Pension Protection Fund Annual Report & Accounts 2018/19 Protecting people's futures

Pension
Protection
Fund

Annual Report & Accounts
2018/19

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Pension Protection Fund

Annual Report & Accounts 2018/2019

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Our duty is to protect millions of people throughout the UK who belong to defined benefit (DB) pension schemes. When these schemes fail, we're here to support those who need us most.

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PPF overview

The Pension Protection Fund (PPF) is a public corporation, set up by the Pensions Act 2004, and run by an independent Board. We report to Parliament through the Secretary of State for Work and Pensions.

PPF overview

What we do

When an employer becomes insolvent and its pension scheme cannot afford to pay its promised pensions, we compensate scheme members for the pensions they have lost. We take over responsibility for payments once we have assessed that a scheme cannot afford to buy benefits from an insurance company which are equal to, or more than, the PPF would pay. Currently more than 249,000 people are members of the PPF. Before the PPF, these people would have faced significant financial uncertainty and hardship.

Our strategic priorities*

1. Sustainable funding in volatile times
2. Built for innovation
3. Brilliant service for members and schemes
4. The best of financial and public service culture
5. Clear value for money

* Strategic Plan 2019/2022

Pension Protection Fund

Stakeholders

- PPF and FAS members
- Employees
- Members of UK DB pension schemes
- Our local communities
- Levy payers
- Parliament and government
- Pensions industry

Our values

Integrity
Doing the right thing

Collaboration
Working as one

Accountability
Owning our actions and their outcomes

Respect
Valuing every voice

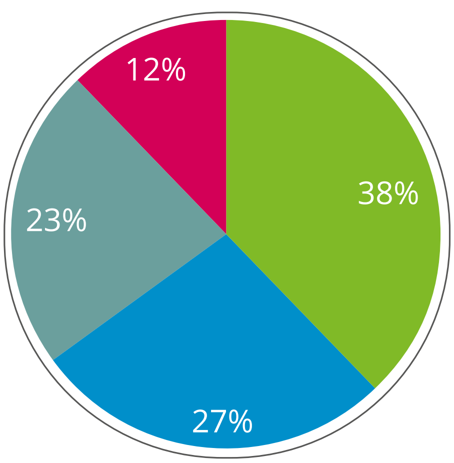
Excellence
Being our best

How the PPF has been funded so far

We raise the money we need to pay PPF benefits and the cost of running the PPF in four ways:

Split of funding sources

- Assets from pension schemes transferred to us
- The return we make on our investments
- The levy we charge on eligible pension schemes
- Recovered assets we secure from insolvent employers



Our other responsibilities

Financial Assistance Scheme (FAS)

We also run FAS on behalf of the Government, which is funded by the tax payer rather than a levy. Via the scheme, we pay financial assistance to people who were members of certain DB pension schemes which are ineligible for compensation from the PPF – in particular, those schemes that started winding up between January 1997 and April 2005.

Fraud Compensation Fund (FCF)

Funded through a separate levy on all occupational DB and defined contribution pension schemes, we also pay compensation to members of eligible work-based schemes where the employer is insolvent and whose schemes have lost out financially due to dishonesty.

Chair's statement

It has been another year of change at the PPF. We embrace this challenge; we never stop striving to improve the way we work on behalf of our members, levy payers, employees and other stakeholders.

Arnold Wagner OBE
Chair of the Board

On behalf of the Board, I extend sincere thanks to every employee at the PPF for the way they have contributed to keeping us on course throughout this period of change.

Our Chief Executive, Oliver Morley, has had a successful first year in the role. Oliver has brought a strong focus on our digital capability and has reinforced our commitment to the service we provide to our members. He has also shaped a new approach to our strategic planning process. I am grateful to Oliver for managing the transition so well and look forward to working with him in the coming year.

I also want to thank Oliver's senior leadership team, the Executive Committee. Each of them has embraced the change of leadership and they have continued delivering on the PPF's mission with their customary focus and determination.

Our external environment also continues to change and brings many uncertainties. However, we have robust risk management in place to handle and mitigate these risks.

In 2018, the PPF was a core participant in the Work and Pensions Select Committee's hearings on the Defined Benefit White Paper. We believe there are opportunities to

We will continue to deliver effectively and efficiently on our mission

strengthen the DB pensions regime, and we hope a Pensions Bill can be introduced in Parliament in the near future. We look forward to working with the Department for Work and Pensions (DWP), and The Pensions Regulator (TPR), to reinforce member protections.

Our role is, essentially, to provide security to members of DB pension schemes. The reassurance and protection we provide goes a long way to improve the outlook for scheme members whose employer is in difficulty. Without the PPF, people who had built up their pension benefits over their entire working lives could have been left with nothing. It must not be forgotten that PPF compensation is almost always substantially more than members would have received if they simply received a share of what was left in their scheme when their company became insolvent.

We take our responsibilities extremely seriously and, despite our continued success, we will never grow complacent. Recognising these responsibilities, we choose to emulate best practice in governance and regulation. For this reason, we are embedding the Senior Managers and Certification Regime, clarifying and enhancing personal accountability and the responsibilities of senior managers within the PPF.

I express my appreciation to my fellow Board members and thank each of them for their dedication and commitment to the PPF. Earlier this year, Rosemary Hilary reached the end of her term at the PPF. Rosemary has made an important contribution to the PPF Board, particularly in the area of risk management. We wish her well, and continued success, in the future.

The future will, no doubt, bring new challenges and we have the people, the processes and governance to face those challenges as a team, with professionalism and dedication. As a result, I believe our stakeholders can retain their confidence that we will continue to deliver, effectively and efficiently, on our mission.

Arnold Wagner OBE
Chair of the Board

02
Performance report


Excellence Integrity Collabora
boratio
ility Resp

Chief Executive's review

2018/19 has been a challenging but successful year at the PPF. We have beaten our targeted three year investment returns, launched our new website and achieved high member satisfaction results at 97 per cent. We also brought FAS member services in-house, giving 150,000 FAS members the opportunity to enjoy the same high quality service as PPF members.

Oliver Morley
Chief Executive

The PPF continues to be in good financial shape, well positioned for the future. Our investment performance for the year has been strong, in the face of substantial market volatility, and our funding strategy is on track despite the largest claim in the PPF's history. Our probability of success stands at 89 per cent, which means we would meet our funding target in 89 per cent of future scenarios. We have also nearly completed our current investment insourcing programme. Our successful investment performance at relatively low cost is partly due to this new model.

One of our main sources of funding is the PPF levy. Based on the overall risk associated with UK DB pension schemes, we provide considerable value compared with other potential methods of insuring the industry as a whole. On balance, we believe our levy payers understand the worth of PPF protection and we want them to be able to pay the levy as simply as possible. This year we held our inaugural SME Forum to better understand the needs of small and medium-sized employers who pay our levy.

We have consistently taken a tough stance to maximise returns for DB pension schemes in the event of insolvency. We have also further defined our guidance for insolvency practitioners to add clarity.

A key focus of the year has been implementing the judgment in the Court of Justice of the European Union (CJEU) that said that our members should receive at least 50 per cent of the value of their accrued old age pension in the event of employer insolvency. We have made increased payments to PPF and FAS members most significantly affected by the ruling. We expect to have paid the majority of most impacted members by the end of the summer.

Turning our focus inward, we have recently been looking at what makes us who we are, and how our values and culture can align with our objectives as an organisation. This year we launched our Diversity and Inclusion strategy which will not only allow us to recruit and retain a diverse pool of talent that reflects the communities in which we operate, but also help us to ask difficult questions of ourselves on how to improve. We have continued our efforts to be an employer of choice in a number of ways and are proud that the training we offer was recognised in the Professional Pensions Rising Stars Awards.

We have about 400,000 members and £32 billion in assets and we are at a pivotal point in our evolution. In April 2019 we launched our strategic plan for the next three years, introducing a new strategy to meet the demands of our stakeholders and enable us to manage the scale of members and assets we will take on. Our steady investment and funding approach over the coming years will help us to ensure that we can provide a secure retirement and great service for existing and future members. Despite significant volatility and continued uncertainty, we are confident we can achieve our mission and look forward to the exciting new chapter ahead.

Oliver Morley
Chief Executive

89%

Probability of reaching our funding objective

£32bn

in assets

PPF at a glance

We use the following key measures to monitor our activities.

PPF reserves

£6.1bn
2019

£6.7bn
2018

Probability of success

Investment return

5.2%
2018/19

3.2%
2017/18

Funding Ratio

2019
118.6%

2018
122.8%

PPF levy collected

£561m
2018/19

2017/18: £537m

98%
PPF levy collected by end of December

PPF benefits paid

£775m
2018/19

2017/18: £725m

Cost per member per year

£62
2018/19

2017/18: £63

New members transferred

17,119
2018/19

2017/18: 6,057

Assets under management

£32bn
2019

2018: £30bn

PPF members

249,159

FAS members

149,522

Members in PPF assessment

150,043

What we achieved in 2018/19

Our mission is to pay the right people the right amount at the right time. For the year 2018/19 our strategy focused on 11 Key Performance Indicators (KPIs).

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

Our long-term ambition is to be financially self-sufficient by our funding horizon.

Deliver excellent customer services to our members, levy payers and other stakeholders

Excellent customer service is at the heart of everything we do and it is essential that our members and levy payers trust us to fulfil our core mission.

Pursue our mission within a high calibre framework of risk management

Assessing and managing our risks is crucial if we are to succeed in our mission. We have a robust risk management framework to enable us to do this.

Foundations

We believe our success is based on the foundations of people, communications, efficiency and effectiveness.

Performance against our objectives

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

2018/19 Key Performance Indicator	End of year performance
1 Monitor if probability of success falls below 89 per cent.	Achieved
2 Investment contribution from ex-LDI assets is greater than LIBOR +1.8 per cent over three years.	Achieved
3 PPF and FAS members' satisfaction over 90 per cent.	Achieved
4 Member data accuracy over 95 per cent.	Achieved
5 Over 95 per cent of levy invoiced by December 2018.	Achieved
6 Documentation for key controls and processes reviewed and confirmed.	Achieved
7 External audit of Long Term Risk Model (LTRM) with options for the next phase defined.	Achieved
8 Over 85 per cent of employees would recommend the PPF as a great place to work to family and friends.	Our employee engagement survey found that 75 per cent of our employees would recommend the PPF as a great place to work. While this is lower than our target, it is a high score against external benchmarks and we are looking to improve it next year.
9 Over 80 per cent of stakeholders are clear on our objectives and are confident in our ability to achieve them.	Achieved
10 Create a Diversity and Inclusion measure and publish it.	Achieved
11 Establish, on budget, an in-house, multi-channel FAS member services operation, with customer satisfaction over 90 per cent.	Achieved

The year in review
Managing the value of the fund

We expect challenging times ahead but we are confident our strategy will keep the PPF on course to achieve its funding target

Our funding strategy

Our ultimate priority is to pay all of our current and future members for the rest of their lives.

In order to do this, we charge a levy on eligible pension schemes and seek to generate returns on the assets we hold.

To help keep the costs to levy payers stable, we model our funding over the long term towards an assumed point in time which we call our funding horizon.

For modelling purposes, we assume at the horizon that we will have accumulated sufficient reserves to protect us against adverse experience and will wish to have little reliance on levy or return-seeking assets to build further reserves.

Probability of success

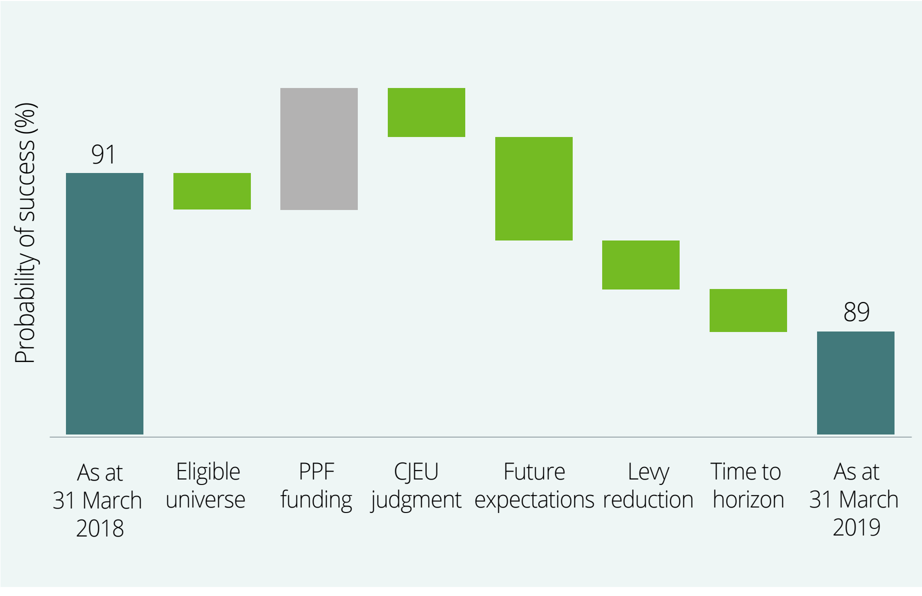
The measure we use to monitor progress towards our funding target is our probability of success. This now stands at 89 per cent, which means that we would meet our funding target to have a margin of at least 10 per cent at the funding horizon in 89 per cent of the scenarios we have modelled.

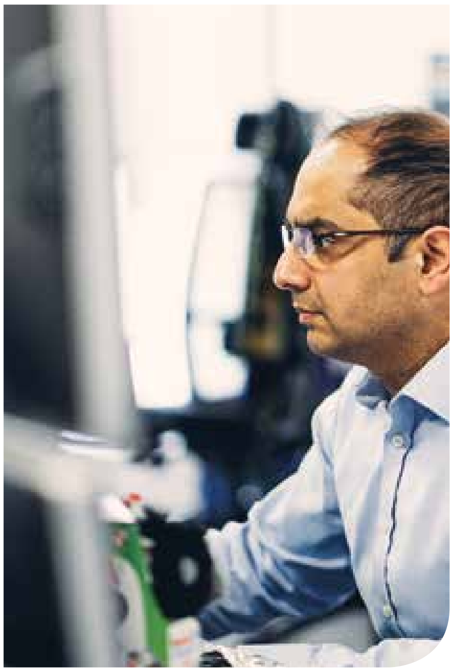
Like any complex modelling exercise, our projections are subject to significant uncertainty and our success ultimately depends on some influences outside of our control. Our focus as a business is to prudently manage all of the factors within our control and our main aim is to manage our balance sheet effectively. At this stage of our evolution, an 89 per cent probability indicates a high level of confidence that we remain on track to meet our funding target.

The chart indicates the main changes over the past year. The most significant drivers are in our view of what the future holds: a combination of updated economic, and other assumptions. The projections also reflect a lower effect of levy collection based on the estimate we published in autumn 2018. Actual collections in the future depend on a range of factors and therefore cannot be accurately predicted. The model reflects the long-term impact of the actions we have taken so far.

It can also be seen that there is an offsetting effect of the improvement in our own funding position. This is not immediately obvious in the financial statements as our reported reserve levels have fallen during the year. The reason for this is the claim from the Kodak Pension Plan No. 2

Probability of success





We need to have a high level of confidence that we will have the funds to pay our members.

(KPP2, see page 46) which is reflected in our accounts in the current year but was already anticipated in our long-term projection at March 2018.

Finally, it can be seen that since we are one year closer to our expected funding horizon, there is less time to recover from any possible adverse development.

Our funding ratio

At 31 March 2019 our funding ratio stood at 118.6 per cent. This is a 4.2 percentage point decrease compared to the same point in 2018 and is, for the most part, a result of the liabilities we have taken on from the largest claim on the PPF to date. Aside from KPP2, claims levels have been lower than usual this year.

We also this year took on additional liabilities related to the CJEU judgment (see page 38). However the increase in our liabilities has been partially offset by a reduction in longevity assumptions, meaning our liabilities are lower than they would have been otherwise.

We now have £32.1 billion in assets, an increase of £2.2 billion over the year, with total consolidated reserves of £6.1 billion, a decrease of £0.7 billion over the year.

The reduction in our reserves is due to the additional liabilities brought by KPP2. Our reserves mean that we currently have £6.1 billion over and above what we estimate is needed to pay every current member and their dependants their full PPF benefit for life. The reserves are there to allow us to fund future claims on the PPF.

Despite having these reserves, we cannot be complacent, as many of the schemes we protect are in deficit. The aggregate deficit of these schemes amounted to £181.1 billion at the end of March 2019. The largest risk we face is a run of very large claims. In extreme adverse scenarios future claims could be well above our current reserves.

Our funding strategy aims to manage the impact of this risk and to enable us to be self-sufficient after our horizon.

The year in review
Managing the value of the fund

Long-term expenditure trends

Our costs are accounted for in three funds as explained on page 102 and further analysed on pages 127-128. Total expenditure over the last five years, and planned over the next two, is shown in the table below.

Total expenditure is expected to increase following growth in PPF membership and assets under management. The increase in costs is expected to be contained through efficiencies gained in our operations, as set out in our Strategic Plan.

Getting the best value from our operations

We constantly aim to improve our operating costs by seeking efficiencies where possible. The evolution of the PPF has seen us insource a number of functions, including parts of our investment management and member services, as well as smaller operations. We tend to bring functions in-house if we can improve our control and flexibility – there is, of course, an efficiency saving to be made after the initial investment.

Insourcing our key operations makes the organisation more sustainable for the long term. The PPF is a unique organisation, performing several highly specialised functions, so off-the-shelf models are not always suitable. As we continue to grow we need complete control of many of these functions so that we can adapt quickly, optimally manage the fund and provide the best possible service. But we only bring business functions in-house when it is in the interests of our members and levy payers, and when we are assured we are capable of taking on the additional work, responsibilities and risks.

Long-term expenditure trends

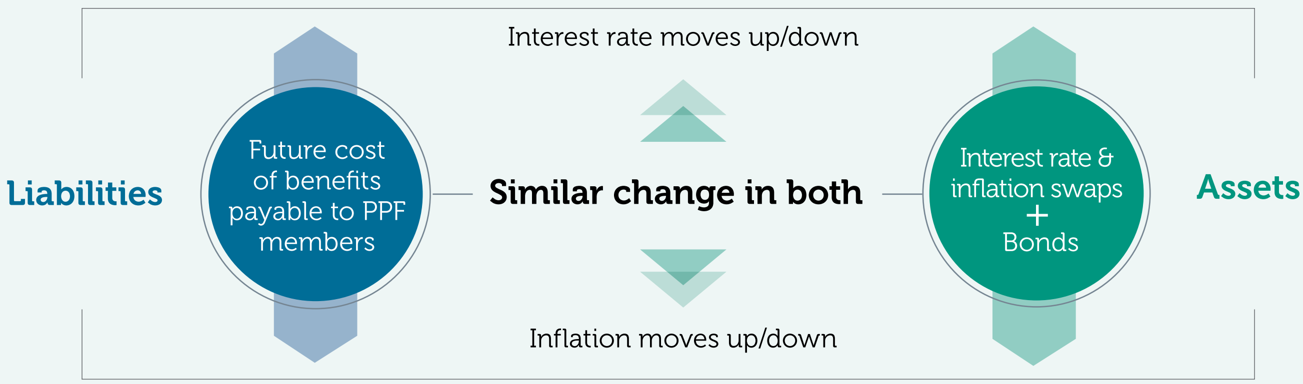
	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	Plan* 2020 £m	Plan* 2021 £m
Pension Protection Fund	128.8	144.9	191.0	187.8	188.6	193.6	202.6
PPF Administration Fund	20.8	17.6	14.2	13.9	13.1	16.2	15.8
FAS Administration Fund	8.2	6.4	7.9	8.8	9.1	8.0	6.1
Total	157.8	168.9	213.1	210.5	210.8	217.8	224.5

* Excludes investment transaction fees (2019: £6.4 million).

We bring business functions in-house when it is in the interests of our members and levy payers

Liability-driven investment (LDI)

We invest a portion of our assets to match/hedge our liabilities to pay benefits to members in the future, investing in assets whose value is driven by the same factors as our liabilities.



The value of our liabilities can increase or decrease as a result of changes in inflation and interest rates.

Changes in interest rates and inflation result in similar changes in both our assets and liabilities.

We choose assets which change in line with interest rates and inflation.

Investment performance

In the last year volatility in investment markets has increased, with returns being more challenging than in recent years. However, the investment performance at the PPF remains strong. We remain on track to achieve our investment objective of assets outperforming liabilities by 1.8 per cent over the lifetime of the PPF.

The combination of our diversified investment strategy and liability-driven investment programme resulted in positive investment performance for the year, returning 5.2 per cent. During the year, our LDI programme has effectively matched our liabilities.

The largest contributors to performance over the last year were infrastructure, real estate, public equity and our hybrid allocation. Emerging market debt proved to be one of the few markets contributing negatively. Over the last three years all asset classes have positively contributed to performance. Over the last decade the investment performance has surpassed our expectations. Our approach has been consistently to optimise returns within our overall risk appetite which we set ourselves.

We are expecting challenging times ahead but we are confident our strategy will keep the PPF on course to achieve its funding target.

The year in review
Managing the value of the fund

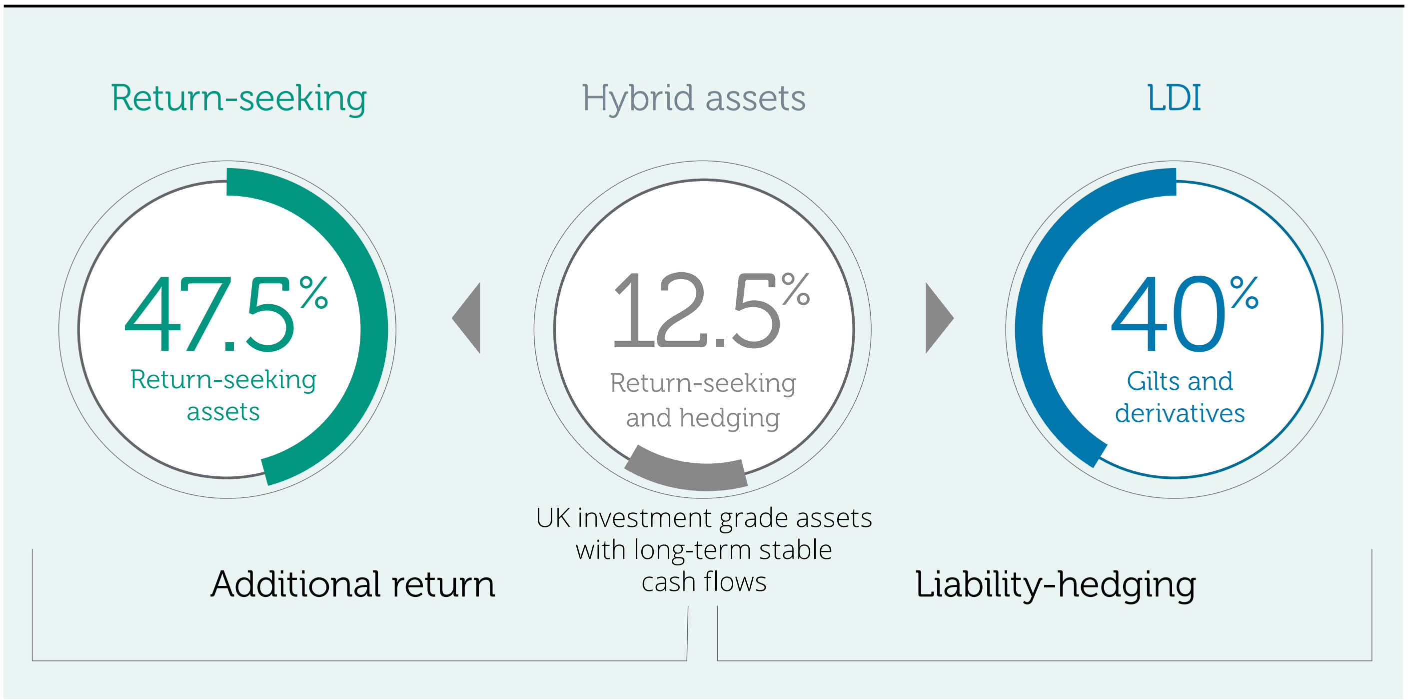
Bringing our investments in-house

We are approaching the end of our current investment insourcing project, which has been a key focus for the last five years. Insourcing has completely transformed the capability of our investment operation. Starting from 2017, we now operate the majority of our LDI portfolio in-house, and our platform has also allowed us to insource other investment activities over the last year, including UK credit and cash management. We now have the expertise and systems necessary to run our investment operation for our future growth expectations.

We now have complete control of the portfolio, which allows us to react quickly and efficiently to market movements, while still adhering to strict governance standards.

This responsive capability has proved essential for managing the market volatility we have experienced since early 2018. We can also hedge incoming schemes much more rapidly and accurately when we know they are likely to enter the PPF, dramatically reducing the time this process would have taken using the previous outsourced model.

Our assets



Insourcing our credit portfolio

An important part of the insourcing project was the decision to devote a specific part of our investment team to managing our credit portfolio. This encompasses our hybrid assets, i.e. those which have both liability-hedging characteristics of stable defined cash flows, and excess return characteristics that contribute to the overall investment return target. We brought part of this portfolio in-house during the year, to improve the way we manage risk and reduce external manager fees.

We have insourced the management of listed corporate bonds but continue to utilise the strengths of our external managers to originate and manage private assets.

Structuring our portfolios

During the past year we have made some alterations to the structure of our return-seeking portfolios. Firstly, we have taken action to reduce the market sensitivity of our equity portfolio. Although our equity benchmark remains a relatively low-risk one, our actions have further reduced the sensitivity of the PPF's portfolio to volatility in global stock markets.

Secondly, we have undertaken a fundamental review of the Fund's exposure to absolute return bonds and Global Tactical Asset Allocation. We have restructured the portfolio to allocate exposure to a wider range of fund managers, each with a different approach, with the aim of producing aggregated returns uncorrelated with the rest of the PPF's portfolio. With many conventional asset classes offering relatively subdued prospects, in our view, the ability to produce returns in other ways is likely to become increasingly valuable.

The last part of our investment operation to be insourced currently will be foreign exchange, which will be completed in 2019/20.

The year in review
Managing the value of the fund

> "With many conventional asset classes offering relatively subdued prospects, the ability to produce returns in other ways will become increasingly valuable."
>
> Ian Scott,
> Head of Investment Strategy

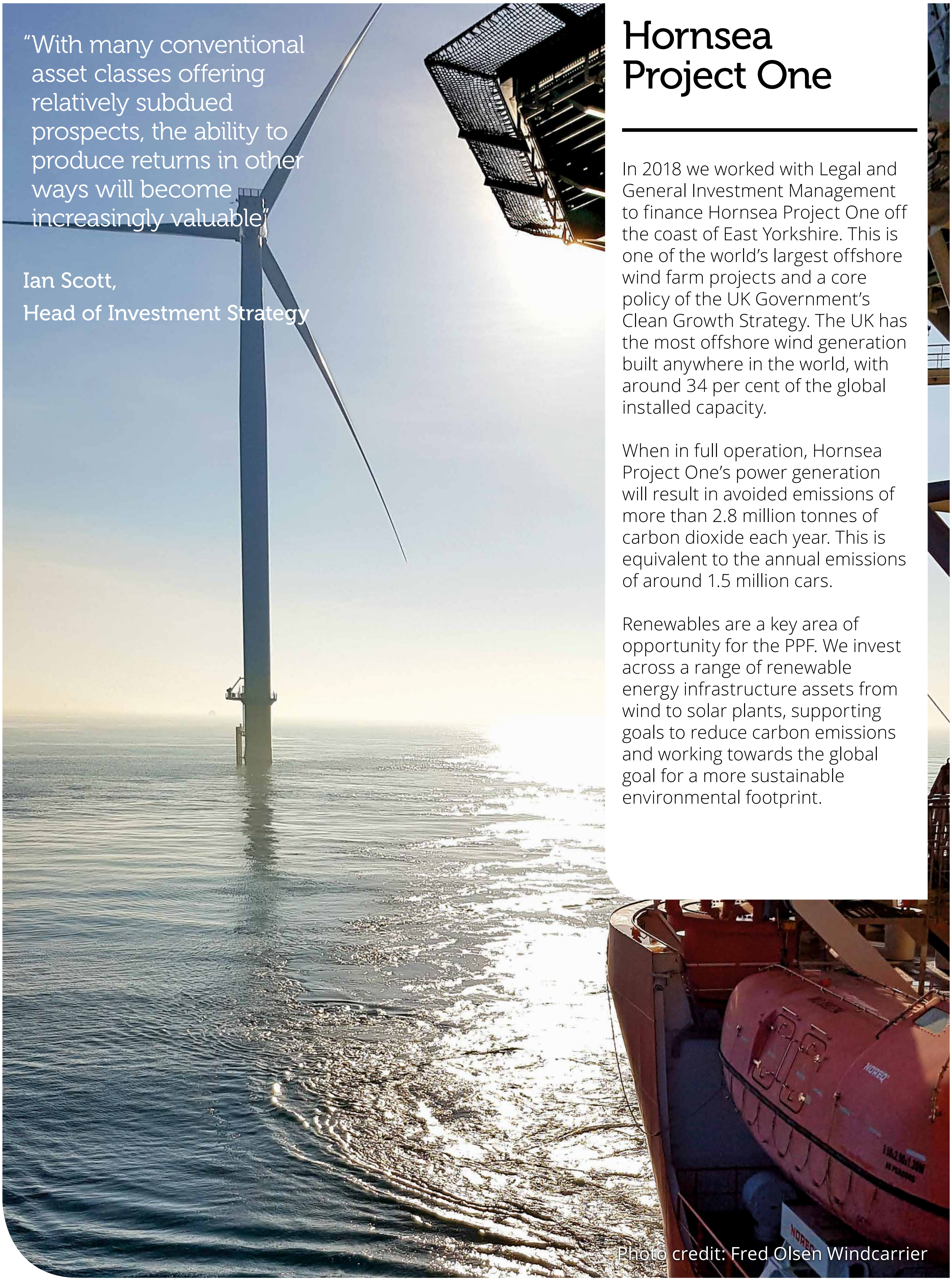


Photo credit: Fred Olsen Windcarrier

Hornsea Project One

In 2018 we worked with Legal and General Investment Management to finance Hornsea Project One off the coast of East Yorkshire. This is one of the world's largest offshore wind farm projects and a core policy of the UK Government's Clean Growth Strategy. The UK has the most offshore wind generation built anywhere in the world, with around 34 per cent of the global installed capacity.

When in full operation, Hornsea Project One's power generation will result in avoided emissions of more than 2.8 million tonnes of carbon dioxide each year. This is equivalent to the annual emissions of around 1.5 million cars.

Renewables are a key area of opportunity for the PPF. We invest across a range of renewable energy infrastructure assets from wind to solar plants, supporting goals to reduce carbon emissions and working towards the global goal for a more sustainable environmental footprint.

Responsible Investment

As an asset owner equivalent in size to one of the UK's largest pension funds, we take our responsibilities seriously and believe we have a duty to set, and follow, the best practice across the industries in which we operate. We are particularly focused on strong governance and oversight; inadequate governance is often a factor in schemes entering the PPF, therefore we have a public responsibility to exemplify good governance, on behalf of our members and levy payers.

We are committed to responsible investment (RI) across our portfolio and, as a long-term, cross-generational investor, it is critical to consider all potential risks over the entire time horizon of our liabilities. We believe that integrating material environmental, social and governance (ESG) risks and seeking to take advantage of ESG opportunities in a responsible way will protect and enhance the value of our assets.

