Pension
Protection
Fund

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Pension
Protection
Fund

Annual Report
and Accounts
2021/22

Delivering our promise,
Protecting what matters

HC 405

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Pension Protection Fund
Annual Report and Accounts 2021–22

For the period 1 April 2021 to 31 March 2022

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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Pension Protection Fund Annual Report & Accounts 2021/22

SECTION 1

Overview

Members of schemes we protect
at 31 March 2021

9.7m

Members in PPF assessment
at 31 March 2022

71,550

Assets under management
at 31 March 2022

£39bn

Number of employees
at 31 March 2022

444

PPF members
at 31 March 2022

In payment 187,039

Deferred 107,808

294,847

FAS members
at 31 March 2022

In payment 81,914

Deferred 62,237

144,151

Who we are

We are 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.

We are responsible for the Pension Protection Fund (PPF) and the Fraud Compensation Fund (FCF). We also run the Financial Assistance Scheme (FAS) on behalf of the Government.

Overview of the PPF

What we do and why it matters

Pension Protection Fund (PPF)

Our purpose is to protect the future of millions of people throughout the UK who belong to Defined Benefit (DB) pension schemes. When these schemes fail, we're ready to help.

We do this by paying our members, by investing sustainably and by charging a levy. Our work has a real impact on people's lives, so whatever we do, we strive to do it well, with integrity and with their future in mind.

Financial Assistance Scheme (FAS)

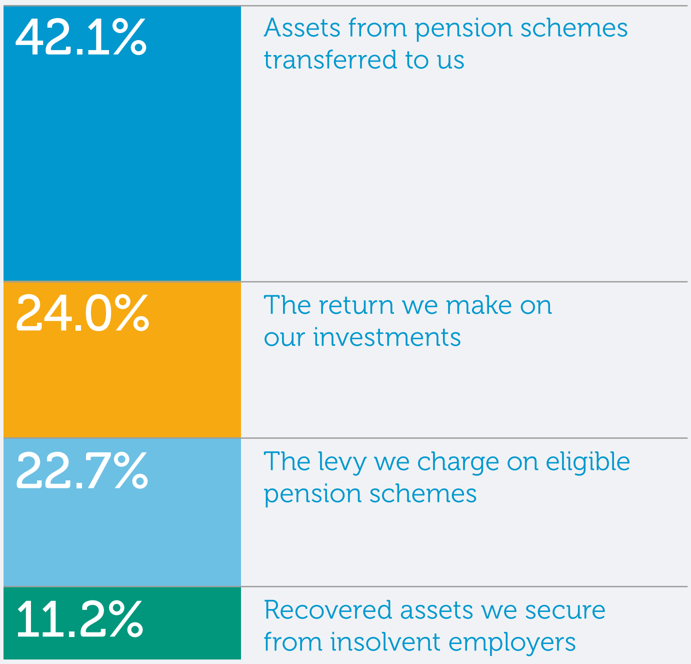
FAS is funded by HM Treasury rather than a levy. We provide financial assistance to people who were members of certain DB pension schemes which are ineligible for compensation from the PPF – in particular, those schemes that began winding up between January 1997 and April 2005.

Fraud Compensation Fund (FCF)

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

How we're 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 2022

How we run our operations

Executive Committee

- Business Support
- Human Resources, Organisational Development and Communications
- Investment
- Risk
- Scheme and Member Services
- Strategy, Levy and Legal Affairs
- Technology and Change Services

Our strategic priorities for 2019–22

Setting new standards for innovation, assurance and service

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Built for innovation
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Brilliant service for members and schemes
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The best of financial and public services culture
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5
Clear value for money
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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

Chair's statement

"

Our new Strategic Plan continues the evolution of the PPF, bringing with it fresh challenges, opportunities and a renewed focus on making a difference, all within the context of the wider industry.

"

Kate Jones, Chair

Kate Jones took on the role of Chair in July 2021, after five years on the Board as a non-executive director.

Q How do you see the PPF's role in the wider pensions industry?

A After spending all of my career in financial services, and specifically working with pension schemes, I've long been aware of the PPF, the work it does and the difference it makes. Since joining the Board in 2016 I've had the opportunity to talk to members about the ways in which they've been affected by the collapse of their pension scheme.

We play a vital role in the pensions landscape and the protection we provide is life-changing for those who need us. Before the Pensions Act of 2004 created the PPF and FAS, members of DB pension schemes had less protection than someone booking a holiday. We now have nearly 440,000 members, to whom we paid £1.1 billion in 2021/22, and we protect a further 9.7 million members of DB schemes.

While we have much to celebrate – including the many achievements outlined in this report – we have a still greater opportunity, and responsibility to do more.

£1.1bn

paid to PPF members in 2021/22

438,998

PPF and FAS members

Q What changes in the pensions industry will have the most impact on the PPF?

A The DB landscape is changing and evolving at pace. We're seeing de-risking, buyouts, consolidators, new legislation, regulation, challenges to our levy – the list goes on. There is also increased pressure on trustees to invest responsibly and embrace ESG and sustainability, a longstanding priority of ours.

The Pensions Regulator (TPR)'s new anti-avoidance powers, which we welcome, are already having a deterrent effect, as trustees feel emboldened to challenge sponsors and press home the pension scheme's case – thus protecting the PPF, in line with TPR's objectives.

We're competing for talent in a candidates' market where purpose and authenticity matter more than ever. The pandemic has changed all of our lives permanently, everything from our ways of working to greater online engagement, and as an industry we need to be reflecting this in our approach.

Q How would you describe your vision as Chair of the PPF?

A This is going to be an exciting and challenging period as our new Strategic Plan continues the evolution of the PPF, bringing with it fresh challenges, opportunities and a renewed focus on making a difference, all within the context of the wider industry.

I see a really exciting opportunity to evolve the organisation, to deliver for those who need us and influence change in the wider world. We have learned – and will continue to learn – a great deal on our journey, and I want to see us share what we do more widely which may be of benefit to those who don't have the scale that we do.

Pensions are complex and important. Every one of us will need long-term savings, yet the level of understanding and awareness in the UK is still very low.

Financial inclusion must remain part of the Pension Minister's remit, now and in the future. I believe as an industry we have a responsibility to make the information we share clear, simple and accessible to everyone. The Pensions Dashboard will be an important step forward in improving financial planning and awareness, but I also believe financial education is key. Young people today are now responsible for credit card bills, student loans and their pensions, yet lack the confidence to manage these responsibilities effectively. Education about money at an early age begins to build the critical knowledge and behaviours needed for better financial well-being and I call on the wider industry to consider what each of us can do to help.

£475m

PPF levy collected in 2021/22

Q What priorities have you and the PPF's leadership team set out in the new Strategic Plan?

A At the start of our new Strategic Plan, we stand poised on the solid foundations already created, with fresh challenges to consider. We have the opportunity, and responsibility, to take the PPF to the next stage of its journey.

Over the next three years we will implement changes to our funding strategy and ensure the standards you'd expect to find in any asset management organisation across our people, systems and processes.

We'll continue to invest in and improve our services to maintain high levels of satisfaction for members and levy payers. This is alongside implementing the complex changes to member compensation and the Fraud Compensation Fund claims.

We'll continue to lead the way with our responsible investment strategy and meeting our ambitious D&I targets. We'll establish a new sustainability strategy and expand our valuable Corporate Social Responsibility work.

And lastly, we'll embed our hybrid working approach, further build our digital capability and use the opportunities this gives us to deliver great outcomes for members and levy payers.

Q Finally, what has made you most proud over the year?

A Firstly, I am immensely proud of how much change people have delivered in what was another disrupted year, accomplishing the goals of the last Strategic Plan as well as developing the new one, against a challenging backdrop.

We delivered on our commitments and were recognised by members and levy payers alike for the high service standards we provide. Our employees genuinely care about the work that we do and the people we protect, and that shines through in all that they do.

We end this three-year period in a strong financial position, with real confidence in our ability to deliver for those who need us, now and in the future, for as long as they need us. These firm foundations underpin our future ambitions.

Jayne Nickalls will be stepping down from her non-executive role at the PPF at the end of her term, after six years. The Board and I would like to thank her here for all she has contributed to the PPF, especially in the area of digital transformation.

I would also like to welcome Liz Woolman, who has recently joined us as a non-executive director. Liz has a wealth of experience in technology and financial services and I look forward to working with her.

> "While we have much to celebrate – including the many achievements outlined in this report – we have a still greater opportunity, and responsibility to do more."

I am very proud of what we've achieved together, and I'd like to express my thanks to the Board, Chief Executive, ExCo and everyone at the PPF for their efforts and dedication to delivering on our mission. I have no doubt that together, whatever challenges we encounter, we will continue to protect our members with confidence and work closely with our levy payers as we move into the next phase of our evolution.

We're poised and ready to evolve further and take the next steps on our journey.

Kate Jones
Chair

SECTION 2

Performance report

"I became a PPF member a couple of years ago after working at Johnston Press for 22 years. I'd heard about the PPF before, as someone I worked with was already a member.

"I would have lost a huge amount of money if the PPF wasn't there. I felt relieved when the scheme transferred to the PPF as I knew the money would be safe there.

"I've used the Benefit Modeller a few times when looking into my retirement options. It was good to see how much I'd receive and how much I could take as a lump sum."

"I would have lost a huge amount of money if the PPF wasn't there."

Lesley, Doncaster

Chief Executive's review

"
I have continued to be impressed by people's commitment to delivering excellent service and achieving our goals, in the context of another year of disruption and significant change.
"

Oliver Morley, Chief Executive

I am very pleased to report that we have had another successful year, and have achieved the goals of our three-year Strategic Plan.

I am proud of what the teams here at the PPF have delivered over the course of 2021/22, and indeed the last three years.

The investment team, whose work led to the PPF being named European Pension Fund of the Year at the IPE Awards 2021, have delivered outstanding performance. While market conditions were favourable over the year, our investment performance has beaten every benchmark, putting us in an even stronger financial position as we look to the future of our funding and what that means for our levy payers and the 9.7 million members of the schemes they sponsor.

We are now in the final stages our review of our Long-Term Funding Strategy and will shortly publish the outcome. Recognising that we stand in an increasingly strong financial position and the changing profile of the risks we face, we believe we are entering a new phase in our funding journey. We are grateful for the valuable input from our stakeholders in the course of this review, and look forward to continuing this engagement as we develop our proposals.

Another key focus of the year has been establishing the Fraud Compensation Fund's ability to process expected claims. We now have the processes we need to step up the pace at which we settle claims. We have also continued the complex work of processing changes to the compensation we pay, and have made significant progress over the year.

We've continued to provide outstanding service for our members and levy payers, and both our levy operations and our member services teams are now recognised externally by the Institute of Customer Service's 'ServiceMark'. Through our Efficiency and Service Improvement Programme, we've surpassed the targets we set ourselves for online transactions, simultaneously reducing our cost per member and maintaining our excellent customer satisfaction scores.

A major theme of the past three years has been IT transformation. We have far better IT infrastructure and cloud-based tools than ever seemed possible three years ago. Without the changes our IT team have driven, I don't believe our 'work from home' technology experience during the pandemic would have been so smooth and seamless. Furthermore, the IT transformation has given us the tools we needed to achieve many of our strategic objectives.

Although the wider cyber risk has escalated for all organisations, our preparedness for a cyber attack is greatly increased by our transformation work. However, we are never complacent – this is a risk that will never turn 'green'.

Digital transformation is a continuous process, but we have come very far in three years, and we're now moving into a phase of cultural change more than IT change. Together, the technology we now have at our disposal and our new hybrid working approach give us a strengthened employee proposition, which, when combined with our strong sense of purpose, presents an attractive place to work.

Building on the strong foundations we've put in place over the last three years, we look forward to delivering on the commitments set out in our new Strategic Plan, which will shape the future direction of the PPF. The outcomes of the DWP's review of the PPF, along with our funding strategy, the future of the levy and our focus on sustainability will underpin our work over the next three years and beyond.

I have continued to be impressed by our people's commitment to delivering excellent service and achieving our goals, in the context of another year of disruption and significant change, and I thank all our employees for their hard work. I'd also like to thank our Executive Committee members, including Dana Grey, who has stepped up as Interim Chief Risk Officer, for their continued dedication to the success of the PPF, on behalf of our members, levy payers and stakeholders. I am confident that together we can achieve even greater success as we move into the next phase of our development.

Oliver Morley
Chief Executive

Our Strategic Plan and priorities

We've now delivered our Strategic Plan for 2019–2022 – 'Setting new standards for innovation, assurance and service'.

We believe we need to set, and follow, the best practice across the industries in which we operate. We've set ourselves new standards and we're 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 and 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 for 2019–22 have been the areas we needed to focus on to successfully achieve our mission. They've helped us address and mitigate the challenges we've faced over the period.

Over the past three years, we have achieved the goals of this plan. While a small number of milestones were achieved behind schedule, overall we've been successful in reaching our goals. This success has created a strong foundation to drive forward our ambitions on behalf of members and levy payers, and solidify our status as a role model for best practice.

Strategic Plan 2019–2022

Setting new standards for innovation, assurance and service

Strategic Priorities

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

"For some people, having no protection for their pension would be an absolute disaster."

Karl, Surrey

"I first heard about the PPF when my employer, Allders, went bust. When the scheme eventually transferred, I felt a sense of relief, and it allowed me to rethink with a bit more confidence about my own financial position.

"The protection from the PPF is very valuable – for some people, having no protection for their pension would be an absolute disaster.

"Whenever I've had to call the PPF, I've always found that it's very quick to get through and that whoever's at the end of the phone is knowledgeable enough to answer my question without passing me on to another person. As someone who's hard of hearing, there's no background noise, so you can have a clear conversation."

1

Sustainable funding in volatile times

Strategic activities and milestones for 2021/22

Complete an in-depth review of how our funding strategy should evolve as we grow and mature:

- define how our investment and levy strategy should evolve over time
- enhance our current framework to better support the Board in monitoring funding and making decisions to maximise our chances of meeting our long-term goals
- etilise our enhanced modelling and risk analysis capabilities to better understand the risks we face and refine the plan for how the PPF might respond if they materialise

Consider further opportunities for investment insourcing, where we can demonstrate that portfolio management is best managed and supported internally.

Demonstrate a robust and effective approach to responsible investment (see pages 50–53):

- pursue risk management approaches to mitigating Environmental, Social and Governance (ESG) and climate-related financial risk exposure within our investments, across all markets if possible
- participate in the Principles of Responsible Investment annual reporting assessment
- continue to report on our activities and progress, in line with the Task Force on Climate-related Financial Disclosures guidelines

Maintain a Probability of Success (PoS) of at least 90 per cent, subject to macroeconomic conditions.

Funding position

As at 31 March 2022, we have £39 billion in invested assets, an increase of £1 billion year-on-year. Our total consolidated reserves are £11.7 billion, an increase of £2.7 billion from last year.

Our funding ratio is now 137.9 per cent, an increase of 10.6 percentage points year-on-year.

Thanks to another year of strong investment performance (see pages 21–22), coupled with low claims, the Fund is more buoyant than it has ever been. Our reserves mean we currently have £11.7 billion above what we estimate we need to pay every current member and their dependants their compensation for life.

At the same time, we have seen overall improvements in the funding of the schemes we protect. Over the year to 31 March 2022 the number of schemes in deficit measured using our section 179 basis has continued to fall and the deficit of those schemes in deficit has also reduced from £128.5 billion to £62.9 billion. This, along with government support for business, may explain why we didn't receive as many claims as we expected during and following the pandemic. There were a total of 17 new claims in 2021/22, down from 39 the previous year with a value of £12.1 million.

Progress towards our funding objective

The improvement in both our own funding and that of the schemes we protect increases the likelihood of us meeting our current funding objective of being self-sufficient by our funding horizon, which we currently define as being 110 per cent funded at 2030.

Our Probability of Success (PoS) is the main way we measure progress towards this target. As at 31 March 2022 our PoS was 96 per cent, increasing from 95 per cent over the year. This means that in 96 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 are subject to some uncertainty.

The chart shows the main drivers of the change in our PoS over the year. The increases arising due to improvements in our own funding position and to that of schemes in the universe of schemes we protect have been offset by changes we made to the Long-term risk model (LTRM) and the assumptions used. Upgrading the LTRM was a planned activity over the first two years of the Strategic Plan and has enabled us to improve the modelling of the risks we face. We have also enhanced some of our modelling assumptions too, this combined with a more pessimistic economic outlook are the main reasons for change here.

Evolving our funding strategy

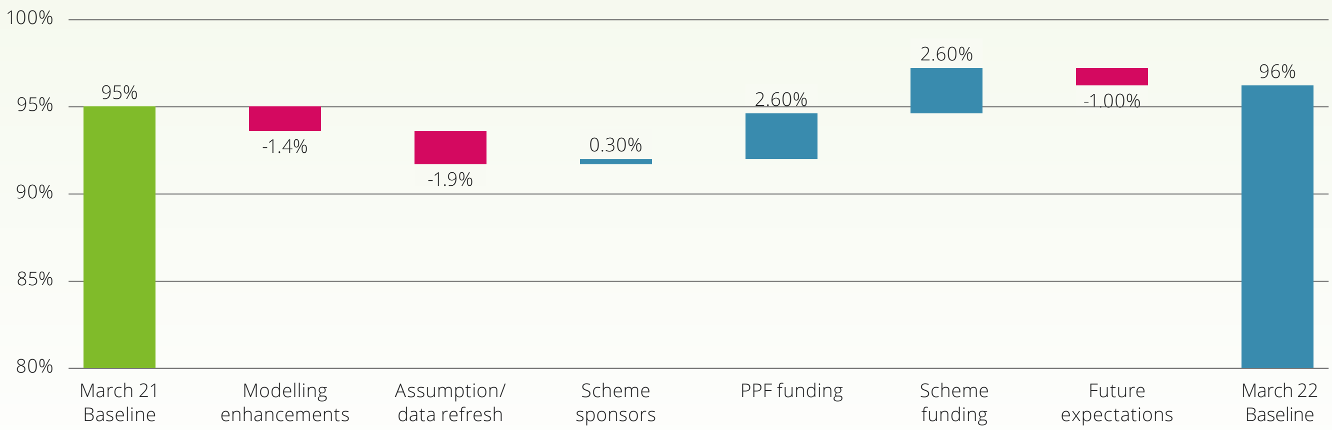
Our ultimate funding goal is to have enough money to enable us to pay all our members, both current and future, their compensation when it falls due. Our self-sufficiency objective, which we published in 2010, has guided our approach to investment and setting levies and ultimately helped us build our financial strength and grow our reserves. As demonstrated by this year's results, we now stand in a strong financial position, with exceptional investment performance in recent years having accelerated progress on our funding journey.

In our previous Strategic Plan (2019–22), we committed to reviewing our Funding Strategy. Over the past year and more, we have been considering afresh the risks we face and how our approach needs to evolve in the future.

We still face risks, notably from underfunding within the population of schemes we protect and future insolvencies triggering claims on the PPF. However, we believe these risks have reduced over time, and our healthy reserves now provide us with a good level of protection.

We are now in the final stages of the review and will be in a position to share the outcome following completion of our stakeholder engagement programme. Assuming our funding position remains robust over the next three-year period, our expectation remains that we will look to reduce how much levy we collect in keeping with our long-stated intention. As usual, we will formally consult on our proposals for levy in the autumn of 2022.

Change in probability of success



Our Strategic Plan and priorities – continued

PPF reserves
£11.7bn 2022
£9.0bn 2021

Funding ratio
137.9% 2022
127.3% 2021

Assets under management
£39bn
2022
£38bn
2021

Return on growth assets
7.6%
2022
17.6%
2021

PPF levy collected
£475m
2022
£630m
2021

Probability of success
95%
2021
96%
2022

PPF benefits paid
£1.1bn
2022
£1bn
2021

Actuarial liabilities
£27.4bn
2022
£28.5bn
2021

Five-year annualised alpha
£270m

α

CASE STUDY

Largest UK regional property deal of 2021

When we sold one of our key property assets in late 2021 – One Hardman Boulevard in Manchester – it ended up being the year's largest property deal in the UK outside of London, with a purchase price of £292 million.

NatWest Group purchased the office complex, which is in Manchester's central business district. With the lease running down, together with the favourable valuation, we believed the time was right to sell, and secured a strong return on investment for the Fund.

Five-year performance

The investment portfolio has performed strongly against our rolling five-year target. Over the last five years, the total Fund has delivered an annualised contribution of Cash + 2.73 per cent versus an annualised target of Cash + 1.50 per cent. Non-LDI assets alone delivered an annualised contribution of Cash + 4.76 per cent.

Over the same period, the investment team contributed on average £270 million per annum (around 90bps per year), over and above the return of the Strategic Asset Allocation (SAA) benchmark. The main contributors to total alpha over that period were outperformance in the Public Equity, Private Equity, Timberland and Farmland and Infrastructure portfolios and also the asset allocation positioning relative to the SAA.

One-year performance

In the last year the portfolio contributed Cash + 4.28 per cent, with every non-LDI asset class delivering positive returns. The investment team added £610 million (150bps) of outperformance over the SAA benchmark over the same period. The main contributors to alpha were outperformance in the Private Equity, Infrastructure, Alternative Credit and Real Estate portfolios. Asset allocation positioning also contributed strongly, as we actively managed the asset allocation through the year while maintaining an overweight position to private markets relative to public assets.

How our investment approach has evolved

Following a successful insourcing programme and systems upgrade, most of our investments are now managed in-house, giving us greater control over our assets.

Over the years we've evolved our investment approach by hiring experienced investment professionals with excellent track records, improving knowledge and experience within the team, and we've improved the diversity represented within the function.

We now have the right balance between internally and externally managed investments. Externally, all of our managers are given tangible mandates to perform against. Importantly, all investment activities are fully supported by an investment operations team and integrated risk management within the investment function.

During the last Strategic Plan period we finalised the insourcing programme. More recently, we implemented a new performance measurement and attribution system, which allows us to monitor and analyse both our internal and external manager positions in real time. We are now able to analyse and understand our investment performance at a very granular level. By using this detailed portfolio information in our decision-making, we are able to improve investment outcomes.

We've continued to develop and embed a market-leading approach to responsible investment, which has significantly advanced our strategic response to climate change (see pages 50–53). We are actively engaging with our external managers to better align their investment strategies with our ESG objectives and to improve the quality and depth of their ESG reporting. There will be many other developments and challenges in this area over the next Strategic Plan period, including exploring more opportunities for sustainable investment in asset classes such as forestry and infrastructure as well as understanding our own environmental impact outside the investment portfolio.

CASE STUDY

£1 billion invested in forestry

Our investment in soft and hardwood forestry hit a milestone of £1 billion this year, with key sustainable forestry assets across Australia, New Zealand, the USA, the UK, Ireland, the Baltics and the Nordics.

We invest approximately 30 per cent of our forestry allocation directly, recently investing in the New Zealand plantation Wenita, the largest timber producer in Otago with 30,000 hectares of sustainably managed forests.

Forestry is a key element of our responsible investment strategy as it can help mitigate CO_2 emissions by storing carbon. It's one of the few viable nature-based investment solutions in the journey towards a net-zero carbon world.

Well-managed forests can also increase biodiversity and are more resilient to climate change.

What makes our investment strategy innovative?

We were incredibly proud to receive three awards at the pension industry's respected IPE Awards in December 2021, including the coveted title of European Pension Fund of the Year 2021. We received this award in recognition of our innovative investment strategy.

We have a unique set of skills within the team. We use this combination of expertise and knowledge to handle our investments differently from other funds.

Investment framework

The Board sets a risk budget for the Investment team which drives the process for determining our Strategic Asset Allocation. Our objective is to allocate this risk budget to assets in our investment universe as efficiently as possible, while ensuring that the interest rate and inflation risks within our liabilities are fully hedged through our LDI strategy. The non-LDI (growth) part of our portfolio is a diversified portfolio of public and private assets with allocations that are optimised against the risk budget.

A market-leading LDI strategy

Our long-term liabilities are complex in nature – for example, linked to CPI inflation with caps and floors –and there are a lack of financial assets that can be purchased to perfectly hedge the risks in our liabilities. We manage our hedge portfolio daily, to ensure that we're fully hedged against the financial impact of market changes in inflation and interest. In this way, our hedge portfolio remains efficient and effective at all times. In terms of instruments, the hedge portfolio makes use of both cash (physical), bonds (government bonds and hybrid assets) and derivatives. Our LDI strategy is also unique in that our liabilities are re-estimated on a weekly basis. This is a process that would normally be carried out only annually or quarterly by most pension funds. As we manage this portfolio in-house, we can react to any changes in our asset or liability profile in real time to ensure we are always fully hedged.

Strategic Asset Allocation

We have a very diversified portfolio of 'growth' assets which are expected to deliver returns in excess of the risk-free rate. We also take advantage of the long-term nature of the Fund by accessing illiquidity premiums through our private markets portfolio. We take a considered approach when implementing exposures to asset classes, some of which are non-traditional, to ensure that we optimise the use of the risk budget.

- **Hybrid assets** These are investments in long-dated investment-grade cashflows – largely corporate bonds. This strategy is similar to an annuity portfolio of an insurer, and is designed to optimise allocations to both credit and illiquidity risk, while also providing a cheaper source of duration to the LDI strategy.
- **Absolute Return** This is structured to be a market-neutral and risk-controlled strategy.
- **Public equities** Rather than being a traditional market-cap weighted portfolio, we have chosen to invest in a low-volatility, low-carbon equity strategy.
- **Infrastructure** This global strategy has a bias towards core/availability investments, rather than being predominately GDP-linked.

