the expectation that such schemes will be close to 100 per cent funded at the point of transfer.
- schemes where a section 143 valuation has already been completed by the trustees and this showed an excess of assets over Protected Liabilities. These schemes did not, therefore, transfer into the PPF straight away after the validation of the s143 valuation. There is a possibility, however, that some of them will return to the PPF (for instance if the trustees obtain a buy-out quote that shows a deficit of assets compared with the protected liabilities, or if the scheme reapplies for entry to the PPF following a future period of operation as a closed scheme). I consider it probable that four of these schemes will ultimately transfer to the PPF and a provision has therefore been included for these cases in line with the methodology applied for closed schemes.

Additionally, I have made an allowance for insolvency events that occurred on or before 31 March 2015 that have yet to be reported. This takes the form of an 'IBNR reserve' (Incurred But Not Reported reserve) which is determined by estimating the number of schemes where a claim has been incurred but not reported. This is calculated as a percentage addition to the number of schemes which have been reported and included as provisions. This percentage has been determined from an analysis of the average time lag between insolvency event occurrence and notification of such an event to the Board (via a section 120 notice) with consideration of the proportion of events resulting in a claim, as shown in the following table:

**Number of months
between insolvency event
and Board receipt of S120
notice**

**Cumulative proportion of
notifications received by
each point in time**

0	58%
1	89%
2	92%
3	95%
4	96%
5	96%
10	99%
15	99%
16	100%

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



Annex S2 Contingent liabilities in the Statement of Accounts for the financial period ending on 31 March 2015

Four types of contingent liabilities are disclosed in footnotes to the statement of accounts. The definitions of the four categories are given below.

1. Type 1 contingent liabilities are in respect of eligible schemes where:

- an insolvency event notice under section 120 of the Pensions Act 2004 was received by the Board from an insolvency practitioner on or before 31 March 2015
- the Board had stated on or before 31 March 2015 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
- the Board has sufficient data about the scheme to be able to make an estimate of a contingent liability, and
- as at 28 February 2015, 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 where:

- in the Board's judgement, as at 31 March 2015, 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,
- the Board has sufficient data about the scheme to be able to make an estimate of a contingent liability, and
- as at 28 February 2015, 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 where:

- the Experian insolvency scores at 31 January 2015 are available to the Board and, based on this information, the score corresponding to the weighted insolvency probability of the scheme's participating employers would place the scheme in Levy Band 10 as set out in the Levy Rate Table in the Insolvency Risk Appendix to the Board's Determination for levy year 2015/16.
http://www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/1516_insolvency_risk_appendix.pdf
- the Board has sufficient data about the scheme to be able to make an estimate of a contingent liability, and
- as at 28 February 2015, the value of the assets was, in the Board's judgement, likely to have been less than the amount of the Protected Liabilities as defined in section 131 of the Pensions Act 2004.

Out of a population of around 6,000 schemes considered, 266 had an insolvency score which placed them in Levy Band 10. Of these 266 schemes, 198 were in deficit.

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

Type 3 contingent liabilities exclude any scheme already within the provisions or other categories of contingent liabilities.

It should be noted that in practice the schemes contributing to the type 3 contingent liabilities often change considerably from one year to the next. In particular, the methodology for determining type 3 contingent liabilities has been revised due to the Board's appointment of a new insolvency risk provider.

4. Type 4 contingent liabilities relate to legislative changes anticipated to be passed by Parliament, where such changes will impact PPF compensation but where there is no specific timescale for the secondary legislation to bring the relevant sections into force.

One item of legislative change which falls into this category at 31 March 2015 stems from provisions in the Pensions Act 2014 to increase the PPF compensation cap for members with long service in their schemes. If these provisions are brought into force (alongside new secondary legislation providing the detail on how the increase will operate) there will be an increase to the costs of PPF compensation.

Prior to the provisions coming into force a full rework of benefits for impacted members will be carried out. For the purposes of this assessment, I have therefore estimated the likely impact by identifying members who are likely to qualify under the revised definition and then assessing the approximate increase to their benefits.

The additional cost has then been assessed by simply applying the proportionate increase in total compensation to the total liabilities for transferred schemes and those still in assessment as at 31 March 2015.