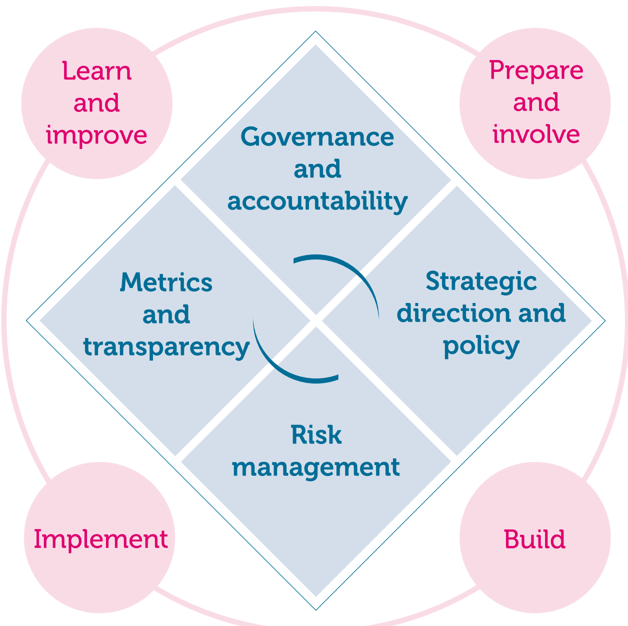
The PPF has been a signatory to the UN-supported Principles of Responsible Investment (PRI) since 2007, applying the six principles as a standard for integrating ESG across all asset classes and markets in which we invest. Fundamentally, we look to achieve this through engaging with and advancing the practices of our fund managers and underlying issuers, rather than divesting. Best practice in some asset classes is scarce or still developing, so we work in partnership with our fund managers to evolve processes, applying ourselves where we have the most influence.

As a large and growing asset owner, we have the opportunity to encourage improvements of ESG integration across a diverse range of asset classes and strategies.

We enhanced and formalised our RI framework during the year and have been active in engaging with industry peers to advance and encourage best practice. For example, our Head of ESG, Claire Curtin, was appointed to the PRI's Infrastructure Advisory Committee, and we are supportive of the recommendations of the Financial Stability Board's Taskforce on Climate-Related Financial Disclosures. We have stepped up our involvement in a number of investor-led climate-related collaborations and initiatives specifically, including joining the Institutional Investors Group on Climate Change and Climate Action 100+.

Responsible investment beliefs and guiding principles

The framework integrates ESG risks and opportunities across our business functions, with an essential focus on risk management. It encompasses our processes and procedures, while also facilitating flexibility and longevity, to enable us to keep pace with evolving regulation in this space.



The year in review

Managing the value of the fund

> "Renewable energy infrastructure is a key area of opportunity for the PPF."

Purna Bhudia, Head of Credit

Our award-winning investment strategy

Our investment team picked up two trophies at this year's Alternative Investments Institute Peer-to-Peer Awards. Purna Bhudia (left) won in the Best Use of Private Debt category, and Tim Robson, Head of Alternatives (above) and his team won Alternative Investments Team of the Year. The nominations were put forward by peers in the investment industry and put out to vote. We were delighted the team's achievements were recognised. Our long-term, low-risk investment approach plays a crucial role in protecting the futures of our members.

The year in review
Managing the value of the fund

Thames Tideway Tunnel

The Thames Tideway Tunnel is an investment into London's new super sewer, currently under construction. The 25km (16 miles) sewer tunnel under London's river will prevent tens of millions of tonnes of polluted water from entering the Thames during heavy rains.

As seen on the BBC series The Five Billion Pound Super Sewer, the existing Victorian system is not big enough to serve the eight million people living in London. The sewer will manage the estimated 39 million tonnes of sewage that enter the river each year, improving the river's ecology and water quality and reducing flood risk to the capital.

The development of Thames Tideway Tunnel represents an investment into a core infrastructure asset. The risk linked to the construction phase is mitigated by Government guarantees and a small return on our initial investment from day one. After completion the project will be leased to Thames Water on 125-year concession and will therefore generate a stable, long-term return.

This project gives us the chance to deploy a sizeable equity investment, which, alongside the numerous environmental and social benefits, makes this an attractive investment for a fund of our size.

Managing our risks

The biggest risk facing the PPF is the deficits of the schemes we protect and the impact they would have on our funding.

This is the risk which we exist to accept, but it is not under our control. The Purple Book 2018 highlighted significant risk in the universe of DB pension schemes, despite an increase in the net funding level. Nearly two thirds of schemes are underfunded, with these schemes showing a total deficit which we estimate has varied between £137.6 billion and £187.6 billion between 31 March 2018 and 31 March 2019.

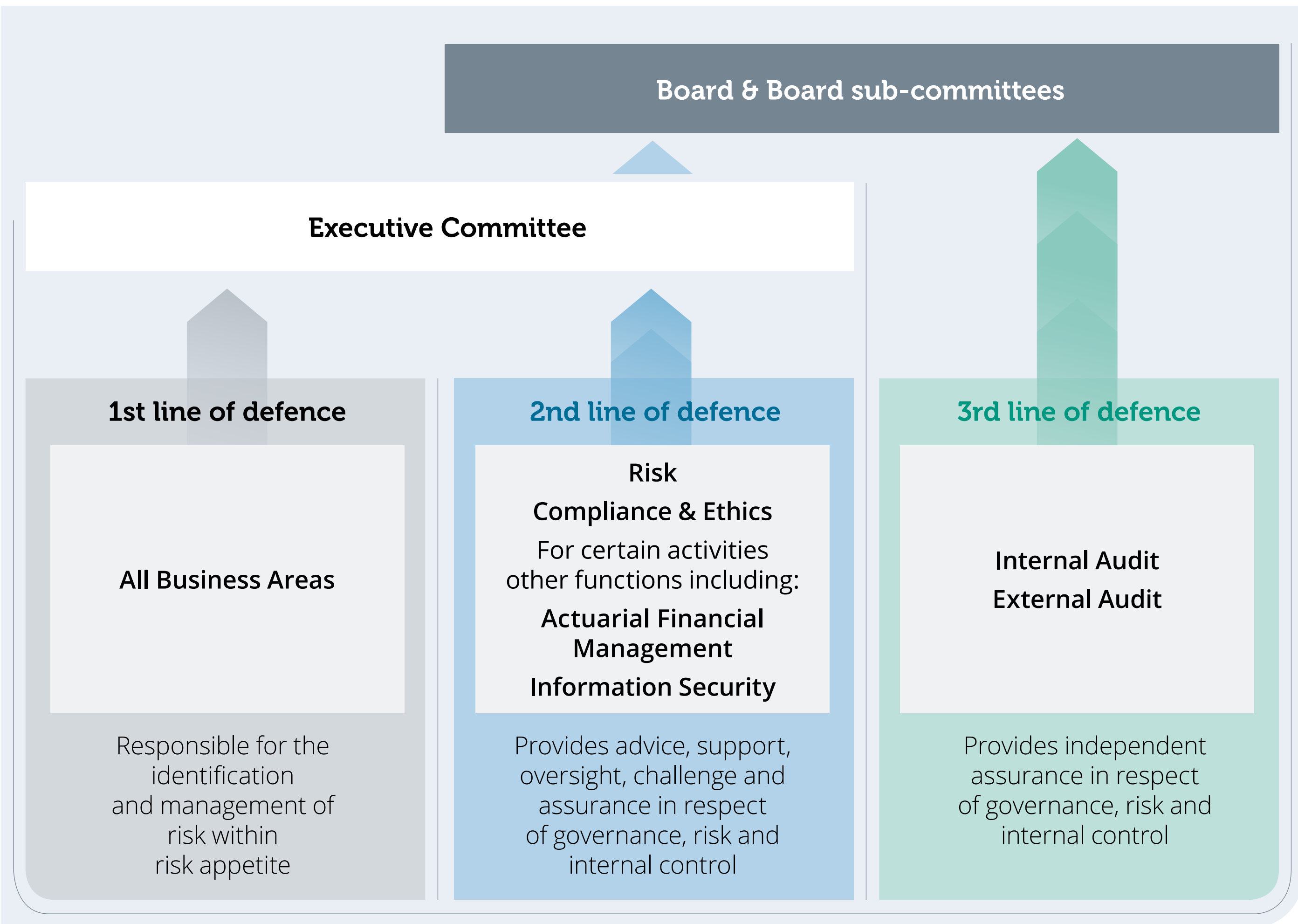
The Purple Book also showed that the average length of schemes' funding recovery plans has remained high at 7.8 years.

Our risk function has a complete overview of the organisation and all the risks we face. From this framework flows detailed risk management activity to ensure we manage and, where appropriate, mitigate all our risks as comprehensively as possible.

We have been undertaking work this year to make sure our risk function is structured in the best way to protect the PPF now and in the future. Part of this work includes developing our risk management framework, using the three lines of defence structure (shown below), and reviewing our approach to long-term modelling.

We have processes in place for identifying and managing incidents as part of our operational resilience programme.

The three lines of defence against risk



The year in review
Managing the value of the fund

Brexit scenario planning

Under the various Brexit scenarios we expect, there is likely to be relatively little effect on the PPF's own operations, but it is crucial for us to make sure we can continue paying our members and managing our investments. We have carried out extensive work to understand the potential impact of a no-deal Brexit, and various Brexit scenarios, and have prepared by putting mitigations in place where possible. The long-term economic implications of Brexit remain to be seen, but we have undertaken stress tests on our funding position, including stresses related to Brexit, and we remain confident that our planning is robust.

Accountability for Senior Managers

In 2016 regulators introduced a new individual accountability regime for banks – the Senior Managers and Certification Regime (SMCR). It was later adopted for insurers in December 2018 and will be extended to all other regulated firms in December 2019. Key aspects of SMCR relate to structural and organisational clarity, the identification of senior managers and clear descriptions of what they are responsible for.

The PPF is not obliged to implement SMCR, however we place individual accountability high up on our cultural agenda. In line with our strategic aim to emulate best practice within financial services and manage conduct risk, we are introducing a PPF-specific version of the SMCR in 2019, which will implement all aspects that are relevant to the PPF.

The PPF is not obliged to implement SMCR, however we place individual accountability high up on our cultural agenda.

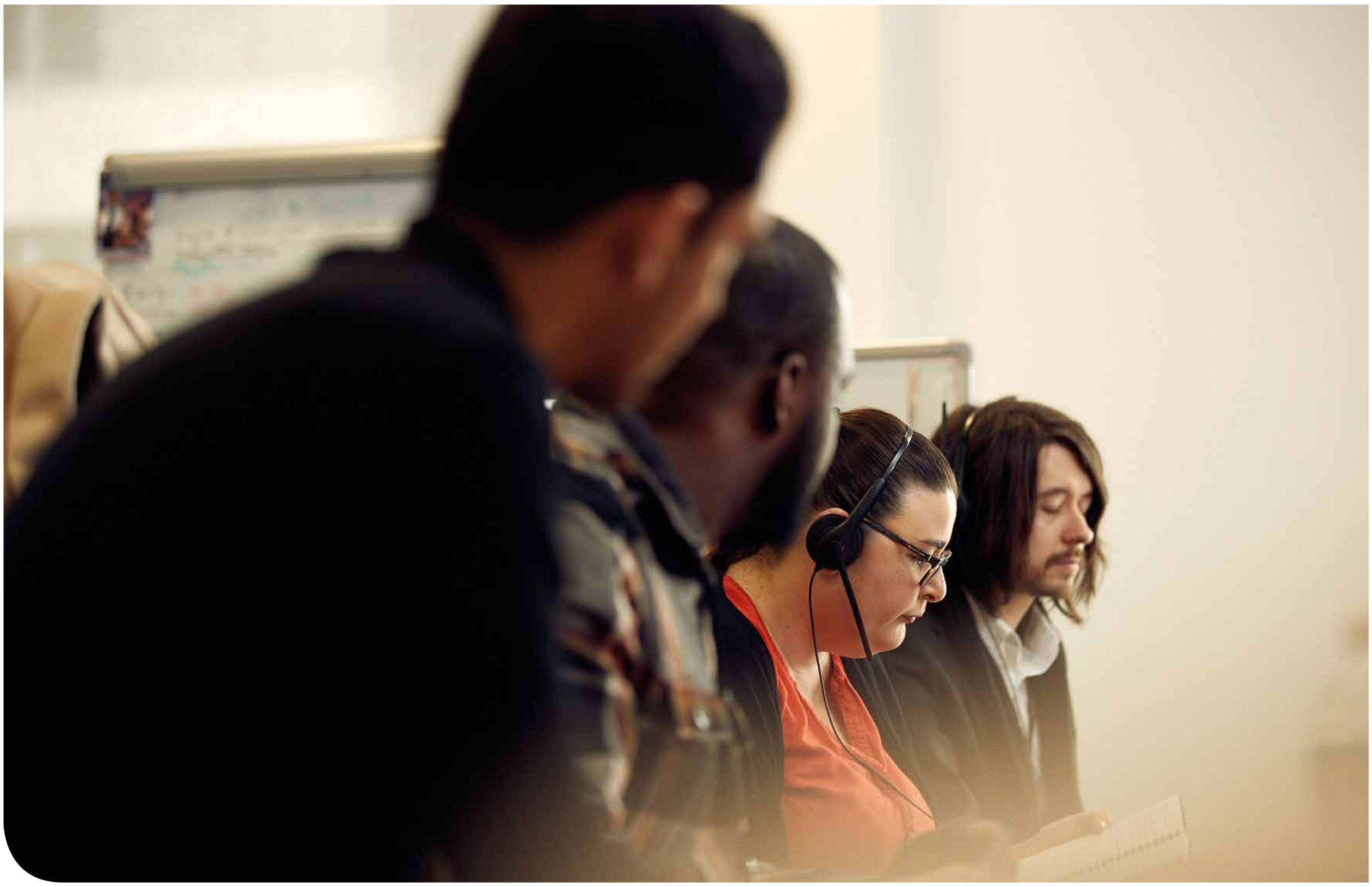
The year in review
Managing the value of the fund

IT Transformation

The PPF operates in a rapidly changing environment. In order to be successful we must become an agile, innovative business which is able to identify and respond to opportunities as they present themselves. Our core functions – paying compensation, charging a levy and managing our investments – are completely dependent on databases and systems. Therefore having the right systems in place, which can keep up with the evolving nature of the PPF, is critical.

During 2018/19 we embarked upon an IT transformation programme. One of our biggest enterprise risks has been our reliance on a single commercial provider for all our IT services. To mitigate this, we made the decision in December 2018 to move from an external managed IT service provider to a disaggregated operating model, where the PPF manages services in-house but uses individual suppliers to provide discrete services. Senior IT employees will be supported by external partners, reducing key person dependencies.

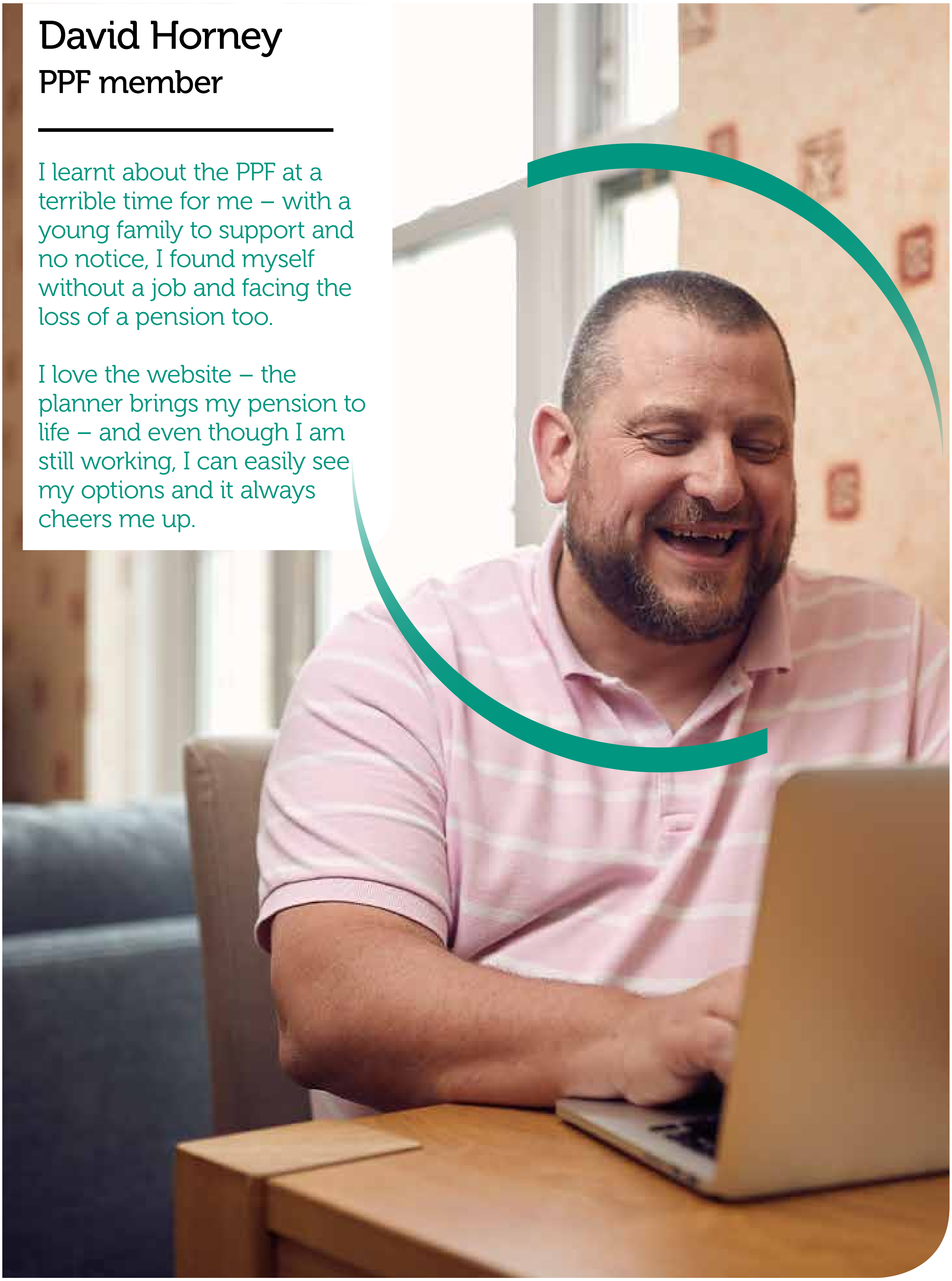
The initial investment and cost of the transformation will be significant. However, we firmly believe that it will bring huge benefits to our members, levy payers and employees. Once embedded, the overall cost of services will be lowered, our ability to manage risk will be improved and members will have their choice of communication channels – with improved accessibility for people with impaired hearing and vision.



David Horney
PPF member

I learnt about the PPF at a terrible time for me – with a young family to support and no notice, I found myself without a job and facing the loss of a pension too.

I love the website – the planner brings my pension to life – and even though I am still working, I can easily see my options and it always cheers me up.



The year in review
A valuable service for our members

Customer satisfaction for PPF and FAS was

97%

We know that our members do not choose to come to us, and they join us as a result of a particularly unsettling event – namely, their employer or former employer going bust. They may have experienced significant worry and uncertainty on their journey to us, which is why we aim for their onward experience as members to be wholly positive. In fact, we want to give them a service that would make them want to choose us if they could.

It is therefore a source of great pride that our customer satisfaction results are consistently very high. In 2018/19 member satisfaction for PPF and FAS was 97 per cent.

A digital offering fit for 2019

We were delighted to launch our new website in November 2018. Clearer navigation and a fresh new look provide users with a greatly improved experience, allowing them to get the information they need quickly. We also have a new section for people who may be worried about their pension that provides helpful and reassuring information about what it means to become a member of the PPF. A common look and feel for all users of our website gives everyone a seamless digital experience.

The new website is just part of a new digital journey for the PPF. We are now active on Twitter, LinkedIn and Facebook, so we can communicate with and get views from our members and stakeholders in different ways. We aim to use social media to give greater clarity and transparency on how we work, and to improve two-way engagement. Our Facebook page is primarily aimed at members and provides them with another channel to reach us and to find out information about the PPF.

Digital services for members

We have continued to improve our digital offering for members this year. Members can carry out a number of transactions online, which may be more convenient to them than phoning or writing to us. Over 55 per cent of PPF member transactions are conducted online (of those that can be performed online). We continue to offer a multi-channel service so members can use whichever method suits them best.

What members say about our website

"First time user, clear and simple with good security. Well done."

"Easy as pie."

"I wouldn't change anything, very clear and easy to use."

"The best designed and functionally most useful public sector website I have used to date. Well done."

"Very easy to understand and plain English. Thank you."

Our annual newsletter for members, Member Focus, updates members on useful PPF and pensions-related news and information. The most recent edition, issued in November, had a significant effect in encouraging members to register to use our member website. More than 3,500 PPF members registered on the website for the first time that month, which is more than one per cent of our total membership. A further 1,000 new members registered in December 2018, which is significantly more than in a typical month.

Retire Now, first available to our members in March 2018, has been recognised by the UK Pensions Awards, in which we were shortlisted for the Technology Innovation of the Year category. We launched the service to put control in the hands of our members and allow them to put their own benefits in payment.

Retire Now has been hailed for the way it has improved customer service delivery, managed administrative costs and streamlined the existing process. Use of the feature has seen a steady increase since its launch. In November 2018 a third of the members who retired did so online, which tells us that we have successfully fulfilled a need, as well as saving approximately 570 hours of administration time that month.

The technology employed by Retire Now is complex, and required many hours of focus groups, process mapping and testing, so we are pleased that the service is now celebrated for its end-to-end user experience.

We will continue to improve our digital offering to give our members the best possible customer experience.

Women in Pensions Awards

The PPF's Chief Customer Officer, Sara Protheroe, was named Pensions Administrator of the Year at the Women in Pensions Awards 2018.

Sara said: "I'm particularly thrilled to have won this award in the week we've successfully insourced FAS member services. The award reflects the commitment and outstanding customer service of all those who have been involved in insourcing member services, in directly providing services to our members, or in supporting those that do, and that's everyone at the PPF one way or another!"

The year in review
A valuable service for our members

Insourcing FAS

In 2018/19 we brought Financial Assistance Scheme (FAS) member services and administration in-house, so that FAS members could experience the same level of service as PPF members. This gave us an opportunity to build a tailored and flexible administration system and member website that could meet the needs of our FAS members. It was a challenging undertaking, as FAS benefits are complex. We wanted to ensure that FAS members would regard the transition as a smooth and natural step. We are pleased to say the move was a success.

The new, bespoke model has had a hugely positive impact on the quality of service that FAS members are receiving. New processes mean far more transactions can now be carried out over the phone and online, providing a 'one stop shop' service. Our team can spend more time focusing on issues that cannot be automated, dealing directly with members.

FAS members can now use an intuitive and secure member website, on which they can carry out a range of self-service tasks. They can also access our Benefit Modeller tool, which has been available to PPF members for some time, to preview their retirement options. 40 per cent of FAS member transactions were completed online in 2018/19 (of those that are possible online), and satisfaction with the new member website is 10 per cent higher than it was with the former one. This demonstrates the previously unmet appetite for online services among FAS members. Ultimately, our FAS customer satisfaction scores (which have risen from 90 per cent to 97 per cent since insourcing) and the feedback we receive are the strongest indicator of success for this project.

We are also proud that the Institute of Customer Service chose to shortlist us, together with our pensions administration provider, Civica, for the 'Best Customer Service Collaboration' award for our work on insourcing FAS member services. We are extremely pleased that we have managed to extend this valuable service to FAS members. By serving them directly we have more control over services, a direct line for member engagement and a streamlined process for feedback.

How did the FAS insourcing project go?

"

Just a short note to express my great satisfaction with your new FAS website.
I found the log on process very smooth, simple and secure, and the information contained within the site very comprehensive.

Richard Nichol, Pensioners' Action Group member

Whilst it has been a challenging project, the hard work, commitment and collaborative working across all parties has ensured a successful outcome of which all should be proud.

Lorraine Smith, Civica, our pensions administration provider

This gives me confidence that everyone at the PPF works together really well.

PPF employee

"

Information security

Keeping our members' data and other data safe is crucial. Information security has always been of paramount importance to the PPF, given the nature of our operations. The subject is regularly discussed at our Board meetings and is one of the Chief Risk Officer's priorities. Every PPF employee is required to complete mandatory information security training annually and we conduct information security awareness training via multiple channels.

In 2018 we appointed a Head of Information Security and Privacy to oversee the management of PPF information and cyber security. This team ensures the confidentiality, protection, integrity and availability of data.

Information security breach

Late in 2018 we discovered an information security breach as a result of a cyber-attack. The personal data of a small percentage of members and a few employees was potentially compromised and we alerted all affected individuals. We engaged with our own staff, external and independent security partners, as well as with the National Cyber Security Centre, National Crime Agency and Information Commissioner's Office (ICO), to address the breach. We created an emergency response team of subject matter experts who worked collaboratively with these parties to make sure the breach was understood and to ensure all necessary steps were taken to address the issues and to protect our data.

"I worked for a company many years ago. I didn't work there very long and had largely forgotten about them. They went into liquidation and the PPF tracked me down. It was like the bad and good news – bad that they went into liquidation and good that I still had a pension!"

Deidre Walsh, PPF member

The year in review
A valuable service for our members

The PPF's collaborative, proactive and member-focused approach ensured that the British Steel Pension Scheme entered its PPF assessment period smoothly.

Jonathan Hazlett, Open Trustees

The benefits of strong PPF process became immediately apparent when dealing with the Carillion schemes. The combination of strong project management and PPF technical support on some of the unique aspects of the benefit structures was invaluable.

Liz Loosmore, Quattro Pensions

We have worked closely with the PPF on several high profile cases during the year. Early engagement with scheme trustees and contingency planning prior to the assessment date has enabled a smooth transition of the schemes into the assessment period and a positive member experience.

Amanda Bradley, Barnett Waddingham

Our assessment process

We understand that entering PPF assessment can be unsettling for members of DB pension schemes so we aim to make the process as smooth as possible in order to give members certainty for the future. We continually look for ways to improve the assessment process. The British Steel and Carillion pension schemes are among the schemes currently in assessment.

Court of Justice of the European Union Ruling

In September the Court of Justice of the European Union (CJEU) ruled that pension scheme members should receive at least 50 per cent of the value of their accrued old age pension in the event of employer insolvency. This has a direct impact on the levels of compensation we pay to certain members.

The vast majority of PPF and FAS members already receive compensation in excess of 50 per cent of the value of their accrued old age benefits and we expect the number of members affected by this ruling to be relatively small. Although the ruling is clear that members should receive at least 50 per cent of the value of their accrued old age benefits, it does not provide complete clarity on how that is to be achieved.

Ultimately we expect the Government will implement the ruling by introducing legislation. However, this could take some time, so we are taking swift action to ensure that members we consider to be affected by the ruling receive the appropriate increase. We have been working with the DWP to try to make sure that the approach we take is likely to be consistent with future legislation.

The work required to calculate and pay the increases due to members is operationally complex and resource intensive. Additionally we rarely have all the data necessary to recreate previous scheme benefits, which is essential if we are to calculate increases correctly, so while we are working as quickly as possible to get payments to members it is by no means a straightforward exercise.

Our approach has been to prioritise those affected most, namely the capped PPF and FAS pensioner members.

We are also advising trustees of schemes in assessment on how they should calculate and apply any increase to affected members.

There are several court decisions awaited on this and similar cases.

> The Pension Protection Fund is an active member of the Croydon Dementia Action Alliance and has really embraced and understood the need for a dementia-friendly community. Not only geographically in relation to Croydon but in the widest sense of their members and making sure those who might be living with dementia are supported appropriately.

Rachel Carse, Dementia Action Alliance

Doing our best for members with dementia

Giving excellent service means making sure we can help members who have specific needs. This includes vulnerable members, particularly those with dementia or mental health conditions. It is estimated that 850,000 people in the UK are living with dementia and that one in six people over the age of 80 have the condition. Dementia is a progressive condition that can lead to memory loss and difficulties with thinking, problem-solving or communication.

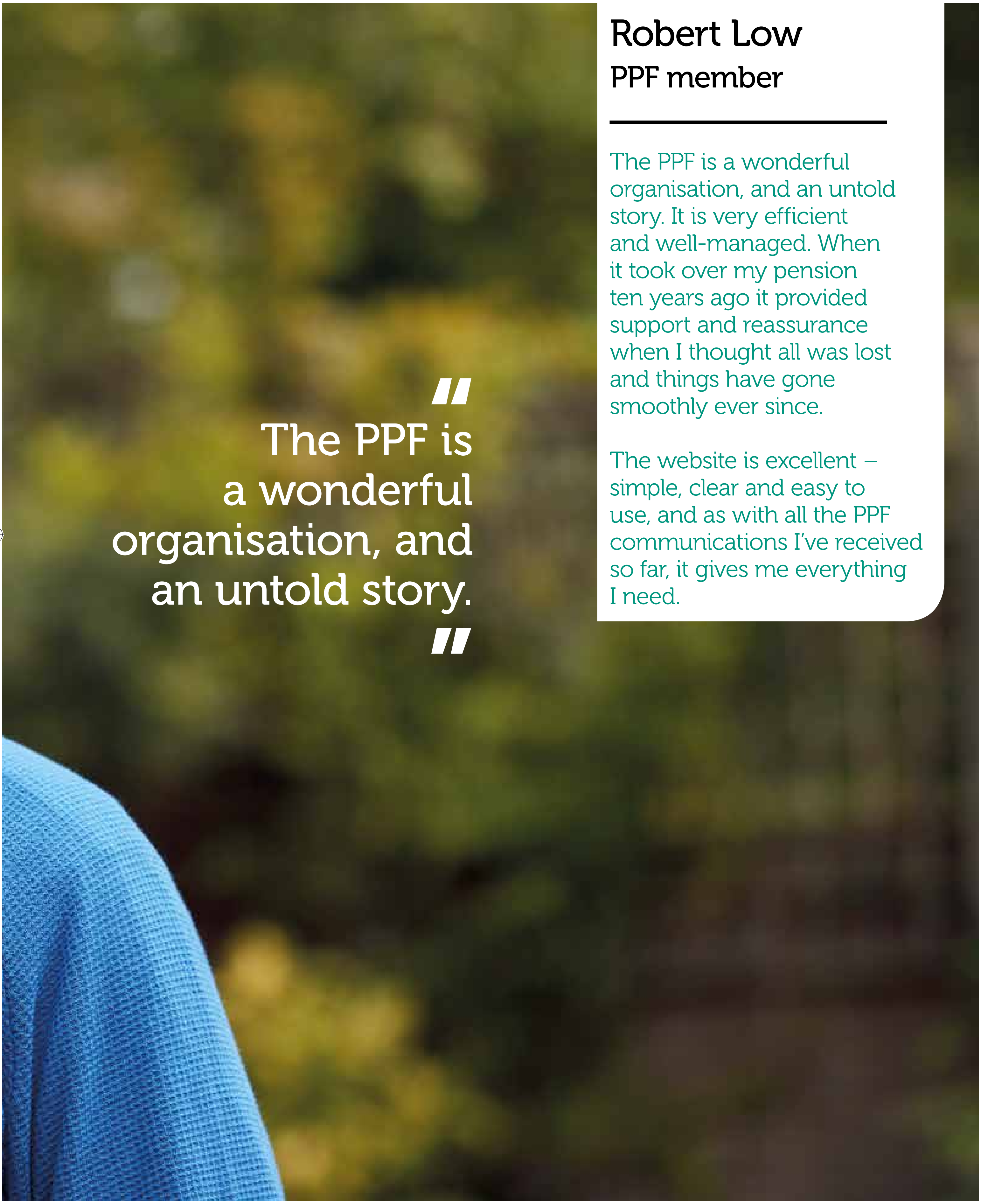
Based on national rates we estimate that more than 13,000 of our members are living with dementia. We have been working with Dementia Friends to train all our member-facing employees. Being a Dementia Friend involves learning more about dementia and the small ways we can help.

