Pension
Protection
Fund

Annual Report & Accounts
2019/20

Protecting people's futures

Pension Protection Fund

Annual Report & Accounts 2019/20

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

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HC 796

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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Section 1

Overview

Overview of the PPF

Who we are

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.

Our duty is to protect the millions of people who belong to UK DB pension schemes. When these schemes fail, we are here to support their members.

What we do

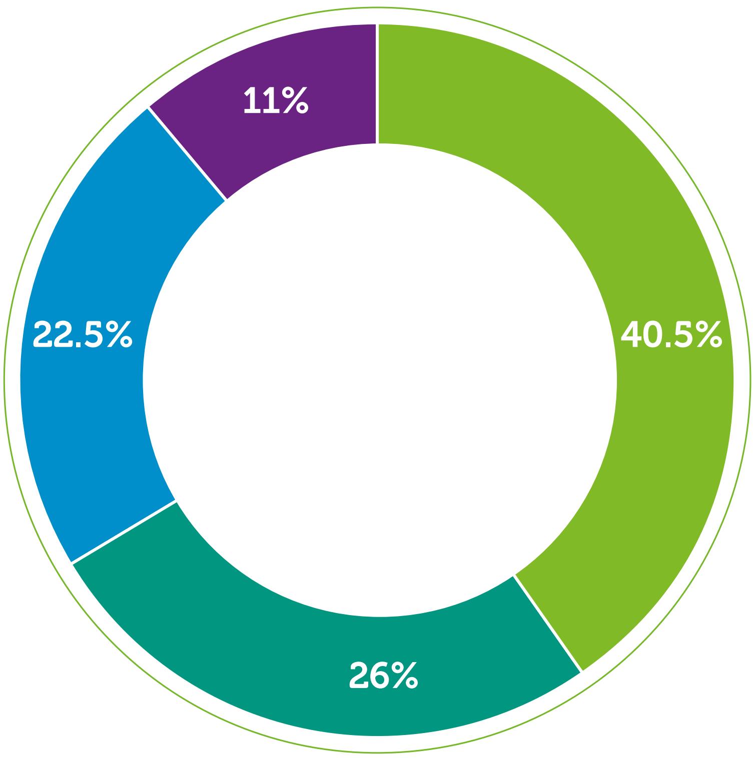
When an employer becomes insolvent and its pension scheme cannot afford to pay its promised pensions, we compensate scheme members for the pensions they have lost. We take over responsibility for paying compensation once we have assessed that a scheme cannot afford to buy benefits from an insurance company which are equal to, or more than, the PPF would pay. Currently around 277,000 people are members of the PPF. Before the PPF, these people could have faced significant financial uncertainty and hardship. We protect more than 10 million members of more than 5,000 DB pension schemes.

How we are funded

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

Split of funding sources at 31 March 2020

- 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



Source: The PPF

10m

We protect 10 million members of more than 5,000 DB schemes

Our other responsibilities

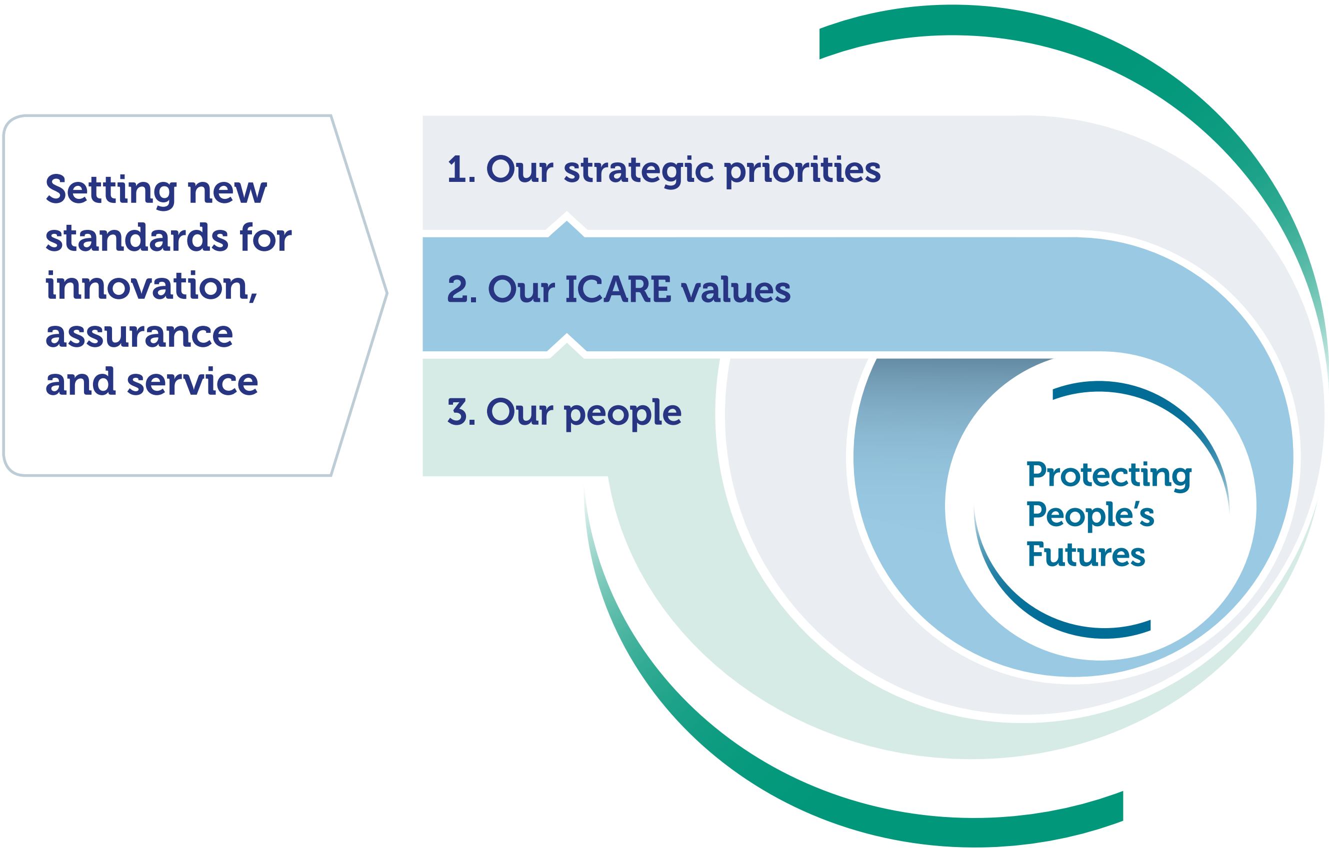
Financial Assistance Scheme (FAS)

We also run FAS on behalf of the Government. FAS is funded by the taxpayer. 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 began winding up between January 1997 and April 2005.

Fraud Compensation Fund (FCF)

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

The value of the PPF



£36.1bn
Assets under management

277,000
PPF members

1. Our strategic priorities 2019-22

- Sustainable funding in volatile times
- Built for innovation
- Brilliant service for our members and schemes
- The best of the financial and public service cultures
- Clear value for money

2. Our ICARE 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

148,000
FAS members

433
Employees based in two offices

Chair's statement

"When so many people are suffering worries and uncertainties about their livelihood and their financial security, our responsibility is to reassure those who depend on us."

Arnold Wagner OBE

The PPF's mission is to provide compensation to its members. Everyone at the PPF embraces that mission and works with dedication and commitment to deliver effectively on it. In the last quarter of 2019/20, all of us began to face what for many of us has been the biggest challenge of our lives. COVID-19 has brought tragedy, fear, anxiety and a sense of insecurity that has changed the way we live and interact. It has brought out the best in so many people and communities, and has demonstrated how much we depend upon and value those who put themselves in potential danger as they look after the health and care of us and our loved ones.

At the PPF, our challenge is not, of course, one that carries a personal risk to us. However, when so many people are suffering worries and uncertainties about their livelihood and their financial security, our responsibility is to reassure those who depend on us, now and in the future, that we remain financially robust, that the delivery of their compensation will be uninterrupted and that the service we offer will be as excellent as ever.

Proudly protecting people's futures for 15 years

2005–2020

2005 – **April 6.** We open our doors for the first time

2006

2007 – The MG Rover Group Pension Scheme formally transfers to us, bringing security in retirement to more than 6,000 people

2008 – We now pay compensation to 13,000 members from 66 schemes

2009

2010 – 113 schemes have joined us. We now have 34,286 members and we have paid out £138 million in compensation. We launch our funding strategy for the long term

2011

2012 – The UK Coal Pension Scheme transfers to us as part of a restructure that saves 2,000 jobs

I am pleased to report that this is exactly what has been achieved. Everyone at the PPF has risen magnificently to the challenges and contributed to this achievement. On behalf of the Board, I express a special and heartfelt thanks to every one of them, a sentiment I believe will be endorsed by all our stakeholders.

This report contains a lot of information on the more 'normal' story of the PPF over the past year, and I hope you enjoy reading through it. There are a few points I want to highlight here.

At the start of the financial year we adopted the Senior Managers and Certification Regime (SMCR), the accountability regime for regulated financial institutions, implementing all aspects that are relevant to the PPF. Although we are not obliged to implement it, doing so helps us develop our commitment to best practice in governance. It reinforces our culture of personal accountability, which enables all individuals to speak out if they see potential harm. We have this year trained all our senior managers on the SMCR and it now forms the fabric of our accountability and governance conversations.

Our strategic focus on diversity and inclusion (D&I) has begun to bear fruit: our gender pay gap is reducing – albeit not as quickly as we would like; we are hearing from more potential employees with disabilities; and we have given all our employees training to empower them to speak up and listen.

We reached a significant milestone in January as the 1,000th scheme transferred to the PPF. Without the PPF, on average we expect members would have received a share of the assets amounting to around just 55 per cent of their promised benefits.

My thanks to every member of our Board for their work, their commitment to the PPF and the support they have given me over this past year.

Since the last Report, we have said farewell to three of our non-executive directors, Diana Warwick, Alan Jenkins and Tom Joy, who retired from the Board at the end of their terms, and to Andy McKinnon, our Chief Financial Officer, who has moved on after seven years of service. All three of them served the PPF as active Board members across a range of activities, and were valued members of our team. They each have my personal thanks for their work and I wish them well.

We have appointed three new non-executive directors to the Board: Rodney Norman, Nailesh Rambhai and Anna Troup, all of whom are already contributing positively to our work. In addition, Sara Protheroe, our Chief Customer Officer, has joined the Board as an executive director. Sara has been at the PPF from its inception and has led with distinction the establishment and development of our Member Services function. I welcome all our new Board members and look forward to working with them.

Special thanks to Oliver Morley for his effective leadership of the PPF over the past year and to the whole executive team. Together, they continue to implement our strategy that ensures we deliver on our commitments to members and, indeed, to all our stakeholders.

It is a privilege and a pleasure for me to chair the PPF Board and I look forward with confidence, but no complacency, to the year ahead, whatever challenges it brings.

Arnold Wagner OBE
Chair of the Board

2013

2014
We bring customer service for PPF members in-house and we move into the Renaissance building

2015
We celebrate our 10th anniversary with a surplus of £3.6 billion and a strong funding position. We have now paid out £1.8 billion in compensation. We begin to insource part of our investments

2016
We begin bringing FAS member services in-house. The BHS pension schemes come into assessment

2017
A restructuring means that the Old British Steel Pension Scheme will enter PPF assessment next spring

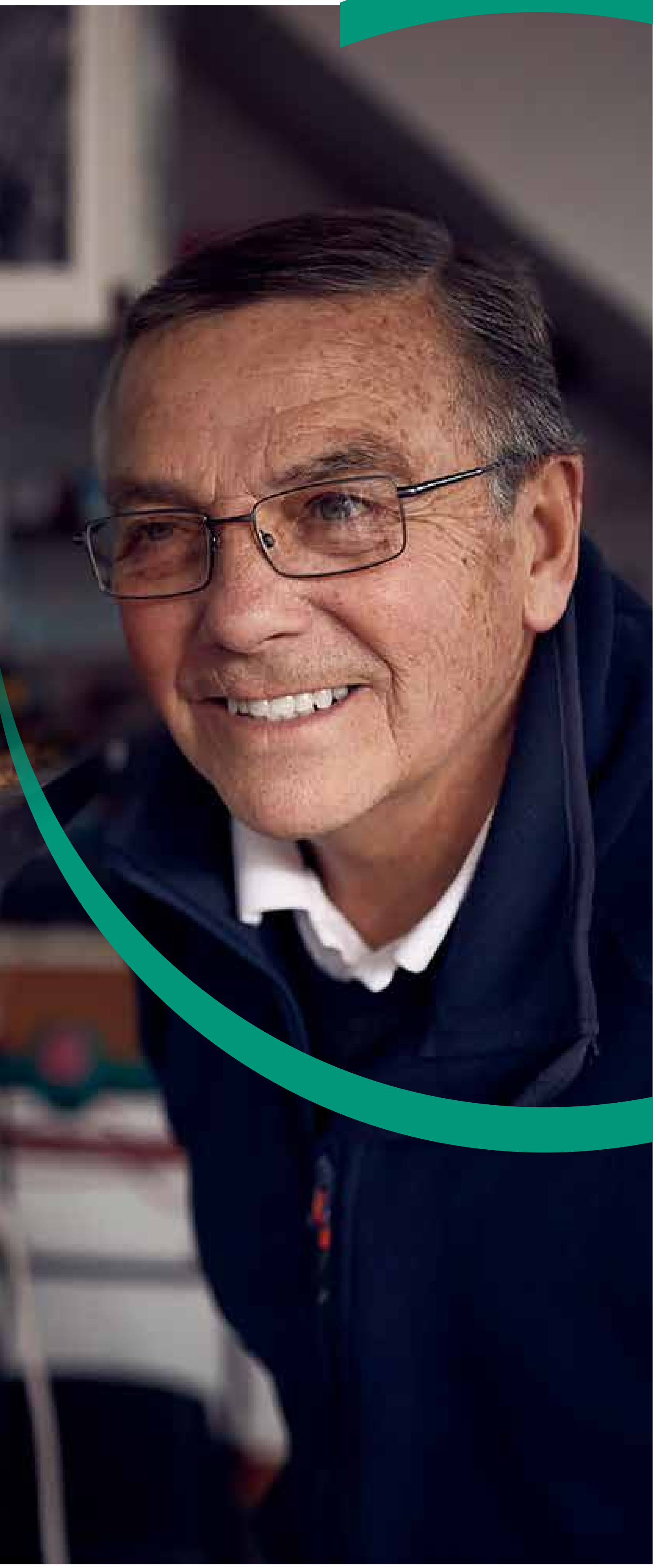
2018
We now have 236,000 members and are awarded the prestigious ServiceMark accreditation for customer service. Our investment team moves to our Cannon Street office in the City of London. Hoover, Carillion and Toys 'R' Us all enter PPF assessment

2019
We now have 249,000 members. Thomas Cook comes into assessment

2020
The 1,000th scheme transfers to the PPF. We celebrate our 15th anniversary. We have now paid out £5.4 billion in compensation

Section 2

Performance report



Chief Executive's review

"
These have been worrying times indeed, but a crisis often brings out the best in many of us.
"

Oliver Morley

The last several years seem to have been characterised by uncertainty in the wider world, but never more so than this year.

The COVID-19 crisis has brought challenge for all of us – members, employees, levy payers and other stakeholders – and tragedy for many. We have all worried about our families, our health and how our world might change. Very sadly, we have lost many of our members to this disease.

These have been worrying times indeed, but a crisis often brings out the best in many of us. The PPF's ability to withstand instability since 2005 is a strength; we will never be complacent but I am glad to say that we have – so far – weathered this particular storm well.

Our Emergency Response Team acted swiftly and effectively, and our IT team worked hard to get everyone working from home without delay. Our member and employee payrolls were uninterrupted and we have managed to maintain very high levels of customer satisfaction throughout the crisis.

Thanks to our long-term, low-risk investment strategy and our hedging programme, the Protection Fund has been protected to a far greater degree than many pension schemes.

We have seen a good recovery in the first quarter of the current financial year; we expect the macroeconomic situation to be tough for the foreseeable future but we are confident in our robust strategy.

It has been a challenging time to say the least, with our work and personal lives inevitably more interlinked than usual. It makes us more determined to harness the positives that have arisen from this experience, so we are looking to change our future ways of working for the better, giving our people the flexibility to work effectively in a way that suits them, and allowing us to attract previously inaccessible talent.

Despite the obvious challenges at the end of the financial year, I am pleased to say that we made very good progress on our objectives in 2019/20, the first year of our Strategic Plan. We are on track in our work to make sure we have a sustainable and appropriate funding strategy. We are setting new standards for the industry in customer service, innovation and efficiency. We have published our first Responsible Investment (RI) report, setting out our approach and focus areas. Our compelling offer to employees is attracting high-calibre talent and diversity, which will continue to improve. The Strategic Plan is building capability in the organisation where it intended, and gives us the focus we need to succeed in our mission.

In January, the transfer of the 1,000th scheme marked a significant milestone in protecting more than 275,000 members who have come to the PPF following the collapse of their pension scheme. While the arrival of the 1,000th scheme represents a great deal of insolvencies and change for our members, it shows the value of the PPF and that the legislation put in place to protect our members makes a real difference to people's lives. We take pride and encouragement from the fact that there is strong consensus on the value the PPF brings, across all facets, from our role in the pensions industry to our position in the community; as a corporate entity and as an employer.

During 2019/20 some major questions on PPF compensation were largely answered. Legal cases have specified that PPF compensation should be no less than 50 per cent of an individual's retirement benefits and should not put the member below the poverty line. While there is a lot of work to do operationally, we now have some clarity which will allow us to direct our focus on the risk of future claims from the schemes we protect.

There is still a great deal of uncertainty in the universe of schemes we protect and in the wider world – a recurring theme of the last few years. The work we did last year to prepare for Brexit remains valid, although the future is somewhat uncertain, compounded by the macroeconomic situation.

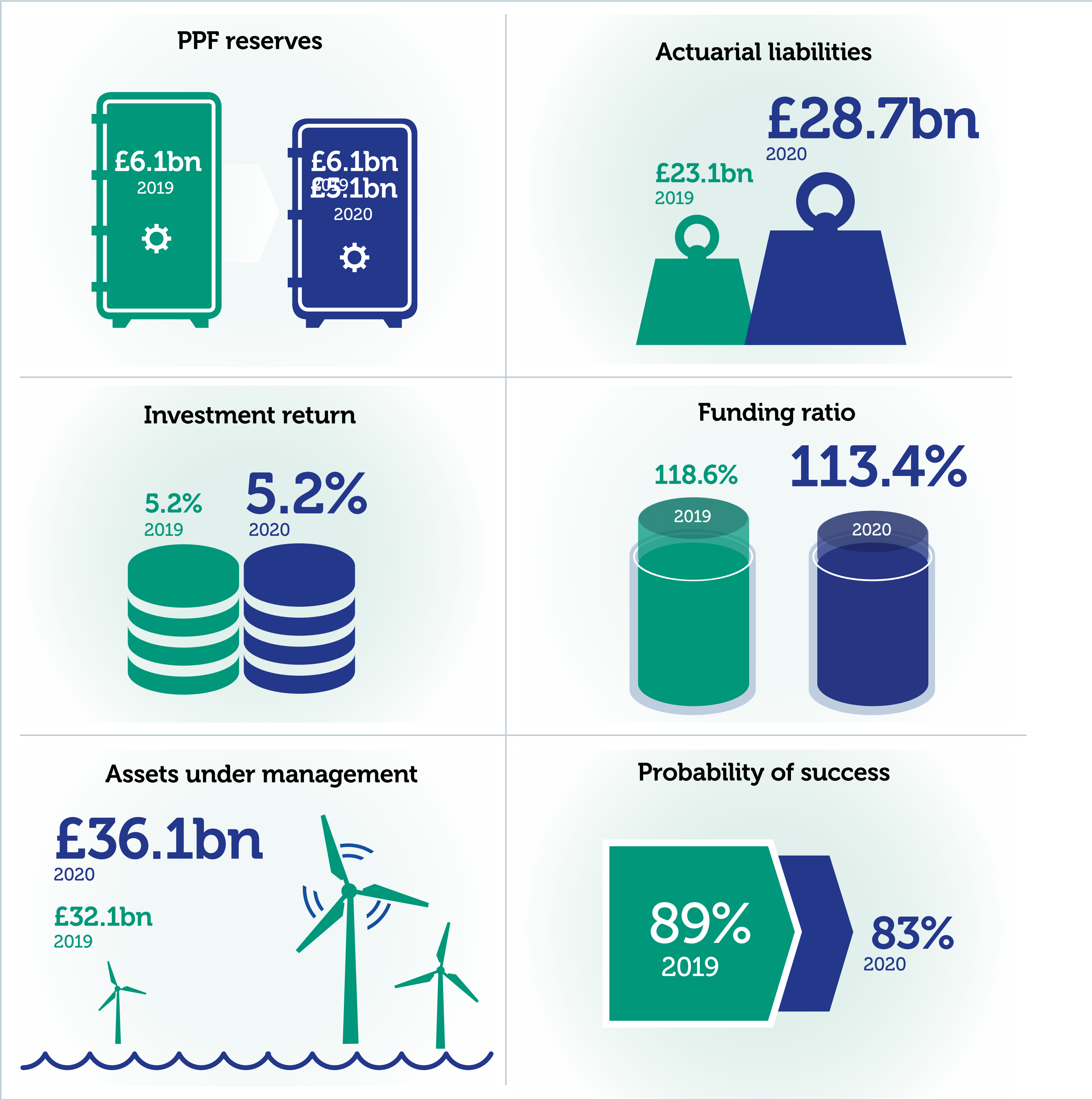
I would like to take this opportunity to thank Lisa McCrory acting first as interim Chief Finance Officer, and then taking the role on permanently.

I, and the Board, are profoundly grateful to all our employees for the way they have all stepped up, and know that as we ease slowly back to normality, the PPF will continue to work to the high standards we always set.

Oliver Morley
Chief Executive

Key figures

We use these measures to monitor our activities.



PPF members

276,580

In payment

165,955

110,625

Deferred

FAS members

147,818

In payment

76,167

71,651

Deferred

Cost per member per year

£62
2018/19

£57
2019/20

£

Members in PPF assessment

at 31 March 2020

147,783

Number of employees

at 31 March 2020

433

PPF levy collected

£567m
2020

£561m
2019

PPF benefits paid

£860m
2020

£775m
2019

Customer satisfaction score

97.4%

Strategic plan and priorities

We have now completed the first year of our 2019-22 Strategic Plan, 'Setting new standards for innovation, assurance and service'.

We remain at a key moment in our evolution, facing significant market volatility. We are at the point of balance between the financial and public sector, small scale and large scale, innovation and well-established quality services.

We believe that to be the best we can we need to set, and follow, the best practice across the industries in which we operate. We are setting ourselves new standards and sharing what we do more widely.

This means having a clear funding and investment strategy that meets the demands of key stakeholders. It requires us to maintain high standards of customer service, but also to build a reputation for innovation and efficiency.

We aim to provide a compelling proposition as an employer – getting our values, work/life balance and remuneration right, and promoting diversity in ways that outperform some of those who compete with us for talent.

Our five strategic priorities are the areas we need to focus on to successfully achieve our mission, and help address and mitigate the challenges we face over the three-year period of this plan.

Sustainable funding in volatile times

Pages 22-37

Built for innovation

Pages 38-43

Brilliant service for members and schemes

Pages
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The best of financial and public services culture

Pages
52-61

Clear value for money

Pages
62-63

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

Performance against our 2019/20 Business Plan

	2019/20 key performance indicator (KPI)	Performance	Comment
	Sustainable funding in volatile times		
1	**We will complete the first stage of changes in order to prepare for reaching our funding horizon. This includes:**		
A	Refreshing our Long Term Risk Model (LTRM) to provide significantly improved speed and sustainability.		While we have made good progress on this (see page 24), progress has been delayed slightly.
B	Determining the financial modelling requirements to support the next evolution of our funding strategy.		Achieved. See page 24
C	Publishing our first consultation on our proposed levy methodology for the period beginning 2021/22.		Achieved. See page 39
2	**We will demonstrate a robust and effective approach to responsible investment:**		
A	Identifying and assessing our climate-related risk exposure through carbon footprinting, sustainability and scenario analysis, starting with our Global Equity and Bonds investments.		Achieved. See page 32
B	Participating in the Principles of Responsible Investment (PRI) annual assessment.		Achieved. See page 32
C	Undertaking a feasibility study to combine our environmental, social and governance (ESG) related research with our real-time investment/risk systems and reports.		Achieved. See page 32
3	**We will maintain probability of success (PoS) of at least 90 per cent, subject to macroeconomic conditions.**		The PoS was above 90 per cent until macroeconomic shock caused by COVID-19. See page 23
	Built for innovation		
4	**We will complete the current plans for investment insourcing.**		Achieved. See page 39
5	**We will complete the first phase of a three-year IT transformation programme. We will transition from the current single managed service provider to a disaggregated support model with internal capabilities, leading with cybersecurity.**		Achieved. See page 39
6	**We will improve the service and efficiency in our Member Services operation by:**		
A	60 per cent of member services transactions being completed online.		Achieved. See page 40
B	Implementing at least five initiatives to increase automation and efficiency.		Achieved. See page 40
C	Training all senior pensions administrators and 50 per cent of pensions administrators on both the FAS and PPF payroll critical processes and all contact centre staff to be able to take calls from both FAS and PPF members.		Achieved. See page 40

	2019/20 key performance indicator (KPI)	Performance	Comment
	Brilliant service for members and schemes		
7	PPF and FAS members' satisfaction with the service they receive is at 90 per cent or above.	✓	Achieved. See page 45
8	Levy payers' satisfaction with the service they receive is at 80 per cent or above.	✓	Achieved. See page 46
9	Together with Dun and Bradstreet we will launch a rebuilt web portal by 31 March 2020. This will be used to view insolvency risk scores and information for the levy year 2021/22.	✓	Achieved. See page 46
	We will review and publish our policy for accepting payment plans on the levy and will evaluate the extent to which further changes are necessary to meet small and medium enterprise (SME) concerns.	✓	Achieved. See page 46
	We will collect 95 per cent of the outstanding uncontested 2019/20 levy by 31 December 2019.	✓	Achieved. See page 46
	Following the judgment from the Court of Justice of the European Union (CJEU), we will adjust compensation for capped members identified as receiving less than 50 per cent of the value of their accrued benefits, notwithstanding additional complications from legal challenge.	✓	Achieved. See page 48
	The best of financial and public services culture		
	We will score at least 85 per cent on our employees agreeing with the statement "In my experience, the PPF actively encourages diversity in all its aspects", with a particular focus on how that question is answered by those in under-represented groups.	–	We scored 81 per cent, which is in excess of the standard benchmark but does not exceed the upper quartile benchmark, which is the aspiration we have for the PPF. However, we did see improvement in scores for those in under-represented groups. See page 54
	Following a successful refresh of our risk management framework (RMF) in 2018/19, we will continue to make changes to the way we manage and report risk according to the plan we have developed.	✓	Achieved. See page 29
	Following the implementation of appropriate aspects of the SMCR to the PPF, we will continue to embed that into our framework and monitor our compliance with our version of the SMCR.	✓	Achieved. See page 53
	Clear value for money		
16	We will implement the new operating model and performance management system for our investment operations function.	✗	The system will go live in late 2020 and the new operating model later in the year. See page 63
17	We will undertake a value for money review, documenting benchmarks or agreed action plans covering 80 per cent of our non-staff operating cost base.	✓	Achieved. See page 63
18	We will deliver investment performance consistent with targets set by the Board and consistent with our long-term investment objectives within our strategic risk budget.	✓	See page 24

Sustainable funding in volatile times

Our mission 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 which we call our funding horizon – currently 2030.

As the funding horizon draws closer, our approach will need to shift to ensure we have neither too much nor too little in reserve.

Funding position

Our funding ratio (see definition on page 180) as at 31 March 2020 stood at 113.4 per cent. This is a 5.2 percentage point decrease year-on-year, which is a result of market turmoil in the last few weeks of the year.

We have £36.1 billion in invested assets, an increase of £4.1 billion year-on-year, and total consolidated reserves of £5.1 billion – a decrease of £1.0 billion from last year.

At the end of the third quarter our assets, reserves and funding ratio were significantly higher than at 31 March 2019, only declining as the coronavirus pandemic affected global markets.

However, thanks to our hedging strategy, the Fund was well protected – to a far greater degree than many of our peers. Our liability-driven investment (LDI) strategy protects the Fund from changes in inflation and interest rates. It is for this reason that we have been able to maintain a positive funding level.

Our reserves mean that we have £5.1 billion over and above what we estimate is needed to pay every current member and their dependants their full PPF benefits for life. The reserves exist to protect us against the risks we will face in the future.

The decrease in our reserves reflects the impact of markets' reaction to the pandemic on our return-seeking assets.

There were 36 new claims in 2019/20, up from 23 the previous year, but the value of these claims was lower – £0.3 billion compared to £1.7 billion in 2018/19, which included a single claim of £1.5 billion.

The reduction in our reserves this year is a reminder that we cannot be complacent. Many of the schemes we protect are underfunded, and it is likely that many schemes' funding positions will have worsened as a result of market volatility – particularly those with relatively high-risk investment strategies. We are also prepared to face an increased level of claims due to higher insolvency rates.

This is the risk the PPF was created to accept. Our funding strategy aims to manage the impact of this risk and to bring us to a position of self-sufficiency after our funding horizon, even if the trajectory is unsteady along the way.

Our low-risk, long-term funding strategy is designed to withstand uncertainty: despite the recent market instability, we are well-equipped to weather the storm and achieve our funding objective.

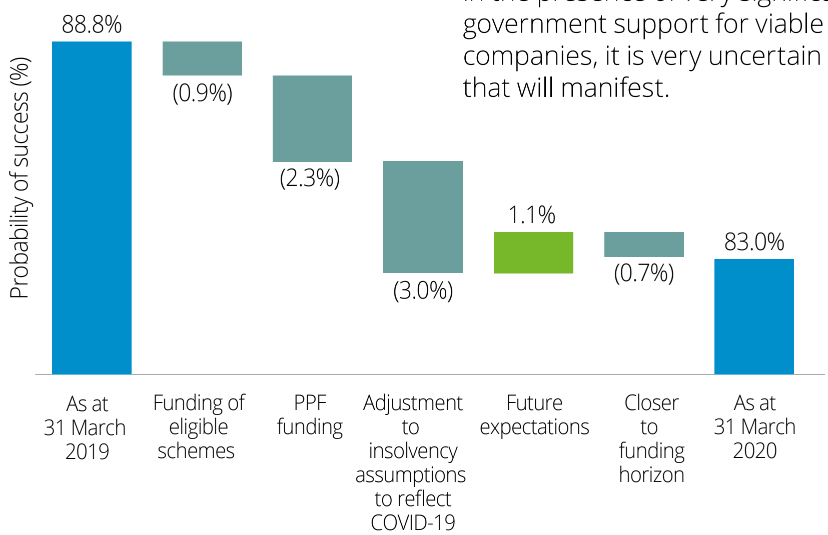
Understanding our biggest risk
See pages 30-31

Probability of success

KPI 3

The measure we use to monitor progress towards our funding target is our PoS, which we estimate quarterly using the LTRM.

Probability of success



The PoS started the year at 89 per cent before rising above 90 per cent for most of the year. At 31 March 2020 the PoS was 83 per cent, which at this stage of our development still indicates a good level of confidence that we remain on track to meet our funding target.

In 83 per cent of the scenarios modelled we have a margin of at least 10 per cent at the funding horizon. Like any complex modelling exercise, our projections make significant simplifying assumptions, in particular that we make no significant changes to funding strategy before the horizon, and they are subject to significant uncertainty. Our focus as a business is to prudently and actively manage all of the factors within our control and so in the event of a further material decline in PoS we would look to manage those factors to mitigate the risk of underfunding at the horizon.

At this year end, the uncertainty in our projections is more than usually high, as a result of the coronavirus crisis. There is more uncertainty than normal in our estimates of the current financial strength of the pension schemes we protect, as we need to make some high-level assumptions about the impact of the significant recent market volatility on their asset values. We are also facing a more uncertain claims environment than usual. It is clear that insolvency risk has increased, but at this early stage in the development of the expected worldwide recession, and in the presence of very significant government support for viable companies, it is very uncertain how that will manifest.

5.2%

2019/20 investment return

The chart shows the main drivers of the change in PoS from last year end to this. The main driver of the change is the environment caused by the pandemic, reflected in the funding levels of schemes we protect, PPF funding and the changes to our insolvency assumptions. This has been somewhat offset by the standard assumptions in the model about the future, which work out as a small increase in observed PoS.

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.

Investment performance

KPI 18

In the last quarter of 2019/20 the COVID-19 pandemic caused market moves of an unprecedented speed, and a depth which had not been seen since 2008.

Thanks to our robust investment framework, while there was a negative impact on the portfolio of risk assets, our LDI strategy performed extremely well and our Strategic Asset Allocation performed in line with our expectations, given the economic backdrop.

Our investment strategy is built to withstand market shocks from time to time. Additionally, the portfolio was below our strategic risk target as we entered the final quarter of the year as we had earlier taken the decision to reduce risk when assets began to look overvalued.

Overall our investments returned 5.2 per cent – the same as in 2018/19 – which was very positive given the market situation. On a one, three and five-year basis our investment portfolio continued to outperform the associated asset class benchmarks.

Refreshing our Long Term Risk Model

KPI 1

Our LTRM informs our understanding of the funding risks we face and helps us explore our financial position as we consider how a range of possible versions of the future might unfold. It takes into account existing assets and liabilities and how they might develop over time, possible claims on the PPF from eligible pension schemes and the assets and liabilities claims might bring, and possible levy income. The LTRM produces the PoS – the principal measure of our progress towards achieving our funding objective.

Our existing LTRM has served us well, but as we move closer to our funding horizon we need a tool that is more flexible and adaptable and one that allows us to be increasingly responsive to the needs of the organisation. We need to make informed decisions at an ever-increasing pace. We are developing a new model which will allow us easier access to information about how the organisation could evolve in the future. An improved level of information and insight will allow us to shape and evolve our strategies and activities so we can assess our confidence that we remain on track to achieve our objectives.

After a comprehensive review of the tools and systems available to us we awarded a contract to a supplier to provide us with modelling software and help us redevelop the LTRM.

The first stage of redevelopment, which we implemented in August 2020, was a milestone in increased productivity and capability to undertake a wider range of risk analysis with better operational control. The next stage will see a major project to develop the model throughout 2020/21, introducing increased functionality to meet the modelling requirements of key stakeholders.

Our long-term sustainability, governed by our funding strategy, is fundamentally important to our success in providing a secure future for our members. The new model will provide the right platform and tools for us to a make a step-change in how we manage and approach our balance sheet risk in the future, building the right foundations for a full review of our funding strategy throughout 2021/22.

Our levy methodology

KPI 1

In December 2019 we published our first consultation with Dun & Bradstreet (D&B) to seek stakeholders' views on our proposed approach to the measurement of insolvency risk for the 2021/22 levy year.

The existing insolvency risk methodology has been shown to be working well and only limited changes were proposed, largely in response to stakeholder feedback.

The first levy invoices to be calculated with D&B are expected to be issued in autumn 2021, based on monthly scores from April 2020 to March 2021.

Transparent and stakeholder-friendly levy invoicing
See page 46

"Our proposals for the measurement of insolvency risk build on the strengths of our existing model. The new services we are introducing – particularly the new portal – are important developments, making it quicker and easier to understand and engage with insolvency risk scores."

David Taylor
Executive Director and General Counsel

Working with troubled schemes

Contingency planning
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 into the PPF, at what is an uncertain time for members. This 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 The Pensions Regulator (TPR) we have produced guidance and offered support for trustees on appropriate contingency planning steps that could be taken. 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. We published this guidance in April 2019 and launched it with a series of events and communications, which have continued throughout the year. Since publication, the guidance has been downloaded more than 900 times and was shortlisted for 'Best Risk Management Exercise' in the 2020 Pensions Age Awards.

New panel of firms to provide PPF assessment services
In February we announced the appointment of nine specialist firms to a new panel which will provide the administration, actuarial, support and consultancy services we need to take schemes through PPF assessment.