Annex S3 Data

a) Data in respect of PPF members

This data was shown in my report to the Board dated 10 July 2015.

b) Data in respect of provisions and contingent liabilities

There are 111 schemes which contribute to the provisions figure in the statement of accounts for the financial period ending on 31 March 2015 (and a further two schemes included via the IBNR estimate). Liabilities in respect of another 22 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, type 2 and type 3 contingent liabilities the recognition test assessment was undertaken at 28 February 2015 since a qualifying insolvency event had not occurred.

A database is maintained for schemes forming the provisions. Data used to identify these schemes is obtained from information sent to the PPF on an employer's insolvency. This data is updated when new information arises. For instance, when a claim is rejected by the PPF, the database is updated to reflect this information and the scheme is no longer included in the provisions calculations.

For material schemes (broadly schemes with liabilities in excess of £75m), the PPF actively seeks from trustees up-to-date individual member data and current asset values where appropriate. For all other schemes the latest section 179 valuation provided for levy purposes or section 143 valuation is used to assess asset and liability values. The section 179 valuation used will be that held on Exchange at the 31 March preceding insolvency.

In order to identify the schemes to be included in the type 1, 2 and 3 contingent liabilities I make use of information that the PPF has gathered from sources such as Experian, negotiations with companies and information submitted by the Pensions Regulator. The data used to place a value on their assets and liabilities is taken from the latest section 179 valuation provided for levy invoicing purposes. Type 4 contingent liabilities relate to generic legislative changes rather than specific individual schemes, as detailed in Annex S2.

The numbers of schemes contributing to the various types of provisions and contingent liabilities of type 1, 2 and 3 are given in the table below. Figures in brackets relate to the total number of schemes considered for inclusion, i.e. it includes schemes where the value of their assets was, in the Board's judgement, likely to have exceeded the amount of the protected liabilities at their insolvency date for provisions and the calculation date for contingent liabilities. In all of the figures I have sought to recognise all segregated parts of schemes as separate schemes. This is the same treatment as was adopted at 31 March 2014.

Liability		Number of schemes recognised	Number of pensioners *	Number of deferred pensioners *
Provision	2015	111 (133 in total)	35,342	40,421
	2014	158 (182 in total)	42,748	48,261
Provision - IBNR	2015	2 (2 in total)	n/a	n/a
	2014	2 (2 in total)	n/a	n/a
Type 1 contingent liability	2015	0 (0 in total)	-	-
	2014	0 (0 in total)	-	-
Type 2 contingent liability	2015	6 (6 in total)	1,129	2,188
	2014	5 (7 in total)	1,076	1,083
Type 3 contingent liability	2015	198 (266 in total)	21,195	41,928
	2014	147 (214 in total)	16,258	36,120

* Data in respect of recognised schemes only.

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

Information regarding membership splits by gender, category and benefit amounts are not generally collected for the schemes forming the provisions and contingent liabilities; hence it has not been possible to provide such summary data about schemes in the various liability categories.

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

Annex S4 Assumptions

All assumptions will be either the same as, or derived in the same way as, those derived for the valuation as at 31 March 2014, unless stated otherwise.

a) Actuarial liabilities

The assumptions adopted were described in my report to the Board dated 10 July 2015

b) Basis adopted for Provisions and Contingent Liabilities

1. Discount, inflation and pension increase rates

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

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

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

Single rates of discount, inflation and pension increases were determined so that the present values placed on each of the cash flows for both the pensioners and the deferred pensioners corresponding to the Pension Protection Fund liabilities were equal to the present values determined using term-dependent rates. These single rates of discount, inflation and pension increase were then used to determine the net discount rates as set out in the following table. The figures in brackets are those as at 31 March 2014.

Net discount rate	% pa
In deferment for compensation accrued before April 2009	-0.4 (0.5)
In deferment for compensation accrued after April 2009	-0.1 (1.1)
In payment for non-increasing compensation for current pensioners	2.1 (3.2)
In payment for non-increasing compensation for deferred pensioners	2.3 (3.6)
In payment for increasing compensation for current pensioners	0.0 (1.1)
In payment for increasing compensation for deferred pensioners	0.2 (1.4)

2. Mortality

As last year, I have adopted base mortality assumptions provided by the mortality analyst Club Vita.

For material schemes where individual membership data is available, Club Vita provided us with 240 different mortality curves to apply to individual members based on:

- member status, i.e. deferred pensioner, pensioner, or dependant
- sex
- lifestyle (based on postcode)
- amount of compensation, and
- applicable period (pre-retirement or post-retirement)

This is the same approach used for schemes which had transferred to the PPF on or before 31 March 2015, where individual membership data is available, as described in Annex M2 of my report to the Board dated 10 July 2015.