We have also joined the Croydon Dementia Action Alliance (CDAA) as another way of improving the service we provide for members who have dementia. The CDAA is a group of local businesses and organisations who commit to making their organisation, and the wider community, dementia-friendly. A dementia-friendly community is one where people with dementia are understood, respected, supported and confident they can contribute to community life.

We want to make it as simple as possible for members with dementia, and their carers, to deal with the PPF and FAS. We are committed to establishing best practices for supporting members with dementia. As well as enhancing our existing training, we intend to collaborate with other organisations who correspond with members in writing and on the phone to discuss ideas and share lessons learned.


Image included with thanks to service users and volunteers of Mind in Croydon

The year in review
A valuable service for our members



"The PPF is a wonderful organisation, and an untold story."

Robert Low
PPF member

The PPF is a wonderful organisation, and an untold story. It is very efficient and well-managed. When it took over my pension ten years ago it provided support and reassurance when I thought all was lost and things have gone smoothly ever since.

The website is excellent – simple, clear and easy to use, and as with all the PPF communications I've received so far, it gives me everything I need.

The year in review

Real value for the schemes we protect

"It was invaluable to hear directly from the people dealing with these issues every day."

David Taylor, General Counsel

> "The discussions seem to be well received on both sides... We found it a useful addition to our means of communication with the PPF."

SME Forum participant

> "The atmosphere allowed real and meaningful feedback."

SME Forum participant

Engagement with SMEs

Our inaugural SME Forum took place at end of February 2019, marking a new approach to communication between us and DB schemes of small and medium-sized enterprises (SMEs).

The Forum will help us better understand the needs of this group of levy payers and will give SMEs the space to express their views directly with us. The first meeting saw representatives from DB pension schemes of SMEs, their advisers, representative bodies and the PPF gather together to discuss a range of topics from good customer service to measuring insolvency risk.

We are now working through the feedback and expect to update the Forum members in the coming months on how we can incorporate suggestions into future activity.

The next meeting will take place in September 2019.

The year in review

Real value for the schemes we protect

£561m

PPF levies collected during the year

"

This isn't about making the PPF's life easier, it's about protecting our members at the time they need it most.

"

Tom Lukic, Dalriada Trustees

Encouraging contingency planning for schemes

Experience has shown us that a significant portion of the schemes which enter PPF assessment following an insolvency event should have been better prepared for an effective entry in to the PPF, at what is an uncertain time for members. This unpreparedness poses risks to scheme members and the PPF.

From the cases we have seen to date, many of the issues faced could have been avoided or largely mitigated had trustees received better support and guidance on these risks and suitable contingency plans been put in place before insolvency.

Through extensive engagement with industry professionals and TPR we have produced guidance and offered support for trustees on appropriate contingency planning steps that could be taken. We published this guidance in April 2019 and launched it with a series of events and communications.

The guidance aims to encourage trustees to understand the risks to their schemes of not preparing for potential employer insolvency, and to take steps to put effective contingency planning in place.

The PPF levy

The PPF levy remains an important source of funding. It is paid by the schemes we protect, and the amount each scheme has to pay is based on the risk of it entering the PPF. 75 per cent of levy payers pay in full within 28 days. We believe this reflects our efforts to make the levy clear and transparent, and the fact that the PPF provides an essential backstop for their members.

The levy is the price of PPF protection where DB pension scheme sponsors operate with significant deficits in their pension schemes. In 2018/19 the levy on schemes that pay the risk-based element was around 0.1 per cent of their total buy-out deficit. Viewed as a source of borrowing, the levy represents real value for employers with DB pension schemes.

The levy year 2018/19

During the year we collected £561m which is slightly more than our £550m estimate. In previous years we have almost always collected less in levies than the estimate. We set an estimate based on what we think we will collect, taking into account predicted insolvency risk scores. The actual amount collected can vary from the estimate as these scores and other factors fluctuate over the course of year.

2018/19 was the first year of the third levy triennium, or three year cycle, in which we aim to keep the levy rules stable. Levy payers have generally been supportive of our current approach, including the use of credit ratings where applicable.

2017/18 saw the highest value of claims in PPF history and claims in 2018/19 were higher again. However, our prudent approach to funding has allowed us to continue our policy of keeping the levy stable and predictable within each three-year cycle. The levy estimate is £500 million for the levy year 2019/20, down from £550 million in 2018/19.

The changes we made to the levy methodology as part of the last substantial review are working well, so in 2019/20, the second year of the cycle, we are only making minor adjustments. We consulted on these in the autumn and confirmed the rules in December 2018 with minimal changes from the proposals.

We have appointed Dun and Bradstreet to run our insolvency risk model from the levy year 2021/22. They will replicate the existing model and we will work to make sure the change for levy payers is as streamlined as possible.

Commercial consolidators

In the same consultation we set out our approach for charging a levy to commercial consolidators, also known colloquially as 'superfunds'. The approach is based on the methodology for calculating a levy for schemes without a substantive sponsor, with adjustments to reflect the specific risks posed by commercial consolidators. We expect our approach to evolve in coming years as the new regulatory framework for commercial consolidators is defined.

As we said in our response to the Government's consultation on this subject, we recognise that superfunds have the potential to provide more security for some schemes, and have a helpful part to play in the DB pension scheme universe. But unconstrained they have the potential to pose significant risks to the PPF and to our members, levy payers and members of the schemes we protect.

Our view is that any superfund allowed to operate must provide a high level of confidence that it will pay benefits to its members in full. Consequently it would also need to provide a high level of confidence it will not need to make a claim on the PPF. We welcome the Government's intention to establish an appropriate regulatory framework for commercial consolidators.

Restructuring and insolvency

One of the ways in which PPF compensation is funded is through recoveries from the insolvent employers whose schemes we take on. We adopt the creditor rights of the scheme trustees and seek to recover as much as possible towards the cost of members' pensions. We may also engage in cases involving restructuring proposals for companies with DB pension schemes.

We have always taken a robust approach to prevent companies from 'dumping' their pension liabilities on the PPF. Our team works closely with TPR and, if there are concerns, TPR assesses the case to consider whether to use its powers.

We only take part in a restructuring or rescue if the proposal meets specific criteria. These strict principles are designed to make sure the pension scheme is in a much better financial position than if we had done nothing.

We have recently refreshed our guidance on compulsory voluntary arrangements, PPF drift and the appointment of independent trustees.

The year in review
Real value for the schemes we protect

"The proactive engagement and input of the PPF in advance of KPP2's PPF assessment period, working in conjunction with the existing trustee board and incoming PPF panel trustee, was critical to delivering the best possible member experience in what can be a challenging period."

Jo Harris, Dalriada Trustees

Kodak Pension Plan (No. 2)

On 25 March 2019 the Kodak Pension Plan (No. 2) (KPP2) entered PPF assessment and is the largest claim on the PPF to date. In 2013, after Eastman Kodak Inc. filed for bankruptcy protection in the United States, the PPF and TPR gave permission for a new scheme, KPP2, to be created. The scheme bought a number of Eastman Kodak businesses through a new entity called Kodak Alaris. It became clear that while Kodak Alaris is profitable and cash generative, it would not be able to generate sufficient income to support KPP2's liabilities in the long term. Accordingly the decision was made to bring the scheme into the PPF.

The solution we supported in 2013 was not without risks, but it was the right thing to do at the time. The risks that we foresaw have been closely monitored since then by the trustees and TPR. The controls that were put in place at the time to review performance and, if necessary, wind up the scheme have worked as intended.

While we often have little forewarning of assessment periods being triggered, we have known for some time that KPP2 was likely to enter assessment. Most assessment periods are triggered by uncontrolled insolvency events. However, in the case of KPP2 we have been actively working behind the scenes with the scheme trustees, Kodak Alaris, our panel firms and TPR to ensure an orderly transition into PPF assessment ahead of the employer insolvency event. Our two aims have been to protect stakeholders and to provide reassurance, confidence and clarity to the 11,000 scheme members who will in due course become PPF members.

During the assessment period we will continue the work of the KPP2 trustees to dispose of the Kodak Alaris business for fair value. However should this not be achieved through the sales process, the PPF is prepared to retain ownership of all or part of Kodak Alaris. While KPP2 presents the largest claim on the PPF to date, we remain financially strong and able to absorb a claim of this size. This is the reason we have reserves, and it is what we are here to do.

The year in review
A great place to work

Developing our people

When we recruit people to join the PPF, in addition to looking at candidates' experience and technical skills, we also recruit to our ICARE values – Integrity, Collaboration, Accountability, Respect and Excellence. We don't just pay lip service to our values. Every candidate we interview is assessed on these behaviours, and every employee is assessed on them as part of their performance reviews. For us, our values are just as important as technical skills and experience. Having the right mix of people with the necessary skills as well as common values is essential to our success in achieving our objectives.

We strive to recruit a diverse employee population at all levels. We regard this as critical to boost innovation, to help us identify risks, to bring further insight and efficiency to our operations and to provide better service to our members.

Nurturing our own talent is a priority at the PPF. Some examples of this include a 12 month development programme for senior leaders, team development days, a number of recent promotions to senior positions, including our Chief Actuary, our Legal team's bespoke cross-skilling programme and many promotions within our Scheme and Member Services team.

These initiatives have resulted in a more flexible and agile resource and more engaged and motivated people who relish the development opportunities.

At the PPF we aim to be an employer of choice. This means something different to every individual, but we know that some of the things our employees value include our flexible working opportunities, family-friendly working policies, the benefits we offer, our working environment, development opportunities and our open-minded culture.

In our most recent employee survey 75 per cent of employees said they would recommend the PPF as a place to work and we are looking to making that number even higher. 92 per cent of our people said they were proud to work for the PPF and 97 per cent said they believe the PPF's work makes a positive difference in the world.

PPF Legal team wins at The Lawyer Awards 2018

Our Legal team picked up the 'In-house not-for-profit team of the year' award at The Lawyer Awards 2018 for their work on the British Steel Pension Scheme.

Dana Grey, Director of Legal and Compliance (holding the award, in the photograph on the right) said:

"We're thrilled to have won this award in recognition of our collaboration and innovation on one of our biggest transactions to date. The Lawyer Awards are regarded as the most prestigious awards in the legal calendar and so this a fantastic achievement, and I'm so incredibly proud of the whole team."

"Understanding that everyone is different, with different views and ideas, is something we all need to embrace and celebrate. Those with different opinions help us view things from a perspective we may not have previously considered – a building block for continual improvement and innovation."

Andy McKinnon,

Chief Financial Officer and D&I sponsor

Diversity and inclusion

One of the major themes of 2018/19 at the PPF has been Diversity and Inclusion (D&I). We want to have an empowered and involved workforce that is more representative of the diversity of our local communities and our members. In October 2018 we launched a D&I hub on our intranet, engaging and supporting employees and creating more opportunities for personal and organisational growth.

D&I is about focusing our efforts to bring out the full potential of everyone who works, or is considering working, at the PPF by valuing difference and individuality.

When we talk about diversity we mean having a workforce that is more representative of the differences that exist in society.

When we talk about inclusion we mean having an empowered and involved workforce that enables people to be authentic, whose differences of thought or belief are embraced and recognised as key components to managing risk and fostering innovation.

We aim to cultivate a diverse and inclusive culture where people feel respected, appreciated and valued for their differences, and to promote, support and embed 'thought diversity' across all levels of the organisation.

For 2019/20 we have set a KPI that at least 85 per cent of our employees will agree that the PPF actively encourages diversity in all its aspects, with a particular focus on how that question is answered by people in under-represented groups.

Since its launch we have embedded the D&I programme throughout the organisation through a mandatory event for all employees, our D&I film 'Being Me', unconscious bias training for managers, and the launch of a number of new employee groups reflecting the diversity of our workforce.

The year in review
A great place to work

In February 2019 we published our Gender Pay Gap Report for 2018. At 31 March 2018 our median gender pay gap stood at 17.12 per cent, a drop of three percentage points from last year (20.40 per cent in 2017). The mean pay gap was 23.67 per cent (24.97 per cent in 2017). This year's results tell us that we must continue working hard to increase the pipeline of talented women in our organisation.

Our gender pay gap is partially a result of the under-representation of women in our investment and risk teams. The reward structure for our investment team differs from the rest of the organisation, reflecting the way the investment sector rewards the specialist skills required in this industry.

While we cannot change the industry, we know we can be part of the solution, and we have a number of initiatives in place to try to increase the number of women in our investment and risk teams.

> While we're pleased to see some reduction in our gender pay gap, we're still not where we want to be

Katherine Easter, Chief People Officer

The other main reason for our gender pay gap is that we do not yet have enough women in senior positions. We are working hard to address this. As part of our commitment to the Women in Finance Charter, last year we set a target that at least 40 per cent of our senior leaders would be female by 2021. In September 2018 this figure was 36 per cent, which equates to 24 out of 66 people. We are confident that the initiatives we are putting in place and the focus on nurturing talent at a grassroots level will help us to achieve this target.

One way we can improve opportunities for women is by making the PPF an employer of choice for working parents, with the aim of helping women to continue on an upward career trajectory after maternity leave, and succeed in the organisation while working part-time or flexibly.

We offer enhanced maternity and paternity leave, and shared parental leave with 26 weeks at full pay for men and women. Two years ago we introduced a programme of coaching for women returning to work after having a baby, using a panel of independent business coaches to help employees transition from work to maternity leave and back again, building their confidence and helping them to continue their careers after time away from the office.

How supportive is the PPF of working mothers?

> I've had two children since joining the PPF. One of the things I value most about working here is retaining a healthy work-life balance. I work part-time and my working pattern means I can pick my children up every day. Many PPF people have non-traditional working patterns, which I've found means colleagues are very accommodating when I need to change things around to meet family commitments.

Lisa McCrory, Chief Actuary

Our apprenticeships and internships

To support the government's target of three million new apprenticeships by 2020, we opened our apprenticeship programme in September 2018 and currently have 11 apprentices.

For apprentices there are many benefits, such as earning a salary alongside learning and gaining a professional qualification. As part of our programme, employees can dedicate 20 per cent of their time to learning. The apprenticeships we offer can be done at various levels up to a Master's degree, and the majority result in a professional qualification.

Apprenticeships are open to all – there is no age limit. For our entry level apprenticeships, we look for the right attitude and behaviours rather than work experience.

Sharon Godfrey, Talent and Development Manager, (seen left in the photograph above) said, "We also want to give local residents the opportunity to get a professional qualification in a career they may not have considered."

Apprenticeships give us the opportunity to close any potential future skills gaps. We have used an entry level apprenticeship route to build our future talent pool of Pension Administrators. We have created an apprenticeship role of Trainee Pension Administrator and are working with Croydon College to create a cohort of six apprentices.

"The more I looked into the PPF's apprenticeship programme," said Rishma Poojara, Commercial Apprentice (seen right in the photograph above), "the more I knew that this wasn't just a job but a fantastic career opportunity to learn and train while earning. Doing an apprenticeship has given me the opportunity to learn valuable skills, jump-start my career and has opened many doors to my future."

We have also run a successful internship in our actuarial and investment teams since 2013, in partnership with Queens University Belfast. In November Queens presented us with a Mentor Recognition Award. The interns value the training we provide and we are always impressed by the confidence and commitment they demonstrate.

The year in review
Adding value in our community

Corporate Social Responsibility
2018/19 was our most ambitious fundraising year to date. Through our Corporate Social Responsibility (CSR) programme we ran a number of fundraising and volunteering events to support our charity of choice, Mind in Croydon, a local mental health charity, as well as other community projects.

Around one in four people in the UK will experience a mental health problem each year, and one in six experience a common mental health problem, such as anxiety or depression, in any given week, so we set out to support Mind in Croydon in as many ways as possible.

"Our CSR programme this year has been our most challenging to date but also the most rewarding. It was clear this year that the subject of mental health was important to our people for a number of reasons, and people felt their participation made a positive difference. Our target for the year was to secure 100 hours of volunteering and £1,000 of fundraising. Our programme by far exceeded its target figures with a total of 1,230 hours achieved through volunteering initiatives and a fantastic £10,000 being raised for Mind in Croydon" said Katrina Carney, CSR lead for the PPF.

Our employees raised the money through a variety of fundraising events including bake sales, football tournaments, sporting events and quiz nights.


Image included with thanks to service users and volunteers of Mind in Croydon

In October, we embarked on our most ambitious fundraising event to date: Never Mind the Catwalk, at Boxpark Croydon. PPF volunteers ran a free-to-attend fashion show using high-end clothes donated to Mind in Croydon's charity shop. The event also featured mental health information stalls and live music. Speakers at our event were the Mayor of Croydon and Councillor Janet Campbell, the borough's mental health champion, both of whom praised our work and ongoing support for our charity of choice.

At Christmas PPF employees donated goods for festive hampers, which were decorated and delivered to service users via the Mind in Croydon hub, as well purchasing brand new children's toys as presents for service users' children and grandchildren.

In addition to our work with Mind in Croydon, our other hugely successful community projects included our lunchtime literacy scheme with year seven pupils from St Mary's High School in Croydon who need help developing their literacy skills and the provision of 40 desktop PCs for St Paul's Primary School in Wood Green.

We also returned to Parchmore Community Centre in Thornton Heath in December where PPF volunteers helped to run a Christmas event for local elderly residents who might otherwise be spending Christmas alone.

"

It has been an absolute pleasure to work with our friends at the PPF over the last year. Staff there have taken a real interest in the work that we do and have become involved in directly helping a number of the people that we support. This interaction has created enormous benefits for the charity, the people we support and, I hope, has made the whole process much more rewarding for the staff at the PPF.

We were delighted with the money that the PPF were able to raise for us and all of this will go directly to the front line, helping people in their everyday lives. We look forward to continuing our working relationship with our friends at the PPF, which we know will be as beneficial and as much fun as our work to date. Huge thanks to all at the PPF.

"

Richard Pacitti, CEO, Mind in Croydon

Image included with thanks to service users and volunteers of Mind in Croydon

Opening up about mental health

As an employer of more than 400 people, the PPF takes mental health at work seriously. Understanding mental health issues and promoting openness makes good business sense. That is why all our line managers are expected to take mental health awareness training. Managers have a critical role in helping to address the stigma around mental health issues at work, and a duty of care for team members and colleagues experiencing problems.

"As managers, we often don't feel confident talking about these things but we must work at encouraging open conversations with team members and exploring challenging and sensitive topics. The conversations we instigate may become an important catalyst for people to seek professional help. Through listening carefully, noticing changes in behaviour, and the right training, we'll become better equipped to spot mental health issues and be able to point people towards help."

Barry Kenneth, Chief Investment Officer and executive sponsor of the PPF's mental health programme

The training is provided by Mental Health First Aid England and helps managers understand how to recognise associated signs, symptoms and behaviours of some of the most common mental health disorders. Managers are also taught how to manage someone with suspected or diagnosed conditions and signpost professional help.

Since January 2019 112 PPF employees have been given this training and nine members of staff have been trained to become qualified mental health first aiders.

Complaints, reviews and FOI requests

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

General Complaints

The following tables provide an analysis of the complaints received and dealt with by the PPF during the year ended 31 March 2019.

Complaints

	PPF	FAS
Complaints brought forward from previous year	9	7
Complaints received of which:	405	376
• resolved at stage one	392	361
• resolved at stage two	16	7
• resolved at stage three	1	2
• reclassified	(2)	1
• carried forward	7	12

Complaint categories*

	PPF	FAS
Payment related	111	129
Communication	107	116
Process/regulation	111	56
Delay	34	92
Entitlement	52	49
Other	57	25

* Complaints can have multiple categories

Guidance on how we handle complaints and appeals can be found on our website: www.ppf.co.uk/how-to-make-a-complaint

Reviewable matters

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

Levy-related reviewable matters

	2018/19	2017/18
Review decisions issued of which:	43	45
• the scheme was found to be levied correctly	31	24
• we agreed with some or all of the scheme's appeal	12	21
Decisions made by the Reconsideration Committee	10	6

Non-levy-related reviewable matters

	2018/19	2017/18
Review decisions issued	16	8
Decisions made by the Reconsideration Committee	5	4

Maladministration complaints

	2018/19	2017/18
Formal complaints of maladministration considered of which:	5	3
• maladministration was found to have occurred	3	3
None of these cases also involved a reviewable matter (2017/18: none)		
Maladministration decisions made by the Reconsideration Committee by applicants of which:	0	1
• maladministration was found to have occurred	0	0

Freedom of Information requests

	2018/19	2017/18
FoI requests received of which	31	32
• we fully disclosed the information	24	17
• we partially disclosed the information	2	6
• we did not hold the information	0	1
• the request was withdrawn	0	1
• we declined to disclose the information	5	7

We declined to disclose information where statutory exemptions applied.

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

Statement of Going Concern

In order to comply with the Government Financial Reporting Manual (FReM) when preparing this Annual Report and Accounts, we have to explain why we have adopted a going concern basis for the organisation.

An organisation deems itself a going concern if its management believes that the organisation will continue to operate and there is no intention, or need, to close down its functions.

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

Pension Protection Fund

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

- our cash flow forecasts, which indicate that cash and other asset inflows will significantly exceed outflows for the foreseeable future, supported by:
  - our levy raising powers – see (https://www.ppf.co.uk/what-risk-based-levy) and
  - our reserve powers on benefit levels.

Fraud Compensation Fund

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

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

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

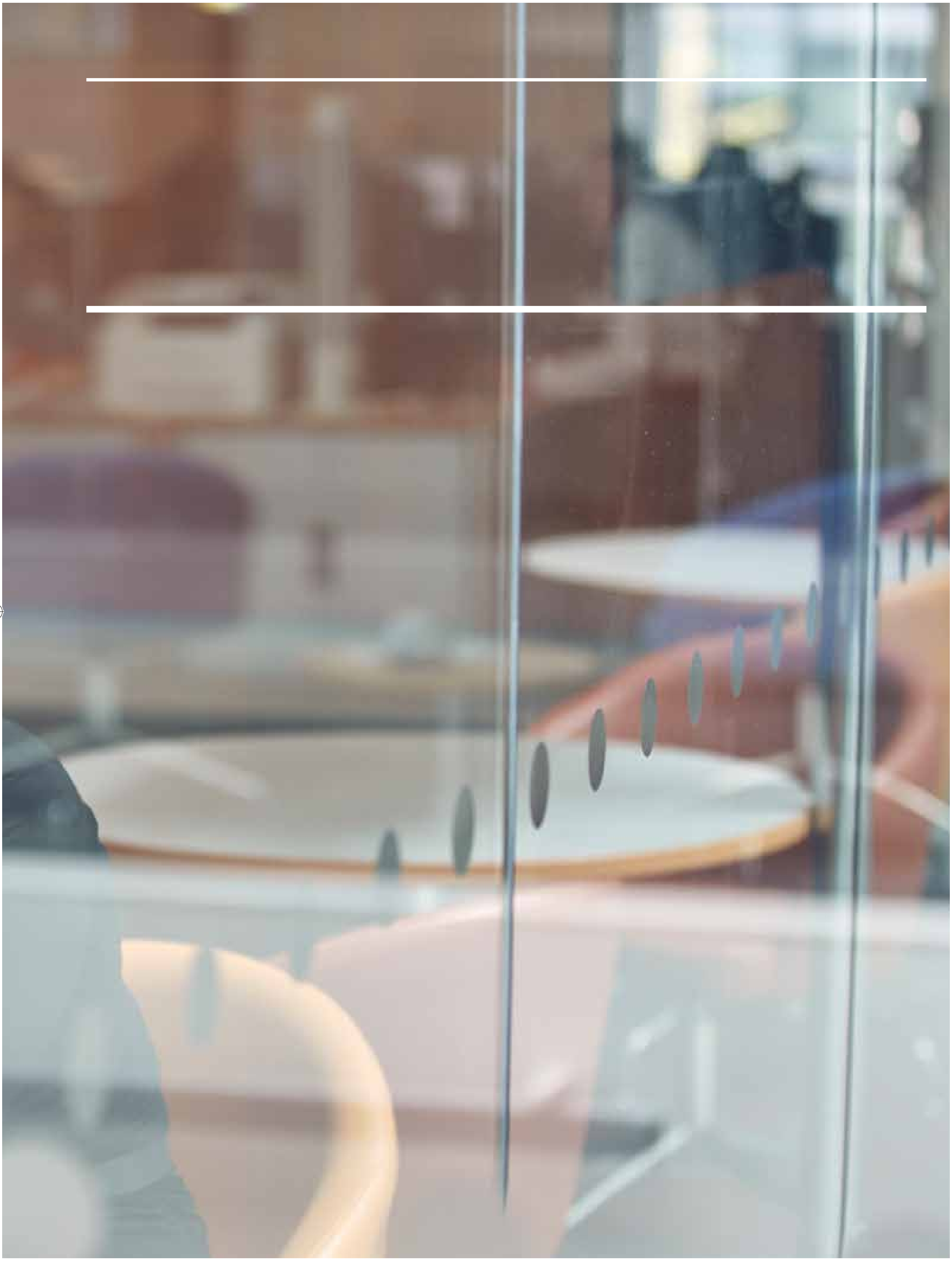
Administration Fund

In considering the going concern status of the Administration Fund, we took into account the status of the Board as an independent statutory corporation, while also recognising that the Board receives funding from its sponsor department, the DWP, in the form of grant-in-aid, to cover all of its expenditure on its functions as FAS scheme manager, and its expenditure on certain PPF administration functions.

We also considered the regulations under which the DWP finances its payments to the Board on grant-in-aid for PPF administration functions by raising a PPF Administration Levy from eligible pension schemes.

Oliver Morley
Chief Executive
19 June 2019

03
Accountability report



The Board of the Pension Protection Fund

Arnold Wagner OBE
Chair of the Board

Chair of the Nomination Committee, member of the Remuneration Committee

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

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

Oliver Morley
Chief Executive

Member of the Decision Committee and of the Investment Committee

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

Oliver was previously the Chief Executive and Keeper of The National Archives. He has worked at Thomson Reuters and also in the technology and shipping industries. Oliver was awarded a CBE in 2017 for his work in digital services.

Chris Cheetham
Non-executive Board member

Chair of the Risk and Audit Committee, member of the Investment Committee

Chris Cheetham has 40 years of experience in the investment management industry. Chris joined HSBC in May 2003 as Global Chief Investment Officer. He was previously Global CIO of AXA Investment Managers and also held the position of CEO at AXA Sun Life Asset Management. Chris began his career with Prudential Portfolio Managers (now M&G) where he worked in a variety of investment management roles, ultimately as Director of Investment Strategy and Research.

Chris is Chairman of Trustees of the Mineworkers Pension Scheme.

Alan Jenkins
Senior Independent Director

Chair of the Decision Committee, member of the Reconsideration Committee and of the Remuneration Committee

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

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

Kate Jones
Non-executive Board member

Chair of the Investment Committee, member of the Risk and Audit Committee and of the Reconsideration Committee

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

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

Kate is a Trustee of Smart Pension DC Mastertrust, where she is Chair of the Investment Committee and Chair of Trustees for the financial education charity, RedSTART.

Kate is also an executive coach with a focus on senior leaders in the financial sector.

Tom Joy
Non-executive Board member

Member of the Investment Committee and of the Remuneration Committee

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

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

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

The Board of the Pension Protection Fund

Emmy Labovitch
Non-executive Board member

Member of the Risk and Audit Committee and of the Investment Committee

Emmy has held a variety of international roles in financial services and was a member of the executive committees of Fortis Investments and UBP Asset Management. Until 2018 Emmy was Senior Policy Advisor at the OECD with a focus on pension funds and investment governance.

Emmy is a board member of the UK charity Phoenix Futures, she is a member of the Conduct Committee of the Financial Reporting Council and is Chair of the Employer Committee of the Social Housing Pension Scheme. Emmy is also a director of Novarca, a consultancy that specialises in investment value for money.

Andy McKinnon
Chief Financial Officer

Member of the Investment Committee

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

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

Jayne Nickalls
Non-executive Board member

Chair of the Remuneration Committee, member of the Risk and Audit Committee

Jayne is currently a non-executive director at UK-based web experience supplier Jadu, and an independent member of Warwick University's Finance Committee. She was also a non-executive director at the Financial Services Compensation Scheme.

Jayne's executive career spanned more than 30 years in IT and consulting, latterly as CEO of Directgov, the Government's public services website. Prior to that, Jayne was VP Consulting Services at US company Chordiant Software.

David Taylor
General Counsel

Member of the Decision Committee

David was appointed to the PPF Board as an Executive Director and General Counsel in June 2015. David joined the PPF shortly after its establishment in 2005 and has since taken on responsibility for areas including policy, strategy and compliance. The PPF levy has been a particular focus throughout, with David leading both development and operational delivery since 2014.

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

Baroness Warwick of Undercliffe
Non-executive Board member

Chair of the Reconsideration Committee

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

Diana's career includes roles as a leading trade unionist, and non-executive roles at pension schemes, listed companies and public interest bodies. She has also been Chair of the Board of the Property Ombudsman since 2018.

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

Further information about Board Members, including their registered interests, is available on the PPF website. www.ppf.co.uk/board-members

Members of the Executive Committee

At 31 March 2019

Oliver Morley
Chief Executive

Katherine Easter
Chief People Officer

Barry Kenneth
Chief Investment Officer

Simon Liste
Chief Technology Officer

Andy McKinnon
Chief Financial Officer

Sara Protheroe
Chief Customer Officer

David Taylor
General Counsel

Stephen Wilcox
Chief Risk Officer

Further information about the Executive Committee is available on the PPF website.
www.ppf.co.uk/executive-committee

Governance statement

Governance framework

During 2018/19, the Board had nine non-executive members, including the Chair. In addition, there were three executive members, including the Chief Executive. Board members' attendance at Board and committee meetings is set out on page 67.

Chris Cheetham joined the Board as a non-executive member on 1 May 2018. On 26 June 2018, Sharmila Nebhrajani ended her second term and stepped down from the Board. Rosemary Hilary stepped down from the Board on 3 January 2019. Emmy Labovitch began her first term on 1 July 2018.

The Board has established a number of committees and a Statement of Operating Principles in order to discharge its responsibilities.

The Board has also given the Chief Executive delegated powers so he can take decisions to ensure operational effectiveness and provide regular updates to the Board on performance, risks and strategy. The Chief Executive has also established internal committees to oversee operations. Further details of the governance framework are provided in Appendix 2.

Committee structure

Board

Investment Committee
Chair:
Kate Jones

Reconsideration Committee
Chair:
Baroness Warwick of Undercliffe

Decision Committee
Chair:
Alan Jenkins

Nomination Committee
Chair:
Arnold Wagner OBE

Non-executive Committee
Chair: Arnold Wagner OBE
Chris Cheetham
Alan Jenkins
Kate Jones
Tom Joy
Emmy Labovitch
Jayne Nickalls
Baroness Warwick of Undercliffe

Remuneration Committee
Chair:
Jayne Nickalls

Risk and Audit Committee
Chair:
Chris Cheetham

Attendance at Board and Committee meetings during 2018/19

Board member details and committee memberships are on pages 60-63. Board appointments and terms are in the Remuneration and staff report on page 78.