We will continue to switch between our in-house and outsourced models of handling schemes in assessment (SIA) to help manage the peaks and troughs of claims experience.

Restructuring and insolvency
When a sponsoring employer suffers an insolvency event we adopt the creditor rights of the scheme trustees and seek to recover as much as possible towards the cost of members' pensions. Sometimes we engage in restructuring proposals for sponsoring employers facing insolvency.

Our Restructuring and Insolvency team remains actively engaged with our partners and stakeholders to identify cases which may make a claim on the PPF. We aim to engage early with the employers and trustees to discourage pension dumping and maximise returns in the event of insolvency. This approach helps to limit the impact on our levy payers. Our team works closely with TPR and, if there are concerns, TPR assesses 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 will take part in restructuring if it means the return from the employer will be better than if the business had been simply left to fail. It usually involves removing the pension debt from the company, allowing it to continue to trade with a positive cash flow and potentially make a profit.

We believe a planned entry into PPF assessment allows for the best member experience. To that end, with the support of TPR, we also encourage the appointment of our recommended experts – such as those on our trustee and pensions administration panels – to complex or high-profile cases before insolvency.

Case study

A flexible approach to restructuring

Following the administration of John Sutcliffe & Son (Holdings) Limited in February 2016, the company's pension scheme entered PPF assessment while the administrators sold its assets. One of the assets was its subsidiary company, John Sutcliffe & Son (Grimsby) Limited, which was also a scheme employer and faced insolvency due to the size of its pension liabilities.

The company was otherwise profitable and cash generative but value would be lost for all stakeholders if it had entered administration or liquidation. The majority of the economic value on insolvency would pass to the scheme and we recognised that the best way to maximise the return for the PPF was to avoid a destructive insolvency process and take any future upside. This was achieved with the support of TPR through a Company Voluntary Arrangement, completed in April 2019, whereby a better immediate cash return was generated and we took a 90 per cent controlling equity interest. Other creditors, which were small in value, were unaffected, and business and jobs were preserved in the hope of additional greater returns for the PPF in future.

This approach was not without risks, but taking a more flexible approach when confronted by the different circumstances of individual schemes is the right thing to do. We closely monitor the performance of the company due to the risks with this approach. Such flexibility, through engagement before an insolvency event, also allows more value preserving options to be considered and allows us to put in place plans to ensure that schemes move smoothly into and through PPF assessment.

Although this scheme does not represent a large claim on the PPF, it is a good example of how taking a flexible approach can produce better results, and acts as a potential model for future situations. In taking this approach, our aims have been to provide reassurance, confidence and clarity to the stakeholders, trustees and scheme members.

1,000th Scheme

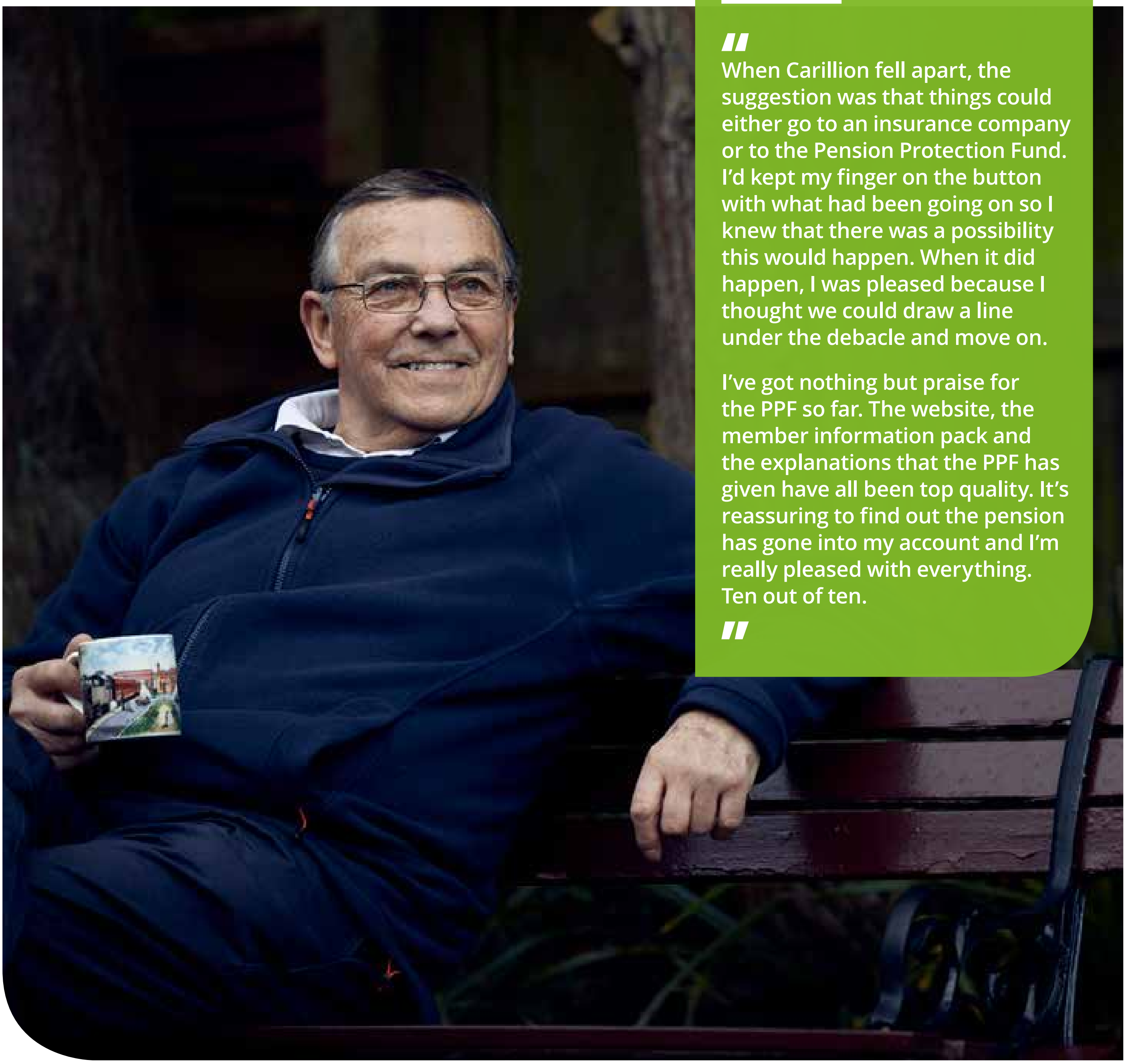
On 9 January 2020 the Carillion Rail (GTRM) Pension Scheme transferred to the PPF, securing the retirement benefits of almost 4,000 members. The scheme became the 1,000th to transfer to the PPF since we opened our doors in 2005. The scheme was severely underfunded, so without the PPF members would have received substantially less than their promised benefits.

Case study

John Brown, Lancashire
PPF Member

"When Carillion fell apart, the suggestion was that things could either go to an insurance company or to the Pension Protection Fund. I'd kept my finger on the button with what had been going on so I knew that there was a possibility this would happen. When it did happen, I was pleased because I thought we could draw a line under the debacle and move on.

I've got nothing but praise for the PPF so far. The website, the member information pack and the explanations that the PPF has given have all been top quality. It's reassuring to find out the pension has gone into my account and I'm really pleased with everything. Ten out of ten."



Our approach to understanding and managing the risks we face

KPI 14

The management and taking of risk is critical to our ability to achieve our strategy and objectives. Over the Strategic Plan period we will continue to build on our risk expertise, ensuring that we have a framework and tools for understanding and managing all the risks we face. We have made great progress in the first year of the Plan.

Risk management framework
In 2018/19 we refreshed our RMF design: a single, comprehensive framework that covers all sources of risk and that is appropriate for our future plans and strategy. During 2019/20 we have delivered a number of the components of this RMF including the risk strategy, risk appetite statements and risk universe.

Risk strategy
We developed a risk strategy which sets out our intentions for the management of risk to ensure that risk-taking enables the achievement of business objectives and protects the interests of our stakeholders.

Risk appetite
We updated our risk appetite statements and published them on our website. These enable us to approach risks consistently and help us to prioritise the most significant risk exposures. They balance opportunity and threat and provide clear direction for executive decision-making.

Risk universe
We reviewed and refined our risk universe, which outlines the risk types to which we are exposed. As a tool, it facilitates risk identification, risk ownership and risk classification and supports consistent aggregated risk reporting.

Risk types are grouped into broad categories as follows:

- external environment (e.g. climate change; likelihood of future claims);
- strategic and funding (e.g. liabilities; assets); and
- operational (e.g. legal/regulatory; conduct).

The improved risk universe articulates the risk types that we may face in achieving our business objectives. One of the key objectives of the RMF is to ensure that we have parity of risk assessment across the PPF. This requires us to compare potential risk exposures across the PPF universe of risk, so that we have a meaningful and consistent view of importance. To this end we have extended our risk classifications to give a more nuanced view, using consistent language around impact and likelihood. We have embedded the new approach within operational risk and are now rolling it out to strategic and funding risk.

Did you know...

- If a risk affects our funding level in the short term we will make sure our response is consistent with our long-term funding strategy.
- We make sure that we can always meet foreseeable requirements for cash, both in normal and stressed market conditions.

Understanding our biggest risk

The funding of the schemes we protect and the strength of their sponsors combine to make up the biggest risk we face. While the risk is not within our control, by seeking a detailed understanding of it we can plan and prepare.

Each year we compile and analyse data on the schemes we protect, and publish this data in 'The Purple Book'. This is an important part of our RMF. The data gives us an in-depth understanding of how the universe of schemes we protect is changing.

Understanding these trends helps us paint a realistic picture of how this landscape might look in the future. This helps us to model the level of claims the PPF may need to absorb in years to come, which, when combined with information relating to our membership, helps inform decisions on future levy and investment strategy.

It tells us about the demographic, funding and investment characteristics of these schemes, as well as steps being taken by trustees to reduce future funding risk and hence the risk of claims on the PPF.

It also provides some comparable information on the demographics of our membership along with information on historic claims on the PPF and the levies we have received.

This information all comes together to give an insight into the claims we expect in the future and how our funding might evolve.

Recent trends
Data for the most recent 'Purple Book' was taken at 31 March 2019. It showed a continuation of the trends we have seen over the last few years. Schemes are continuing to take de-risking measures, such as moving from investing in equities towards bonds. There are fewer schemes allowing new accrual of benefits. The universe is continuing to shrink as schemes wind up or transfer to the PPF, albeit at a slow rate.

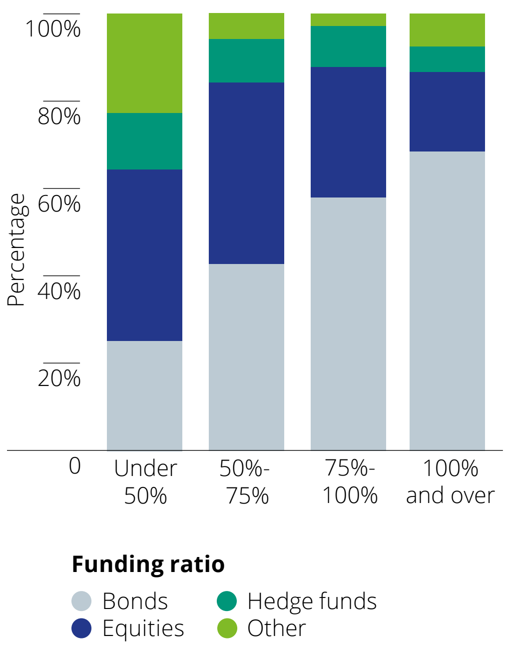
Our risk exposure
Despite all this, even before the most recent market turmoil caused by the coronavirus pandemic, there were still a significant number of schemes that remained underfunded. At the time the data was taken, the proportion of schemes in deficit was 57 per cent, with an aggregate deficit in those schemes of £160 billion.

This number is significant as it represents the size of potential claims on the PPF. It is a volatile number, driven by market changes in asset values and yields. Our reserves of £5.1 billion are a fraction of this amount. While we do not expect all these potential claims to crystallise, our aim is to understand this risk as best we can so that we are as well placed as possible for those claims we do incur.

Correlation between scheme underfunding and risk
Funding ratios have been much more stable over the years for overfunded schemes compared to underfunded ones. This reflects the different funding strategies adopted by schemes. Well-funded schemes tend to hold far fewer risky assets, instead choosing to invest in assets that much more closely match their liabilities. We see this strategy reflected in our own funding position, which is generally stable thanks to our defensive investment strategy.

The difference in investment strategy between schemes with different funding levels is very pronounced. Overfunded schemes have on average 70 per cent of their assets in bonds – whose value responds in similar ways to their liabilities – compared with just 25 per cent for those with a funding level below 50 per cent.

Weighted average asset allocation by s179 funding ratio



What this means for the PPF

Our modelling shows there is an 83 per cent probability that we will be at least 110 per cent funded by 2030 if we continue with our current approach to the levy and investment.

In practice we will not simply let the current approach roll forward unchanged – our focus is to manage funding prudently and to manage our balance sheet effectively. Over the last 15 years we have improved our ability to do so and our understanding of our risks.

To this end, we are currently rebuilding the LTRM, which underpins our analysis (see page 24), and we are preparing for a complete review of our funding strategy in 2021/22.

The PPF 7800 Index showed that the total deficit of the schemes in deficit at the end of March 2020 was £254.1 billion (2019: £159.8 billion). This figure has been significantly impacted by the disruption to global investment markets caused by the coronavirus pandemic.

We are using this up-to-date information to inform our best estimates of what claims might affect us in the future. We do this by combining the estimates of scheme funding that underlie the PPF 7800 Index with estimates of sponsor strength to assess possible claim levels.

In doing this we take into account both the different impacts that the pandemic might have on different sectors and sponsors and the support available to those sponsors from the various government intervention schemes.

Our current estimate is that allowing for expected claims over the next year or so our funding level is likely to remain comfortably above 100 per cent – although the risk level remains high as we are exposed to individual large claims or to an aggregation of smaller claims.

In the unlikely event that we look like we would not meet our funding objective, there are levers at our disposal, such as changing our investment strategy (e.g. to take more risk) or increasing the levy. Only in extreme circumstances would we reduce the compensation we provide.

Overall, we remain on a strong footing to continue protecting the UK DB pensions universe.

See page 68

Did you know...

- This year we asked people who downloaded 'The Purple Book' about how they use it, which sections they find most useful and what else they would like to see in future editions. Feedback was very positive, with 100 per cent of respondents saying they find the publication useful. We will use the feedback to make improvements to future editions.
- **Stakeholder comments:**

  "It is an indispensable source of information on private sector DB, and is greatly appreciated."

  "A unique and incredibly valuable publication."

  "A terrific document in which its authors should take pride!"

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Responsible investment

KPI 2

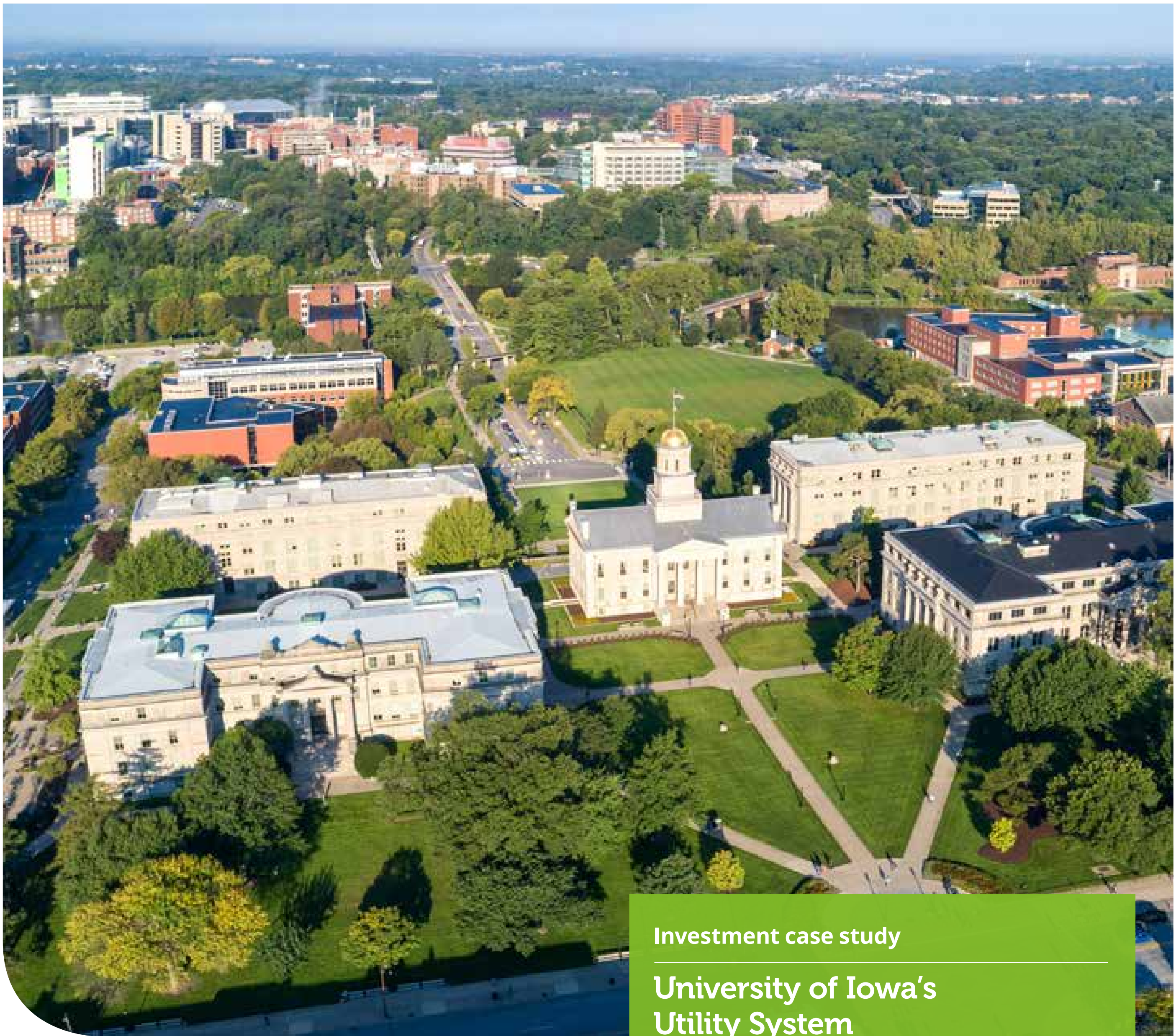
We are committed to RI. Our RI strategy integrates material ESG issues into our core investment process, better informing decisions and enhancing the value of our assets.

While we take account of all relevant ESG factors, we give particular consideration to climate change, as we perceive it to be a systemic issue that presents considerable risks – as well as opportunities. We believe that climate change could present financial risk to assets, with the potential to affect their value across the short, medium and long term.

Another focus is integrating D&I into our manager selection process and also within voting and engagement. For our listed equities, company performance on board composition and broader D&I within the workforce is reviewed, which informs engagement objectives and our decisions on how to vote at company AGMs. More recently, we integrated questions about diversity policies and initiatives into the selection and due diligence process of our external managers.

More generally, we actively engage with our managers on their ESG processes, outcomes and stewardship activities. We expect regular dialogue and reporting from them, and are keen to see continued progress as best practice evolves. We continue to collaborate with the Institutional Investors Group on Climate Change (IIGCC) and the Climate Action 100+ initiative to enhance our stewardship of climate-related issues across specific high-risk companies and at a broader policy level.

As a signatory to the PRI and supporter of the Financial Stability Board's Task Force on Climate-Related Financial Disclosures (TCFD), we have pledged to be transparent, and this year we are publishing our inaugural RI report to outline our progress on our ESG priorities in further detail.



Investment case study

University of Iowa's Utility System

We recently committed to a co investment in the University of Iowa's Utility System, a 50 year regulated concession within the core infrastructure sector in the US. The asset is expected to generate a strong return with low volatility while fully exploring the development of renewable projects to transition away from a fossil fuel system, minimise energy costs and improve sustainability on campus.

Photo – Image courtesy of University of Iowa

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Task force on climate-related financial disclosures (TCFD)

In 2018, we formally expressed our support for the TCFD and this is our first disclosure in line with the framework. As an asset owner, the TCFD's recommendations guide us to identify, assess and manage climate-related risks within our investments, including our external managers' application of the recommendations. Using the four core elements – governance, strategy, risk management, and metrics and targets – we report on how we are considering the risks and opportunities, and our strategies for mitigating and realising them.

Our climate-related governance structure

PPF Board	Highest governing body with oversight of climate related issues.
Investment Committee (IC)	Responsibility for developing and maintaining the Fund's RI principles and policies, including climate-related, is delegated to the IC.
Investment Team	Led by the Chief Investment Officer (CIO). Responsibility for ensuring adherence to the RI framework and associated policies, and integration of climate change policy across all asset classes, both internally and externally managed.
ESG Team	The ESG team, as part of the Investment team, provides support and expertise, oversees appropriate implementation of the RI framework, engages with portfolio managers and monitors investments for climate related risks and opportunities. The ESG team provides the Board and IC with quarterly reporting on the progress of climate related risk management within the Fund.

Progress in 2019/20

Our climate change policy was reconfirmed by the IC and the Board in 2019/20 and will continue to be reviewed annually.

We also implemented the RI framework and management of climate-related issues by the Investment team in accordance with our Statement of Investment Principles (SIP).

Strategy

We are committed to understanding how our investments might contribute to and be exposed to material climate-related risks and opportunities, which can emerge in the short, medium and long term. Our climate change policy directs our considerations as our understanding of the risks and opportunities evolve. We are invested across a range of liquid and illiquid assets so these issues impact our overall investment strategy. This is a key strategic priority for the organisation, with specific milestones in our three-year Strategic Plan and 12-month Business Plans linked explicitly to our ESG and climate-related risk management. Progress against these milestones is reported to the Executive Committee (ExCo) on a quarterly basis.

Climate and ESG considerations are embedded throughout our entire investment value chain, from manager selection to monitoring portfolios and stewardship activities. As a proportion of our assets are externally managed, we expect our managers to meet or exceed our ESG standards and to continue evolving in line with best practice. Formal commitment to ESG and climate-related risk management and reporting is included in binding legal documentation such as management agreements and side letters.

Progress in 2019/20

In 2019/20, we started to identify which climate-related factors could impact our investments, and recognise that certain risks have different likelihoods or magnitude of impact on specific asset classes.

Examples of potential risks and opportunities identified

- Transition risks in the shorter term that may impact earnings (such as carbon pricing or taxes)
- Technology risks that may affect market positioning as companies develop superior technology to build industry-based solutions
- Physical risks in the medium to long term that may impact infrastructure and property in certain locations; and
- Climate-related opportunities within some asset classes, such as sustainable forestry assets, offer a viable nature-based solution to carbon mitigation.

We also seek to assess the resilience and alignment of our investment strategy, taking different scenarios into consideration. Over the last year we have been building an implementation plan for the assessment and management of material climate-related risks, starting with our Public Equity and listed Corporate Fixed Income portfolios. To help us, we have reviewed a few scenarios as illustrated by the IIGCC, and largely based on the International Energy Agency scenarios. Initial assessments include estimating the impact on the portfolio of increasing carbon legislation, exposure to low-carbon technologies, and alignment with the Paris Agreement commitments under different temperature outcomes.

We have recently started assessing acute and chronic physical risks, covering a range of hazard types, including coastal flooding, extreme heat/cold, and precipitation, focusing on the most exposed regions, sectors and issuers to inform allocation decisions and future strategy.

Risk management

We use a variety of sources of robust data (both open-source and paid research) to assess our exposure from a top-down and bottom-up perspective. This is being integrated into our Portfolio and Risk Management system, to allow us to track our exposure across fund, asset class/strategy, manager, sector, region and issuer, on an ongoing basis. This includes quantifying carbon exposure, stranded assets screening, forward-looking scenario analysis, and identifying green revenue-associated economic activity.

Progress in 2019/20

The findings from the portfolio and risk monitoring provide a useful steer towards potential ways to try to reduce exposure to climate-related risks. We are currently exploring an option to reduce our exposure to emissions-intensive companies and fossil fuel-based revenues within our equity allocation through a climate-aware index. For our actively managed assets, the insights direct discussions with our managers, including challenging them where relevant – for example, whether they have factored the risk in to their valuation of the investment.

We view active stewardship as a key component for the management of climate risks and are supportive of the newly published UK Stewardship Code. We are a strong advocate for an engagement approach, as a critical risk management tool. We closely monitor engagement and voting practices for the most exposed holdings, in active and passive funds and beyond just our public equity holdings, expecting our external managers to deliver tangible engagement results.

We also work directly with our engagement provider to execute specific engagement and voting activities on our segregated accounts. We will consider supporting shareholder resolutions that encourage appropriate improvements in company management and disclosure of material climate-related financial risks, and are supporters of investor initiatives such as Climate Action 100+ and the Transition Pathway Initiative (TPI), which inform our data-driven engagement monitoring. We also participate in the IIGCC's collaborations, and support its engagement with policymakers and governments. Where we invest in sovereign debt, we engage with governments either through our own engagement (with the UK's Debt Management Office) or via our managers.

Metrics and targets

We expect our managers and underlying issuers to adopt the TCFD guidelines on disclosure and reporting publicly or to CDP (formerly the Carbon Disclosure Project), as well as commit to a strategy of decarbonisation. There are a variety of metrics and indicators that investors can use to assess climate-related risks and opportunities, which can then be tracked on an ongoing basis to measure progress in the management of these risks.

Progress in 2019/20

We have started by calculating carbon footprint metrics of our liquid portfolios, as an initial proxy for the carbon exposure of our liquid investments.

Metrics
Carbon footprint metrics include:

- Weighted average carbon intensity of the portfolio (tonnes CO_2e/USDm)
- Total carbon emissions (tonnes CO_2e)
- Portfolio carbon intensity of companies per unit revenue generated (tonnes CO_2e/USDm)
- Exposure to carbon-related assets as a share of assets under management in the portfolio; and
- The Scope 1 + Scope 2 carbon footprints of our public equity and listed corporate fixed income portfolios (as at December 2019) as follows:
  - Equity portfolio: 290 tCO_2e/USDm revenue; over 30% lower than the respective Equity benchmark
  - Corporate Fixed Income Investment Grade portfolio: 250 tCO_2e/USDm revenue; over 20% lower than the respective Global Credit benchmark

Source: MSCI as at 31/12/2019. We have used the Weighted Average Carbon Intensity of Scope 1 + Scope 2 tonnes of CO_2 equivalent per million USD of revenue metric, as recommended by the TCFD.

Focus areas in 2020/21 and beyond

- We will expand our footprint assessment into other asset classes, such as some of our alternative assets, and more broadly for physical risks.
- We acknowledge the need to contribute to economy-wide reductions in global carbon emissions and pursuing a pathway towards net-zero emissions, as stated in the Paris Agreement. We actively support the various investor initiatives such as TPI and IIGCC in their goal for broad decarbonisation of investment portfolios and alignment with the Paris Agreement. We do not currently apply any binding climate targets to our investments, however we are monitoring these initiatives and methods for setting portfolio targets as they evolve.

Investment case study

London Gateway

Together with Legal and General Investment Management, we worked to refinance the construction of the London Gateway port in 2016. London Gateway is a semi automated deep sea container port with a fully integrated logistics facility, located on the bank of the River Thames in Thurrock, Essex, and is focused on practising sustainability through its global programme, ‘Our World, Our Future’.

The port was the first in the world to be certified by The Planet Mark, an internationally recognised sustainability certification programme that is awarded to projects committed to reducing their carbon emissions year on year. In October 2019, London Gateway won awards in Supply Chain Engagement and Carbon Reduction from The Planet Mark, which found that the port reduced its carbon emissions by 24.9 per cent per TEU (twenty foot equivalent unit container) from 2017 to 2018.

Supporting the refinancing of projects like London Gateway is a vital component to facilitating the building of essential infrastructure within the UK.

Built for innovation

The PPF operates in a rapidly changing environment – not just in terms of the scale of the claims we must manage, but in the expectations of our members and levy payers, developments in technology and in the institutional and regulatory landscape in which we operate.

In order to be successful in this environment we must be an agile, innovative business, able to identify and respond to opportunities as they present themselves.

Investment insourcing

KPI 4

We completed our current investment insourcing project this year. We brought the management of our foreign exchange portfolio in-house, and we insourced part of the buy and hold UK Credit portfolio.

We now manage the majority of our assets in-house, which gives us complete control over the portfolio. We can react quickly and efficiently to market movements while adhering to strict governance standards.

We only insource work where we can improve our control and flexibility and when we are assured we can take on the additional responsibilities and risks. We continue to use the strengths of external managers where there is no clear benefit to doing the work ourselves.

Our new insourced model also gives us better oversight and influence to integrate ESG issues into our investment processes across all asset classes.

Responsible investment
See pages 32-37

IT transformation

KPI 5

We successfully completed the first phase of our IT transformation programme, exiting from our outsourced supplier and taking ownership of our IT estate. This has given us better control, allowing us to improve security and placing us in a position to offer more stable and appropriate services as well as better digital services.

We are now in a position to improve upon our estate and innovate for the benefit of our members and levy payers.

Having control of our IT estate gives us even greater confidence that our data security, cybersecurity and business continuity protocols can be aligned to industry best practice and emulate Financial Conduct Authority (FCA)/Prudential Regulation Authority (PRA) expectations. Moreover, moving away from reliance on a single IT provider has mitigated our operational and security risks.

We are now more agile, versatile and flexible and can move at a much faster pace, so we are well-equipped to respond quickly and effectively in the event of regulatory change, business model change or strategic change, while enhancing control of our risk appetite and security profile.

New style levy consultation

KPI 1c

We are making progress on our strategic intention to engage effectively with all levy payers, big and small, by tailoring our consultation information.

In December 2019 we launched a consultation on our proposed approach to the measurement of insolvency risk from 2021. For the first time, following stakeholder feedback, we made available functionality to respond to the consultation online, including the option of a 'quick' version for those short on time. This is a major change to the way we consult and we are pleased to see a strong take-up with over 60 per cent of responses received online.

In November we revamped the levy area of our website. This included restructuring to make the interaction between levy years easier to understand. The introduction of a 'levy timeline' has received positive feedback from levy payers who appreciate a quick way to view upcoming levy-related actions.

Efficiency in our member services

KPI 6

The number of PPF members is expected to grow significantly over the period of our current strategic plan. We are committed to securing efficiencies, building on our award-winning service by embracing new technologies and digital services.

With this aim, in 2019/20 we commenced our Efficiency and Service Improvement Programme (ESIP). This programme will evolve our administration system and processes and develop a modern, multi-channel offering for our members, while delivering value for money over member costs. We are improving our services both online and offline and continuing to provide excellent service that delights our members. By the end of March 2022 our processes will be more automated and streamlined, and we will continue to offer one of the most advanced online experiences in the pensions industry.

Why change now?

The world we operate in is changing – PPF member expectations are constantly shifting, member numbers and volumes of work are increasing, and around us the work we do is being shaped by new technology, which is evolving at a rapid pace. Our strategy set out our vision to move at a faster pace, using new tools and technology as a critical enabler for digital transformation, and we are focused on having the right systems and processes to achieve this.

32%

reduction in printing and postage costs

Since insourcing our member operations in 2015, our PPF membership has grown by around 37,000 and we expect it to grow considerably over the period of the Strategic Plan. We must demonstrate value for money to our levy payers and stakeholders. With better tools and processes, we will be able to serve more members without increasing our staff numbers.

What do we mean by efficiency?
Efficiency in this context means doing more with what we have and keeping our headcount stable. We need to respond to an increasing number of members and volume of work without an equal rise in costs.

What do we mean by service improvement?
Making best use of our systems and technology means an even better, multi-channel, customer-centric service, reducing the need for time-consuming manual interventions. This will free up our people to use their skills and expertise to deal with the more unusual, complex work, allowing us to add value to the member experience and, therefore, helping us further improve on the quality of service we deliver.

This programme is not just creating internal efficiencies; members are also benefitting from our more streamlined processes. For example, members who call us to change their address do not need to stay on the line while we complete the change.

Improvements made in 2019/20

- In 2019/20 we increased transactions completed online to 77 per cent, beating our 70 per cent target for 2022 by some margin. We are continually encouraging use of our online services to allow members quick and easy self-service. For example, changes we have made to the welcome packs we send to newly-transferred members saw web registration jump from 7 per cent to 22 per cent.

- Our annual member PPF newsletter, Member Focus, had a significant impact in increasing online transactions and resulted in a 13 per cent increase in members registered on our website. We now have more than 57,000 PPF members online – around 21 per cent of our members. This was due partly to the success of sending the newsletter by email to over 60,000 members – a first for us, and a big step forward in our digital journey. In the month of sending the newsletter we saw 4,664 registrations – normally 400-500 a month.

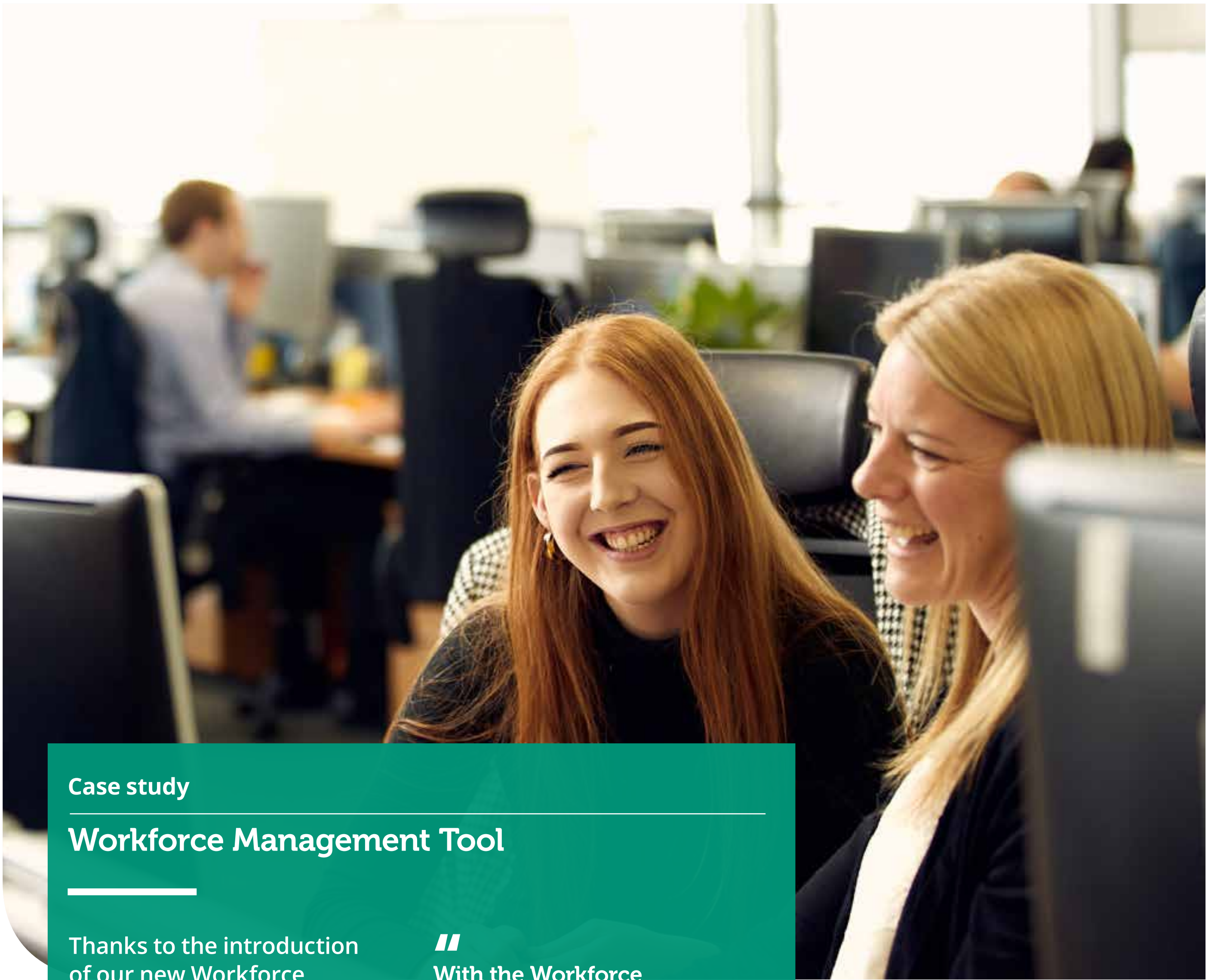
- We sent a newsletter to FAS members for the first time in March 2020, resulting in a 38 per cent increase in the number of members registered on the member website.