Where individual membership data is not available, Club Vita provided us with mortality curves which reflect average mortality across the whole membership. There were ten average mortality curves, which varied according to membership status (pensioner member/pensioner contingent life/deferred member/deferred contingent life), sex and applicable period (pre/post retirement).

There is no evidence to suggest that my assumption for long-term mortality improvement used in my previous report should change, other than to adopt the latest update to the CMI model to allow for more recent data. I have therefore adopted the CMI-2014 mortality projection model in its core form, without advanced parameterisation, with a long-term improvement rate of 1.5 per cent a year for both men and women for this valuation, i.e. CMI_2014_M [1.5 per cent] for men and CMI_2014_F [1.5 per cent] for women.

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

3. Proportion Married

For material schemes where individual or grouped membership data is available, I have used the proportions married set out in Annex M2.

Where individual or grouped membership data is not available, 75 per cent of members are assumed to be married or to have a relevant partner. Again, because these liabilities are calculated by rolling forward the results of an earlier valuation it is not possible to use sex-specific proportions married.

As for schemes that have transferred to the PPF and material schemes where individual or grouped membership data is available, I have reduced this assumption by five percentage points compared with that used last year.

4. Age difference between member and dependant

Females assumed to be three years younger than males.

5. Children's pensions

No specific allowance is included for prospective children's pensions. For material schemes where individual or grouped membership data is available, children's pensions already in payment are assumed to cease in accordance with the compensation entitlement with no allowance for mortality prior to cessation.

6. GMP equalisation

Allowance has been made for the cost of equalising compensation that is unequal on account of inequalities in Guaranteed Minimum Pensions (GMPs) accrued between 17 May 1990 and 5 April 1997. This provision is to cover the cost of equalisation on the liabilities of schemes forming the provisions. A single loading was applied to the liabilities forming the provisions (with the exception of one material scheme which provided equalised individual member data), representing 0.6 per cent of the relevant liabilities. This loading includes allowance for backdated arrears on all schemes forming the provisions, other than the one material scheme which had already equalised. The loading for transferred schemes includes an allowance for arrears only in respect of the proportion of members not yet equalised at the valuation date, and is also 0.6 per cent of liabilities.

This compares to a loading of 1.3 per cent used for all unequalised schemes at the 2014 valuation.

7. Expenses

Allowance has been made for expenses incurred by the trustees prior to transfer into the Pension Protection Fund. I have assumed that these will be the same as the wind-up expenses calculated in accordance with the section 179 methodology. Schemes are assumed to be, on average, midway through the assessment period. Allowance is therefore made only for 50 per cent of the full section 179 wind-up expense cost and, for schemes where the asset value is based on a roll forward of a valuation that pre-dates the insolvency, 50 per cent of the full section 179 wind-up cost is also deducted from the asset value.

In addition, allowance has been made for costs incurred by the Pension Protection Fund of transitioning members across to the Pension Protection Fund. This has been calculated based on our current estimate of these costs.

Allowance has also been made for certain expenses incurred after transfer to the Pension Protection Fund, in respect of schemes which are likely to transfer to the Pension Protection Fund (see Annex M2 of my report to the Board dated 10 July 2015 for an explanation of the expenses that are to be met from the Fund after a scheme transfers to the PPF). The same allowance is used as for transferred schemes (2.8 per cent). Expressed as a percentage of the provisions, the aggregate allowance for expenses incurred during the assessment process, during transition to the PPF and then after transfer is 3.9 per cent. The equivalent figure from last year is 3.6 per cent.

Annex S5 Sensitivity analysis

Results have been calculated on the basis described in Annex S4. However, the future is never certain, and a wide range of factors could affect the future finances of the PPF. It is possible to capture some measure of how different possible outcomes for these factors affect the PPF by showing different valuation results using different values for the assumptions set out in Annexes M2 and S4. For instance, if recipients of PPF compensation were to live longer than expected, the cash flows out of the PPF would rise, other things being equal. The risks that such a change pose to the PPF can be investigated by showing the results of the PPF valuation modified to reflect different assumptions about mortality rates and longevity.

I have considered ten scenarios covering the main uncertainties.

Scenario 1: Assumptions based purely on the swaps curve at 31 March 2015 but with a deduction of 15 basis points at each term.

Scenario 2: Assumptions based purely on the gilts curve at 31 March 2015.