	Board	Remuneration Committee	Risk and Audit Committee	Investment Committee	Reconsideration Committee[1]	Decision Committee[2]	Nomination Committee[2]	Non-executive Committee
Arnold Wagner OBE	9 of 9	4 of 4	n/a	n/a	n/a	–	–	2 of 2
Chris Cheetham[3]	7 of 9	n/a	5 of 5	3 of 3	n/a	–	–	2 of 2
Rosemary Hilary[4]	7 of 7	n/a	4 of 4	3 of 3	n/a	–	–	2 of 2
Alan Jenkins	9 of 9	4 of 4	n/a	n/a	8 of 8	–	–	2 of 2
Kate Jones	9 of 9	n/a	n/a	4 of 4	8 of 8	–	–	2 of 2
Tom Joy	8 of 9	2 of 4	3 of 5	4 of 4	n/a	–	–	2 of 2
Emmy Labovitch[5]	6 of 6	n/a	3 of 3	3 of 3	n/a	–	–	2 of 2
Andy McKinnon	8 of 9	1 of 4#	5 of 5*	4 of 4	n/a	–	–	n/a
Oliver Morley	9 of 9	4 of 4*	5 of 5*	3 of 4	n/a	–	–	n/a
Sharmila Nebhrajani OBE[6]	0 of 3	1 of 1	n/a	n/a	n/a	–	–	0 of 0
Jayne Nickalls	9 of 9	4 of 4	5 of 5	n/a	n/a	–	–	2 of 2
David Taylor	9 of 9	n/a	5 of 5*	3 of 4*	1 of 1*	–	–	n/a
Baroness Warwick of Undercliffe	8 of 9	n/a	n/a	n/a	8 of 8	–	–	2 of 2

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

[2] The Decision and Nomination Committees did not meet in 2018/19 on the basis that no decisions were referred and no nominations were made

[3] Joined the Board on 1 May 2018

[4] Stepped down from the Board on 3 January 2019

[5] Joined the Board on 1 July 2018

[6] Stepped down from the Board on 26 June 2018

* Attended meetings as a non-member

Attended in capacity of acting Chief Executive

Governance statement

Board activity

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

Account of corporate governance

The Board is committed to maintaining 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 Board continues to meet the provisions of the Code where they apply to the PPF.

The risk and control environment

The PPF's approach to managing risk follows the guidelines provided by HM Treasury in its document 'Orange Book: Management of Risk – Principles and Concepts'. We aspire to ensure that our approach to risk management follows best practice for regulated financial services firms.

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

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

The Board determines its risk appetite which is then passed down to risk owners within the PPF who report annually about how they are adhering to the risk appetite.

Significant risks

We have identified ten key enterprise risks (shown below), which can arise as a result of internal or external factors and which have the potential materially to adversely impact our strategic aims, funding objective, solvency, operations or reputation.

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

Our biggest enterprise risks

Ministerial directions

No directions have been issued.

Personal data related incidents

We made one notification of a personal data breach to the ICO this year (details are in the section below). Potentially affected individuals were also notified and the ICO took no action against the PPF.

Significant control issues

We received a number of phishing emails into our estate, targeting our executive and senior management, some of which claim they have accessed company or personal data.

On receiving one suspicious email targeted at senior management, we commissioned an independent investigation by a CREST approved cyber security incident response company who confirmed the position that our security perimeters had been breached and data had potentially been compromised.

The breach was rapidly communicated to the ICO, the National Cyber Crime Unit and Action Fraud.

Review of effectiveness

For the purposes of FReM, the PPF Board sees the Chief Executive as having the analogous responsibilities as an Accounting Officer as set out in 'Managing Public Money'.

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

- the assurances I sought and received from other Board members and from PPF senior staff which detailed the work carried out to make sure management of risk and control is addressed in their areas of responsibility
- the work of the executive directors and senior managers within the PPF who have responsibility for developing and maintaining the internal control framework; and
- comments made by the external auditor in their management letter and other reports, and the opinion of the Director of Internal Audit on the overall adequacy and effectiveness of the PPF's framework of governance, management of risk and control.

In my review of the effectiveness of the system of internal control I have considered the work of the Risk and Audit Committee, the Executive Committee and the Asset and Liability Committee.

Governance statement

Appendix 1
Board and Committee reports

Board

The Board met nine times during the year, and also had training on data protection.

The Board agreed a three-year Strategic Plan for 2019/22, to sit alongside the Business Plan for 2019/20. The Board also reviewed the funding strategy, and approved updated modelling assumptions for the long-term funding strategy. The Board agreed the appointment of the Appointed Actuary and the assumptions used in the Actuarial Valuation.

The Levy Consultation, Determination and Estimate of £500m for 2019/20 were all agreed. The Board noted the decision to again collect a Fraud Compensation Fund levy in 2019/20.

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

The Board discussed digital technology and updates on the organisation's IT strategy and on high-profile projects were received. RI was also considered on several occasions. The Board also reviewed the PPF's preparedness for Brexit.

The Board approved strategic investment objectives and the introduction of the PPF's specific version of the SMCR. The Board also approved a number of publications, including the 2017/18 Annual Report and Accounts. The Board also assessed progress against the actions from the Board and Committee effectiveness review and agreed updates to the Board Manual.

Remuneration Committee

The Remuneration Committee is chaired by Jayne Nickalls. The Committee met four times during the year and agreed objectives for executive directors for the 2018/19 financial year. The Committee also undertook yearly and half-yearly performance reviews of executive directors, discussed their pay and approved bonus payments for them based on performance against the objectives set. The Committee discussed the development of the Investment team's overall reward strategy.

Risk and Audit Committee

The Risk and Audit Committee was chaired by Rosemary Hilary until she stepped down from the Board in January 2019, at which time Chris Cheetham took over the Chair. The Committee met five times during the year. The scope of the Committee covers risk, including monitoring compliance with the Board's risk appetite, and the effectiveness of internal controls.

Under its risk management remit, the Committee oversaw work to create a new set of enterprise risks and to set out how these link to the risk taxonomy. The Committee approved the Risk Mandate.

The Committee has worked with the Investment Committee to enhance mutual understanding of the role each committee plays regarding the oversight of risks relating to the PPF's investment function and the teams in other directorates which support it. The links between the committees are strengthened by the chairs of each sitting on the other.

The Committee continued its programme of receiving reports from directors on the key risks and controls within their directorate. Reports were received from Andy McKinnon (Chief Financial Officer), Barry Kenneth (Chief Investment Officer) and Stephen Wilcox (Chief Risk Officer).

The Committee supported the Chief Risk Officer's development of the Risk Management Framework.

The Compliance and Ethics function is well established within the PPF. The Committee received a regular report from the Director of Legal, Compliance and Ethics on outputs from the Compliance Monitoring Plan and on work to embed a culture of employee accountability. The Committee also approved the Compliance Monitoring Plan for 2019/20.

The Committee received updates on improvements to the PPF's change and project management systems. These also included progress reports on major projects, including the IT Transformation Programme. Cyber security was a major focus for the Committee during the year.

The Committee regularly discussed the PPF's preparedness for Brexit and the CJEU judgment.

The Committee has worked closely with the Director of Internal Audit during the year, initially to approve the internal audit strategy and plan and subsequently to review regular reports on progress against the plan, the results of audit work, sufficiency of audit resources and the continuous improvement of the function.

As part of its normal cycle of work, the Committee reviewed the risk management policy and risk appetite, the key risk indicators, the Governance Statement, the annual Actuarial Valuation and the whistleblowing policy. The whistleblowing policy applies widely in the PPF, including to employees, agency workers, contractors, consultants, volunteers, secondees, interns, non-executives, suppliers and members of the public. The PPF encourages staff to raise concerns which are in the public interest, without fear of reprisal or victimisation. The policy was approved by the Committee.

The Committee also reviewed and recommended the 2017/18 Annual Report and Accounts for approval by the Board and received the annual report from the external auditors, who are regular attendees at the Committee.

Colin Smith stepped down as a co-opted member of the Committee and was replaced by Margaret Ammon, to provide additional independent risk management knowledge and experience.

Governance statement

Appendix 1

Investment Committee

The Investment Committee is chaired by Kate Jones, who took over the position of Chair from Tom Joy on 1 April 2019. The Committee met four times during the year.

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

- quarterly investment update reports including investment activities and the implementation of investment policies
- the investment risk budget
- quarterly reports on the markets and investment strategy
- an annual RI report; and
- the Statement of Investment Principles (SIP).

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

The Committee has also worked with the Risk and Audit Committee to ensure that each committee's work on the oversight of risks relating to the PPF's investment functions is fully understood and supported.

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

Reconsideration Committee

The Reconsideration Committee is chaired by Baroness Warwick of Undercliffe. Christopher Hughes, co-opted member of the Reconsideration Committee, continued to provide input based on his considerable experience to support robust decision making. The Committee met on eight occasions during the year. It considered, and issued, decisions relating to ten cases where levy payers challenged their levy.

The Committee also considered five non-levy review cases: one relating to an overpayments recovery and four to compensation entitlement.

Decision Committee

The Decision Committee is chaired by Alan Jenkins. The Committee did not meet during the year.

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

Nomination Committee

The Nomination Committee is chaired by Arnold Wagner OBE. The Committee did not meet during the year as no new appointments were made.

The Nomination Committee is responsible for overseeing the appointment of new Board members and considering succession needs at Board level.

Non-executive Committee

The Non-executive Committee is chaired by Arnold Wagner OBE. All non-executives of the Board are members of the Committee. The Committee met twice in the year to discuss executive director pay and succession planning. The Committee also received reports from the Remuneration Committee and the Risk and Audit Committee. The Committee met once without the Chair being present.

Governance statement

Appendix 2
Governance Framework

The Board is compliant with the requirements of the Pensions Act 2004.

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

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

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

As well as the Non-executive and Reconsideration Committees, the Board has also established a Risk and Audit Committee and a Remuneration Committee as sub-committees of the Non-executive Committee. Investment, Nomination and Decision Committees have been established as committees of the Board. Each committee has a majority of non-executive members.

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 on performance against strategic objectives, and provides a Chief Executive's report and other briefings as required. Papers are circulated a week in advance of meetings.

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

The Pensions Act 2004 requires that the Board:

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

Appendix 3
Account of corporate governance

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

The principal areas of compliance are set out below.

Board leadership

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

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

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

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

Board effectiveness

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

Governance statement

Appendix 3

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

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

The Board is provided with detailed appropriate information as part of its decision making processes. The financial and performance data provided to the Board is extracted from the PPF's accounting and operational systems.

This means it is subject to regular, planned, internal assurance checks and independent audits. As part of the Board effectiveness review it was asked about the quality and frequency of information received and no concerns were raised.

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

Management of risk

The Board is supported in its risk management role by its Risk and Audit Committee, which is chaired by a non-executive member with audit and risk management experience, its internal and external auditors, and its Investment Committee. They receive assurance from the Chief Risk Officer, who reports to the Chief Executive and is otherwise independent from the operations of the organisation, and from the Director of Legal, Compliance and Ethics. Both the Chief Risk Officer and Director of Legal, Compliance and Ethics report to the Risk and Audit Committee, and the Committee has oversight of both functions.

Risk management is embedded throughout the organisation, working up from team-level risk assessments and issues logs through to the risks considered significant to the Board. The Chief Executive has established an Executive Committee and an Asset and Liability Committee to ensure effective day-to-day oversight of operational and funding risks. Information on risks and risk management processes is provided in Appendix 4.

Appendix 4
The risk and control environment

System of internal controls

The system of internal control is designed to manage risk within our risk appetite rather than to eliminate all risk of failing to achieve policies, aims and objectives. The system of internal control is based on an ongoing process designed to identify and prioritise the management of risks to the Board achieving the PPF's policies, aims and objectives. This process is also designed to evaluate the likelihood of those risks being realised, their impact should they be realised, and how to manage them efficiently, effectively and economically. The system of internal control has been in place within the Board for the year ending 31 March 2019 and up to the date of signing of this Annual Report and Accounts, and accords with HM Treasury guidance. Audits are undertaken in accordance with an internal audit plan approved by the Risk and Audit Committee.

The risk and control environment

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

Risk processes are embedded throughout the organisation and individuals' responsibilities are reinforced through training. During 2018/19, we delivered a number of improvements to the management of risk, including:

- identification and mapping of all key processes, and the key controls over them, assigning an accountable executive and senior process owner to all
- facilitation of the Board identification of enterprise risks
- launch of a project to redevelop the Risk Management Framework; and
- carrying out of a business continuity simulation exercise with the Major Incident Management team.

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

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

The PPF recognises the importance of managing information effectively. We therefore operate in accordance with the Security Policy Framework and related Data Security guidance issued by the Government. To help achieve this we gained certification to the ISO27001 Information Security standard in 2009 and have successfully been recertified in March 2019.

Remuneration and staff report

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

Remuneration policy

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

Remuneration and bonuses of directors

Executive directors receive a salary that is decided annually by the Remuneration Committee which recommends its decisions for approval by the Secretary of State for Work and Pensions. Their contracts allow for the payment of an annual performance-related bonus.

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

Contracts

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

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

Notice periods

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

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.

There were no external non-executive appointments held by executive directors during the year.

Cash equivalent transfer values

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

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

Remuneration and staff report

Directors' salary and pension entitlements*

Year ending 31 March 2019	Salary (in bands of £5,000) £'000	Bonus[1] (in bands of £5,000) £'000	Benefits-in-kind[3] (to nearest £100) £'000	Pension benefits (to nearest £1,000) £'000	Total (in bands of £5,000) £'000
Executive directors					
Oliver Morley, Chief Executive	200-205	45-50	1.6	–	250-255
Andy McKinnon, Chief Financial Officer	155-160	10-15	1.3	–	170-175
David Taylor, General Counsel	130-135	10-15	0.6	56	200-205
Non-executive directors					
Arnold Wagner OBE, Chair	55-60	–	–	–	55-60
Chris Cheetham (from 1 May 2018)	–[4]	–	–	–	–
Rosemary Hilary (to 3 January 2019)	10-15 (15-20)[2]	–	–	–	10-15
Alan Jenkins	15-20	–	–	–	15-20
Kate Jones	15-20	–	–	–	15-20
Tom Joy	15-20	–	–	–	15-20
Emmy Labovitch (from 1 July 2018)	10-15 (15-20)[2]	–	–	–	10-15
Sharmila Nebhrajani OBE (to 26 June 2018)	0-5 (15-20)[2]	–	–	–	0-5
Jayne Nickalls	15-20	–	–	–	15-20
Baroness Warwick of Undercliffe	15-20	–	–	–	15-20
Year ending 31 March 2018					
Executive directors					
Oliver Morley, Chief Executive (from 19 March 2018)	5-10 (200-205)[2]	–	–	–	5-10
Alan Rubenstein, Chief Executive (to 19 January 2018)	160-165 (200-205)[2]	30-35	0.4	–	195-200
Andy McKinnon, Chief Financial Officer	165-170	20-25	0.6	–	185-190
David Taylor, General Counsel	130-135	10-15	0.3	39	185-190
Non-executive directors					
Arnold Wagner OBE, Chair	55-60	–	–	–	55-60
Rosemary Hilary	15-20	–	–	–	15-20
Alan Jenkins	15-20	–	–	–	15-20
Kate Jones	15-20	–	–	–	15-20
Tom Joy	15-20	–	–	–	15-20
Sharmila Nebhrajani OBE	15-20	–	–	–	15-20
Jayne Nickalls	15-20	–	–	–	15-20
Baroness Warwick of Undercliffe	15-20	–	–	–	15-20

[1] The bonus values disclosed here relate to the executive directors' performance in the year
[2] Full year equivalent
[3] Benefits-in-kind relate to private medical, critical illness and healthcare costs insurances
[4] Salary waived
* Subject to audit

Directors' pension benefits*

	Total accrued pension at pension age as at 31 March 2019 (in bands of £5,000) £'000	Real increase in pension at pension age (in bands of £2,500) £'000	Cash equivalent transfer value as at 31 March 2019 £'000	Cash equivalent transfer value as at 31 March 2018 £'000	Real increase in CETV £'000	Employer contribution to partnership pension account (to nearest £100) £'000
Oliver Morley, Chief Executive	–	–	–	–	–	37.2
Andy McKinnon, Chief Financial Officer	–	–	–	–	–	24.1
David Taylor, General Counsel	35-40	2.5-5	568	462	28	–

Oliver Morley and Andy McKinnon were not members of the Principal Civil Service Pension Scheme in either 2017/18 or 2018/19.

Staff report

Salary multiples*

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

	2018/19	2017/18
Annualised Band of highest paid Board member's total remuneration	£250-£255,000	£200-£205,000
Median remuneration of the workforce	£49,000	£49,000
Ratio	**5.2**	**4.1**

In 2018/19 eight employees (2017/18: nine) received remuneration in excess of the highest paid Board member. Remuneration ranged from £19,000 to £795,000-£800,000 (2017/18: £21,000 to £775,000-£780,000).

Total remuneration includes salary, non-consolidated performance-related pay and benefits-in-kind. It does not include severance payments, employer pension contributions and the CETV of pensions. Payment of performance-related pay in excess of £50,000 is deferred over a period of up to five years.

* Subject to audit

Remuneration and staff report

Staff numbers and costs*

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

	2019		2018	
	Average no. employees	Staff costs £m	Average no. employees	Staff costs £m
Permanent employees and fixed term contracts	390	34.7	363	30.1
Short-term, seconded and temporary staff	2	0.3	2	0.3
Total	**392**	**35.0**	**365**	**30.4**

Sickness, absence and staff turnover

The number of days we lost to sickness during the year averaged 4.0 days per person. This included long-term absences of more than 28 days of which we had one case absent for more than six months for serious health issues. Excluding long-term absences, we only lost 3.1 days per person.

Staff turnover was 15.7 per cent in 2018/19, the same as in 2017/18.

Staff composition

As at 31 March we had:

	2019		2018	
	Men	Women	Men	Women
Total employees	**206**	**197**	**183**	**173**
Senior management	11	9	12	7
Other management	25	16	26	17

* Subject to audit

Other employee matters

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

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

The PPF published its Gender Pay Gap Report in February 2019. As of 31 March 2018 payroll, our median gender pay gap stood at 17.1 per cent. The PPF is a signatory to the Women in Finance Charter.

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

Remuneration and staff report

Off-payroll staff

There were no off-payroll engagements as of 31 March 2019 for more than £245 per day and that last for longer than six months. In 2018 there was one engagement which existed for less than one year.

The off-payroll engagement undertaken during 2017/18 had been assessed as compliant with the requirements of IR35.

No senior manager roles with significant financial responsibility were undertaken as off-payroll engagements during the year. Eight individuals held senior manager roles with significant financial responsibility during the year.

Staff exit packages*

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

	Total number of exit packages by cost band	
Exit package cost band	**2019**	**2018**
£10,000-£25,000	2	4
£25,000-£50,000	3	6
£50,000-£100,000	3	1
Total number of exit packages	**8**	**11**
Total cost	**£429,116**	**£336,449**[1]

Redundancy costs have been paid within the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972.

There were no compulsory redundancies in 2018/19 (2017/18: one).

[1] This figure differs from that disclosed in the 2017/18 financial statements due to an extended leaving date for a former staff member that resulted in a corresponding increase in the exit payment due.

Consultancy costs

We use professional service providers to help with specialist work, including consultancy and contingent labour, when we believe it appropriate. Total expenditure on consultancy during the year amounted to £12.7 million (2017/18: £10.9 million).

* Subject to audit

Parliamentary accountability

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

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

Compliance with Chief Executive responsibilities is supported through the Board's risk management procedures and through a shared objective for senior management to support the Chief Executive in fulfilling his responsibilities.

Losses and special payments*

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

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

Our policy for overpayments is to seek recovery by offset against future compensation payments or by immediate settlement where this is not possible (or if the member prefers to do so). If the amount is below the level deemed uneconomic to recover, or where the member can demonstrate financial hardship, the overpaid amount will be written off. During the year 572 overpayments totalling £536,602 were written off. Over 75 per cent of these were amounts identified as not recoverable dating back over several years, as part of a cleaning up exercise following the insourcing of PPF member services. These were fully provided for in 2017/18.

Remote contingent liabilities

Claims which are considered possible are recognised as contingent liabilities. The aggregate value of all other potential claims at 31 March 2019 is estimated at £180 billion, calculated on the same basis as for the PPF 7800 index.

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

* Subject to audit

1 Overview
2 Performance report
3 Accountability report
4 Financial statements
5 Actuarial reports

Statement of Chief Executive'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 HM 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, Statement of Financial Position and cash flows for the financial year.

For the purposes of the Government Financial Reporting Manual, the PPF Board sees the Chief Executive as having the analogous responsibilities as the Accounting Officer as set out in 'Managing Public Money'.

In preparing the accounts, the Accounting Officer 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
- prepare the accounts on a going concern basis; and
- confirm that the Annual Report and Accounts as a whole is fair, balanced and understandable and take personal responsibility for the Annual Report and Accounts and the judgements required for determining that it is fair, balanced and understandable.

The responsibilities of the Accounting Officer, including responsibility for the propriety and regularity of the public finances for keeping proper records and for safeguarding the Board's assets, are set out in 'Managing Public Money' published by HM Treasury.

As Chief Executive I confirm the following:

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

Oliver Morley
Chief Executive
19 June 2019

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

Opinion on financial statements

I certify that I have audited the financial statements of Board of the Pension Protection Fund for the year ended 31 March 2019 under the Pensions Act 2004. The financial statements comprise: the Consolidated Statements of Comprehensive Net Income, Financial Position, Cash Flows, Change in Reserves; and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Accountability Report that is described in that report as having been audited.

In my opinion:

- the financial statements give a true and fair view of the state of the Board of the PPF's affairs as at 31 March 2019 and of PPF's net income for the year then ended; and
- the financial statements have been properly prepared in accordance with the Pensions Act 2004 and Secretary of State directions issued thereunder.

Opinion on regularity

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

Basis of opinions

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

Conclusions relating to going concern

We are required to conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Board of the PPF's ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern. I have nothing to report in these respects.

Responsibilities of the Board of the Pension Protection Fund and Chief Executive for the financial statements

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

Other information

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

Opinion on other matters

In my opinion:

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

Matters on which I report by exception

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

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the Accountability Report to be audited are not in agreement with the accounting records and 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.

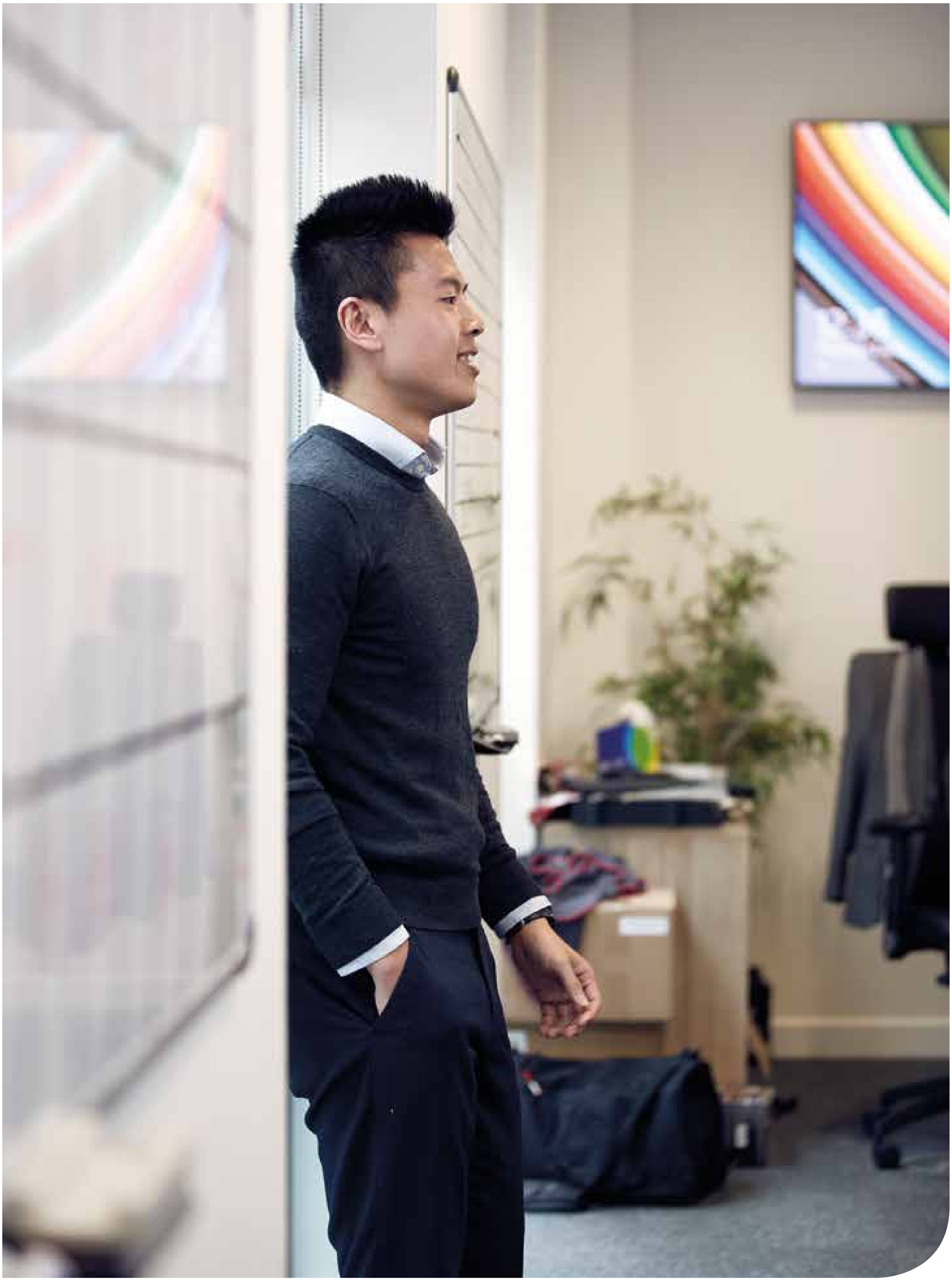
Report

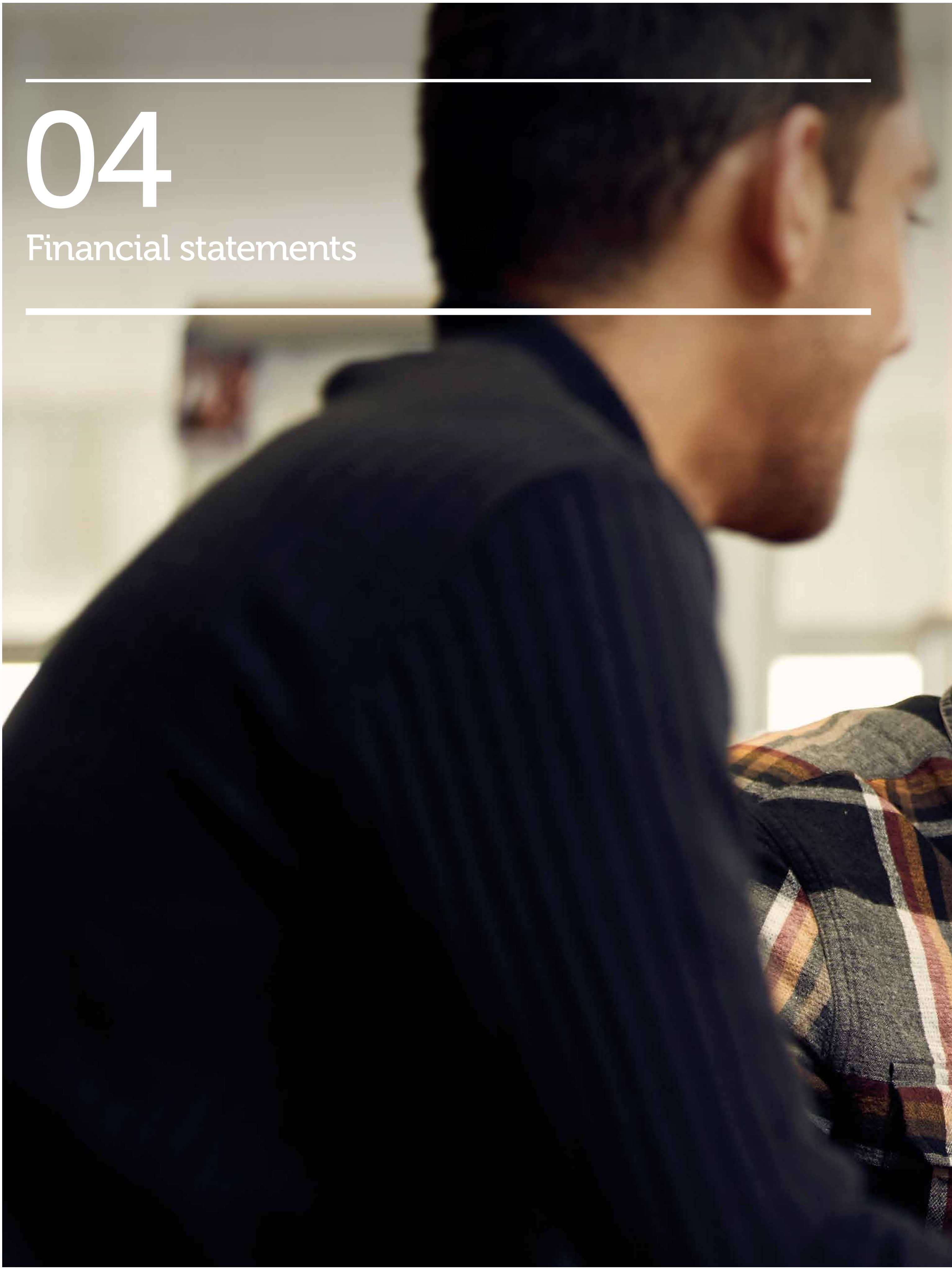
I have no observations to make on these financial statements.