- We recently automated processes for retirement and changing personal details and removed call notes. Changing a member's address, phone number or email address is now a much slicker transaction, benefitting members and our team. We can now save around two minutes per call – a valuable improvement as our member numbers continue to grow.

- We have reduced our printing and postage costs by 32 per cent by removing paper payslips as a matter of course and sending non-urgent items by second class instead of first class post.

- In 2019/20 we made changes to the process of bringing schemes into the PPF and loading member data. Much work has gone into improving the guidance to third-party administrators to make sure member data reaches us without omissions or formatting errors, and we have introduced important validation and functionality improvements.

- We have introduced a pop-up address checker on our website to improve validity of member data and reduce costs of using a third-party tracing company.



Case study

Workforce Management Tool

Thanks to the introduction of our new Workforce Management Tool, our contact centre is now reaping the benefits of increased efficiency through improved resource planning, more effective call volume forecasting and more consistent achievement of Service Level Agreements (SLAs). It is proving hugely beneficial in helping contact centre team leaders with advance planning, which in turn helps operations run more smoothly.

"With the Workforce Management Tool we can confidently forecast call volumes at half hourly intervals, for any given day, up to a month in advance. Having this level of visibility across our workload means we're now able to identify pinch points where extra support may be needed and we can make sure we have the right amount of cover throughout the day to provide a great service. It's made a real difference to the way we work."

Trevor Davis, Deputy Head of Operations and Contact Centre Manager

As we start to leverage new tools and technologies, and rapidly iterate services, our track record and expertise will be fundamental to our success in delivering innovative member service.

Identity verification

The accuracy and protection of our members' data is of the utmost importance to us, so in conjunction with our data partner, Target Professional Services, we perform regular verification exercises for UK and international members. Verifying the identities of overseas members is recognised across the industry as being more challenging than for the UK members.

Feedback from the contact centre team

"The steps taken to improve efficiency have made what we do exponentially quicker and freed up more time to provide excellent service to our members."

"ESIP has paved the way for me to focus more on providing the best possible service to our members rather than spending long periods on administrative tasks, which also means I am available to answer more calls."

"I'm seeing our suggestions turn into real changes within weeks! Changes that are making our jobs faster, easier and more efficient. It's encouraged a culture of raising suggestions and thinking out of the box to explore those ideas."

"We've not only been able to free up our time for the next call, but have been able to enhance the member experience through greater speed. Moving house is a busy time and the less time the member spends on changing their address, the more time they can spend relaxing in their new home."

Traditional processes can be manual and laborious, such as asking the member to visit an outlet which may be many miles from their home or posting official documents after having them certified by a solicitor or notary. All these methods are time-consuming, can be costly, insecure and are susceptible to fraud, providing significant barriers to members responding.

We trialled Target's innovative app, which provides a much more efficient and secure method for our 4,000+ overseas members to verify their identity. Using a combination of facial and movement recognition technology the member can complete their verification at home, within minutes. We were very pleased with the adoption rate, with around 40 per cent of members in the trial choosing to use this method.

For our UK-based members, we created a pop-up reminder on our PPF and FAS member websites, inviting them to confirm their address so that they would not have to take part in our annual verification exercise. Almost 10,000 members have responded so far, improving the experience for those members.

Did you know...

- By encouraging members to make the most of our online services, we have already beaten our three-year target for online transactions after one year.

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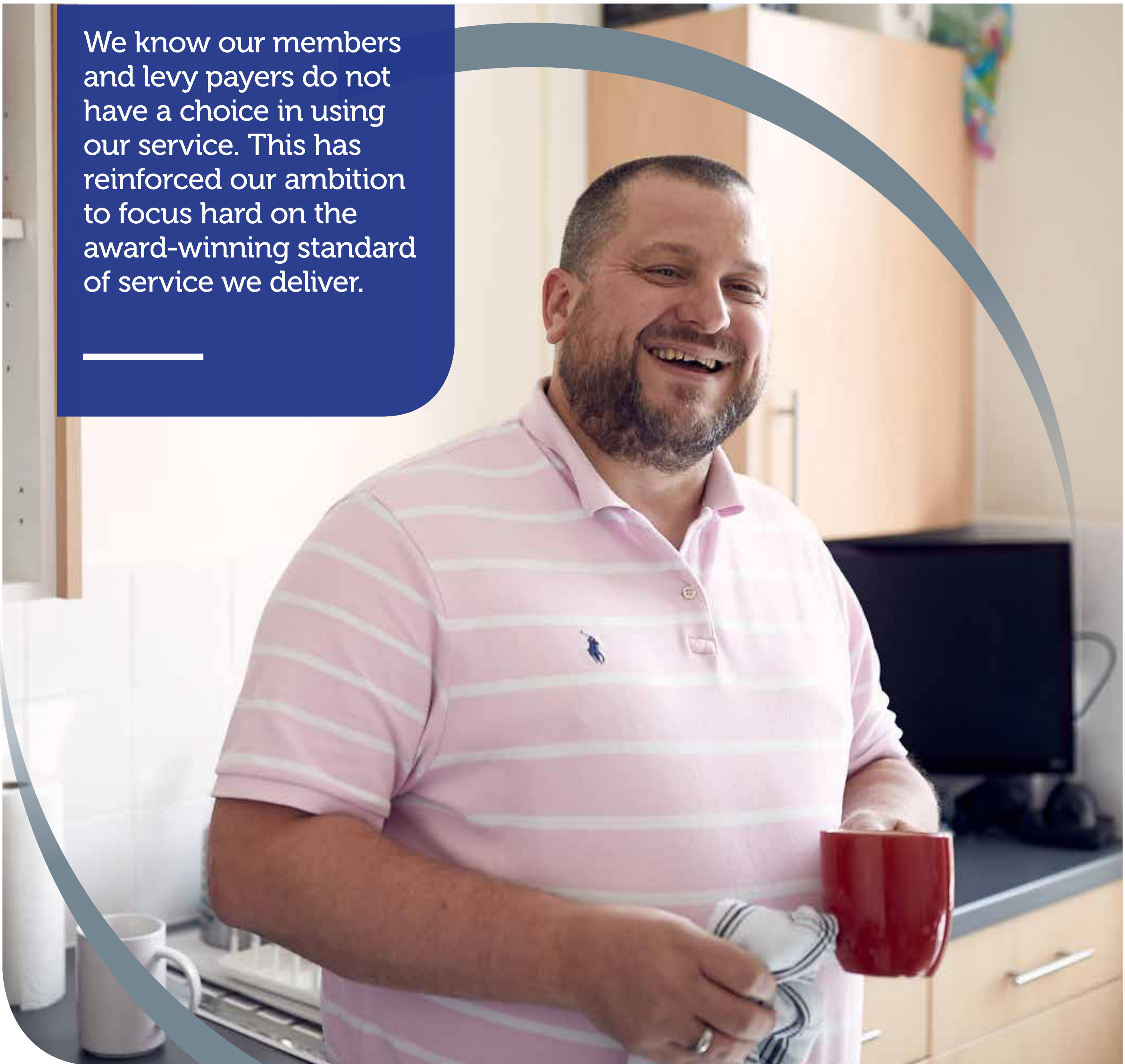
Brilliant service for members and schemes

We know our members and levy payers do not have a choice in using our service. This has reinforced our ambition to focus hard on the award-winning standard of service we deliver.



97.4%

average member satisfaction

Innovative and exceptional customer service as we grow

KPI 7

Our members often join us during a particularly unsettling time in their lives, so we aim to make their onward journey with us as smooth as possible.

Since insourcing our member operations, our services have gone from strength to strength. We continually seek ways to make interactions and transactions with the PPF even better for our members.

After having successfully brought PPF member services in-house in 2015/16, we insourced FAS member services in 2018/19. FAS is now fully bedded in and our customer satisfaction scores are consistently high, at 97.5 per cent for FAS and 97.3 per cent for PPF members.

To achieve this parity of service we trained all our senior pensions administrators and more than half our pensions administrators on both FAS and PPF critical processes, and all our contact centre staff can handle calls from FAS members just as well as PPF members. This gives us confidence that we will always be able to offer a great service and we are better able to deal with peaks in demand across PPF and FAS.

Administrative excellence

We believe that administration is a critical but often overlooked aspect of the pensions industry so were very proud to win the Pensions Administration Award at the Pensions Age Awards in February.

Our back office teams dealing with written correspondence make sure our responses do not just raise further questions in members' minds. We take the time to provide a thorough response to member queries, treating everyone as an individual and trying to put ourselves in their shoes to understand their needs. This is particularly evident in our response to complaint handling. We try our hardest not to make mistakes but where we do we place great emphasis on learning lessons for the future to minimise the chances of these errors recurring.

We set our SLA targets in 2015, agreeing no case should take more than five days to respond to. However, we believe that just focusing on SLAs can drive the wrong behaviours and make us target numbers rather than being member-focused. Our aim is to respond as soon as the enquiry arrives, so meeting the SLA is very rarely an issue. We deal with over 99 per cent of cases within SLA and only those that need extra input from our technical or actuarial team sometimes fall outside our very tight deadlines.

In the spirit of continuous improvement, our system support team holds fortnightly sessions where any customer-facing employee can come along and suggest a process or letter template change which they believe would improve the customer experience. This is a quick way to test and implement minor changes in response to frontline feedback, with many changes completed during the meeting. The sessions are exceptionally popular as improvements can be seen quickly. During the course of the year, 86 improvements were made, with consultation on a further 16 changes that will be part of larger projects.

Vulnerable members

We continued to improve the experience of PPF and FAS members with disabilities or other vulnerabilities. Through our membership of the Croydon Dementia Action Alliance we learn from other organisations' experiences of supporting members with dementia, and as part of the Retail Customer Services Forum we are working towards a set of principles for supporting vulnerable customers.

We believe one of the most valuable things we can do is to put flags on members' records if members mention a particular vulnerability. This allows our team to adapt their services as needed, without the member having to repeat themselves each time we interact. We need members' permission to do this and have been training our team to have these conversations in a sensitive way.

Member Forum

In February 2020 we hosted our first ever Member Forum, which was created to better understand how people use our services. We received an overwhelmingly positive response with the majority sharing stories of relief when they realised their pension would be protected by us.

The members in attendance took the opportunity as a chance to find out more about how we are funded, asking questions about our funding strategy and how much control we have over the size of the levy we charge. They had nothing but praise for the work of our Investment team, and felt reassured by the success we've achieved.

> Having the chance to engage with our members was an incredibly insightful and rewarding experience. We hope to invite more members to future forums to share their thoughts and experiences.

Sara Protheroe
Executive Director and
Chief Customer Officer

Transparent and stakeholder-friendly levy invoicing

KPI 8 KPI 9 KPI 10 KPI 11

In December 2019 we introduced new insolvency risk services with D&B, including a new suite of customer service functions and a newly-designed portal. Since the launch, levy payers have been actively checking their insolvency risk scores calculated by D&B, submitting queries online and holding live web chats with customer service advisers. This enabled D&B to calculate insolvency risk scores for the vast majority of employers by the end of March.

The portal is designed to give us greatly improved flexibility and potential for future development.

These services were developed with the help of stakeholders including our SME forum, with whom we met in September 2019 and February 2020.

In light of stakeholder feedback, we have kept separate telephone helplines for our insolvency risk partners for current and future levy years (Experian and D&B), but introduced a single phone number with interactive call routing so that calls are answered by the respective expert.

We published a new policy on levy payment plans in August 2019, which allows schemes and/or employers who are experiencing financial hardship to pay their levy in instalments at a reduced rate of interest. We have engaged with our SME forum and other stakeholders to help us evaluate the impact of the policy and whether further development is required. In addition, we have been offering levy payers an extra two months to pay without incurring an interest charge if their business or scheme is struggling as a result of COVID-19.

In September 2019, we introduced receipting functionality that notifies scheme contacts when their levy has been fully or partly settled.

> We are extremely grateful to our stakeholders who have taken time to give us feedback and to the members of our industry steering group and SME forum for helping us to reach this point. The services we offer are much enhanced as a result of their input.

David Taylor
Executive Director and
General Counsel

Did you know...

- We want to raise the bar for the industry as a whole. We have been breaking down the boundaries on what was thought to be possible by developing new services for DB members. We talk to many pension schemes about our innovations, which we hope will improve both the automation and the member experience in an industry that has been thought to lag behind in this area because of the sheer complexity of pensions in general.

In our members' words

"I have just been enquiring about my pension. I was speaking to one of your operators. If I could give him ten out of five I would. He absolutely helped me a lot. I m really, really pleased with his service, so I would just like to say thank you."

"I would like to say that one of your representatives was absolutely amazing and fantastic today. She was so clear and precise and got all the information that I required straight away. And I must congratulate you on being so, so professional and thorough."

"The gentleman I spoke to was extremely helpful and explained everything with great clarity. Just brilliant customer service. Thank you."

"It was nice to get through quickly to someone who has the authority to deal with my question. Thank you."

"I have just spoken with one of your employees who has very, very successfully and very speedily resolved a query I had. So I am very grateful for all her help. It's put my mind at rest. Thank you again."

"Thank you very much. It really was very, very satisfying. The way he went through everything that I wanted was absolutely first class. I did say to him at the time that it was a pleasure to deal with somebody who is so clear and so precise and helped me so well."

Court of Justice of the European Union Ruling – *Hampshire*

KPI 12

In 2018 the CJEU ruled in the case of Hampshire[1] 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. Some PPF members will be eligible for an uplift in their benefits, however the vast majority of PPF and FAS members already receive compensation in excess of this, so the number of members affected by this ruling is relatively small.

The work required to calculate and pay the increases is operationally complex and resource intensive, and we rarely have the data necessary to recreate members' former scheme benefits, so while we are working as quickly as possible it is not a straightforward exercise.

Over the year we started to increase payments to pensioners affected by the compensation cap. We also started to pay increases to those whose benefits fell below 50 per cent of the value of their accrued benefits because of a combination of the compensation cap and other factors.

In June 2020, the Administrative Court ruled on the challenge brought against us[2] over our approach to calculating increases and over whether the compensation cap was lawful. The Court ruled that our approach of making a one-off calculation is permissible, but needs to make sure that over the course of their lifetime each individual, and separately each survivor, receives at least 50 per cent on a cumulative basis of the actual value of the benefits that their scheme would have provided.

However, the Court also ruled that the compensation cap is unlawful on grounds of age discrimination. We are working through our next steps, and will work closely with the Department for Work and Pensions (DWP) to understand how the UK Government will respond. In the meantime, we will continue to pay members their current level of benefits.

The 90 per cent rate of compensation we pay to members who were below normal pensionable age when their employer failed was not challenged in this case. The judge did not rule on it but did comment that the impact on those affected, although significant, does not render the measure inappropriate or unnecessary.

Court of Justice of the European Union Ruling – *Bauer*

In December, in the case of Pensions-Sicherungs-Verein VVaG v Bauer[3], the CJEU ruled that a reduction in the amount of occupational old age pension benefits paid to a member on account of their employer's insolvency is manifestly disproportionate where, as a result of the reduction, the member is living below the at-risk-of-poverty threshold determined by Eurostat.

1 Grenville Hampshire v Board of the Pension Protection Fund (Case C-17/17) EU:C:2018:674 (6 September 2018).
2 Hughes v Board of the Pension Protection Fund 2020 EWHC 1598 (Admin).
3 Pensions-Sicherungs-Verein VVaG v Bauer (Case C-168/18) EU:C:2019:1128 (19 December 2019).

The implementation of the Bauer judgment presents a significant operational complexity and we are working with DWP to address this challenge.

See pages 121 and 160

Operational resilience

Our core operations must be able to continue when the unexpected happens. In 2019/20 we strengthened our operational resilience, creating better cohesion between our risk management and business continuity plans.

Moving away from a single outsourced IT provider has given us a much improved understanding of the true resilience of our infrastructure.

In 2019/20 we revamped our emergency response approach, creating a tiered system which enables us to respond appropriately to any given situation and improve the flow of information. Depending on the scale of the incident we may need to invoke both the emergency response team, to focus on tactical solutions, and the ExCo, to provide strategic direction.

We operate a schedule of regular testing and exercises, including an annual simulation exercise, scenario walkthroughs, and testing our recovery site and emergency messaging services. We are planning a data centre failover for later in 2020 to test our IT disaster recovery and set our own top-down tolerances for impact.

Emergency Response Structure

We have benchmarked our operational resilience against:

- The Prudential Regulation Authority and the Financial Conduct Authority's first joint paper on operational resilience
- The Business Continuity Institute's good practice guidelines; and
- International Organization for Standardization (ISO) 22301.

This was an invaluable exercise; it showed us that we are well aligned to best practice and identified some gaps which we will close over the next year. Our target is to be compliant with regulatory expectations for a commercial financial services firm, despite not being regulated. We aim to work towards ISO 22301 accreditation.

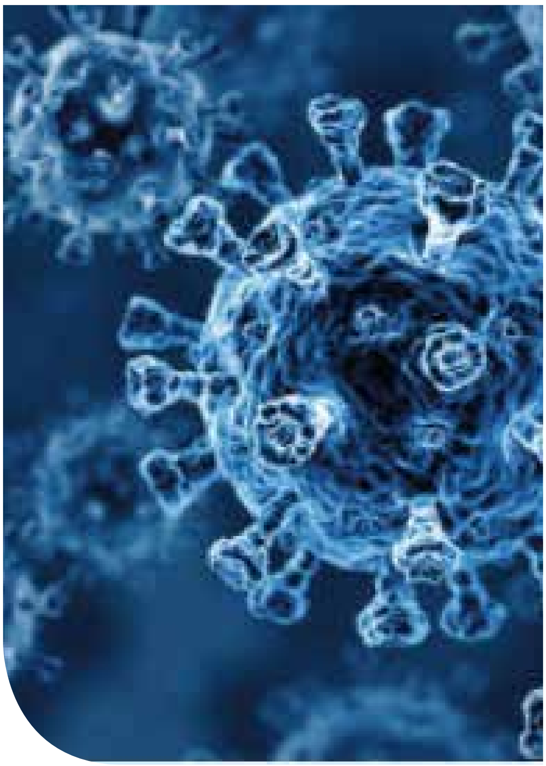
Looking ahead, we will benchmark regularly, further embed business continuity awareness around the organisation and continually review, adapt and enhance our practices.

We were affected by three incidents over the year: the London Bridge attack in November, which impacted employees working at our City office; a bomb scare outside our Croydon office in February; and, of course, the coronavirus pandemic.

For each of these we responded effectively, putting into practice lessons learned from our training and from previous incidents and building on our response each time. The three incidents provided opportunities for continuous improvement, and all learning has been successfully embedded into our business continuity plans.

Our initial response to the coronavirus outbreak was timely and effective. We were able to send a text message to the whole organisation on the same evening that the Government first advised people to avoid travel and work remotely if possible. Within 48 hours our employees were working from home. Our operations since then have been running smoothly in this way, and in particular our Member Services teams continue to serve our members with the high level of service they have come to expect.

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



The best of financial and public services culture

Our culture is demonstrated from the top down, in the behaviours and values we exhibit, and in the way we deal with challenges. The PPF spans the public and private sectors, with our employees drawn from both.

This is a key strength for the organisation and one which we are developing further. In order to focus better on our members and levy payers, we draw on the best of the financial services industry, including the standards by which they are held to account.

17

apprentices have joined us in 18 months

Accountability for Senior Managers

KPI 15

In line with our strategic aim to emulate best practice within financial services and manage conduct risk, we introduced a PPF-specific version of the SMCR, the accountability regime for regulated financial organisations.

Key aspects of the SMCR relate to structural and organisational clarity, the identification of senior managers and clear descriptions of what they are responsible for.

We have implemented all aspects of the SMCR which are relevant to the PPF. All senior managers and certified individuals were given training to understand their responsibilities under the regime. We carried out monitoring and reviewing exercises and deemed that all relevant individuals are aware and have effective oversight of those responsibilities. We have recently begun the first of our three-yearly background checks on those covered by the SMCR.

The SMCR is having the desired effect of ensuring clarity and awareness for accountable people. It now forms the backdrop of all our conversations around governance and accountability.

Did you know...

- 52 existing employees were appointed to internal vacancies in 2019/20.

Industry-leading diversity

KPI 13

Creating a diverse and inclusive workplace is the right thing to do. We all have a responsibility to help level the playing field and create a culture where everyone feels able to be themselves. It makes us better at what we do. A diverse workforce helps us to deliver a great service to the increasingly wide cross-section of people who make up our membership. An inclusive environment which actively challenges groupthink allows us to identify risks and find better ways of doing things.

Our challenges

We are working hard to address areas of under-representation in our organisation. We know:

- We do not have enough women in senior positions or in certain high-earning areas of the business, such as the Investment team
- Our proportion of non-white employees does not reflect the ethnic diversity of the local areas in which we are located; and
- Only a minimal number of employees self-declare as having a disability, although more declare long-term health conditions.

While we are doing our best to address these areas of under-representation, we are part of an industry where attracting diverse talent is a challenge. For instance, the lack of women in our Investment team reflects the inherent profile of the sector.

We cannot change our industry singlehandedly, but we can be part of the solution. However, it will be some time before our statistics, such as our gender pay gap, start to reflect the effort we are putting in.

Taking action

Since 2018 we have encouraged and promoted a diverse range of employee-led groups and networks including the Race Action Group, Working Families Alliance, Kaleidoscope (LGBTQ+), Empowering Women, Inspiring Women and the Disability Working Group.

In December 2019 we became an official signatory of the Race At Work Charter, thanks to our Race Action Group. It is important that we understand the significant barriers faced by ethnic minorities in the workplace when it comes to discrimination and career progression. We recognise that things need to change for the better.

Our apprenticeship scheme is one of the ways in which we try to increase the diversity of our workforce by opening up new opportunities to local people and growing our own talent. We have had 17 apprentices join us in 18 months across a broad range of roles, which we intend to build upon.

There is no quick fix to increasing diversity – while recruiting more people from under-represented groups into more junior roles will further polarise our data in the short term, we believe that nurturing our own pipeline of talent will, over time, really make a difference.

We will continue to monitor progress against our D&I ambitions using employee feedback data and externally recognised standards such as the Women in Finance Charter, Race at Work Charter and the Disability Confident Employer framework.

Recruitment review

We operate the vast majority of our recruitment activity in-house, with 94 per cent of roles recruited directly, without the use of recruitment consultants. Our use of social media in the last year has contributed towards this figure.

In 2019/20 we engaged an external consultancy to undertake a comprehensive review of our recruitment process. The aim was to identify any positive changes we could make to support our D&I ambitions and to further our aim of being an employer of choice.

The review generated 39 recommendations, 11 of which were implemented as quick wins, such as non-binary gender options on application forms, updating our interview template and inviting requests for reasonable adjustments at every stage of the recruitment process. We have also extended some of the other recommendations where we have built upon the initial recommendation. Others will take more time and will be implemented when our new recruitment system is in place, with input and feedback from some of our working groups including the Disability Working Group and Working Families Alliance.

One of the things we have done is to update the wording of our job adverts to use more inclusive language and reduce gender bias, state that we are happy to discuss flexible working, and let people know that we are a Disability Confident employer. We also now publish the full list of employee benefits with every job advert, with the aim of showing that there is something for everyone.

The review provided some specific recommendations for enhancing our current recruitment process and documentation to assist us in attracting and recruiting diverse talent. We anticipate that these recommendations will help us increase representation across all aspects of diversity. We were encouraged that most of the recommendations build on what we are already doing and are mostly ways we can further embed our values into every aspect of the process.

"In our team we've noticed a substantial increase in the number of CVs we receive from people with disabilities. We've also noticed people giving us more information about their disabilities. It's helpful to know so that we can offer them any support they need during the interview process. And if we go ahead to recruit someone we know in advance how we can support them from day one. I'm pleased to see that changes in our recruitment processes are having a positive impact."

Sarah Seear
Contact Centre Team Leader

What does it mean to be a Disability Confident employer?

Shaun Hilley, recruitment partner

"The aim is to encourage disabled people to apply for vacancies and support them when they do, so that we give them an opportunity to demonstrate their skills and abilities.

"We had to fulfil certain requirements in order to obtain accreditation as a Disability Confident employer. One of those requirements is that if a candidate's application matches the essential requirements of a role, then they're guaranteed an interview."

Gary Brignall, recruitment partner

"We're not solely looking at physical disabilities. Mental and physical health conditions fall under the disability definition as well. We want to make sure we're taking it all into account. We might have a candidate who's been out of work for two years, say, because of poor mental health but they might actually have the right skills and experience for the role and we don't want them to miss an opportunity in a working environment that will support them.

"To underpin this, we've been working on guidance for line managers on making reasonable adjustments for employees to support them in the workplace. There are around 3.5 million people with disabilities in the UK workforce, and a similar number of people with disabilities who are not working. That's potentially a large talent pool of people whose skills aren't being utilised. We're opening the door."

Shaun: "We aspire to be a Disability Confident Leader. That's the pinnacle of an employer who can demonstrate, through an assessment, additional standards on how they support both employees and candidates with disabilities and health conditions. This is something we're actively working towards and hope to achieve within the next two years once we've fully implemented and embedded more of the recommendations from our recruitment review."

Gary: "We recently took part in a reverse recruitment fair, hosted by Croydon's Disability Confident Action Group. The event creates opportunities for people with a range of disabilities to meet employers and discuss how they might be able to develop their career. Instead of employers pitching a spot for candidates to approach them, the candidates are approached by the employers. I had the pleasure of spending time with six people who all had skills that could potentially suit the PPF in a variety of ways, including IT and customer service. We discussed their skills and aspirations and how we could support them through reasonable adjustments. I'm now speaking with a number of different business areas to look for opportunities for these candidates."

Did you know...

- We've been shortlisted for Best Candidate Experience and Recruitment Team of the Year in the 2020 Recruitment Industry Disability Initiative Awards.

Case study

Taylor, PPF employee

"When I arrived at the PPF for my interview, the recruitment team who did my first interview were very welcoming and approachable. They allowed me time to think of an answer to questions they had and were very patient compared to previous employers. If I had any questions, they would answer them and reassure me.

When I was offered the job, the HR team made contact with an organisation called AppaMe, who suggested that I have a support worker. Having my support worker has definitely helped me relax and fulfil my role to the best of my ability. HR also adjusted my working hours around my college hours to help me complete my course effectively.

The most helpful adjustment that was made was around my work space. In contrast to my colleagues, who hot desk, I have a permanent desk, which has given me routine. HR also arranged a meeting between myself and my manager outside of work to help me better understand my role. It was arranged to meet each of my team colleagues individually to understand their role and how mine would fit in.

The recruitment team helped set a positive image of the PPF which enticed me to join the organisation and have reassured me every step of the way."

"I'm committed to making sure we challenge ourselves to make sure people feel fully heard and understood."

Katherine Easter
Chief People Officer

Open Minds
We know it is not enough to increase the diversity of our workforce – an inclusive culture is necessary to make sure all voices are heard. With this in mind, we have given line managers the tools needed to make effective changes in decision-making and ways of working, such as unconscious bias, inclusive leadership and mental health training. In 2019/20 all our employees attended our full-day Open Minds course, which aims to create a speak-up, listen-up culture across the organisation. We have also brought in additional mandatory unconscious bias training for recruiting managers, to help eliminate unconscious bias in shortlisting and interviewing. Following the training, 96 per cent of people said they understood the responsibility they had in helping to create a more inclusive working environment.

Gender pay gap
Our gender pay gap continued to reduce in 2018/19. Our median gap was 13 per cent, down from 17 per cent the previous year. However, this is still some way from where we want to be.

There are two reasons for our gender pay gap: we do not have enough women in senior positions; and we have a high concentration of men in highly paid roles in functions that are currently over-represented by men in our industry, namely in our investment, risk and IT teams.

We are making progress on improving the gender balance in senior roles. Two years ago, when we signed the Women in Finance Charter, we committed to having 40 per cent of our senior roles filled by women by 2021. We hit this target early – 40 per cent was achieved in October 2019. We will, as a minimum, maintain this level. There are only 66 people in this population so any change is noticeable in the figures.

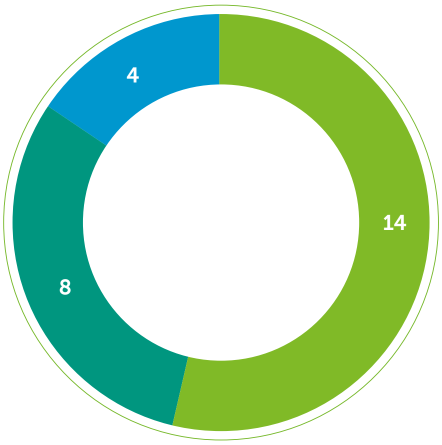
We will continue to increase the number of women in senior roles by nurturing our own talent, ensuring the PPF is an attractive workplace for female employees, and supporting women through groups aimed at different career stages.

Work/life balance
Along with many organisations, we have identified that the solution to reducing the gap requires a long-term strategy focused on sharing work/home commitments. In our most recent employee survey, 82 per cent of people said they were happy with the balance between work and home life. The figure was the same for men and women. This was three points up from 2018 and is above the upper quartile norm benchmark (77 per cent) set by top performing organisations.

50%

of new dads took Shared Parental Leave

We aim to be an employer of choice for women. We are proud of the focus we have put into encouraging a positive work/life balance and for our family-friendly policies. We also know that this is not limited to women and we recognise the wider benefits of allowing men to share childcare and caring commitments. Of the 10 men who took paternity leave in the last year, half of them also took Shared Parental Leave. The national rate of uptake for this could be as low as two per cent, according for the Department for Business, Energy and Industrial Strategy, so we are encouraged that our culture allows men to feel able to take this opportunity.



Employee survey results vs external benchmark

This chart shows how many questions in our employee survey had an average score above or below the external benchmark.

There were an additional 19 questions in the survey which were unique to the PPF so there is no benchmark for these.

- Upper quartile benchmark or above
- Standard benchmark or above
- Below standard benchmark

Supporting our staff

We are proud of our people and want to continue to be a great place to work, attracting and retaining high-quality people who are committed to the PPF. Our employee survey in November 2019 found that 93 per cent of our employees are proud to work here and we want to continue to be an employer of choice.

Our employee survey – a snapshot

	Norm (standard) %	Norm (upper quartile) %	**PPF %**
Taking everything into account, I feel positive about working here	81	86	**87**
I am fairly paid for the work I do	58	68	**68**
The experience I'm gaining by working here is valuable for my CV/ future career	n/a	n/a	**78**
My line manager leads by example	78	82	**80**
I am encouraged to suggest new/ better ways to do my job	79	87	**87**
I believe that the PPF is an organisation with strong values and principles	n/a	n/a	**93**
I feel excited by what the PPF is trying to achieve	n/a	n/a	**86**
The PPF makes a positive difference to the world we live in	n/a	n/a	**98**

Source: Employee Feedback Ltd, Viewpoint 2019 employee survey report.

98%

of employees believe the PPF makes a positive difference to the world

New ways of working

Our ongoing IT transformation is giving us the power to modernise our way of working and provide an improved environment that enables our people to work effectively. All our employees have been able to work from home from the day after the Government asked people to avoid offices at the start of the UK's coronavirus outbreak. This includes people in roles where homeworking was not previously the norm, namely our investment and contact centre teams. This was made possible by our IT transformation and the collaborative efforts of our IT, HR and emergency response teams.

Our employees' wellbeing is of great importance so we have taken every step to support them during the extended working from home period. We are well aware that some of our people are unaccustomed to working from home, and none of them for such a long time. We are acutely aware of the impact isolation can have on people's mental and physical health. We also understand the challenges many people will have in combining childcare or other caring responsibilities with their work. We have empowered our line managers and stepped up our internal communications to make sure people feel able to cope, to explore new ways of bringing people together, to keep them focused on our objectives and to enhance our human connections. We will continue to monitor this closely, adapting and trying new things as this period continues.

Flexible benefits

February 2019 saw the launch of our online benefits portal, Benflex. We offer a range of benefits reflective of the market, many focused on employee wellbeing. Our employees' engagement with Benflex and their feedback has surpassed our expectations with 92 per cent of employees logging into the portal, compared to the 75 per cent industry benchmark[1]. Employees sacrificed £240k of their salaries to purchase benefits that suited them and their families. Looking ahead, we are committed to implementing total reward statements to demonstrate the true value of employees' remuneration packages.

Did you know...

- We have been giving extra support to employees during the pandemic, to protect their mental health and help them balance work and home life.
- No employees have been furloughed.

[1] Benflex annual client survey.

Clear value for money

The PPF is growing and we are determined to manage that growth efficiently, utilising our increased scale to drive productivity.

Did you know...

- We reduced our operating expenses by six per cent in 2019/20.

See pages 137-138.

Investment operations and performance measurement

KPI 16

Following a full review, we are making a number of improvements to our investment operating model. We have made some key appointments to support the target operating model.

We are upgrading to a more robust performance measurement system, which will improve the timeliness and detail of the data available to us.

Following a competitive process, we have appointed our preferred supplier for this system. The data migration phase is currently underway and will be followed by a testing phase, after which the new model will go live in late 2020.

The new platform will provide a more granular level of detail, giving us more information on how performance has been derived. This enhanced oversight will inform our investment decision-making and help us get the best from our external managers.

Long-term expenditure trends

	2016 £m	2017 £m	2018 £m	2019 £m	2020 £m	Plan* 2021 £m	Plan* 2022 £m
PPF	144.9	191.0	187.8	188.6	196.2	230.9	232.1
PPF Administration Fund	17.6	14.2	13.9	13.1	13.7	14.9	14.6
FAS Administration Fund	6.4	7.9	8.8	9.1	7.8	8.8	8.4
Total	**168.9**	**213.1**	**210.5**	**210.8**	**217.7**	**254.6**	**255.1**

* Excludes investment transaction fees (2020: £6.6 million).

Our costs are accounted for in three funds as explained on page 114 and further analysed on pages 137-138. Total expenditure for the PPF and the Administration Funds over the last five years, and planned over the next two, is shown in the table above. The Administration Funds comprise PPF and FAS related expenditure.

Although total expenditure is expected to increase, this is driven by an increase in our assets under management as more schemes transfer. The increase in costs is expected to be contained through efficiencies gained in our operations, as set out in our Strategic Plan.

Value for money review

KPI 17

We undertook a value for money review, examining all significant expenditure for the previous 18 months and looking forward a year. The aim was to establish whether we had encouraged competition from suppliers for each procurement exercise, whether we had benchmarked prices and whether we had plans in place to ensure value for money.

We now have plans for 100 per cent of the contracts we looked at or clear rationales where we are not competing or benchmarking. The ExCo will review the latter quarterly.

We now have an upgraded approach to commercial management which integrates our plans for sourcing, contract management and supplier assurance in one place.

As a result of this review, we are confident that we are getting value for money from suppliers by encouraging competition on price, challenging our people to make sure they are purchasing external services for the right reasons, and exploring all options when we procure goods and services.

Making a difference in our community

"It's been another great year. After the success of last year, we wanted to provide further help and assistance in as many ways as possible, not just through financial support but other ways, too. It meant a lot to us that Mind in Croydon trusted us to directly engage with and support their service users."

Katrina Carney
PPF CSR lead

2019/20 was another successful year for our Corporate Social Responsibility (CSR) programme. Following the success of the previous year, our employees chose to continue our charitable partnership with Mind in Croydon.

Mental wellbeing is something we take seriously at the PPF. Around one in four people will experience a mental health problem each year, and one in six experiences a common mental health problem, like anxiety or depression, in any given week. We wanted to use our charity partnership with Mind in Croydon to continue to help break the stigma surrounding mental health issues and raise vital funding to support their mental health services and the people who rely on them.

Year two of our partnership allowed us to build on the momentum of last year, and this time we were able to work directly with some of Mind in Croydon's service users to help make a positive difference to their lives.

We donated some IT equipment to Mind in Croydon's hub to help their service users get online and access social services. A team of our employees also undertook client telephone assessments to support the staff at the hub.