Under scenarios 1 and 2 the effect of the basis change is on the actuarial liabilities and on the liabilities forming the provisions.

Scenario 3: Nominal yields are assumed to increase by 0.5 per cent per annum at each term.

Scenario 4: Inflation is assumed to increase by 0.5 per cent per annum at each term.

In scenarios 3 and 4, I have looked at the effect on the invested assets and assets in respect of schemes forming the provisions as well as the effect on the liabilities. The result of a decrease in the above yields of the same magnitude has not been shown. This is because the PPF aims to adopt a substantially hedged position with regards to interest and inflation. As a result, our funding position is relatively insensitive to changes in these rates. This is illustrated by the results of scenario 3 and 4 shown in Annex S7.

Scenario 5: Increases in the Consumer Prices Index ("CPI") are assumed to be 0.9 per cent lower than increases in the Retail Prices Index ("RPI"), i.e. assuming that a market had developed in CPI and that it was priced at 0.9 per cent below RPI.

Scenario 6: The probability of death in each year of age is assumed to be 90 per cent of that used in the main basis.

Scenario 7: The long-term projection of mortality improvements is assumed to be increased by 0.5 per cent to 2.0 per cent a year.

Scenario 8: The long term projection of mortality improvements is modelled using the advanced parameterisation to achieve a run-off improvement that continues to increase for a number of years before falling away to the long-term rate. Specifically, the 'proportion of convergence remaining after the midpoint' is assumed to increase from 50% to 75%.

Scenario 9: The value of non-LDI type assets is assumed to decrease by 10 per cent at 31 March 2015. The asset value would be expected to change by a similar order of magnitude in the opposite direction if instead these assets are assumed to increase by 10 per cent.

Scenario 10: Assumptions based on s143 entry valuation basis (effective from 1 May 2014).

A summary of the assumptions is shown below:

	Main Basis	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5	Scenario 6	Scenario 7	Scenario 8	Scenario 9	Scenario 10
Discount rate in deferment for compensation accrued before April 2009	-0.4%	-0.9%	-0.4%	0.1%	-0.8%	0.1%	-0.4%	-0.4%	-0.4%	-0.4%	-1.2%
Discount rate in deferment for compensation accrued after April 2009	-0.1%	-0.6%	-0.1%	0.4%	-0.1%	0.2%	-0.1%	-0.1%	-0.1%	-0.1%	0.0%
Discount rate in payment for non-increasing compensation for current pensioners	2.1%	1.7%	2.0%	2.5%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%	1.9%
Discount rate in payment for non-increasing compensation for future pensioners	2.3%	1.8%	2.3%	2.8%	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%	1.9%
Discount rate in payment for increasing compensation for current pensioners	0.0%	-0.3%	0.0%	0.5%	-0.1%	0.2%	0.0%	0.0%	0.0%	0.0%	-0.2%
Discount rate in payment for increasing compensation for future pensioners	0.2%	-0.3%	0.2%	0.7%	0.1%	0.3%	0.2%	0.2%	0.2%	0.2%	-0.2%
Non LDI assets	Market value	Market value	Market value	Market value	Market value	Market value	Market value	Market value	Market value	Fall by 10%	Market value
Proportion married	As in Annexes S4 and M2	As in Annexes S4 and M2	As in Annexes S4 and M2	As in Annexes S4 and M2	As in Annexes S4 and M2	As in Annexes S4 and M2	As in Annexes S4 and M2	As in Annexes S4 and M2	As in Annexes S4 and M2	As in Annexes S4 and M2	As in s143 guidance (B6)
Mortality	As in Annexes S4 and M2	As in Annexes S4 and M2	As in Annexes S4 and M2	As in Annexes S4 and M2	As in Annexes S4 and M2	As in Annexes S4 and M2	As in Annexes S4 and M2 but with 10% reduction in death rates	As in Annexes S4 and M2 but with 2.0% long-term mortality improvement	As in Annexes S4 and M2 but with 75% convergence remaining after the midpoint of mortality improvement projections	As in Annexes S4 and M2	As in s143 guidance (B6)

Actuarial Valuation

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 PPF members plus the cost of equalising compensation for GMPs on those liabilities 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 £17,812.2m.