Gareth Davies
Comptroller and Auditor General

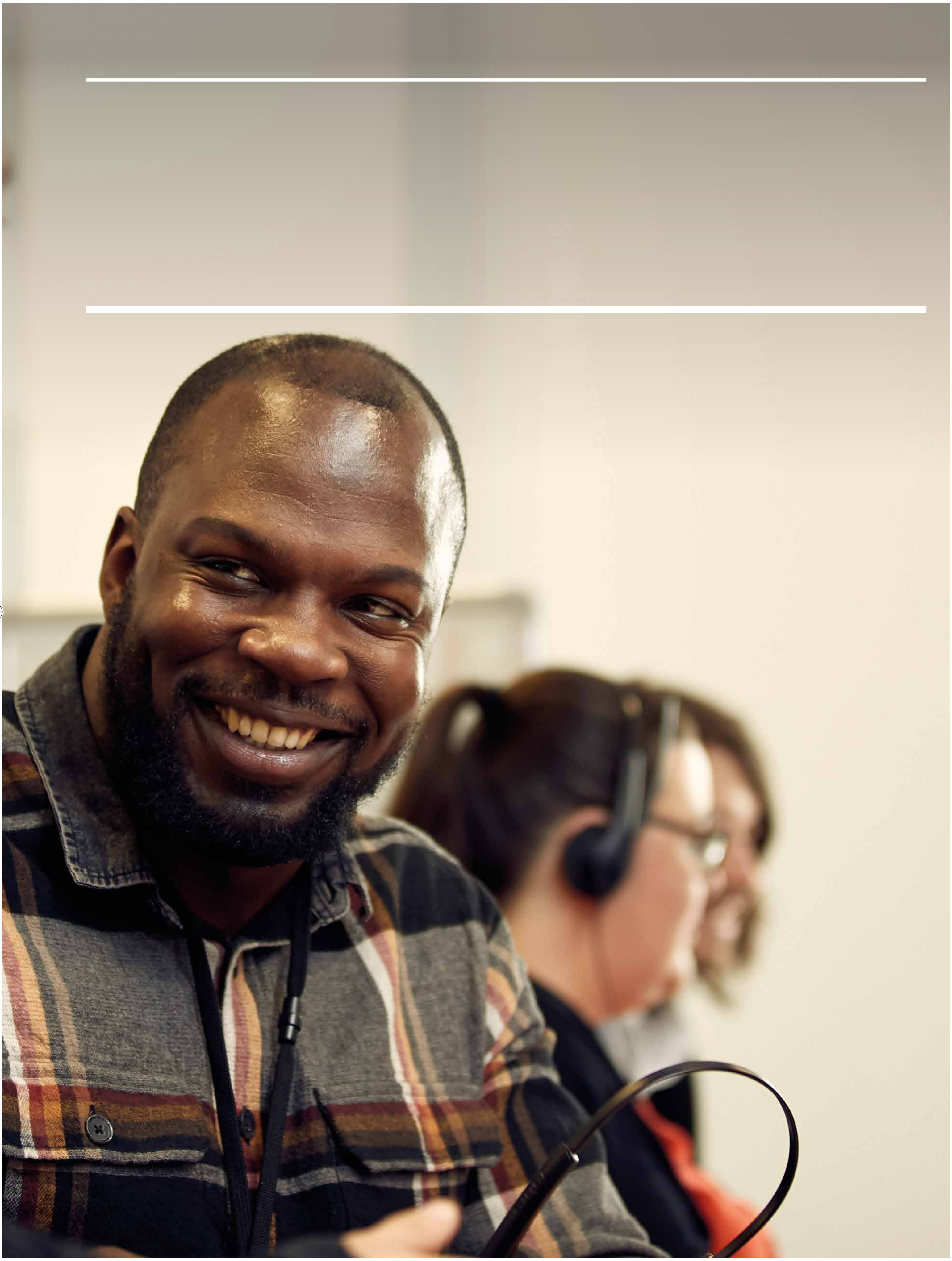
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

27 June 2019





04
Financial statements



Financial statements

Chief Financial Officer's review

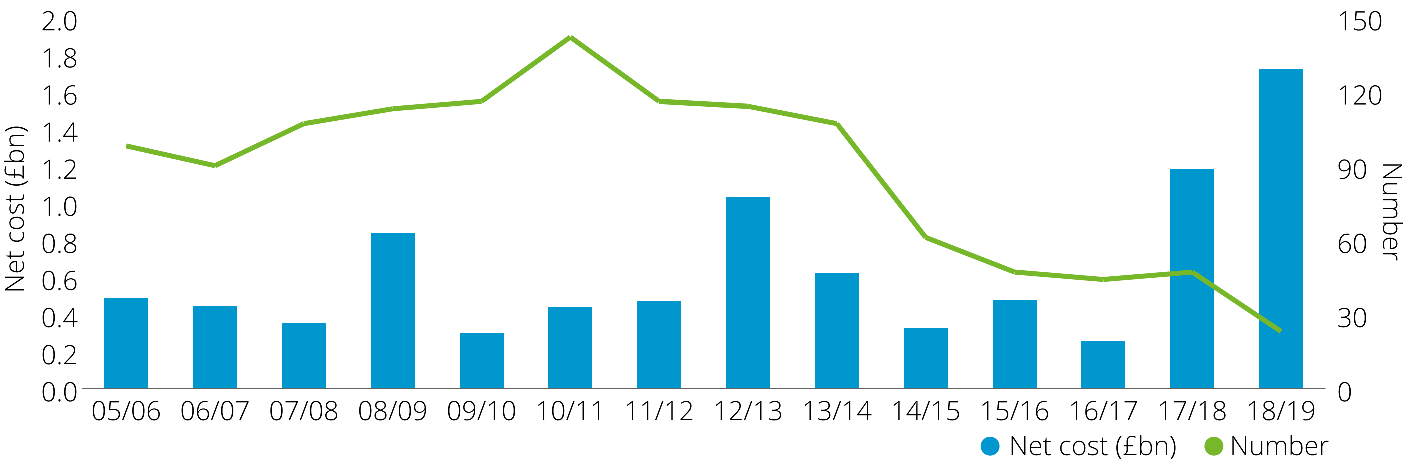
Summary

The excess of our assets over our liabilities is a measure of our progress towards building sufficient reserves to allow for future claims. This can be expressed in terms of the absolute amount of our consolidated reserves (£6.1bn) or as a percentage in the form of our funding ratio (118.6 per cent).

The consolidated reserves of the PPF have decreased over the year from £6.8bn to £6.1bn, reflecting the impact of KPP2. We have also set aside additional reserves to reflect the impact of the CJEU judgment and have released some reserves recognising current trends in mortality improvement and other assumption changes. Excluding these unusual events reserves would have increased by £0.6bn.

The cost of new claims is at a record high because of KPP2 but the number of claims continues to exhibit a downward trend, as seen in the chart below.

Value of new claims since inception



Despite the low volume of claims and low level of Type 2 contingent liabilities (where insolvency events are predicted to happen soon after the year end), the outlook remains uncertain and, as has been evident in the year, a single claim can have a significant impact on our reserves. The exposure across all DB pension schemes in deficit, which we exist to protect, remains high at £181bn.

We use our LTRM to estimate the probability that we will in the long term hold sufficient funds to meet our liabilities. At March 2019, this probability was calculated at 89 per cent.

In order to meet the cost of claims in the future, we charge a levy on eligible schemes and prudently invest the assets under our stewardship. This year, our levy income was £566m and our net investment return (including movements on our hedging assets) was £1.5bn.

Including the effect of hedging liability movements, the total investment return was 5.2 per cent, compared to 3.2 per cent in 2017/18. Excluding hedging, the contribution was 1.7 per cent which is 0.9 per cent above our LIBOR benchmark. It has been a challenging year for the investment team and global markets were particularly volatile in the second half. Nevertheless, we exceeded our target of LIBOR + 1.8 per cent on a rolling three-year basis by an annualised 0.7 per cent.

Note disclosures and commentary

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

The report from the Comptroller and Auditor General on pages 88-90 confirms that there are no matters that need to be brought to the reader's attention.

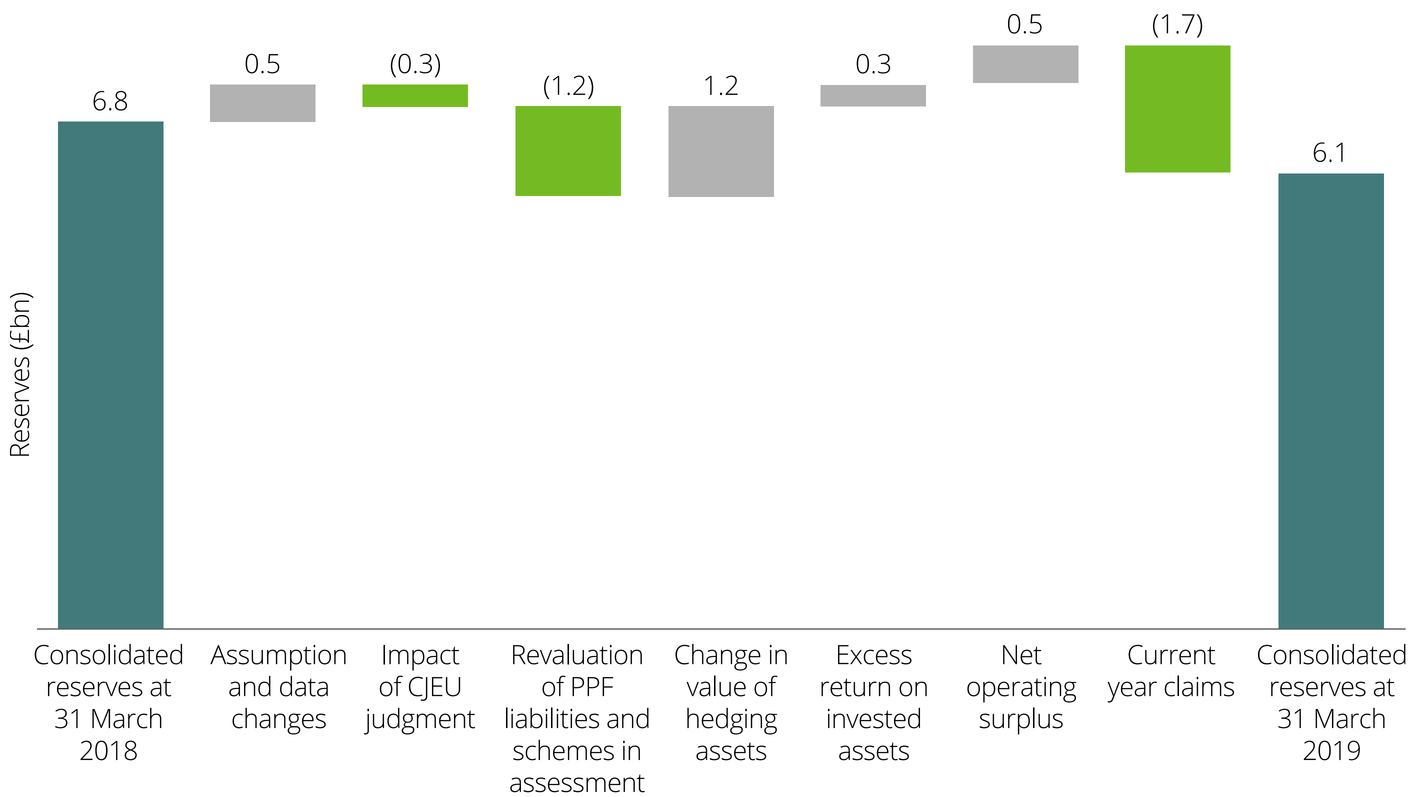
Andy McKinnon
Chief Financial Officer

Chief Financial Officer's review

Review of the Consolidated Statement of Comprehensive Net Income

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

Movement in reserves (£bn)



The consolidated reserves have decreased by £0.7bn over the year. The impact of change to actuarial assumptions, such as for CPI and mortality, is largely offset by the strengthening of actuarial liabilities reflecting the impact of the CJEU judgment.

The LDI hedging strategy means that the revaluation of PPF liabilities and schemes in assessment (SIA) is offset by the change in value of hedging assets. The excess return on invested assets, comprising the contribution of our invested assets over and above our benchmark, LIBOR, has contributed £0.3bn to reserves.

Net operating surplus remains at the same level as last year, at £0.5bn. This comprises total levy income of £566m (2018: £541m) less operating costs of £69m (2017/18: £67m). Levy income comprises PPF levies of £561m, made up of current year levies of £563m less £2m reimbursements for prior year levies, and £5m levies for FCF.

There has been a record year claims (due to KPP2) but claims volumes remain low – there were 23 new claims in the year (2017/18: 47) but the impact of a single claim can be significant.

The Consolidated Statement of Financial Position

The Consolidated Statement of Financial Position sets out the details, at 31 March 2019, of the assets and liabilities held in all the funds for which the Board is responsible.

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

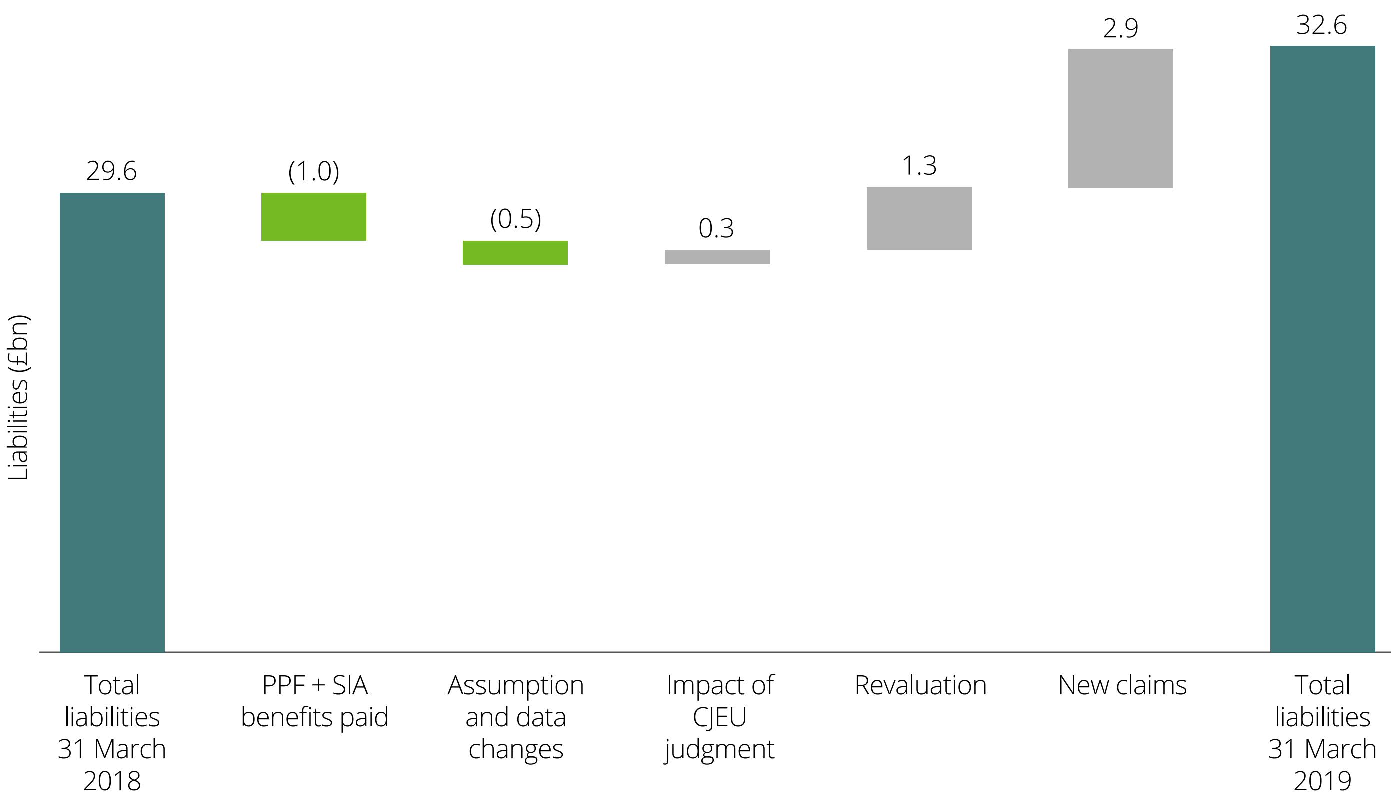
Consolidated reserves at 31 March 2019

	Consolidated Statement of Financial Position excluding claims provisions for SIA £m	Claims provisions for SIA £m	Total £m
Net assets	32,180.0	6,484.7	38,664.7
Actuarial estimate of liabilities	(23,063.3)	(9,525.2)	(32,588.5)
Total reserves	**9,116.7**	**(3,040.5)**	**6,076.2**

The following graph summarises the movements in actuarial liabilities, including those schemes included in the provision for schemes in assessment, from £29.6bn at the beginning of the year to the closing figure of £32.6bn. The impact of new claims is an increase of £2.9bn liabilities.

The actuarial liabilities comprise £32.6bn (2018: £29.6bn) for the PPF and £nil (2018: £nil) for the FCF.

Movement in actuarial liabilities and claims provisions for schemes in assessment (£bn)



Consolidated Statement of Comprehensive Net Income

For the year ended 31 March	Notes	2019 £m	2018 £m
Operating income			
Income from levies	3	565.5	541.3
Income from grants	3	22.8	22.2
Total operating income		**588.3**	**563.5**
Operating expenses			
Staff costs	11	(35.0)	(30.4)
Other costs	11	(34.0)	(36.8)
Total operating expenses		**(69.0)**	**(67.2)**
Net operating surplus		**519.3**	**496.3**
Investment activities			
Net investment income	5	542.1	610.9
Change in fair value of investments	5	1,137.8	439.4
Investment expenses	5	(141.8)	(143.3)
Net investment return		**1,538.1**	**907.0**
Claims activities			
Current year claims for compensation	2	(1,718.6)	(1,183.0)
Revaluation of claims for compensation	2	54.8	163.6
(Losses)/gains on actuarial liabilities	1	(1,077.5)	303.6
Net cost of claims		**(2,741.3)**	**(715.8)**
Comprehensive net income for the year		**(683.9)**	**687.5**

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

The accounting policies and notes on pages 102 to 132 form part of these financial statements.

Consolidated Statement of Financial Position

As at 31 March	Notes	2019 £m	2018 £m
Assets			
Operating cash		115.5	17.3
Investment assets	4a	39,820.1	38,264.1
Levy receivables		8.6	8.5
Transfer-in receivables		34.7	23.3
Other assets		5.3	47.7
Property, equipment and intangible assets	12	4.8	7.2
Total assets		**39,989.0**	**38,368.1**
Liabilities			
Investment liabilities	4a	(7,734.8)	(8,398.4)
Other liabilities		(74.2)	(58.8)
Actuarial liabilities	1	(23,063.3)	(21,511.5)
Claims provisions	2	(3,040.5)	(1,639.3)
Total liabilities		**(33,912.8)**	**(31,608.0)**
Total assets less total liabilities		**6,076.2**	**6,760.1**
Represented by:			
Total levy and tax payer funds		**6,076.2**	**6,760.1**

The Board of the PPF approved the financial statements on 19 June 2019 and authorised the Chief Executive to sign this Consolidated Statement of Financial Position on the same date.

Oliver Morley
Chief Executive

19 June 2019

The accounting policies and notes on pages 102 to 132 form part of these financial statements.

Consolidated Statement of Changes in Reserves

For the year ended 31 March	Levy payer funds £m	Tax payer funds £m	Total Reserves £m
At 1 April 2017	**6,070.1**	**2.5**	**6,072.6**
Total recognised net income for 2017/18	688.3	(0.8)	687.5
Balance at 31 March 2018	**6,758.4**	**1.7**	**6,760.1**
Total recognised net income for 2018/19	(685.0)	1.1	(683.9)
Balance at 31 March 2019	**6,073.4**	**2.8**	**6,076.2**

The accounting policies and notes on pages 102 to 132 form part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 March	2019 £m	2018 £m*
Cash flows from operating activities		
Net operating surplus	519.3	496.3
Purchase of property and equipment	(0.4)	(1.9)
Depreciation, amortisation and impairment charges	2.8	3.9
Movement in current liabilities	15.4	(11.2)
Movement in receivables	30.9	3.1
Net cash inflow from operating activities	**568.0**	**490.2**
Cash flows from investing activities		
Cash proceeds from net investment (purchases)/sales	(1,943.4)	1,357.9
Cash proceeds from net investment return	916.4	739.2
Net gains/(losses) on cash equivalents	21.8	(21.9)
Net cash (outflow)/inflow from investing activities	**(1,005.2)**	**2,075.2***
Cash flows from claims activities		
Cash receivable from schemes transferring into the PPF	798.0	301.6
Compensation payments	(775.1)	(725.9)
Net cash inflow/(outflow) from claims activities	**22.9**	**(424.3)**
Net (decrease)/increase in cash and cash equivalents in the year	**(414.3)**	**2,141.1**
Cash and cash equivalents at beginning of the year	**1,400.1**	**(741.0)***
Cash and cash equivalents at end of the year	**985.8**	**1,400.1***
Cash and cash equivalents comprise the following:		
Operating cash	115.5#	17.3#
Cash at fund managers	3,278.5	3,164.9
Repurchase agreements	(2,326.0)	(1,742.4)
Unsettled trades	(82.2)	(39.7)
	985.8	**1,400.1**

* The consolidated statement of cash flows has been redesigned to incorporate further detail on cash flows arising from our investing activities. To facilitate this change, additional investment related items have been added to cash and cash equivalents. For the year ended 31 March 2018, net cash outflows from investing activities was previously disclosed as £95.3m and cash and cash equivalents at the beginning and end of the year were previously disclosed as £43.1m and £17.3m respectively.

\# Operating cash levels depend on the timing of the member payroll payments and on when funds are available for investment.

The accounting policies and notes on pages 102 to 132 form part of these financial statements.

Funds for which the Board is responsible

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

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

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

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

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

Core accounting policies

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

Basis of preparation

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

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

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

- IFRS 7 Financial Instruments: Disclosures
- IFRS 9 Financial Instruments: Recognition and Measurement
- IFRS 13 Fair Value Measurement
- IFRS 15 Revenue from Contracts with Customers (as adapted by the FReM)
- IAS 20 Accounting for Government Grants and Disclosure of Government Assistance
- IAS 32 Financial Instruments: Presentation
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
- IAS 40 Investment Property.

Standards likely to affect future financial statements include:

- IFRS 16 Leases (effective for the periods beginning on or after 1 January 2020 as directed by the FReM). The new standard replaces IAS 17 Leases and introduces a new single accounting approach for lessees for all leases (with limited exceptions). As a result, there is no longer a distinction between operating leases and financial leases, and lessees will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. The Board leases two properties for use as office space which are currently classified as operating leases. When implementing IFRS 16, the Board expects to recognise a right of use asset and a lease liability on the balance sheet, both of approximately £17m.

Adoption of new accounting policies

IFRS 9 'Financial Instruments'

IFRS 9 'Financial Instruments' is the new reporting standard for financial instruments and became effective on 1 January 2018. IFRS 9 has replaced previous financial instrument standards and interpretations covered by IAS 39 Financial Instruments: Recognition and Measurement, bringing together all aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting. The Board has applied IFRS 9 for the first time in 2018/19.

Classification and measurement

IFRS 9 requires all financial assets and liabilities to be measured at fair value, except for trade receivables which do not contain a significant financing component. Trade receivables are measured at amortised cost.

Classification and measurement of financial assets is driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Derivative and equity instruments are measured at fair value through profit or loss (FVPL) unless an irrevocable option is taken to measure at fair value through other comprehensive income (FVOCI).

1 Overview
2 Performance report
3 Accountability report
4 Financial statements
5 Actuarial reports

Core accounting policies

A debt instrument is measured at amortised cost if the objective of the business model is to hold the financial asset for the collection of the contractual cash flows and the contractual cash flows under the instrument solely represent payments of principal and interest (SPPI). If the business model is to collect cash flows from SPPI and to sell, it is measured at FVOCI. All other debt instruments must be recognised at FVPL. An entity may however, at initial recognition, irrevocably designate a financial asset as measured at FVPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency.

The Board has designated that debt instruments, derivative and equity instruments are classified and measured at FVPL, which is consistent with the Board's treatment of these financial instruments under IAS 39.

Impairment

IFRS 9 introduces a new impairment model for financial assets not held at FVPL. As a result, the Board must now determine forward looking expected credit losses (ECL) for all its financial assets held at amortised cost.

Financial assets held at amortised costs within the Board's investment portfolio mostly comprise

- Operational or invested cash, including that held as collateral
- Transfers in receivables, which represent cash and investment assets in transit during the process of transferring scheme to the PPF; and
- Levy receivables, which are trade receivables

These assets are either not subject to determining ECL or, in the case of levy receivables, are seldom impaired but can be impacted by possible reimbursement (which is covered by IFRS 15), so the Board does not need to apply the ECL model.

Hedge accounting is an option under IAS 39 and IFRS 9. The Board has chosen not to apply hedge accounting.

IFRS 9 has been applied prospectively by the Board in accordance with FReM guidance and this did not result in a change to the measurement of financial instruments as outlined in note 4 but some classifications have been amended to reflect IFRS 9's requirements. The Board's investment portfolio continues to be classified as FVPL and other financial assets which are held for collection (levy receivables) continue to be measured at amortised cost. There was no material impact on the adoption of IFRS 9.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 Revenue from contracts with customers became effective on 1 January 2018. The standard's core principle is that an entity will recognise revenue when it transfers goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard provides a single, principles based five-step model to be applied to all contracts with customers.

The FReM expands the definition of a contract under IFRS 15 to include legislation and regulations which enables an entity to obtain revenue that is not classified as a tax by the Office of National Statistics. Under this expanded definition the PPF levy charged by the Board to eligible DB pension schemes constitutes a contract with those schemes. The Board considers that each levy year represents a discrete contract to provide protection for scheme members during that year and the scheme simultaneously receives and consumes the benefits of the contract over the levy year.

IFRS 15 has been applied prospectively by the Board in accordance with FReM guidance and this did not result in a change to the treatment of Income from levies.

Consolidated financial statements

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

Segmental reporting

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

Foreign currency translation

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

Impact of the Board assuming responsibility for schemes

Before entering the PPF, schemes go through an Assessment Period described at: https://www.ppf.co.uk/overview-assessment-process

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

Taxation

By virtue of the PPF (Tax) Regulations 2006, SI 2006/575, the Board is treated in the same way as UK registered pension schemes. Income from which recoverable withholding tax has been deducted is recorded gross, and the tax recoverable is included in receivables. Where tax withheld cannot be recovered, income is recorded net. The Board does not have to pay tax on its surplus or gains. Value Added Tax 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; and
- provisions and contingent liabilities made for potential claims for schemes to enter the PPF and for schemes to be compensated by the FCF for losses caused by dishonesty.

1. Liabilities to pay compensation to members

The Consolidated Statement of Financial Position shows that at 31 March 2019 the PPF estimated the value of existing liabilities to pay compensation to members at £23.1bn. During the year, the PPF paid members compensation of £775.1m. After the Actuarial Valuation as at March 31 2019 was completed, **a net loss of £1.1bn 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 136.

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

Accounting policy

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

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

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

Key judgements and estimates

The reported financial position of the PPF is dependent on an appropriate valuation of its actuarial liabilities. In accordance with the Pensions Act 2004, the Board has appointed a suitably qualified actuary to undertake these calculations.

In order to assist the reader of these financial statements, a full copy of the Appointed Actuary's Report to the Board on this year's valuation has been included in this document. The detail of this report have not been audited by the NAO but does contain information useful in understanding the judgements which have been made in arriving at the valuation. In particular, Annex M2 which sets out details of the significant assumptions, including at c) i) the method used to compute an appropriate discount rate and Annex S5 which illustrates the more material sensitivities to those assumptions.

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

Actuarial liabilities

	2019 £m	2018 £m
Opening value of actuarial liabilities	21,511.5	21,979.0
Actuarial liabilities of schemes which transferred to the PPF during the year	1,249.4	561.0
Decrease in AVCs to be discharged	–	(0.4)
Actuarial losses/(gains)	1,077.5	(303.6)
Benefits paid to members	(775.1)	(724.5)
Total actuarial liabilities	**23,063.3**	**21,511.5**

The amount of the total actuarial liabilities expected to be settled within 12 months is £702m (2018: £632m). Further details can be found in the Actuarial Valuation on page 140.

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:

Actuarial losses/(gains)

	2019 £m	2018 £m
Effect of passage of time on discounting	177.0	97.5
Change in assumptions	788.3	(420.2)
Change in experience	(115.5)	91.1
Change in past service cost	227.7	–
Other	–	(72.0)
Total actuarial losses/(gains)	**1,077.5**	**(303.6)**

Paying compensation

2. Provisions for claims on the PPF and the FCF

The Consolidated Statement of Financial Position shows **total provisions of £3.0bn for claims from pension schemes**, with £3.0bn being for the PPF (see page 109) and £nil for the FCF (see page 110). The Consolidated Statement of Comprehensive Net Income shows **net cost of claims of £2.7bn,** £2.7bn being the PPF and £nil being the FCF, and also showed a benefit in a net **decrease to the values of claims previously recorded of £54.8m.**

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

The FCF maintains a provision for claims where 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. For asset values of schemes in PPF assessment, we are required to estimate fair value at the accounting date based on the most recently available information from scheme trustees. Generally this means we roll forward asset values as at a date prior to the Board's accounting date using appropriate market indices (see page 139 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 below.

	2019 £m	Number of schemes 2019	2018 £m	Number of schemes 2018
Claims provisions at start of year	**1,639.3**	**89**	**674.4**	**98**
Sub-division of prior year claim into its sections		4		–
Current year claims for compensation				
Protected liabilities	2,932.8		6,338.7	
Scheme assets including recoveries	(1,214.2)		(5,155.7)	
Total current year claims for compensation	**1,718.6**	**23**	**1,183.0**	**47**
Revaluation of claims for compensation				
Release of provision for schemes no longer considered probable for entry	(5.9)	(6)	6.9	(10)
Revaluation of provisions brought forward from previous year end	67.4		(123.7)	
Change in provisions for schemes transferring into the Protection Fund during the year	(116.3)		(46.9)	
Revaluation of claims	**(54.8)**		**(163.7)**	
Release of provisions for claims transferred to the PPF	**(262.6)**	**(37)**	**(54.4)**	**(46)**
Claims provisions at end of year	**3,040.5**	**73**	**1,639.3**	**89**

The amount of the total claims provision expected to be settled within 12 months is £1,083m (2018: £535m).

The claims provisions as at 31 March 2019 include £74m relating to additional compensation payable as result of the judgment over capped benefits made by the CJEU.

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:

	2019 £m	2018 £m
Total estimated actuarial liabilities for schemes in assessment	9,525.2	8,039.0
Total assets owned by schemes in assessment	(6,484.7)	(6,399.7)
Total net deficits of schemes in assessment	**3,040.5**	**1,639.3**

Claim provisions at the end of the year comprise 50 schemes for which provisions were made at the end of the previous year and have been revalued (2018: 42) and 23 new claims (2018: 47).

Total current year claims for compensation include one scheme in assessment estimated to be surplus at the previous year end but which is now estimated to be in deficit (2018: no schemes).

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

Paying compensation

Contingent liabilities for possible claims on the PPF

The total value of claims on the PPF identified by the Appointed Actuary as reasonably foreseeable at 31 March 2019, net of the value of related scheme assets, was estimated as £1,005.1m (2018: £2,843.7m). Further analysis is given in Annex S6 of the Actuarial Valuation.

The Advocate General has issued an opinion on a case recently referred to the CJEU which could have a material impact on the PPF. Final judgment is expected later in 2019. There is currently not sufficient information for a reasonable estimate of the financial impact of this case, if any, to be made at this time.

Claims on the FCF

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

	2019 £m	Number of schemes 2019	2018 £m	Number of schemes 2018
Claims provisions at start of year	**–**	**–**	**1.3**	**3**
Revaluation of claims for compensation	–		0.1	
Paid claims	–	–	(1.4)	(3)
Claims provisions at end of year	**–**	**–**	**–**	**–**

Contingent liabilities for possible claims on the FCF

The value of possible future claims on the FCF at 31 March 2019 was estimated at £nil (2018: £nil). We have received four applications for claims amounting to £35.4m but for which there is uncertainty as to their eligibility and to the validity of the amounts claimed. Therefore these have not been included. We are in close dialogue with trustees of a number of schemes which have potentially significant claims.

Funding compensation

Levy income, grants and investment management

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

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

The PPF is funded principally from four main sources:

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

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

3. Operating income

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

Income from levies

The Consolidated Statement of Comprehensive Net Income shows that **total levy income increased by £24.2m to £565.5.m, £560.7m for the PPF itself and £4.8m for the FCF.**

The current year's PPF levy of £562.5m was close to the levy estimate of £550m.

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

Accounting policy

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

Income from levies is reduced for possible reimbursements following levy payers' appeals.

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

	2019 £m	**2018 £m**
Risk-based levies in respect of the current year	533.2	514.1
Scheme-based levies in respect of the current year	29.3	28.5
Total protection levies in respect of the current year	**562.5**	**542.6**
Risk-based levies in respect of prior years	(1.7)	(5.5)
Scheme-based levies in respect of prior years	(0.1)	(0.1)
Total protection levies in respect of prior years	**(1.8)**	**(5.6)**
Income from protection levies	**560.7**	**537.0**
Income from fraud compensation levy	**4.8**	**4.3**
Total income from levies	**565.5**	**541.3**

The Board raised a fraud compensation levy of £4.8m in 2018/19 (2017/18: £4.3m). The levy is collected by TPR on the Board's behalf.