Risk framework

We have a robust risk framework which means that our asset allocation and risk levels are monitored in real time. This allows us to adjust our exposures as necessary to ensure that risks are maintained within the strategic risk budget at all times.

"Every time I've spoken to somebody, they have been absolutely amazing."

Karen, Lancashire

"I'd never heard of the PPF until I received a letter to tell me that my former employer had gone into liquidation and that my pension would be picked up by the PPF. It was a big relief to know that my pension wasn't lost. I was still in touch with a colleague who'd worked there for more than 20 years – he was really worried about his pension so it was a big relief.

"I've had a play on the website to find out how much my PPF payments will be and when I can take them. It's quite amazing. It's a really useful tool, really easy to navigate and use.

"I'll probably retire online when I start my payments because it's the easiest way.

"I've had to contact the PPF a few times. Every time I've spoken to somebody, they have been absolutely amazing. I'm so impressed with the quality of support and the way the team handle calls. They're so helpful and make it really, really easy."

Opportunities, challenges and risks

Our strategy, risk management, governance and culture work together to help us navigate challenges and opportunities from the changing environment in which we operate.

Uncertain economic environment

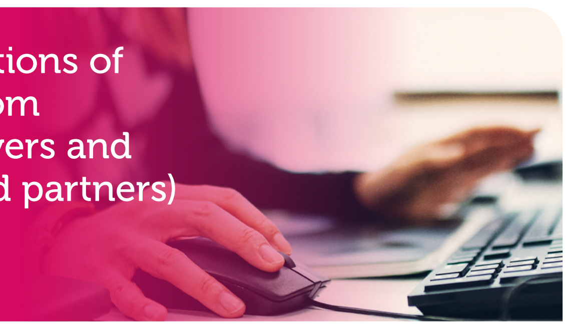
Changing expectations of employees and adaptation to new ways of working and delivering services

Pace of recovery from Covid-19

How scheme funding will develop over time

Impacts of changing pension scheme regulation

Introduction of a new scheme funding code



Increased expectations of digital services (from members, levy payers and our employees and partners)

Continued growth of cyber security risks

Development of 'superfund' consolidators

Rapidly increasing criticality of ESG issues

Impacts of court judgments and subsequent legislation on PPF compensation

Managing and understanding our opportunities, challenges and risks is critical to protecting our members and achieving our objectives. Over the course of the last Strategic Plan, we have focused on bringing consistency across our risk management framework (RMF). The framework allows us to compare and manage risks more effectively and helps us see the organisation as it is: an interconnected system of finance, processes and people. The framework is robust and the organisation strong and risk-aware. Our focus is on continuing to embed further improvements in consistency, reporting and evidencing that controls are working as intended.

A key part of this framework is our risk appetite statements, which communicate the Board's attitude to risk, so we know the level of value, resource or money we want to put at risk in order to meet our objectives. The risk appetite statements make sure senior managers understand the amount of risk they can actively take or need to mitigate.

Using these we have assessed our return to the office in a controlled and proportionate way, gradually increasing to full implementation of our pilot for hybrid working by the end of the Strategic Plan period.

Our RMF has supported our approach to managing significant events, such as the implementation of key judgments during the life of the Strategic Plan (*Hampshire, Hughes* and *Bauer*). It has also facilitated our digitalisation work and, with the Information Security team, supported the important work we do in managing cyber security risk.

We have also considered other emerging challenges and opportunities against the background of our RMF: new scheme funding obligations and regulations, the rise of consolidators and ever-prominent ESG issues.

The three lines of defence against risk

1st line of defence	**All business areas**	**Responsible for the identification and management of risk within risk appetite**
2nd line of defence	**Risk, Compliance & Ethics** **For certain activities other functions including Actuarial Financial Management Information Security**	**Provides advice, support, oversight, challenge and assurance in respect of governance, risk and internal control**
3rd line of defence	**Internal Audit** **External Audit**	**Provides independent assurance in respect of governance, risk and internal control**

Understanding our biggest risk

The funding of the schemes we protect and their sponsors’ risk of insolvency remain the biggest risk we face. While the risk exposure is not within our control, understanding it allows us to plan and prepare for its impact on us.

Although we expected the pandemic to result in a number of insolvencies, this hasn’t yet come to pass. The uncertainty around if and when claims will materialise, linked to whether or not government support for business would be extended, has been challenging. However, we stand ready to absorb such claims. We continually monitor the risk created by market volatility, and model the number and size of claims we might expect.

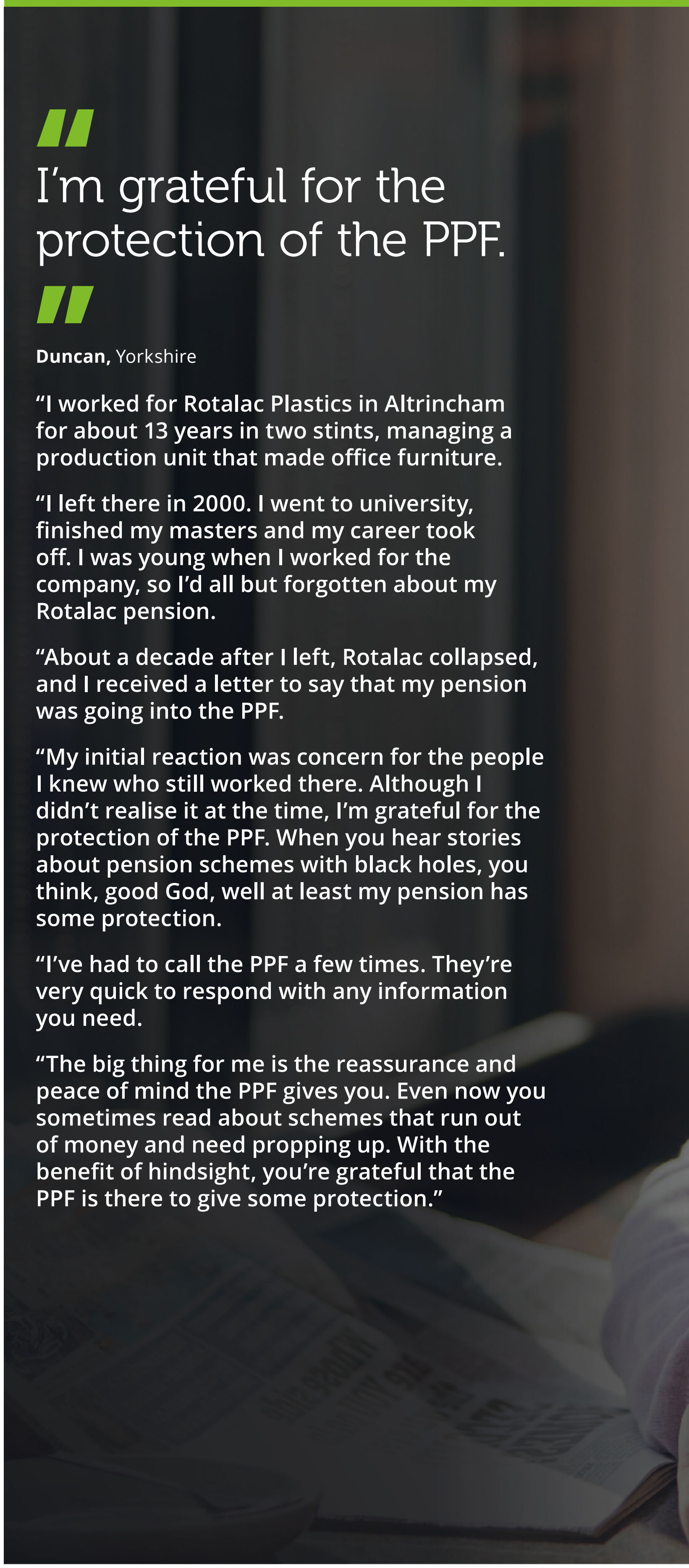
We compile and analyse data on the schemes we protect, and publish this information annually in The Purple Book, a key product of our RMF. The data gives us an in-depth understanding of how the universe of schemes we protect is changing.

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

Evolving our Long Term Risk Model

Over the past year, we’ve carried out further work to leverage the benefits of our upgraded LTRM software and make our risk modelling more realistic. The new platform has allowed us to conduct additional model runs, alongside a comprehensive review of our risk assumptions. This work has in turn fed into our Funding Strategy Review.

In line with one of our 2021/22 Business Plan objectives, we’re continuing to enhance the LTRM and have retendered for our Economic Scenario Modeller, which will feed into this. We’re now in the process of implementing this model, which will be a key focus for the start of the next financial year.



“I’m grateful for the protection of the PPF.”

Duncan, Yorkshire

“I worked for Rotalac Plastics in Altrincham for about 13 years in two stints, managing a production unit that made office furniture.

“I left there in 2000. I went to university, finished my masters and my career took off. I was young when I worked for the company, so I’d all but forgotten about my Rotalac pension.

“About a decade after I left, Rotalac collapsed, and I received a letter to say that my pension was going into the PPF.

“My initial reaction was concern for the people I knew who still worked there. Although I didn’t realise it at the time, I’m grateful for the protection of the PPF. When you hear stories about pension schemes with black holes, you think, good God, well at least my pension has some protection.

“I’ve had to call the PPF a few times. They’re very quick to respond with any information you need.

“The big thing for me is the reassurance and peace of mind the PPF gives you. Even now you sometimes read about schemes that run out of money and need propping up. With the benefit of hindsight, you’re grateful that the PPF is there to give some protection.”

2

Built for innovation

Strategic activities and milestones for 2021/22

Complete the third phase of the transformation programme that will deliver more cloud-based solutions, delivering efficiencies, improved service, ensuring appropriate resilience and stability of the IT estate.

Deliver more digitised solutions that will provide better integration of critical services, supporting our multichannel member communication strategy.

Further enhance our security services by introducing appropriate technical solutions to enhance our security pillars and enforce our FCA Plus emulation.

Deliver:

- a 65 per cent reduction in the number of Priority One and Priority Two incidents compared with 2017/18
- a 150 per cent increase in the number of project and programme deliveries compared with 2017/18

We've completed the final year of our three-year IT transformation.

Our improved digital services and ways of working have not just allowed teams across the organisation to collaborate and work more effectively, but also this technology-driven transformation has meant that we have been able to deliver some of our strategic objectives. We certainly wouldn't have been able to make the shift to successful remote working during the pandemic without the technical groundwork.

By driving innovation, moving our IT services to the cloud, enhancing our skillsets internally and improving technical stability, we've been able to help drive growth and resilience. It hasn't been easy to change our traditional ways of working or adopt new tools, but our people have risen to the challenge.

Driving efficiency and value for money

Over the past three years, we modernised our technology estate to drive cost efficiencies and improve performance, saving 20 per cent on operational costs, while still making our technology significantly better across the board.

We've enhanced our service to achieve high availability and stability. We successfully hit our target to reduce Priority One and Priority Two IT incidents by 65 per cent, meaning that the organisation can function without experiencing outages and subsequently maintain our high levels of customer service to our members and levy payers.

Reduction in IT cost per head from 2017

20%+

Another key target was to increase the number of projects and change programmes, which was achieved with a 150 per cent increase in successful deliveries, when compared to our 2017/18 financial year.

We've achieved some of these cost savings by moving from on-premise systems to cloud-based services. This has also meant that we've driven improvements in our carbon footprint by minimising our data centre presence.

Protecting and improving data services

Data is at the centre of what we do. Better data services help get appropriate information where it needs to be, rapidly and securely, allowing us to serve members quickly and empower our teams to make informed decisions. We're continuing to develop our data strategy to share data efficiently and securely both internally and with approved third parties. In the future, it will give us the option to provide our members with access to more data and we'll be well-positioned to contribute to the Pensions Dashboard Programme.

Prepared for the unexpected

Over the past year, we've successfully enhanced and matured our security services by introducing appropriate technical solutions. Our disaster recovery exercises and business continuity plans continue to be aligned with the FCA standards and tested regularly and rigorously, to ensure that they remain appropriate.

We work with industry-recognised security practices and partners. Our security frameworks are always reviewed. We are certified against third party independent standards, and by governing bodies to ensure that our security services, practices and solutions are as robust as possible. The independent reviews provide assurances to our Board that our security services and solutions are appropriate and proportionate in protecting the data of our members, our levy payers and our people. Our partners, solutions and services are constantly challenged and tested against our security frameworks.

Moving forward

Over the last three years, we've come a long way in developing key parts of our technology to enable us to run our business efficiently and effectively. We'll continue building on this by enhancing our self-service, introducing new tools to improve employees' day-to-day experience, and making use of automated digital processes for members. Everything we do will demonstrate best practice in data and cyber security, and we'll make sure that the services and solutions are appropriate and provide value for money.

3

Brilliant service for members and schemes

Strategic activities and milestones for 2021/22

Implement an agreed set of principles for dealing with our vulnerable customers.

PPF and FAS members' satisfaction with the service they receive is at 90 per cent or above.

Levy payers' satisfaction with the service they receive is at 80 per cent or above.

Collect 95 per cent of the outstanding uncontested 2021/22 levy by 31 December 2021.

Monitor and assess key trends affecting our levy methodology, including: changes in the risks faced by the PPF; the impact of Covid-19; and developments in the consolidator market. Set out our conclusions in a consultation on the levy rules for 2022/23 by the end of October. Publish the final rules before the end of January 2022.

Set a target for completion of the process of increasing compensation in line with the *Hampshire* and *Hughes* rulings within two months of the appeal outcomes being handed down, assuming clarity is given and no further appeals are set in train.

Progress claims being made to the Fraud Compensation Fund (FCF) following the Court ruling on scam scheme eligibility. Continue to work with the Department for Work and Pensions (DWP) and other bodies to ensure the FCF has the funds necessary to meet the claims on it.

Over the past three years of the Strategic Plan period, our member services were put to the test in the face of both the pandemic and with large schemes transferring to us. In total we've welcomed more than 48,000 new members since 2018/19.

Despite the difficult circumstances, we've kept service at the heart of what we do. We've continued to beat our target of 90 per cent customer satisfaction, with 98 per cent of PPF and FAS members feeling satisfied with the service they've received.

Although our membership has grown, we've continued to surpass our targets, dealing with over 99 per cent of cases in under five days.

We've also successfully renewed our Service Mark, awarded by the Institute of Customer Service. Since we first applied for the Service Mark, we've shown consistent improvement across both our member and staff survey scores.

Supporting our vulnerable members

Over the past three years of the Strategic Plan, we've concentrated on making our service as accessible and straightforward to use as possible for members with additional needs or other vulnerabilities. Having introduced a number of measures, we've recently commissioned external research into the service we provide to our vulnerable members so that we can learn what people might need and make sure we fill any gaps. We aim for best practice in all areas of customer service and work with other organisations to learn and share our knowledge about service for vulnerable customers.

Member satisfaction score

98%

Training and awareness-raising

As well as raising awareness across the organisation, all our member-facing teams are trained on how to help vulnerable members access our services. We have a vulnerable members working group made up of staff from different departments. We regularly update what we're doing on our intranet and recently ran a 'lunch and learn' event attended by more than 80 people.

Suicide prevention

It's a challenging topic, but we occasionally receive calls from people who are expressing suicidal thoughts. To help prepare our teams, we've created an e-learning training module that will mean our people are better able to support those rare calls that come through to our contact centre.

Providing documents in Braille

We now have the ability to provide all of our documents in Braille and large print for blind or visually impaired members. This was developed in response to the needs of members of a particular scheme that transferred to us, but is now a facility that is open to everyone. We also check with all schemes in assessment that may transfer to us whether their members have any additional needs we should be ready to meet.

Power of attorney

When members want someone else to deal with us on their behalf, they can download a letter of authority form from our site. This is useful in a number of different circumstances, including for members living with dementia.

We've also provided training for our member services team in powers of attorney so that our members' representatives have a good experience when they're dealing with us. We know that often they'll be under pressure trying to look after their relatives, alongside all their other life responsibilities, so we want to support them in doing so.

One new way we do this is by letting those with power of attorney know that they can register on our member website on behalf of the member they're supporting, so they can make changes or contact us online at a time that suits them.

Making our website work for everyone

Our member website already meets accessibility standards and we continue to improve on this. As some members with additional needs prefer to communicate via our website's secure message function, we've improved this functionality. Now, if a member sends us a secure message, we send them an email to their personal email account to tell them we've replied. In future, we may introduce a web chat function if this is something our research shows will benefit vulnerable members.

Legal challenges to the compensation we pay

As we reported in our last Annual Report and Accounts, in July 2021 the Court of Appeal ruled in the *Hughes* case that we are entitled to perform a one-off calculation approach for increasing payments to the 50 per cent minimum level (which was determined in 2018 by the Court of Justice of the European Union's ruling in the *Hampshire* case). It also confirmed that the PPF compensation cap, as set in legislation, is unlawful based on age discrimination and has to be disapplied.

Since then, we've continued to make progress:

- We paid arrears due to those FAS pensioners who'd already received an increase due to *Hampshire*, ahead of our target of the end of 2021
- We no longer apply the cap to new PPF retirees
- We've started the process to remove the PPF cap and scale up payments
- We'll start to make uplifts this summer with a view to completing the majority by the end of 2022

Our objective is to return members to the position they'd have been in if they'd never been capped and always received payments of at least the 50 per cent minimum level. To support that objective, in December 2021 we announced that we won't put a time limit on payments due; we'll pay arrears from the time affected members started to receive PPF compensation. We also agreed to offer lump sums to those members who retired after the date their scheme entered a PPF assessment period, and to pay some or all of the unauthorised payments charges to HMRC that would otherwise be payable by members.

FAS members

Although the FAS cap wasn't affected by the Court of Appeal's ruling, some members are entitled to increased FAS assistance to make sure that they receive 50 per cent of the value of their accrued old age benefits, as required by the *Hampshire* judgment.

The DWP has confirmed that it will not put a time limit on the payment of *Hampshire* arrears for members. It also confirmed that interest won't be paid on the arrears, because there's no legal basis to do so.

> "I understand that it's a frustrating time for affected PPF capped pensioners, especially those who haven't heard from us yet."

Uncapping is a complex process

We've been working hard to plan how we will implement the *Hughes* ruling. Determining the correct amount each affected member should be paid, and any arrears due to them, is very complex work, particularly given individuals' specific tax circumstances where we've agreed to offer a lump sum and pay the tax charges on behalf of the member.

Sue Rivas, our Director of Scheme Services, explains that the process of removing the compensation cap will take some time to complete:

"I'm really pleased that we're now processing members and have started to remove the PPF cap. But it's going to be a long and complicated piece of work to complete. Uncapping is a complex process, particularly for those members who've already received a *Hampshire* increase, and we expect that it'll take until the end of 2022 before we're able to disapply the cap for the majority of currently-capped PPF pensioners.

"I understand that it's a frustrating time for affected PPF capped pensioners, especially those who haven't heard from us yet. We're working through our processes as quickly as possible."

"It was a real blessing when the PPF took over."

Neville, West Yorkshire

"When Carillion went bankrupt, I was concerned because they had taken the pension provision of my former employer, Mowlem.

"I had quite a good final salary pension scheme with them, so obviously I was worried about what would happen to it now. I appreciated that the PPF were quick to write to me and tell me what was happening. It was a real blessing when they took over.

"Even though I'm eligible, I've not yet started taking my benefits. I have thought about it and had independent advice on the pros and cons.

"I've used the Benefit Modeller on the PPF website to work all sorts of different permutations and options if I retire at different times and with different drawdowns. That's been a real help, and because it's so easy to use and informative, it's by far the best comparison tool from all of the pensions I have."

Fraud Compensation Fund

Since November 2020 when a court ruling clarified that occupational pensions schemes set up as part of a scam were eligible to claim on the FCF, we've been processing and validating the claims received to date.

For each claim, we assess:

1. Whether there has been an incidence of fraud;
2. What reduction in scheme assets has resulted from the fraud; and
3. Whether the loss of scheme assets occurred as a result of the fraud or for other reasons.

We're making progress and have paid the first of the 13 claims received so far. It has been a year of learning, in which we've focused on getting the process right and expect to increase the pace of processing as the new approach beds in. We anticipate further claims applications to be made in 2022/23.

We raised an FCF levy of 75p per member (30p for master trusts), which we expect to be sufficient for the next year, but, as we reported in our 2020/21 Annual Report and Accounts, in order to fund all potential claims we require a loan from the DWP. The loan has now been approved and signed, and will be repaid by the end of 2030.

In the autumn of 2021 the DWP consulted on raising the FCF levy ceiling to £1.80 per member (65p for master trusts). The legislation to enable this came into force on 1 April. We confirmed that we'll raise a levy in 2022/23 at this higher rate; we expect this higher levy will generate £37 million.

Brilliant service for schemes

With many businesses still struggling from the impact of Covid-19, we know this is a challenging time for the schemes we protect. In response, we've introduced some policies to help ease the burden on levy payers.

Our levy payers sponsor a total of 5,220 schemes, comprising 9.7 million members. While more than half of these schemes are underfunded, we've recognised that there needs to be flexibility within the levy rules for schemes that pose less risk. The new 'small scheme adjustment' now halves the levy for those with under £20 million in liabilities. The reduction is tapered so that only schemes with £50 million or more in liabilities are charged in full.

We've also cut the cap on the amount of levy paid by any individual scheme – the risk-based levy cap – from 0.5 per cent of scheme liabilities to 0.25 per cent, protecting those most at risk of seeing increases in levy bills.

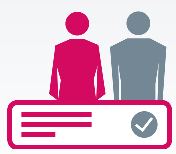
Finally, we extended our Covid-19 easement plan this year, offering levy payers an extra two months to pay without incurring interest. In practice, a minimal number of schemes took this up, and we collected 95 per cent of the outstanding uncontested 2021/22 levy by 31 December 2021.

For 2022/23 – the next levy invoices to be issued – we've allowed the levy to decrease again so that more than 80 per cent of schemes paying a risk-based levy will see a reduction in their bill. We've also capped 2022/23 invoices so that none of the few schemes seeing increases will pay over 25 per cent more than 2021/22. This one-time measure recognises the extent to which forced closure of businesses during the pandemic has resulted in downgrades in insolvency risk scores.

We're pleased to have exceeded our target of 80 per cent customer satisfaction this year, with over 96 per cent of levy payers feeling satisfied with the combined customer services offered by the PPF and Dun and Bradstreet (D&B).

Average levy payer satisfaction

96%



Developing digital services for schemes

We've reviewed and improved how we deliver our digital services over the past three years to improve communication and help make the levy calculation and payment process as painless as possible.

Behind the scenes, we've been implementing new processes, protocols and tools to drive progress. As a result, we've introduced new electronic invoices, improved online consultation functionality and our new portal. The system has been vastly improved over the course of the Strategic Plan period and is aligned with industry standards.

PPF levy collected

£475m

A key milestone was putting our insolvency risk scoring services out to tender, with the ability to deliver better online services a key factor in our decision-making process. D&B won that tender, and together we've provided a new, improved portal where levy payers can check their scores and get online help with their queries. However, we know it doesn't yet offer the seamless service our levy payers want, and we'll be improving the portal further over the new Strategic Plan period.

Thanks to our improved digital services, we were more efficient than ever in issuing invoices, including electronic invoices.

Responding to feedback

We know that schemes don't choose to use our service, but this reinforces our ambition to listen carefully to what levy payers want, understand where we can do better, and then take action.

In addition to our annual consultation on our levy approach, over the past three years we've introduced biannual structured SME Forums, along with ongoing informal meetings, surveys, focus groups and email newsletters to gather feedback and share information. These communication channels have been incredibly valuable and helped shape our current levy rules, the introduction of the small scheme adjustment and the reduction to the risk-based levy cap.

Asset class consultation

In April 2021 we published a consultation, jointly with The Pensions Regulator (TPR), setting out proposed changes to the asset class information to be provided annually by DB schemes. The changes aimed to better capture data on investment risk without resulting in an excessive administrative burden on levy payers, who represent 9.7 million members of DB schemes.

We received 29 responses to the online consultation, with wide support for revising and updating the asset class information collected and the need to collect more detailed information on bonds.

Applying the levy to pension superfunds

Commercial consolidators – also known as superfunds – are a recent development in the pensions world where the assets and liabilities of multiple DB pension schemes are consolidated into one larger scheme. As they're structured differently, we'll need to calculate their levy in a different way. We've now developed rules that will apply the levy fairly to these funds, so we're ready to react as they – and potentially other new types of structures – are formed. We're also committed to developing these rules further as the market develops.

Securing the best outcomes for overfunded schemes in assessment

The collapse of any employer with a DB pension scheme is an extremely stressful time for its members. We know that people need certainty about their future as soon as possible, whether that means transferring to us, or not.

We've seen a trend of schemes entering assessment with enough assets to buy higher benefits for members than we would pay, which means they can secure a buyout with an insurance company. Although our processes were originally designed to support members from underfunded schemes, we've used our experience and expertise to introduce new ways of supporting these better-funded schemes too.

One of the key actions we've taken is to appoint a panel of buyout experts that can help schemes secure an insurance company buyout faster, as we work with the panel to develop standardised processes, timeframes and costs. Historically, this has sometimes been a time-consuming and costly process with a huge amount of uncertainty for members. The specialist panel will provide consistency and efficiency to the process. Our aim is for these schemes to exit the PPF assessment period as seamlessly as possible and ensure they secure the best possible outcome for members outside the PPF.

Our Strategic Plan and priorities – continued

"It's a really easy site to use."

Karen, West Sussex

"I worked for Telcon Metals for about 10 years in a few roles. I started in research, then I went into quality control, then sales and product management.

"I left in 1995 but I still know people who worked there up till the end. The company had shrunk in a short time and parts of it had been sold off.