b) Calculation of provisions

113 schemes were included in the provisions in the statement of accounts for the financial period ending on 31 March 2015. The table below shows the estimated assets held at 31 March 2015 in the 113 schemes forming the provisions. It also shows the outstanding anticipated recoveries, the resulting total assets and estimated funding position in respect of those 113 schemes. A comparison is shown with the equivalent figures from the 2013/14 Annual Report and Accounts using the assumptions described in that report:

	31 March 2015	31 March 2014
	£m	£m
Assets excluding anticipated recoveries	4,441.2	4,919.5
Anticipated recoveries	436.6	400.5
Total assets	4,877.8	5,320.0
Provisions	6,186.1	6,468.4
Excess of liabilities over assets	1,308.3	1,148.4

The liabilities recognised as provisions are the present value of the liabilities calculated at each valuation date on the relevant basis. The provision assets have decreased by £442.2m and this can be reconciled as follows:

	£m
Assets as at 31 March 2014	5,320.0
Change in schemes' assets due to benefits paid out	(188.7)
Difference between actual and assumed investment returns on hedging assets	447.6
Difference between actual and assumed investment returns on non-hedging assets	223.5
Data changes (including updated valuation information and changes in recoveries)	(79.6)
Claims no longer considered probable (exits or schemes estimated to be in surplus at their assessment date)	(178.3)
Claims now considered probable (includes schemes that were not considered probable in 2014 but which subsequently transferred to the PPF)	384.6
New schemes entering assessment	737.8
Schemes accepted into the PPF (assets as at transfer date)	(1,798.3)
Miscellaneous	9.2
Assets as at 31 March 2015	4,877.8

The provision liabilities have decreased by £282.3m and this can be reconciled as follows:

	£m
Provision liabilities at 31 March 2014	6,468.4
Change in schemes' liabilities due to benefits paid out	(188.7)
Effect of passage of time on discounting	95.3
Actuarial (gain)/loss due to experience being different from what was assumed plus data changes (including updated valuation information)	(19.1)
Claims no longer considered probable (exits or schemes estimated to be in surplus at their assessment date)	(149.8)
Claims now considered probable (includes schemes that were not considered probable in 2014 but which subsequently transferred to the PPF)	344.3
New schemes entering assessment (measured using 2014 valuation assumptions)	947.1
Schemes accepted into the PPF (liabilities as at transfer date)	(2,372.0)
Change in financial assumptions	1,156.9
Change in demographic assumptions	(61.2)
Change in GMP equalisation loading	(41.6)
Change in expense loading	7.1
Miscellaneous	(0.6)
Provision liabilities at 31 March 2015	6,186.1

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 2013/14 Annual Report & Accounts under the Main Assumptions basis as described in that report):

Type of contingent liability	Estimated net liability as at 31 March 2015 £m	Estimated net liability as at 31 March 2014 £m
1	-	-
2	128.0	39.3
3	1,055.1	737.2
4	40.0	n/a
Total	1,223.1	776.5

The net liabilities recognised as contingent liabilities are the present value of the aggregate scheme deficits (for types 1, 2 and 3) or the present value of the additional liability (for type 4) calculated at each valuation date on the relevant basis.

Shown below are the total assets and total liabilities that correspond to the above net liabilities. A comparison is shown with the equivalent figures from the 2013/14 Annual Report and Accounts under the Main Assumptions basis.

Type of contingent liability	31 March 2015 Assets £m	31 March 2015 Liabilities £m	31 March 2014 Assets £m	31 March 2014 Liabilities £m
1	-	-	-	-
2	225.8	353.8	92.5	131.8
3	4,129.9	5,185.0	3,743.7	4,480.9
4	-	40.0	n/a	n/a
Total	4,355.7	5,578.8	3,836.2	4,612.7

At this stage it is too early to assess whether any recovery is available for type 1, 2 or 3 contingent liability so none has been assumed. Type 4 contingent liabilities do not relate to an insolvency event and hence no recovery would apply.