Volunteers spent time at Mind in Croydon's community allotment to help improve the space for their service users to enjoy and plant vegetables.

Our community projects were varied this year. We continued our lunchtime literacy scheme with the pupils at St Mary's High School, and donated another IT suite to a local primary school. We donated games to a homeless shelter, and undertook landscaping work for a primary school on the hottest day of the year.

In October we ran a free community event for World Mental Health Day which culminated in an evening of comedy entitled 'Mental Health is not a Joke', with guest performances from talented comedians and performers.

Christmas was a very special time for us, as our employees provided Mind in Croydon service users with much-needed food hampers, and donated gifts to the children and grandchildren of those service users.

We had our annual Christmas community day at Parchmore Community Centre where we hosted a Christmas event for the local elderly residents who might otherwise be spending the festive season alone. The crowds enjoyed delicious food, cheerful company, and a sing-along.

We also stepped up to aid a crisis this year with an Australia-themed bake sale to help raise funds for the Australian Red Cross and the World Wildlife Foundation to combat the effects of the devastating wildfires.

Mental health at the PPF

We will partner with a new charity for 2020/21, but mental health will continue to be a focus for us. Managers at the PPF have undergone extensive training on mental health issues to understand the various problems people might face and how they might present in a working environment. We also have a team of trained mental health first aiders in the organisation whom employees can call upon.

Did you know...

- We raised £2,000 and we gave 925 hours of volunteering for Mind in Croydon and other community projects.

"This year's group of volunteers were very organised and hard-working, and went way beyond our expectations. They wrapped gifts, prepared food, decorated the hall, waited on tables, and cleaned up – they were amazing! Everyone was so pleasant and willing to help in any way possible."

Jenny Harms
Parchmore Community Centre, Adult Services Manager

"I've known people who have struggled with their mental health and I think it's great that there's far more discussion and awareness now than ever before, but there's still a way to go. Thankfully, there are a lot of terrific organisations out there doing incredible things to turn people's lives around."

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

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 2020.

Complaints

	PPF	FAS
Complaints brought forward from previous year	7	12
Complaints received	433	224
of which:		
• resolved at stage one	361	193
• resolved at stage two	45	29
• resolved at stage three	5	3
• carried forward	29	11

Complaint categories*

	PPF	FAS
Payment-related	38	39
Communication	104	50
Process/regulation	152	46
Delay	38	35
Entitlement	83	54
Other	123	47

* 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

Freedom of Information (FOI) requests

	2019/20	2018/19
FOI requests received	31	31
of which:		
• we fully disclosed the information	23	24
• we partially disclosed the information	1	2
• we did not hold the information	1	0
• the request was withdrawn	0	0
• we declined to disclose the information	6	5

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

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

	2019/20	2018/19
Review decisions issued	35	43
of which:		
• the scheme was found to be levied correctly	24	31
• we agreed with some or all of the scheme's appeal	11	12
Decisions made by the Reconsideration Committee	7	10

Non-levy-related reviewable matters

	2019/20	2018/19
Review decisions issued	20	16
Decisions made by the Reconsideration Committee	8	5

Maladministration complaints

	2019/20	2018/19
Formal complaints of maladministration considered	21	5
of which:		
• maladministration was found to have occurred	4	3
• maladministration was found to have occurred in part	1	0
Three of these cases also involved a reviewable matter (2018/19: none)		
Maladministration decisions made by the Reconsideration Committee by applicants	3	0
of which:		
• maladministration was found to have occurred	0	0
• maladministration was found to have occurred in part	1	0

We declined to disclose information where statutory exemptions applied.

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 www.ppf.co.uk/what-risk-based-levy; and
    - our reserve powers on benefit levels.

The COVID-19 pandemic has not had a significant impact on this view.

Fraud Compensation Fund

In considering the going concern of the FCF, we recognised that although historically claims have been low, the Fund is vulnerable to large claims. The claims risk could materialise from new claims on the Fund or from significant claims relating to schemes that were themselves part of a scam where eligibility remains unclear. Despite this, we believe the going concern basis remains appropriate for the FCF for the following reasons:

- claims take some time to investigate and validate, which gives us time to plan how we will settle and enable any additional funding needed to be obtained
- we have powers to settle claims in instalments in order to ease any strain on the Fund's cash flow
- 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; and
- any funding gap is expected to be considered by the DWP.

Administration funding

In considering the going concern status of the Administration Funds, 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
25 September 2020

Section 3

Accountability report

The Board of the Pension Protection Fund

Arnold Wagner OBE
Chair of the Board

Chair of the Nomination Committee, and 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 CBE
Chief Executive

Member of the Decision Committee and of the Investment Committee

Oliver joined the PPF as Chief Executive in March 2018. Prior to the PPF, Oliver was Chief Executive of the DVLA and led the successful digital transformation of one of the UK's biggest multi-channel service organisations, with over 45 million customers and £6 billion of revenue. Before this, he was Chief Executive and Keeper of The National Archives, which brings genealogy and key historical records to life for millions of users.

Before this, Oliver worked at Thomson Reuters in a range of senior global and regional roles from FX and Money Markets to market data and technology. Oliver has also worked in the technology and shipping industries, and in a Corporate Treasury role.

He has an Economics MA from Cambridge University and an MBA from London Business School. Oliver was awarded a CBE in the 2017 New Year honours for his work in digital services.

Chris Cheetham
Non-executive Board member

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

Chris Cheetham is recently retired from his executive career, having spent 41 years working in the investment management industry, most recently as Global Chief Investment Officer (CIO) for HSBC's global asset management business. Previous roles include Global CIO for AXA Investment Managers, CEO at AXA Sun Life Asset Management and Director of Investment Strategy and Research at Prudential Portfolio Managers (now M&G).

He now holds a number of non-executive roles including Chairman of HSBC Asset Management (UK), Chairman of the Mineworkers Pension Scheme and roles with the Science Museum Foundation and The People's Pension.

Kate Jones

Senior Independent Director

Chair of the Investment Committee, Chair of the Decision 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 £300 billion of assets.

Kate is a non-executive director at JPMorgan Funds Limited 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.

Emmy Labovitch

Non-executive Board member

Member of the Risk and Audit Committee, of the Investment Committee and of the Remuneration 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 trustee of Phoenix Futures, a UK charity, 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.

Jayne Nickalls

Non-executive Board member

Chair of the Remuneration Committee, and 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 Council at The University of Warwick. 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.

The Board of the Pension Protection Fund

Rodney Norman CBE
Non-executive Board member

Member of the Risk and Audit Committee

Rodney is a Fellow of the Institute of Chartered Accountants. He has worked in industry, financial services, and banking as Finance Director of the banking division of the Close Brothers Group.

Rodney moved to HM Treasury in 2007 where he was responsible for funding the public sector.

He also worked on schemes to provide support to the banking sector and the economy during the financial crisis, and was a non-executive board member of the Government Banking Service.

Rodney served on the Board of National Savings and Investments as Finance Director from 2012-18. He is a senior advisor to the Bank of England and serves as a non-executive member on the Audit Committees of the UK Debt Management Office and the Office of Rail and Road.

Sara Protheroe
Chief Customer Officer

Sara is responsible for overseeing the assessment and transfer of pension schemes to the PPF, and looking after more than 400,000 PPF and FAS members. She was previously the PPF's Director of Strategy and Policy, where she had responsibility for developing strategy and policy in relation to all aspects of the PPF, including the levy.

Before joining the PPF as a founding employee in 2005, Sara undertook a number of roles in the DWP, including Private Secretary to a former Pensions Minister, the late Malcolm Wicks, and was a pivotal member of the DWP team who designed the PPF.

Nailesh Rambhai
Non-executive Board member

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

Nailesh graduated with an MA in Law from Oxford in 1995 and went on to practice at Linklaters and McDermott, Will and Emery LLP.

He then moved to Coventry Building Society as General Counsel and Company Secretary where he was also Secretary to the Pension Scheme Trustees, working closely to align and improve pension governance.

Nailesh has lived and worked in Canada, the USA and South East Asia in a global career which continues with his current role as Head of Legal and Company Secretary at a major international oil and gas company. He was also a non-executive director at the Belgrade Theatre.

David Taylor
General Counsel

Member of the Decision Committee

David Taylor was appointed to the PPF Board as an Executive Director and General Counsel in 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 ten years in private practice at Linklaters and US firm WilmerHale. He is a trustee of Roundabout Dramatherapy.

Anna Troup
Non-executive Board member

Member of the Investment Committee and of the Reconsideration Committee

Anna graduated from Oxford with an MA in PPE and qualified as a lawyer at Slaughter & May, specialising in corporate tax.

Anna then moved into financial services working at a number of blue-chip organisations including Merrill Lynch, PwC, Goldman Sachs, Bluebay Asset Management LLP and most recently as Head of UK Bespoke Solutions for Legal and General Investment Management.

Anna is also an independent non-executive director at T.Bailey Fund Services, Aberdeen Diversified Income and Growth Trust plc, and a Trustee of the Triathlon Trust.

Members of the Executive Committee

Oliver Morley
Chief Executive

Katherine Easter
Chief People Officer

Barry Kenneth
Chief Investment Officer

Simon Liste
Chief Technology Officer

Lisa McCrory
Chief Financial Officer and Chief Actuary

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 2019/20, the Board had a maximum of eight non-executive members at any one point in time, 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 79.

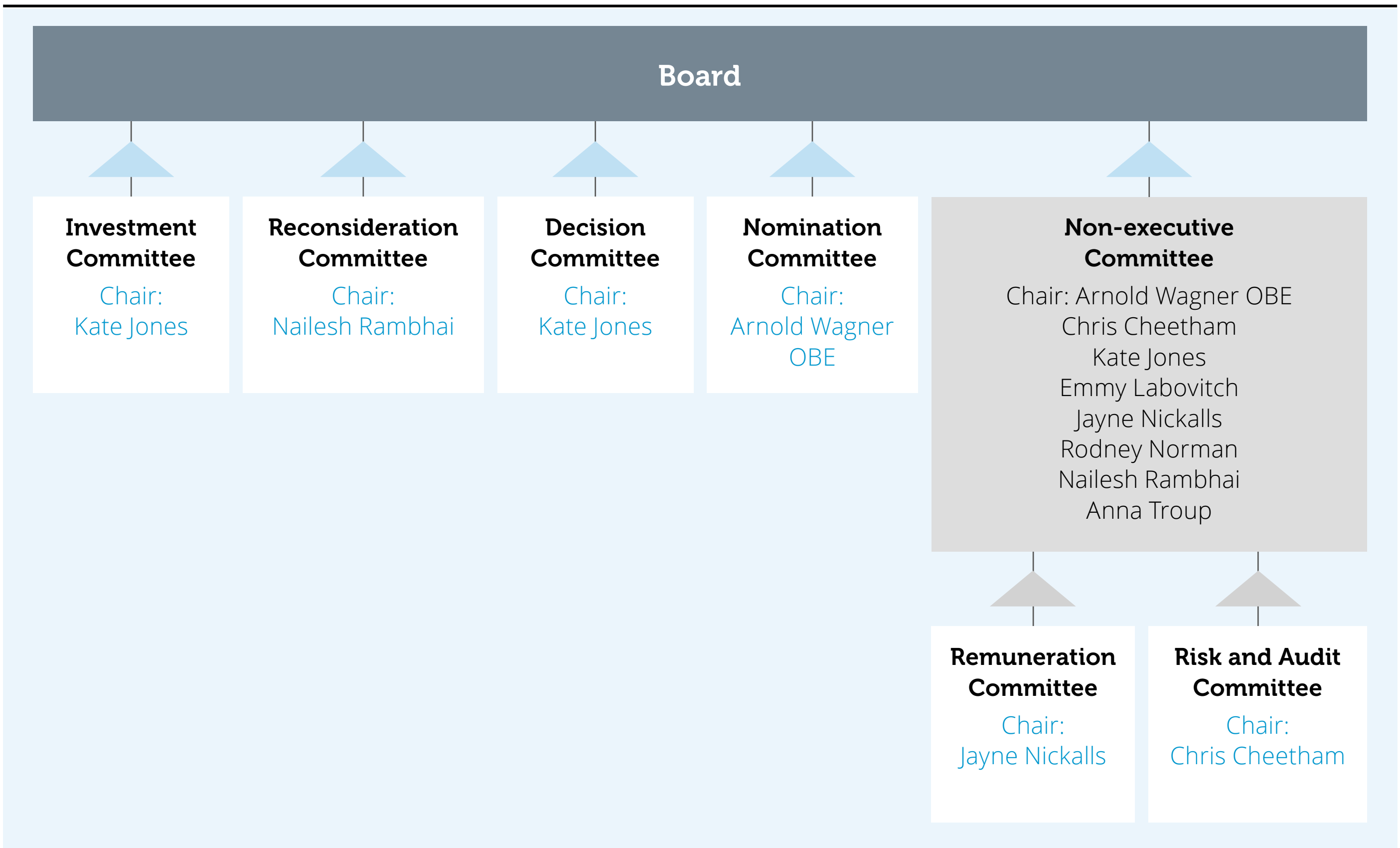
Rodney Norman, Nailesh Rambhai and Anna Troup all joined the Board as non-executive members on 2 September 2019. Sara Protheroe joined the Board as an executive member on 18 March 2020.

On 6 August 2019, Alan Jenkins and Tom Joy both ended their second terms and stepped down from the Board. Andy McKinnon resigned as an executive member on 30 September 2019. Baroness Warwick of Undercliffe ended her third term on 6 March 2020 and stepped down from the Board at that time.

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



Attendance at Board and Committee meetings during 2019/20

Board member details and committee memberships are on pages 72-75. Board appointments and terms are in the Remuneration and staff report on page 90.

	Board	Remuneration Committee	Risk and Audit Committee	Investment Committee	Reconsideration Committee[1]	Nomination Committee	Non-executive Committee
Arnold Wagner OBE	8 of 8	2 of 2	n/a	n/a	n/a	2 of 2	1 of 1
Chris Cheetham	8 of 8	n/a	5 of 5	4 of 4	n/a	n/a	1 of 1
Alan Jenkins[2]	3 of 3	1 of 1	n/a	n/a	3 of 4	2 of 2	0 of 0
Kate Jones	8 of 8	n/a	4 of 5	4 of 4	10 of 10	n/a	1 of 1
Tom Joy[2]	3 of 3	1 of 1	2 of 2	1 of 1	n/a	n/a	0 of 0
Emmy Labovitch	8 of 8	1 of 1	5 of 5	4 of 4	n/a	n/a	1 of 1
Andy McKinnon[3]	4 of 4	n/a	3 of 3	2 of 2	n/a	n/a	n/a
Oliver Morley	8 of 8	2 of 2*	3 of 5*	3 of 4	2 of 10*	n/a	n/a
Jayne Nickalls	8 of 8	2 of 2	5 of 5	n/a	n/a	n/a	1 of 1
Rodney Norman[4]	5 of 5	n/a	2 of 2	n/a	n/a	n/a	1 of 1
Sara Protheroe[6]	1 of 1	n/a	n/a	n/a	1 of 1**	n/a	n/a
Nailesh Rambhai[4]	5 of 5	1 of 1	n/a	n/a	6 of 6	n/a	1 of 1
David Taylor	8 of 8	n/a	5 of 5**	4 of 4**	n/a	n/a	n/a
Anna Troup[4]	4 of 5	n/a	n/a	2 of 2	5 of 5	n/a	0 of 1
Baroness Warwick of Undercliffe[5]	7 of 7	n/a	n/a	n/a	9 of 9	2 of 2	1 of 1

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 Stepped down from the Board on 6 August 2019.
3 Stepped down from the Board on 30 September 2019.
4 Joined the Board on 2 September 2019.
5 Stepped down from the Board on 6 March 2020.
6 Joined the Board on 18 March 2020.
* Attended in capacity of Chief Executive.
** Attended meetings as a non-member.

The Decision Committee did not meet in 2019/20 on the basis that no decisions were referred.

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 ExCo, 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'. The Board continues to apply the provisions of the Code of good practice where they are relevant to the PPF. Formal reporting of compliance with the HM Treasury/Cabinet Office Code on a 'comply or explain' basis is set out in this statement in Appendix 3.

Provisions of the codes not applicable to the PPF relate to entities which are significant listed companies, or have arm's length bodies, or a lead minister, or are funded by central Government.

The risk and control environment

Our approach to managing risk is consistent with the guidelines provided by HM Treasury in its document 'Orange Book: Management of Risk – Principles and Concepts' which was updated during 2019. We aim to ensure that our approach to risk management follows best practice for regulated financial services firms. Our assessment of our approach has been informed by new guidance for board risk committees and risk functions issued in December 2019 by the Risk Coalition. This is a network of not-for-profit professional bodies and membership organisations committed to raising the standards of risk management in the UK.

The Board determines its risk appetite which is then translated to the more granular risks by risk owners within the PPF. The Chief Risk Officer (CRO) reports regularly to the Board on our risk exposure and position relative to our risk appetite.

Our analysis is informed by our risk universe, which catalogues the risk types that could impact our ability to achieve our objectives. We categorise these as:

- External environment
- Strategic and funding; and
- Operational.

Significant risks

We have identified 12 key enterprise risks (shown below) which can arise as a result of internal or external factors. These enterprise risks have the potential to make a material adverse difference to our ability to deliver our mission. Two of these risks are new since last year: the policy risk, which relates to the possibility that our operations might be impacted by unexpected policy developments (e.g. Bauer); and the employee capacity/capability risk.

- Information security
- Funding
- IT service
- Hedging liabilities
- Conduct
- Investment strategy
- Recruitment and retention
- Reputation management
- Third-party service
- Population longevity
- Policy; and
- Employee capacity/capability

As the COVID-19 pandemic has developed, we have kept the list of our enterprise risks under review. A number of our risks have grown in their likelihood or potential impact as a result of the pandemic. Notably, we recognise that the new ways of working that we are all experiencing might impact our employees detrimentally, and so we have added a new risk, 'employee capacity/capability' as a direct result of the pandemic.

There has also been a material impact as a result of the COVID-19 pandemic on our funding risk. As these accounts show, our own balance sheet has been impacted, but the larger risk comes from our exposure to the schemes we protect. This exposure comes from two sources. First, schemes in deficit are more likely to have more exposure to risky assets, and so are more likely to have been impacted by the shifts in asset prices we have seen. Second, the whole of the UK is under economic strain, and so the likelihood of sponsor insolvency and therefore claim has grown.

In order to understand our exposures, we monitor the PPF 7800 Index at least monthly. This process of estimating the current funding position of all the schemes we protect allows us to identify the most material. We have been monitoring the sponsors of these schemes each fortnight during the pandemic, focusing on those in sectors which are the riskiest in current times. We have also undertaken detailed credit risk modelling, making adjustments to credit ratings informed by this analysis and by our review of the Government's various support packages.

We are also responding by reviewing our future plans for the levy in the light of changes to credit risk exposures.

Ministerial directions

No directions have been issued.

Personal data-related incidents

We have had no material personal data-related incidents during 2019/20.

Significant control issues

We have had no significant control issues during 2019/20. The change to funding risk owing to the coronavirus pandemic is outside our control. Accepting valid claims, from wherever they emerge, is our reason for being, and so it is within our risk appetite.

Review of effectiveness

For the purposes of FReM, the Board sees the Chief Executive as having the equivalent responsibilities of 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 holders of Senior Management Functions in the PPF's SMCR implementation 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 ExCo and the Asset and Liability Committee.

Appendix 1
Board and Committee reports

Board

The Board met eight times during the year.

Early in 2019 the Board agreed a three-year Strategic Plan for 2019-22, followed by the Business Plan. During 2019/20 the Strategic Plan was reviewed and the Business Plan and budget for 2020/21 were agreed. The Board also reviewed the funding strategy, and approved updated modelling assumptions for the long-term funding strategy. The Board approved the assumptions used in the Actuarial Valuation.

The levy consultation, determination and estimate of £620 million for 2020/21 were all agreed. The Board noted the decision to again collect a FCF levy in 2020/21.

The Board discussed and approved updated risk appetite statements.

The Board discussed a number of staff-related matters, including the D&I programme, employee survey results and organisational culture. The strong customer satisfaction scores again 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 high-profile projects were received. The Board reviewed the progress of the implementation of the RI strategy. The Board regularly discussed preparedness for Brexit and the CJEU Bauer judgment.

The Board reviewed progress on our implementation of the SMCR. The Board also approved a number of publications, including the 2018/19 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 Committees' Terms of Reference.

Remuneration Committee

The Remuneration Committee is chaired by Jayne Nickalls. The Committee met twice during the year and agreed objectives for executive directors for the 2019/20 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 also reviewed processes associated with reward across the organisation.

Risk and Audit Committee

The Risk and Audit Committee is chaired by Chris Cheetham. The Committee has continued to work with the Investment Committee to ensure full coverage of the risks facing the PPF.

Under its risk management remit, the Committee regularly monitored the risk exposures in the organisation via reports from the CRO. It also oversaw work to update and enhance the RMF, notably recommending to the Board updated risk appetite statements, a risk strategy document and a new Board operational risk policy.

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

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 2020/21. It also received reports on whistleblowing incidents in line with the whistleblowing policy.

The Committee received progress reports on major projects, including the IT transformation programme. Cybersecurity was again a major focus for the Committee during the year.

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 Governance statement, the annual Actuarial Valuation and the whistleblowing policy. We encourage staff and others associated with the organisation 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 2018/19 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.

Margaret Ammon (Chief Risk Officer of Legal and General Investment Management) remained a co-opted member of the Committee providing additional independent risk management knowledge and experience.

Appendix 1
Board and Committee reports

Investment Committee

The Investment Committee is chaired by Kate Jones. The Committee met four times during the year.

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

- the SIP, ensuring the requirement under section 114 of the Pensions Act 2004 for the Committee to prepare and maintain a SIP was fulfilled
- the expected long-term returns on a range of asset classes; and
- the portfolio benchmarks used by the Investment team.

The Committee examined reports each quarter from the Chief Investment Officer covering investment activity for each asset class and investment performance. It also received quarterly reports on the markets and investment strategy and regularly discussed the challenges and opportunities arising from market volatility through the year.

The Committee continued its programme to conduct in-depth reviews across assets held by the PPF, examining investment strategy and performance for Public and Private Equities, the Hybrid Asset portfolio and Emerging Market Debt through the course of the year.

The Chief Risk Officer provided a regular report to the Committee enabling the overall risk of the investment portfolio to be monitored. In addition, Compliance provided their annual assurance to the Committee that the portfolio had been managed in compliance with the SIP.

The Committee received progress reports on key projects including credit insourcing and a series of Investment Operations projects. Continuing its oversight of the implementation of the RI strategy, the Committee also reviewed the newly created RI report.

During the course of the year, the Committee also received updates relating to market changes covering the PPF's preparedness for the transition from London Inter Bank Offered Rate (LIBOR) to Sterling Overnight Index Average (SONIA) and the reform of Retail Prices Index (RPI). A detailed review of performance fees was undertaken.

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

The Committee benefitted from additional independent investment knowledge and experience of David Bennett of Redington, who is the Investment Advisor to the Committee, and Michael O'Brien, formerly of BlackRock and JP Morgan, a co-opted specialist member of the Committee.

Reconsideration Committee

The Reconsideration Committee was chaired by Baroness Warwick of Undercliffe until February 2020 when she stepped down as Chair prior to leaving the Board on 6 March 2020. Since that time the Committee has been chaired by Nailesh Rambhai. Christopher Hughes, co-opted member of the Committee, continued to provide input based on his considerable experience to support robust decision-making. Alan Jenkins, who had been a non-executive member of the Committee

until he stepped down from the Board on 6 August 2019, became a co-opted member. The Committee met on ten occasions during the year. It considered, and issued, decisions relating to seven cases where levy payers challenged their levy.

The Committee also considered and issued decisions on eight non-levy review cases: one relating to communication issues, three to maladministration and four to compensation entitlement.

Decision Committee

The Decision Committee is chaired by Kate Jones. The Committee did not meet during the year. The 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.

Nomination Committee

The Nomination Committee is chaired by Arnold Wagner OBE. The Committee met twice during the year. Three new non-executive director appointments were made, via a direct resourcing approach run by the internal Recruitment team. 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 once in the year to discuss executive director pay, succession planning and the appointment of a new executive director. The Committee also received reports from the Remuneration Committee and the Risk and Audit Committee. For governance purposes, the Committee also met once without the Chair being present.

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 Customer 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 Governance Manual 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
- must 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 against the code of good practice 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. During 2019/20, following the departure of the Chief Financial Officer (CFO), the Chief Actuary was appointed as interim and, subsequently, permanent CFO. She is a member of the ExCo and attends Board meetings.

The Board focuses on strategic issues, and provides leadership and challenge to the ExCo. 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 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 completed in 2019/20 by Independent Audit Limited. Having been selected by a competitive tender process and having no other connection with the PPF, it conducted a review of the Board and its sub-committees. The review consisted of a review of Board and committee papers; interviews with directors, executives and stakeholders; and observation of a Board meeting and the Remuneration Committee, Investment Committee and Risk and Audit Committee meetings.

Independent Audit presented the outcome of the review to the Board in March 2020 concluding that the Board of the PPF remained a highly professional Board with considerable strengths. The Board continues to benefit from committees which work well and have clear remits. Board papers and information provided to the Board remained of a high quality. The Board will take forward recommendations for improvements to the Board's operations as part of the Board's regular cycle of work, including seeking ways for the Board to spend more informal time together in order to help with a free-flowing debate in meetings and further enhancements to the induction programme for new directors.

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

Appendix 3
Account of corporate governance

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 the Board 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 material 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 relevant experience, its internal and external auditors, and its Investment Committee. They receive assurance from the CRO, 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 CRO and Director of Legal, Compliance and Ethics receive authority from the Risk and Audit Committee, which ensures 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 ExCo and an Asset and Liability Committee, which ensure effective day-to-day oversight of operational and funding risks.

Appendix 4
The risk and control environment

System of internal control

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 2020 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

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 2019/20, we delivered a number of improvements to the management of risk, which have been outlined in the Performance Report.

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, 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 ISO 27001 Information Security standard.

Remuneration and staff report

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

Remuneration policy

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

Remuneration and bonuses of directors

Executive directors receive a salary that is 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
Sara Protheroe	Fixed Term Contract (first)	18 March 2020	17 March 2023
David Taylor	Fixed Term Contract (second)	1 June 2018	31 May 2021
Chris Cheetham	Term of office (first)	1 May 2018	30 April 2021
Kate Jones	Term of office (second)	15 February 2019	14 February 2022
Emmy Labovitch	Term of office (first)	1 July 2018	30 June 2021
Jayne Nickalls	Term of office (second)	1 July 2019	30 June 2022
Rodney Norman CBE	Term of office (first)	2 September 2019	1 September 2022
Nailesh Rambhai	Term of office (first)	2 September 2019	1 September 2022
Anna Troup	Term of office (first)	2 September 2019	1 September 2022

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.

Directors' salary and pension entitlements*

Year ending 31 March 2020	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[6] (to nearest £1,000) £'000	Total (in bands of £5,000) £'000
Executive directors					
Oliver Morley, Chief Executive	200–205	45–50	1.7	–	250–255
Andy McKinnon, Chief Financial Officer (to 30 September 2019)[5]	80–85 (160–165)[2]	5–10	0.8	–	85–90
Sara Protheroe, Chief Customer Officer (from 18 March 2020)	5–10 (130–135)[2]	0–5	0.1	6	10–15
David Taylor, General Counsel	130–135	10–15	0.6	56	205–210
Non-executive directors					
Arnold Wagner OBE, Chair	55–60	–	–	–	55–60
Chris Cheetham	5–10[4] (15–20)[2]	–	–	–	5–10
Alan Jenkins (to 6 August 2019)	5–10 (15–20)[2]	–	–	–	5–10
Kate Jones	15–20	–	–	–	15–20
Tom Joy (to 6 August 2019)	5–10 (15–20)[2]	–	–	–	5–10
Emmy Labovitch	15–20	–	–	–	15–20
Jayne Nickalls	15–20	–	–	–	15–20
Rodney Norman CBE (from 2 September 2019)	10–15 (15–20)[2]	–	–	–	10–15
Nailesh Rambhai (from 2 September 2019)	10–15 (15–20)[2]	–	–	–	10–15
Anna Troup (from 2 September 2019)	10–15 (15–20)[2]	–	–	–	10–15
Baroness Warwick of Undercliffe (to 6 March 2020)	15–20 (15–20)[2]	–	–	–	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 until 1 October 2019.
5 Received compensation payments (including an exit package) totalling £175-180,000 in line with the terms of his contract and those of the Civil Service Compensation Scheme.
6 The value of pension benefits accrued during the year.
* Subject to audit.

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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[5] (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

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 until 1 October 2019.
5 The value of pension benefits accrued during the year.

Directors' pension benefits*

	Total accrued pension at pension age as at 31 March 2020 (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 2020 £'000	Cash equivalent transfer value as at 31 March 2019 £'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	–	–	–	–	–	25.7
Sara Protheroe, Chief Customer Officer	35–40[1]	0–2.5[2]	490	473	4	–
David Taylor, General Counsel	40–45	2.5–5	630	568	29	–

1 Plus a lump sum of £65–70,000.
2 Plus a lump sum of £0–2,500.

Oliver Morley and Andy McKinnon were not members of the Principal Civil Service Pension Scheme in either 2018/19 or 2019/20.

Cash equivalent transfer value

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. A cash equivalent transfer value (CETV) is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figure shown relates to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The figure includes the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. It also includes any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 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.

Real increase in CETV

This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

* Subject to audit.

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.

	2019/20	2018/19
Annualised band of highest paid Board member's total remuneration	£250–£255,000	£250–£255,000
Median remuneration of the workforce	£49,000	£49,000
Ratio	**5.1**	**5.2**

In 2019/20, six employees (2018/19: eight) received remuneration in excess of the highest paid Board member. Remuneration ranged from £19,000 to £860,000–£865,000 (2018/19: £19,000 to £795,000–£800,000).

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.

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:

	2020		2019	
	Average no. employees	Staff costs £m	Average no. employees	Staff costs £m
Permanent employees and fixed term contracts	427	37.1	390	34.7
Short-term, seconded and temporary staff	4	0.2	2	0.3
Total	**431**	**37.3**	**392**	**35.0**

Sickness, absence and staff turnover

The number of days we lost to sickness during the year averaged 5.2 days per person (2018/19: 4.0 days). This included long-term absences of more than 28 days of which we had five cases absent for more than six months for serious health issues. Excluding long-term absences, we lost 4.2 days per person (2018/19: 3.1 days).

Staff turnover was 14.0 per cent in 2019/20 and 15.7 per cent in 2018/19.

* Subject to audit.

Staff composition

As at 31 March we had:

	2020		2019	
	Men	Women	Men	Women
Total employees	**218**	**215**	**206**	**197**
Senior management	11	11	11	9
Other management	22	15	25	16

Other employee matters

We believe that having a diverse workforce is not 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.

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. As at 31 March 2020, we have 31 employees who consider themselves to have a long-term health condition, of whom 12 consider themselves disabled.

The PPF published its Gender Pay Gap Report in March 2020. As of our 31 March 2019 payroll, our median gender pay gap stood at 13.4 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.

Off-payroll staff

There were two off-payroll engagements as of 31 March 2020 for more than £245 per day that lasted for longer than six months, both of which existed for less than one year at the time of reporting. In 2018/19 there were no such engagements.

There were six off-payroll engagements for more than £245 per day that were new engagements, or reached six months in duration, between 1 April 2019 and 31 March 2020. In 2018/19 there were no such engagements.

All off-payroll engagements undertaken during the year have been assessed as compliant with the requirements of IR35.

Of the nine individuals who held senior manager roles with significant financial responsibility during the year, none were undertaken as off-payroll engagements.

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	**2020**	**2019**
£10,000–£25,000	1	2
£25,000–£50,000	6	3
£50,000–£100,000	2	3
Total number of exit packages	**9**	**8**
Total cost	**£385,969**	**£429,116**

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 2019/20 (2018/19: none).

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 £7.8 million (2018/19: £10.2 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). Where the member can demonstrate financial hardship, the overpaid amount will be written off. If the amount is uneconomic to recover or relates to the remainder of the month in which a member dies, the overpaid amount will be waived. During the year 126 overpayments totalling £151,648 (2018/19: 572 totalling £536,602) were written off. In addition, 3,705 overpayments totalling £551,277 were waived.

Remote contingent liabilities*

Claims which are considered possible are recognised as contingent liabilities. The aggregate value of all other potential claims at 31 March 2020 is estimated at £250 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.

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
25 September 2020

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 the Board of the Pension Protection Fund for the year ended 31 March 2020 under the Pensions Act 2004. The financial statements comprise: the Consolidated Statements of Comprehensive Net Income, Financial Position, Cash Flows, Changes in Reserves; and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Accountability Report that 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 2020 and of the 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

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the Board of the PPF's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Board of the PPF have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis.

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.
- 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.
- conclude on the appropriateness of the Board of the PPF'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 entity's ability to continue as a going concern. If the auditor concludes that a material uncertainty exists, the auditor is required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. The auditor's conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

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

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

Other information

The Board of the PPF and the Chief Executive are responsible for the other information. The other information comprises information included in the Annual Report, but does not include 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; 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

Date: 6 October 2020

National Audit Office
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Section 4

Financial statements

Financial statements

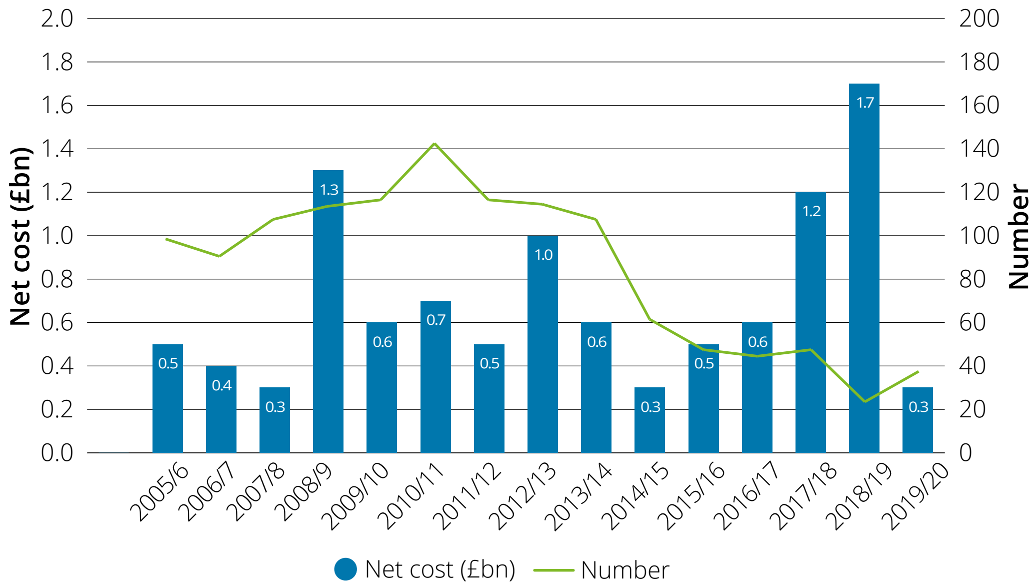
Chief Financial Officer's review

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 (£5.1bn) or as a percentage in the form of our funding ratio (113.4 per cent).

The consolidated reserves of the PPF have decreased over the year from £6.1bn to £5.1bn, reflecting the impact on assets not held for hedging of the investment markets' reaction to the COVID-19 pandemic. We have also set aside additional liabilities to reflect the potential impact of removing the compensation cap. New claims, although higher in volume, were relatively small in size.

Cost of new claims since inception



Claims continue to be uncertain, particularly given the impact of the COVID-19 pandemic on DB pension schemes' funding and the viability of their sponsors. The exposure across all DB pension schemes in deficit, which we exist to protect, rose from £160bn to £254bn in 2019/20.

Nonetheless, after a year impacted by market volatility, the funding ratio remains well in excess of 100 per cent and the probability that we will in the long term hold sufficient funds to meet our liabilities was still strong, at 83 per cent.

In order to meet the cost of claims in the future, we charge a levy on eligible schemes and invest the assets under stewardship. In 2019/20, levy income was £574m and our net investment return (including movements on our hedging assets) was £1.8bn.