"When it collapsed, I received a letter to say that the pension scheme could be joining the PPF. I was a bit taken aback – you think about the company, but you forget about the pension side of things.

"The unknown is always a little bit daunting, but I looked up the PPF and found some success stories. I knew someone who looked after the pension scheme for another of my former employers. She said it was alright and that sometimes the PPF is better than the old scheme, so I felt reassured by that.

"The scheme eventually went into the PPF. It feels very trustworthy. I'm still working but I've had a look at the website to see how much I could receive and when I can take it. It's a really easy site to use.

"Last year I had to phone the PPF to ask about something on the website. A really helpful lad talked me through what I needed to do. He thanked me for letting them know about the website wording and said they'd sort it out."

4

The best of financial and public services culture

Strategic activities and milestones for 2021/22

Deliver metrics that confirm the PPF culture is 'the best of financial and public services', reflecting the FCA's culture measurements of purpose, governance, leadership and people policies.

Carry out the 2021/22 review of the Senior Managers and Certification Regime using external expertise to ensure we are fully compliant with external expectations. Continue to fulfil yearly expectations of annual conduct rules training, supported by output from the Culture Index.

Benchmark our risk framework to ensure that it meets good practice expected of regulated financial service firms.

Make progress towards the targets set out as part of our Diversity and Inclusion (D&I) strategy including addressing under-representation of women in senior roles and ethnic minority employees at every level of the organisation.

We occupy a unique position across the public and private sectors, giving us a culture and working environment that our people are proud to be a part of.

Our staff consistently say they would recommend working here to family and friends and, despite the phenomenon of the 'Great Resignation' following the pandemic, our turnover has remained low to date.

We have a strong culture and are proud that we're attracting people who are motivated to make an impact in the world. 98 per cent of our people feel we make a positive difference and 88 per cent say they and their teams regularly discuss how to improve our service and performance.

Hybrid working

As we reach the end of the three-year Strategic Plan period, we find ourselves working in radically different ways than we did at the start. We've always promoted flexible working, but in 2019 this meant encouraging managers to allow people to work from home one day a week. Three years on, almost everyone can work from home for up to 60 per cent of their time.

Like most organisations, we're not going back to the way we worked before, but we know that the new hybrid working model may take some time to get right. There are still huge benefits to teams working in the same physical space and our view is that everyone must adapt hybrid working to suit the nature of their work and their team. We intend to put in place a formal review of this, on a biannual or quarterly basis, to understand how it's working in practice for the organisation.

Accountability for Senior Managers

Although we're not regulated, we operate as if we were, particularly when it comes to risk, compliance, ethics and accountability regimes; following standards prescribed by key regulators including the Prudential Regulation Authority and Financial Conduct Authority. Whenever regulations change, we adapt to and implement them.

53%

of vacancies were filled internally in 2021/22

Publishing and implementing our version of the Senior Managers and Certification Regime is an important part of this. This is the system that regulated financial organisations use to define their managerial responsibilities and hold people accountable. We first published it in 2019 and it's now become an integral part of our organisation and how we conduct ourselves. It has helped shine a light on exactly who and what senior managers are accountable to and for, so it's easy to find that information and work effectively on processes across the organisation.

Following an external review in 2021/22 of our approach, we're pleased to have received a very positive report on our progress. The reviewers were satisfied with how we're implementing the regime, in a way that's reasonable and proportionate for us given our status, and how our senior managers are overseeing their responsibilities appropriately.

We also rolled out a comprehensive training programme on the conduct rules that were specific to different parts of the business. Each directorate was responsible for organising and tailoring in-person training most relevant to their areas of responsibility.

Industry-leading diversity

We're actively building a diverse and inclusive workplace, where everyone can feel able to be themselves and are valued for their differences.

"The PPF should be proud of what it has achieved in the D&I space. It is clear that the ambitions are not just words on a page but feed through to the decision making in the organisation."

PPF employee

Over the past three years of the Strategic Plan period, we've done a lot of work to make our structural processes more inclusive. Rather than assume our recruitment processes aren't disadvantageous to anyone, we've thoroughly reviewed them to check for and prevent any unconscious or inadvertent barriers and bias.

We've continued to nurture, develop and promote internal talent, investing in future leaders, specialist training and flexible working in order for all groups, regardless of background, to be fully represented at all levels of our organisation.

We're confident that we're doing all we can to support and increase diversity, but we're aware that this work takes time to come to fruition, particularly as we have low levels of turnover. That this change isn't coming fast enough is reflected in our staff survey, where only 68 per cent of our employees report that they can see the difference we're starting to make in diversity and inclusion.

However, more positively, 79 per cent of employees agree with the statement that, 'the culture at the PPF allows people like me to be myself' and 86 per cent agree that we actively encourage diversity in all its aspects, with strong agreement in certain under-represented groups.

"I think the PPF is doing everything it can to promote D&I. Ultimately, staff need to adopt and embrace the cultural change and this is not fully within PPF control and may take time to embed."

PPF employee

Our apprenticeship programmes

"We're pleased to see our pensions administration apprenticeship has gone on to benefit the wider industry."

Our first apprentice joined us in September 2018. Since then we've had 16 people complete an apprenticeship and gain professional qualifications. Initially, we launched our apprenticeship programme to support the Government's initiative to get more apprenticeships in business, but for us, it's also about harnessing and developing skills for the future, as well as attracting people to a career that they may not have previously considered.

We have seven active apprenticeship programmes ranging from level 2 to the highest level 7, in roles including pensions administration, customer service, procurement, project management, compliance, cyber security and HR.

Recruiting good pensions administrators can be challenging, so in 2019 we worked with Croydon College to create one of the UK's first open apprenticeship programmes in pensions administration. So far we've supported six people through this apprenticeship over the last three years.

This year's cohort is comprised three people from the PPF and apprentices from other companies, so we're really pleased to see that the scheme has gone on to benefit the wider pensions industry as well as supporting careers in the local area.

We are very proud of our apprenticeship programmes and our apprentices. In 2019 we were awarded the Best Apprenticeship Employers Award as part of the Croydon Business Awards. And in October 2021 all three of our entrants made it through to the regional finals in the National Apprenticeship awards.

Increasing female representation

We've made good progress in improving female representation at senior levels and we're proud to have an equal number of men and women at the Executive Committee and Board level. We also achieved the Women in Finance Charter target we set in 2018, with over 40 per cent of women in senior positions by December 2021. As a result, we've set a new goal to hit 45 per cent by 2023, with the ultimate goal of gender parity.

As outlined in our D&I Strategy, we're nurturing our future female leaders through mentoring, coaching and internal development programmes. We continue to hire more women at junior levels to build our talent pipeline for the future.

Increasing ethnicity representation

Our ambition is to increase ethnic minority representation at all levels of the organisation. As we shared in our Diversity Pay Gap report, we also have specific targets to increase the number of black people who we hire as new joiners and in senior roles, to reflect the ethnic diversity of Croydon where we're based.

While we've increased ethnic minority representation at Board and Executive Committee level, our overall low staff turnover hasn't allowed us to drive change as fast as we would like. To address this, we continue to run apprenticeship programmes, build our talent pipeline and nurture, develop and promote people internally.

Transparency around pay gaps

An important part of our commitment to diversity is monitoring and being transparent about our pay gap, to help make sure that colleagues are paid and rewarded fairly.

This year we published our Diversity Pay Gap report, reporting on our gender pay gap for the fifth year in a row and, for the second year running, we've gone beyond statutory requirements to report our ethnicity pay gap too. We've also begun gathering data so that in next year's report we can also start reporting on disability.

Whizz-Kidz

In 2021 we partnered with Whizz-Kidz, a charity for young wheelchair users. We were asked to help young people with career support and coaching.

Members of our HR team took part in Whizz-Kidz's employability skills course, supporting school leavers with CV writing and application forms.

Our Chief Technology Officer, Simon Liste, mentored a young man who wants to start his career in technology:

"We met virtually every three weeks to discuss IT challenges and opportunities, and I provided him with guidance and support. I'm hoping to see his transition from high school to college, doing something technology-based and then working for an employer that will appreciate and nurture his capabilities. Being part of his journey has been a huge privilege and extremely fulfilling."

Making a difference in our community

Our Corporate Social Responsibility programme continued to run successfully in 2021/22, despite further Covid-19 restrictions, supporting The Alzheimer's Society and our local community. We surpassed our fundraising target, with £1,600 going to support people living with dementia and their families.

Through our internal communications we've given our people the opportunity to learn more about our chosen charity and the work it does.

Our Dementia Friends sessions have been popular and are now offered to all employees, not just member-facing staff. These sessions give an insight into the small things each of us can do to help a person living with dementia or caring for someone.

Our employees undertook 466 hours of volunteering in the community, using their volunteering leave in a wide range of ways including telephone befriending, helping at vaccination centres, employability workshops and gardening.

We've also provided IT equipment to local schools and community groups, and ran a Christmas grotto for children in Croydon.

Awards and recognition 2021/22

Investments and Pensions Europe (IPE) Awards 2021

We won European Pension Fund of the Year, Fixed Income Strategy and Long Term Investment Strategy

Professional Pensions Women in Pensions Awards 2021

Claire Curtin won Investment Manager of the Year; Georgina Howes was Highly Commended for the Rising Star Award

Professional Pensions Rising Star Awards 2021

Our Contact Centre won Team of the Year; Lauren Aitchison-Turner won the Excellence in Customer Service and Communication Award; Hannah Swallow was Highly Commended for the Excellence in Customer Service and Communication Award

5

Clear value for money

Strategic activities and milestones for 2021/22

Deliver a 20 per cent IT operational saving against the 2017/18 cost. See page 29.

Deliver investment performance consistent with targets set by the Board and consistent with our long-term investment objectives within our strategic risk budget. See pages 21–22.

Improve the service and efficiency in our member services operations by:

- 70 per cent of member transactions being completed online, including 25 per cent of retirements
- implementing at least five initiatives to increase automation and efficiency

Improve the efficiency of Scheme and Member Services over the Strategic Plan period by more than five per cent, measured as the ratio of member records to full-time equivalent employees.

Member transactions completed online

78%

Our Strategic Plan and priorities – continued

Retirements completed online

40%

Cost per member per year

£53

Efficiency in our member services

The past three years have seen us transform our systems and processes with our Efficiency and Service Improvement Programme.

This has allowed us to maintain award-winning levels of service alongside stable costs and headcount.

As part of this, we've transformed our digital service to allow members to get critical information and deal quickly and easily with us online. As a result, online transactions have increased from 52 per cent to 78 per cent over the Strategic Plan period, exceeding our target.

We've improved our online retirement tool by allowing people to set up their retirement payments up to three months in advance. We always write to members three months before their normal pension age to explain what their entitlement and options are. Now they can go online and complete the next step there and then, saving the need to remember to do it in future, as well as saving them paperwork.

We've also made it easier for members to change personal details online, such as their name or marital status following a marriage or divorce. It's now possible to upload evidence documents via our member website – the most secure way to do this.

Improving value for money

Alongside monitoring our own 'cost per member', we're externally benchmarked alongside 11 of our peers, both for our costs and our level of customer service, by CEM Benchmarking.

Thanks to our efficiency measures, we've reduced our CEM Benchmarking cost per member by 12.3 per cent over the last year. Having previously had some of the highest running costs among our peer group, we're now judged as seventh out of 11 on cost. At the same time, our service, which has always been at the top of our peer group, remains first out of 11.

We're proud to have achieved better value for money while improving on our already extremely strong service.

Long-term expenditure trends

Total expenditure for the PPF and the Administration Funds over the last five years is shown in the table below.

	2018 £m	2019 £m	2020 £m	2021 £m	2022 £m
Investment expenses	**143.3**	**141.8**	**152.6**	**250.0**	**330.4**
Operating expenses					
PPF	44.5	46.8	43.6	45.6	48.7
PPF Administration Fund	13.9	13.1	13.7	12.4	13.3
FAS Administration Fund	8.8	9.1	7.8	8.1	8.3
Total operating expenses	**67.2**	**69.0**	**65.1**	**66.1**	**70.3**

The majority of costs we incur support the payment of compensation to our members as well as fees on our investments. Over the period of our Strategic Plan the number of FAS and PPF members has increased by 10 per cent and our assets under management have grown from £36 billion to £39 billion today. Despite this significant growth our cost per member has fallen from £62 in March 2019 to £53. The annual management fee we pay as a proportion of our assets under management has remained consistently low. The growth in our investment fees shown in the table above has instead been entirely as a result of the performance fees payable due to significant returns over the last two years, which net of fees increased reserves by £5 billion.

Our costs are accounted for in three funds as explained on page 98 and further analysed on pages 123–124.

Complaints, reviews and FOI requests

As in any organisation, occasionally things go wrong. We pride ourselves on putting things right and learning from experience.

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

General complaints

The total level of complaints for PPF and FAS remain low compared to the size of the membership (0.12 per cent). The total number of complaints is about the same as for 2020/21. The following tables provide an analysis of the complaints received and dealt with by the PPF during the year ended 31 March 2022.

Complaints

	PPF 2021/22	FAS 2021/22	PPF 2020/21	FAS 2020/21
Complaints brought forward from previous year	13	3	29	11
Complaints received	421	119	519	145
of which:				
• resolved at stage one	349	101	479	145
• resolved at stage two	33	11	40	6
• resolved at stage three	13	2	14	2
• resolved at stage four	6	0	2	0
• carried forward	33	8	13	3

Complaint categories*

	PPF 2021/22	FAS 2021/22	PPF 2020/21	FAS 2020/21
Payment-related	60	8	82	7
Communication	141	43	169	56
Process/regulation	94	30	68	38
Delay	44	19	64	19
Entitlement	108	37	128	51
Other	279	78	323	76

* 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

	2021/22	2020/21
FOI requests received	51	33
of which:		
• we fully disclosed the information	39	22
• we partially disclosed the information	3	4
• we did not hold the information	0	0
• the request was withdrawn	0	0
• we declined to disclose the information	9	7

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.

We declined to disclose information where statutory exemptions applied.

Complaints, reviews and FOI requests – continued

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

	2021/22	2020/21
Review decisions issued	15	27
of which:		
• the scheme was found to be levied correctly	9	14
• we agreed with some or all of the scheme's appeal	6	13
Decisions made by the Reconsideration Committee	2	4

Non-levy-related reviewable matters*

	2021/22	2020/21
Review decisions issued	25	24
Decisions made by the Reconsideration Committee	8	11

Maladministration complaints*

	2021/22	2020/21
Formal complaints of maladministration considered	8	16
of which:		
• maladministration was found to have occurred	1	3
• maladministration was found to have occurred in part	2	5
• no maladministration was found to have occurred	5	8
Six of these cases also involved a reviewable matter (2020/21: three).		
Maladministration decisions made by the Reconsideration Committee	7	4
of which:		
• maladministration was found to have occurred	0	1
• maladministration was found to have occurred in part	1	0
• no maladministration was found to have occurred	6	3

* Complaints can be classed as both maladministration and reviewable matters.

FOI requests this year

51

Complaints received

540

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. In the public sector, the FReM provides that anticipated continuation of service is presumed to provide sufficient evidence to adopt a going concern basis.

After reviewing the 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 all the funds. For the PPF and the Administration Funds because we believe these funds have enough resources to provide a continuation of services for the foreseeable future. For the FCF, a loan has been obtained from the DWP which, together with levies collected, is expected to be sufficient to cover the potential claims known as at 31 March 2022.

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
  - our reserve powers on benefit levels

PPF and FAS Administration Funds

In considering the going concern status of the PPF and FAS Administration Funds, we took into account the status of the Board of the PPF as an independent statutory corporation, while also recognising that the Board of the PPF 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 of the PPF on grant-in-aid for PPF administration functions by raising a PPF Administration Levy from eligible pension schemes.

Fraud Compensation Fund

In considering the going concern of the FCF, we recognise that, although historically claims have been low, the fund is now vulnerable to large claims well in excess of the current funds available. The claims risk is most likely to materialise from historic claims relating to schemes that were themselves part of a scam.

The FCF has paid one claim and has received applications for a further 12 claims totalling £58.3 million and we are aware of 119 more possible applications totalling £369.8 million as at 31 March 2022. The assets of the FCF totalled £48.7 million at that date. We are in the process of assessing the applications and anticipate paying any of these and others of which we are aware, over a four-year period. The exact value of these actual and possible claims remains to be determined. However, it appears likely that levy income will be insufficient to pay all these claims as they are settled. We have obtained a loan from the DWP which we expect will enable us to ensure a continuation of claims payments.

Oliver Morley
Chief Executive
1 July 2022

SECTION 3

Sustainability

Sustainability sits at the heart of our decision making. Encouraging responsible practices is an integral part of how we operate as a business; protecting our investments and better serving our members and levy payers. We strive for best practice in Diversity and Inclusion, and we aim to make a difference in our community and embed the Greening Government commitments.

Investing responsibly

We recognise that the biggest environmental, social and corporate governance (ESG) impact of our organisation lies within our investment portfolio. Our primary focus is to ensure that we're investing responsibly and stewarding this portfolio.

How we're demonstrating transparency

Across our activities, we mirror best practice in the financial services and pensions industry, working to the highest standards of both.

Continuing to be transparent with our stakeholders, we published our second annual Responsible Investment (RI) report in October 2021 and our second Diversity Pay Gap report in March 2022.

The 26th United Nations Climate Change Conference (COP26), held in Glasgow in 2021, helped push climate change to the top of the agenda. Ahead of COP26, we published our first dedicated Climate Change report in September 2021, aligned with applying the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

We've also regularly reported to the Board and the Investment Committee and published regular voting and engagement reports on our website. In March 2022, we were delighted to be formally accepted by the Financial Reporting Council as a signatory to the UK Stewardship Code 2020.

Managing our exposure to ESG risks and opportunities

As part of the day-to-day implementation of our Statement of Investment Principles (SIP) and RI framework, we're actively monitoring the activities of our managers and service providers to manage our exposure to potentially material ESG risks and opportunities.

We have seen our external fund managers who became Principles for Responsible Investment (PRI) signatories increase significantly over the year, from 84 per cent to 91 per cent of our externally-managed assets. Encouragingly, most of this growth was driven by managers operating in private markets.

Over the year we've also made steady progress in improving the quality and quantity of both ESG and climate reporting offered through our portfolio management systems. For example, the access to carbon emissions data for our assets through these systems has increased from 30 per cent to approximately 55 per cent of the Fund's net asset value. Our private markets investment software now enables us to carry out key ESG risk analysis for our Alternatives funds through a new Sustainability module.

After the success in getting managers of our liquid assets (Global Credit, Public Equity, Absolute Return and Emerging Market Debt) to implement our quarterly reporting templates last year, we've continued to engage with them more recently to evolve some of the analysis. As more tools and data have become available, we've concentrated on expanding the range of TCFD-related metrics they report. Over one-quarter of these managers delivered on this ahead of our end of March 2022 deadline.

Striving for best practice in stewardship

Since finalising our stewardship policy in March 2021 we've been focusing on implementing it, including consolidating how we vote across our equity portfolios. We had two funds that fell outside of this centralised approach, where we chose to use a split-voting mechanism to align our voting decision across equities.

We've also started developing a clear stewardship plan around a priority list of companies to engage with on climate transition and alignment with the Paris Agreement. This plan also identifies how to escalate climate issues, including robust measures to assess how plausible their transition plans are.

"We want to keep raising the bar, not only for ourselves but also for those we choose to work with."

Barry Kenneth, Chief Investment Officer

CASE STUDY

UK Modern Slavery

We were a member of the 2021 Votes on Slavery collaboration initiative run by the PRI during the year. This initiative achieved close to a 100 per cent success rate in encouraging compliance with the s54 reporting requirements of the UK Modern Slavery Act for FTSE 350 companies. Only two companies, out of the 61 we engaged with, remained non-compliant by December 2021.

As a result of its success, the UK Home Office has asked that the initiative continue to pressure FTSE 350 companies in 2022. We will continue to support this campaign as modern slavery is a key theme in our 2022 voting guidelines.

Investing responsibly – continued

Reporting on climate change

We consider climate change as a systemic risk, which can affect the value of our investments across the short, medium and long term. As a supporter of the TCFD, we commit to reporting on our climate-related governance, strategy, risk management and metrics and targets. Our dedicated TCFD climate report shares this information in-depth, and we've included a summary here.

Key progress in 2021/22

Governance

- Reported climate-related risks to our Chief Investment Officer through monthly dashboards and to our Investment Committee through quarterly dashboards

Strategy

- Assessed how a net-zero transition and physical climate risks might impact the Fund
- Launched a project to estimate the degrees of warming by 2100 the Fund is aligned with as a baseline
- Engaged with our fund managers on their consideration of net-zero strategies, with 20 of our managers joining the Net Zero Asset Managers initiative

Risk Management

- Transitioned the reference benchmark for our listed equities to a custom benchmark incorporating climate risks. The new benchmark targets at least a 50 per cent reduction in carbon intensity compared to the broad equity market[1]
- Started using some of the outputs of the Fund Paris Alignment project to inform our priority engagement list

Metrics & Targets

- A summary of carbon footprint metrics for our Public Equities and Credit holdings is provided in the tables opposite
- Year-on-year, the reduction in the Weighted Average Carbon Intensity (WACI) of the Equity benchmark was over 70 per cent[2] as a result of the transition to the new custom climate benchmark. This had the direct effect of reducing the WACI of our equity passive mandates by the same amount
- The Equity benchmark change drove a significant reduction in the total financed emissions associated with our aggregate liquid equity holdings of 50 per cent over the year. The WACI has also declined by 37 per cent
- This is the second year our aggregate liquid credit holdings have included the corporate bonds in our Strategic Cash, Investment Grade Credit, Emerging Market Debt and Absolute Return portfolios, so allows a year-on-year comparison. We saw a reduction in the WACI carbon footprint of 58 per cent over the year, driven in part by our strategic cash portfolio

1 FTSE All World Index used to define the broad equity market. The 50 per cent reduction constraint is based on financed carbon intensity and weighted average carbon intensity (WACI). See Metric Definitions.

2 Comparing the new FTSE Custom All-World Climate Minimum Variance Index with the previous FTSE All-World Minimum Variance Index.

> In March 2022, we were delighted to be formally accepted by the Financial Reporting Council as a signatory to the UK Stewardship Code 2021.

Signatory of: UK STEWARDSHIP CODE | 2021

PPF Carbon Footprint Listed Equities Scope 1 & 2

Metrics	2021	2020	Change %
Metrics based on Investor Allocation (using EVIC)			
1. Total Financed Carbon Emissions (tCO_2e)	395,353	796,972	-50%
2. Financed Carbon Emissions (tCO_2e/$m invested)	65	122	-47%
3. Financed Carbon Emissions Intensity (tCO_2e/$m revenues)	151	226	-33%
Metrics based on Portfolio Weights (WACI)			
4. Weighted Average Carbon Intensity (tCO_2e/$m revenues)	154	243	-37%
Equity benchmark* Weighted Average Carbon Intensity	83	299	-72%
Market value of the Fund's equities covered by CO_2e data (£m)	6,090	6,528	
Proportion of the Fund's equities for which data is available (%)	99%	98%	

PPF Carbon Footprint Credit Scope 1 & 2

Metrics	2021	2020	Change %
Metrics based on Investor Allocation (using EVIC)			
1. Total Financed Carbon Emissions (tCO_2e)	321,205	329,106	-2%
2. Financed Carbon Emissions (tCO_2e/$m invested)	50	53	-6%
3. Financed Carbon Emissions Intensity (tCO_2e/$m revenues)	204	192	6%
Metrics based on Portfolio Weights (WACI)			
4. Weighted Average Carbon Intensity (tCO_2e/$m revenues)	133	318	-58%
Credit benchmark Weighted Average Carbon Intensity	279	255	9%
Market value of the Fund's credit covered by CO_2e data (£m)	6,451	6,214	
Proportion of the Fund's credit for which data is available (%)	89%	93%	

Source: Certain information ©2022 MSCI ESG Research LLC. Reproduced by permission; no further distribution (PPF holdings as of 31/12/2021). Equity benchmark = FTSE Custom All-World Climate Minimum Variance Index. Credit benchmark = Bloomberg Barclays Global Aggregate Credit Index.

* Equity benchmark changed from FTSE All-World Minimum Variance Index to FTSE Custom All-World Climate Minimum Variance Index on 1 August 2021.

Metric definitions:

- Total Financed Carbon Emissions: Measures the Scope 1 + Scope 2 tonnes of CO_2 equivalent emissions for which an investor is responsible by their total overall financing. Emissions are apportioned across all outstanding shares and bonds (% Enterprise Value including cash).
- Financed Carbon Emissions: Measures the Scope 1 + Scope 2 tonnes of CO_2 equivalent emissions, for which an investor is responsible, per USD million invested, by their total overall financing. Emissions are apportioned across all outstanding shares and bonds (% Enterprise Value including cash).
- Financed Carbon Intensity: Measures the carbon efficiency of a portfolio, defined as the ratio of Scope 1 + Scope 2 tonnes of CO_2 equivalent emissions for which an investor is responsible to the revenues for which an investor has a claim by their total overall financing. Emissions and sales are apportioned across all outstanding shares and bonds (% Enterprise Value including cash).
- Weighted Average Carbon Intensity (WACI): Measures a portfolio's exposure to carbon-intensive companies, defined as the portfolio weighted average of companies' Carbon Intensity (Scope 1 + Scope 2 tonnes of CO_2 equivalent emissions per million $ of revenues).
- Enterprise value including cash (EVIC): Market capitalisation at fiscal year-end date + preferred stock + minority interest + total debt.

Greening Government Commitments

We support the Government's commitment to reduce its impact on the environment, so we're reporting against the Greening Government Commitments for the first time. While we don't yet have the systems in place to report on every measure, we're working with our suppliers to capture the correct data from this year forward.