Annex S7 Actuarial balance sheet

On the main 31 March 2015 basis the Pension Protection Fund actuarial balance sheet is as follows:

Assets	£m	Liabilities	£m
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	22,749.6*	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	17,812.2*
The sum of the estimated values of the assets in the schemes that generated the provisions, plus any anticipated recoveries**	4,877.8***	The present value of the liabilities of the schemes forming the provisions **	6,186.1
Total assets	27,627.4	Total liabilities	23,998.3
Excess of assets over liabilities			3,629.1
Funding Ratio (assets / liabilities)			115.1%

* Inclusive of £1.3m in respect of AVC assets that match AVC liabilities yet to be discharged

** Inclusive of an allowance for IBNR (scheme assets of £11.8m and liabilities of £13.3m)

*** Inclusive of anticipated recoveries of £436.6m

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

	Main Basis	Scenario 1 2015 Swaps less 15 basis points	Scenario 2 2015 gilts	Scenario 3 Nominal plus 0.5%	Scenario 4 Inflation plus 0.5%	Scenario 5 CPI is 0.9% lower than RPI	Scenario 6 10% reduction in death rates	Scenario 7 Long-term mortality improvement plus 0.5%	Scenario 8 Advanced parameterisation of long-term mortality improvement	Scenario 9 Non LDI assets fall by 10%	Scenario 10 S143 Basis
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Assets											
The value of the Pension Protection Fund assets	22,750	22,750	22,750	20,894	23,448	22,750	22,750	22,750	22,750	21,168	22,750
The values of the assets in the schemes that generated the provisions	4,878	4,878	4,878	4,641	5,019	4,878	4,878	4,878	4,878	4,643	4,878
Total assets	27,627	27,627	27,627	25,534	28,467	27,627	27,627	27,627	27,627	25,811	27,627
Liabilities											
The present value of the liabilities of the Pension Protection Fund	17,812	19,543	17,828	16,225	18,473	17,174	18,406	18,323	17,868	17,812	20,484
The present value of the liabilities of the schemes forming the provisions	6,186	6,756	6,193	5,657	6,436	5,948	6,395	6,378	6,204	6,186	7,152
Total liabilities	23,998	26,299	24,021	21,882	24,909	23,122	24,801	24,701	24,072	23,998	27,636
Excess of assets over liabilities	3,629	1,328	3,606	3,652	3,558	4,505	2,826	2,926	3,555	1,813	(9)
Funding Ratio (assets/liabilities)	115%	105%	115%	117%	114%	119%	111%	112%	115%	108%	100%

Figures in this table are subject to rounding discrepancies.

Annex S8 Comparison with the funding position as at 31 March 2014

Under IAS 37 a reconciliation is required of the opening and closing net funding position on the actuarial balance sheet, including schemes that generate the provisions. I show this as a table below:

Reconciling item	£m
Excess of assets over liabilities on the actuarial balance sheet at 31 March 2014	2,423.6
Change in actuarial liabilities (this is further broken down in section 8 of my report on the actuarial valuation of the Pension Protection Fund)	(4,952.8)
Change in liabilities for schemes forming the Provisions (this is further broken down in Annex S6)	282.3
Change in Pension Protection Fund assets (this is further broken down in section 7 of my report on the actuarial valuation of the Pension Protection Fund)	6,318.2
Change in assets for schemes forming the provisions (this is further broken down in Annex S6)	(442.2)
Excess of assets over liabilities on the actuarial balance sheet at 31 March 2015	3,629.1

Actuarial Valuation

Commonly abbreviated terms

ALCO – Asset and Liability Committee

AVC – Additional Voluntary Contribution

CETV – Cash Equivalent Transfer Value

CFFI – Customer Focused Financial Institution

CMI – Continuous Mortality Investigation

CPI – Consumer Prices Index

CSA – Credit Support Annex

DB – Defined Benefit

DC – Defined Contribution

DWP – Department for Work and Pensions

FAS – Financial Assistance Scheme

FCF – Fraud Compensation Fund

FReM – Government Financial Reporting Manual

GIA – Grant-In-Aid

GMP – Guaranteed Minimum Pension

GTAA – Global Tactical Asset Allocation

IAS – International Accounting Standard

IBNR – Incurred But Not Reported

IFRS – International Financial Reporting Standard

ISDA – International Swaps and Derivatives Association

ISO – International Organization for Standardization

IT – Information Technology

LDI – Liability Driven Investment

Libor – London Interbank Offered Rate

MFR – Minimum Funding Requirement

ORSA – Own Risks and Solvency Assessment

PPF – Pension Protection Fund

RPI – Retail Prices Index

SIA – Schemes In Assessment

SIP – Statement of Investment Principles

TAS – Technical Actuarial Standard





Pension Protection Fund

Renaissance, 12 Dingwall Road,
Croydon CR0 2NA

T: 0845 600 2541

F: 020 8633 4910

www.pensionprotectionfund.org.uk



ISBN 978-1-4741-2313-6



9 781474 123136

150143 - Designed by Croydon Design