Including the effect of hedging liability movements, the total investment return was 5.2 per cent, the same as in 2018/19. Excluding hedging, the contribution was 3.2 per cent below LIBOR for the year, reflecting extreme market volatility towards the end of the financial year.

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 99-102 confirms that there are no matters that need to be brought to the reader's attention.

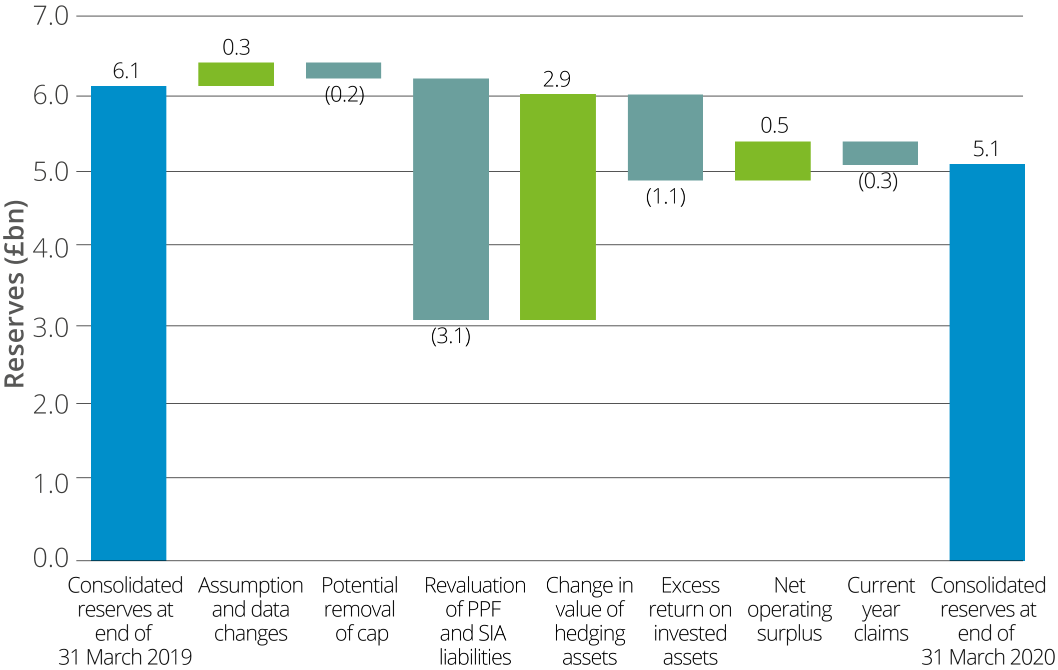
Lisa McCrory
Chief Financial Officer and Chief Actuary

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 £1.0bn over the year. The impact of change to actuarial assumptions, such as for the Consumer Prices Index (CPI) and mortality, is an increase of reserves of £0.3bn, The reserves are reduced by £0.2bn by the strengthening of actuarial liabilities reflecting the impact of the removal of the compensation cap.

The LDI hedging strategy means that the revaluation of PPF and SIA liabilities 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, is negative and reduces reserves by £1.1bn.

Net operating surplus remains at the same level as last year, at £0.5bn. This comprises total levy income of £574m (2019: £566m) less operating costs of £65m (2019 £69m). Levy income comprises PPF levies of £567m, made up of current year levies of £563m and prior year levies of £4m, and £7m levies for FCF.

There have been 36 new claims (2019: 23) totalling £0.3bn (2019 £1.7bn).

The Consolidated Statement of Financial Position

The Consolidated Statement of Financial Position sets out the details, at 31 March 2020, 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.

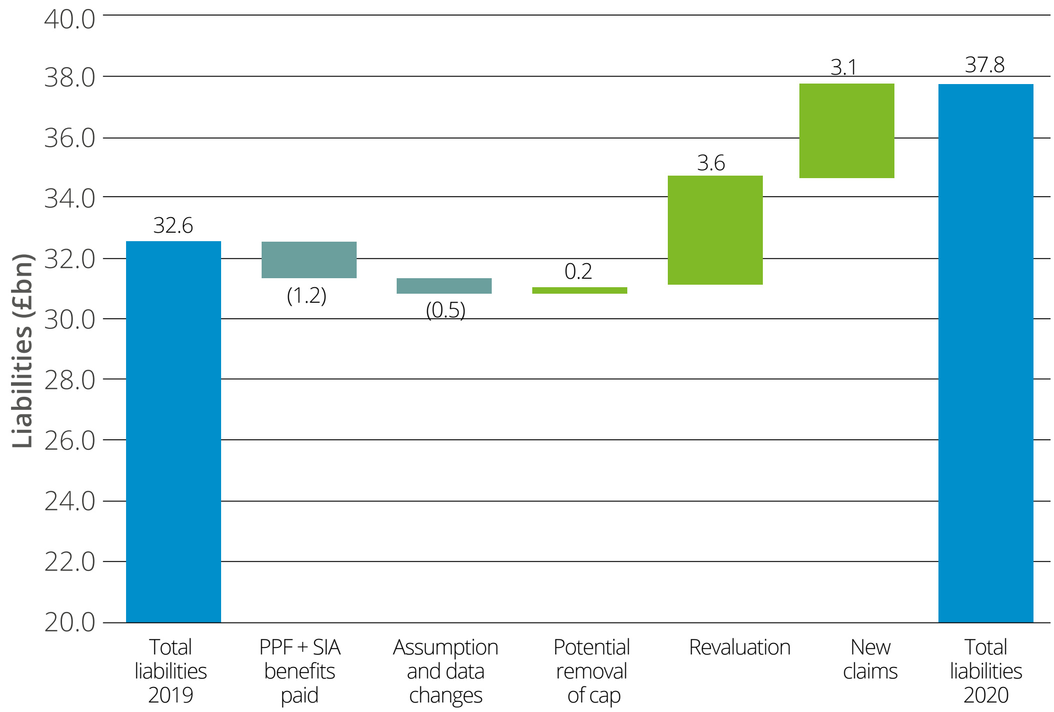
Consolidated reserves at 31 March 2020

	Consolidated Statement of Financial Position excluding claims provisions for SIA £m	Claims provisions for SIA £m	Total £m
Net assets	36,348.3	6,554.7	42,903.0
Actuarial estimate of liabilities	(28,749.2)	(9,061.0)	(37,810.2)
Total reserves	**7,599.1**	**(2,506.3)**	**5,092.8**

The following graph summarises the movements in actuarial liabilities, including those schemes included in the provision for SIA, from £32.6bn at the beginning of the year to the closing figure of £37.8bn. The impact of new claims is an increase of £3.1bn liabilities.

The actuarial liabilities comprise £37.8bn (2019: £32.6bn) for the PPF and £nil (2019: £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	2020 £m	2019 £m
Operating income			
Income from levies	3	574.1	565.5
Income from grants	3	22.7	22.8
Total operating income		**596.8**	**588.3**
Operating expenses			
Staff costs	11	(37.3)	(35.0)
Other costs	11	(27.8)	(34.0)
Total operating expenses		**(65.1)**	**(69.0)**
Net operating surplus		**531.7**	**519.3**
Investment activities			
Net investment income	5	572.7	542.1
Change in fair value of investments	5	1,380.5	1,137.8
Investment expenses	5	(152.6)	(141.8)
Net investment return		**1,800.6**	**1,538.1**
Claims activities			
Current year claims for compensation	2	(237.0)	(1,718.6)
Revaluation of claims for compensation	2	(310.5)	54.8
Losses on actuarial liabilities	1	(2,768.2)	(1,077.5)
Net cost of claims		**(3,315.7)**	**(2,741.3)**
Comprehensive net income for the year		**(983.4)**	**(683.9)**

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 114 to 140 form part of these financial statements.

Consolidated Statement of Financial Position

As at 31 March	Notes	2020 £m	2019 £m
Assets			
Operating cash		81.9	115.5
Investment assets	4a	49,188.2	39,820.1
Levy receivables		1.4	8.6
Transfer-in receivables		162.9	34.7
Other assets		15.1	10.1
Total assets		**49,449.5**	**39,989.0**
Liabilities			
Investment liabilities	4a	(13,043.4)	(7,734.8)
Other liabilities		(57.8)	(74.2)
Actuarial liabilities	1	(28,749.2)	(23,063.3)
Claims provisions	2	(2,506.3)	(3,040.5)
Total liabilities		**(44,356.7)**	**(33,912.8)**
Total assets less total liabilities		**5,092.8**	**6,076.2**
Represented by:			
Total levy and tax payer funds		**5,092.8**	**6,076.2**

The Board of the PPF approved the financial statements on 16 September 2020 and authorised the Chief Executive to sign this Consolidated Statement of Financial Position on the same date.

Oliver Morley
Chief Executive

25 September 2020

The accounting policies and notes on pages 114 to 140 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 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**
Total recognised net income for 2019/20	(982.1)	(1.3)	(983.4)
Balance at 31 March 2020	**5,091.3**	**1.5**	**5,092.8**

The accounting policies and notes on pages 114 to 140 form part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 March	Notes	2020 £m	2019 £m
Cash flows from operating activities			
Net operating surplus		531.7	519.3
Purchase of property and equipment		(1.4)	(0.4)
Depreciation, amortisation and impairment charges	11	2.2	2.8
Movement in current liabilities		(17.5)	15.4
Movement in receivables		2.6	30.9
Net cash inflow from operating activities		**517.6**	**568.0**
Cash flows from investing activities			
Cash proceeds from net investment (purchases)/sales		(3,268.7)	(1,943.4)
Cash proceeds from net investment return		1,122.8	916.4
Net gains on cash equivalents		69.3	21.8
Net cash outflow from investing activities		**(2,076.6)**	**(1,005.2)**
Cash flows from claims activities			
Cash receivable from schemes transferring into the PPF		1,351.5	798.0
Compensation payments	1	(859.7)	(775.1)
Net cash inflow from claims activities		**491.8**	**22.9**
Net decrease in cash and cash equivalents in the year		**(1,067.2)**	**(414.3)**
Cash and cash equivalents at beginning of the year		**985.8**	**1,400.1**
Cash and cash equivalents at end of the year		**(81.4)**	**985.8**
Cash and cash equivalents comprise the following:			
Operating cash		81.9	115.5
Cash at fund managers	4a	3,233.5	3,278.5
Net repurchase agreements	4a	(3,343.2)	(2,326.0)
Net unsettled trades	4a	(53.6)	(82.2)
		(81.4)	**985.8**

The accounting policies and notes on pages 114 to 140 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 2021 as directed by the FReM). The new standard replaces International Accounting Standard (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 Statement of Financial Position, both of approximately £13m.

- IFRS 17 Insurance Contracts (effective for the periods beginning on or after 1 January 2023). The new standard replaces IAS 4 and is a comprehensive new accounting standard for all insurance contracts covering recognition and measurement, presentation and disclosure. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers and to replace the requirements of IFRS 4 that allowed insurers to apply grandfathering of previous local accounting policies. The Board is currently participating in a HM Treasury consultation that will inform the adoption and adaptation of IFRS 17, Insurance Contracts for the public sector. HM Treasury expects to issue an exposure draft to adopting IFRS 17 in the public sector during 2020.

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 13.

Segmental reporting

To comply with IFRS 8 Operating Segments, note 12 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.

Core accounting policies

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

Impact of the Board assuming responsibility for schemes
Before entering the PPF, schemes go through an Assessment Period described at: www.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 judgements. 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 2020 the PPF estimated the value of existing liabilities to pay compensation to members at £28.7bn. During the year, the PPF paid members compensation of £859.7m. After the Actuarial Valuation as at 31 March 2020 was completed, **a net loss of £2.8bn to the Consolidated Statement of Comprehensive Net Income** 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 142.

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.

The material assumptions used in calculating the actuarial liabilities include judgements to select the assumed discount rate, and the assumed inflation rate and the assumed life expectancy of members, used to forecast benefits payable to members. The impact of changes to these assumptions is set out on the following page.

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 details 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, Appendix M3 which sets out details of the significant assumptions, including on page 156 the method used to compute an appropriate discount rate and Appendix S4 which illustrates the more material sensitivities to those assumptions.

Paying compensation

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

Actuarial liabilities

	2020 £m	2019 £m
Opening value of actuarial liabilities	23,063.3	21,511.5
Actuarial liabilities of schemes which transferred to the PPF during the year	3,777.4	1,249.4
Actuarial losses	2,768.2	1,077.5
Benefits paid to members	(859.7)	(775.1)
Total actuarial liabilities	**28,749.2**	**23,063.3**

The minimum amount of the total actuarial liabilities expected to be settled within 12 months is £845m (2019: £702m).

The liabilities to pay compensation as at 31 March 2020 include £168m relating to additional compensation payable as result of the removal of the compensation cap (see page 48). Further details can be found in the Actuarial Valuation on page 160. The impact of changes to the material assumptions used in calculating the actuarial liabilities are set out below.

Impact of changes to assumptions on actuarial liabilities

The change in value of actuarial liabilities under a number of scenarios would be:

	2020		2019	
	£m	%	£m	%
Nominal yields are 0.5% higher per year than assumed	(2,579.2)	(9.0)	(1,933.3)	(8.4)
Inflation is 0.5% higher per year than assumed	1,080.8	3.8	696.7	3.0
Average life expectancy is 1 year shorter than assumed	(1,369.2)	(4.8)	(953.3)	(4.1)

Actuarial losses

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

	2020 £m	2019 £m
Effect of passage of time on discounting	150.6	177.0
Change in assumptions	2,498.7	788.3
Change in experience	(49.1)	(115.5)
Change in past service cost	168.0	227.7
Total actuarial losses	**2,768.2**	**1,077.5**

2. Provisions for claims on the PPF and the FCF

The Consolidated Statement of Financial Position shows **total provisions of £2.5bn for claims from pension schemes**, with £2.5bn being for the PPF (see page 120) and £nil for the FCF (see page 121). The Consolidated Statement of Comprehensive Net Income shows **cost of current year claims of £237.0m,** £237.0m being the PPF and £nil being the FCF, and also shows a net **increase to the values of claims previously recorded of £310.5m**.

The PPF provision relates to SIA 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. The material assumptions used in calculating the scheme liabilities include judgements used to derive the discount rate and the assumed inflation rate and the assumed life expectancy of members, used to forecast benefits payable to members. The impact of changes to these assumptions is set out in the notes below.

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 Appendix S2 for the PPF).

Paying compensation

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:

	2020 £m	Number of schemes 2020	2019 £m	Number of schemes 2019
Claims provisions at start of year	**3,040.5**	**73**	**1,639.3**	**89**
Sub-division of prior year claim into its sections		–		4
Current year claims for compensation				
Protected liabilities	3,135.7		2,932.8	
Scheme assets including recoveries	(2,898.7)		(1,214.2)	
Total current year claims for compensation	**237.0**	**38**	**1,718.6**	**23**
Revaluation of claims for compensation				
Release of provision for schemes no longer considered probable for entry	(19.6)	(6)	(5.9)	(6)
Revaluation of provisions brought forward from previous year end	283.1		67.4	
Change in provisions for schemes transferring into the PPF during the year	47.0		(116.3)	
Revaluation of claims	**310.5**		**(54.8)**	
Release of provisions for claims transferred to the PPF	**(1,081.7)**	**(34)**	**(262.6)**	**(37)**
Claims provisions at end of year	**2,506.3**	**71**	**3,040.5**	**73**

Total current year claims for compensation comprise 36 new claims (2019: 23) and two schemes in assessment estimated to be in surplus at the previous year end but which are now estimated to be in deficit (2019: none).

Claim provisions at the end of the year comprise 33 schemes for which provisions were made at the end of the previous year and have been revalued (2019: 50), two schemes (2019: none) in assessment estimated to be in surplus at the end of the previous year but are now in deficit, and 36 new claims (2019: 23).

The amount of the total claims provision expected to be settled within 12 months is £1,986m (2019: £1,083m).

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

	2020 £m	2019 £m
Total estimated actuarial liabilities for SIA	9,061.0	9,525.2
Total assets owned by SIA	(6,554.7)	(6,484.7)
Total net deficits of SIA	**2,506.3**	**3,040.5**

The claims provisions as at 31 March 2020 include £32m relating to additional compensation payable as result of the potential removal of the compensation cap (see page 48).

Impact of changes to assumptions on claims provisions

The impact of changes to the material assumptions used in calculating the claims provisions are set out below. The Appointed Actuary's Supplementary Report, in particular Appendix S4, gives further information on these provisions.

	2020		2019	
	£m	%	£m	%
Nominal yields are 0.5% higher per year than assumed	(486.3)	(19.4)	(450.5)	(14.8)
Inflation is 0.5% higher per year than assumed	193.7	7.7	89.5	2.9
Average life expectancy is 1 year shorter than assumed	(376.3)	(15.0)	(400.5)	(13.2)

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 2020, net of the value of related scheme assets, was estimated as £3,746.7m (2019: £1,005.1m). Further analysis is given in the Actuarial Valuation on page 169.

In addition, in 2019/20, the CJEU ruled that a reduction in the amount of occupational old age pension benefits paid to a member on account of their employer's insolvency is manifestly disproportionate where, as a result of the reduction, the member is living below the at-risk-of-poverty threshold determined by Eurostat (Bauer). The implementation of the Bauer judgment presents a significant operational complexity and we are working with DWP to address the challenges. We are therefore unable at this point to provide a reliable estimate of how many of our members will be affected.

Also during the year, the judicial review proceeding, which challenged our approach to calculating increases to compensation for certain members following the 2018/19 CJEU judgment (Hampshire), continued and the judgment was delivered in June 2020. We have provided for the impact of the Hampshire judgment in line with our original methodology and for the potential removal of the PPF compensation cap. However, we are not yet able to complete the calculations for the impact of the changes which would be required to our original methodology, which are complex in nature. Accordingly, there is considerable uncertainty as to the increased amounts of compensation for which the PPF will be liable in relation to both the Bauer and Hampshire judgments.

Claims on the FCF

The total value of claims on the FCF as at the 31 March 2020 was estimated at £nil (2019: £nil). There were no new claims and no claims were settled.

Contingent liabilities for possible claims on the FCF

We have received seven applications for claims amounting to £43.6m. There is uncertainty as to whether these claims are eligible and we have made an application to the High Court for clarification on one of the claims. If the High Court determines that this claim is eligible under the FCF then it is possible that the remainder will also be eligible.

We have been notified of further similar claims but there is uncertainty as to their eligibility and to the validity of the amounts claimed. Therefore these have not been included.

Funding compensation

Levy income, grants and investment management

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

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

The PPF is funded principally from four main sources:

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

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

3. Operating income

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

Income from levies

The Consolidated Statement of Comprehensive Net Income shows that **total levy income increased by £8.6m to £574.1m, £567.2m for the PPF itself and £6.9m for the FCF**.

The PPF levy amount collected in relation to the 2019/20 levy year was £563.1m. This was higher than the published estimate of £500m, due to a higher level of employer insolvency risk and weaker improvement in scheme funding than had been expected.

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:

	2020 £m	2019 £m
Risk-based levies in respect of the current year	532.9	533.2
Scheme-based levies in respect of the current year	30.2	29.3
Total protection levies in respect of the current year	**563.1**	**562.5**
Risk-based levies in respect of prior years	4.2	(1.7)
Scheme-based levies in respect of prior years	(0.1)	(0.1)
Total protection levies in respect of prior years	**4.1**	**(1.8)**
Income from protection levies	**567.2**	**560.7**
Income from fraud compensation levy	**6.9**	**4.8**
Total income from levies	**574.1**	**565.5**

The Board raised a fraud compensation levy of £6.9m in 2019/20 (2018/19: £4.8m). The levy is collected by TPR on the Board's behalf.

Income from grants

The Consolidated Statement of Comprehensive Net Income **shows that income from grants decreased by £0.1m to £22.7m**. 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:

	2020 £m	2019 £m
Levy payer funds	16.2	12.5
Tax payer funds	6.5	10.3
Total	**22.7**	**22.8**

Funding compensation

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 held at fair value through profit or loss (mainly derivatives – interest rate swaps, inflation rate swaps, options, credit default swaps, longevity 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, except for longevity swaps which are valued using actuarial methods.

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

In relation to property assets, totalling £1.9bn, valuers have declared a 'material valuation uncertainty' in their valuation reports as at 31 March 2020. This is on the basis of uncertainties in markets caused by COVID-19. The values in the reports have been used to inform the measurement of property assets in these financial statements. This is the best information available to the PPF.

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. Due to market volatility towards the end of 2019/20 associated with the COVID-19 pandemic, some assets that require significant judgement to ascertain fair value, such as property and private equity, may be subject to a higher level of uncertainty.

Classification of financial instruments at 31 March 2020

	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	45,6 69.8	(12,811.8)	32,858.0	3,518.4	(231.6)	**36,144.8**
Cash at bank	–	–	–	81.9	–	**81.9**
Levy receivables	–	–	–	1.4	–	**1.4**
Transfer-in receivables	–	–	–	162.9	–	**162.9**
Other assets	–	–	–	0.4	–	**0.4**
Other liabilities	–	–	–	–	(54.9)	**(54.9)**
Total	**45,669.8**	**(12,811.8)**	**32,858.0**	**3,765.0**	**(286.5)**	**36,336.5**

* Of the financial assets measured at fair value through profit and loss £26,032.8m have been designated at initial recognition.

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.

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 £49.2bn and investment liabilities of £13.1bn,** a net investment portfolio of £36.1bn. The Consolidated Statement of Comprehensive Net Income shows **a net investment return (income and gains less investment expenses) of £1,800.6m**.

The Board's approach to investment is summarised in the SIP (https://www.ppf.co.uk/sites/default/files/file-2020-01/ppf_sip_2020_0.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:

	2019 £m	Assets transferred from SIA £m	Net purchases/ (sales) £m	Net gains/ (losses) £m	Other movements £m	2020 £m
Annuities	372.5	38.9	–	(6.2)	–	405.2
Corporate bonds	4,442.0	–	1,826.1	(108.8)	(329.8)	5,829.5
Index-linked corporate bonds	389.5	–	(23.1)	8.6	(11.9)	363.1
Government bonds	14,009.8	378.1	(647.0)	2,127.9	(194.0)	15,674.8
Index-linked government bonds	366.4	605.1	(156.1)	(40.8)	(0.8)	773.8
Other debt	3,209.4	–	336.1	(117.7)	(36.2)	3,391.6
Public equity	3,332.3	–	133.3	(529.3)	(3.3)	2,933.0
Private equity	1,308.1	129.6	(64.8)	47.2	–	1,420.1
Global tactical asset allocation	414.7	–	1,475.0	(22.0)	–	1,867.7
Investment property funds	1,019.0	–	264.5	4.9	(9.7)	1,278.7
Investment property held directly	635.2	0.8	40.6	(23.0)	–	653.6
Infrastructure	754.2	8.8	16.0	(9.0)	–	770.0
Timberland and farmland	464.1	–	52.8	40.6	–	557.5
	30,717.2	**1,161.3**	**3,253.4**	**1,372.4**	**(585.7)**	**35,918.6**
Other investment assets						
Unsettled trades	135.6					163.1
Derivatives	5,354.0					9,321.8
Cash at fund managers	3,278.5					3,233.5
Repurchase agreements	227.9					429.4
Accrued income	106.9					121.8
Total investment assets	**39,820.1**					**49,188.2**
Other investment liabilities						
Unsettled trades	(217.8)					(216.7)
Derivatives	(4,952.5)					(9,039.2)
Repurchase agreements	(2,553.9)					(3,772.6)
Interest payable	(10.6)					(14.9)
Total investment liabilities	**(7,734.8)**					**(13,043.4)**
Net investment portfolio	**32,085.3**					**36,144.8**

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 £2,752.6m (2019: £2,699.0m) managed in-house.

The amount of the net investment portfolio expected to be recovered or settled within 12 months are assets of £4,291.5m and liabilities of £4,243.7m (2019: assets of £4,030.8m and liabilities of £2,880.2m).

4b. Financial instruments measured at fair value

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

Level 1 instruments are valued by reference to quoted prices in active markets for identical assets.move to next page if possible

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 adviser. 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 valuations
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 2020

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Annuities	–	–	405.2	405.2
Corporate bonds	50.0	3,822.8	1,956.7	5,829.5
Index-linked corporate bonds	–	211.5	151.6	363.1
Government bonds	–	15,665.0	9.8	15,674.8
Index-linked government bonds	–	706.1	67.7	773.8
Other debt	–	2,211.7	1,179.9	3,391.6
Public equity	2,436.9	487.8	8.3	2,933.0
Private equity	–	–	1,420.1	1,420.1
Global tactical asset allocation	–	134.3	1,733.4	1,867.7
Investment property funds	–	–	1,278.7	1,278.7
Investment property held directly	–	–	653.6	653.6
Infrastructure	–	–	770.0	770.0
Timberland and farmland	–	–	557.5	557.5
Derivatives	–	329.4	(46.8)	282.6
Repurchase agreements	–	(3,343.2)	–	(3,343.2)
Total	**2,486.9**	**20,225.4**	**10,145.7**	**32,858.0**

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**

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

Level 3 financial instruments

	2020 £m	2019 £m
Balance at start of year	**7,336.1**	**6,318.3**
(Losses)/gains included in the Statement of Comprehensive Net Income	(117.2)	296.8
Purchases and assets transferred in	3,294.3	1,427.0
Sales	(922.2)	(703.5)
Transfers into Level 3	559.2	36.5
Transfers out of Level 3	(4.5)	(39.0)
Balance at end of year	**10,145.7**	**7,336.1**

Transfers into Level 3 during the year relate to investment property funds reclassified from Levels 1 and 2 (due to valuers declaring 'material valuation uncertainties' in their valuation reports due to the COVID-19 pandemic), and derivatives reclassified from Level 2.

Transfers out of Level 3 during the year relate to public equity reclassified to Level 1 and corporate bonds 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 2020, the Board owned 36 (2019: 31) commercial properties in the UK, with a total fair value of £653.6m (2019: £635.2m). Rental income recognised was £32.1m (2019: £34.3m). Direct operating expenses were not material. There were no restrictions on the realisation of property, income or disposal proceeds and no significant leasing arrangements.

As at the year end, total future minimum lease payments:

	2020 £m	2019 £m
Not later than one year	35.2	33.7
Later than one year but not later than five years	129.3	124.6
Later than five years	379.0	389.0
Total	**543.5**	**547.3**

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 2020 £m	Net investment income £m	Change in fair value of investment £m	Total 2019 £m
Investment return						
Financial assets held at fair value through profit and loss	726.6	3,584.4	**4,311.0**	762.9	(4,882.8)	**(4,119.9)**
Financial liabilities held at fair value through profit and loss	(155.1)	(2,213.9)	**(2,369.0)**	(256.3)	6,038.3	**5,782.0**
Financial assets held at amortised cost	1.2	10.9	**12.1**	35.5	(18.8)	**16.7**
Financial liabilities held at amortised cost	–	(0.9)	**(0.9)**	–	1.1	**1.1**
Total investment return	**572.7**	**1,380.5**	**1,953.2**	**542.1**	**1,137.8**	**1,679.9**
Investment expenses						
Fund management fees			(144.0)			(133.4)
Custody charges			(2.0)			(2.0)
Transaction costs			(6.6)			(6.4)
Total investment expenses			**(152.6)**			**(141.8)**
Net investment return			**1,800.6**			**1,538.1**

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-2020-01/ppf_sip_2020_0.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** (including concentration risk and counterparty risk) – note 6;
- **PPF market risk** (including price risk, interest rate risk, inflation risk and currency risk) – note 7; and
- **PPF liquidity risk** – note 8.

These disclosures are followed by notes on:

- **FCF financial risks** – note 9; and
- **Administration Funds' financial 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, or as a result of an increase in the overall level of perceived credit risk. 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 from derivative transactions, insurance policies, cash, transfer-in receivables and other receivables.

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

- counterparties to derivative contracts and repurchase arrangements are subject to overall exposure limits and, where credit quality requires, are subject to increased collateral requirements;
- fund managers that invest in credit-sensitive products do so 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.

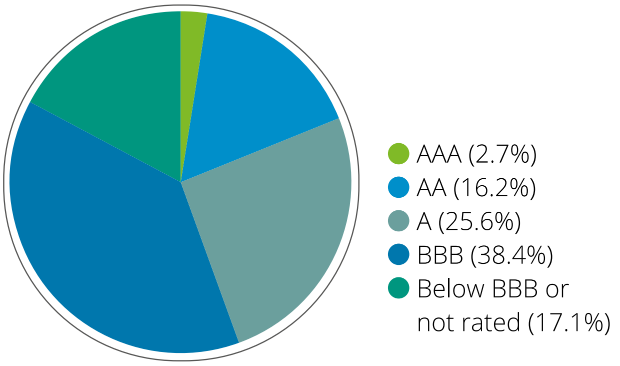
The PPF manages concentration risk (the risk of excessive exposure to a single institution or institutions that share a common risk factor) by ensuring that the spread of assets, the fund managers' policies on investing in individual securities and the PPF's investment guidelines to fund managers provide adequate diversification of investments.

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

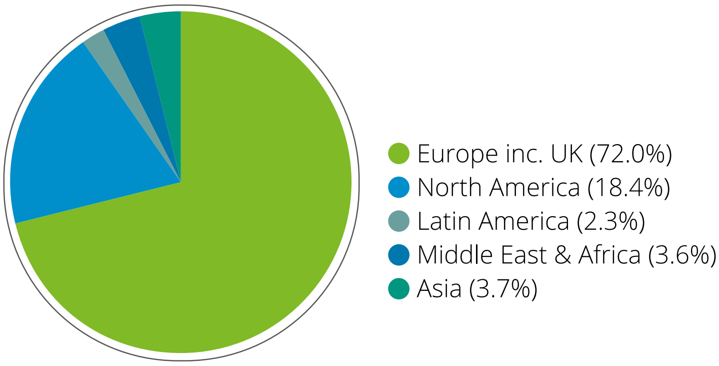
Financial risk management

As at 31 March 2020, the rating distribution of the fixed income investment portfolio (excluding UK gilts aid derivatives) was as follows:

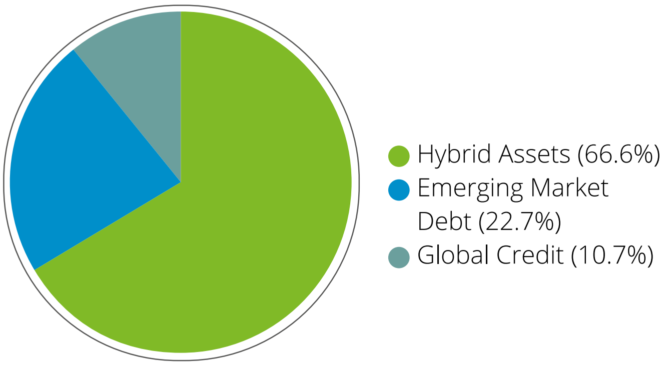
Fixed Income Portfolio Allocation (£6.9bn) by Rating Category



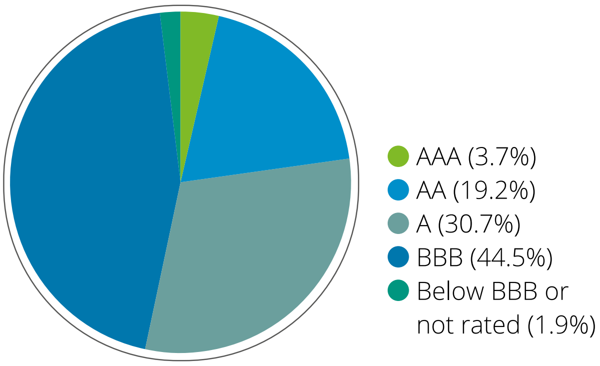
Fixed Income Portfolio Allocation (£6.9bn) by Region



Fixed Income Portfolio Allocation (£6.9bn) by Asset Type



Hybrid Asset Allocation (£4.6bn) 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 £6.4m, the largest contributors to this being Hybrid assets.

For information on the PPF's exposure to assets that are subject to collateral and similar arrangements with counterparties, refer to the liquidity risk section (note 8).

7. PPF market risk

Market risk is the risk that the fair value of, or future cash flows arising from, the PPF's assets and liabilities will fluctuate due to changes in market factors, including:

- market prices;
- interest rates;
- inflation rates; and
- foreign exchange rates.

Market risk is measured, monitored and managed within an agreed risk budget in a number of ways using a combination of sensitivities, tail risk measures and stress tests. Where the PPF wants to consider the potential impact of a specific event or shock, we run stress tests to be able to quantify the net impact on the PPF's assets and liabilities.

The PPF ensures that the spread of assets, the fund managers' policies on investing in individual securities and the PPF's investment guidelines to fund managers provide adequate diversification of investments.

Impact of changes to market factors on PPF assets

The net assets of the PPF, excluding actuarial liabilities and claims provision (as per the Statement of Financial Position) of £36.3bn (2019: £32.2bn) under a number of scenarios would change by:

	2020		2019	
	£m	%	£m	%
Nominal yields are 0.5% higher per year than assumed	(2,908.4)	(8.0)	(3,580.0)	(11.1)
Inflation is 0.5% higher per year than assumed	1,161.6	3.2	820.0	2.5
Non-LDI assets fall by 10%	(1,878.4)	(5.2)	(1,880.0)	(5.8)

Appendix S4 of the Appointed Actuary's Supplementary Report provides further sensitivity analyses of the PPF's assets and liabilities to changes in a variety of financial and non-financial risk factors, including market prices, interest rates, inflation rates, and mortality assumptions.

Price risk

Price risk is the risk that the fair value of, or future cash flows arising from, financial instruments will fluctuate due to changes in market prices (other than those arising from other market factors such as interest rates, inflation rates or foreign exchange rates). Price risk can be caused by factors specific to the individual financial instrument or its issuer, or factors affecting similar financial instruments traded in the market. An example of price risk is the risk associated with equity prices.

The PPF's financial instruments are carried at fair value, with fair value changes recognised in the Consolidated Statement of Comprehensive Net Income. Therefore any relevant changes in market conditions will directly affect investment returns. The Board manages price risk by diversifying its investments across a range of asset classes, both within the UK and globally, and sets asset allocation guidelines for the fund managers consistent with the table below.

Asset class*

	2020 £m	Actual %	Tolerance range
Global bonds[1]	2,424.9		
UK bonds and cash	17,269.0		
Cash and bonds	**19,693.9**	**54.4%**	**43%-63%**
Public equity	3,482.7	9.6%	9%-14%
Alternatives[2]	6,535.8	18.1%	16%-21%
Absolute return	1,853.9	5.1%	3%-8%
Hybrid assets	4,622.6	12.8%	10%-15%
Total assets allocated per SIP	**36,188.9**	**100.0%**	

1 Includes emerging market debt.
2 Includes private market assets such as property and private equity.
* Assets classes are based on internal risk reporting which looks through pooled fund holdings and uses mid prices.

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

Interest rate risk

Interest rate risk is the risk that the fair value of, or future cash flows arising from, the PPF's assets and liabilities will fluctuate due to changes in short and longer-term interest rates.

The valuation of the PPF's liabilities is sensitive to movements in interest rates. As part of the PPF's LDI programme, this interest rate risk is hedged through the PPF's holdings of certain bonds and derivatives, as these financial instruments are also sensitive to movements in interest rates.

Financial risk management

Inflation risk

Inflation risk is the risk that the fair value of, or future cash flows arising from, the PPF's assets and liabilities will fluctuate due to changes in short and longer-term inflation rates.

The projection of the PPF's cash flows and therefore the valuation of its liabilities are sensitive to movements in short and longer-term inflation rates. As part of the PPF's LDI programme, this inflation risk is hedged through the PPF's holdings of certain bonds and derivatives, as these financial instruments are also sensitive to movements in inflation rates.

Currency risk

Currency risk (also called foreign exchange rate risk) is the risk that the fair value of, or future cash flows arising from, financial instruments will fluctuate due to changes in foreign exchange rates. The PPF's liabilities are denominated in sterling and therefore only its assets are exposed to currency risk.

The PPF operates a currency risk management strategy in which it has determined a target currency hedge ratio for each asset class (based on the underlying characteristics of each asset class) and aims to limit deviations from these. As at 31 March 2020, the exposure and therefore sensitivity to each major currency is illustrated by the table below.