Managing our impact through our supply chain

We work with suppliers in a way that achieves value for money and benefits our work whilst also benefiting society and reducing our environmental impact.

The Social Value Model – supporting the Equalities Agenda, Sustainability, Corporate Responsibility, Local Economy and SMEs – sits at the heart of our procurement service. We insist that all our suppliers carry out their operations care for the environment and in compliance with relevant legislation. Finally, all our suppliers, along with their workers and subcontractors, are asked to commit to our high standards of social, ethical and environmental conduct under the Government Supplier Code of Conduct.

Managing our operational impact on the environment

As part of our Strategic Plan 2022–25, we're tackling how we measure and manage our operational impact on the environment, including the development of a Climate Adaptation Strategy. This includes embedding the right systems to gather and monitor data on our energy use, waste performance, paper use, water use and overall carbon emissions. As we lease our offices, we'll work with our building managers to gather much of this information.

This is the first year we have reported on the environment impact of our operations out of these buildings and the data we have on our usage, both current and in the past, is limited. We have provided data on the Greening Government Commitments insofar that it is available. In some situations, we have estimated our usage or spend, based on the amount of floor space we occupy, for example.

The PPF occupies two shared-lease buildings, one in Croydon and one in London. Both buildings have zero emissions from combustion and our office in Croydon has a BREEAM rating of 'Excellent'. So, we do not have any Scope 1 Greenhouse Gas Emissions from combustion.

For electricity consumption (Scope 2), we are invoiced for the electricity used on each floor occupied by us. We are charged for our share of communal electricity in both buildings which is included in the building service charges. All of the electricity we use is from renewable sources. Gas is not used.

CASE STUDY

Embedding social value in our procurement process

During the year we piloted our approach to evaluating social value within various procurements. These pilots have achieved positive outcomes, with bidders demonstrating actions they're taking towards improving employee wellbeing, working with communities, social capital and the environment. Alongside the pilot we've created a process to monitor social value commitments throughout the life of contracts.

When the contract with our custodian (the bank that holds our financial assets for safekeeping) was up for review, we took the opportunity to make social value an important part of the tender. Proposals were scored on metrics including suppliers' carbon reduction plans and commitments to D&I.

The evaluating panel assessed the practices and commitments from the successful bidder, Northern Trust, including their net-zero commitment, carbon reduction plan, commitment to ESG reporting to meet TCFD requirements, and D&I reporting.

Although we're in the early stages of our journey, we're building a clear picture of how our procurement practices can impact society and the environment, and what actions we can take to reduce negative impacts. Our Commercial Services team are actively seeking opportunities to enhance their knowledge of social value, through training and engaging with peers and supporting organisations.

Scope 3 reporting on travel and paper is captured using our expense reports and invoices. We do not own or lease any vehicles, and both buildings offer good bike storage and shower facilities to encourage commuting by foot or cycle.

Water and waste (excluding confidential waste) costs are included in the building service charges.

We do not have data on our water usage so we have made an estimate based on the buildings' total water usage and how much of the buildings we occupy – this is 40 per cent of the Croydon building and 12 per cent of the London building.

All waste from both buildings is either recycled or incinerated with energy recovery, with none going to landfill. We do not have data on the amount of waste from either office other than the quantity recycled (which is only available for the current year) and confidential waste, for which we are charged directly. For the London office we have imputed an amount for total waste by using the building management's estimate of how much of the total waste is recycled for the whole building.

The performance figures reported do not include any emissions arising from home-based working or cloud-based services. This will be considered for future reporting.

2021/22 Operational performance

The Greening Government Commitments refers to establishing a 2017/18 baseline and reducing emissions, waste and water consumption from that point. As we do not have all data from that time, and this is the first time we are describing our operational impact, we are showing data for the current and prior year. We will be identifying actions, targets and measures as we develop our sustainability strategy as part of our Strategic Plan 2022–25.

Energy consumption, waste and water usage was unusually low in the current and prior year, as members of staff worked from home for the majority of the years; we expect this to increase in future years. This is also the case for business travel. The majority of business travel is to visit suppliers in the United Kingdom and is typically by train. Occasionally our investment and due diligence teams need to visit fund managers outside the United Kingdom by air.

The Covid-19 pandemic has also reduced paper usage. We expect this to continue to be low as staff members have become used to working without paper while working from home.

Our operational impact is as follows:

Energy consumption – Scope 2

	2021/22	2020/21
Total energy consumption	729,913 kWh	992,450 kWh
Total energy consumption by floor space (m^2)	175.2 kWh	238.2 kWh
Total energy consumption by FTE	1,662.7 kWh	2,391.4 kWh
Total energy expenditure	£165,580	£205,226

Travel emissions – Scope 3

	2021/22	2020/21
CO_2e emission from business travel	2.6 tonnes CO_2e	0.2 tonnes CO_2e
By air	1.5 tonnes CO_2e	0 tonnes CO_2e
By other means	1.1 tonnes CO_2e	0.2 tonnes CO_2e
Total distance travelled by air	10,024 km	0 km
Total expenditure on business travel	£7,550	£1,286

Paper

	2021/22	2020/21
Total volume of paper in reams purchased	20	27
Total paper expenditure	£59	£73

Waste

	2021/22	2020/21
Total waste recycled	1.4 tonnes	Not available
Total waste expenditure	£9,163	£7,491

Water

	2021/22	2020/21
Total water consumption	754.3 m^3	941.8 m^3
Total water consumption by FTE	1.7 m^3	2.3 m^3
Total water expenditure	£3,113	£3,632

SECTION 4

Accountability report

The Board of the Pension Protection Fund

Kate Jones
Chair of the Board

Chair of the Non-executive Committee
Chair of the Decision Committee

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

She began her career as a portfolio manager at Prudential M&G before playing 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 non-executive Chair of JP Morgan Funds Limited and also a Director of Blackfinch Spring VCT, focused on technology enabled firms. Prior roles have included Trustee and Chair of the Investment Committee for Smart Pension Master Trust and Chair of Trustees of Financial Education charity, Redstart Educate.

Working with senior executives in multiple sectors across the UK, Kate is also the co-founder of executive coaching business &become.

Oliver Morley CBE
Chief Executive

Member of the Decision Committee
Member 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.

Prior to 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.

Oliver was awarded a CBE in 2017 for his work in digital services.

Jayne Nickalls
Non-executive Board Member

Chair of the Remuneration Committee
Member of the Risk and Audit Committee

Jayne is currently a non-executive director at UK-based web experience supplier Jadu, and an independent member of 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 in the Cabinet Office as CEO of Directgov, the Government's online service for citizens. Prior to that, Jayne was VP Consulting Services at US company Chordiant Software.

Jayne stepped down from the PPF on 30 June 2022 at the end of her second term on the PPF Board.

Nailesh Rambhai
Non-executive Board Member

Chair of the Reconsideration Committee
Member of the Remuneration Committee

Nailesh began his career practising law at Linklaters and McDermotts.

He then moved to Coventry Building Society as Group General Counsel and Company Secretary.

Nailesh has lived and worked in Canada, the USA and South East Asia in a global career, including as a senior executive with Petronas.

Nailesh recently completed an assignment working as an adviser to the COVAX Facility, working with sovereign governments and international organisations in order to achieve a more equitable distribution of Covid-19 vaccines around the world.

He is now a non-executive director at UCL Hospital and Birmingham Women's & Children's Hospital NHS Foundation Trusts, and a trustee of the charity United Way UK.

Emmy Labovitch
Non-executive Board Member

Member of the Risk and Audit Committee
Member of the Investment Committee
Member 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 Organisation for Economic Co-operation and Development (OECD) with a focus on pension funds and investment governance.

Emmy is a trustee of Phoenix Futures, a charity. She is a member of the With-Profits Committee of the Royal London Mutual Insurance Society, Chair of the Employer Committee of the Social Housing Pension Scheme and a non-executive director and Chair of the Risk and Investment Committee of Forester Life Limited.

Chris Cheetham
Senior Independent Director

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

During his executive career, Chris Cheetham spent 41 years working in the investment management industry, most recently as Global Chief Investment Officer 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 Trustee of the BT Pension Scheme and roles with The Peoples Pension, the Science Museum Foundation and the charity Chance to Shine.

Rodney Norman CBE
Non-executive Board Member

Member of the Risk and Audit Committee
Member of the Reconsideration Committee
Chair of the Nomination Committee (from January 2022)

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, and was a non-executive board member of the Government Banking Service, before serving as Finance Director at National Savings and Investments.

He is a senior advisor to the Bank of England and serves on the Audit Committee of the UK Debt Management Office and on the Audit and Risk Assurance Committee of the Army. He also served on the Audit and Risk Committee of the Office of Rail and Road for the first half of 2020/21.

Rodney was awarded a CBE in 2019 for services to taxpayers.

Sara Protheroe OBE
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 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.

Sara was awarded an OBE in October 2020 for services to pensioners.

The Board of the Pension Protection Fund – continued

Anna Troup
Non-executive Board Member

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

Anna practiced as a lawyer at Slaughter and May, specialising in corporate tax.

Her executive career spanned senior investment roles in the financial services industry including Merrill Lynch, Goldman Sachs, BlueBay Asset Management and Legal & General.

She is currently a non-executive director at Charles Stanley Company Limited, Aberdeen Diversified Income and Growth Trust plc, MS Amlin Investment Management Limited and the Independent Chair of both T Bailey Fund Services Limited and BAE Systems Pension Fund Management Limited.

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, restructuring/insolvency 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.

Liz Woolman joined the Board as a non-executive director on 28 March 2022.

Members of the Executive Committee

1 Katherine Easter
Chief People Officer

2 David Taylor
General Counsel

3 Sara Protheroe
Chief Customer Officer

4 Oliver Morley
Chief Executive

5 Dana Grey
Interim Chief Risk Officer

6 Barry Kenneth
Chief Investment Officer

7 Lisa McCrory
Chief Finance Officer and Chief Actuary

8 Simon Liste
Chief Technology Officer

Governance statement

Governance framework

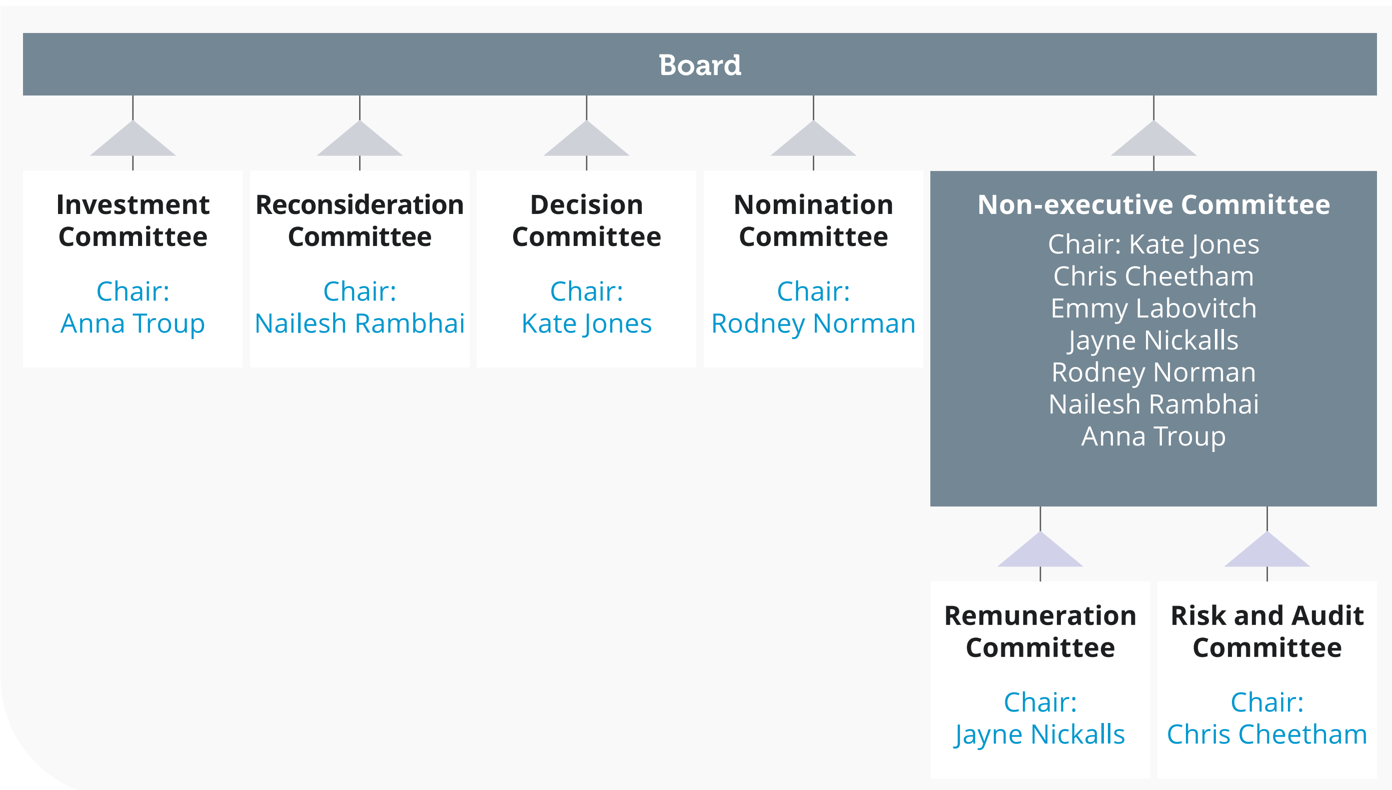
During 2021/22, the Board had eight non-executive members until 30 June 2021, when the Chair, Arnold Wagner, retired from the Board. Arnold Wagner was succeeded as Chair by Kate Jones and the Board operated with seven non-executive members from that point in time until 28 March 2022, when Liz Woolman joined the Board. In addition, there were three executive members, including the Chief Executive. Board members' attendance at Board and committee meetings is set out on pages 65–70.

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.

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.

Committee structure



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 (HMT)/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 HMT/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 HMT in its publication 'Orange Book: Management of Risk – Principles and Concepts'. The Risk Directorate carries out an annual, formal self-assessment exercise to confirm this.

We aim to make sure that our approach to risk management follows best practice for regulated financial services firms. Our assessment of our approach has been informed by the guidance ('Raising the Bar') for board risk committees and risk functions issued by the Risk Coalition. The Risk Coalition is a network of not-for-profit professional bodies and membership organisations committed to raising the standards of risk management in the UK. The Risk Directorate carries out an annual survey of key stakeholders to confirm this.

The Board determines its risk appetite which is then applied to the more granular risk types by risk owners within the organisation. The Risk function reports regularly to the Board on our risk exposure and position relative to that risk appetite.

Our analysis is informed by our Risk Universe, which catalogues the risk types that could affect our ability to achieve our objectives.

Significant risks

We have identified 13 key enterprise risks (shown below), which could arise as a result of internal or external factors and which could materially affect our strategic aims, funding objective, solvency, operations or reputation. These risks are managed by the relevant ExCo member as part of the normal course of business. For more information about how we manage risk, see pages 24–26.

Enterprise Risk	Description
Policy	This is the risk that a court judgment or a decision by a government body leads to legal requirements being placed on the PPF that are damaging to our financial sustainability and operating model.
Claims experience	This is the risk that claims made on the PPF by eligible DB pension schemes are significantly greater than expected.
Investment strategy	This is the risk that our investment strategy fails to meet its objective.
Longevity	This is the risk that actual or potential members of the PPF have a significantly longer life than expected.
Reputation management	This is the risk that we are unable to maintain and protect our reputation.
Change activity	This is the risk that we are unable to deliver our change portfolio, or that delivery of change will stress operations and thus impair operational efficiency, effectiveness or resilience.
Information security and cyber threat	This is the risk of loss, compromise, theft or unauthorised access to PPF data from internal or external sources.
IT service	This is the risk of an IT failure which adversely affects critical operations.
Hedging	This is the risk that the change in the value of the hedging portfolio does not match the change in value of liabilities caused by interest rate and inflation changes.
Culture	This is the risk that staff engagement and cultural cohesion are adversely affected by the development of new ways of working after the pandemic.
Employee capacity/ capability	This is the risk that the capacity and/or the capability of the workforce is compromised for example by: • organisational change (volume or complexity) • external events (e.g. the pandemic) • general factors (e.g. staff absence) • inability to recruit or retain talent
Conduct	This is the risk of actions, decisions and behaviours leading to inappropriate working practices and poor outcomes for stakeholders.
Third party service	This is the risk of material compromise or unexpected cessation of vendor service delivery which adversely affects critical operations.

Covid-19

The pandemic presented the risk of an increase in claims arising from insolvencies of sponsoring employers who have been adversely affected by the crisis. To address this risk, we have carried out regular monitoring of the schemes with the biggest deficits and the sectors most likely to be affected by the pandemic. We have found that there has been no increase in claims (or likely claims) against us and we have been able to allow the levy to fall for 2022/23.

During the year, our staff have been working both from home and from our offices depending on prevailing circumstances. We have used our usual operational risk processes to identify and mitigate potential adverse effects from this. This appears to have been successful – we have not seen an increase in operational risk incidents nor a material deterioration in our operational KPIs. Our member satisfaction remains high.

We did not experience any material increase in sickness absence over the year.

The war in Ukraine

We are not directly dependent upon any organisation based in either Ukraine or Russia. We are, however, monitoring the situation closely to identify any general risks (such as the increased threat of cyber attacks) that arise so they can be mitigated in an appropriate manner.

The war in Ukraine could affect us if it affects the markets in which we invest and the sponsoring organisations of the schemes we protect.

Operationally, the war has not had a material effect upon us. We pay compensation to members who are based in Ukraine and to other members who are based in Russia. We make payments only into accounts operated by organisations which have not been sanctioned by the UK Government. Where we have been paying into an account operated by an organisation that has been or is about to be sanctioned, we communicate with the member with the aim of moving the payment into an account operated by an organisation that has not been sanctioned.

Ministerial directions

No directions have been issued.

Personal data related incidents

We have had no events that were notifiable to the Information Commissioner's Office during 2021/22.

Significant control issues

We have had no significant control issues during 2021/22.

Review of effectiveness of the system of internal control

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

As Chief Executive, I 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 our 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 who have responsibility for developing and maintaining the internal control framework
- comments made by the external auditor in their management letter and other reports, and the opinion of the Interim Head of Internal Audit on the overall adequacy and effectiveness of our framework of governance, management of risk and control

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

Having completed my review, I am of the opinion that there is no reason to believe that there are any significant limitations in the system of internal control.

Appendix 1

Board and committee reports

The Board met formally ten times during the year.

	Attendance
Arnold Wagner	3/3
Kate Jones	10/10
Chris Cheetham	9/10
Emmy Labovitch	10/10
Oliver Morley	10/10
Jayne Nickalls	10/10
Rodney Norman	10/10
Sara Protheroe	10/10
Nailesh Rambhai	10/10
David Taylor	10/10
Anna Troup	9/10

These meetings were held virtually until the Covid-19 regulations permitted face-to-face meetings after which they were a mixture of face-to-face, virtual and hybrid.

Early in 2022 the Board agreed a new three-year Strategic Plan for 2022–25. The 2019–22 Strategic Plan was completed. The Business Plan and budget for 2022/23 were agreed.

The Board commenced the review of the PPF's funding strategy, and approved updated modelling assumptions for the long-term funding strategy. The Board also approved the assumptions used in the Actuarial Valuation.

An updated Governance Manual covering the Statement of Operating Principles and Delegations from the Board and the Board Manual incorporating the Board Code of Conduct was approved.

The levy consultation, determination and estimate of £390 million for 2022/23 were all agreed. The Board regularly discussed the implementation of the *Hampshire*/*Hughes* and *Bauer* judgments.

The Board regularly discussed the funding position of the FCF in light of the Court Judgment. The Board noted the decision to again collect an FCF levy in 2022/23.

The Board discussed and approved updated risk appetite statements.

The Board received regular updates on investment performance and Member Services including member satisfaction levels.

The Board discussed a number of staff-related matters, including Health and Safety, the approach to talent management, the D&I Strategy, employee survey results and organisational culture. The strong customer satisfaction scores again achieved by the Member Services team were 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 Stewardship Policy and reviewed progress on climate change.

The Board received an external report of the effectiveness of oversight under the SMCR. The Board approved a number of publications, including the 2020/21 Annual Report and Accounts.

In 2022 the DWP began a review of the Board of the PPF as part of its tailored review. The outcome of the review is yet to be published. When it is, the Board will carefully consider and take forward its recommendations.

The Board agreed updates to the Board committees' Terms of Reference.

The PPF's Modern Slavery Act Statement was approved. The Board received the Data Protection Officer's report.

A number of formal training sessions for Board members took place.

Governance statement – continued

Board committees and sub-committees

Remuneration Committee		
Terms of Reference	Last reviewed and agreed in March 2022	
Roles and responsibilities	The Remuneration Committee is formally a sub-committee of the Non-executive Committee which has authorised it to discharge its remuneration functions on its behalf.	
Chair	Jayne Nickalls	
Number of meetings in the year	2	
Membership and Attendance	Jayne Nickalls	2/2
	Emmy Labovitch	2/2
	Nailesh Rambhai	2/2
	*Kate Jones (non-member)	1/1
	*Arnold Wagner (non-member)	1/1
	* Arnold Wagner stepped down from the Board and Board Committees on 30 June 2021 and Kate Jones became Chair on 1 July 2021.	
Issues covered	• Agreed objectives for executive directors for the 2021/22 financial year • 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 • Reviewed processes associated with reward across the organisation	

Risk and Audit Committee		
Terms of Reference	Last reviewed and agreed in March 2022	
Roles and responsibilities	The Risk and Audit Committee is formally a sub-committee of the Non-executive Committee which has authorised it to support the Board by providing a structured, systematic oversight of the organisation's governance, risk management, compliance and internal control practices, in order to facilitate focussed and informed Board discussions on matters related to these topics and to monitor the integrity of the Board's financial statements.	
Chair	Chris Cheetham	
Number of meetings in the year	7	
Membership and Attendance	Chris Cheetham (Chair)	6/7
	Kate Jones	2/2
	Emmy Labovitch	6/7
	Jayne Nickalls	7/7
	Rodney Norman	7/7
	+Margaret Ammon (co-opted member)	5/5
	Anna Troup	5/5
	Oliver Morley (non-member)	7/7
	Sara Protheroe (non-member)	7/7
	David Taylor (non-member)	7/7
	+ Margaret Ammon (Chief Risk Officer of Legal and General Investment Management) was a co-opted member of the Committee until 30 September 2021, when the term of her appointment ended.	