Funding compensation

Income from grants

The Consolidated Statement of Comprehensive Net Income **shows that income from grants increased by £0.6m to £22.8m.** Grants are received from the DWP to fund PPF and FAS operational expenses. Grants from the DWP relating to the PPF are funded by an administration levy applied to eligible UK pension schemes.

Accounting policy

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

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

	2019 £m	2018 £m
Levy payer funds	12.5	14.2
Tax payer funds	10.3	8.0
Total	**22.8**	**22.2**

4. Financial instruments

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

Accounting policy

Classification

Financial instruments are classified at initial recognition as one of:

- financial assets and liabilities at fair value through profit or loss, further identified by:
  (a) those financial assets mandatorily held at fair value through profit or loss
  (b) those financial assets designated as held at fair value through profit or loss at initial recognition
  (c) those financial liabilities classified as at held fair value through profit or loss (mainly derivatives – interest rate swaps, inflation rate swaps, options, credit default swaps and forward foreign exchange contracts to support LDI); or
- financial assets or liabilities which are categorised as held at amortised cost.

Recognition and derecognition

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

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

Measurement

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

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

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

Key judgements and estimates

The choice of valuation technique and inputs to the valuation methodology (whether based on observable market data or not) are matters of judgement and involve the use of estimates. The amounts eventually realised from these financial instruments may differ from the estimated values disclosed in these accounts. The Board may adjust the price of financial instruments received from the relevant price source if it judges that the price supplied does not reflect an orderly transaction in a functioning market or restrictions on the sale and use of the asset.

Funding compensation

Classification of financial instruments at 31 March 2019

	Financial assets held at fair value through profit and loss* £m	Financial liabilities held at fair value through profit and loss £m	Total financial instruments measured at fair value £m	Financial assets held at amortised cost £m	Financial liabilities held at amortised cost £m	Total financial instruments £m
Net investment portfolio	36,299.1	(7,506.4)	28,792.7	3,521.0	(228.4)	**32,085.3**
Cash at bank	–	–	–	115.5	–	**115.5**
Levy receivables	–	–	–	8.6	–	**8.6**
Transfer-in receivables	–	–	–	34.7	–	**34.7**
Other assets	–	–	–	0.9	–	**0.9**
Other liabilities	–	–	–	–	(73.3)	**(73.3)**
Total	**36,299.1**	**(7,506.4)**	**28,792.7**	**3,680.7**	**(301.7)**	**32,171.7**

* Of the financial assets measured at fair value through profit and loss £22,417.1m have been designated at initial recognition

Classification of financial instruments at 31 March 2018

	Financial assets held at fair value through profit and loss* £m	Financial liabilities held at fair value through profit and loss £m	Total financial instruments measured at fair value £m	Financial assets held at amortised cost £m	Financial liabilities held at amortised cost £m	Total financial instruments £m
Net investment portfolio#	34,825.0	(8,184.2)	26,640.8	3,439.1	(214.2)	**29,865.7**
Cash at bank	–	–	–	17.3	–	**17.3**
Levy receivables	–	–	–	8.5	–	**8.5**
Transfer-in receivables	–	–	–	23.3	–	**23.3**
Other assets	–	–	–	0.6	–	**0.6**
Other liabilities	–	–	–	–	(58.0)	**(58.0)**
Total	**34,825.0**	**(8,184.2)**	**26,640.8**	**3,488.8**	**(272.2)**	**29,857.4**

* Of the financial assets measured at fair value through profit and loss £20,977.8m have been designated at initial recognition

The classification of financial instruments within our net investment portfolio has been re-analysed in order to comply with new classification requirements following the adoption of IFRS 9.

4a. Net investment portfolio

The Consolidated Statement of Financial Position shows that at the year end the PPF and the FCF together had **gross investment assets valued at £39.8bn and investment liabilities of £7.7bn**, a net investment portfolio of £32.1bn. The Consolidated Statement of Comprehensive Net Income shows **a net investment return (income and gains less investment expenses) of £1,538.1m.**

The Board's approach to investment is summarised in the SIP (https://www.ppf.co.uk/sites/default/files/file-2018-11/ppf_statement_of_investment_principles_booklet.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 an in-house team of investment professionals and some external fund managers.

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

Funding compensation

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

	2018 £m	Assets transferred from schemes in assessment £m	Net purchases/ (sales) £m	Net gains/ (losses) £m	Other movements £m	2019 £m
Annuities	365.1	29.7	–	(22.3)	–	372.5
Corporate bonds	4,013.2	0.5	500.9	113.5	(186.1)	4,442.0
Index-linked corporate bonds	336.0	–	43.1	40.4	(30.0)	389.5
Government bonds	12,764.4	29.1	836.5	478.6	(98.8)	14,009.8
Index-linked government bonds	390.0	119.0	(154.0)	12.7	(1.3)	366.4
Other debt	3,474.2	–	(267.6)	98.1	(95.3)	3,209.4
Public equity	2,523.8	0.3	614.9	208.4	(15.1)	3,332.3
Private equity	1,026.7	0.5	110.9	170.0	–	1,308.1
Global tactical asset allocation	787.0	–	(389.4)	17.1	–	414.7
Investment property funds	1,002.6	–	(14.1)	31.6	(1.1)	1,019.0
Investment property held directly	628.6	–	8.6	(2.0)	–	635.2
Infrastructure	551.7	9.6	107.5	85.4	–	754.2
Timberland and farmland	376.3	–	44.1	43.7	–	464.1
	28,239.6	**188.7**	**1,441.4**	**1,275.2**	**(427.7)**	**30,717.2**
Other investment assets						
Unsettled trades	166.9					135.6
Derivatives	6,222.8					5,354.0
Cash at fund managers	3,164.9					3,278.5
Repurchase agreements	362.6					227.9
Accrued income	107.3					106.9
Total investment assets	**38,264.1**					**39,820.1**
Other investment liabilities						
Unsettled trades	(206.6)					(217.8)
Derivatives	(6,079.2)					(4,952.5)
Repurchase agreements	(2,105.0)					(2,553.9)
Interest payable	(7.6)					(10.6)
Total investment liabilities	**(8,398.4)**					**(7,734.8)**
Net investment portfolio	**29,865.7**					**32,085.3**

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

Cash at fund managers includes £2,699.0m (2018: £2,682.5m) managed in-house.

The amount of the net investment portfolio expected to be recovered or settled within 12 months are assets of £4,030.8m and liabilities of £2,880.2m (2018: assets of £4,091.1m and liabilities of £1,979.9m).

4b. Financial instruments measured at fair value

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

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

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

Level 3 instruments are valued using valuation techniques utilising unobservable inputs.

We invest in a number of pooled funds which are valued at a fair value estimated by the Board's appointed fund managers or other appropriately qualified professional advisor. Where possible, the resulting valuations are validated by the Board's custodian.

The main valuation techniques used to measure the fair value of financial instruments and details of the sensitivity of fair value measurement to significant inputs is set out below:

Description of asset	Level	Basis of valuation	Inputs and sensitivities affecting valuation
Market quoted equity and debt	1	Closing bid or last traded price, depending on the convention of the market, at the end of the reporting date or the last trading day prior to that date	Not applicable
Exchange traded managed funds and exchange traded derivatives	1	Closing bid price published by an exchange	Not applicable
UK Government, other sovereign and corporate debt	2	Priced using price aggregation services which source prices from authorised brokers and dealers	Interest rate changes
Non exchange traded managed funds (priced using observable inputs)	2	Closing bid or single prices which are derived from the net asset value of underlying investments	Interest rate or market index changes
Over the counter derivatives	2	Discounted cash flow and option pricing models	Interest rate, exchange rate or market index changes
Repurchase and reverse repurchase agreements	2	The value of collateral held with counterparties as either cash or bonds	Interest rate changes
Annuities	3	Actuarial valuation models	Interest rate and mortality assumptions impact the valuation
Private and illiquid debt	3	Discounted cash flow and debt pricing models	Discount rate, interest rate and credit rating assumptions impact the valuation
Private equity	3	Discounted cash flow models, net asset values based on recognised accounting standards or valuation models recognised by the International Private Equity and Venture Capital Guidelines	Discount rate, EBITDA multiple and revenue assumptions impact the valuation
Non exchange traded managed funds (priced using unobservable inputs)	3	Closing bid or single prices which are derived from the net asset value of underlying investments	Discount rate, interest rate, credit rating, EBITDA multiple and revenue assumptions can impact the valuation
Investment property held directly	3	Valuations are undertaken by qualified real estate valuation professionals	Price assumptions based on recent transactions of a similar nature which may be impacted by the timing and specific nature of those transactions used

Funding compensation

Financial instruments measured at fair value at 31 March 2019

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Annuities	–	–	372.5	372.5
Corporate bonds	–	2,578.0	1,864.0	4,442.0
Index-linked corporate bonds	–	213.0	176.5	389.5
Government bonds	–	13,999.8	10.0	14,009.8
Index-linked government bonds	–	365.0	1.4	366.4
Other debt	373.3	1,986.8	849.3	3,209.4
Public equity	2,798.8	522.4	11.1	3,332.3
Private equity	–	–	1,308.1	1,308.1
Global tactical asset allocation	–	–	414.7	414.7
Investment property funds	113.8	430.2	475.0	1,019.0
Investment property held directly	–	–	635.2	635.2
Infrastructure	–	–	754.2	754.2
Timberland and farmland	–	–	464.1	464.1
Derivatives	(3.9)	405.4	–	401.5
Repurchase agreements	–	(2,326.0)	–	(2,326.0)
Total	**3,282.0**	**18,174.6**	**7,336.1**	**28,792.7**

Financial instruments measured at fair value at 31 March 2018

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

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

Level 3 financial instruments

	2019 £m	2018 £m
Balance at start of year	**6,318.3**	**4,708.6**
Gains/losses included in the statement of comprehensive net income	296.8	(106.9)
Purchases and assets transferred in	1,427.0	1,810.1
Sales	(703.5)	(575.0)
Transfers into Level 3	36.5	481.5
Transfers out of Level 3	(39.0)	–
Balance at end of year	**7,336.1**	**6,318.3**

Transfers into Level 3 during the year relate to investment property funds reclassified from Level 2. Transfers out of Level 3 during the year relate to corporate bonds and investment property funds reclassified to Level 2.

4c. Investment property held directly

Accounting policy

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

At 31 March 2019, the Board owned 31 (2018: 30) commercial properties in the UK, with a total fair value of £635.2m (2018: £628.6m). Rental income recognised was £34.3m (2017/18: £35.2m). Direct operating expenses were not material. There were no restrictions on the realisation of property, income or disposal proceeds.

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

	2019 £m	2018 £m
Not later than one year	33.7	34.6
Later than one year but not later than five years	124.6	128.3
Later than five years	389.0	398.8
Total	**547.3**	**561.7**

Funding compensation

5. Net investment return

Accounting policy

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

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

Change in fair value of investments includes:

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

Investment expenses are accounted for on an accruals basis.

	Net investment income £m	Change in fair value of investment £m	Total 2019 £m	Net investment Income (re-analysed*) £m	Change in fair value of investment (re-analysed*) £m	Total 2018 £m
Investment return						
Financial assets held at fair value through profit and loss	762.9	(4,882.8)	**(4,119.9)**	932.0	(21,247.1)	**(20,315.1)**
Financial liabilities held at fair value through profit and loss	(256.3)	6,038.3	**5,782.0**	(369.8)	21,779.1	**21,409.3**
Financial assets held at amortised cost	35.5	(18.8)	**16.7**	48.7	(93.0)	**(44.3)**
Financial liabilities held at amortised cost	–	1.1	**1.1**	–	0.4	**0.4**
Total investment return	**542.1**	**1,137.8**	**1,679.9**	**610.9**	**439.4**	**1,050.3**
Investment expenses						
Fund management fees			(133.4)			(127.5)
Custody charges			(2.0)			(1.9)
Transaction costs			(6.4)			(13.9)
Total investment expenses			**(141.8)**			**(143.3)**
Net investment return			**1,538.1**			**907.0**

* Income classifications have been re-analysed in accordance with new classification requirements following the adoption of IFRS 9.

Financial risk management

Managing the payment and funding of member compensation described in the previous sections involves financial risk. The most important categories of financial risk, and the ways in which the Board manages them, are described in Section 4 of the SIP: https://www.ppf.co.uk/sites/default/files/file-2018-11/ppf_statement_of_investment_principles_booklet.pdf

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

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

These disclosures are followed by notes on:

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

6. PPF credit risk

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

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

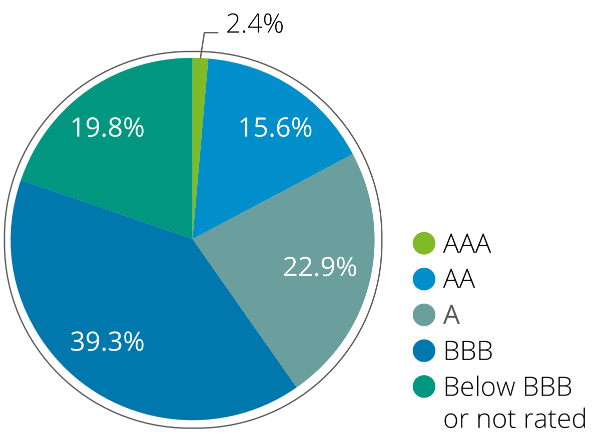
- counterparties to derivative contracts are subject to overall exposure limits and, where credit quality requires, are subject to increased collateral requirements
- a range of limits apply to counterparties to derivatives contracts and repurchase agreements
- fund managers invest in credit-sensitive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

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

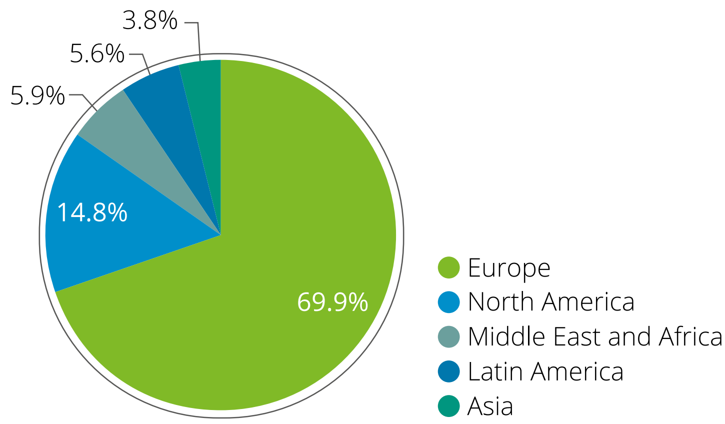
Financial risk management

As at 31 March 2019, the rating distribution of the fixed income investment portfolio (excluding UK gilts and derivatives) was as follows:

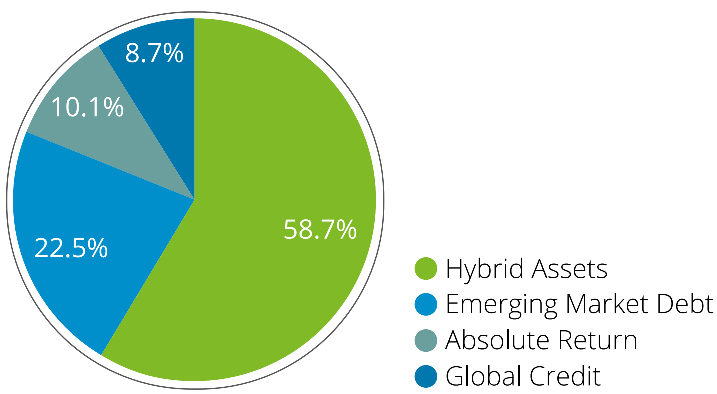
Fixed Income Portfolio Allocation (£6.1bn) by Rating Category



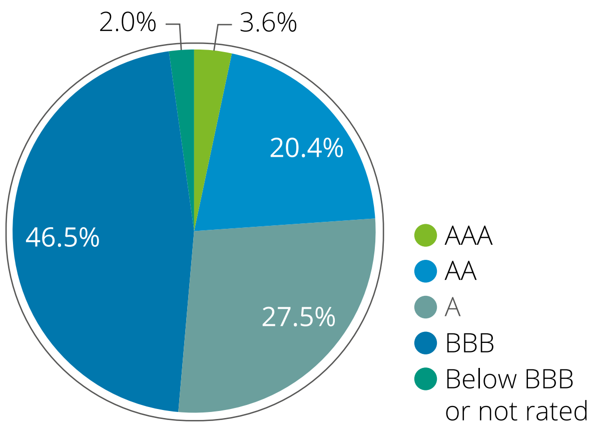
Fixed Income Portfolio Allocation (£6.1bn) by Region



Fixed Income Portfolio Allocation (£6.1bn) by Asset Type



Hybrid Asset Allocation (£3.6bn) by Rating Category



A one basis point move in credit spread across the Fund's fixed income portfolio results in a change in market value of approximately £6.0m, the largest contributors to this being Hybrid Assets followed by Emerging Market Debt and Global Credit.

7. PPF liquidity risk

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

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

We are averse to liquidity risk. Cash requirements and operational cash balances are monitored and forecast regularly.

A significant volume of financial instruments could readily be liquidated should the need arise. Additionally, we monitor liquidity risk in certain stress scenarios and maintain contingency plans should any liquidity constraints arise.

Financial liabilities

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

	Within 1 year £m	1-5 years £m	5-10 years £m	Over 10 years £m	Total £m
2019	97.9	520.9	233.9	4,099.8	**4,952.5**
2018	73.9	211.5	652.3	5,141.5	**6,079.2**

Paying compensation to members

Future payments to members are projected in estimating the actuarial liabilities reported in the Consolidated Statement of Financial Position – see note 1 and the Actuarial Valuation. Payments to members in the year totalled £775.1m (2017/18: £724.5m).

Financial risk management

Collateral arrangements

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

	2019 £m	2018 £m
Securities subject to sale and repurchase agreements	2,611.4	2,145.0
Funds paid as collateral for reverse sale and repurchase agreements	227.9	362.6
Securities lent to market counterparties	88.9	376.0
Total assets provided subject to collateral and similar arrangements with counterparties	**2,928.2**	**2,883.6**
Funds received as collateral for sale and repurchase agreements	2,553.9	2,105.0
Securities subject to reverse sale and repurchase agreements	227.9	355.0
Collateral received from counterparties	115.3	391.2
Total assets received subject to collateral and similar arrangements from counterparties	**2,897.1**	**2,851.2**

Capital commitments

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

	2019	2019 £m	2018	2018 £m
Denominated in US dollars	$1,993.6m	1,530.0	$2,064.6m	1,473.9
Denominated in Euros	€628.5m	541.6	€654.2m	575.6
Denominated in Sterling	£118.1m	118.1	£27.9m	27.9
Denominated in Australian dollars	A$150.2m	81.9	A$191.2m	104.9
Total		**2,271.6**		**2,182.3**

8. PPF market risk

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

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

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

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

Price risk

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

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

Asset class

	2019 £m	Actual %	Tolerance range
Global bonds	2,688.3		
UK bonds and cash	16,007.6		
Cash and Bonds	**18,695.9**	**59.2%**	**44%-69%**
Public equity	3,551.7	11.2%	9%-14%
Alternatives (including property)	5,766.5	18.3%	18%-23%
Hybrid assets	3,576.5	11.3%	10%-15%
Total assets allocated per SIP	**31,590.6**	**100.0%**	

Alongside the strategic allocation, the SIP permits other investments such as tactical trades to enhance return or to control risk within the overall risk appetite set by the Board. Total assets allocated per the SIP as disclosed above exclude these other investments.

Interest rate risk

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

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

Currency risk

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

Unhedged currency

	2019 £m	2018 £m
Euro	324.9	97.8
US dollar	299.9	108.0
Australian dollar	81.8	56.6
Egyptian Pound	67.3	172.7
Brazilian Real	55.2	55.2
Nigerian Naira	47.1	83.0
Other currencies	348.8	340.5
Total	**1,225.0**	**913.8**

Financial risk management

9. FCF financial risks

The FCF has £19.1m (2018: £12.2m) of money market funds and provisions valued at £nil (2018: £nil). The Board's policy is to build up a reserve in the FCF by raising levies over a number of years. The FCF is at risk of a large and urgent claim, or a number of such claims occurring closely together which would require prompt settlement. The Board is aware of the potential for significant claims with regard to pensions liberation cases and four claims have been received. There remains uncertainty as to their eligibility and the validity of the amounts claimed.

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

Liquidity risk – the FCF is not exposed to significant liquidity risks as assets are readily realisable. Additionally, the time required to assess new claims would allow the FCF to raise any further funding needed. However the FCF faces a constraint in its ability to meet large claims. There is currently a limit of £25m set by statutory instrument on the Board's ability to raise funds.

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

10. Administration Funds risks

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

Operating the business

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

11. Operating expenses

Operating expenses **have increased by £1.8m to £69.0m.** The completion of insourcing of FAS administration is reflected in higher staff costs but savings are made in member payroll services. We have additional savings in IT and telephony costs and have made a provision for the cost of re-calculating PPF members' compensation following the CJEU judgment.

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

Total operating expenses in 2018/19 are summarised as follows:

	PPF £m	PPF Administration Fund £m	FAS Administration Fund £m	2019 £m
Staff costs				
Wages and salaries	18.0	6.2	3.0	27.2
Social security costs	2.2	0.8	0.3	3.3
Other pension costs	2.6	1.1	0.5	4.2
Short-term, seconded and temporary staff	0.2	0.1	–	0.3
Total staff costs	**23.0**	**8.2**	**3.8**	**35.0**
Other costs				
Member payroll services	0.4	–	1.7	2.1
Staff related and recruitment	1.1	0.4	0.2	1.7
Advisory and other professional services	9.4	2.0	1.3	12.7
Statutory audit costs	0.2	–	–	0.2
Accommodation and general office	3.5	1.0	0.6	5.1
IT and telephony	7.0	1.5	0.9	9.4
Depreciation and amortisation charges	2.2	–	0.6	2.8
Total other operating expenses	**23.8**	**4.9**	**5.3**	**34.0**
Total operating expenses	**46.8**	**13.1**	**9.1**	**69.0**

Statutory audit costs were £175,000 (2018: £180,000)

Operating the business

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

Information on the staff numbers and exit packages can be found in the Remuneration and staff report on pages 78 to 84.

Pensions

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

The PCSPS is an unfunded, multi-employer DB salary related scheme and the Board is unable to identify its share of underlying assets and liabilities. DB contributions are therefore accounted for by the Board as if they were contributions to a DC scheme. A full actuarial valuation of PCSPS was carried out as at 31 March 2012 and details can be found in the Cabinet Office: Civil Superannuation Resource Accounts: www.civilservicepensionscheme.org.uk/about-us/resource-accounts.

During the year to 31 March 2019, employer contributions of £4.1m (2017/18: £3.9m) were payable to the DB section of the PCSPS at one of four rates in the range 20 per cent to 24.5 per cent (2017/18: 20 per cent to 24.5 per cent). Employer contributions for the year ended 31 March 2020 are expected to be approximately £7.0m. The scheme's actuary reviews employer contributions every four years following a full scheme valuation. These contribution rates reflect the benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Employees of the Board can opt to open a partnership pension account, which is a stakeholder pension with an employer contribution. Employer contributions of £130,000 (2017/18: £69,000) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions were age-related and range from eight per cent to 14.75 per cent (2017/18: eight per cent to 14.75 per cent) of pensionable pay, and employers also match employee contributions up to three per cent of pensionable pay. In addition, employer contributions were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees. Accrued pension contributions at 31 March 2019 were £370,000 (2018: £331,000) and were paid in April 2019.

12. Property, equipment and intangible assets

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

Accounting policy

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

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

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

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

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

	IT hardware £m	Furniture & fittings £m	Assets under construction £m	Intangible assets £m	Total £m
Cost					
At 1 April 2018	**14.6**	**0.7**	**4.0**	**2.9**	**22.2**
Additions in the year	–	–	0.4	–	0.4
Assets brought into use	3.8	0.4	(4.2)	–	–
At 31 March 2019	**18.4**	**1.1**	**0.2**	**2.9**	**22.6**
Depreciation and amortisation					
At 1 April 2018	**(11.9)**	**(0.7)**	**–**	**(2.4)**	**(15.0)**
Charged in the year	(2.4)	(0.1)	–	(0.3)	(2.8)
At 31 March 2019	**(14.3)**	**(0.8)**	**–**	**(2.7)**	**(17.8)**
Net book value at 31 March 2019	**4.1**	**0.3**	**0.2**	**0.2**	**4.8**

Operating the business

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

13. Operating lease commitments

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

Accounting policy

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

During the year, the PPF made lease payments of £1.5m (2017/18: £1.1m). As at the year end the total future minimum payments under these arrangements were:

	2019 £m	2018 £m
Not later than one year	1.7	1.3
Later than one year but not later than five years	7.2	5.6
Later than five years	8.2	6.8
Total	**17.1**	**13.7**

14. Segmental analysis

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

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

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

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

Consolidated Statement of Comprehensive Net Income

For the year ended 31 March	2019 £m	2018 £m
PPF		
Net operating surplus	513.9	492.5
Net investment return	1,538.0	907.0
Net cost of claims	(2,741.3)	(715.7)
Net comprehensive (expense)/income	**(689.4)**	**683.8**
FCF		
Net comprehensive income	**4.9**	**4.2**
Administration Funds		
Income from grants	22.8	22.2
Operating expenses	(22.2)	(22.7)
Net comprehensive income/(expense)	**0.6**	**(0.5)**
Consolidated net comprehensive (expense)/income	**(683.9)**	**687.5**

Consolidated Statement of Financial Position

For the year ended 31 March	2019 £m	2018 £m
Total assets less total liabilities		
PPF	6,056.7	6,746.1
FCF	19.2	14.3
Administration Funds	0.3	(0.3)
Consolidated Statement of Financial Position	**6,076.2**	**6,760.1**

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

Operating the business

15. Subsidiaries
A small proportion of the Board's investment portfolio is held through subsidiaries. As at 31 March 2019 these were:

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

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

16. Related party transactions
£22.8m (2017/18: £22.2m) was received from the DWP in grants in respect of recovery costs for administering FAS and for costs incurred in the PPF Administration Fund which is ultimately funded by the PPF Administration Levy, which is set by the DWP and collected by TPR. The DWP is the sponsoring department of the PPF. There are no other related party transactions to disclose other than transactions with subsidiaries shown in note 15.

17. Events after the reporting period
There have been no material events after the reporting period.

The financial statements were authorised for issue by the Chief Executive on 27 June 2019, the date the Comptroller and Auditor General certified them.

The financial statements do not reflect events after this date.

05
Actuarial reports

Summary of the principal findings of the two actuarial valuation reports

Over the year to 31 March 2019 the PPF's reserves (across both transferred schemes and those in assessment) decreased to £6.1bn, from £6.7bn at 31 March 2018. This corresponds to a decrease in funding ratio to 118.6 per cent from 122.8 per cent. The main factors influencing this deterioration in reserves were:

- a shortfall of assets compared with liabilities of £1.7bn in respect of new schemes entering a PPF assessment period. Although there were 23 such claims, almost all of the shortfall arose from a small number of large claims; and
- an inclusion of a reserve of £0.3bn to cover the expected cost of increasing compensation to reflect the recent Court of Justice of the European Union (CJEU) judgment which requires a minimum of 50 per cent of accrued old age benefits to be provided.

These items have been offset by:

- excess return from return-seeking assets of £0.3bn, along with levy receipts of £0.6bn, which have acted to increase our assets and reserves; and
- changes in assumptions (excluding changes in market conditions) used to value the liabilities increased reserves by £0.3bn. The main changes that acted to reduce liabilities were a move to best estimates of future Consumer Price Index (CPI) inflation and a reduction in life expectancy improvements. These changes were offset to some extent by a new methodology for setting the discount rate and an increase to the expense reserve.

The number of members receiving compensation from the PPF has increased by around 13,000, reflecting both the 37 schemes that have transferred to the PPF over the year, and retirements in those schemes that had transferred before that.

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

	Transferred schemes	Schemes in an assessment period	Total
Assets (£m)	32,160.5	6,484.7	**38,645.2**
Liabilities (£m)	23,063.3	9,525.2	**32,588.5**
Reserves (£m)	**9,097.2**	**(3,040.5)**	**6,056.7**
Funding ratio (assets/liabilities)	**139.4%**	**68.1%**	**118.6%**
Number of pensioners	148,005	53,468	**201,473**
Number of deferred pensioners	109,567	49,144	**158,711**

Actuarial valuation of the Pension Protection Fund

To: The Board of the Pension Protection Fund

From: Lisa McCrory, Appointed Actuary to the Board of the Pension Protection Fund

The actuarial valuation of the Pension Protection Fund as at 31 March 2019[1]

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 (PPF) prepared and signed by the Appointed Actuary.

This is the 14th actuarial valuation of the PPF. The effective date of this valuation is 31 March 2019. The previous actuarial valuation was carried out as at 31 March 2018, and the report on that valuation was dated 25 June 2018.

At its meeting on 17 October 2018, the Board appointed me to prepare this annual actuarial valuation of the assets and liabilities of the PPF for inclusion in its Annual Report and Accounts as at 31 March 2019. 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 for Work and Pensions and also to the Comptroller and Auditor General. However, this report is not intended to assist any user other than the Board in making decisions or for any other purpose.

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

This valuation complies with the principles set out in the Technical Actuarial Standard TAS 100 (‘Principles for Technical Actuarial Work’) which came into force in July 2017. This report should be considered alongside my supplementary report dated 17 June 2019 and included below. Given the scope of the work, the processes and calculations underlying the report, together with the report itself, are subject to an independent peer review under the Actuarial Profession’s practice standard APS X2 (‘Review of Actuarial Work’). This has been done by the Government Actuary’s Department.

The methodology used for the valuation as at 31 March 2019 is broadly the same as that adopted for the valuation as at 31 March 2018. Consistent with last year’s approach, liabilities were initially calculated as at 28 February 2019 using membership data in January 2019 (or in a few cases, just after) and market conditions as at 28 February 2019, and then adjusted to reflect the passage of time and changes to market conditions between 28 February 2019 and 31 March 2019. Based on the experience to 31 March 2019, adopting this approach does not materially affect the accuracy of the results compared with using data and market conditions as at 31 March 2019.

2. Membership data

As at 31 March 2019, almost 1,000 schemes had transferred to the PPF. Compensation payments due to the members of these schemes and their associated expenses form the liabilities reported on in this report. Data in respect of these schemes has been provided by the PPF’s internal administration team. For schemes that transferred before 31 January 2019, the effective date of this data is 17 January 2019. For schemes that transferred in February 2019 the effective date is 18 February 2019 and for schemes that transferred in March 2019 the effective date is 18 March 2019.

Owing to the timescale for providing valuation results, it was necessary to receive extracts of data at a date before the effective date of the valuation. This is similar to the process adopted for the valuation at 31 March 2018. Adjustments have been applied to ensure the data is consistent with the valuation date and that the accuracy of the valuation results is not materially affected.

Some overall checks have been carried out on this data for general reasonableness and to ensure that it is consistent with that used in the actuarial valuation at 31 March 2018. No material concerns relating to the accuracy of the data provided have arisen.

[1] This report deals solely with schemes that have transferred before 31 March 2019. My supplementary report also includes those schemes that are currently in assessment but are expected to transfer.