Residual unhedged currency exposure

	2020 £m	2019* £m
US dollar	(1,282.7)	299.9
Euro	481.0	324.9
Australian dollar	161.5	81.8
Japanese yen	91.3	(22.0)
Chinese yuan	60.9	0.1
Other currencies	353.7	540.3
Total	**(134.3)**	**1,225.0**

* The note has been prepared on the basis of the largest five unhedged currency exposures as at the 2020 year end. The comparatives for 2019 have been amended to align with the 2020 disclosures.

8. PPF liquidity risk

Liquidity risk is the risk of exhausting available cash and liquid assets and therefore being unable to meet immediate financial obligations as they fall due. This includes the inability of the PPF to sell assets quickly or at fair market values to meet its financial obligations as they fall due. The PPF's financial obligations include:

- compensation to members;
- collateral calls on derivatives and 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.

The PPF maintains an investment strategy so that at all times there is sufficient liquidity to meet foreseeable cash outgo, when it falls due, both in normal and under stressed financial market conditions. We monitor our liquidity position continuously against unstressed and stressed limits, to ensure that liquidity remains available.

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. The estimated maturity profile of payments to current members is as follows:

	Within 1 year £m	1-5 years £m	Over 5 years £m	Total £m
2020	844.5	3,404.5	24,500.2	**28,749.2**
2019	701.5	2,856.7	19,505.1	**23,063.3**

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
2020	239.5	768.4	425.0	7,606.3	**9,039.2**
2019	97.9	520.9	233.9	4,099.8	**4,952.5**

Collateral arrangements

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

	2020 £m	2019 £m
Securities subject to sale and repurchase agreements	3,930.8	2,611.4
Funds paid as collateral for reverse sale and repurchase agreements	429.4	227.9
Securities lent to market counterparties	144.4	88.9
Total assets provided subject to collateral and similar arrangements with counterparties	**4,504.6**	**2,928.2**
Funds received as collateral for sale and repurchase agreements	3,772.6	2,553.9
Securities subject to reverse sale and repurchase agreements	427.8	227.9
Collateral received from counterparties	154.5	115.3
Total assets received subject to collateral and similar arrangements from counterparties	**4,354.9**	**2,897.1**

Collateral pledged for securities lending, repurchase and reverse repurchase agreements are subject to minimum collateralisation levels of between 102 per cent and 105 per cent of the market value of borrowed securities. Collateral pledged must be cash, debt issued from OECD member states, US corporate debt with a minimum long-term debt rating of A- or higher, or equities from major indices.

Capital commitments

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

	2020	2020 £m	2019	2019 £m
Denominated in US dollars	$2,370.7m	1,911.9	$1,993.6m	1,530.0
Denominated in euros	€1,009.8m	893.6	€628.5m	541.6
Denominated in sterling	£500.2m	500.2	£118.1m	118.1
Denominated in Australian dollars	A$71.6m	35.3	A$150.2m	81.9
Total		**3,341.0**		**2,271.6**

Financial risk management

9. FCF financial risks

The FCF has £21.5m (2019: £19.1m) of money market funds and provisions valued at £nil (2019: £nil). The Board has the power to raise levies to meet the cost of successful claims. 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 schemes that were themselves part of a scam and seven applications have been received with an estimated total claim value of £43.6m. There remains uncertainty as to the eligibility of these claims and the total value of future applications expected. 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.

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

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.

Liquidity risk – the FCF is not exposed to significant liquidity risks as assets are in liquidity funds.

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 similar commercial organisations.

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 decreased by £3.9m to £65.1m**. The first full year of insourcing FAS administration is reflected in higher salary costs but savings are made in member payroll services. Pension costs are higher following increases in employer contributions. We have reduced our spend on advisers and professional service providers by about 27 per cent.

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 2019/20 are summarised as follows:

	PPF £m	PPF Administration Fund £m	FAS Administration Fund £m	2020 £m
Staff costs				
Wages and salaries	18.1	6.2	3.6	27.9
Social security costs	2.1	0.8	0.4	3.3
Other pension costs	3.7	1.4	0.8	5.9
Short-term, seconded and temporary staff	0.1	0.1	–	0.2
Total staff costs	**24.0**	**8.5**	**4.8**	**37.3**
Other costs				
Member payroll services	0.3	0.1	0.2	0.6
Staff-related and recruitment	0.9	0.3	0.2	1.4
Advisory and other professional services	5.8	2.8	0.2	8.8
Statutory audit costs	0.2	–	–	0.2
Accommodation and general office	3.1	0.6	0.8	4.5
IT and telephony	7.9	1.4	0.8	10.1
Depreciation and amortisation charges	1.4	–	0.8	2.2
Total other operating expenses	**19.6**	**5.2**	**3.0**	**27.8**
Total operating expenses	**43.6**	**13.7**	**7.8**	**65.1**

Statutory audit costs were £224,000 (2019: £175,000).

Operating the business

	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	8.4*	2.3*	1.3	12.0*
Statutory audit costs	0.2	–	–	0.2
Accommodation and general office	2.8*	0.7*	0.6	4.1*
IT and telephony	8.7*	1.5	0.9	11.1*
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**

* Restated due to reclassifications.

Information on the staff numbers and exit packages can be found in the Remuneration and staff report on pages 90-96.

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 2016 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 2020, employer contributions of £5.8m (2018/19: £4.1m) were payable to the DB section of the PCSPS at one of four rates in the range 26.6 per cent to 30.3 per cent (2018/19: 20 per cent to 24.5 per cent).

Employer contributions for the year ended 31 March 2021 are expected to be approximately £7.5m. 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 £157,000 (2018/19: £130,000) 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 (2018/19: 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 2020 were £514,000 (2019: £370,000).

12. 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 following tables. 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	2020 £m	2019 £m
PPF		
Net operating surplus	523.6	513.9
Net investment return	1,800.5	1,538.0
Net cost of claims	(3,315.7)	(2,741.3)
Net comprehensive expense	**(991.6)**	**(689.4)**
FCF		
Net comprehensive income	**7.0**	**4.9**
Administration Funds		
Income from grants	22.7	22.8
Operating expenses	(21.5)	(22.2)
Net comprehensive income	**1.2**	**0.6**
Consolidated net comprehensive expense	**(983.4)**	**(683.9)**

Consolidated Statement of Financial Position

For the year ended 31 March	2020 £m	2019 £m
Total assets less total liabilities		
PPF	5,065.1	6,056.7
FCF	26.2	19.2
Administration Funds	1.5	0.3
Consolidated Statement of Financial Position	**5,092.8**	**6,076.2**

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

13. Subsidiaries

A small proportion of the Board's investment portfolio is held through subsidiaries. As at 31 March 2020 these were:

- Apollo PPF Opportunistic Credit Partners (Lux) SCSp (a Luxembourg Special Limited Partnership);
- Crown Secondary Placement plc (a company registered in Ireland);
- 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);
- Lazard Converts Absolute Return L.P. (a Cayman Islands Exempted Limited Partnership);
- OHA LDN Customised Credit L.P. (an English Private Fund Limited Partnership);
- PPF Nominee 2 B. V. (a company registered in the Netherlands);
- 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); and
- PPF Real Estate Nominee 4 Limited (a company registered in the United Kingdom).

The subsidiaries do not operate separately from the PPF's overall investment management processes, and the relevant assets, liabilities, income and 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 Luxembourg Special Limited Partnership, the English Private Fund Limited Partnership and the Cayman Islands registered companies have 31 December year ends; all the other entities have 31 March year ends.

14. Related party transactions

£22.7m (2018/19: £22.8m) 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 13.

15. Events after the reporting period

The United Kingdom is expected to be leaving the European Union in 2020/21. This is a significant event for the United Kingdom and the full consequences will emerge over time. However, the PPF's long-standing low-risk approach and hedging strategy mean that we are able to cope with the volatile markets we expect to see. No changes have been proposed from this which would change the role of the PPF or the compensation which we provide and consequently we do not consider this to materially affect our long-term operations. The impact on its daily operations is expected to be minimal.

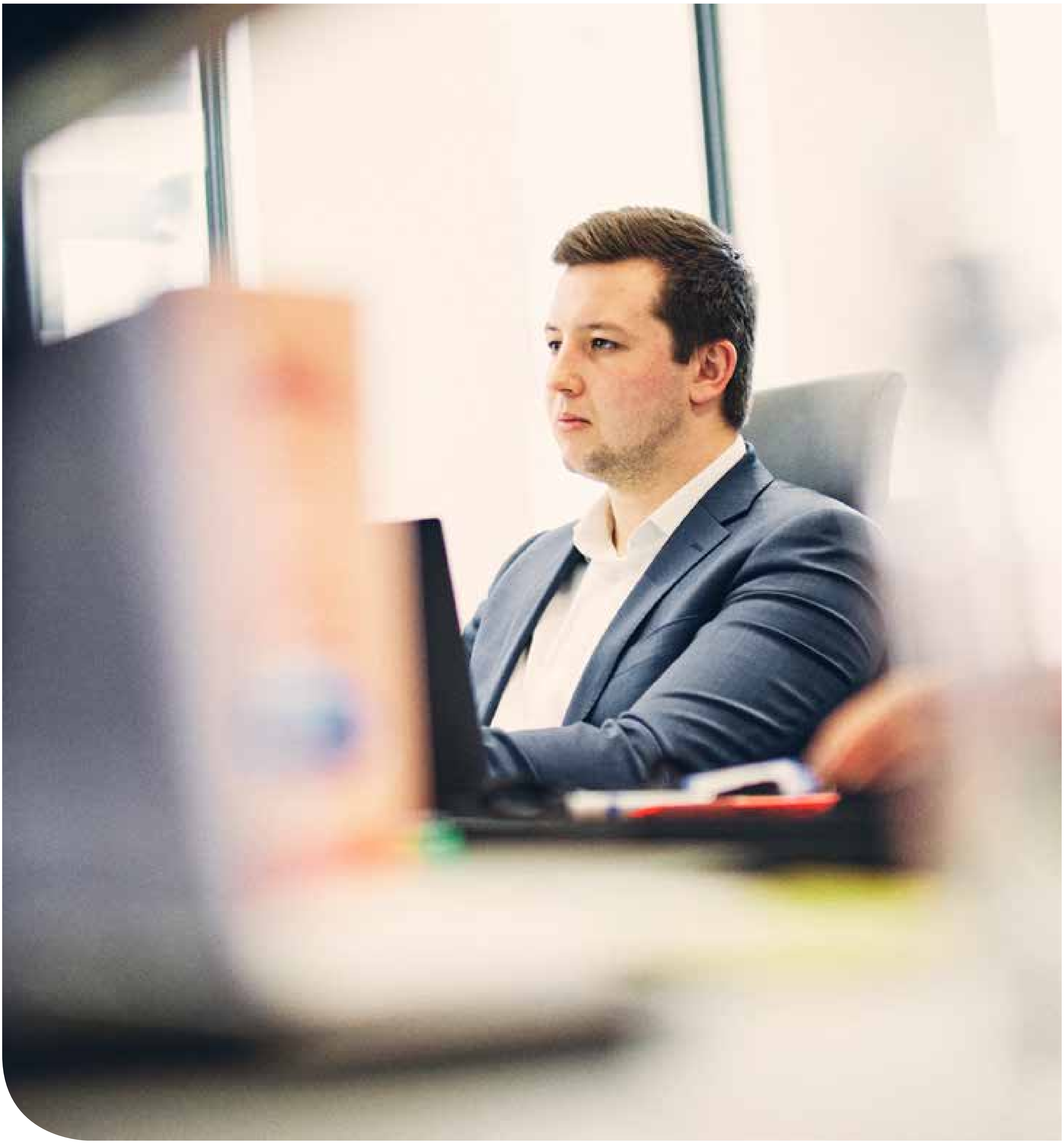
In June 2020, the judgment relating to the challenge to our approach to calculating increases to compensation for certain members following the 2018/19 CJEU judgment (Hampshire) was delivered. We have provided for the impact of the judgment in line with our original methodology and for the potential removal of the PPF compensation cap (see pages 118 and 120).

The COVID-19 pandemic, which started during the year, continues in 2020/21, and continues to impact on our significant risks, including funding risk (see page 80). Since the year end, gilt yields have fallen which will have acted to increase our liabilities by around two per cent. This has had very limited impacted on our reported reserves however since our hedging strategy is designed to protect us from such movements. We have received claims with a cost of £203.0m since the year end, of which £186.6m had been included in contingent liabilities.

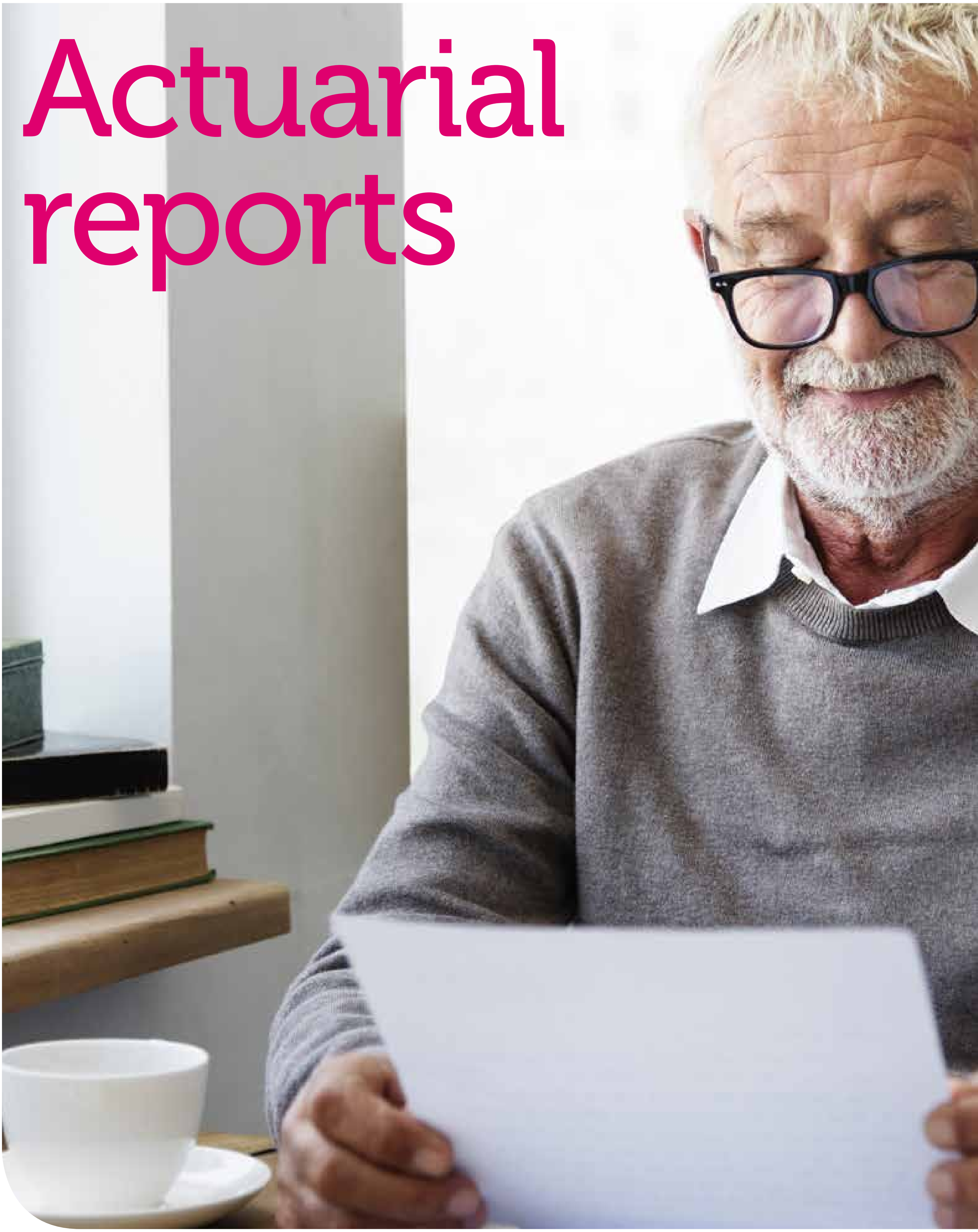
There have been no other material events after the reporting period.

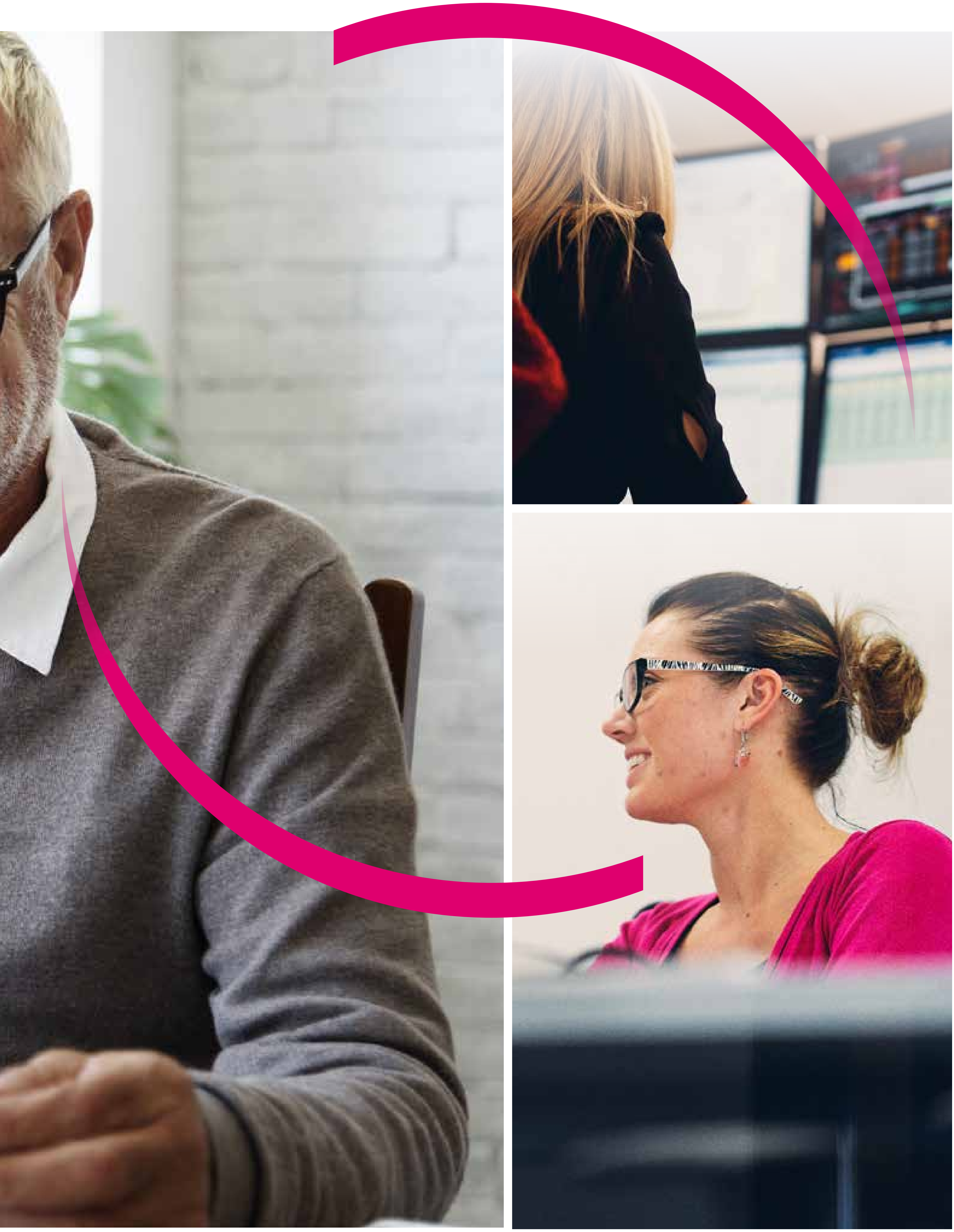
The financial statements were authorised for issue by the Chief Executive on 6 October 2020, the date the Comptroller and Auditor General certified them.

The financial statements do not reflect events after this date.



Actuarial reports





Actuarial reports

Summary of the two actuarial valuation reports

Over the year to 31 March 2020 the PPF's reserves (across both transferred schemes and those in assessment) decreased to £5.1 billion, from £6.1 billion as at 31 March 2019. This corresponds to a decrease in funding ratio to 113.4 per cent from 118.6 per cent. While government bond and swap, yields dropped significantly over the year, increasing liabilities by around 10 per cent, there was limited impact on our reserves due to our hedging programme. The main factors influencing this deterioration in reserves were:

- unrealised losses on invested (non-hedging) assets of £1.1 billion
- an inclusion of a reserve of £0.2 billion to cover the expected cost of increasing compensation to reflect the court's ruling in the case of Hughes v PPF, where the PPF compensation cap was ruled to be unlawful; and
- a shortfall of assets compared with liabilities of £0.3 billion in respect of new schemes entering PPF assessment (there were 36 such claims).

These items have been offset by levy receipts of £0.6 billion, which have acted to increase our assets and reserves.

The number of members receiving compensation from the PPF has increased by around 22,000, reflecting both the 34 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)	36,320.6	6,554.7	**42,875.3**
Liabilities (£m)	28,749.2	9,061.0	**37,810.2**
Reserves (£m)	**7,571.4**	**(2,506.3)**	**5,065.1**
Funding ratio (assets/liabilities)	**126.3%**	**72.3%**	**113.4%**
Number of records in respect of members receiving compensation*	169,861	65,180	**235,041**
Number of records in respect of deferred members*	116,461	59,948	**176,409**

* Some members have more than one record in the data.

The actuarial valuation of the Pension Protection Fund as at 31 March 2020 (transferred schemes only)

1. Introduction and framework

This report has been prepared for the Board of the Pension Protection Fund (the Board). It sets out the results of the actuarial valuation of the Pension Protection Fund (the PPF) as at 31 March 2020 for inclusion in the Annual Report and Accounts. Copies will be sent to the Secretary of State for Work and Pensions and to the Comptroller and Auditor General. This report is not intended to assist any user other than the Board or for any other purpose than meeting their accounting requirements.

This report deals solely with schemes that transferred to the PPF before 31 March 2020. It should be read alongside my supplementary report, dated 22 September 2020, which also includes those schemes that are currently in an assessment period but are ultimately expected to transfer.

Framework under which this valuation has been prepared

The requirement to include an actuarial valuation of the PPF is set out in the Accounts Direction given by the Secretary of State for Work and Pensions with the approval of HM Treasury in accordance with the Pensions Act 2004.

Under the Accounts Direction, the Board is required to prepare accounts in compliance with the Government Financial Reporting Manual (FReM), and other relevant guidance issued by HM Treasury. The FReM requires that International Accounting Standard (IAS) 37 must be taken into account. When taken together, this means that the valuation of both assets and liabilities should provide a true and fair assessment. The methodology used for the valuation as at 31 March 2020 is broadly the same as that adopted for the valuation as at 31 March 2019.

The requirement to provide an annual valuation of the PPF is also set out in the Framework document agreed between the PPF and the Department for Work and Pensions (DWP).

This valuation has been prepared in accordance with the above pieces of legislation and guidance insofar as they apply. Appendix M4 – Legislation and guidance sets out more detail around this.

This valuation complies with Technical Actuarial Standard (TAS) 100 'Principles of Technical Actuarial Work'. Further, given the scope of the work, the processes and the calculations underlying this report, together with the report itself, are subject to independent peer review. This review has been done by the Government Actuary's Department.

Signed:

Name of Appointed Actuary: Lisa McCrory
Date: 22 September 2020
Job title: Chief Financial Officer and Chief Actuary
Qualification: Fellow of the Institute and Faculty of Actuaries
Employer: The Board of the Pension Protection Fund

2. Compensation and data

As at 31 March 2020, over 1,000 pension schemes had transferred to the PPF. Compensation payments due to members of these schemes, and their associated expenses, form the liabilities of the actuarial valuation.

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 Appendix M1 – Summary of compensation provided by the PPF.

Legislation permits amendments to the amount of starting compensation, if agreed by the Secretary of State, and compensation increases if agreed by the PPF. For the purpose of this valuation I have assumed that there are no such changes in the future.

Data for these schemes have been provided by the PPF's internal administration team.

I obtained data extracts at dates shortly before the effective date of the valuation. I then applied adjustments to ensure the data was consistent with the effective date of the calculations so that the accuracy of the results is not materially impacted. This is similar to the process adopted for the valuation as at 31 March 2019.

I checked the data for general reasonableness and for consistency with the data used for the actuarial valuation as at 31 March 2019. I have no material concerns over the accuracy of the data.

A full summary of the data used, including that used for the actuarial valuation as at 31 March 2019 for comparison, is set out in Appendix M2 – Membership data. The total numbers of members and their current compensation amounts are set out in the following table:

Member status	Number of records	Compensation, £m pa
Receiving compensation	169,861	779.3
Deferred	116,461	388.2

3. Approach

The methodology used for the valuation as at 31 March 2020 is broadly the same as that adopted for the valuation as at 31 March 2019.

Assets

The value of the PPF assets is taken from the PPF's accounts for the financial period ending 31 March 2020.

Liabilities

The liabilities are the present value of expected future compensation payments payable to all members and any future dependants that had transferred to the PPF before 31 March 2020, uplifted to reflect the expected future expenses that will be met by the PPF.

The future payments are estimated through projections of the initial amount of compensation provided in the membership data, allowing for assumptions in the future around such things as:

- when deferred members will retire;
- what compensation increases will be;
- what the PPF compensation cap will be;
- how long people will live; and
- the chances compensation will be paid out to dependants.

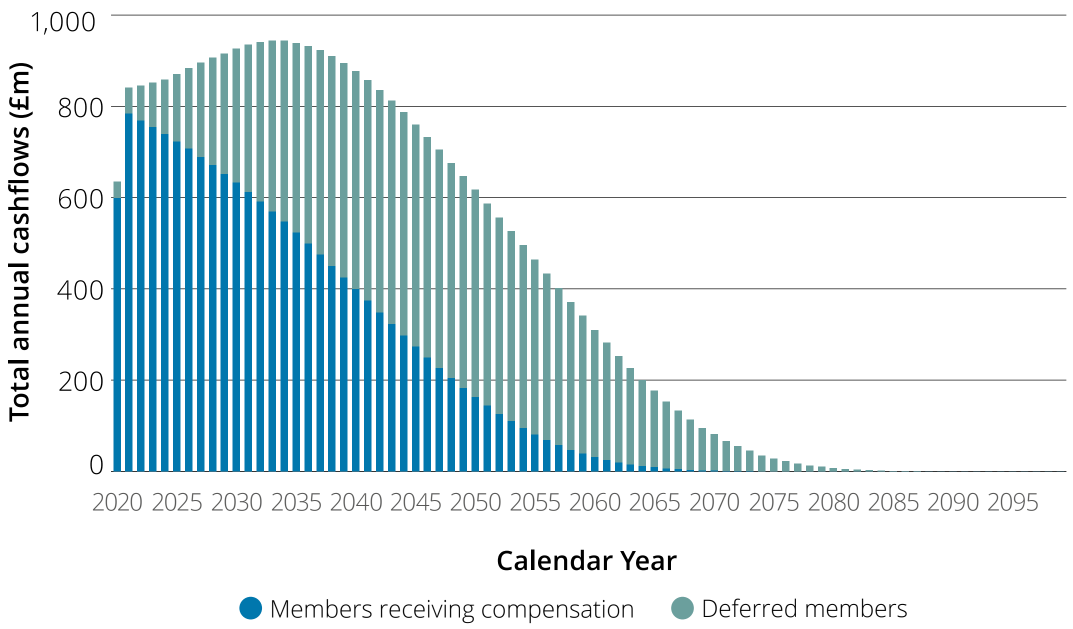
Future expenses are calculated by projecting our current per member cost and membership numbers and adding on the expected cost of administering the portfolio of assets used to determine the discount rate.

The actuarial valuation of the Pension Protection Fund as at 31 March 2020 (transferred schemes only)

The assumptions used are summarised in the next section and described more fully in Appendix M3 – Assumptions.

The resulting expected future payments and expenses are then all discounted back to the valuation date and added together to form a total present value of the liabilities.

The chart below summarises the expected future payments (and associated expenses) to all members who had transferred to the PPF by 31 March 2020 (note that calendar year 2020 excludes payments made before 31 March 2020).



I initially calculated liabilities for all schemes that transferred before 31 March 2020 as at 29 February 2020 using assumptions derived from market conditions at that date. I then adjusted for changes in market conditions between 29 February 2020 and 31 March 2020 as well as such adjustments as:

- one fewer month of discounting;
- incorporating one more month's worth of known inflation; and
- compensation paid out over the month.

4. Assumptions

As Appointed Actuary, I have responsibility for the assumptions used in this statutory valuation of the PPF. As in previous years, the proposed assumptions were discussed and agreed with the Board prior to completing the valuation.

I have taken account of the relevant legislation, regulations, and guidance when setting the assumptions, details of which are included in Appendix M4 – Legislation and guidance. None of these items provides specific direction on the choices of assumptions made for the valuation. However, the main principles I have followed when deciding the assumptions are:

1) The assumptions used to estimate future cashflows should be best estimate so that they are as likely to overstate as understate the calculated liabilities.
2) A risk-free discount rate should be used to convert the estimated future cashflows into a current value of liabilities to compare with the market value of assets.

A full description of the assumptions made can be found in Appendix M3 – Assumptions. The most important assumptions are summarised in the following table:

Valuation date	31 March 2020	31 March 2019
Discount rate	A full curve, consisting of 75% of the gilt yield, plus 25% of the SONIA swap yield plus 10 basis points at each term	A full curve, consisting of 75% of the gilt yield plus 25% of the LIBOR swap yield less 15 basis points at each term
RPI inflation	RPI inflation swap curve	RPI inflation swap curve
CPI inflation	1.0% pa lower than RPI inflation until 31 March 2030 and 0.6% pa thereafter	1.0% pa lower than RPI inflation
Compensation increases	As for CPI inflation, adjusted for the annual cap of 2.5% pa and minimum of 0%	As for CPI inflation, adjusted for the annual cap of 2.5% pa and minimum of 0%
Baseline life expectancy	Club Vita life expectancy curves, 2019 version	Club Vita life expectancy curves, 2018 version
Future improvements in life expectancy	CMI 2018 model (core form, except for addition to initial improvements, 'A', of 0.75%), long-term rate 1.5% pa	CMI 2017 model (core form, except for smoothing parameter of 8.0%), long-term rate 1.5% pa
Median life expectancies from age 65 implied by the above assumptions	For a man: Aged 65 now: 21.7 years Aged 40 now: 23.3 years	For a man: Aged 65 now: 22.1 years Aged 40 now: 23.8 years
Impact of the recent court judgment (see further details below)	Uplifts to liabilities of: For Hampshire 50% minimum test: • 0.2% for members receiving compensation • 1.3% for deferreds • £35m for arrears due For potential removal of the compensation cap provisions: • 0.86% for members receiving compensation (including the cost of expected arrears) • 0.53% for deferreds	Uplifts to liabilities of: For Hampshire 50% minimum test only: • 0.8% for members receiving compensation • 1.3% for deferreds

The assumptions are generally the same as used last year in terms of their derivation, although their values have changed with market conditions and the emergence of new data and information.

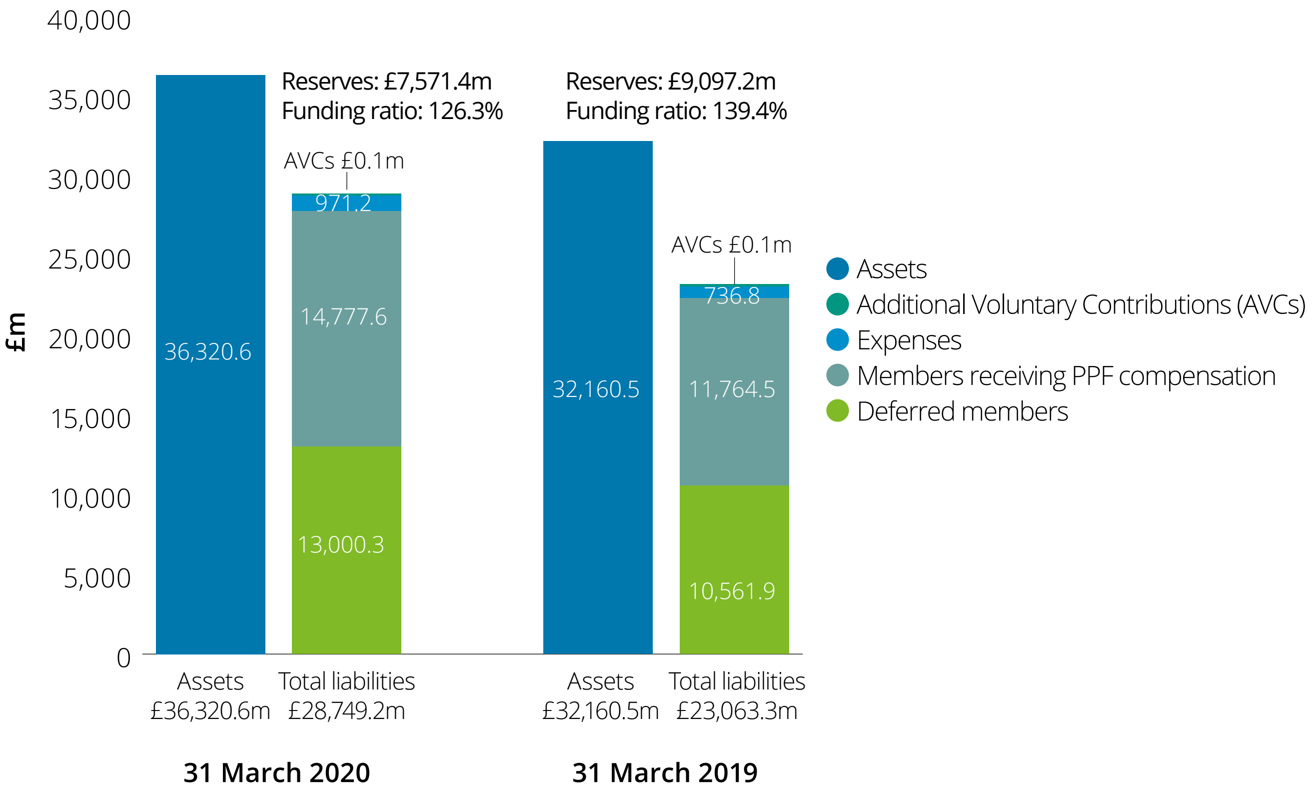
Over the last few years there have been a number of court rulings that have impacted the shape of PPF compensation payable. At the time of writing, we were working closely with the DWP to agree our approach for implementation. For some aspects of these rulings I do not currently have sufficient data to enable a reliable estimate to be made. In line with the accounting guidance, where there is material uncertainty no allowance has been included in the liabilities. The two areas impacted are the Bauer judgment and the outcome of the Judicial Review (Hughes v PPF) relating to our methodology for delivering the Hampshire judgment. Further details are provided in Appendix M3 as well as the contingent liability section of my supplementary report.

I have performed a sensitivity analysis of the results according to plausible changes in the assumptions. The results based on the above assumptions are summarised in section 5 – Results in this report, and the results of the sensitivities are given in Appendix S4 – Sensitivity analysis in my supplementary report.

The actuarial valuation of the Pension Protection Fund as at 31 March 2020 (transferred schemes only)

5. Results

The following chart sets out the values of the PPF's assets and liabilities at the current and previous valuation dates. Figures are in £ million.