Risk and Audit Committee continued	
Issues covered	• Reviewed and recommended to the Board the approval of the Annual Report and Accounts • The Committee continued to work with the Investment Committee to ensure full coverage of the risks facing the PPF • Reviewed the LTRM assumptions • Monitored the risk exposures in the organisation via reports from the Chief Risk Officer • Oversaw work to update and enhance the RMF, including recommending to the Board updated risk appetite statements, and approved various risk policies • Reviewed the PPF's preparedness for implementation of the *Hampshire/Hughes* and *Bauer* judgments • Received regular reports 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 • Reviewed the SMCR as applied to the PPF • Approved the Compliance and Ethics Mandate and the Compliance Monitoring Plan for 2022/23 • Considered reports on whistleblowing incidents in line with the whistleblowing policy • Considered regular reports on the Funding Strategy review • Received deep dives on: operational resilience, off-balance sheet risk, claims modelling validation approach, handling material non-public information and the FCF • Reviewed progress reports on major projects, including the IT transformation programme. Cyber security, particularly with remote working, remained a major focus for the Committee during the year • Approved the Internal Audit strategy, charter and plan and reviewed regular reports on progress against the plan, the results of audit work, sufficiency of audit resources and the continuous improvement of the function • Reviewed the Governance Statement, the annual Actuarial Valuation and the whistleblowing policy (Staff and others associated with the organisation are encouraged to raise concerns which are in the public interest, without fear of reprisal or victimisation)

Governance statement – continued

Investment Committee		
Terms of Reference	Last reviewed and agreed in March 2022	
Roles and responsibilities	The Board has authorised the Investment Committee to discharge certain investment functions on its behalf.	
Chair	Anna Troup	
Number of meetings in the year	5	
Membership and Attendance	Anna Troup	5/5
	Chris Cheetham	5/5
	Emmy Labovitch	4/5
	Oliver Morley	5/5
	*Kate Jones	2/2
	Mike O'Brien (co-opted member)	3/5
	+David Taylor (non-member)	3/3
	+David Bennett (non-member, Investment Advisor)	4/4
	* Kate Jones stepped down from the Investment Committee upon becoming Chair. + Final meeting of the year was restricted to only Members.	
Issues covered	• Reviewed and approved the Stewardship Policy • Reviewed and approved the TCFD report and RI reports • Reviewed the submission of the FRC Stewardship report • Considered and approved the SAA • Considered regular investment risk reviews • Considered regular markets and strategy reviews • Considered deep dives on: Infrastructure, Real Estate, Emerging Market Debt, and Timberland and Farmland asset classes • Reviewed the alpha determination for the HAIL portfolio • Reviewed and considered investment performance fees • Monitored compliance with, and approved updates to, the SIP and the FCF SIP • Received regular updates on RI Strategy • Reviewed the performance of the Investment Advisor • Monitored and reviewed key person dependencies • Reviewed asset class benchmarks • Considered the HAIL performance framework • Undertook a contractual review of the custodian • Reviewed Investment Operations • Considered and approved the LIBOR – SONIA transition • Undertook the annual review of investment assumptions • Undertook the triennial review of the Manager Selection Framework, including separating out ESG criteria in the evaluation • Received and considered a report on Carbon Markets	

Non-executive Committee		
Terms of Reference	Last reviewed and agreed March 2022	
Roles and responsibilities	The Non-executive Committee functions are set out in section 112(4) of the Pensions Act 2004 and include the duty to determine, subject to the approval of the Secretary of State, the terms and conditions as to remuneration of the Chief Executive. In addition, the Non-executive Committee will discuss other matters referred to it from time to time by the Chair or the Senior Independent Director.	
Chair	Kate Jones * (Arnold Wagner was Chair until 30 June 2021, when he retired from the Board.)	
Number of meetings in the year	5	
Membership and Attendance	*Arnold Wagner Kate Jones Chris Cheetham Emmy Labovitch Jayne Nickalls Rodney Norman Nailesh Rambhai Anna Troup	1/1 5/5 4/5 5/5 5/5 5/5 5/5 5/5
Issues covered	• Received regular reports from the Risk and Audit Committee and the Remuneration Committee • Considered non-executive succession and recruitment • Considered and agreed to the renewal of the Chief Executive's contract for a further three-year term until March 2025 • Considered succession plans for ExCo • In accordance with the UK Corporate Governance Code the Committee, led by the Senior Independent Director, reviewed the performance of the Chair without the Chair being present	

Nomination Committee		
Terms of Reference	Last reviewed and agreed in March 2022	
Roles and responsibilities	The Board has authorised the Nomination Committee to discharge the following functions on its behalf: • succession planning needs at Board level • identifying and nominating candidates to fill Board vacancies, as and when they arise, for the approval of the Board • responsibility for ensuring that there is a formal, rigorous and transparent process for the appointment of new Board members • ensuring that on appointment non-executive Board members receive a formal letter of appointment setting out clearly expected time commitments, including Board and committee meetings and other areas of involvement, and receive comprehensive induction material • Board training	
Chair	Rodney Norman	
Number of meetings in the year	Three in total, but participants are only invited if relevant for the recruitment activity taking place.	
Membership and Attendance	Rodney Norman Kate Jones Chris Cheetham Jayne Nickalls Nailesh Rambhai	3/3 3/3 2/2 1/1 2/2
Issues covered	• Recruitment and appointment of Liz Woolman • Revision of the induction process • Agreement of the training plan • Succession planning	

Governance statement – continued

Reconsideration Committee		
Terms of Reference	Last reviewed and agreed March 2022	
Roles and responsibilities	The Reconsideration Committee is established under the Pensions Act 2004 (the Act), to reconsider reviewable matters and relevant complaints in prescribed circumstances (all as defined in the Act). The Committee is a panel of non-executive members of the Board and co-opted members without prior involvement in the matters discussed. When a matter is remitted from the PPF Ombudsman, the panel does not include the same members as were previously involved.	
Chair	Nailesh Rambhai	
Number of meetings in the year	9	
Membership and Attendance	Nailesh Rambhai	9/9
	Rodney Norman	9/9
	Anna Troup	9/9
	+ Christopher Hughes (co-opted member)	6/6
	Alan Jenkins (co-opted member)	9/9
	Oliver Morley (non-member)	4/9
	Sara Protheroe (non-member)	9/9
	+ Christopher Hughes was a co-opted member of the Committee until 19 December 2021, when the term of his appointment ended.	
Issues covered	• Complaints from members and levy payers regarding decisions previously made by the PPF are referred to the Reconsideration Committee when not resolved by previous stages in the PPF's internal complaints procedure • Considered, and issued, decisions relating to two cases where levy payers challenged their levy • Considered and issued decisions on 13 non-levy review cases: seven relating to alleged maladministration (two also involving compensation entitlement), three to compensation entitlement, two regarding legislation and one Section 143 valuation review	

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.

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
- 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 Delegation of the Board's powers and Matters Reserved to the Board. The Chief Executive reports to the Board on performance against strategic objectives, and provides a Chief Executive's report and other briefings as required. Papers are circulated a week in advance of meetings.

The roles of internal committees established by the Chief Executive and those of individual post-holders are set out in the 'Authorisations from the Chief Executive' and 'Investment Authorisations' sections of the Governance Manual.

Pensions Act 2004

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
- 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 HMT/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. Board members bring the skills, experience and diversity needed to deliver the PPF's statutory functions and is supported by its members' financial, investment, legal, risk management, operational and customer service knowledge.

The Board focuses on strategic issues and provides leadership and challenge to the 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.

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.

An externally facilitated review was completed in 2019/20 by Independent Audit Limited and the DWP began a review of the Board of the PPF in early 2022.

Independent Audit presented the outcome of the review to the Board in March 2020 concluding that the Board remained a highly professional Board with considerable strengths. The Board actioned the recommendations for improvements to the Board's operations. A follow-up internal review by questionnaire was conducted in February 2021 which concluded that the Board continued to operate effectively. A further externally facilitated review will be undertaken towards the end of 2022.

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

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

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

Board and committee papers are circulated a week in advance of meetings and the Board is supported by a dedicated secretariat led by a chartered company secretary.

Management of risk

The Board is supported in its risk management role by the:

- Risk and Audit Committee, which is chaired by a non-executive member with relevant experience
- Internal and external auditors
- Investment Committee

It receives assurance from the:

- Interim Chief Risk Officer on risk and compliance issues
- Interim Head of Internal Audit, who is independent from the operations of the organisation

Both individuals report to the Risk and Audit Committee and have unfettered access to the chair of the Committee and to the Board. The Risk and Audit Committee has oversight of both functions.

Risk management is embedded throughout the organisation from team-level risk assessments and issues logs through to the risks considered significant by the Board. The Chief Executive has established an Executive Committee and an Asset and Liability Committee to ensure effective day-to-day oversight of all risks.

Appendix 4

System of internal control

The system of internal control is designed to manage risk within our risk appetite rather than to eliminate all risk.

There is an ongoing process designed to identify our risks and then to prioritise the management of them. This process is also designed to evaluate the likelihood of those risks crystallising and the effect if they did. It is also designed to enable us to manage them efficiently, effectively and economically.

Our system of internal control has been in place throughout the year ending 31 March 2022 and up to the date of signing of this Annual Report and Accounts. It is consistent with HMT guidance. The internal audit plan approved by the Risk and Audit Committee includes audits of specific elements of our system of internal control.

The risk and control environment

As stated, our approach to risk management is consistent with the guidelines provided by HMT 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 the year, we have continued to deliver improvements to the management of risk, as outlined in the Performance Report.

We rely on various mathematical models, some of which are identified as critical. There is an appropriate quality assurance framework (as defined in the 'Macpherson Report – Review of Quality Assurance of Government Analytical Models') in place for these models.

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

We recognise the importance of managing information effectively. We follow security frameworks that align to industry-recognised best practices. We also follow the Security Policy Framework and related Data Security guidance issued by the Government.

Our commitment to security is visible through our continued review and appropriate enhancements of our security solutions and services. This is further cemented through maintaining our certification of compliance with the ISO 27001 Information Security Standard and Cyber Essentials Plus frameworks.

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 remuneration 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
Kate Jones (Chair)[1]	Term of office (first)	1 July 2021	30 June 2026
Oliver Morley	Fixed Term Contract (second)	19 March 2022	18 March 2025
Sara Protheroe	Fixed Term Contract (first)	18 March 2020	17 March 2023
David Taylor	Fixed Term Contract (third)	1 June 2021	31 May 2024
Chris Cheetham	Term of office (second)	1 May 2021	30 April 2024
Emmy Labovitch	Term of office (second)	1 July 2021	30 June 2024
Jayne Nickalls	Term of office (second)	1 July 2019	30 June 2022
Rodney Norman	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
Liz Woolman	Term of office (first)	28 March 2022	27 March 2025

1 Kate Jones was previously a non-executive director, first appointed on 15 February 2016.

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.

Oliver Morley, Chief Executive, was an unpaid non-executive director of Kodak Alaris Holdings Limited as a shareholder representative. There were no other external non-executive director appointments held by executive directors during the year. David Taylor was an unpaid trustee of Roundabout Dramatherapy.

Directors' salary and pension entitlements*

Year ending 31 March 2022	Salary (in bands of £5,000) £'000	Bonus[1] (in bands of £5,000) £'000	Benefits-in-kind[2] (to nearest £100) £'000	Pension benefits[3] (to nearest £1,000) £'000	Total (in bands of £5,000) £'000
Executive directors					
Oliver Morley, Chief Executive	205–210	45–50	2.1	38	295–300
Sara Protheroe, Chief Customer Officer	130–135	10–15	1.7	34	180–185
David Taylor, General Counsel	135–140	10–15	0.9	40	190–195
Non-executive directors					
Kate Jones, Chair[4]	50–55	–	–	–	50–55
Arnold Wagner[5]	10–15	–	–	–	10–15
(to 30 June 2021)	(55–60)[6]				
Chris Cheetham	20–25	–	–	–	20–25
Emmy Labovitch	15–20	–	–	–	15–20
Jayne Nickalls	20–25	–	–	–	20–25
Rodney Norman	15–20	–	–	–	15–20
Nailesh Rambhai	20–25	–	–	–	20–25
Anna Troup	15–20	–	–	–	15–20
Liz Woolman	0–5	–	–	–	0–5
(from 28 March 2022)	(15–20)[6]				

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

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

3 The value of pension benefits accrued during the year.

4 Kate Jones was previously a non-executive director and appointed Chair from 1 July 2021.

5 Arnold Wagner was Chair until his retirement from the Board on 30 June 2021.

6 Full year equivalent.

* Subject to audit.

Year ending 31 March 2021	Salary (in bands of £5,000) £'000	Bonus[1] (in bands of £5,000) £'000	Benefits-in-kind[2] (to nearest £100) £'000	Pension benefits[3] (to nearest £1,000) £'000	Total (in bands of £5,000) £'000
Executive directors					
Oliver Morley,[4] Chief Executive	215–220	50–55	1.8	39	305–310
Sara Protheroe, Chief Customer Officer	130–135	10–15	1.5	146	295–300
David Taylor,[4] General Counsel	140–145	10–15	0.6	55	210–215
Non-executive directors					
Arnold Wagner, Chair	55–60	–	–	–	55–60
Chris Cheetham	20–25	–	–	–	20–25
Kate Jones	20–25	–	–	–	20–25
Emmy Labovitch	15–20	–	–	–	15–20
Jayne Nickalls	20–25	–	–	–	20–25
Rodney Norman	15–20	–	–	–	15–20
Nailesh Rambhai	20–25	–	–	–	20–25
Anna Troup	15–20	–	–	–	15–20

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

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

3 The value of pension benefits accrued during the year (including for defined contribution schemes not previously included in this table).

4 Includes back pay from a delayed pay increase for 2018/19 and 2019/20.

Directors' pension benefits*

	Total accrued pension at pension age as at 31 March 2022 (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 2022 £'000	Cash equivalent transfer value as at 31 March 2021 £'000	Real increase in CETV £'000	Employer contribution to partnership pension account (to nearest £100) £'000
Oliver Morley, Chief Executive	–	–	–	–	–	38.2
Sara Protheroe, Chief Customer Officer	45–50[1]	0–2.5	650	604	8	–
David Taylor, General Counsel	50–55	0–2.5	745	687	16	–

1 Plus a lump sum of £75–80,000.

Oliver Morley was not a member of the Principal Civil Service Pension Scheme in either 2020/21 or 2021/22.

* Subject to audit.

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.

Fair pay disclosures*

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

	Total remuneration (in bands of £5,000) £'000	Salary and benefits-in-kind (in bands of £5,000) £'000	Bonus (in bands of £5,000) £'000
Highest paid Board member			
2021/22	255–260	210–215	45–50
2020/21	265–270	215–220	50–55
% change	**-3.3%**	**-2.9%**	**-5.0%**
Average employee			
2021/22	65–70	55–60	10–15
2020/21	65–70	55–60	10–15
% change	**1.4%**	**0.2%**	**7.7%**

Year ended March 2022	25th Percentile	Median	75th Percentile
Employee total remuneration	£35,858	£51,312	£78,442
Ratio to total remuneration of highest paid Board member	7.2	5.0	3.3

Year ended March 2021	25th Percentile	Median	75th Percentile
Employee total remuneration	£36,185	£52,779	£79,011
Ratio to total remuneration of highest paid Board member	7.4	5.1	3.4

* Subject to audit.

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

In 2021/22, ten employees (2020/21: six) received remuneration in excess of the highest paid Board member. Salaries ranged from £20,000–£25,000 to £330,000–£335,000. Bonuses ranged from £0–£5,000 to £725,000–£730,000 (2020/21 Salaries: £15,000–£20,000 to £330,000–£335,000; 2020/21 Bonuses: £0–£5,000 to £610,000–£615,000).

The year-on-year reduction in the ratios to total remuneration of the highest paid Board member results from a reduction in salary and bonus for the Chief Executive from 2020/21 to 2021/22. This reduction was due to a payment of back dated pay and bonus in 2020/21.

Total remuneration includes salary, non-consolidated performance-related pay (bonus) and benefits-in-kind. It does not include severance payments, employer pension contributions and the CETV of pensions. Performance-related pay includes deferred awards from 2017/18, 2018/19, 2019/20 and 2020/21.

Staff report

Staff numbers and costs*

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

	2021/22		2020/21	
	Average no. employees	Staff costs £m	Average no. employees	Staff costs £m
Permanent employees and fixed term contracts	445	41.5	440	39.9
Short-term, seconded and temporary staff	1	0.1	1	0.1
Total	**446**	**41.6**	**441**	**40.0**

Sickness, absence and staff turnover

The number of days we lost to sickness during the year averaged 5.9 days per person (2020/21: 4.9 days). This included long-term absences of more than 28 days of which we had 18 cases absent for more than six months for serious health issues. Excluding long-term absences, we lost 3.9 days per person (2020/21: 2.7 days).

Staff turnover was eight per cent in 2021/22 and six per cent in 2020/21.

Staff composition

As at 31 March we had:

	2022		2021	
	Men	Women	Men	Women
Total employees	**218**	**226**	**224**	**222**
Senior management	10	12	10	11
Other management	27	16	28	17

* Subject to audit.

Other employee matters

Diversity and Inclusion

We believe that having a diverse workforce is not just the right thing to do; it improves our performance and our ability to identify risks. 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 3 Disability Confident Leader 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 2022, we have 70 employees who consider themselves to have a disability or long-term health condition.

We published our Diversity Pay Gap Report in March 2022. In December 2019 we signed the Race at Work Charter and this is the second year we have published our ethnicity pay gap, which stood at 15.60 per cent on 31 March 2021, down from 23.15 per cent on 31 March 2020. We are a signatory to the Women in Finance Charter. Our median gender pay gap stood at 15.86 per cent on 31 March 2021 (31 March 2020: 15.71 per cent).

Our equality and dignity at work policy sets out what we expect of all 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.

For further information see pages 39–41.

Employee consultation and participation

We have an active Employee Liaison Committee (ELC) which is made up of representatives from each directorate, with an elected Chair and an Executive Committee sponsor. The Committee meets quarterly. Its role is to provide a voice for employees and a line of two-way communication between staff and senior management. The ELC gives and receives feedback on key areas of interest or concern, and takes responsibility to ensure that issues are raised with the right people and resolved. For example, in 2021/22 the ELC was consulted on the PPF's proposed changes to Covid-19 restrictions. It also manages the social fund and arranges events throughout the year to further employee engagement.

Learning and development

Employee development is important for us, as a way of both increasing our organisational capability and helping to retain an engaged and motivated workforce. We provide many opportunities for development including coaching, one-day courses, apprenticeships (see page 40), professional accreditation, professional magazine subscriptions and much more.

Health, safety and wellbeing

The safety of our staff is our priority. Throughout the Covid-19 pandemic we supported employees to manage their work/life balance, and provided the flexibility for people to manage additional demands. With our employees' wellbeing in mind, we took a cautious approach to returning to the office when Covid-19 restrictions were lifted. In recognition of the benefits of both home and office working, we are now trialling a hybrid working model.

We promote good mental health through internal engagement, information and training, such as Mental Health First Aid. All line managers take mental health training. We also signpost the Employee Assistance Programme wherever possible.

Trade unions

Our employees are not members of trade unions, therefore we do not have any trade union relationships.

* Subject to audit.

Off-payroll staff

There were a total of 31 off-payroll engagements for more than £245 per day between 1 April 2021 and 31 March 2022. All off-payroll engagements undertaken during the year have been assessed as compliant with the requirements of IR35.

There were 22 off-payroll engagements as of 31 March 2022 for more than £245 per day. None of these engagements have existed for more than one year at the time of reporting.

Of the nine individuals who held senior manager roles with significant financial responsibility during the year, one 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	2022	2021
£10,000–£25,000	4	1
£25,000–£50,000	1	–
£50,000–£100,000	1	1
Total number of exit packages	**6**	**2**
Total cost	**£139,410**	**£106,996**

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

There was one compulsory redundancy in 2021/22 (2020/21: none). This was in the £10,000–£25,000 cost band.

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 £8.5 million (2020/21: £8.2 million). The net increase of £0.3 million is due to investment advisory fees.

* 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 Board of 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, reclaiming overpaid compensation from members or occasionally incurring unauthorised payment HMRC charges. 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). Under certain circumstances, including 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.

Where members' compensation is found to have been underpaid we pay interest on the backdated amounts.

We typically charge interest on late payment of PPF levies. Under certain circumstances we waive this interest.

The losses were:

	2021/22 £	2020/21 £
Member payments written off	163,745	648,899
Member payments waived	992,545	967,549
Interest on underpaid compensation – following *Hampshire* judgment	121,220	–
Interest on underpaid compensation – on transfer of a specific scheme	523,639	–
Interest on underpaid compensation – other	997	23,126
HMRC charges and interest on unauthorised payments	242,045	3,709
Waived interest on late levy payments	180,381	215,967
Total	**2,224,572**	**1,859,250**

During the year we also became aware of a technical issue within the FCF levy legislation relating to master trusts. The levy had been set and charged in accordance with the published policy intent of the regulations. However we identified a drafting feature which meant that, theoretically, additional levy in the region of £6.7 million could have been charged, in contravention of the policy published by the DWP. No additional levy was charged and the drafting issue has now been removed for future years.

Remote contingent liabilities*

Claims which are considered possible are recognised as contingent liabilities. The aggregate value of all other potential claims at 31 March 2022 is estimated at £60 billion, calculated on the same basis as for the PPF 7800 Index.

The PPF 7800 Index is an established official statistic, which we have published 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 of the PPF 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 analogous responsibilities to 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
- 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
- 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
1 July 2022

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 (PPF) and its Group for the year ended 31 March 2022 under the Pensions Act 2004. The financial statements comprise the PPF and its Group's:

- Statement of Financial Position as at 31 March 2022;
- Statement of Comprehensive Net Income, Statement of Cash Flows and Statement of Changes in Reserves; and
- related notes, including the significant accounting policies.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and UK adopted International Accounting Standards.

In my opinion, the financial statements:

- give a true and fair view of the state of the PPF and its Group's affairs as at 31 March 2022 and its net income for the year then ended; and
- 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 for opinions

I conducted my audit in accordance with International Standards on Auditing (UK) (ISAs UK), applicable law and Practice Note 10 'Audit of Financial Statements and regularity 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 2019. I have also elected to apply the ethical standards relevant to listed entities. I am independent of the PPF and its Group in accordance with the ethical requirements that are relevant to my audit of 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

In auditing the financial statements, I have concluded that the PPF and its Group's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the PPF and its Group's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

My responsibilities and the responsibilities of the Board and the Chief Executive with respect to going concern are described in the relevant sections of this certificate.

The going concern basis of accounting for the PPF and its Group is adopted in consideration of the requirements set out in HM Treasury's Government Financial Reporting Manual, which require entities to adopt the going concern basis of accounting in the preparation of the financial statements where it anticipated that the services which they provide will continue into the future.

Other information

The other information comprises information included in the Annual Report and the Chief Finance Officer's review, but does not include the financial statements nor my auditor's certificate thereon. The Board and the Chief Executive is responsible for the other information.

My opinion on the financial statements does not cover the other information and except to the extent otherwise explicitly stated in my certificate, 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 I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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 part of the Remuneration and Staff Report to be audited has been properly prepared in accordance with Secretary of State directions issued under the Pensions Act 2004.

In my opinion, based on the work undertaken in the course of the audit:

- the parts of the Accountability Report subject to audit have been properly prepared in accordance with Secretary of State directions made under the Pensions Act 2004; and
- the information given in the Performance and Accountability Reports for the financial year for which the financial statements are prepared is consistent with the financial statements and is in accordance with the applicable legal requirements.

Matters on which I report by exception

In the light of the knowledge and understanding of the PPF and its Group and its environment obtained in the course of the audit, I have not identified material misstatements in the Performance and Accountability Reports. I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- I have not received all of the information and explanations I require for my audit;
- adequate accounting records have not been kept by the PPF and its Group or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the Accountability Report subject to audit are not in agreement with the accounting records and returns; or
- certain disclosures of remuneration specified by HM Treasury's Government Financial Reporting Manual have not been made or parts of the Remuneration and Staff Report to be audited is not in agreement with the accounting records and returns; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Responsibilities of the Board and Chief Executive Officer for the financial statements

As explained more fully in the Statement of Chief Executive's Responsibilities, the Board and the Chief Executive Officer are responsible for:

- maintaining proper accounting records;
- the preparation of the financial statements and Annual Report in accordance with the applicable financial reporting framework and for being satisfied that they give a true and fair view;
- ensuring that the Annual Report and Accounts as a whole is fair, balanced and understandable;
- internal controls as the Chief Executive as Accounting Officer, determines what is necessary to enable the preparation of the financial statements to be free from material misstatement, whether due to fraud or error; and
- assessing the PPF and its Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Chief Executive, as Accounting Officer, anticipates that the services provided by the PPF and its Group will not continue to be provided in the future.

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.

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a certificate that includes my opinion. 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.

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

Extent to which the audit was considered capable of detecting non-compliance with laws and regulations including fraud

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulations, including fraud. The extent to which my procedures are capable of detecting non-compliance with laws and regulations, including fraud is detailed below.

Identifying and assessing potential risks related to non-compliance with laws and regulations, including fraud

In identifying and assessing risks of material misstatement in respect of non-compliance with laws and regulations, including fraud, we considered the following:

- the nature of the sector, control environment and operational performance including the design of the PPF and its Group's accounting policies, key performance indicators and performance incentives;
- inquiring of management, the PPF's head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to the PPF and its Group's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including the PPF and its Group's controls relating to the PPF's compliance with the Pensions Act 2004 and Managing Public Money.
- discussing among the engagement team and involving relevant internal and external specialists, including in investments, valuation and actuarial liabilities regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, I considered the opportunities and incentives that may exist within the PPF and its Group for fraud and identified the greatest potential for fraud in the following areas: revenue recognition, posting of unusual journals, complex transactions, bias in management estimates, valuation of directly held property and property funds, valuation of private placements and unquoted fixed income investments and valuation of actuarial liabilities. In common with all audits under ISAs (UK), I am also required to perform specific procedures to respond to the risk of management override of controls.

I also obtained an understanding of the PPF and Group's framework of authority as well as other legal and regulatory frameworks in which the PPF and Group operates, focusing on those laws and regulations that had a direct effect on material amounts and disclosures in the financial statements or that had a fundamental effect on the operations of the PPF and its Group. The key laws and regulations I considered in this context included the Pensions Act 2004, Managing Public Money, Tax Legislation, Pensions Legislation , the Sanctions and Money Laundering Act 2018, the Russia (Sanctions) (EU Exit) Regulations 2019 and Employment Law.

In addition, I considered completeness and accuracy of compensation payments and going concern of the Fraud Compensation Fund.

Audit response to identified risk

As a result of performing the above, the procedures I implemented to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described above as having direct effect on the financial statements;
- enquiring of management, the Risk and Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- reading and reviewing minutes of meetings of those charged with governance and the Board and internal audit reports;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business;

- performing substantive testing over a number of schemes in assessment; and
- reviewing all income and expenditure streams for any irregularities or non-compliance with laws and regulations, including levy collected.

I also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including external and internal specialists and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

A further description of my responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of my certificate.

Other auditor's responsibilities

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.

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.

Report

I have no observations to make on these financial statements.