Actuarial valuation of the Pension Protection Fund

A summary of the individual member data for the schemes that transferred to the PPF prior to 31 March 2019 is as follows (figures in brackets are the corresponding figures used for the valuation at 31 March 2018, in respect of schemes that transferred to the PPF before 28 February 2018):

Deferred pensioners

Sex	Number	Average age (unweighted)	Total accrued compensation at data effective date (uncapped) (£'000 pa)
Male	72,073 (71,872)	53.5 (52.9)	277,448 (281,675)
Female	37,494 (35,715)	52.2 (51.4)	83,706 (80,112)
Total	**109,567 (107,587)**	**53.1 (52.4)**	**361,154 (361,787)**

Pensioners

Status	Sex	Number	Average age (unweighted)	Total compensation at data effective date (capped where applicable) (£'000 pa)
Members	Male	90,043 (83,074)	70.6 (70.2)	500,985 (459,999)
	Female	35,059 (31,012)	71.4 (70.9)	80,753 (70,690)
Dependants (excluding children)	Male	2,387 (2,055)	74.1 (73.7)	3,310 (2,925)
	Female	20,076 (18,412)	76.3 (75.8)	62,828 (57,288)
Children	Male	221 (218)	15.8 (15.6)	326 (338)
	Female	219 (208)	16.0 (16.1)	285 (269)
Total		**148,005 (134,979)**	**71.5 (71.0)**	**648,486 (591,509)**

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

There were also around 1,000 pensioner members whose compensation payments had been suspended (and not put back into payment) by 17 January 2019. This suspension occurred because the PPF is uncertain about whether these members continue to be eligible to receive compensation. In practice, a small number of these members may have their compensation put back into payment after 17 January 2019.

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

The compensation in the table above also excludes step-down pension that may have been payable under a scheme's rules that under legislation that came into force in February 2018 would be reflected in PPF compensation paid to members. As the aggregate amount of such compensation is small it is not currently reflected in the liabilities, but this approach will be revisited in future as more schemes with step-down pensions transfer to the PPF.

Additionally, there are a presently unknown number of people whom HMRC have on record as having paid contracted-out rate National Insurance contributions in respect of membership of a scheme which has now transferred to the PPF, but who were not deemed by the trustees of that scheme to be members of that scheme at the time of the transfer to the PPF. Schemes would have had a liability to pay a Guaranteed Minimum Pension (GMP) in respect of individuals who were contracted-out, unless this liability had been discharged. Members may contact the PPF and provide evidence that they are entitled to PPF compensation and this would need to be considered on a case-by-case basis.

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

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

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

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

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

Initially, liabilities were calculated as at 28 February 2019 and based on assumptions derived from market conditions as at 28 February 2019. The change in market conditions between 28 February 2019 and 31 March 2019 was then allowed for. The change in calculation date to 31 March 2019 was also allowed for by unwinding the discount rate for one month, updating for one further month of known inflation rather than expected, and deducting the benefits paid in respect of March 2019.

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

Further adjustments have been applied to the liabilities for the long service cap, future expenses and for the floor on PPF compensation of 50 per cent of the value of members' former schemes' accrued old age pension. Details of the adjustments applied can be found in Annex M2.

5. Assumptions
Term-dependent financial assumptions were adopted and cash flows were generated. Also, mortality rates related to the circumstances of the individual member were adopted, taking into account the member's status (i.e. deferred or current pensioner, or dependant), sex, postcode, and amount of compensation. Annex M2 describes in more detail both approaches to deriving the assumptions.

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

- annual increases in payment to elements of compensation which were accrued after 5 April 1997
- revaluation of compensation in deferment for those members whose compensation was not due to be paid until after the valuation date of 31 March 2019
- future life expectancy and other demographic features; and
- whether the Secretary of State for Work and Pensions exercises their power under paragraph 30 of Schedule 7 of the Pensions Act 2004 to vary the 100 per cent level of compensation for those members in category 1 of Annex M1 and the 90 per cent level of compensation for those members in category 2 of Annex M1.

In order to determine the present value of the liabilities, the compensation cash flows, estimated as described above, were discounted back to the calculation date.

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

Actuarial valuation of the Pension Protection Fund

In proposing the assumptions for the 2019 actuarial valuation, regard has been taken of the Accounts Direction which is given by the Secretary of State for Work and Pensions with the approval of HM Treasury in accordance with Schedule 5, Part 4 of the Pensions Act 2004.

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

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

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

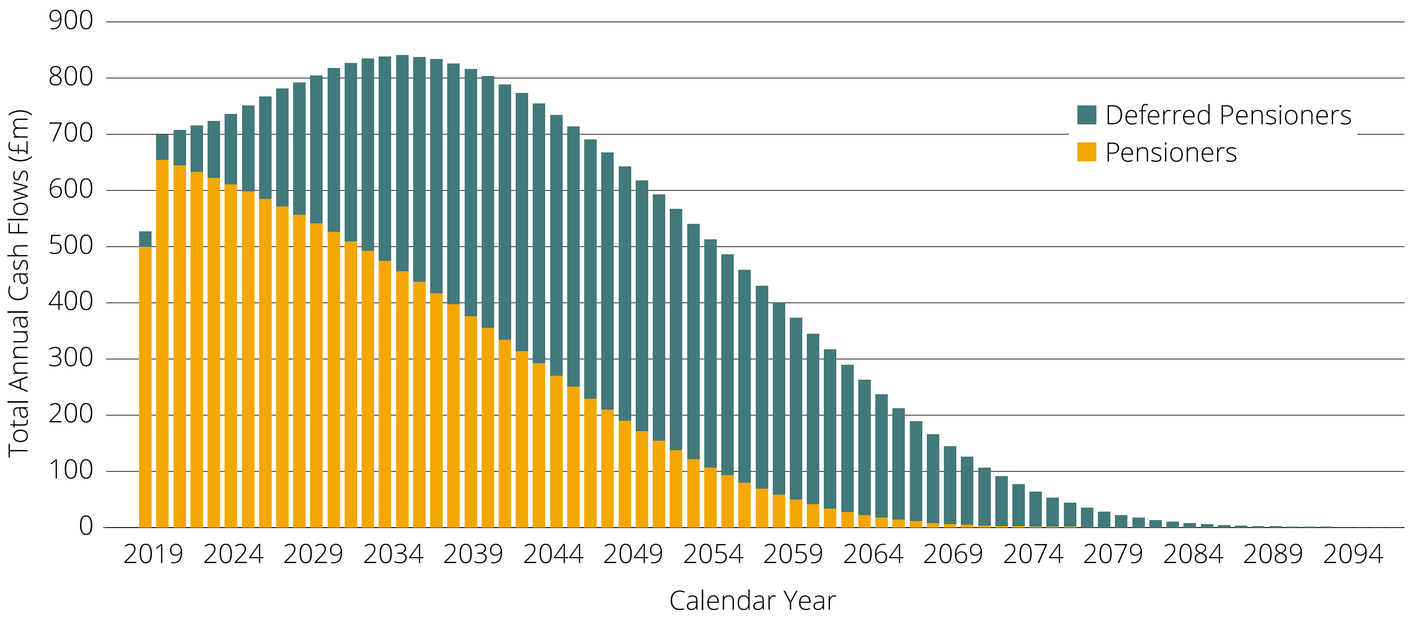
None of the above provides specific direction on the choice of assumptions made for the valuation. However, in taking account of these documents and the Accounts Direction, the Board is required to place a best estimate value on the provisions, i.e. one which is equally likely to overstate as to understate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

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

A sensitivity analysis has also been carried out in which the effect of changes in certain key assumptions on the assets and liabilities is shown. The results of this analysis may be seen in Annex S7 of my supplementary report concerning provisions in respect of the PPF as at 31 March 2019.

6. Total cash flows expected after 31 March 2019

The chart below summarises the expected cash flows for all schemes that had transferred to the PPF on or before 31 March 2019. It was calculated using the membership data, assumptions and valuation process set out in section 2 to section 5 for the schemes that had transferred to the PPF on or before 31 March 2019. In calculating the cash flows, deferred pensioners are assumed not to retire early or late, or commute any of their annual compensation for a lump sum:



7. Value of assets

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

The value of the PPF assets has been adopted as stated in the relevant accounts prepared by the Board for the financial period ending 31 March 2019. Neither of the adjustments made available by regulations 4 and 5 have been adopted.

Accordingly, the value of the PPF assets as at 31 March 2019 has been taken as £32,160.5m. This includes £0.1m in respect of AVC (Additional Voluntary Contribution) assets that match AVC liabilities yet to be discharged. This compares with an asset value of £29,896.9m as at 31 March 2018.

An analysis of the change in the value of the PPF's assets between 31 March 2018 and 31 March 2019 is as follows:

	£m
Value of assets at the start of the year (31 March 2018)	**29,896.9**
Assets for schemes entering the PPF during the year to 31 March 2019	952.2
Assets received in respect of schemes transferred in prior years	34.5
Income from Pension Protection Levies	560.7
Compensation paid	(775.1)
Change in value of hedging assets	1,271.1
Excess return on invested assets	267.0
Non-investment expenses	(46.8)
Value of assets at the end of the year (31 March 2019)	**32,160.5**

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:

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

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

Type of member/liability	**£m**
Deferred pensioners	10,561.9
Pensioners	11,764.5
Administration expenses to be met by the PPF	736.8
Current liabilities (AVCs to be discharged)	0.1
Total	**23,063.3**

Accordingly the value of the liabilities of the PPF as at 31 March 2019 has been taken as £23,063.3m. This compares with £21,511.5m as at 31 March 2018.

Actuarial valuation of the Pension Protection Fund

An analysis of the change in the actuarial liabilities between 31 March 2018 and 31 March 2019 is as follows:

	£m
Actuarial liabilities at the start of the year (31 March 2018)	**21,511.5**
Liabilities for schemes entering the PPF during the year to 31 March 2019 (measured at schemes' transfer dates)	1,249.4
Compensation paid	(775.1)
Actuarial (gain)/loss due to inflation being different from what was assumed	(108.0)
Accumulated interest	177.0
Actuarial (gain)/loss due to:	
changes in market yields	973.8
data changes	1.4
changes in life expectancy assumptions	(155.5)
changes in discount rate assumptions	287.5
changes in CPI inflation assumptions	(402.2)
other experience	(8.9)
Additional liabilities due to CJEU judgment	227.7
Change in expense reserve	84.7
Actuarial liabilities at the end of the year (31 March 2019)	**23,063.3**

It should be noted that the exact values attributed to each driver of change would be slightly different if the order of calculation were different. This does not affect the total liabilities at 31 March 2019.

Although we seek to minimise our interest and inflation risk through our liability-driven investment (LDI) strategy, the actuarial (gain)/loss on the liabilities due to changes in market yields is not comparable to the equivalent items in the analysis of change in the assets. For example, some of the LDI assets are used to hedge the interest and inflation risk in respect of some schemes in assessment or those expected to suffer an insolvency event in the near future.

9. Conclusion

	Value at 31 March 2019
Assets (£m)	32,160.5
Liabilities (£m)	23,063.3
Reserves (£m)	**9,097.2**
Funding ratio (assets/liabilities)	**139.4%**

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

This excess of assets over liabilities needs to be understood in the context of additional pension schemes that had entered an assessment period, as defined in section 132 of the Pensions Act 2004, on or before 31 March 2019.

Therefore, in addition to this formal report on the assets and liabilities, provisions in respect of the assets, potential recoveries and liabilities of those schemes which, in the Board's judgement, are likely to be transferred into the PPF have been estimated. These provisions are shown in my supplementary report to the Board dated 17 June 2019 and will be shown in the statement of accounts being prepared by the Board for the financial period ending on 31 March 2019.

Contingent liabilities as at 31 March 2019 have also been estimated. This gives an assessment of the potential liabilities in respect of other pension schemes which, in the Board's judgement, may possibly enter a PPF assessment period in the near future. These are shown in my supplementary report to the Board dated 17 June 2019 and will be disclosed in footnotes to the statement of accounts prepared by the Board for the financial period ending on 31 March 2019.

Name: Lisa McCrory, Appointed Actuary
Date: 17 June 2019
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 PPF

Broadly speaking, the PPF provides two levels of compensation:

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

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

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

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

   Compensation is revalued in line with the increase in the Retail Price Index (RPI) between the assessment date and March 2011, and the increase in the Consumer Price Index (CPI) between March 2011 and the start of compensation payments or NPA, whichever is the earlier. This is subject to a minimum increase of zero over the whole period. The revaluation is also subject to a maximum increase over the whole period of five per cent a year for compensation accrued on or before 5 April 2009 and 2.5 per cent a year for compensation accrued thereafter. Compensation which starts to be paid later than NPA is subject to a late retirement factor between NPA and the start of compensation payments.

   Compensation is subject to an overall cap, which from 1 April 2019 equates to £40,020.34 a year at age 65 (the cap is adjusted according to the age at which compensation comes into payment). For members who have 21 or more years' service in their transferred scheme, the cap will be increased by three per cent for each full year of pensionable service above 20 years, up to a maximum of double the standard cap.

   Following the ruling by the Court of Justice of the European Union in the case of Hampshire v PPF, compensation is subject to a minimum of 50 per cent of the value of accrued old age pension.

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 increase in the CPI, capped at 2.5 per cent each year and with a floor of zero.

Towards the end of February 2018, legislation came into force that meant any step-down pension payable under a scheme's rules would also be reflected in compensation paid to members.

After a member's death, compensation is paid to any children (up to a maximum of four 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 GMPs for men and women – see Annex M2 for further details.

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 2019 will be either the same as, or derived in the same way as, those derived for the valuation as at 31 March 2018, unless stated otherwise.

a) Compensation levels
As for previous valuations of the PPF, it has been assumed that the Secretary of State will not exercise their power under paragraph 30 of Schedule 7 of the Pensions Act 2004 to vary the 100 per cent level of compensation for those members in category 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
No allowance for any future legislative changes has been made in this valuation.

c) Financial assumptions
Broadly speaking, the same rationale has been applied in setting the financial assumptions as for the valuation as at 31 March 2018. In particular, I consider that it is still appropriate for the financial assumptions to vary according to the term of the particular cash flow being estimated and discounted.

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

In the past the discount rate has been constructed from the highest yielding (i.e. cheapest) asset at each duration, to match our expected benefit outgo. This approach assumed we can purchase sufficient gilt strips at each duration. However, the pool of gilt strips is so small that it would fall short of what would be needed for the PPF to fully hedge its exposure. I consider a better method to construct the portfolio is to use a blend of gilt and swap yields at each duration, as this approach is investible and enables a good match against the expected benefit outgo.

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

The discount rate for each term has therefore been taken as a blend of 75 per cent of the gilt yield and 25 per cent of the swap yield less 15 basis points.

A zero-coupon interest rate swaps yield curve constructed from cash rates, future strips and semi-annual swap rates as at 31 March 2019 was obtained from BlackRock which constructed the curve by seeking indicative prices from a combination of major counterparties and inter-dealer brokers.

A gilt strips yield curve as at 31 March 2019 was also obtained from BlackRock, which was derived from information available from the UK Debt Management Office. This curve shows gilt strips yields at terms of one year to 100 years inclusive. Yields at each of these terms are representative of bonds (or notional bonds) with similar maturities to the indicative terms.

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

ii) Revaluation rates
It has been assumed that the Board will not exercise its power under paragraph 29 of Schedule 7 of the Pensions Act 2004 to amend the maximum revaluation rate of five per cent a year in respect of compensation deriving from service on or before 5 April 2009 and 2.5 per cent a year in respect of compensation deriving from service thereafter.

Annex M2

Future revaluations of deferred compensation are linked to increases in the CPI. In considering what assumption would be appropriate for future CPI increases, it has been noted that at present there is no sufficient market in CPI swaps or indeed any other instruments from which CPI prices can reliably be inferred. Therefore, as in previous years, I have derived the CPI assumption by first setting an RPI assumption. For this, I propose to use the RPI inflation swap curve (supplied by BlackRock as at 31 March 2019).

To derive the CPI assumption I have deducted a best estimate of the margin between RPI and CPI inflation from the market implied measure of RPI inflation. The assumption I have used is that CPI inflation is 1.0 per cent per year lower than RPI inflation in each future year.

This approach is different to that adopted last year, where the margin was inferred from that used for bulk annuity pricing and was 0.7 per cent per year. Given the two approaches to deriving the margin for setting the CPI inflation assumption have been converging in recent years, I believe the approach adopted this year to be more stable and consistent with the accounting guidance that applies.

The revaluation rate over a particular period of deferment is assumed to be equal to the increase in the CPI index over that period, restricted to the revaluation cap applied to that same period. On the current inflation assumptions, the maximum revaluation rate of five per cent a year is not currently expected to apply at any term, for compensation deriving from service on or before 5 April 2009. The maximum revaluation rate of 2.5 per cent a year applies for terms between six and 27 years, for compensation deriving from service after 5 April 2009.

iii) Pension increase rates

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

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

The table below shows the annualised average term-dependent discount rates, CPI revaluation rates, and increases to pensions in payment, as at 31 March 2019 that have been assumed over the given term. The rates are presented as spot rates. Figures shown in brackets are as at 31 March 2018.

Term	Discount rate, pa	CPI revaluation rate, pa	Post 1997 pension increase rate, pa
1	0.696% (0.802%)	2.258% (2.305%)	1.992% (1.946%)
2	0.676% (0.970%)	2.365% (2.410%)	2.012% (1.962%)
3	0.668% (1.087%)	2.432% (2.473%)	2.022% (1.971%)
4	0.736% (1.159%)	2.466% (2.515%)	2.023% (1.977%)
5	0.777% (1.207%)	2.485% (2.537%)	2.022% (1.981%)
10	1.066% (1.448%)	2.519% (2.627%)	2.023% (2.010%)
15	1.316% (1.651%)	2.551% (2.722%)	2.051% (2.052%)
20	1.505% (1.764%)	2.564% (2.768%)	2.081% (2.090%)
30	1.496% (1.706%)	2.472% (2.728%)	2.100% (2.139%)
40	1.395% (1.520%)	2.364% (2.583%)	2.100% (2.138%)
50	1.359% (1.392%)	2.339% (2.555%)	2.094% (2.144%)
70	1.322% (1.242%)	2.325% (2.545%)	2.097% (2.134%)
90	1.301% (1.159%)	2.317% (2.539%)	2.124% (2.148%)

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

d) Demographic assumptions

i) Mortality

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

Baseline mortality

For last year's valuation as at 31 March 2018, a mortality analyst, Club Vita, provided 250 different mortality curves to apply to individual members based on:

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

Club Vita has updated its experience dataset since the previous valuation and so has provided more up-to-date mortality curves to use this year. A total of 250 different mortality curves have been used for the valuation as at 31 March 2019.

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 2014-2016.

Where individual life expectancy curves were not available (for example where individual member data was received after the mortality curves were mapped, namely for the schemes which transferred to the PPF in February and March 2019), Club Vita provided mortality curves that reflect average assumed mortality across the whole PPF membership. There were 10 average mortality curves, which varied according to the factors set out above. The 10 average curves are included in the count of the curves used in the valuations.

Allowance for changes in mortality over time

To project changes in mortality we use the model produced by the CMI (Continuous Mortality Investigation, part of the Institute and Faculty of Actuaries). This model is updated annually to reflect more up to date data. A feature of the last few years' data has been that while life expectancy is still increasing it is at a lower rate than previously expected. The model incorporates a number of advanced parameters and the 2016 version of the model introduced a significant parameter called the 'smoothing parameter' which enables the user to determine the weight that should be placed upon recent mortality data as opposed to historic data. Under the core parameterisation published by the CMI at the time of publication of the 2016 version of the model the smoothing parameter is set to a default value of 7.5.

For the valuation as at 31 March 2018, the CMI 2016 model of mortality projections was adopted, with a long-term improvement rate of 1.5 per cent a year for both men and women. The model was adopted in its core form except for the smoothing parameter which was set to 8.0.

I believe that it is appropriate to adopt the CMI 2017 model for this valuation but again with a higher smoothing parameter than under the core parameterisation. The CMI model is calibrated to England and Wales's population data. Generally, members of defined benefit pension schemes might be expected to exhibit different patterns of mortality than the general population as, among other things, they will generally have a higher level of wealth. Indeed, there is evidence of a different pattern of mortality improvement rates in recent years. For this reason I have chosen to use a smoothing parameter of 8.0, which will place less emphasis on more recent data where lower rates of mortality are prevalent and therefore will place a higher value on liabilities than under the core parameterisation.

Although there is evidence to show that the rate of improvement in mortality has slowed, in my opinion there is insufficient evidence to suggest that the long-term improvement rate should be changed from the assumption adopted last year.

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2 Performance report
3 Accountability report
4 Financial statements
5 Actuarial reports

Annex M2

For this valuation, the CMI 2017 mortality projection has therefore been adopted, with a long-term improvement rate of 1.5 per cent a year for both men and women and a smoothing parameter of 8.0.
It should be recognised that there is a substantial element of subjectivity about mortality improvement assumptions and that different actuaries will come to different conclusions. The appropriate assumption for future valuations will be kept under review.

Life expectancies implied by the mortality assumptions

The following table illustrates the life expectancies of pensioners and dependants aged 65 on 31 March 2019, and life expectancies for members aged 40 on 31 March 2019 once they reach age 65 in 2044. These are based on the range of mortality assumptions being used for this valuation for different members, including the allowance for projected changes in mortality. The figures in brackets show the life expectancies based on the assumptions adopted in the valuation as at 31 March 2018.

Men

Membership group	Median life expectancy, in years	Minimum life expectancy, in years	Maximum life expectancy, in years	Range of life expectancies, in years, which covers 75% of compensation
2019				
– Pensioners	22.1 (21.8)	14.8 (15.2)	24.9 (24.7)	19.9-24.2 (20.1-23.7)
– Future widowers	20.8 (20.4)	14.8 (15.2)	22.6 (23.3)	18.6-20.8 (18.0-20.9)
2044:				
– Pensioners	23.8 (24.0)	19.4 (20.1)	26.9 (26.9)	22.4-25.3 (22.1-25.3)
– Future widowers	23.1 (22.9)	17.6 (18.0)	24.9 (25.6)	21.2-23.2 (21.3-23.4)

Women

Membership group	Median life expectancy, in years	Minimum life expectancy, in years	Maximum life expectancy, in years	Range of life expectancies, in years, which covers 75% of compensation
2019:				
- Pensioners	23.9 (24.0)	18.6 (19.7)	26.8 (26.4)	22.4-25.4 (22.7-25.1)
- Future widows	23.4 (23.3)	18.6 (19.7)	26.8 (26.4)	22.2-25.5 (22.7-24.9)
2044:				
- Pensioners	26.4 (26.4)	23.0 (23.0)	28.2 (27.9)	25.6-27.4 (25.4-27.2)
- Future widows	25.2 (25.6)	21.6 (22.7)	28.9 (28.5)	24.8-26.2 (24.2-26.3)

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

Note also that some of the change in life expectancy from year to year will be due to the membership changing (for example, because of newly transferring schemes) and not solely due to changes in experience.

For deferred members, different Club Vita mortality curves are used before and after retirement. In particular, the pre-retirement curves are based on data for members deemed to be in normal health whereas the post-retirement curves used also include data for members who have taken ill-health early retirement.

ii) Commutation, early retirement and late retirement

No allowance is made for commutation of compensation, early retirement or late retirement. This is because the option terms are anticipated to be set (and monitored in future) in such a way that the value of a member's benefits is broadly unchanged by them exercising one of these options. Therefore, members exercising these options would only change the pattern of compensation cash flows and not the value placed on the liabilities for this purpose.

The assumptions are the same as the assumptions adopted last year.

iii) Proportion married or with a relevant partner

For pensioners:

- where there was provision in the former scheme for survivor pensions for relevant partners, an assumption consistent with 85 per cent (men) or 70 per cent (women) at normal pension age; and
- where there is no provision for survivor pensions for relevant partners other than legal spouses, an assumption consistent with 75 per cent (men) or 60 per cent (women) at normal pension age.

For deferred pensioners:

- where there was provision in the former scheme for survivor pensions for relevant partners, an assumption, at the assumed date of retirement or earlier death, of 85 per cent (men) or 70 per cent (women); and
- where there is no provision for survivor pensions for relevant partners other than legal spouses, an assumption, at the assumed date of retirement or earlier death, of 75 per cent (men) or 60 per cent (women).

The assumptions are the same as the assumptions adopted last year.

iv) Age difference between member and dependant

Women assumed to be three years younger than men.

This assumption is the same as the assumption adopted last year.

v) Children's pensions

No specific additional allowance is included for prospective children's pensions. Children's pensions that are already in payment are allowed for. They are assumed to cease in accordance with the compensation entitlement, with no allowance for death prior to cessation. Compensation ceases at age 18, or when the person finishes full-time education (up to a maximum of age 23). Where an anticipated end date for full-time education is not held by the PPF, age 23 is assumed.

The assumptions are the same as the assumptions adopted last year.

vi) Expenses

Certain administration expenses are met from the PPF rather than from the Administration Fund. These are the costs associated with paying members compensation and the investment management expenses.

An allowance equal to 3.3 per cent of the value of the liabilities in respect of members who have transferred into the PPF before 1 April 2019 has been made in respect of the expected future cost of these expenses.

When estimating the future cost associated with paying members, the current expected cost of the relevant business areas (including an allowance for the relevant support functions) has been converted to a per member cost. This cost has been projected to increase in line with assumed CPI in each future year and then compared to the projected membership at the relevant time. The projected membership has been determined using the demographic assumptions set out above. Finally, the projected cost in each future year has then been discounted to a present value using the discount rates set out above.

The investment management expenses have been taken as the estimated current Annual Management Charge that would apply to a passive LDI fund as a proxy for the cost of investing the notional portfolio being used to determine the appropriate discount rate.

An allowance has also been made for the expected cost to the PPF of overseeing this fund - these costs have been projected to increase in line with assumed CPI in each future year and discounted to a present value using the PPF valuation discount rate.

This year's approach to determine the cost associated with paying compensation and investment management is consistent with that adopted previously and has resulted in an allowance of 3.3 per cent of liabilities, compared with an allowance of 2.9 per cent in the previous year's valuation.

Annex M2

vii) The long service cap

From 6 April 2017 the long service cap came into effect for members who have 21 or more years' service in their transferred scheme. For these members the cap will be increased by three per cent for each full year of pensionable service above 20 years, up to a maximum of double the standard cap. This additional compensation was included in the data received for pensioner members that transferred prior to 31 March 2019.

The data used for assessing the liabilities for the deferred members did not include enough information to accurately assess the impact of this change. To allow for this additional liability, I assumed that the impact on the liability for deferred members would be the same in percentage terms as for pensioner members, as determined for the 2018 valuation. This was calculated as equivalent to an overall increase in deferred liabilities of 0.25 per cent.

viii) Minimum compensation

Following the September 2018 ruling by the Court of Justice of the European Union in the case of Hampshire v PPF, compensation is subject to a minimum of 50 per cent of the value of accrued old age pension.

As at the time of calculation, work was ongoing to identify all affected members. We have therefore determined approximate liability uplifts based on the most up to date methodology, proportion of members expected to be impacted, and average uplifts that are expected to apply to different categories of members. For a small number of members who are expected to be the most materially impacted, benefits have now been reworked. Where actual impacts are available, these have been allowed for in the estimate. The resulting liability uplifts are 0.8 per cent of pensioner liabilities and 1.3 per cent of deferred liabilities.

ix) GMP equalisation

In last year's valuation I made a nil allowance for outstanding equalisation of compensation on account of Guaranteed Minimum Pension (GMP), on the grounds that very few members (under 1,000) were yet to have their compensation equalised for GMP. As all members' compensation is equalised for GMP no further adjustments are required.

Actuary's supplementary report as at 31 March 2019

To: The Board of the Pension Protection Fund

From: Lisa McCrory, Appointed Actuary to the Board of the Pension Protection Fund

Actuarial liabilities, provisions and contingent liabilities of the Pension Protection Fund as at 31 March 2019

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 (PPF). This actuarial valuation is set out in my report to the Board dated 17 June 2019.

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

The Board is responsible for the accounting policies, and this report has been prepared within the framework it has determined. I have been commissioned to produce this report to assist the Board with the preparation of the Annual Report and Accounts as at 31 March 2019. I therefore see the Board as the user of this report and no other party should rely on any part of this report.

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

This valuation complies with the principles set out in the Technical Actuarial Standard TAS 100 ('Principles for Technical Actuarial Work'). This report should be considered alongside my report to the Board dated 17 June 2019. Given the scope of the work, the processes and calculations underlying the report, together with the report itself, are subject to an independent peer review under the Actuarial Profession's practice standard APS X2 ('Review of Actuarial Work'). This has been done by the Government Actuary's Department.

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

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

The application of this requirement to the Board's statement of accounts as at 31 March 2019 is set out in Annex S1.

3. Contingent liabilities
Under IAS 37, a contingent liability is not recognised as a liability if 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 2019 is set out in Annex S2.

The schemes forming the contingent liabilities of types I, II and III (as defined in Annex S2) are determined by the Board and the values have been calculated accordingly. However, it should be noted that claims arising after 31 March 2019 could come from sources other than those described in the definitions of these contingent liabilities. Therefore it is important to note that the contingent liabilities of types I, II and III are not meant to represent the expected level of claims in the coming year.

Actuary's supplementary report as at 31 March 2019

The FReM also requires the PPF's material remote contingent liabilities to be disclosed and, where practical, their financial impact. The schemes forming these are those remaining defined benefit pension schemes that may in the future make a claim on the PPF but which are not included in the provisions or contingent liabilities. The remote contingent liability figure disclosed in the Annual Report and Accounts is prepared for the purpose of the FReM disclosure requirements. This does not form part of this actuarial valuation report.

4. Data

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

5. Compensation provided by the PPF

The compensation provided by the PPF is summarised in Annex M1 of my report to the Board dated 17 June 2019.

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 17 June 2019.

The set of assumptions used to calculate the provisions and contingent liabilities as at 31 March 2019 are, in most respects, the same as those used to calculate the actuarial liabilities. The differences are shown in Annex S4.

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

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

a) Actuarial liabilities

The method of calculating the actuarial liabilities is set out in my report to the Board dated 17 June 2019.

b) Provisions

To determine whether a provision is required for a scheme, it is necessary to determine whether at the insolvency date the value of the assets was less than the amount of Protected Liabilities (see Annex S1). This is determined in the first instance from consideration of any notice issued in respect of the scheme under section 144 or 145 of the Pensions Act 2004. Where no such notice has been issued, consideration is then given to any internal reports indicating the likely funded status of the scheme at the insolvency date. For all schemes not already categorised under the two preceding steps, assumptions to determine the funded status at the insolvency date are derived from market conditions at the insolvency date following the published guidance on undertaking a valuation in accordance with section 179 (s179) of the Pensions Act 2004 (version in force at the insolvency date). This guidance is available on the PPF's website: https://ppf.co.uk/valuation-guidance.

In addition to the steps above, if more recent information is available that gives a better indication of the likelihood of the scheme transferring, this is used to determine whether a provision is required. This approach has been used for seven schemes.

The method of calculating the provisions varied according to the data that the Board held about the relevant schemes as at 31 March 2019.

1. Updated asset value information and recent membership data

This information was obtained from certain schemes classified as 'material schemes'. These are schemes (or groups of schemes with the same employer) which:

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

(ii) are sufficiently large (broadly those that have estimated liabilities of at least £250m) and

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

There are 10 schemes in the provisions this year that we classify as 'material'. Material schemes in assessment and schemes which have already transferred to the PPF account for approximately 94 per cent of the total liabilities and provisions.

There are a further seven schemes that were classified as material last year but no longer meet the definition.

For these schemes the asset and membership data provided for last year's valuation was used. These schemes account for approximately two per cent of the total liabilities and provisions.