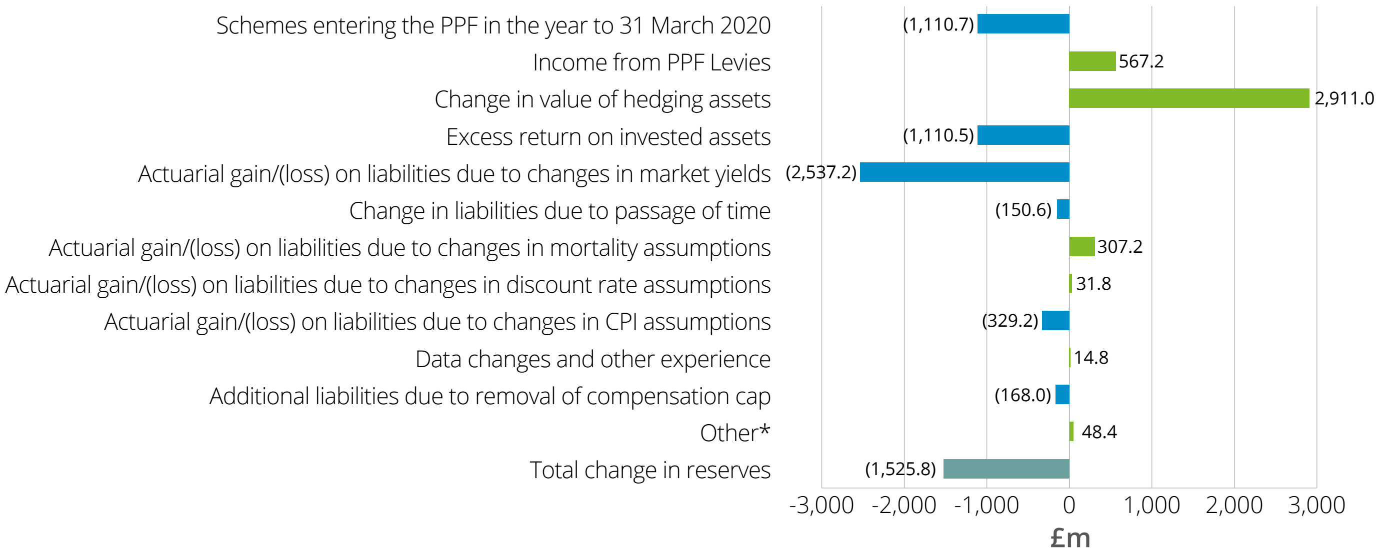
Over the year to 31 March 2020 assets increased by £4,160.1 million and liabilities by £5,685.9 million. The growth in liabilities was largely due to:

- a fall in gilt and swap yields, which acted to increase liabilities by £2,537.2 million; and
- an increase of £3,777.4 million in respect of the 34 schemes that transferred into the PPF during the year.

The growth in assets was mostly due to:

- an increase of £2,911.0 million due to change in gilt and swap yields. This number is not directly comparable to the increase in liabilities since some of these assets are used to hedge schemes currently in PPF assessment;
- levy income of £567.2 million;
- an increase of £2,666.7 million in respect of assets transferring to the PPF over the year; and
- these were offset by a decrease in invested assets of £1,110.5 million, mainly resulting from the significant volatility in investment markets in March 2020.

The net impact is a decrease in the PPF's reserves between 31 March 2019 and 31 March 2020 of £1,525.8 million. A full analysis of change is set out in the following chart (figures are in £ million):



* Includes such items as assets from schemes that transferred in prior years, expenses, and the impact of inflation being different to that assumed.

The reserves should be considered alongside the current shortfall in respect of schemes currently in assessment and expected to transfer to the PPF. My supplementary report to the Board shows the shortfall in respect of these schemes calculated as £2,506.3 million. Therefore, had these schemes transferred to the PPF on the calculation date our reserves would have reduced to £5,065.1 million.

6. Risks and uncertainties

Based on our current levy and investment strategy it is our long-term expectation that reserves should increase as a result of returns on assets and levy income exceeding expected future claims. It is, however, possible that over the short-term some deterioration in funding could occur.

In addition, the calculated liabilities will be sensitive to the assumptions used. As part of my supplementary report I have carried out some analysis to demonstrate how sensitive the results are to the assumptions used.

I have summarised below some areas of uncertainty that could have a material impact on our funding in the short term:

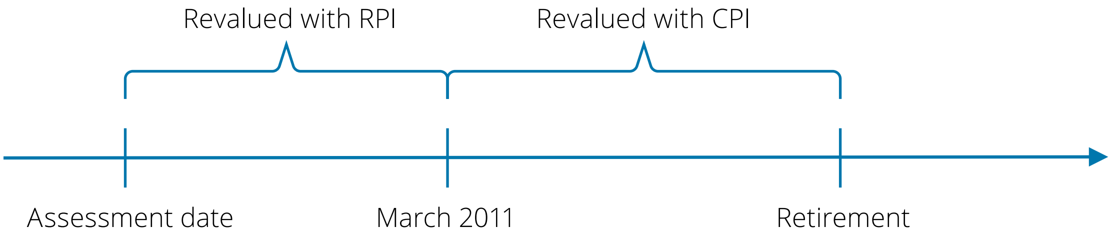
- Although our current investment strategy is designed to be low risk and well diversified, there is a risk that investment losses may occur. If, for example, the value of our growth assets were to fall by 5 per cent, our reserves would fall by around £900 million.
- Future claims are particularly uncertain and a larger than expected claim on the PPF could reduce reserves. Part of my supplementary report considers whether there are any potential claims we consider highly likely at he calculation date. If all of these occurred it is estimated that they would reduce our reserves by £527.3 million (see section 5 – Results for contingent liabilities of my supplementary report for details). Of course, there may be other large claims that may materialise that are not included in this analysis.
- Future changes in life expectancy are very uncertain; this is particularly true at present given the evolving situation around COVID-19. Currently no allowance has been made for the impact of the pandemic on future life expectancy as it is unclear whether this will result in a temporary reduction in life expectancies or whether the effects will be felt for a longer time. The recent higher than expected levels of deaths experienced are not expected to have a material impact on funding. Longer term, I have estimated that if the average life expectancy of our membership were to increase/decrease by one year our reserves would decrease/increase by around £1.4 billion.
- There is considerable uncertainty surrounding the future of the Retail Prices Index (RPI) index – at the time of writing, the UK Government is consulting on its proposal to reform the RPI index to align it with the CPI plus owner occupiers' housing costs (CPIH). As the PPF has a large holding of inflation-linked swaps, any change to the RPI index could adversely impact the value of these assets. Based on market conditions, at the valuation date it is estimated that a change to align RPI to CPIH could reduce reserves by around £600 million if the alignment occurred in the year 2030.

Appendix M1

Summary of compensation provided by the PPF

Member type	Starting PPF compensation
Members who reached their former scheme's Normal Pension Age (NPA) before the scheme came into assessment	100% of scheme pension
Members receiving a survivor's pension	
Members receiving an ill-health pension	
Members who were below NPA when their former scheme came into assessment	90% of scheme pension

Revaluation of compensation between coming into assessment and retirement



Subject to a minimum of 0% over the whole period to retirement and a maximum over the whole period to retirement of:
- 5 per cent per year for pension in respect of service before 6 April 2009
- 2.5 per cent per year for pension in respect of service after 5 April 2009

Where retirement is before or after NPA, early or late retirement factors apply. RPI or CPI revaluation does not extend past NPA.

Compensation increases in payment

Compensation in payment is increased on 1 January each year in line with the below table. The first increase after retirement is reduced to reflect the fact that member compensation has not yet been in payment for a full year.

Pension in respect of service	Compensation increases
Before 6 April 1997	Nil
After 5 April 1997	CPI up to a maximum of 2.5% a year (with a minimum of nil)

Compensation cap

From 1 April 2020 this equates to £41,461.07 per year at age 65 (adjusted according to the age at which compensation comes into payment).

The cap increases by 3 per cent for each full year of pensionable service above 20 years, up to a maximum level of compensation of double the standard cap.

In June 2020 the Administrative Court ruled that the compensation cap is unlawful.

Minimum compensation

Following the September 2018 ruling by the Court of Justice of the European Union (CJEU) 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 in the former scheme.

In December 2019, the CJEU ruled in the case of Bauer that a reduction in the amount of occupational old age pension benefits paid to a member on account of his or her employer's insolvency is manifestly disproportionate where, as a result of the reduction, the member is living below the at-risk-of-poverty threshold determined by Eurostat. The implementation of the Bauer judgment presents a significant operational complexity and we are working with DWP to address this challenge.

Survivors' compensation

After a member's death, generally 50 per cent of the member's compensation amount will be paid to a legal spouse or relevant partner, depending on the rules of the former scheme.

A proportion of the member's compensation is also paid to any children who are under 18 years old, or under 23 if they are in full-time education.

Powers to alter PPF compensation

Under the Pensions Act 2004 (see Appendix M4 – Legislation and guidance for more detail), the PPF 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.

Appendix M2
Membership data

Data extracts had to be obtained at dates before the effective date of the valuation. This is similar to the process adopted for the valuation as at 31 March 2019. The following table sets out these dates, which depended on when the schemes transferred to the PPF.

Date of scheme transfer to the PPF	Effective date of data
Before 31 January 2020	16 January 2020
February 2020	17 February 2020
March 2020	17 March 2020

Adjustments have been applied to ensure the data is consistent with the valuation date 31 March 2020 and that the accuracy of the valuation results is not materially affected.

Here are summaries of the member data used in the valuation:

Deferred members

		31 March 2020			31 March 2019		
		Male	Female	Total/ average	Male	Female	Total/ average
Deferred members	Number	77,723	38,738	**116,461**	72,073	37,494	**109,567**
	Average age (unweighted)	54.1	52.7	**53.7**	53.5	52.2	**53.1**
	Total compensation (£m pa)	300.3	87.9	**388.2**	277.4	83.7	**361.1**

Members receiving compensation

		31 March 2020			31 March 2019		
		Male	Female	Total/ average	Male	Female	Total/ average
Members receiving compensation (excl. dependants)	Number	103,528	38,838	**142,366**	90,043	35,059	**125,102**
	Average age (unweighted)	71.1	71.9		70.6	71.4	
	Total compensation (£m pa)	599.9	93.8	**693.7**	501.0	80.8	**581.8**
Dependants receiving compensation (excl. children)	Number	2,741	24,235	**26,976**	2,387	20,076	**22,463**
	Average age (unweighted)	74.9	76.9		74.1	76.3	
	Total compensation (£m pa)	4.0	80.8	**84.8**	3.3	62.8	**66.1**
Children receiving compensation	Number	249	270	**519**	221	219	**440**
	Average age (unweighted)	15.8	16.4		15.8	16.0	
	Total compensation (£m pa)	0.4	0.3	**0.7**	0.3	0.3	**0.6**
All members receiving compensation	Number	106,518	63,343	**169,861**	92,651	55,354	**148,005**
	Average age (unweighted)	71.1	73.6	**72.0**	70.6	73.0	**71.5**
	Total compensation (£m pa)	604.3	175.0	**779.3**	504.6	143.9	**648.5**

The figures in the above tables relate to member records rather than individuals. So for example, members who are already receiving one tranche of compensation but are entitled to a further tranche are included in both tables. The compensation amounts shown for members in receipt of compensation is prior to the removal of the PPF compensation cap. Allowing for the removal of the cap is expected to increase compensation by around £5.6 million.

Suspended payments

There were around 900 members whose compensation payments had been suspended (and not restored) by the effective date of the data. This suspension occurred because we are uncertain about whether these members continue to be eligible to receive compensation. A small number of these members may have their compensation put back into payment; however, any impact will not be material to the results of this valuation.

Other payments

The compensation in the tables above also excludes a very small amount of some other types of pension – for example, step-down pensions – that would have been payable under a former scheme's rules and now needs to be reflected in PPF compensation paid to members. On grounds of materiality some but not all of this is reflected in the liabilities, but this approach will be revisited in future if more schemes with these other pensions transfer to the PPF.

Guaranteed Minimum Pension (GMP) – reconciliation with HMRC records

Additionally, there is an unknown number of people whom HMRC have on record as having paid contracted-out rate National Insurance contributions, but who were not included in the transfer to the PPF. Schemes would have had a liability to pay a 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.

Appendix M3

Assumptions

A full summary of the assumptions used in the actuarial valuation is shown below, along with the 2019 valuation assumption, if different.

Valuation date	**31 March 2020**	**31 March 2019 (if different)**
Discount rate	A full curve, consisting of 75% of the gilt yield plus 25% of the SONIA based swap yield plus 10 bps at each term	A full curve, consisting of 75% of the gilt yield plus 25% of the LIBOR based swap yield less 15 bps at each term
RPI inflation	RPI inflation swap curve	
CPI inflation	1.0% pa lower than RPI inflation until 31 March 2030 then 0.6% pa lower thereafter	1.0% pa lower than RPI inflation
Compensation increases	A full CPI (0,2.5%) curve	
Baseline life expectancy	Club Vita life expectancy curves, 2019 version	Club Vita life expectancy curves, 2018 version
Future improvements in life expectancy	CMI 2018 model (core form, except for addition to initial improvements, 'A', of 0.75% pa), long-term rate 1.5% pa	CMI 2017 model (core form, except for smoothing parameter of 8.0), long-term rate 1.5% pa
Commutation, early retirement, late retirement	No allowance on the grounds that member options are exercised on terms that are cost neutral on our latest accounting basis. Therefore these options should not affect our liabilities	
Proportion of members married or with a relevant partner	Depends on provisions in former scheme 85% (men) / 70% (women) (if any relevant partner) 75% (men) / 60% (women) (if legal spouses only) For members receiving compensation these proportions apply at normal pension age, for deferred members at assumed date of retirement or earlier death	
Age difference between member and dependant	Women assumed to be three years younger than their male partners	
Children's compensation	No additional allowance	
Expenses	An allowance of 3.2% of the liabilities	An allowance of 3.3% of the liabilities
The long service cap	No explicit allowance due to the inclusion of the expected potential cost of removing the capping provisions, see below	An allowance of 0.25% of the deferred liabilities
Impact of the recent court judgment	Uplifts to liabilities of: For Hampshire 50% minimum test: • 0.2% for members receiving compensation • 1.3% for deferreds • £35m for arrears due For the potential removal of the compensation cap provisions: • 0.86% for members receiving compensation (including the cost of expected arrears) • 0.53% for deferreds	Uplifts to liabilities of: For Hampshire 50% minimum test only: • 0.8% for members receiving compensation • 1.3% for deferreds

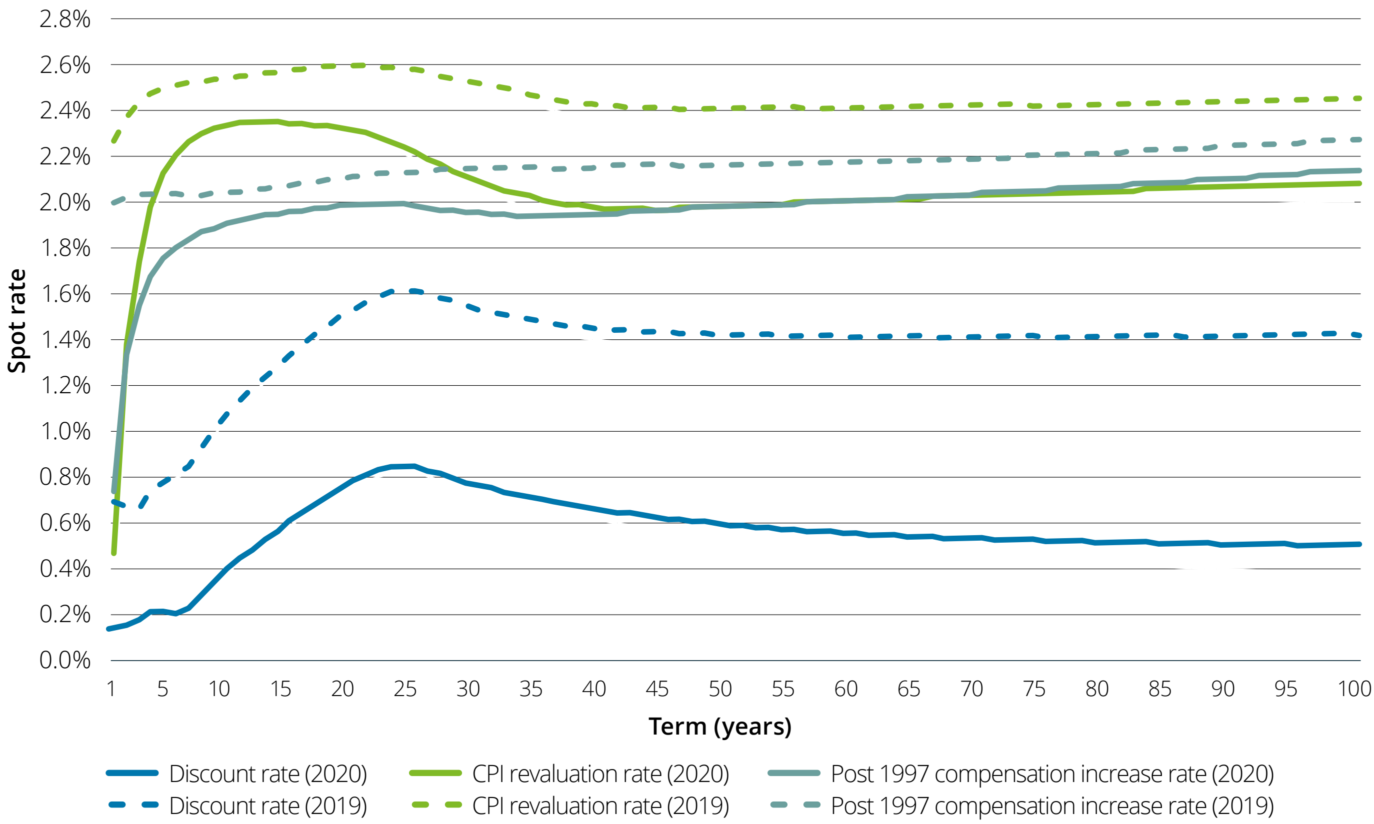
Valuation date	31 March 2020	31 March 2019 (if different)
GMP equalisation	No allowance on the grounds that there are no members for whom the PPF has not yet equalised for GMP	
Levels of compensation, revaluation in deferment and increase in payment	No change from current legislation	

I give further information on these assumptions below.

Financial assumptions

In general I have applied the same rationales in setting the financial assumptions as for the actuarial valuation at 31 March 2019. In particular, the financial assumptions vary according to the term of the compensation payment being estimated.

The graph below shows the annualised average term-dependent discount rates, CPI revaluation rates, and increases to compensation in payment, that have been assumed over the given term as at 31 March 2020. The previous year's figures are shown as dashed lines for comparison. The rates are presented as spot rates.



Source: BlackRock and a number of investment banks with, in some cases, additional PPF calculations

Appendix M3
Assumptions

Discount rates
I have set the discount rates assumption according to a notional portfolio of assets that I consider to best match the PPF liability cashflows for the purposes of this actuarial valuation.

This notional portfolio consists of 75 per cent gilts and 25 per cent swaps. The discount rate for each term is a blend of 75 per cent of the gilt yield and 25 per cent of the SONIA-based swap yield plus 10 basis points at that term. The 10 basis point addition is made to the swap yield to reflect the actual expected returns on the cash backing the swap contracts. Previously I used the LIBOR-based swap yield but the expectation is that future swaps will be transacted using SONIA.

Inflation and compensation increases
For the RPI inflation assumptions I have used a curve of RPI inflation swap yields as at 31 March 2020.

Since expected future CPI inflation is not reliably observable in the market in the same way as expected RPI inflation, I have instead set this assumption via deducting a margin from the RPI inflation assumptions. However, over the year there have been numerous announcements that have called into question the future of the RPI index. There is some evidence that the market has priced in some reduction in the RPI yield curve in the future and to reflect this I have used a best estimate of the margin between RPI and CPI of 1.0 per cent per year up to 31 March 2030 reducing to 0.6 per cent per year thereafter. This is the same assumption as we use in constructing the portfolio of assets to hedge our liabilities.

For compensation increases in payment, I have used the Stochastic Alpha Beta Rho (SABR) model to adjust expected future CPI inflation for the upper and lower limits that apply when CPI-linked compensation increases are derived.

Demographic assumptions
Life expectancy
This assumption is in two parts. The first is baseline life expectancy which reflects the assumed rates of mortality at the valuation date. The second part is an assumption about how these rates will change over time.

The following table illustrates the life expectancies of members aged 65 at both the date of valuation and in 25 years' time, based on the assumptions described below.

Date of valuation			**31 March 2020**		**31 March 2019**	
Figures in years			**Men**	**Women**	**Men**	**Women**
Median life expectancy	Members currently receiving compensation	Now	21.7	23.9	22.1	23.9
	Dependants currently receiving compensation	Now	19.8	23.5	20.8	23.4
	Members due to receive compensation	In 25 years' time	23.3	26.5	23.8	26.4
	Future dependants	In 25 years' time	22.3	25.5	23.1	25.2
Minimum life expectancy	Members currently receiving compensation	Now	14.9	18.8	14.8	18.6
	Dependants currently receiving compensation	Now	14.9	18.8	14.8	18.6
	Members due to receive compensation	In 25 years' time	19.2	22.4	19.4	23.0
	Future dependants	In 25 years' time	17.5	21.8	17.6	21.6
Maximum life expectancy	Members currently receiving compensation	Now	24.6	25.9	24.9	26.8
	Dependants currently receiving compensation	Now	23.7	25.6	22.6	26.8
	Members due to receive compensation	In 25 years' time	26.5	28.0	26.9	28.2
	Future dependants	In 25 years' time	25.8	27.7	24.9	28.9
Range of life expectancies which covers 75% of compensation	Members currently receiving compensation	Now	19.6-23.5	21.8-25.2	19.9-24.2	22.4-25.4
	Dependants currently receiving compensation	Now	17.8-21.6	21.6-25.6	18.6-20.8	22.2-25.5
	Members due to receive compensation	In 25 years' time	22.0-25.1	25.1-27.3	22.4-25.3	25.6-27.4
	Future dependants	In 25 years' time	20.4-23.9	23.8-26.7	21.2-23.2	24.8-26.2

Baseline life expectancy

A life expectancy analysis provider, Club Vita, provides me with a number of individual mortality curves to apply to the PPF's individual members, based on a number of factors such as sex, lifestyle, and compensation amount.

Allowance for changes in life expectancy over time

A model for this purpose is produced by the Continuous Mortality Investigation (CMI), which is part of the Institute and Faculty of Actuaries. This model is updated every year to reflect more recent data and, in some years, modelling methodology improvements.

For the actuarial valuation as at 31 March 2020, I have adopted the CMI_2018 model, with all model parameters at their core values except an initial adjustment to mortality improvements of 0.75 per cent per year. This parameter was adjusted to reflect the population differences between members of DB pension schemes and the general population of England and Wales along with an approximate allowance for the expected impact of the 2019 mortality data not yet reflected in the model. I have assumed a long-term rate of mortality improvement of 1.5 per cent per year for men and women. Currently I have made no allowance for the impact of the COV1D-19 crisis on future mortality as it is unclear whether this will result in a short sharp shock to expected life expectancies or whether the effects will be felt for a longer time. I do not expect the current increase in deaths over 2020 to be material to the overall finances of the PPF but I will keep this position under review.

Member options – commutation, early retirement, late retirement

No allowance is made for any member options to be exercised. As the option terms are set such that the liabilities are broadly unchanged whether the option is exercised or not.

Other demographic assumptions

I have based these on the PPF's experience.

Expenses

Certain administration expenses, such as those associated with paying members and investment management, are met directly from the PPF.

The current expected total cost of paying members is converted to a per member cost and projected into the future with CPI and expected membership changes derived using the assumptions outlined above. This is then discounted back to a present day value.

Investment management expenses have been taken as the estimated current annual management charge that would apply to the notional portfolio used to set the discount rate assumption, including an allowance for the cost of the PPF overseeing it.

This results in an allowance of 3.2 per cent of liabilities, which compares with 3.3 per cent at the last actuarial valuation, using the same methodology.

In addition, the expected future cost of administering four longevity swap contracts that have recently transferred to the PPF has been included. This has increased the allowance to 3.5 per cent of liabilities.

Appendix M3
Assumptions

Minimum compensation
i. Hampshire – 50 per cent minimum
Following the September 2018 ruling by the CJEU 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. We have previously set out our plans for ensuring that members receive this minimum using our one-off value test methodology. In June 2020 the Administrative Court ruled that we must ensure that the overall compensation payable to our members' and separately their survivors, will equal at least 50 per cent of the amount of the benefits that the member and any survivor would have received under their pension scheme.

The allowance included in the liabilities has been calculated assuming our one-off value test continues to apply. It has not been possible to reliably quantify how this allowance might change as a result of the recent judgment as we have limited information relating to scheme benefit structures on survivors and we are considering how these requirements interact with the current compensation provisions around commutation of PPF compensation. Therefore, in line with the accounting guidance, I have instead included any additional cost as a contingent liability; further details are provided in my supplementary report.

For members who have already received an uplift, no further adjustment has been made as the increased compensation calculated using the one-off value test approach will be included in the data used. For the remaining population, I have determined approximate average uplifts expected to apply to different member categories as well as the common scheme benefit structures that apply. The resulting liability uplifts are 0.2 per cent of pensioner liabilities and 1.3 per cent of deferred liabilities. These compare to uplifts of 0.8 per cent of liabilities in respect of members receiving compensation and 1.3 per cent of deferred liabilities at the last actuarial valuation.

I have also allowed for liabilities of £35 million in respect of expected arrears. This includes the amounts still due to members who have already had their compensation uplifted and those that still need to be processed.

ii. Bauer
In December 2019, the CJEU ruled in the case of Bauer that a reduction in the amount of occupational old age pension benefits paid to a member on account of his or her employer's insolvency is manifestly disproportionate where, as a result of the reduction, the member is living below the at-risk-of-poverty threshold determined by Eurostat. The implementation of the Bauer judgment presents a significant operational complexity and we are working with DWP to address the challenges. We are unable at this point to provide a reliable estimate of how many of our members will be affected. Therefore, in line with the accounting guidance no allowance has been included in the calculated liabilities. This is discussed further in the contingent liability section of my supplementary report.

iii. The compensation cap
In the case of Hughes v PPF, the Administrative Court ruled the PPF compensation cap to be unlawful. At the time of preparing this report, compensation has not been adjusted to reflect the ruling. I have however included an allowance for the expected cost of implementing the judgment.

The cost for deferred members was accurately assessed since uncapped benefits are recorded on our administration system. This increased deferred liabilities by 0.53 per cent.

For members in payment an approximate approach was taken based on data collected for previous benefit rectification exercises. Given the small cost relative to our total liabilities I do not expect the cost to be materially different when full data becomes available. The expected cost for increasing members in payment for the removal of the cap along with payment of any arrears has increased the pensioner liability by 0.86 per cent.

GMP equalisation
All compensation of members of transferred schemes is equalised for GMP so no further adjustments are required. This was also the case at the 2019 actuarial valuation.

Appendix M4
Legislation and guidance

Legislation / guidance	Valuation aspect it applies to
Pensions Act 2004	Various. Specific significant aspects are detailed below
Paragraph 22 of Schedule 5 to the Pensions Act 2004	The PPF is required to prepare a statement of accounts of each financial year, which must include an actuarial valuation of the assets and liabilities of the PPF prepared and signed by the Appointed Actuary The PPF is required to send a copy of this valuation report (along with the rest of the accounts) to the Secretary of State for Work and Pensions and the Comptroller and Auditor General (paragraph 22(5))
The Accounts Direction given by the Secretary of State for Work and Pensions with the approval of HM Treasury in accordance with Part 4 of Schedule 5 of the Pensions Act 2004	This states that the discount rate used to discount future cashflows and liabilities should be that advised by the PPF's actuary
FReM (accounting principles and disclosure requirements therein) Other guidance issued by HM Treasury in respect of accounts which are required to give a true and fair view The Framework document agreed between the DWP and the Board of the PPF	Under the Accounts Direction referred to above, the PPF is required to prepare accounts in compliance with these
IAS 37	In accordance with FReM, the PPF is required to take account of this. It follows from this that the PPF is required to place a best estimate value on the provisions The PPF is exempted from IAS 37's requirements around the calculation of the discount rate by virtue of the Accounts Direction described above
Schedule 7 to the Pensions Act 2004 (and consequent regulations)	This schedule sets out PPF compensation
Section 132 of the Pensions Act 2004	This section defines what an assessment period is
Pension Protection Fund (Valuation of the Assets and Liabilities of the Pension Protection Fund) Regulations 2006 (SI 2006/597)	The value of the PPF liabilities is determined in accordance with regulation 3, which required that: a) the liabilities of the PPF shall be any sums or properties falling to be paid or transferred out of the Fund required to meet liabilities listed in section 173(3) of the Pensions Act 2004, and b) the value of a liability shall be the present value of that liability at the valuation date. The value of the PPF assets is determined in accordance with regulations 2, 4, and 5. Regulations 4 and 5 make available adjustments but these have not been made in this valuation

Supplementary report: actuarial liabilities, provisions and contingent liabilities of the Pension Protection Fund as at 31 March 2020

1. Introduction and framework

This supplementary valuation report has been prepared for the Board of the Pension Protection Fund (the Board) for inclusion in its Annual Report and Accounts as at 31 March 2020.

This report mainly deals with two categories of pension schemes:

1. Schemes in PPF assessment as at 31 March 2020 that are expected to transfer to the PPF. This is a broad definition of the schemes which form the 'provisions'.
2. Schemes for which I believe there is a high chance of employer insolvency over the coming months along with those with the highest insolvency risk as determined for levy purposes.

Fuller details of both schemes in assessment (SIA) (the 'provisions') and schemes deemed to be at material risk of employer insolvency (the 'contingent liabilities') can be found in Appendix S1 – Definition of a provision and contingent liability.

The contingent liability section of the report also notes the outcome of recent court cases impacting the level of PPF compensation payable to certain categories of members.

In addition to the above, I also include details of the assets and liabilities of both transferred schemes and SIA in aggregate as well as sensitivities of these to certain changes in key assumptions and market conditions.

This report is not intended for any purpose other than meeting the PPF's accounting requirements.

Framework under which this valuation has been prepared

The requirement to include an actuarial valuation of the PPF is set out in the Accounts Direction 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 the Accounts Direction, the Board is required to prepare accounts in compliance with the FReM, and other relevant guidance issued by HM Treasury. The FReM requires that IAS 37 must be taken into account. When taken together, this means that the valuation of both assets and liabilities should provide a true and fair assessment.

The requirement to provide an annual valuation of the PPF is also set out in the Framework document agreed between the PPF and the DWP.

This valuation has been prepared in accordance with the above pieces of legislation and guidance insofar as they apply. Appendix M4 – Legislation and guidance in my main report and Appendix S5 – Legislation and guidance set out more detail around this.

This valuation complies with Technical Actuarial Standard (TAS) 100 'Principles of Technical Actuarial Work'. Further, given the scope of the work, the processes and the calculations underlying this report, together with the report itself, are subject to independent peer review. This review has been done by the Government Actuary's Department.

The actuarial gain/(loss)on liabilities is not directly comparable to the change in value of hedging assets because some of the assets held in respect of transferred schemes are used to hedge schemes currently in PPF assessment.

Signed:

Name of Appointed Actuary: Lisa McCrory
Date: 22 September 2020
Job title: Chief Financial Officer and Chief Actuary
Qualification: Fellow of the Institute and Faculty of Actuaries
Employer: The Board of the Pension Protection Fund

Actuarial liabilities, provisions and contingent liabilities of the Pension Protection Fund as at 31 March 2020

2. Compensation, data, approach, assumptions

Where possible, I have taken the same approach to value the liabilities forming the provisions and contingent liabilities as I took to value the liabilities of the schemes that transferred to the PPF by 31 March 2020. This is covered in my main report to the Board dated 22 September 2020.

For SIA I have requested recent individual member data for five large schemes for use in this valuation. These schemes make up 53 per cent of the liabilities for schemes in the provisions and 13 per cent of the total liabilities of transferred schemes and those in the provisions. There are a further six schemes for which I have used individual membership data requested for previous valuations. For all these 11 schemes the approach to valuing the liabilities is comparable with that taken for transferred schemes, with an additional allowance for the expected cost of completing the transfer to the PPF.

For all other SIA and contingent liabilities, I have estimated the liabilities by adjusting the results of the latest section 179 (s179) valuation or section 143 (s143) valuation. The adjustments made allow for changes in market conditions, the passage of time, differences in assumptions used for s179 purposes and this valuation, as well as the expected scheme experience since the effective date of the valuation. The approach taken is broadly consistent with the methodology used to calculate the PPF levy for the financial year 1 April 2019 to 31 March 2020.

Due to the limited data available for these schemes a simplified approach to setting the assumptions is required, which involves using average assumptions for the discount rate, future inflation and current mortality rates. See Appendix S3 – Assumptions for further details on the assumptions used.

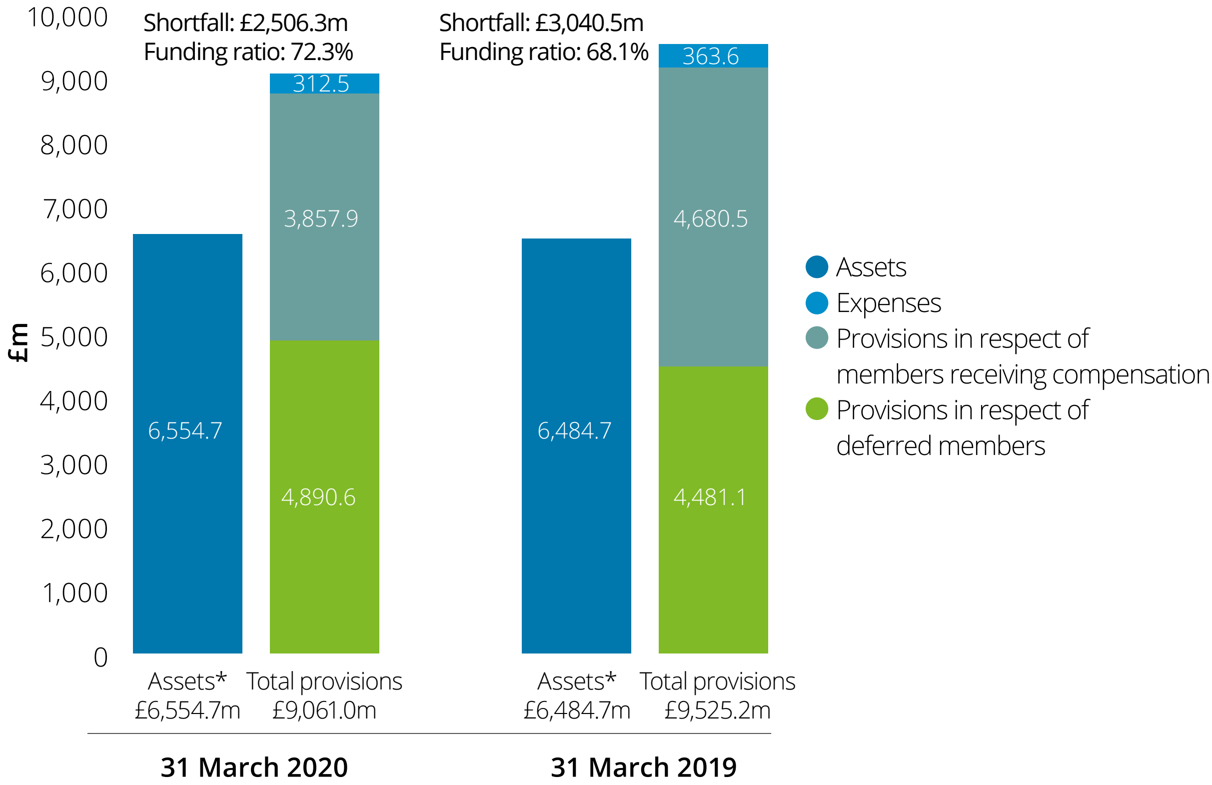
For all schemes included in the provisions and the contingent assets, I have estimated the assets by rolling forward the latest information available using market indices for each asset class. For the material schemes discussed above, the latest asset valuation will be at a date on or after the effective date of the member data provided and for other schemes the asset information will be from the latest data submitted for PPF levy purposes. Again, the method I used to do this is broadly consistent with the latest levy methodology.

A scheme is only included in the calculation if it is expected that it has insufficient assets to secure benefits above PPF levels of compensation. See Appendix S1 – Definition of a provision and contingent liability for further details of the definitions used and Appendix S2 – Data for further details on the number of schemes included.

3. Results for schemes in PPF assessment

Provisions

71 schemes were included in the provisions as at 31 March 2020. The following chart sets out the values of the assets and liabilities of the schemes forming the provisions at the current and previous valuation dates. Figures are in £ million.