Gareth Davies
Comptroller and Auditor General
8 July 2022

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

SECTION 5

Financial statements

Financial statements

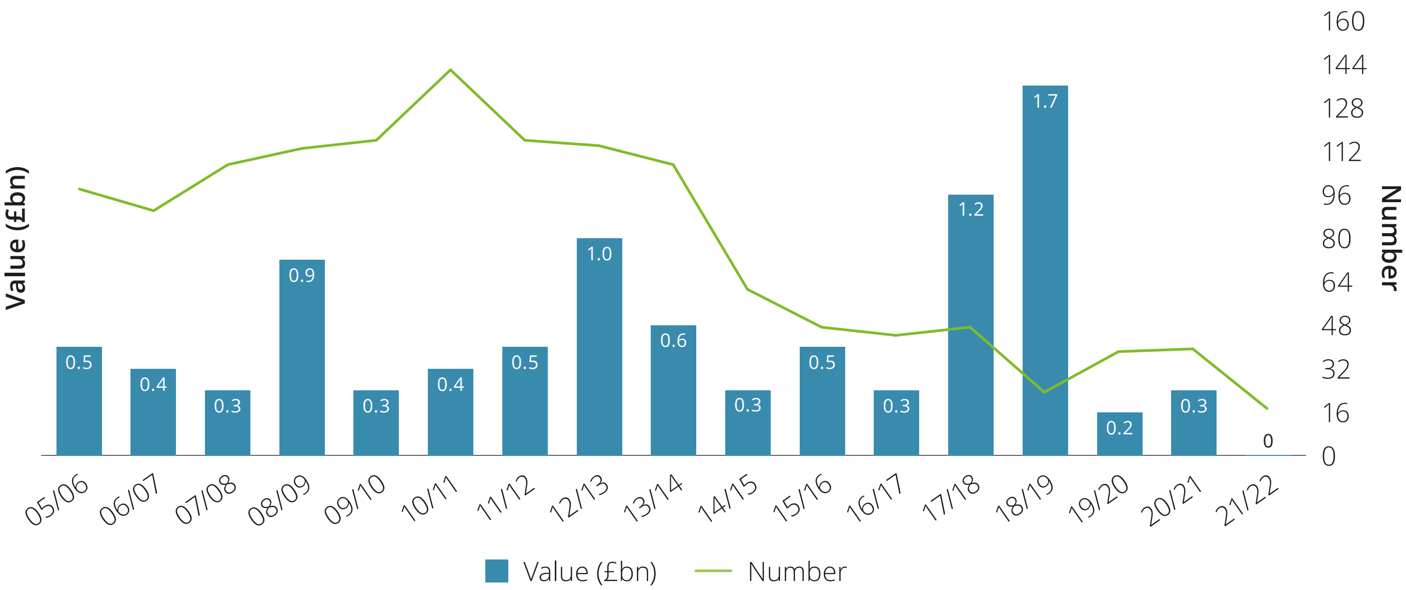
Chief Finance Officer's review[1]

Summary

Our approach to funding is to hold assets in excess of our liabilities to provide protection against adverse future experience. The largest risks we face come from future claims or members living longer than we have assumed when calculating our liabilities.

The consolidated reserves of the PPF have increased over the year from £9.0bn to £11.7bn. This reflects the strong performance of non-hedging assets generating a return of £1.8bn. The level of claims were historically low in 2021/22 with 17 new claims totalling £12.1m as shown in the following chart:

Cost of new claims since inception



Whilst we continue to see improvements in scheme funding, our central expectation is that insolvency rates in the universe of schemes that we protect will increase and as a result claims will be higher in the year ahead.

Our funding ratio improved from 127.3 per cent to 137.9 per cent, and the probability that we meet our current funding objective of being over 110 per cent funded by 2030 has increased to 96 per cent.

In order to build our reserves, as well as meet the cost of claims in the future, we charge a levy on eligible schemes and invest the assets under stewardship. In 2021/22, levy income was £475m and our net investment return (including movements on our hedging assets) was £1.2bn.

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.

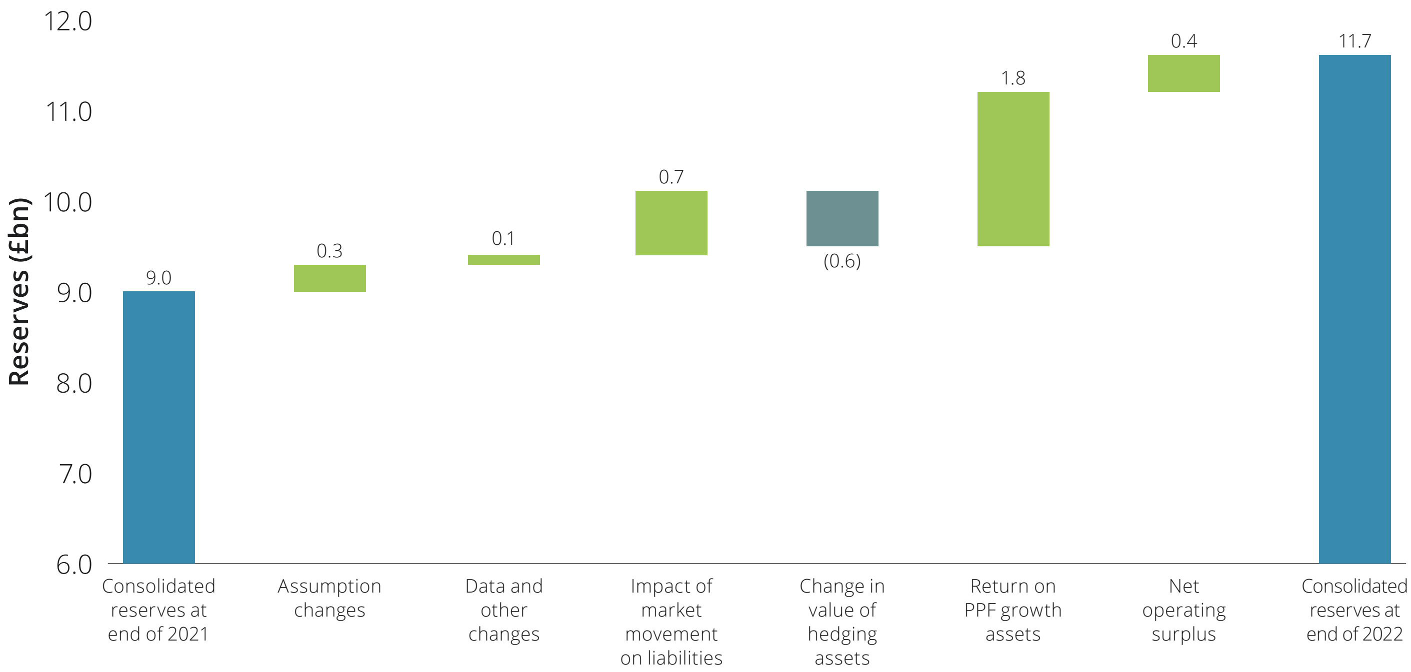
The report from the Comptroller and Auditor General on pages 84–87 confirms that there are no matters that need to be brought to the reader's attention.

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.

1 The Chief Finance Officer's review is not subject to audit.

Movement in reserves (£bn)



The reserves have increased by £2.7bn in the year mainly due to the return on our non-hedging assets, of around £1.8bn, changes to assumptions (mainly mortality) made to calculate liabilities of £0.3bn and a net operating surplus of £0.4bn.

Our hedging programme meant that reserves were not materially impacted by higher gilt yields which decreased our liabilities.

Net operating surplus is £0.2bn lower than last year, at £0.4bn, due to a lower level of levy charged. Net operating income comprises total levy income of £490m (2020/21: £637m) less operating costs of £70m (2020/21: £66m). Levy income comprises PPF levies of £475m and £15m levies for the FCF.

The Consolidated Statement of Financial Position

The Consolidated Statement of Financial Position sets out the details, at 31 March 2022, of the assets and liabilities held in all the funds for which the Board is responsible.

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

1 The Chief Finance Officer's review is not subject to audit.

Consolidated reserves at 31 March 2022

	Consolidated Statement of Financial Position excluding claims provisions for SIA £m	Claims provisions for SIA £m	Total £m
Net assets of the Administration Funds	0.5		0.5
Net assets of the FCF	41.3		41.3
Net assets of the PPF	39,368.3	3,074.0	42,442.3
Total	**39,410.1**	**3,074.0**	**42,484.1**
Actuarial estimates of liabilities of the PPF	(27,429.5)	(3,355.3)	(30,784.8)
Total reserves	**11,980.6**	**(281.3)**	**11,699.3**
Funding Ratio of the PPF			137.9%

Over the year our actuarial liabilities, including those schemes included in the provision for SIA, have reduced from £33.1bn to £30.8bn. As can be seen in the chart opposite, market movements and changes to our data and assumptions have acted to reduce liabilities by £1.1bn. In addition, £1.1bn of compensation has been paid to our members, with a further £0.1bn paid to those schemes included as a provision.

Lisa McCrory
Chief Finance Officer and Chief Actuary

Consolidated Statement of Comprehensive Net Income

For the year ended 31 March	Notes	2022 £m	2021 £m
Operating income			
Income from levies	3	490.4	637.3
Income from grants	3	20.2	20.9
Total operating income		**510.6**	**658.2**
Operating expenses			
Staff costs	11	(41.6)	(40.0)
Other costs	11	(28.7)	(26.1)
Total operating expenses		**(70.3)**	**(66.1)**
Net operating surplus		**440.3**	**592.1**
Investment activities			
Net investment income	5	813.2	724.4
Change in value of investments	5	740.6	702.6
Investment expenses	5	(330.4)	(250.0)
Net investment return		**1,223.4**	**1,177.0**
Claims activities			
Current year claims for compensation	2	(19.4)	(271.3)
Revaluation of claims for compensation	2	61.3	350.0
Gains on actuarial liabilities	1	936.6	2,116.0
FCF claims recoveries		(0.2)	0.7
Net cost of claims		**978.3**	**2,195.4**
Comprehensive net income for the year		**2,642.0**	**3,964.5**

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

The accounting policies and notes on pages 98–127 form part of these financial statements.

Consolidated Statement of Financial Position

As at 31 March	Notes	2022 £m	2021 £m
Assets			
Operating cash		110.6	91.8
Investment assets	4a	52,755.2	47,072.9
Levy receivables		1.0	1.4
Transfer-in receivables		24.1	8.9
Other assets		17.8	18.3
Total assets		**52,908.7**	**47,193.3**
Liabilities			
Investment liabilities	4a	(13,402.1)	(9,055.4)
Other liabilities		(89.1)	(69.5)
Actuarial liabilities	1	(27,429.5)	(28,484.4)
Claims provisions	2	(288.7)	(526.7)
Total liabilities		**(41,209.4)**	**(38,136.0)**
Total assets less total liabilities		**11,699.3**	**9,057.3**
Represented by:			
Total levy and tax payer funds		**11,699.3**	**9,057.3**

The Board of the PPF approved the financial statements on 22 June 2022 and authorised the Chief Executive to sign this Consolidated Statement of Financial Position on the same date.

Oliver Morley
Chief Executive
1 July 2022

The accounting policies and notes on pages 98–127 form part of these financial statements.

Consolidated Statement of Changes in Reserves

For the year ended 31 March	Levy payer funds £m	Taxpayer funds £m	Total reserves £m
At 1 April 2020	**5,091.3**	**1.5**	**5,092.8**
Total recognised net income for 2020/21	3,965.3	(0.8)	3,964.5
Balance at 31 March 2021	**9,056.6**	**0.7**	**9,057.3**
Total recognised net income for 2021/22	2,642.8	(0.8)	2,642.0
Balance at 31 March 2022	**11,699.4**	**(0.1)**	**11,699.3**

The accounting policies and notes on pages 98–127 form part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 March	Notes	2022 £m	2021 £m
Cash flows from operating activities			
Net operating surplus		440.3	592.1
Purchase of property and equipment		(0.1)	(0.1)
Depreciation, amortisation and impairment charges	11	1.6	1.6
Movement in current liabilities		18.3	10.1
Movement in receivables		(0.6)	(4.0)
Net cash inflow from operating activities		**459.5**	**599.7**
Cash flows from investing activities			
Cash proceeds from net investment (purchases)/sales		(189.8)	(609.4)
Cash proceeds from net investment return		1,510.3	1,299.7
Net gains/(losses) on cash equivalents		38.5	(30.5)
Net cash inflow from investing activities		**1,359.0**	**659.8**
Cash flows from claims activities			
Cash receivable from schemes transferring into the PPF		736.5	359.6
Compensation payments to members of the PPF	1	(1,114.9)	(1,006.4)
FCF paid claims	2	(0.3)	–
FCF recoveries		0.1	–
Net cash (outflow) from claims activities		**(378.6)**	**(646.8)**
Net increase in cash and cash equivalents in the year		**1,439.9**	**612.7**
Cash and cash equivalents at beginning of the year		**531.3**	**(81.4)**
Cash and cash equivalents at end of the year		**1,971.2**	**531.3**
Cash and cash equivalents comprise the following:			
Operating cash		110.6	91.8
Cash at fund managers	4a	2,786.0	2,243.7
Net repurchase agreements	4a	(801.8)	(1,600.2)
Net unsettled trades	4a	(123.6)	(204.0)
		1,971.2	**531.3**

The accounting policies and notes on pages 98–127 form part of these financial statements.

Funds for which the Board is responsible

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

- the **PPF** itself
- the **FCF**
- 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 the Board's role as manager of the FAS the Board 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 (HMT), 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 a going concern basis. For all funds, the financial statements have been prepared under the historical cost convention, except for the measurement at fair value through profit and loss of financial instruments and investment property, 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 10 Consolidated Financial Statements
- 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
- 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 2022 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 (expected to be effective for the public sector from 1 April 2024). The new standard replaces IFRS 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 considering the potential impact of IFRS 17 – it is not yet clear how the standard will be applied to the public sector

Consolidated financial statements

The financial statements of the Board of the Pension Protection Fund 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.

The certificate and report of the Comptroller and Auditor General to the Houses of Parliament refers to the consolidated financial statements of the Board of the Pension Protection Fund as 'the financial statements of the Board of the Pension Protection Fund and its Group'.

The Board also has a subsidiary which it acquired following a scheme transfer. The Board considers itself an investment entity as defined under IFRS 10 Consolidated Financial Statements and this subsidiary forms part of its investment portfolio. As such, the subsidiary has not been fully consolidated into the PPF's financial statements but is included in investments in note 4 of the financial statements, measured at fair value through profit and loss.

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.

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 net income. Value Added Tax is normally irrecoverable in the United Kingdom 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 and judgement are:

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

Paying compensation

This section describes:

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

1. Liabilities to pay compensation to members

The Consolidated Statement of Financial Position shows that at 31 March 2022 the PPF estimated the value of existing liabilities to pay compensation to members at £27.4bn. During the year, the PPF paid members compensation of £1.1bn. After the Actuarial Valuation as at 31 March 2022 was completed, a net gain of **£0.9bn to the Consolidated Statement of Comprehensive Net Income** was recognised to decrease the estimated liabilities 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 128.

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
- 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 estimations of the assumed inflation rate and the assumed life expectancy of members, used to forecast benefits payable to members. A description of each of these assumptions is set out below and the impact of changes to these assumptions is set out on the following page.

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
CPI inflation	0.9% p.a. lower than RPI inflation swap curve until 31 January 2030 and 0.1% p.a. lower thereafter
Baseline life expectancy	Club Vita life expectancy curves, 2021 version
Future improvements in life expectancy	CMI 2020 model (core form, except for addition to initial improvements, 'A', of 0.25% p.a., and no improvements over calendar years 2022 and 2023), long-term rate 1.5% p.a.

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 146 the method used to compute an appropriate discount rate and Appendix S4 which illustrates the more material sensitivities to those assumptions.

Paying compensation – continued

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

Actuarial liabilities

	2022 £m	2021 £m
Opening value of actuarial liabilities	28,484.4	28,749.2
Actuarial liabilities of schemes which transferred to the PPF during the year	996.6	2,857.6
Actuarial gains	(936.6)	(2,116.0)
Benefits paid to members	(1,114.9)	(1,006.4)
Total actuarial liabilities	**27,429.5**	**28,484.4**

The minimum amount of the total actuarial liabilities expected to be settled within 12 months is £1,321.4m (2021: £1,230.9m, including £908m as an allowance for lump sum payments).

The impact of changes to the material assumptions used in calculating the actuarial liabilities are set out below.

Actuarial gains

The analysis of change has been determined by aggregating actual experience observed over each month of the year. Actuarial gains are the net adjustment required to the outstanding amount of actuarial liabilities after accounting for schemes which have transferred into the PPF and the amount of benefits paid during the year. Actuarial gains can be analysed as follows:

	2022 £m	2021 £m
Change due to the passage of time	96.3	2.0
Change in liabilities due to change in market yields	(1,027.8)	(1,872.8)
Change in assumptions	61.8	135.2
Data changes and other experience	(121.1)	(186.3)
Change in past service cost	54.2	(194.1)
Total actuarial gains	**(936.6)**	**(2,116.0)**

Change in assumptions includes changes to mortality, inflation and discount rates.

Impact of changes to assumptions on actuarial liabilities

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

	2022		2021	
	£m	%	£m	%
Nominal yields are 0.5% higher per year than assumed*	(2,106.1)	(7.7)	(2,268.6)	(8.0)
Inflation is 0.5% higher per year than assumed	568.7	2.1	702.2	2.5
Inflation is 0.5% lower per year than assumed	(598.4)	(2.2)	(725.1)	(2.5)
Average life expectancy is one year shorter than assumed*	(1,368.2)	(5.0)	(1,319.8)	(4.6)

* The impact of changes to these assumptions is symmetrical – an equal and opposite change in the assumption broadly results in an equal and opposite impact on the actuarial liabilities.

The discount rate is represented by the nominal yields in the table above. A discount rate is applied to future payments and expenses in order to express them in present value terms, it does not affect the value of the future payments and expenses when they are paid. Without discounting, the actuarial liabilities would be approximately 30 per cent higher than presented above.

2. Provisions for claims on the PPF and the FCF

The Consolidated Statement of Financial Position shows **total provisions of £288.7m for claims from pension schemes**, with £281.3m being for the PPF (see page 104) and £7.4m for the FCF (see page 105). The Consolidated Statement of Comprehensive Net Income shows **cost of current year claims of £19.4m**, £12.1m being the PPF and £7.3m being the FCF, and also shows a net **decrease to the values of claims previously recorded of £61.3m**.

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 are 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 we have established, more likely than not, that a fraud has occurred and sufficient information has been provided to reliably estimate the amount of loss.

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 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.

The contingent liabilities are valued using statistical modelling of all the schemes that the PPF protects to provide an expected insolvency rate which when combined with the expected deficit gives the expected value of claims within the next 12 months.

Within the FCF, the Board recognises provisions for claims (including third party claims handling costs) where it is probable that an eligible pension scheme has suffered a loss due to an act of dishonesty and the loss can be reliably estimated. Where the success of a claim is judged possible, but less than probable or its value cannot be reliably measured, a contingent liability is disclosed.

Key judgements and estimates

The calculation of the costs of claims on the PPF 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 estimations of the assumed inflation rate and the assumed life expectancy of members, used to forecast benefits payable to members. A description of each of these assumptions is set out below and the impact of changes to these assumptions is set out in the following notes.

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
CPI inflation	0.9% p.a. lower than RPI inflation swap curve until 31 January 2030 and 0.1% p.a. lower thereafter
Baseline life expectancy	Club Vita life expectancy curves, 2021 version
Future improvements in life expectancy	CMI 2020 model (core form, except for addition to initial improvements, 'A', of 0.25% p.a., and no improvements over calendar years 2022 and 2023), long-term rate 1.5% p.a.

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).

The calculation of the cost of claims for the FCF relies on the validation of the calculation of the loss by a scheme from information provided by the trustees.

Paying compensation – continued

Claims on the PPF

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

	2022 £m	2022 Number of schemes	2021 £m	2021 Number of schemes
Claims provisions at start of year	**526.3**	**79**	**2,506.3**	**71**
Sub-division of prior year claim into its scheme sections		–		2
Current year claims for compensation				
Protected liabilities	77.5		1,845.2	
Scheme assets including recoveries	(65.4)		(1,574.3)	
Total current year claims for compensation*	**12.1**	**17**	**270.9**	**39**
Revaluation of claims for compensation				
Release of provision for schemes no longer considered probable for entry	(0.5)	(3)	(2.9)	(11)
Revaluation of provisions brought forward from previous year end	(4.4)		(387.9)	
Change in provisions for schemes transferring into the PPF during the year	(56.4)		40.8	
Revaluation of claims	**(61.3)**		**(350.0)**	
Release of provisions for claims transferred to the PPF	**(195.8)**	**(33)**	**(1,900.9)**	**(22)**
Claims provisions at end of year	**281.3**	**60**	**526.3**	**79**

* Current year claims for compensation comprises newly notified claims, reapplications, and claims for schemes which had been in surplus in previous years but are now in deficit. Collectively these are referred to as 'new claims'.

The amount of the total claims provision expected to be settled within 12 months is £81.3m (2021: £253.5m).

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:

	2022 £m	2021 £m
Total estimated actuarial liabilities for SIA	3,355.3	4,566.4
Total assets owned by SIA	(3,074.0)	(4,040.1)
Total net deficits of SIA	**281.3**	**526.3**

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.

	2022		2021	
	£m	%	£m	%
Nominal yields are 0.5% higher per year than assumed*	(47.3)	(16.8)	(214.2)	(40.7)
Inflation is 0.5% higher per year than assumed	(48.0)	(17.0)	39.4	7.5
Inflation is 0.5% lower per year than assumed	48.1	17.1	(43.0)	(8.2)
Average life expectancy is one year shorter than assumed*	(167.9)	(59.7)	(213.4)	(40.5)

* The impact of changes to these assumptions is symmetrical – an equal and opposite change in the assumption broadly results in an equal and opposite impact on the actuarial liabilities.

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The discount rate is represented by the nominal yields in the table on the previous page. A discount rate is applied to future payments and expenses in order to express them in present value terms, it does not affect the value of the future payments and expenses when they are paid. Without discounting, the claims provision would be approximately 30 per cent higher than presented on the previous page.

Contingent liabilities for possible claims on the PPF

The total value of claims on the PPF identified as reasonably foreseeable at 31 March 2022, net of the value of related scheme assets, was estimated as £134.7m (2021: £408.4m).

It should be noted that although £134.7m is our best estimate of the contingent liabilities for possible claims as at 31 March 2022, the statistical modelling used to estimate our contingent liabilities produces a wide range of possible outcomes. The model has calculated that as at 31 March 2022 there is a 2.5 per cent chance that the number could be as high as £666.8m and a 2.5 per cent chance it could be as low as £3.4m.

This method is consistent with the Board's own methods of assessing the risk of schemes entering the PPF and we consider that this provides an appropriate measure.

In addition, in 2019/20, the Court of Justice of the European Union (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 the 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.

Claims on the FCF

The total value of claims on the FCF as at 31 March 2022 are summarised below:

	2022 £m	2022 Number of schemes	2021 £m	2021 Number of schemes
Claims provision at the start of the year	0.4	1	–	–
New claims	7.3	3	0.4	1
Paid claims	(0.3)*	(1)	–	–
Claims provision at the end of the year	**7.4**	**3**	**0.4**	**1**

* Payment of part of this claim has been deferred conditional on certain conditions being satisfied and this amount remains in the claims provision.

The amount of the claims provision expected to be settled within 12 months is £7.4m (2021: £0.4m).

Contingent liabilities for possible claims on the FCF

Over the financial year, three claims have been deemed eligible and the amounts claimed are being assessed. Components of these claims which we have been able to reliably estimate have been included in claims provisions. Components of these which we have not yet been able to reliably estimate have been included in contingent liabilities and amount to £1.4m.

We have received a further nine claim applications amounting to £49.5m which are going through the settlement process whereby the claims will be assessed for eligibility and validation of the amounts claimed. Until we have completed our review and validation of information provided by the trustees, we are not able to confirm that the claim is valid or make a reliable estimate of the claims.

We have been notified of a further 119 potential claims with estimates (before any recoveries) totalling £369.8m 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
- funds to pay compensation in the future which are invested to earn an investment return

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

3. Operating income

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

Income from levies

The Consolidated Statement of Comprehensive Net Income shows that **total levy income decreased by £146.9m to £490.4m, £475.5m for the PPF itself and £14.9m for the FCF**.

The PPF levy amount collected in relation to the 2021/22 levy year was £475.0m, lower than the estimate of £520m published in September 2020. This reflects that the estimate is published several months before the data used to calculate levy invoices is available.

The principles, policies and procedures for levy assessment and invoicing are explained at: www.ppf.co.uk/levy-payers

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:

	2022 £m	2021 £m
Risk-based levies in respect of the current year	442.2	597.5
Scheme-based levies in respect of the current year	32.8	32.4
Total protection levies in respect of the current year	**475.0**	**629.9**
Risk-based levies in respect of prior years	0.5	–
Scheme-based levies in respect of prior years	–	–
Total protection levies in respect of prior years	**0.5**	**–**
Income from protection levies	**475.5**	**629.9**
Income from fraud compensation levy	**14.9**	**7.4**
Total income from levies	**490.4**	**637.3**

The Board raised a fraud compensation levy of £14.9m in 2021/22 (2020/21: £7.4m). 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 £0.7m to £20.2m**. Grants are received from the DWP to fund PPF and FAS operational expenses. Grants from the DWP relating to the PPF are funded by an administration levy applied to eligible UK pension schemes.

Accounting policy

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

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

	2022 £m	2021 £m
Levy payer funds	12.7	13.6
Tax payer funds	7.5	7.3
Total	**20.2**	**20.9**

4. Financial instruments

Financial instruments are categorised as financial assets and financial liabilities. Financial assets are a contractual right to receive cash or another financial asset from another entity. Financial liabilities are a contractual obligation to deliver cash or another financial asset to another entity. Financial instruments comprise investments, cash and cash equivalents, levy receivables, transfer-in receivables and some 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)
- 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 advisors. The latest available valuation is used, rolled forward to the reporting date as appropriate. 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 held at amortised cost.

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. Note 13 describes Kodak Alaris Holdings Limited (KAHL) as a wholly owned subsidiary of the PPF. The Board of the PPF has assessed the accounting treatment of KAHL and has concluded that the PPF meets the definition of an investment entity under IFRS 10 and its holding in KAHL forms part of the PPF's investment portfolio. As such KAHL has not been fully consolidated into the PPF's financial statements but has been disclosed as an investment asset.

Classification of financial instruments at 31 March 2022

	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	49,791.0	(13,214.9)	**36,576.1**	2,964.2	(187.2)	**39,353.1**
Cash at bank	–	–	**–**	110.6	–	**110.6**
Levy receivables	–	–	**–**	1.0	–	**1.0**
Transfer-in receivables	–	–	**–**	24.1	–	**24.1**
Other assets	–	–	**–**	0.5	–	**0.5**
Other liabilities	–	–	**–**	–	(87.9)	**(87.9)**
Total	**49,791.0**	**(13,214.9)**	**36,576.1**	**3,100.4**	**(275.1)**	**39,401.4**

* Of the financial assets measured at fair value through profit and loss £24,067.9m have been designated at initial recognition.