For all these schemes, the asset value at 31 March 2019 was determined by rolling forward the latest available asset value, in line with the change in a total return index of an appropriate kind for each asset class and making an adjustment for benefits paid between the effective date of the assets and 31 March 2019. For material schemes where no updated asset information was requested, the rolled-forward value of the assets was checked against updated asset information available for other purposes. These comparisons disclosed no material differences.

The corresponding liabilities were initially calculated as at 28 February 2019, based on the individual data provided and the assumptions derived from market conditions as at 28 February 2019. The change in market conditions to 31 March 2019 was then allowed for by applying a ratio of the discounted projected cash flows for these schemes payable after 28 February 2019, calculated using the assumptions at the respective dates. The change in calculation date to 31 March 2019 is also allowed for by unwinding the discount rate for one month, updating for one further month of known inflation rather than expected, and deducting the benefits paid in respect of March 2019.

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

2. A s179 valuation but not updated asset and membership data

If the scheme were to be included in the provisions, the s179 valuation was rolled forward to 31 March 2019 on the valuation basis.

The methodology used to roll the s179 valuation results forward to 31 March 2019, while at the same time changing the valuation assumptions to those described in Annex S4, is broadly consistent with that to be applied for the calculation of levy in the financial year 1 April 2019 to 31 March 2020. The methodology is available in the Pension Protection Levy section of the PPF website at: https://ppf.co.uk/valuation-guidance

The main differences from the levy calculation are:

- no smoothing or stressing of assets and liabilities has been applied; and
- Index-linked bonds have been rolled forward using an index-linked index as opposed to a fixed interest one.

Aside from the index applying to index-linked bonds, this approach is the same as last year.

A provision has been included for the cost of GMP equalisation, the long service cap, future expenses, and for the floor on PPF compensation of 50 per cent of the value of members' former schemes' accrued old age pension - see Annex S4 for further details.

c) Contingent liabilities

The method adopted for contingent liabilities of type I, II or III is the same as that for the provisions where the Board was in possession of an s179 valuation. This is the same method as adopted last year.

Additionally, loadings to reflect the impact of GMP equalisation, the long service cap, future expenses, and for the floor on PPF compensation of 50 per cent of the value of members' former schemes' accrued old age pension have been applied to the liabilities forming the contingent liabilities of type I, II or III. These loadings are equal to the loadings applied to the provisions, as set out in Annex S4.

The valuation of schemes based on a roll forward method will not be as accurate as one undertaken using individual membership data for each scheme. Generally there is no reason to doubt the quality of the information provided within a particular scheme's valuation report. It is important, however, to note that any errors contained within the original scheme valuation will carry through to this valuation.

Actuary's supplementary report as at 31 March 2019

8. Results of the calculations

The results of the calculations of the actuarial liabilities, provisions and contingent liabilities as at 31 March 2019 (and a comparison with the results as at 31 March 2018) are set out in Annex S6.

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

9. Actuarial balance sheets

Annex S7 sets out the actuarial balance sheet for the PPF as at 31 March 2019, including the liabilities of the schemes forming the provisions. For this purpose the liabilities are taken to be:

(a) the present value of the PPF's liabilities to pay sums or transfer property, as required under section 173(3) of the Pensions Act 2004. This includes the liabilities in respect of compensation to members of schemes for which the Board has assumed responsibility. The total value is taken as £23,063.3m, the same figure as was used in my actuarial valuation report of 17 June 2019, and

(b) an estimate of the present value of the liabilities of the schemes forming the provisions, as set out in Annex S6 of this report, which amounts to £9,525.2m.

Accordingly the total liabilities including provisions of the Pension Protection Fund as at 31 March 2019 have been taken as £32,588.5m.

In the actuarial balance sheets for the PPF as at 31 March 2019, the assets are:

(a) the value of the PPF's assets determined in accordance with regulations 2, 4 and 5 of the Pension Protection Fund (Valuation of the Assets and Liabilities of the Pension Protection Fund) Regulations 2006 (SI 2006/597). This value is taken as £32,160.5m, the same figure as was used in my actuarial valuation report of 17 June 2019; 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 (£61.6m). This figure amounts to £6,484.7m.

The value of the PPF's assets as at 31 March 2019 has been taken as £38,645.2m.

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.

Name: Lisa McCrory, Appointed Actuary
Date: 17 June 2019
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 2019

The Statement of Accounts as at 31 March 2019 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 2019
- the Board had not stated on or before 31 March 2019 that the insolvency event was not a qualifying insolvency event
- the insolvency date was on or before 31 March 2019
- a withdrawal notice under section 122(2)(b) of the Pensions Act 2004 had not been received on or before 31 March 2019 (and, in the Board's judgement, is unlikely to be received) from the insolvency practitioner
- as at the insolvency date, the value of the assets was, in the Board's judgement, likely to have been less than the amount of the Protected Liabilities as defined in section 131 of the Pensions Act 2004 (determined on the s143 basis as at the insolvency date); and
- transfer to the PPF had not taken place on or before 31 March 2019.

It also contains provisions in respect of schemes that have completed an assessment period and which are expected to enter the PPF in due course. For these schemes, an s143 valuation (or funding determination) has already been completed by the schemes' trustees and this showed an excess of assets over Protected Liabilities. They are included as provisions if there is an expectation that they will successfully reapply for PPF entry. There is one such scheme, which has been running as a closed scheme but has reapplied under section 157 of the Pensions Act 2004. As it is expected that this reapplication will be successful, this scheme has been included in the provisions.

The Board has also considered the following in the provisions:

For a small number of schemes the results of the valuation process will show a surplus of assets over the estimated value of the Protected Liabilities at the valuation date, and therefore would contribute a negative amount to the provisions. In total there were 11 schemes with a surplus of assets at the valuation date. To avoid the risk of overstating the funding position for these schemes, the assets (including assumed recoveries) have been restricted to the value of the liabilities for these schemes.

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

When carrying out the sensitivity analysis, as set out in Annex S5, for the schemes discussed above that have been assumed to contribute a nil amount to the provisions, the assets have been unchanged from the main valuation results, meaning the assets will not exactly match the liabilities for these alternative scenarios.

Some schemes may have experienced insolvency events that occurred on or before 31 March 2019 but which have not yet been reported. It might be appropriate to set up an 'IBNR' (Incurred But Not Reported) reserve to cover these schemes. Analysis of recent years' claim patterns suggests that there will be very few, if any such schemes, and that such schemes are likely to be immaterial and in any case almost impossible to place a reliable value on. Therefore, consistent with the approach adopted last year, an IBNR reserve has not been set up.

Annex S2

Contingent liabilities in the Statement of Accounts for the financial period ending on 31 March 2019

Three types of contingent liabilities are disclosed in footnotes to the Statement of Accounts. In some previous years a type IV contingent liability was also included relating to legislative changes anticipated to be passed by Parliament. No allowance has been made this year for any future legislative change. The definitions of the three categories are given below.

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

- an insolvency event notice under section 120 of the Pensions Act 2004 was received by the Board from an insolvency practitioner on or before 31 March 2019
- the Board had stated on or before 31 March 2019 that the insolvency event was not a qualifying insolvency event
- in the Board's judgement, it is likely that a subsequent insolvency event will be a qualifying insolvency event
- the Board has sufficient data about the scheme to be able to make an estimate of a contingent liability, and
- as at 28 February 2019, the value of the assets was, in the Board's judgement, likely to have been less than the amount of the Protected Liabilities, as defined in section 131 of the Pensions Act 2004.

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

- as at 31 March 2019, no insolvency event had taken place, but the Board is nonetheless expecting to receive an insolvency event notice under section 120 of the Pensions Act 2004 from an insolvency practitioner in the future
- the Board has sufficient data about the scheme to be able to make an estimate of a contingent liability, and
- as at 28 February 2019, the value of the assets was, in the Board's judgement, likely to have been less than the amount of the Protected Liabilities, as defined in section 131 of the Pensions Act 2004.

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

- Either:
  1. the Experian insolvency scores at 31 January 2019 would place the schemes in Levy Band 10 (after allowing for any Contingent Assets provided) as set out in the Levy Rate Table in the Insolvency Risk Appendix to the Board's Determination for Levy Year 2019/20 (a link to this page can be found in section 7 of my supplementary report), or
  2. the employer has a credit rating in the lowest category, and the scheme is estimated to be in the top 500 schemes based on the size of its liabilities; and
- the Board has sufficient data about the scheme to be able to make an estimate of a contingent liability, and
- as at 28 February 2019, the value of the assets was, in the Board's judgement, likely to have been less than the amount of the Protected Liabilities as defined in section 131 of the Pensions Act 2004.

For the purpose of (ii) above, the employers' credit ratings are determined using either actual or market-implied ratings.

Type III contingent liabilities exclude any scheme already within the provisions for type I or type II contingent liabilities.

Out of a population of around 5,500 schemes considered as part of (i) above, 172 which had not already been included in the allowance for type II contingent liabilities had an insolvency score which placed them in Levy Band 10. Of these 172 schemes, 100 were in deficit on the assumptions used to assess entry to the PPF.

Out of the top 500 risks considered as part of (ii) above, four schemes had employers with the lowest credit rating available but had not already been included in the 172 schemes identified as part of (i) above. All of these were underfunded on the assumptions used to assess entry to the PPF.

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

Annex S3
Data

a) Data in respect of PPF members
This data was shown in my report to the Board dated 17 June 2019.

b) Data in respect of provisions and contingent liabilities
There are 73 schemes which contribute to the provisions figure in the statement of accounts for the financial period ending on 31 March 2019. Liabilities in respect of another 10 schemes have not been recognised, i.e. not included in the provisions, because the value of their assets was, in the Board's judgement, likely to have exceeded the amount of the Protected Liabilities at their insolvency date. For type I, type II, and type III contingent liabilities, the recognition test assessment was undertaken at 28 February 2019, since a qualifying insolvency event had not occurred.

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

For material schemes, the PPF actively seeks up-to-date individual member data and current asset values from the scheme trustees, where appropriate. There are 10 schemes in the provisions this year that we classify as 'material'. Of these:

- two are schemes that came into assessment during the year, for which we obtained membership and asset data with effective dates of December 2017; and
- eight are schemes that were also in assessment at 31 March 2018 (six of which are sponsored by employers within the same corporate group), for which we obtained updated membership and asset data with effective dates between August and November 2018.

In general the data was provided in a standard template and gives compensation at a current date split between the various service dates. Exceptions to this are the two schemes which came into assessment during the year, where:

- for one scheme we were provided with the data used for the s179 valuation as at 31 December 2017, which included PPF compensation; and
- for the other scheme we were provided with scheme benefits and details of the benefit structure to enable PPF compensation to be derived.

Checks have been carried out on all the data received for general reasonableness and, where appropriate, to ensure that it is consistent with that used in the actuarial valuation at 31 March 2018. For the schemes where a non-standard approach was taken, extra steps were taken to reconcile our liability calculations with those carried out by the Scheme Actuary. I have no material concerns about the data for the purpose of assessing the total liabilities for all schemes in assessment.

Seven of the schemes that were classified as 'material' in the 31 March 2018 valuation no longer meet the size threshold to be classified in this way as they do not have estimated liabilities of over £250 million. For these schemes we used the same information as provided for the 31 March 2018 valuation, which had effective dates between December 2015 and October 2017.

For all other schemes the latest s179 valuation provided for levy purposes is used to assess asset and liability values. The s179 valuation used will be that held on Exchange at the 31 March preceding insolvency. Although there is no reason to doubt the quality of the information provided within a particular scheme's valuation report, checks have been carried out on the general reasonableness of the data submitted. Again, I have no material concerns relating to the data provided.

In order to identify the schemes to be included in the type I, II and III contingent liabilities, the information used has been gathered by the PPF from sources such as Experian, negotiations with companies, and information submitted by The Pensions Regulator. The data used to place a value on the scheme assets and liabilities is taken from the latest s179 valuation provided for levy invoicing purposes.

Annex S3

Data

The number of schemes contributing to the various types of provisions and contingent liabilities of type I, II and III is given in the table below. Figures in brackets relate to the total number of schemes considered for inclusion, i.e. it includes schemes where the value of their assets was, in the Board's judgement, likely to have exceeded the amount of the Protected Liabilities at their insolvency date for provisions and the calculation date for contingent liabilities. All of the figures recognise all segregated parts of schemes as separate schemes. This is the same treatment as was adopted at 31 March 2018.

Liability		**Number of schemes recognised**	**Number of pensioners ***	**Number of deferred pensioners ***
Provision	2019	73 (83 in total)	53,468	49,144
	2018	89 (106 in total)	51,595	52,786
Provision – IBNR	2019	0 (0 in total)	0	0
	2018	0 (0 in total)	0	0
Type I contingent liability	2019	0 (0 in total)	0	0
	2018	0 (0 in total)	0	0
Type II contingent liability	2019	2 (6 in total)	1,455	1,210
	2018	9 (9 in total)	14,096	13,455
Type III contingent liability	2019	104 (176 in total)	14,338	22,344
	2018	157 (224 in total)	18,712	27,567

* Data in respect of recognised schemes only.

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

As the PPF does not hold member-by-member data for all the schemes forming the provisions, it is not possible to establish the size and shape of cash flows relating to the schemes forming the provisions. However, when collecting data for material schemes, information was obtained relating to the individual pensioners in payment and deferred pensioners. This indicates that the shape of the cash flows for schemes forming the provisions is not dissimilar to that for transferred schemes.

Annex S4
Assumptions

All assumptions will be either the same as, or derived in the same way as, those derived for the valuation as at 31 March 2018, unless stated otherwise.

a) Actuarial liabilities
The assumptions adopted were described in my report to the Board dated 17 June 2019.

b) Basis adopted for provisions and contingent liabilities
1. Financial assumptions
The financial assumptions differ depending on whether individual member data is available or not.

Financial assumptions for schemes where individual member data is available
The financial assumptions used for provisions where individual member data is available are the same as those for the liabilities, full details of which can be found in Annex M2.

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

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

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 of schemes that have transferred to the PPF were equal to the present value determined using term-dependent rates. To do this, cash flows of the transferred schemes were used. These single rates of discount, inflation and pension increase were then used to determine the net discount rates as set out in the following table. The figures in brackets are those as at 31 March 2018.

Net discount rate as at 31 March 2019	per year
In deferment for compensation accrued before April 2009	-1.1% (-1.0%)
In deferment for compensation accrued after April 2009	-1.0% (-0.9%)
In payment for non-increasing compensation for current pensioners	1.3% (1.6%)
In payment for non-increasing compensation for deferred pensioners	1.4% (1.6%)
In payment for increasing compensation for current pensioners	-0.7% (-0.4%)
In payment for increasing compensation for deferred pensioners	-0.7% (-0.5%)

For the s179 basis, assumptions are needed at both the effective date of the original s179 valuation and at 31 March 2019. These have been derived using the assumptions guidance in force at the required date.

2. Demographic assumptions
In general the same demographic assumptions have been used to assess the provisions and contingent liabilities as for the liabilities. These assumptions relate to:

- mortality rates
- commutation, early retirement and late retirement
- the proportion married or with a relevant partner
- the age difference between member and dependant
- children's pension
- the long service cap; and
- minimum compensation

Annex S4
Assumptions

3. GMP equalisation
Allowance has been made for the cost of equalising compensation that is unequal on account of inequalities in Guaranteed Minimum Pensions (GMPs) accrued between 17 May 1990 and 5 April 1997. This provision is to cover the cost of equalisation of the liabilities of schemes forming the provisions. A single loading was applied to the liabilities forming the provisions (with the exception of three material schemes that provided equalised individual member data), of 0.6 per cent of the relevant liabilities. This loading includes allowance for backdated arrears on all schemes forming the provisions, other than the material schemes that have already been equalised.

The allowance for GMP equalisation is unchanged from the valuation as at 31 March 2018.

4. Expenses
Allowance has been made for expenses incurred by the trustees prior to transfer into the PPF. It has been assumed that these will be the same as the wind-up expenses calculated in accordance with the s179 methodology, subject to a cap of £5 million per scheme. Schemes are assumed to be, on average, midway through the assessment period. Allowance is therefore made for only 50 per cent of the full s179 wind-up expense cost and, for schemes where the asset value is based on a roll forward of a valuation that pre-dates the insolvency, 50 per cent of the full s179 wind-up cost is also deducted from the asset value. Seven of the material schemes forming the provisions have had the cap referred to above applied.

In addition, allowance has been made for costs incurred by the PPF in transitioning members across to the PPF. This cost has been calculated as a per-member cost and has been determined by dividing the cost to the PPF of transitioning members over the year to 31 March 2018 by the number of members that transitioned over the same period.

Allowance has also been made for certain expenses incurred after transfer to the PPF in respect of schemes which are likely to transfer to the PPF (see Annex M2 of my report to the Board dated 17 June 2019 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 (3.3 per cent). Expressed as a percentage of the provisions, the aggregate allowance for expenses incurred during the assessment process, during transition to the PPF and then after transfer is 3.8 per cent. The equivalent figure from last year is 3.8 per cent.

Annex S5

Sensitivity analysis

Results have been calculated on the basis described in Annex S4. In this annex we show how sensitive the results are to plausible changes in the underlying financial and demographic realities. We also show what the results would be on an s143 basis rather than the PPF accounting basis.

As well as the sensitivities shown in this annex, the reconciliation tables elsewhere in my actuarial valuation reports (in section 8 of my main valuation report for schemes that have transferred to the PPF and in Annex S6 for provisions) set out the impact on the liabilities of market movements over the year, as well as of changes to the methodologies used to set the assumptions.

It should be noted that, in some cases, the results of the scenarios shown below are calculated in a more approximate manner than the results set out earlier in the report.

Six scenarios have been considered covering the main uncertainties.

Scenario 1: Nominal yields are assumed to increase by 0.5 per cent per year at each term. This is an illustration of a plausible move in yields.

Scenario 2a: Inflation is assumed to increase by 0.5 per cent per year at each term. This is an illustration of a plausible move in market-implied inflation rates.

Scenario 2b: Inflation is assumed to decrease by 0.5 per cent per year at each term. This is an illustration of a plausible move in market-implied inflation rates, and serves to illustrate the lack of symmetry in the impact of the movement of this assumption.

Scenario 3: Average life expectancy is assumed to be 1 year shorter than assumed in the main valuation. This is an illustration of a plausible move in life expectancy and has been achieved in the calculation by applying a scaling factor to the underlying yearly death probabilities such that liability weighted average life expectancy reduces by 1 year.

Scenario 4: The value of return-seeking assets (excluding those which are used to hedge against liabilities) is assumed to decrease by 10 per cent at 31 March 2019. This is an illustration of a plausible move in asset values.

Scenario 5: Non-investment expenses are assumed to be 10 per cent higher than assumed in the main valuation. (No change to investment nor wind-up expenses.)

Scenario 6: Assumptions and expenses calculations based on the s143 valuation basis (version B8 as effective from 13 June 2018). This serves to illustrate the difference between the PPF's accounting valuation basis and the s143 basis.

A summary of the assumptions is shown below, with the corresponding results set out in Annex S7. Apart from scenarios 2 and 6, opposite changes in each of the assumptions considered under the scenarios above will produce approximately equal and opposite changes in the valuation results.

Annex S5

Main Basis and Scenarios 1-3

	Main Basis	Scenario 1	Scenario 2a	Scenario 2b	Scenario 3
Discount rate in deferment for compensation accrued before April 2009 (% pa)	-1.1	-0.6	-1.6	-0.6	-1.1
Discount rate in deferment for compensation accrued after April 2009 (% pa)	-1.0	-0.5	-1.0	-0.6	-1.0
Discount rate in payment for non-increasing compensation for current pensioners (% pa)	1.3	1.8	1.3	1.3	1.3
Discount rate in payment for non-increasing compensation for future pensioners (% pa)	1.4	1.9	1.4	1.4	1.4
Discount rate in payment for increasing compensation for current pensioners (% pa)	-0.7	-0.2	-0.8	-0.5	-0.7
Discount rate in payment for increasing compensation for future pensioners (% pa)	-0.7	-0.2	-0.8	-0.5	-0.7
Non-LDI assets	Market value	Market value	Market value	Market value	Market value
Proportion married and assumed age difference between member and dependant	As in Annexes S4 and M2	As in Annexes S4 and M2	As in Annexes S4 and M2	As in Annexes S4 and M2	As in Annexes S4 and M2
Mortality	As in Annexes S4 and M2	As in Annexes S4 and M2	As in Annexes S4 and M2	As in Annexes S4 and M2	Life expectancy decreased by 1 year
Expenses	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

Main Basis and Scenarios 4-6

	Scenario 4	Scenario 5	Scenario 6
Discount rate in deferment for compensation accrued before April 2009 (% pa)	-1.1	-1.1	-2.0
Discount rate in deferment for compensation accrued after April 2009 (% pa)	-1.0	-1.0	-1.1
Discount rate in payment for non-increasing compensation for current pensioners (% pa)	1.3	1.3	1.4
Discount rate in payment for non-increasing compensation for future pensioners (% pa)	1.4	1.4	1.3
Discount rate in payment for increasing compensation for current pensioners (% pa)	-0.7	-0.7	-0.4
Discount rate in payment for increasing compensation for future pensioners (% pa)	-0.7	-0.7	-1.1
Non-LDI assets	Fall by 10%	Market value	Market value
Proportion married and assumed age difference between member and dependant	As in Annexes S4 and M2	As in Annexes S4 and M2	As in s143 valuation guidance B8
Mortality	As in Annexes S4 and M2	As in Annexes S4 and M2	As in s143 valuation guidance B8
Expenses	As in Annexes S4 and M2	Non-investment expenses increased by 10%	As in s143 valuation guidance B8*

* subject to a cap of £5m per scheme.

1 Overview
2 Performance report
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4 Financial statements
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Annex S6
Calculation results

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

(a) The present value of the PPF's liabilities to pay sums or transfer property, as required under section 173(3) of the Pensions Act 2004. This includes the liabilities in respect of compensation to members of schemes for which the Board has assumed responsibility. The total value is taken as £23,063.3m.

(b) The value of the PPF's assets determined in accordance with regulations 2, 4 and 5 of the Pension Protection Fund (Valuation of the Assets and Liabilities of the Pension Protection Fund) Regulations 2006 (SI 2006/597) – this value is taken as £32,160.5m.

These are the same figures as appear in my actuarial valuation report of 17 June 2019.

b) Calculation of provisions

73 schemes were included in the provisions in the statement of accounts for the financial period ending on 31 March 2019. The table below shows the estimated assets held as at 31 March 2019 in respect of the 73 schemes forming the provisions. It also shows the outstanding anticipated recoveries, the resulting total assets, and estimated funding position in respect of those 73 schemes. A comparison is shown with the equivalent figures for the year to 31 March 2018 (using the assumptions described in my report as at that date):

	31 March 2019 £m	**31 March 2018 £m**
Assets excluding anticipated recoveries	6,423.1	6,311.7
Anticipated recoveries	61.6	88.0
Total assets	**6,484.7**	**6,399.7**
Provisions	**9,525.2**	**8,039.0**
Excess of liabilities over assets	**3,040.5**	**1,639.3**
Funding ratio (assets/liabilities)	**68.1%**	**79.6%**

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

The provision assets have increased by £85.0m and this can be reconciled as follows:

	£m
Provision assets as at 31 March 2018	**6,399.7**
New claims arising in the year (includes new schemes in assessment and schemes now thought to be in deficit)	1,214.2
Claims no longer considered probable (exits or schemes estimated to be in surplus at their assessment date)	(19.4)
Schemes accepted into the PPF	(952.2)
Changes in schemes' assets due to benefits paid out	(249.7)
Investment return	158.8
Data changes (including updated valuation information)	(154.4)
Recovery changes	23.8
Methodology changes	24.0
Other items of experience	39.9
Provision assets as at 31 March 2019	**6,484.7**

The provision liabilities have increased by £1,486.2m and this can be reconciled as follows:

	£m
Provision liabilities at 31 March 2018	**8,039.0**
New claims arising in the year (includes new schemes entering assessment and schemes now thought to be in deficit), valued at month of entry	2,932.8
Claims no longer considered probable (exits or schemes estimated to be in surplus at their assessment date)	(25.3)
Schemes accepted into the PPF (liabilities as at transfer date)	(1,249.4)
Change in schemes' liabilities due to benefits paid out	(249.7)
Actual inflation experience being different from that assumed	(32.6)
Accumulated interest	78.5
Actuarial (gain)/loss due to:	
changes in market yields	281.8
data changes	(246.6)
to changes in life expectancy assumptions	(46.4)
changes in discount rate assumptions	95.1
changes in CPI inflation assumptions	(152.3)
other experience	5.7
Additional liabilities due to CJEU judgment	73.5
Change in expense reserve	21.1
Provision liabilities at 31 March 2019	**9,525.2**

Please note that the exact values attributed to each driver of change would be slightly different if the order of calculation were different. This does not affect the total liabilities at 31 March 2019.

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 2017/18 Annual Report and Accounts under the Main Assumptions basis as described in that report):

Type of contingent liability	Estimated net liability as at 31 March 2019 £m	Estimated net liability as at 31 March 2018 £m
I	0	0
II	81.5	1,406.7
III	923.6	1,437.0
Total	**1,005.1**	**2,843.7**

The net liabilities recognised as contingent liabilities are the present value of the aggregate scheme deficits (for types I, II and III) calculated at each valuation date.

Annex S6
Calculation results

Shown below are the total assets and total liabilities that correspond to the above net liabilities. A comparison is shown with the equivalent figures for the year to 31 March 2018 under the Main Assumptions basis.

	31 March 2019		31 March 2018	
Type of contingent liability	**Assets £m**	**Liabilities £m**	**Assets £m**	**Liabilities £m**
I	0	0	0	0
II	135.2	216.7	1,887.5	3,294.2
III	3,229.8	4,153.4	4,429.9	5,866.9
Total	**3,365.0**	**4,370.1**	**6,317.4**	**9,161.1**

At this stage it is too early to assess whether any recovery is available for type II or III contingent liability so none has been assumed.

Annex S7

Actuarial balance sheet

On the main basis the PPF actuarial balance sheet as at 31 March 2019 is as follows:

Assets	£m	Liabilities	£m
The value of the PPF assets determined in accordance with the Pension Protection Fund (Valuation of the Assets and Liabilities of the Pension Protection Fund) Regulations 2006	**32,160.5**	The present value of the PPF's liabilities to pay sums or transfer property as required under section 173(3) of the Pensions Act 2004	**23,063.3**
The sum of the estimated values of the assets in the schemes that generated the provisions, plus any anticipated recoveries	**6,484.7**	The present value of the liabilities of the schemes forming the provisions	**9,525.2**
Total assets	**38,645.2**	**Total liabilities**	**32,588.5**
Excess of assets over liabilities			**6,056.7**
Funding ratio (assets/liabilities)			**118.6%**

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

The balance sheet on the various scenarios (as described in the section on sensitivity analysis in Annex S5) is as set out below. The results show that the Fund is resilient to individual items of experience being different to those assumed. These sensitivities do not consider the risk from a large claim.

Annex S7

Scenarios 1-2b

Assets	Main basis £bn	Scenario 1 Nominal yields +0.5% pa £bn	Scenario 2a Inflation rate +0.5% pa £bn	Scenario 2b Inflation rate -0.5% pa £bn
The value of the PPF's assets	32.16	29.62	33.01	31.31
The values of the assets of the schemes forming the provisions	6.48	6.17	6.69	6.28
Total assets	**38.65**	**35.79**	**39.70**	**37.59**
Liabilities				
The present value of the PPF's liabilities	23.06	21.13	23.76	22.28
The present value of the liabilities of the schemes forming the provisions	9.53	8.75	9.82	9.21
Total liabilities	**32.59**	**29.87**	**33.57**	**31.48**
Excess of assets over liabilities	**6.06**	**5.92**	**6.13**	**6.11**
Funding ratio (assets/liabilities)	**118.6%**	**119.8%**	**118.2%**	**119.4%**

None of these scenarios should be interpreted as upper or lower bounds of the range of reasonable estimates which might be made (figures in this table are subject to rounding discrepancies).

Scenarios 3-6

Assets	Main basis £bn	Scenario 3 Life expectancy is 1 year shorter £bn	Scenario 4 Non-LDI assets fall by 10% £bn	Scenario 5 Non-investment expenses increase by 10% £bn	Scenario 6 s143 basis £bn
The value of the PPF's assets	32.16	32.16	30.34	32.16	32.16
The values of the assets of the schemes forming the provisions	6.48	6.48	6.28	6.48	6.48
Total assets	**38.65**	**38.65**	**36.62**	**38.65**	**38.65**
Liabilities					
The present value of the PPF's liabilities	23.06	22.11	23.06	23.12	24.44
The present value of the liabilities of the schemes forming the provisions	9.53	9.12	9.53	9.55	10.14
Total liabilities	**32.59**	**31.23**	**32.59**	**32.67**	**34.58**
Excess of assets over liabilities	**6.06**	**7.42**	**4.03**	**5.98**	**4.06**
Funding ratio (assets/liabilities)	**118.6%**	**123.8%**	**112.4%**	**118.3%**	**111.7%**

None of these scenarios should be interpreted as upper or lower bounds of the range of reasonable estimates which might be made (figures in this table are subject to rounding discrepancies).

Annex S8

Comparison with the funding position as at 31 March 2018

Under IAS 37, reconciliation is required of the opening and closing net funding position on the actuarial balance sheet, including schemes that generate the provisions. This is shown in the table below:

	£m
Excess of assets over liabilities on the actuarial balance sheet at 31 March 2018	**6,746.1**
Change in actuarial liabilities (this is further broken down in section 8 of my report on the actuarial valuation of the PPF)	(1,551.8)
Change in liabilities for schemes forming the provisions (this is further broken down in Annex S6)	(1,486.2)
Change in the PPF's assets (this is further broken down in section 7 of my report on the actuarial valuation of the PPF)	2,263.6
Change in assets for schemes forming the provisions (this is further broken down in Annex S6)	85.0
Excess of assets over liabilities on the actuarial balance sheet at 31 March 2019	**6,056.7**

Common terms and abbreviations

AVC – Additional Voluntary Contribution

CETV – Cash Equivalent Transfer Value

CJEU – Court of Justice of the European Union

CJEU judgment – The ruling that pension scheme members should receive at least 50 per cent of the value of their accrued old age pension in the event of employer insolvency. This has a direct impact on the levels of the compensation we pay.

CMI – Continuous Mortality Investigation

CPI – Consumer Prices Index

DB – Defined Benefit

DC – Defined Contribution

DWP – Department for Work and Pensions

EBITDA – Earnings Before Interest, Tax, Depreciation and Amortisation

ESG – Environmental, Social and Governance

FAS – Financial Assistance Scheme

FCF – Fraud Compensation Fund

FReM – Government Financial Reporting Manual

GMP – Guaranteed Minimum Pension

Hybrid assets – Investments which possess attributes of both liability hedging and growth assets

IAS – International Accounting Standard

IBNR – Incurred But Not Reported

ICO – Information Commissioner's Office

IFRS – International Financial Reporting Standard

ISO – International Organization for Standardization

KPI – Key Performance Indicator

KPP2 – Kodak Pension Plan No. 2

LDI – Liability-Driven Investments

LIBOR – London Inter Bank Offered Rate

LTRM – Long Term Risk Model

PPF – Pension Protection Fund

PRI – Principles of Responsible Investment

RI – Responsible Investment

RPI – Retail Prices Index

SIA – Schemes In Assessment

SIP – Statement of Investment Principles

SMCR – Senior Managers and Certification Regime

SME – Small and Medium-sized Enterprise

TAS – Technical Actuarial Standard

TPR – The Pensions Regulator

Pension Protection Fund

Renaissance
12 Dingwall Road
Croydon
CR0 2NA

T: 020 8406 2107

www.ppf.co.uk

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