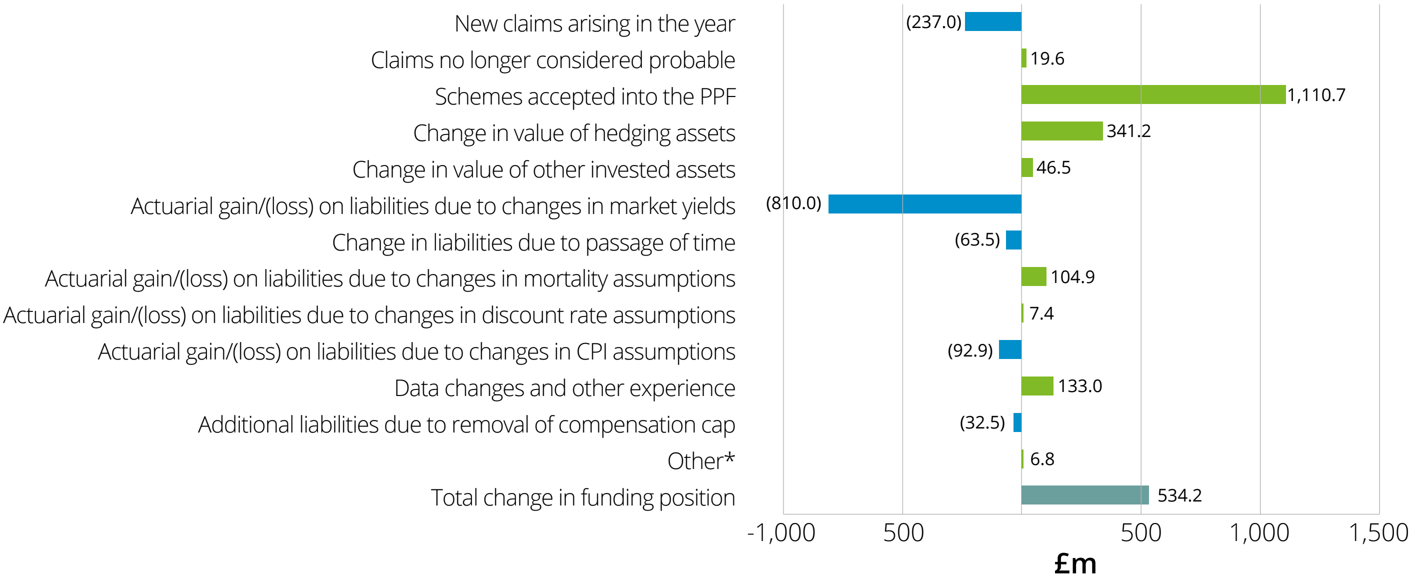


* Includes anticipated recoveries of £52.6 million (2019: £61.6 million).

For some schemes that are marginally underfunded on the PPF entry basis, the assets exceed liabilities on the basis used for the purpose of this valuation. In this circumstance I have restricted the assets to the value of the liabilities to avoid the risk of understating the provision made. This adjustment has reduced the asset value by £107.5 million.

Actuarial liabilities, provisions and contingent liabilities of the Pension Protection Fund as at 31 March 2020

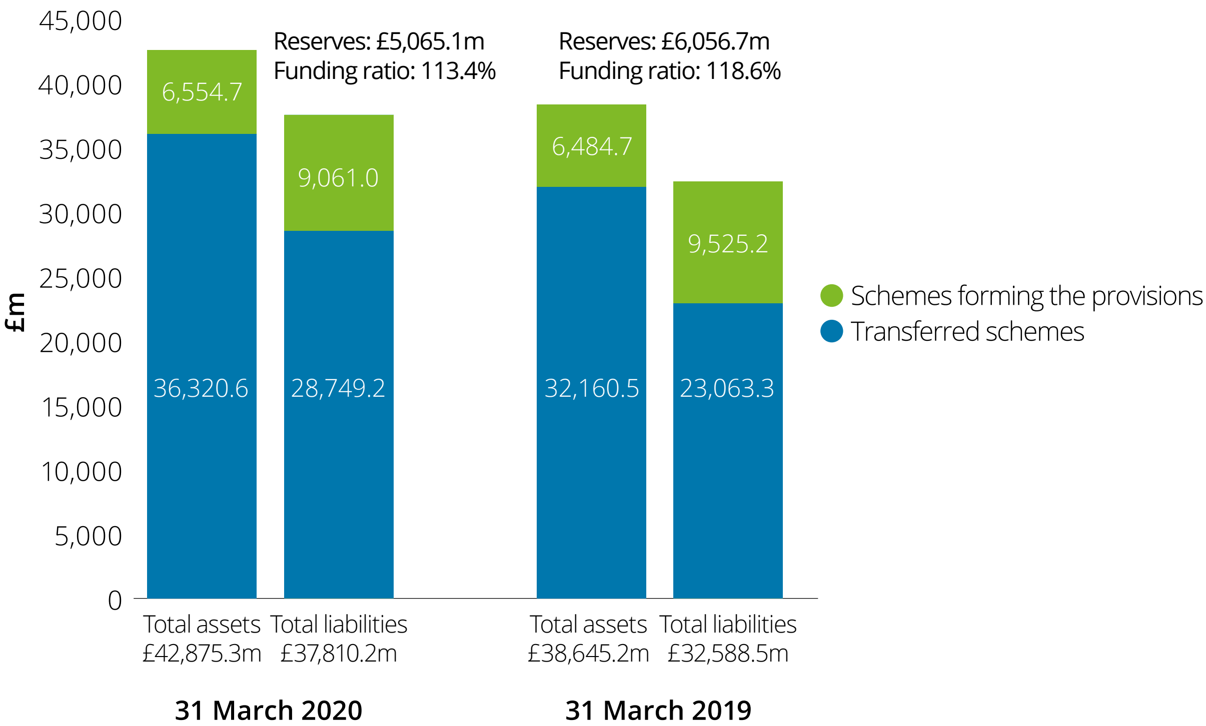
The shortfall of assets compared to liabilities has reduced from £3,040.5 million as at 31 March 2019 to £2,506.3 million as at 31 March 2020. The change has largely been driven by a small number of large schemes transferring to the PPF. A full analysis of this change over the year is set out in the following chart (figures are in £ million).



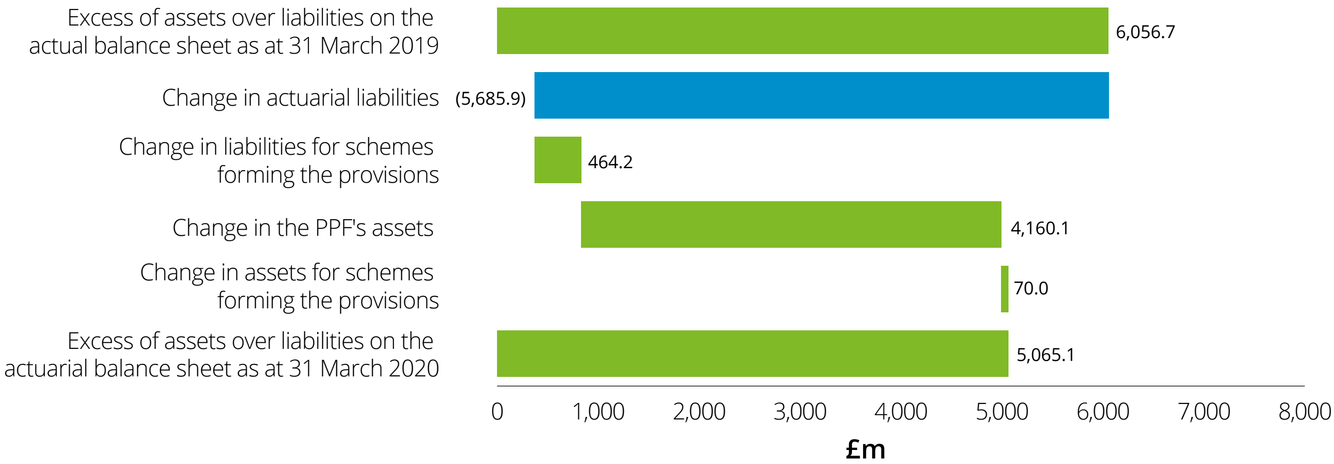
* Includes such items as expenses, recoveries, and the impact of inflation being different to that assumed.

Actuarial liabilities and provisions in aggregate

The following chart sets out the values of the assets and liabilities of the schemes that have already transferred to the PPF and those forming the provisions at the current and previous valuation dates. Figures are in £ million.



The following chart sets out a reconciliation for the year of the net funding position on the actuarial balance sheet i.e. considering both transferred schemes and schemes forming the provisions in aggregate. Figures are in £ million.



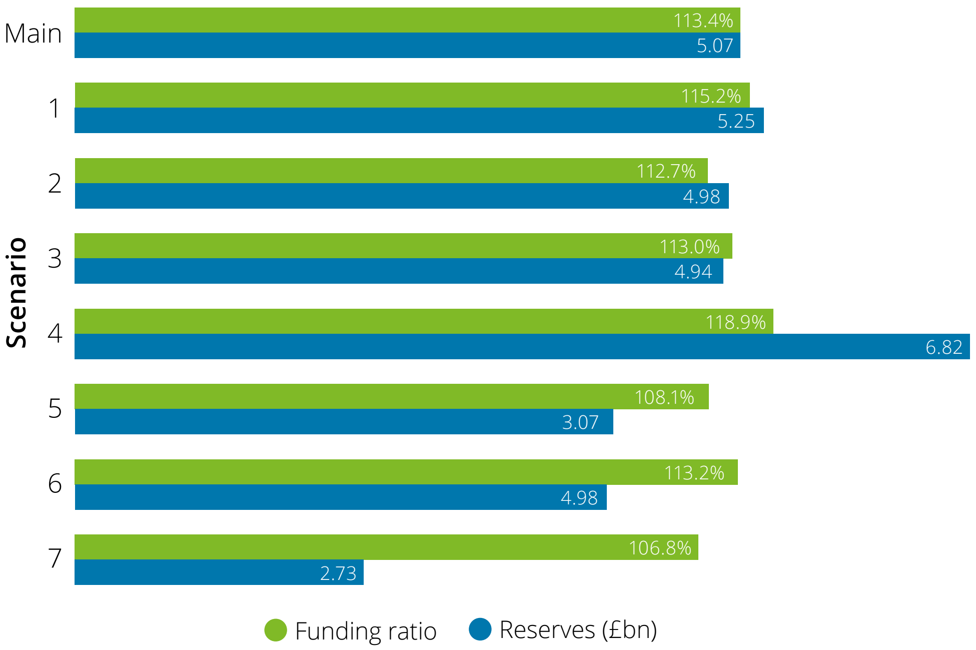
Actuarial liabilities, provisions and contingent liabilities of the Pension Protection Fund as at 31 March 2020

4. Sensitivity analysis

The value placed on liabilities will be very sensitive to the assumptions used; in addition it is likely that actual experience of the PPF will be different from that assumed. I have therefore illustrated how sensitive the results are to plausible changes in the main assumptions. Full details are set out in Appendix S4 – Sensitivity analysis and I have summarised below the impacts on reserves and funding ratio (in this context 'reserves' means the reserves of the PPF net of the shortfall between assets and liabilities of SIA).

Scenario	Description
Main	Assets and liabilities are as shown in the chart above
1	Nominal yields are assumed to increase by 0.5% pa
2	Inflation is assumed to increase by 0.5% pa
3	CPI inflation is assumed to be 0.5% pa lower than RPI inflation after 2030 (instead of 0.6% pa)
4	Average life expectancy is assumed to be 1 year shorter than assumed in the main valuation
5	The value of return-seeking assets as at the valuation date (excluding those which are used to hedge liabilities) is assumed to decrease by 10%
6	Non-investment expenses are assumed to be 10% higher than assumed in the main valuation. (No change to investment nor wind-up expenses.)
7	Assumptions and expenses calculations based on the s143 valuation basis in force as at the valuation date

Sensitivity of results to assumptions used



The results show that, although some impacts can be large, the PPF is resilient to individual items of experience being different to assumed. A more detailed breakdown of the results is given in Appendix S4 – Sensitivity analysis. It should also be noted that, in some cases, the results are calculated in a more approximate manner than the main results in the report.

5. Results for contingent liabilities

The environment in which we operate is uncertain and there are a number of events that could impact the funding of the PPF in the future. The contingent liabilities consider events that are deemed possible over the next 12 to 18 months along with an assessment of the possible impact if they did occur.

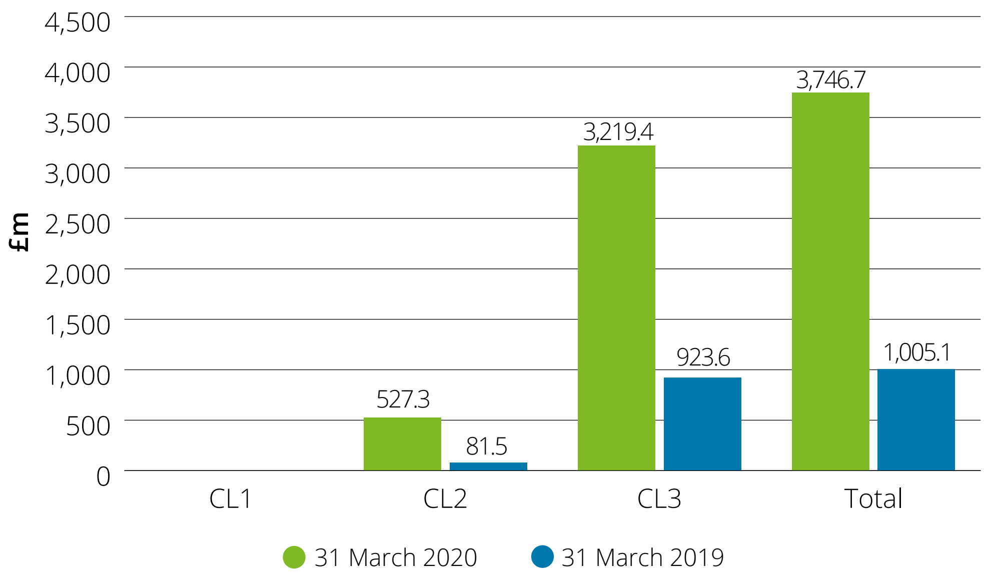
Further claims on the PPF could impact funding in the future. However, the level and timing of these are very uncertain. We have therefore categorised this risk into three groups:

Type 1: Any past claim that has been rejected, but we expect a further successful application in the future. No schemes meet this definition at the valuation date.

Type 2: Schemes where there is evidence to suggest an insolvency event is highly likely in the coming months based on information provided by the scheme trustees or The Pensions Regulator (TPR).

Type 3: Schemes that are not captured above but who have a high insolvency risk. For this purpose a scheme has been categorised as high risk if the Experian insolvency score would place it in levy band 10 or, for the biggest schemes, if the sponsoring employer has a credit rating of CCC+ or worse. Note that this is not intended to be a measure of the claims over the period, instead providing a measure of the schemes that are deemed the highest risk of failure for levy purposes. In addition, this group includes schemes where there is evidence to suggest an insolvency event is reasonably likely in the coming months based on information provided by the scheme trustees or TPR.

The following chart shows the potential net liability for each category above, alongside the corresponding figure in last year's report. Figures are in £ million. Appendix S1– Definition of a provision and contingent liability provides further information on the criteria for including a scheme along with a more detailed breakdown of the results.



The large increase in Type 3 contingent liabilities since 31 March 2019 is chiefly due to the sponsors of a small number of large schemes having experienced deteriorating credit scores over the year.

In addition to additional claims on the fund, there are a number of recent court judgments that may increase our liabilities in the future; these are discussed further below. The impact has been categorised as a contingent liability rather than an actual liability as at present we lack sufficient information to make a reliable estimate of the impact.

Actuarial liabilities, provisions and contingent liabilities of the Pension Protection Fund as at 31 March 2020

i. Hampshire

In September 2019, the CJEU ruled in the case of Hampshire that compensation is subject to a minimum of 50 per cent of the value of accrued old age pension. We have previously set out our plans for ensuring that members receive this minimum using our one-off value test methodology. In June 2020 the Administrative Court ruled that whilst a one-off test was permissible, we must ensure that the overall compensation payable to our members and separately their survivors, will equal at least 50 per cent of the amount of the benefits that the member and any survivor would have received under their pension scheme.

My assessment of the liabilities of providing the 50 per cent minimum continues to be based on the one-off value test methodology applying for the member and survivor benefits together. Providing the test for the survivor individually will increase the cost. How material this will be depends on the proportion of scheme pension the scheme would have provided along with the treatment of the survivor’s compensation for commutation purposes, both of which were uncertain when this report was being prepared.

ii. Bauer

In December 2019, the CJEU ruled in the case of Bauer that a reduction in the amount of occupational old age pension benefits paid to a member on account of his or her employer’s insolvency is manifestly disproportionate where, as a result of the reduction, the member is living below the at-risk-of-poverty threshold determined by Eurostat.

We are working with DWP officials as they develop their thinking on the implementation of this judgment. As we hold no information relating to our members’ other sources of income and limited information relating to their entitlement under their schemes’ rules, I have not been able to reliably estimate the expected cost of implementing this judgment.

Based on information produced by the Office for National Statistics, our expectation is that the proportion of members affected will be less than 10 per cent, and in general, top ups will typically be small as the Pension Credit benefit already provides a minimum income in retirement for those at risk of poverty.

Appendix S1
Definition of a provision and contingent liability

Definition of a provision
Schemes that make up the provisions as at 31 March 2020 are those schemes:
- In assessment whose asset value as at the insolvency date was likely to have been less than the expected cost of securing PPF levels of compensation with an insurer, and the scheme is expected to transfer to the PPF.
- That have completed assessment and have not yet transferred to the PPF, but are expected to. This can occur if the scheme is expected to successfully reapply for PPF entry as assets are no longer expected to be sufficient to secure benefits in excess of PPF levels. There is one such scheme which has recently completed PPF assessment but it is expected to reapply and ultimately transfer.

Schemes were considered to be in assessment as at 31 March 2020 if on or before that date an insolvency event occurred and:
- an insolvency event notice had been received;
- the insolvency event had not been rejected;
- a withdrawal notice had not been received from an insolvency practitioner, nor was one expected; and
- transfer to the PPF had not yet occurred.

Some schemes may have had insolvency events occur on or before 31 March 2020 but had not yet reported this to the PPF. Analysis of the past reporting history indicates that insolvencies are notified very quickly and so it is unlikely that there are a material number of claims that have yet to be reported. I have therefore not included a reserve to cover this.

I have concluded that a scheme is likely to transfer to the PPF if (in the following order):
- the section 143 entry valuation test shows the scheme to be underfunded;
- in the absence of a formal report, the valuation actuary has provided confirmation that the expected outcome of entry test is that the scheme will be underfunded. For larger schemes, when there is uncertainty as to whether the scheme will ultimately transfer, I have taken a prudent approach and included the scheme as a provision; or
- my own assessment shows the scheme is likely to be underfunded. To do this I have adjusted the results of the latest s179 valuation using the methodology set out in the latest levy determination[1] to allow for the passage of time and the assumptions that would apply at the insolvency date. In addition, assets have been increased to allow for any expected recoveries from the sponsoring employer.

Definition of a contingent liability
Consideration is given to including a scheme as a contingent liability if it falls into one of the three categories summarised in the following table:

Type	Criteria for inclusion of PPF eligible schemes
1	An insolvency event notice was received on or before the valuation date (31 March 2020). The insolvency event was rejected as not a qualifying one but a future qualifying insolvency event is expected
2	No insolvency event had taken place on or before the valuation date, but an insolvency event notice is highly likely in the future
3	Not already included in types 1 or 2, and one of the following applies: i. The Experian insolvency scores as at 31 January 2020 would place the schemes in Levy Band 10* ii. The scheme's sponsoring employer has a credit rating** of CCC+ or worse, and the scheme is estimated to be in the top 500 schemes by size of deficit iii. No insolvency event had taken place on or before the valuation date, but an insolvency event notice is reasonably likely in the future
4	Additional cost of implementing recent court judgments impacting the level of PPF compensation for schemes that have either transferred to the PPF or are included in the provisions

* This is after allowing for any contingent assets provided. For details of Levy Band 10, see the Levy Rate Table in the Insolvency Risk Appendix to the PPF's Determination for Levy Year 2020/21, available on our website.
** Determined using either actual or market-implied ratings.

[1] Full details of the methodology can be found at www.ppf.co.uk/sites/default/files/file-2019-12/transformation_appendix_2021.pdf

Appendix S1

Definition of a provision and contingent liability

Schemes meeting the criteria are included if:

- There is sufficient data to enable an estimate of the contingent liability to be made.
- In my opinion the scheme was likely to have been underfunded as at 29 February 2020 on the PPF entry test basis. To assess this I have adjusted the results of the latest (as that date) s179 valuation using the methodology set out in the latest levy determination to allow for the passage of time and the assumptions that would apply at that time. No allowance has been made for any potential recoveries from the sponsoring employer upon insolvency.

The Type 2 and Type 3 schemes were subsequently updated to reflect the latest data available at the time of writing, which resulted in changes to the constituents of each type. The changes to schemes in Levy Band 10 were limited to schemes with liabilities greater than £100 million.

Claims arising after 31 March 2020 could come from sources other than those described above. The contingent liabilities are not, therefore, meant to represent the expected level of claims in the coming year.

Appendix S5 – Legislation and guidance contains some more detail on the legislation and guidance around recognising provisions and contingent liabilities.

The following table sets out the values of the assets and liabilities of the schemes forming each category of the contingent liabilities at the current and previous valuation dates. Figures are in £ million.

	31 March 2020			31 March 2019		
Type of contingent liability	**Assets**	**Liabilities**	**Net liabilities**	**Assets**	**Liabilities**	**Net liabilities**
1	0	0	0	0	0	0
2	1,179.7	1,707.1	527.3	135.2	216.7	81.5
3	6,972.0	10,191.3	3,219.4	3,229.8	4,153.4	923.6
Total	**8,151.7**	**11,898.4**	**3,746.7**	**3,365.0**	**4,370.1**	**1,005.1**

As discussed in section 5 of my report it has not been possible to quantify the Type 4 contingent liability as we do not have sufficiently reliable data to do so.

Appendix S2
Data

Transferred schemes
The data for the PPF members whose compensation forms the actuarial liabilities is summarised in my main report dated 22 September 2020.

Schemes that form the provisions
The following table sets out the numbers of schemes and members that form the provisions.

	31 March 2020	31 March 2019
Number of schemes	71	73
Estimated number of members receiving compensation in these schemes	65,180	53,468
Estimated number of deferred members in these schemes	59,948	49,144

In addition, there are 20 schemes currently in assessment that are not included as the expectation is that they will secure benefits above PPF levels and not therefore transfer to the PPF.

Material schemes
For material SIA (broadly those whose estimated liabilities are over £250 million), I obtained recent individual member data and current asset values from the scheme trustees. There are five such schemes in the provisions this year. Of these:

- one came into assessment during the year to 31 March 2020, for which I obtained membership and asset data as at 31 October 2019; and
- four were in assessment as at 31 March 2019, for which I obtained membership and asset data with effective dates between August 2018 and October 2019.

There are two further schemes in assessment which meet the current definition of material but where I have not obtained recent individual member data because it was too late to do so. Of the two schemes one has been in assessment for a number of years and the other entered assessment early on in the financial year and it was our expectation that both schemes would either be rescued or secure benefits above PPF levels. As this outcome is now less certain, a provision has been recognised. For these schemes I have used the latest s179 valuation or s143 valuation information available, but calibrated to information provided by the scheme's actuary if available.

For the five schemes for which data was provided, it was collected in a standard template and gives compensation at a current date split by various service dates.

I have carried out checks on all the data received for general reasonableness and, where appropriate, for consistency with that used in the actuarial valuation as at 31 March 2019. I have no material concerns about the data for the purpose of assessing the total liabilities of SIA. Transferred schemes and material SIA account for around 89 per cent of the total liabilities and provisions.

There are six schemes which were classified as material at a previous valuation date but do not classify as such at the 31 March 2020 valuation. For these schemes I have used the same individual member data and starting asset values I used for the 31 March 2019 valuation, which had effective dates between December 2015 and October 2017. I have allowed for expected member movements since the effective date of the data. These schemes account for around 2 per cent of the total liabilities and provisions.

Non-material schemes
For producing the assets and liabilities of the remaining 59 schemes forming the provisions I used the latest s179 valuation information provided for levy purposes. Although there is no reason to doubt the quality of the information provided within a particular scheme's valuation report, I have carried out checks on the general reasonableness of the data submitted. Again, I have no material concerns relating to the data provided. This approach will be less accurate than using individual member data. However, given the small proportion of liabilities valued in this way, the impact of this simplifying approach should not be material to the overall results.

Appendix S2
Data

Expected recoveries
For all types of schemes that form the provisions, assets have been increased to allow for expected recoveries from the wind-up of the sponsoring employer. In aggregate this has acted to increase assets by £52.6 million.

Schemes that form the contingent liabilities
In order to identify schemes that meet the criteria for contingent liabilities set out in Appendix S1 – Definition of a provision and contingent liability, I have used various pieces of information gathered from Experian, negotiations with sponsoring companies, and information submitted to TPR. The data used to place a value on the scheme assets and liabilities is the same used for the non-material schemes in the provisions, as described above, but with no allowance for expected recoveries.

The following table sets out the numbers of schemes and members that form the contingent liabilities along with the corresponding numbers in last year's valuation.

Contingent liability type		Number of schemes	Estimated number of pensioners	Estimated number of deferred pensioners
Type 1	2020	0	0	0
	2019	0	0	0
Type 2	2020	18	6,691	9,797
	2019	2	1,455	1,210
Type 3	2020	139	34,177	50,612
	2019	104	14,338	22,344

In addition, there are a further 67 schemes identified as meeting the criteria of a Type 3 contingent liability, and one meeting the criteria of a Type 2 contingent liability, but I have excluded these because, in my opinion, they are overfunded on the PPF entry test basis.

Appendix S3

Assumptions

The assumptions used to value the provisions and contingent liabilities will generally be the same as used for the transferred schemes that make up the actuarial liabilities. This appendix lists out the differences and additions.

Financial assumptions for schemes where individual member data is not available

For these schemes it is not possible to use term-dependent rates as projected cashflows are not produced without individual member data. Instead, I determined six single rates of discount, inflation and compensation increases so that the value of the actuarial liabilities of the transferred schemes is the same whether the full set of term-dependent rates or these single rates are used. Essentially this approach assumes the shape of the cashflows is the same for schemes where individual data is held compared with those where it is not. These single rates, on this valuation measure, are as follows:

Net discount rate

Payment status	Service	Member type	31 March 2020 % pa	31 March 2019 % pa
In deferment	Before 6 April 2009	Deferred	-1.6	-1.1
	After 5 April 2009	Deferred	-1.6	-1.0
In payment	Before 6 April 1997	Receiving compensation	0.6	1.3
		Deferred	0.7	1.4
	After 5 April 1997	Receiving compensation	-1.3	-0.7
		Deferred	-1.2	-0.7

Equivalent assumptions are needed at the effective date of the original s179 valuation. I have derived these using the s179 assumptions guidance in force at each date.

Demographic assumptions

GMP equalisation

No additional allowance is made for the impact of GMP equalisation in the actuarial liabilities as the membership data for transferred schemes already includes the effects of this for every member. As this is not the case for all schemes forming the provisions and contingent liabilities, an additional allowance is made. This is 0.6 per cent of the liabilities and includes allowance for backdated arrears payments and is based on the estimated cost of equalising the liabilities for members who have already transferred to the PPF. It is not applied to material SIA whose data already includes equalised GMP.

Expenses

In addition to expenses incurred after transfer to the PPF, expenses for schemes forming the provisions and contingent liabilities also include:

- Those incurred by the schemes' trustees prior to transfer to the PPF. Schemes forming the provisions are assumed to be, on average, halfway through assessment and so these are assumed to be 50 per cent of those specified in the s179 valuation guidance (schemes forming the contingent liabilities attract 100 per cent), subject to a cap on 100 per cent of the expenses of £3 million per scheme. Nine of the SIA have had this cap applied.
- Those incurred by the PPF in transferring members into the PPF. This has been calculated as a per-member cost determined by dividing the cost to the PPF of transferring members over the year to 31 March 2020 by the number of members involved.

The total expense allowance for provisions is 3.6 per cent of the liabilities (last year: 3.8 per cent).

Appendix S3

Assumptions

Minimum compensation

The same approach has been used to assess the expected cost of uplifting members' compensation in respect of the recent court rulings.

An additional allowance has been included in respect of the potential cost of removing the cap for SIA to reflect that some members had already received an uplift in respect of the Hampshire judgment which will have offset to some extent the cost of removing the cap. This increased pensioner liabilities by 0.2 per cent.

In addition, expected arrears in respect of the Hampshire judgment have been reduced to reflect the lower total liabilities for SIA compared with those that have transferred to the PPF; the allowance made was £3 million.

Appendix S4
Sensitivity analysis

This appendix shows how sensitive the results are to plausible changes in the underlying financial and demographic assumptions.

Please note that the sensitivities are carried out in a more approximate manner than the results.

Description		Reasoning
Scenario		
1	Nominal yields are assumed to increase by 0.5% pa	This is an illustration of a plausible move in yields
2	Inflation is assumed to increase by 0.5% pa	This is an illustration of a plausible move in market-implied inflation rates
3	CPI inflation 0.5% pa lower than RPI inflation after 2030 (instead of 0.6% pa)	There is uncertainty around how much of the impact of RPI's discontinuance the market has already factored into post-2030 implied inflation, and so if more of the impact is already allowed for than we think, the RPI/CPI wedge would be smaller. This scenario illustrates the sensitivity around that
4	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
5	The value of return-seeking assets as at the valuation date (excluding those which are used to hedge liabilities) is assumed to decrease by 10%	This is an illustration of a plausible move in asset values
6	Non-investment expenses are assumed to be 10% higher than assumed in the main valuation. (No change to investment nor wind-up expenses.)	This is an illustration of a plausible move in non-investment expenses
7	Assumptions and expenses calculations based on the s143 valuation basis in force as at the valuation date	This serves to illustrate the difference between the PPF's accounting basis used in this valuation and the s143 basis

A summary of the values of the financial assumptions under each scenario is shown in the following table. For ease of display I have shown the single equivalent assumptions rather than the full yield curves, although for schemes where full member data has been used in the valuation whole yield curves have been used. The s143 valuation basis does not use full yield curves.

	Discount rate, %pa					
	In deferment		In payment			
Payment status	**Before 6 April 2009**	**After 5 April 2009**	**Before 6 April 1997**		**After 5 April 1997**	
Service / Member type	**Deferred**		**Deferred**	**Receiving compensation**	**Deferred**	**Receiving compensation**
Main basis	-1.6	-1.6	0.7	0.6	-1.2	-1.3
Scenario 1	-1.1	-1.1	1.2	1.1	-0.8	-0.8
Scenario 2	-2.0	-1.8	0.7	0.6	-1.4	-1.4
Scenario 3	-1.6	-1.6	0.7	0.6	-1.3	-1.3
Scenario 4	-1.6	-1.6	0.7	0.6	-1.2	-1.3
Scenario 5	-1.6	-1.6	0.7	0.6	-1.2	-1.3
Scenario 6	-1.6	-1.6	0.7	0.6	-1.2	-1.3
Scenario 7	-2.2	-1.8	0.6	0.7	-1.5	-1.1

None of the scenarios and assumptions variations described above should be interpreted as upper or lower bounds of the range of reasonable estimates that might be made.

Appendix S4
Sensitivity analysis

The following table sets out the range of results under the above scenarios for both transferred schemes and those in assessment. Contingent liabilities are not included. Figures are in £ billion.

	Assets			Liabilities				
Scenario	**PPF**	**Provisions**	**Total**	**PPF**	**Provisions**	**Total**	**Reserves**	**Funding ratio**
Main	36.32	6.55	**42.88**	28.75	9.06	**37.81**	**5.07**	**113.4%**
1	33.44	6.25	**39.69**	26.17	8.27	**34.45**	**5.25**	**115.2%**
2	37.51	6.70	**44.21**	29.83	9.40	**39.22**	**4.98**	**112.7%**
3	36.32	6.56	**42.88**	28.85	9.09	**37.94**	**4.94**	**113.0%**
4	36.32	6.49	**42.81**	27.38	8.62	**36.00**	**6.82**	**118.9%**
5	34.47	6.41	**40.88**	28.75	9.06	**37.81**	**3.07**	**108.1%**
6	36.32	6.55	**42.88**	28.81	9.08	**37.89**	**4.98**	**113.2%**
7	36.32	6.55	**42.88**	30.45	9.70	**40.15**	**2.73**	**106.8%**

Figures in the table are subject to rounding discrepancies. Where schemes whose assets have been restricted to the level of liabilities (see section 3. Results for schemes in PPF assessment) are included in the above figures, the assets have not been changed from the main valuation results, meaning these assets will not exactly match the liabilities in the alternative scenarios.

The results show that the PPF is resilient to individual items of experience being different to those assumed. The sensitivities do not consider the risk of a large claim on the PPF.

Appendix S5

Legislation and guidance

Appendix M4 – Legislation and guidance in my main report lists various pieces of legislation and guidance that are pertinent to my valuation. My supplementary report and valuation of the provisions and contingent liabilities have also been prepared under those. The following table lists out additional items and information that are particularly relevant to the valuation of provisions and contingent liabilities.

Legislation / guidance	Valuation aspect it applies to
IAS 37	**Provisions** 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. **Contingent liabilities** 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 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. IAS 37 also explicitly requires a reconciliation of the opening and closing net funding position of the actuarial balance sheet, including schemes that form the provisions.
FReM	This requires the PPF's material remote contingent liabilities to be disclosed and, where practicable, their financial impact. The schemes forming these are those remaining PPF-eligible 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, and does not form part of this actuarial valuation report.
The following sections of the Pensions Act 2004:	
143	The assumptions to be used to assess the Protected Liabilities and entry to the PPF follow from the PPF's duty to obtain such an actuarial valuation under this section.
179	Actuarial valuations performed to determine the level of scheme funding for the purpose of calculating the risk-based pension protection levy.

Common terms and abbreviations

AVC – Additional Voluntary Contribution

CETV – Cash Equivalent Transfer Value

CJEU – Court of Justice of the European Union

CMI – Continuous Mortality Investigation

CPI – Consumer Prices Index

CPIH – CPI plus owner occupiers' housing costs

DB – Defined Benefit

DC – Defined Contribution

DWP – Department for Work and Pensions

D&I – Diversity and Inclusion

EBITDA – Earnings Before Interest, Tax, Depreciation and Amortisation

ESG – Environmental, Social and Governance

ESIP – Efficiency and Service Improvement Programme

ExCo – Executive Committee

FAS – Financial Assistance Scheme

FCA – Financial Conduct Authority

FCF – Fraud Compensation Fund

FReM – Government Financial Reporting Manual

Funding ratio – the ratio of the PPF's assets (net of investment liabilities) and the assets of schemes in assessment over the PPF's non-investment liabilities and the liabilities of schemes in assessment

GMP – Guaranteed Minimum Pension

Hybrid assets – Investments which possess attributes of both liability hedging and growth assets

IAS – International Accounting Standard

IFRS – International Financial Reporting Standard

ISO – International Organization for Standardization

KPI – Key Performance Indicator

LDI – Liability-Driven Investment

LIBOR – London Inter Bank Offered Rate

LTRM – Long Term Risk Model

PoS – Probability of Success

PRA – Prudential Regulation Authority

PRI – Principles of Responsible Investment

RI – Responsible Investment

RMF – Risk Management Framework

RPI – Retail Prices Index

SIA – Schemes In Assessment

Section 143 – Section of the 2004 Pensions Act used to assess the cost of securing PPF compensation with an insurer

Section 179 – Section of the 2004 Pensions Act used to assess the cost of securing PPF compensation with an insurer

SIP – Statement of Investment Principles

SMCR – Senior Managers and Certification Regime

SME – Small and Medium-sized Enterprise

SONIA – Sterling Overnight Index Average

TAS – Technical Actuarial Standard

TCFD – Task Force on Climate-Related Financial Disclosures

TPR – The Pensions Regulator

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