Classification of financial instruments at 31 March 2021

	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	44,608.1	(8,758.6)	**35,849.5**	2,464.8	(296.8)	**38,017.5**
Cash at bank	–	–	**–**	91.8	–	**91.8**
Levy receivables	–	–	**–**	1.4	–	**1.4**
Transfer-in receivables	–	–	**–**	8.9	–	**8.9**
Other assets	–	–	**–**	1.3	–	**1.3**
Other liabilities	–	–	**–**	–	(68.1)	**(68.1)**
Total	**44,608.1**	**(8,758.6)**	**35,849.5**	**2,568.2**	**(364.9)**	**38,052.8**

* Of the financial assets measured at fair value through profit and loss £26,362.5m have been designated at initial recognition.

Funding compensation
Levy income, grants and investment management – continued

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 £52.8bn and investment liabilities of £13.4bn**, a net investment portfolio of £39.4bn. The Consolidated Statement of Comprehensive Net Income shows a **net investment return (income and gains less investment expenses) of £1.2bn**.

The Board's approach to investment is summarised in the SIP (www.ppf.co.uk/sites/default/files/2022-01/Statement-investment-principles-2021.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 a portfolio of external fund managers.

The Board holds a wide range of investment assets and liabilities as shown below. 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.

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

	2021 £m	Assets transferred from SIA £m	Net purchases/ (sales) £m	Net gains/ (losses) £m	Other movements £m	2022 £m
Annuities	369.9	38.8	–	(42.0)	–	366.7
Corporate bonds	5,941.3	–	297.8	(314.4)	(946.0)	4,978.7
Index-linked corporate bonds	383.1	–	57.7	21.1	–	461.9
Government bonds	16,077.6	–	(756.4)	(1,087.1)	(71.0)	14,163.1
Index-linked government bonds	362.4	–	241.6	4.5	–	608.5
Other debt	3,598.1	8.6	87.6	244.6	(63.9)	3,875.0
Public equity	4,443.8	0.5	(347.3)	303.1	(44.8)	4,355.3
Private equity	1,658.4	–	(170.4)	666.3	(105.6)	2,048.7
Absolute return strategies*	1,753.4	–	35.8	234.2	473.3	2,496.7
Investment property funds	1,478.8	0.1	9.9	203.0	(30.0)	1,661.8
Investment property held directly	675.9	0.7	(175.8)	100.5	–	601.3
Infrastructure	831.9	1.3	169.9	182.7	7.6	1,193.4
Timberland and farmland	640.9	–	150.2	129.1	–	920.2
	38,215.5	**50.0**	**(399.4)**	**645.6**	**(780.4)**	**37,731.3**
Other investment assets						
Unsettled trades	89.7					60.8
Derivatives	5,996.2					10,629.1
Cash at fund managers	2,243.7					2,786.0
Repurchase agreements	396.4					1,430.6
Accrued income	131.4					117.4
Total investment assets	**47,072.9**					**52,755.2**
Other investment liabilities						
Unsettled trades	(293.7)					(184.4)
Derivatives	(6,762.0)					(10,982.5)
Repurchase agreements	(1,996.6)					(2,232.4)
Interest payable	(3.1)					(2.8)
Total investment liabilities	**(9,055.4)**					**(13,402.1)**
Net investment portfolio	**38,017.5**					**39,353.1**

* Absolute return strategies were previously described as Global tactical asset allocation.

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

Cash at fund managers includes £2,537.9m (2021: £1,935.9m) managed in-house.

The amounts of the net investment portfolio expected to be recovered or settled within 12 months are assets of £4,750.6m and liabilities of £3,046.7m (2021: assets of £2,992.8m and liabilities of £2,504.4m).

4b. Financial instruments measured at fair value

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

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

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

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

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

The main valuation techniques used to measure the fair value of financial instruments and details of the sensitivity of fair value measurement to significant inputs are 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 listed 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

Funding compensation
Levy income, grants and investment management – continued

Description of asset	Level	Basis of valuation	Inputs and sensitivities affecting valuations
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

Financial instruments measured at fair value at 31 March 2022

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Annuities	–	–	366.7	366.7
Corporate bonds	–	2,579.5	2,399.2	4,978.7
Index-linked corporate bonds	–	–	461.9	461.9
Government bonds	–	14,161.4	1.7	14,163.1
Index-linked government bonds	–	163.0	445.5	608.5
Other debt	112.1	1,505.1	2,257.8	3,875.0
Public equity	3,820.8	524.1	10.4	4,355.3
Private equity	–	0.1	2,048.6	2,048.7
Absolute return strategies	–	1,175.6	1,321.1	2,496.7
Investment property funds	153.8	593.8	914.2	1,661.8
Investment property held directly	–	–	601.3	601.3
Infrastructure	–	–	1,193.4	1,193.4
Timberland and farmland	49.0	–	871.2	920.2
Derivatives	(20.2)	(220.4)	(112.8)	(353.4)
Repurchase agreements	–	(801.8)	–	(801.8)
Total	**4,115.5**	**19,680.4**	**12,780.2**	**36,576.1**

Financial instruments measured at fair value at 31 March 2021

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Annuities	–	–	369.9	369.9
Corporate bonds	–	3,511.3	2,430.0	5,941.3
Index-linked corporate bonds	–	–	383.1	383.1
Government bonds	–	16,067.0	10.6	16,077.6
Index-linked government bonds	–	4.8	357.6	362.4
Other debt	–	1,895.2	1,702.9	3,598.1
Public equity	3,708.8	725.2	9.8	4,443.8
Private equity	–	–	1,658.4	1,658.4
Absolute return strategies*	–	662.1	1,091.3	1,753.4
Investment property funds	196.6	532.2	750.0	1,478.8
Investment property held directly	–	–	675.9	675.9
Infrastructure	–	–	831.9	831.9
Timberland and farmland	–	–	640.9	640.9
Derivatives	(11.6)	(651.2)	(103.0)	(765.8)
Repurchase agreements	–	(1,600.2)	–	(1,600.2)
Total	**3,893.8**	**21,146.4**	**10,809.3**	**35,849.5**

* Absolute return strategies were previously described as Global tactical asset allocation.

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

Level 3 financial instruments

	2022 £m	2021 £m
Balance at start of year	**10,809.3**	**10,145.7**
Gains included in the Statement of Comprehensive Net Income	1,172.3	492.8
Purchases and assets transferred in	2,788.1	1,970.8
Sales	(1,969.2)	(1,677.5)
Transfers into Level 3	26.1	671.4
Transfers out of Level 3	(46.4)	(793.9)
Balance at end of year	**12,780.2**	**10,809.3**

Transfers into Level 3 during the year relate to public equity reclassified from Level 1 and government bonds, corporate bonds, other debt and derivatives reclassified from Level 2. A number of the reclassifications relate to assets traded in markets that are not considered active due to the conflict in Ukraine.

Transfers out of Level 3 during the year relate to public equity holdings which were reclassified to Level 1 and other debt, corporate bonds and derivatives which were reclassified to Level 2. There were no transfers between Level 1 and Level 2.

Funding compensation
Levy income, grants and investment management – continued

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. The latest available valuation is used, rolled forward to the reporting date as appropriate. 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 2022, the Board owned 34 (2021: 37) commercial properties in the UK, with a total fair value of £601.3m (2021: £675.9m). Rental income recognised was £41.9m (2020/21: £34.2m). 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 were as follows:

	2022 £m	2021 £m
Not later than one year	25.9	36.6
Later than one year but not later than five years	87.0	134.3
Later than five years	182.2	352.4
Total	**295.1**	**523.3**

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 is accounted for using the effective interest rate method
- 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)
- 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 value of investment £m	Total 2022 £m	Net investment income £m	Change in value of investment £m	Total 2021 £m
Investment return						
Financial assets held at fair value through profit and loss	937.7	685.2	**1,622.9**	1,209.2	(7,983.6)	**(6,774.4)**
Financial liabilities held at fair value through profit and loss	(153.8)	103.4	**(50.4)**	(564.1)	8,742.2	**8,178.1**
Financial assets held at amortised cost	29.3	(47.7)	**(18.4)**	79.3	(56.1)	**23.2**
Financial liabilities held at amortised cost	–	(0.3)	**(0.3)**	–	0.1	**0.1**
Total investment return	**813.2**	**740.6**	**1,553.8**	**724.4**	**702.6**	**1,427.0**
Investment expenses						
Fund management fees			(304.8)			(241.1)
Custody charges			(2.5)			(2.9)
Other investment expenses			(23.1)			(6.0)
Total investment expenses			**(330.4)**			**(250.0)**
Net investment return			**1,223.4**			**1,177.0**

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 (www.ppf.co.uk/sites/default/files/2022-01/Statement-investment-principles-2021.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
- **PPF liquidity risk** – note 8

These disclosures are followed by notes on:

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

6. PPF credit risk

Credit risk is the risk that 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 include:

- 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

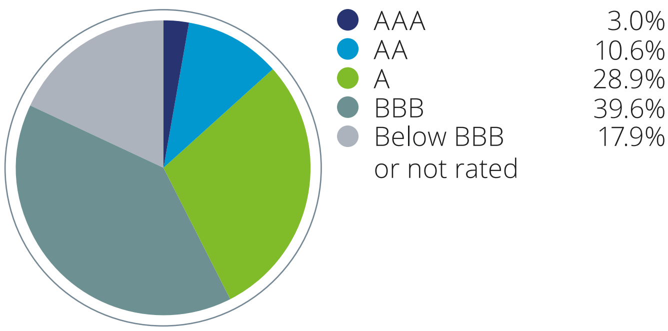
The PPF manages concentration risk (the risk of excessive exposure to a single institution or institutions that share a common risk factor) by ensuring that the spread of assets, the fund managers' policies on investing in individual securities and the PPF's investment guidelines to fund managers provide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

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

As at 31 March 2022, the rating distribution of the fixed income investment portfolio (excluding UK gilts and derivatives) was as follows:

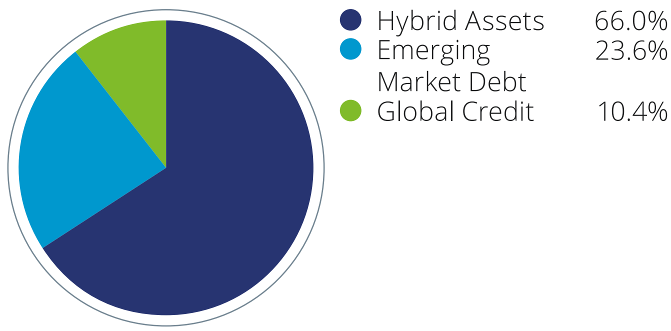
Fixed Income Portfolio Allocation (£6.8bn)

by Rating Category



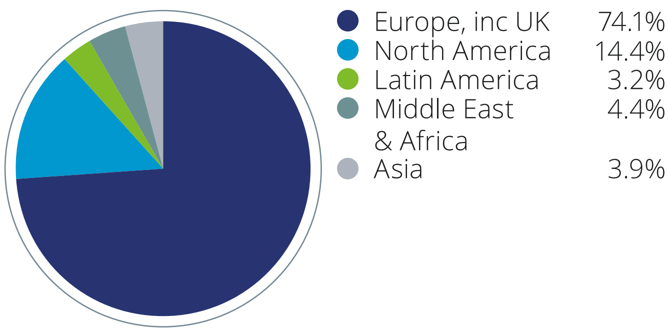
Fixed Income Portfolio Allocation (£6.8bn)

by Asset Type



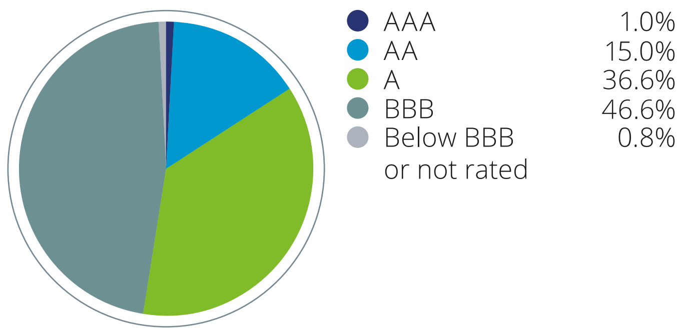
Fixed Income Portfolio Allocation (£6.8bn)

by Region



Hybrid Asset Allocation (£4.5bn)

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 £5.9m, the largest contributors to this being Hybrid assets.

For information on 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
- 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, stress tests are run 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 £39.4bn (2021: £38.0bn) under a number of scenarios would change by:

	2022		2021	
	£m	%	£m	%
Nominal yields are 0.5% lower per year than assumed*	(2,498.3)	(6.3)	(2,822.2)	(7.4)
Inflation is 0.5% higher per year than assumed	601.7	1.5	822.2	2.2
Inflation is 0.5% lower per year than assumed	(608.3)	(1.5)	(822.2)	(2.2)
Non-LDI assets fall by 10%*	(2,208.3)	(5.6)	(2,062.2)	(5.4)

* The impact of changes to these assumptions is symmetrical – an equal and opposite change in the assumption broadly results in an equal and opposite impact on the net assets of the PPF.

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.

The PPF's financial instruments are mostly 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 PPF 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 following table.

Asset class[1]

	2022 £m	Actual %	Tolerance range
Global bonds[2]	2,300.8		
UK bonds and cash	17,258.4		
Cash and bonds	**19,559.2**	**50.2%**	**42%–62%**
Public equity	4,128.4	10.6%	8%–13%
Alternatives[3]	8,457.8	21.7%	14%–24%
Absolute return	2,371.0	6.1%	3%–8%
Hybrid assets	4,444.5	11.4%	10%–15%
Total assets allocated per SIP	**38,960.9**	**100.0%**	

1 Asset classes are based on internal risk reporting which looks through pooled fund holdings and uses mid prices.

2 Includes emerging market debt.

3 Includes private market assets such as property and private equity.

The tolerance range is determined by the SIP. 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.

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 2022, the exposure and therefore sensitivity to each major currency is illustrated by the following table.

Financial risk management – continued

Residual unhedged currency exposure

	2022 £m	2021 £m
Euro	880.2	628.2
Australian dollar	290.4	177.8
US dollar	267.9	622.3
South Korean won	54.7	62.9
Chinese yuan renminbi	(51.8)	(60.4)
Other currencies	401.4	75.0
Total	**1,842.8**	**1,505.8**

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
- 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. This includes an approximate allowance for lump sums – in particular it is assumed that all deferred members already over Normal Pension Age retire in the first year.

	Within 1 year £m	1–5 years £m	Over 5 years £m	Total £m
2022	1,321.4	4,514.2	21,593.9	**27,429.5**
2021 (restated*)	1,230.9	4,240.9	23,012.6	**28,484.4**

* The maturity profile of payments to current members now makes an allowance for earlier payment of lump sums which was previously shown as being payable in Over 5 years. Previously, the maturity profile for 2021 was: Within 1 year £908.3m; 1–5 years £3,463,4m; Over 5 years £24,112.7m.

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
2022	627.1	1,587.5	1,229.7	7,538.2	**10,982.5**
2021	211.0	548.5	311.5	5,691.0	**6,762.0**

Collateral arrangements

At 31 March, the following was in place with counterparties:

Collateral pledged	2022 £m	2021 £m
Cash delivered as collateral for traded positions including repurchase agreements	483.4	434.0
Securities delivered as collateral for traded positions including repurchase agreements	1,170.1	1,599.6
Total assets provided as collateral with counterparties	**1,653.5**	**2,033.6**

Collateral held	2022 £m	2021 £m
Cash held as collateral for traded positions including repurchase agreements	1,065.3	865.7
Securities held as collateral for traded positions including repurchase agreements	4.3	–
Collateral received from counterparties on securities lending	269.7	251.2
Total assets received as collateral from counterparties	**1,339.3**	**1,116.9**

Collateral pledged for securities lending, repurchase, reverse repurchase agreements and OTC derivatives are subject to minimum collateralisation levels of between 102 per cent and 105 per cent of the market value of borrowed securities or the net derivative contract. 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:

	2022	2022 £m	2021	2021 £m
Denominated in US dollars	$2,022.6m	1,536.2	$2,287.8m	1,658.2
Denominated in euros	€941.9m	796.0	€865.9m	737.6
Denominated in sterling	£754.3m	754.3	£349.6m	349.6
Denominated in Australian dollars	A$26.0m	14.8	A$34.7m	19.1
Total		**3,101.3**		**2,764.5**

Capital can be called at any time once an obligation is agreed but, in reality, calls are made over a period of years.

In addition to the above, the Board has provided a loan facility of up to £38.0m (US$50m) relating to its holding in KAHL – this loan facility is currently unused.

9. FCF financial risks

The FCF has £48.4m (2021: £33.6m) of cash and money market funds, receivables of £0.3m (2021: £0.7m) and provisions valued at £7.4m (2021: £0.4m). The Board has the power to raise levies to meet the cost of successful claims.

The Board is aware of the potential for significant claims with regard to schemes that were themselves part of a scam with an estimated total claim value of £428.1m. Future levy income will be insufficient to fund these claims, so the PPF has obtained a loan from the DWP to cover the shortfall as projected as at 31 March 2022.

Financial risk is compounded if similar claims emerge or any other new large claim arises, or a number of such claims occur closely together which would require prompt settlement.

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

Market risk – the FCF's holdings in liquidity 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 subject to liquidity risk as a result of a shortfall of funds from claims as they arise. The FCF is not exposed to significant liquidity risk from its assets as they are held 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.

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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

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 2021/22 are summarised as follows:

	PPF £m	PPF Administration Fund £m	FAS Administration Fund £m	2022 £m
Staff costs				
Wages and salaries	21.0	6.4	3.5	30.9
Social security costs	2.5	0.9	0.4	3.8
Other pension costs	4.3	1.6	0.9	6.8
Short-term, seconded and temporary staff	0.1	–	–	0.1
Total staff costs	**27.9**	**8.9**	**4.8**	**41.6**
Other costs				
Member payroll services	0.3	–	0.1	0.4
Staff-related and recruitment	0.5	0.2	0.2	0.9
Advisory and other professional services	7.5	2.1	0.9	10.5
Statutory audit costs	0.3	–	–	0.3
Accommodation and general office	2.7	0.9	0.7	4.3
IT and telephony	8.7	1.2	0.8	10.7
Depreciation and amortisation charges	0.8	–	0.8	1.6
Total other operating expenses	**20.8**	**4.4**	**3.5**	**28.7**
Total operating expenses	**48.7**	**13.3**	**8.3**	**70.3**

Statutory audit costs were £260,000 (2021: £295,000).

Operating the business – continued

	PPF £m	PPF Administration Fund £m	FAS Administration Fund £m	2021 £m
Staff costs				
Wages and salaries	20.3	5.8	3.7	29.8
Social security costs	2.4	0.8	0.4	3.6
Other pension costs	4.2	1.4	0.9	6.5
Short-term, seconded and temporary staff	0.1	–	–	0.1
Total staff costs	**27.0**	**8.0**	**5.0**	**40.0**
Other costs				
Member payroll services	0.3	–	0.1	0.4
Staff-related and recruitment	0.6	0.2	0.2	1.0
Advisory and other professional services	5.9	2.6	0.7	9.2
Statutory audit costs	0.3	–	–	0.3
Accommodation and general office	2.8	0.8	0.7	4.3
IT and telephony	7.9	0.8	0.6	9.3
Depreciation and amortisation charges	0.8	–	0.8	1.6
Total other operating expenses	**18.6**	**4.4**	**3.1**	**26.1**
Total operating expenses	**45.6**	**12.4**	**8.1**	**66.1**

Information on the staff numbers and exit packages can be found in the Remuneration and Staff Report on pages 75–81.

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/knowledge-centre/resources/resource-accounts.

During the year ended 31 March 2022, employer contributions of £6.5m (2020/21: £6.3m) 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 (2020/21: 26.6 per cent to 30.3 per cent).

Employer contributions for the year ended 31 March 2023 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 £234,000 (2020/21: £170,000) 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 (2020/21: 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 2022 were £552,000 (2021: £553,000).

12. Segmental analysis

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

- the PPF itself
- the FCF
- 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)
- operating expenses (note 11)

Consolidated Statement of Comprehensive Net Income

For the year ended 31 March	2022 £m	2021 £m
PPF		
Net operating surplus	426.8	584.3
Net investment return	1,223.4	1,177.0
Net cost of claims	985.8	2,195.1
Net comprehensive income	**2,636.0**	**3,956.4**
FCF		
Income from levies	14.9	7.4
Net cost of claims	(7.5)	0.3
Net comprehensive income	**7.4**	**7.7**
Administration Funds		
Income from grants	20.2	20.9
Operating expenses	(21.6)	(20.5)
Net comprehensive (expense)/income	**(1.4)**	**0.4**
Consolidated net comprehensive income	**2,642.0**	**3,964.5**

Consolidated Statement of Financial Position

For the year ended 31 March	2022 £m	2021 £m
Total assets less total liabilities		
PPF	11,657.5	9,021.5
FCF	41.3	33.9
Administration Funds	0.5	1.9
Consolidated Statement of Financial Position	**11,699.3**	**9,057.3**

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.

13. Subsidiaries

A small proportion of the Board's investment portfolio is held through subsidiaries. As at 31 March 2022 these were:

- Kodak Alaris Holdings Limited (a company registered in the United Kingdom) (KAHL)
- PPF Investment Holdings 1 Limited (a company registered in the United Kingdom)
- PPF Real Estate Nominee 1 Limited (a company registered in the United Kingdom)
- PPF Real Estate Nominee 2 Limited (a company registered in the United Kingdom)
- PPF Real Estate Nominee 3 Limited (a company registered in the United Kingdom)
- PPF Real Estate Nominee 4 Limited (a company registered in the United Kingdom)

The subsidiaries do not operate separately from the PPF's overall investment management processes apart from KAHL which operates as a commercial trading entity. The relevant assets, liabilities, income and expenses of all subsidiaries except KAHL are fully consolidated and recorded within the appropriate asset classes in the PPF's accounting records. The holding in KAHL is shown as part of the investment portfolio in the relevant asset classes. Interest receivable on the KAHL loan notes was rolled over by the issue of further loan notes to the same value as the interest. KAHL also paid a facility charge for the loan facility disclosed in note 8. All subsidiaries are 100 per cent owned by the Board and have 31 March year ends.

The subsidiary PPF Nominee 2 B.V. was liquidated in 2021/22.

The PPF also has holdings in other entities for investment purposes. These are registered in the United Kingdom, Cayman Islands, Delaware, Luxembourg and the Republic of Ireland.

14. Related party transactions

£20.2m (2020/21: £20.9m) 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

A loan agreement with the DWP was signed in May 2022, with the consent of HMT. This is to cover the shortfall in FCF funds caused by the settlement of claims as projected as at the end of March 2022. As at this time, claims are expected to be settled by the end of 2025/26 and the loan repaid by the end of 2029/30. The final settlement pattern may be different and the loan agreement will be varied accordingly.

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

The financial statements were authorised for issue by the Chief Executive on 8 July 2022, the date the Comptroller and Auditor General certified them.

The financial statements do not reflect events after this date.

SECTION 6

Actuarial reports

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

Actuarial reports

Summary of the two actuarial valuation reports

Over the year to 31 March 2022 our reserves (across both transferred schemes and those in assessment) increased to £11.7 billion, from £9.0 billion as at 31 March 2021. This corresponds to an increase in funding ratio to 137.9 per cent from 127.3 per cent. Market yields, including implied inflation, increased over the year, overall reducing liabilities by around 3.5 per cent, but there was limited impact on our reserves due to our hedging programme. The main factors influencing this increase in reserves were:

- gains on invested (non-hedging) assets of £1.8 billion
- levy receipts of £0.5 billion

Over the year 21 schemes entered PPF assessment. Of these schemes, it is expected that 14 will ultimately transfer.

The shortfall of assets compared with liabilities is £12.1 million for those schemes that entered assessment and were recognised on our balance sheet for at least some time over the year. This is a historically low level of claims on the Fund, both in number and amount.

The table below summarises the results, broken down between schemes that have already transferred to us (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). The reports make no allowance for any assets or liabilities payable from the FCF or the Administration Funds.

	Transferred schemes	Schemes in an assessment period	Total
Assets (£m)	39,368.3	3,074.0	**42,442.3**
Liabilities (£m)	27,429.5	3,355.3	**30,784.8**
Reserves (£m)	**11,938.8**	**(281.3)**	**11,657.5**
Funding ratio (assets/liabilities)	**143.5%**	**91.6%**	**137.9%**
Number of records in respect of members receiving compensation*	193,983	28,382	**222,365**
Number of records in respect of deferred members*	111,995	20,308	**132,303**

* Some members have more than one record in the data. The numbers of records for schemes in an assessment period only relate to schemes that are expected to transfer to us.

The actuarial valuation of the PPF as at 31 March 2022 (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 2022 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 its accounting requirements.

This report deals solely with schemes that transferred to the PPF before 31 March 2022. It should be read alongside my supplementary report, dated 28 June 2022, 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 (HMT) in accordance with the Pensions Act 2004.

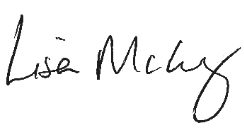
Under the Accounts Direction, the Board is required to prepare accounts in compliance with the Government Financial Reporting Manual (FReM), and other relevant guidance issued by HMT. The FReM requires that International Accounting Standard (IAS) 37 must be taken into account. When taken together, this 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 2022 is broadly the same as that adopted for the valuation as at 31 March 2021.

The requirement to provide an annual valuation of the PPF is also set out in the Framework document agreed between us 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: 28 June 2022

Job title: Chief Finance 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

Compensation for members who have transferred to the PPF 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.

Additionally, over the last few years there have been a number of court rulings that have impacted the shape of PPF compensation payable:

- in September 2018 the Court of Justice of the European Union (CJEU) ruled in the case of *Hampshire v PPF* that compensation is subject to a minimum level 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 *PSV v 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
- in July 2021 the Court of Appeal ruled in the case of *Hughes v PPF* that the PPF is entitled to perform a one-off calculation approach for increasing payments to the 50 per cent minimum level. It also confirmed that the PPF compensation cap, as set in legislation, is unlawful based on age discrimination and has to be disapplied

Data has been provided by our internal administration team and reflects the compensation currently in payment for those in receipt and the amount calculated at assessment date for those in deferment. For all but a small number of members, these benefits make no allowance for the court rulings discussed above. Liabilities have therefore been adjusted for the expected cost of uplifting compensation in line with the *Hampshire* and *Hughes* judgments.

As was the case last year, I have not included an allowance for any additional increase in compensation in respect of the *Bauer* judgment. We continue to work closely with the DWP to agree our approach for implementation. However, for some aspects of the ruling 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 and instead the contingent liability section of the financial statements notes this potential additional liability.

As I obtained data extracts at dates shortly before the effective date of the valuation, adjustments were also applied to the liabilities to allow for expected membership movements up to the effective date of the valuation. This is similar to the process adopted for the valuation as at 31 March 2021 and ensures the results are not materially impacted by member experience over that period. The adjustments made allow for:

- members retiring and commuting some of their compensation for a lump sum
- deaths incurred before the effective date of the data but not reported until after
- expected deaths between the effective date of the data and the valuation date

I checked the data for general reasonableness and for consistency with the data used for the actuarial valuation as at 31 March 2021. I have no concerns over the accuracy of the data.

The actuarial valuation of the PPF as at 31 March 2022 (transferred schemes only) – continued

A full summary of the data used, including that used for the actuarial valuation as at 31 March 2021 for comparison, is set out in Appendix M2 – Membership data. The total numbers of membership records along with their current annual compensation amounts, as at 31 March 2022, are set out in the following table:

Member status	Number of records	Compensation £m p.a.
Receiving compensation	193,983	938.5
Deferred	111,995	373.2

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

3. Approach

The methodology used for the valuation as at 31 March 2022 is broadly the same as that adopted for the valuation as at 31 March 2021.

Assets

The value of the PPF assets is taken from the PPF's accounts for the financial period ending 31 March 2022.

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 2022, 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:

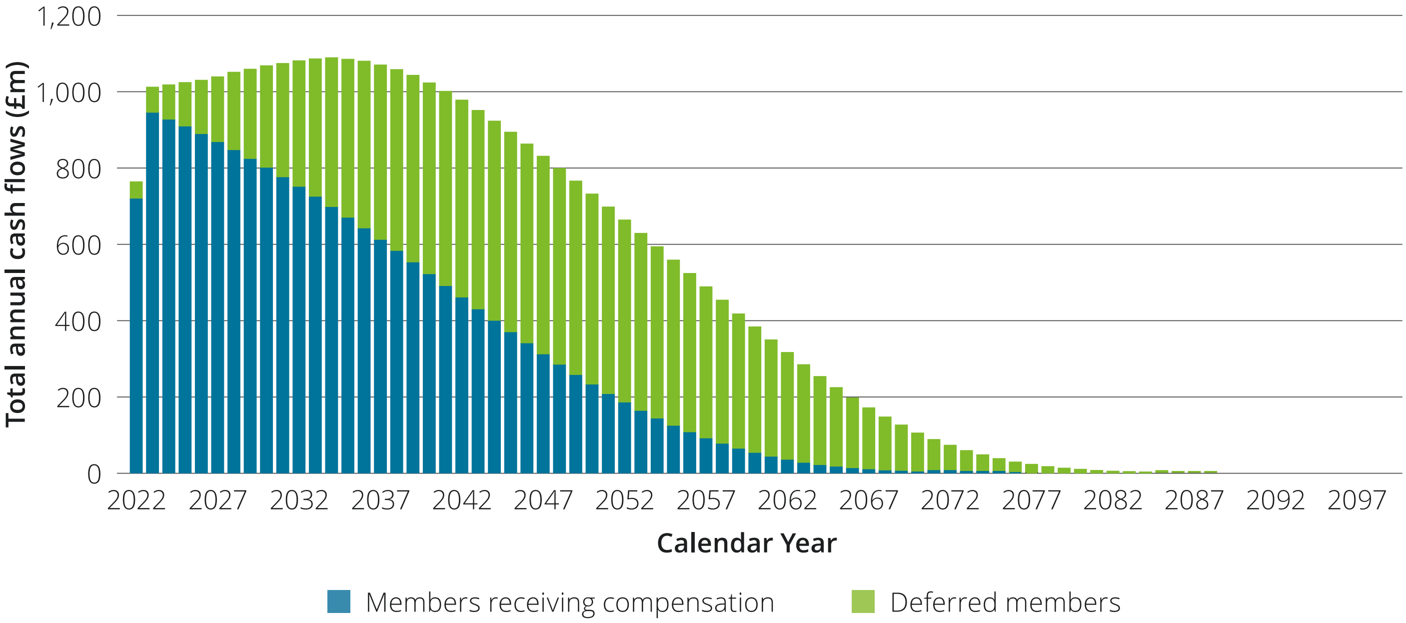
- when deferred members will retire
- what compensation increases will be
- how long people will live
- the chances compensation will be paid out to dependants

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 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. As set out in section 2, I have then applied an adjustment to allow for actual membership movements over the period from the effective date of the data to the calculation date as well as the expected cost of uplifting compensation to allow for the impacts of the *Hampshire* and *Hughes* judgments.

The chart below summarises the expected future payments (and associated expenses) to all members who had transferred to the PPF by 31 March 2022 (note that calendar year 2022 excludes payments made before 31 March 2022). These cashflows are undiscounted and, consistent with our valuation assumptions, do not allow for the take-up of any member options such as commuting compensation for cash lump sums.



Owing to the timescales involved in preparing this report, I initially calculated liabilities as at 28 February 2022 using assumptions derived from market conditions at that date for all schemes that transferred before 31 March 2022. I then adjusted for changes in market conditions between 28 February 2022 and 31 March 2022 as well as such adjustments as:

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

I have also included in the liabilities the value of any AVCs that have transferred to us and are in the process of being discharged.

4. Assumptions

As Appointed Actuary, I have responsibility for the assumptions used in this statutory valuation of the Fund. 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 provide 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 cash flows 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 cash flows into a current value of liabilities to compare with the market value of assets.

The actuarial valuation of the PPF as at 31 March 2022 (transferred schemes only) – continued

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 2022	31 March 2021
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 SONIA swap yield plus 10 basis points at each term
RPI inflation	RPI inflation swap curve	RPI inflation swap curve
CPI inflation	0.9% p.a. lower than RPI inflation until 31 January 2030 and 0.1% lower p.a. thereafter	0.9% p.a. lower than RPI inflation until 31 January 2030 and 0.1% lower p.a. thereafter
Compensation increases	As for CPI inflation adjusted for the annual cap of 2.5% p.a. and minimum of 0%	As for CPI inflation adjusted for the annual cap of 2.5% p.a. and minimum of 0%
Baseline life expectancy	Club Vita life expectancy curves, 2021 version	Club Vita life expectancy curves, 2020 version
Future improvements in life expectancy	CMI 2020 model (core form, except for addition to initial improvements, 'A', of 0.25%, and no improvements over the calendar years 2022 and 2023), long-term rate 1.5% p.a.	CMI 2019 model (core form, except for addition to initial improvements, 'A', of 0.25%), long-term rate 1.5% p.a.
Median life expectancies from age 65 implied by the above assumptions	For a man: Aged 65 now: 21.3 years Aged 40 now: 22.9 years For a woman: Aged 65 now: 24.0 years Aged 40 now: 26.5 years	For a man: Aged 65 now: 21.4 years Aged 40 now: 23.1 years For a woman: Aged 65 now: 23.9 years Aged 40 now: 26.3 years
Impact of the *Hampshire* and *Hughes* court judgments	Uplifts to liabilities of: For the 50% minimum test required by the *Hampshire* judgment: • 0.1% for members receiving compensation • 0.3% for deferreds • £nil for arrears For removal of the compensation cap provisions: • £17.8m for arrears due • 0.9% for members receiving compensation (including the cost of further arrears and tax charges) • 0.5% for deferreds The amount of arrears of PPF compensation actually paid has been determined not to be affected by time limits under the Limitation Act 1980.	Uplifts to liabilities of: For the 50% minimum test required by the *Hampshire* judgment: • 0.1% for members receiving compensation • 0.3% for deferreds • £nil for arrears For potential removal of the compensation cap provisions: • £19.5m for arrears due • 0.52% for members receiving compensation (including the cost of further arrears) • 0.50% for deferreds The amount of arrears of PPF compensation actually paid may be affected by time limits under the Limitation Act 1980.

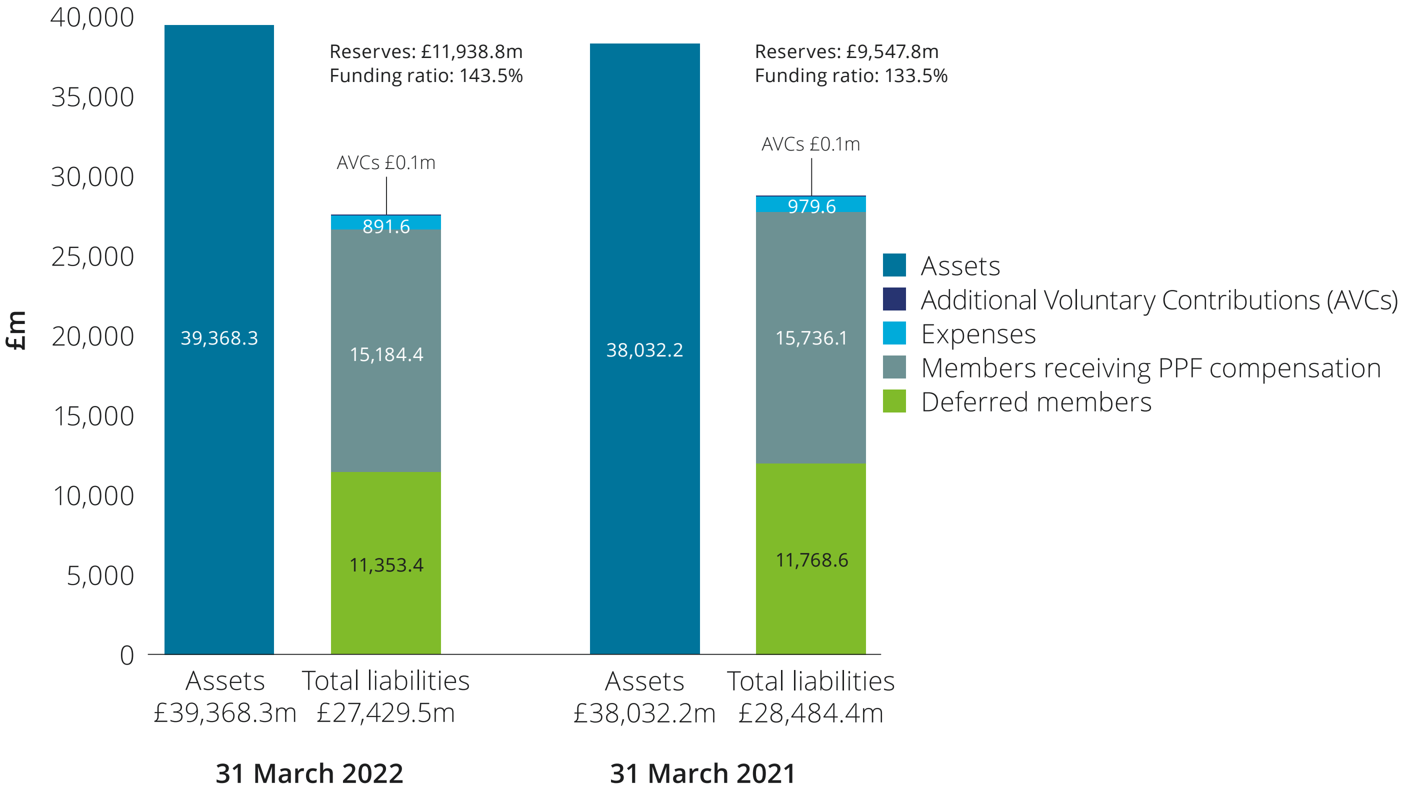
There was one assumption that has changed materially since last year. This is the future improvements in life expectancy. While I have switched to a more recent version of the model, as usual, I have also removed two years of improvements in the immediate term to reflect my view of the possible short-term effects of Covid-19.

The remaining 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. In particular, the financial assumptions have increased over the year along with market yields, particularly in the short term. More details are in the Financial assumptions section of Appendix M3 – Assumptions.

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.

5. Results

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



Over the year to 31 March 2022 assets increased by £1,336.1 million and liabilities decreased by £1,054.9 million. The reduction in liabilities was largely a result of:

- a decrease of £1,027.8 million due to changes in market yields over the year
- a decrease of £191.9 million due to changes in the mortality assumptions

This was partially offset by an increase of £253.7 million due to actual inflation being higher than expected.

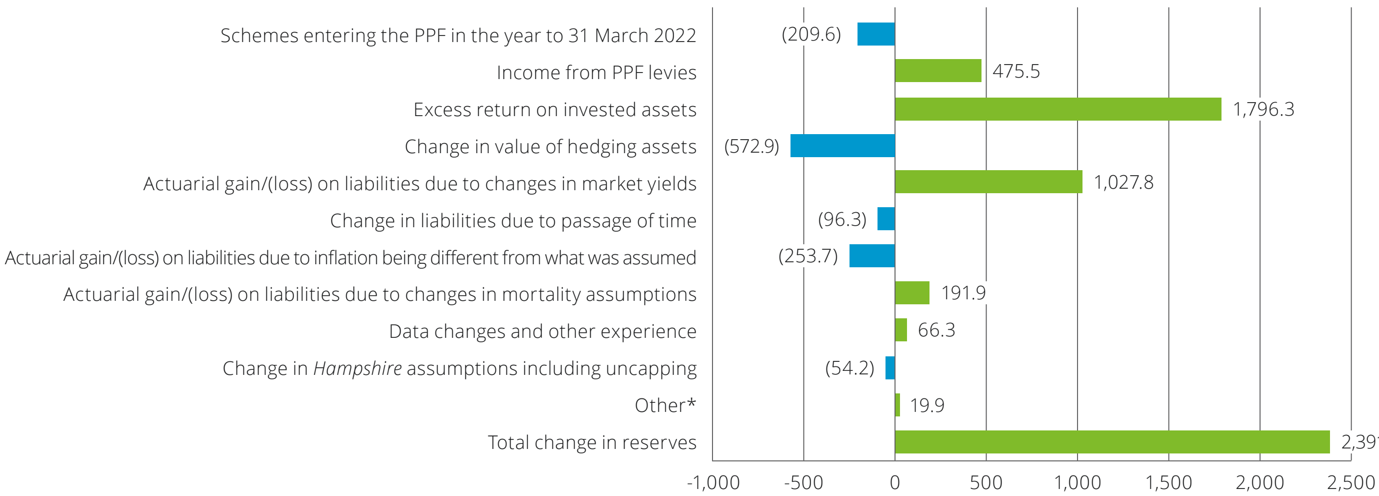
The growth in assets was mostly due to:

- levy receipts of £475.5 million
- total returns on assets of £1,223.4 million (which comes from a gain on invested (non-hedging) assets of £1,796.3 million and a reduction of £572.9 million in those assets used to hedge our liabilities)

The net impact is an increase in the reserves in respect of transferred schemes between 31 March 2021 and 31 March 2022 of £2,391.0 million.

The actuarial valuation of the PPF as at 31 March 2022 (transferred schemes only) – continued

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, and expenses. The £19.9 million increase in reserves comprises a £54.8 million decrease in liabilities and a £34.9 million decrease in assets.

The analysis of change has been determined by aggregating actual experience observed over each month of the year.

The liability items covered by our hedging assets – actuarial gain/(loss) on liabilities due to changes in market yields, passage of time, inflation different from assumed – are not directly comparable to the change in value of hedging assets because, for instance, some of the assets held in respect of transferred schemes are used to hedge schemes currently in PPF assessment.

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 £281.3 million. Therefore, had these schemes transferred to the PPF on the calculation date our reserves would have reduced to £11,657.5 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 10 per cent, our reserves would fall by around £2.2 billion
- inflation has risen significantly over the last year and we assume it will remain so in the short term before stabilising at a lower level. While this causes liabilities to rise, as we hedge our inflation risk there is limited impact on funding. In addition, our liability exposure is limited by there being:
  - no inflationary increases in payment to compensation accrued pre 1997
  - an annual limit on inflationary increases in payment to compensation accrued post 1997
  - annual limits on compensation increases in deferment

  Our sensitivity analysis shown in Appendix S4 includes different scenarios for inflation increasing and decreasing

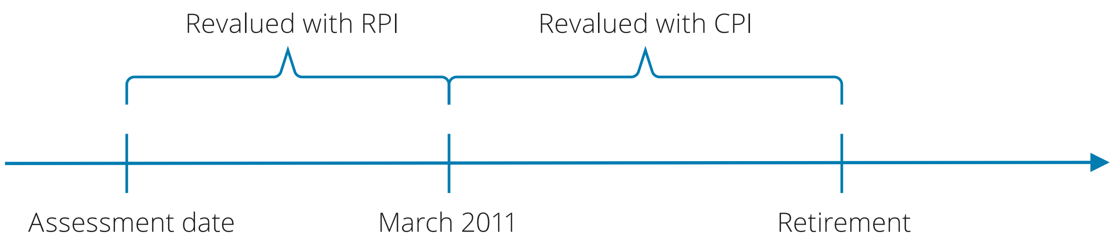
- increasing inflation will also have acted to increase the liabilities of the schemes in the universe that we protect, with not all schemes fully hedging this risk. The impact may be offset to some extent by rising yields over the year which will have acted to reduce liabilities. Our analysis indicates that in aggregate scheme funding has improved over the year, however the individual impacts for schemes will be significantly different depending on their benefit structure and approach to hedging. All else being equal this will have acted to reduce the level of risk from future claims
- the Provisions for claims on the PPF and the FCF note to the Financial Statements give further details on claims expectations for the year ahead and illustrate the reduction in the one-year-ahead claims forecast since last year. As well as improving scheme funding this is a result of a lower projected insolvency risk over the year ahead compared with last year. Future claims experience is subject to much uncertainty and actual experience can be materially different to our best estimate. That said, I understand that the likelihood of claims eroding the current reserves over the short term remains small
- future changes in life expectancy are very uncertain; this is particularly true at present given the ongoing situation with Covid-19. The impacts of recent levels of deaths are allowed for in my assessment of the liabilities through the use of up-to-date data. While the longer-term impacts of the pandemic remain unclear, in the shorter term there remains a number of challenges that in my view will act to curtail further improvements in life expectancy. While some allowance has been made for the short-term impacts, actual experience could still be materially different. The sensitivity analysis included in Appendix S4 provides the likely impact if experience is different to assumed and shows that modest changes in life expectancy can have a material impact. I have estimated that if the average life expectancy of our membership were to increase/decrease by one year (on average) our reserves would decrease/increase by around £1.5 billion
- wider economic factors, including the effects of the war in Ukraine and Russian sanctions, could impact financial markets. This will likely lead to some volatility in returns in the short term, potentially impacting our own asset valuations as well as those of schemes we protect. There could also be increased insolvency risk in the short to medium term. We continue to carefully monitor both of these risks
- over the longer term it is possible that climate change will also have an impact on our Fund. Our internal processes have been designed to ensure this risk is well managed within our investment portfolio – however there are other risks that could impact our balance sheet in the future. The two most likely are our claims exposure or life expectancy risk. Although it is, at this stage, difficult to quantify this, we have processes in place to monitor these risks to ensure our approach to funding remains robust
- no allowance has been included for the potential additional increase to compensation as a result of the *Bauer* judgment. Although we do not have sufficient information to reliably estimate the impact of the judgment, modelling has indicated that it is unlikely to be sufficiently material to impact our current approach to funding

Appendix M1

Summary of compensation provided by the PPF

<table>
<tr><th>Member type</th><th>Starting PPF compensation</th></tr>
<tr><td>Members who reached their former scheme's Normal Pension Age (NPA) before the scheme came into assessment</td><td rowspan="3">100% of scheme pension</td></tr>
<tr><td>Members receiving a survivor's pension</td></tr>
<tr><td>Members receiving an ill-health pension</td></tr>
<tr><td>Members who were below NPA when their former scheme came into assessment</td><td>90% of scheme pension</td></tr>
</table>

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

In June 2020 the Administrative Court ruled that the compensation cap is unlawful. This ruling was upheld by the Court of Appeal in July 2021. For the purpose of this valuation, the liabilities have been calculated on the basis that the cap does not apply. Prior to this, for some members the amount of compensation payable was restricted to the level of the compensation cap.

Minimum compensation

As a result of the *Hampshire* judgment, compensation is subject to a minimum of 50 per cent of the value of accrued old age pension in the former scheme. An approximate allowance for the expected additional cost of providing this minimum has been made – see Appendix M3 for details.

No allowance has been made for any potential increase in compensation as a result of the *Bauer* judgment. See section 2 for further details.

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), we have some *limited* powers 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

I had to obtain data extracts at dates before the effective date of the valuation. This is similar to the process adopted for the valuation as at 31 March 2021. 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 2022	14 January 2022
February 2022	14 February 2022
March 2022	15 March 2022

Adjustments have been applied to ensure the data is consistent with the valuation date 31 March 2022 and that the accuracy of the valuation results is not materially affected.

Here are summaries of the member data used in the valuation (numbers may not always sum to the totals due to rounding):

Deferred members

		31 March 2022			31 March 2021		
		Male	Female	Total/ average	Male	Female	Total/ average
Deferred members	Number	73,186	38,809	**111,995**	75,103	38,799	**113,902**
	Average age (unweighted)	55.2	54.0	**54.8**	54.6	53.3	**54.2**
	Total compensation (£m p.a.)	280.2	90.4	**370.6**	288.7	90.0	**378.7**

Note: deferred compensation amounts are shown as at the effective dates of data in the table above, rather than after the adjustments mentioned have been applied.

Members receiving compensation

		31 March 2022			31 March 2021		
		Male	Female	Total/ average	Male	Female	Total/ average
Members receiving compensation (excl. dependants)	Number	117,093	44,372	**161,465**	111,962	42,453	**154,415**
	Average age (unweighted)	71.7	72.5	**71.9**	71.4	72.2	**71.6**
	Total compensation (£m p.a.)	716.5	116.5	**833.0**	686.4	109.9	**796.3**
Dependants receiving compensation (excl. children)	Number	3,358	28,628	**31,986**	3,119	26,767	**29,886**
	Average age (unweighted)	75.5	77.6	**77.3**	75.3	77.3	**77.1**
	Total compensation (£m p.a.)	5.0	99.9	**104.9**	4.7	93.3	**98.0**
Children receiving compensation	Number	256	276	**532**	262	281	**543**
	Average age (unweighted)	16.0	16.3	**16.2**	16.0	16.3	**16.2**
	Total compensation (£m p.a.)	0.3	0.3	**0.6**	0.3	0.4	**0.7**
All members receiving compensation	**Number**	**120,707**	**73,276**	**193,983**	**115,343**	**69,501**	**184,844**
	Average age (unweighted)	**71.7**	**74.3**	**72.7**	**71.4**	**73.9**	**72.3**
	Total compensation (£m p.a.)	**721.8**	**216.7**	**938.5**	**691.4**	**203.6**	**895.0**

The figures in the tables on the previous page 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:

- are prior to the removal of the PPF compensation cap. Allowing for the removal of the cap is expected to increase compensation by around £2.5 million
- include *Hampshire* uplifts for a number of members that were made as a result of calculations performed prior to the *Hughes* judgment. These uplifts increased annual compensation by around £1.2 million

Suspended payments

There were around 2,400 members whose compensation payments had been suspended (and not restored) by the effective date of the data. These suspensions mainly relate to recent deaths that were being processed. As a proportion of these will have an eligible spouse, I have included a reserve of £9 million in respect of the cost of providing these benefits.

Other payments

The compensation in the tables on the previous page 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 need 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 us 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 2021 valuation assumption, if different.

Valuation date	31 March 2022	31 March 2021 (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	
RPI inflation	RPI inflation swap curve	
CPI inflation	0.9% p.a. lower than RPI inflation until 31 January 2030, then 0.1% p.a. lower thereafter	
Compensation increases	A full CPI (0–2.5%) curve derived from CPI inflation	
Baseline life expectancy	Club Vita life expectancy curves, 2021 version	Club Vita life expectancy curves, 2020 version
Future improvements in life expectancy	CMI 2020 model (core form, except for addition to initial improvements, 'A', of 0.25% p.a., and no improvements over the calendar years 2022 and 2023), long-term rate 1.5% p.a.	CMI 2019 model (core form, except for addition to initial improvements, 'A', of 0.25% p.a.), long-term rate 1.5% p.a.
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 3.4% of the liabilities	An allowance of 3.6% of the liabilities

Valuation date	31 March 2022	31 March 2021 (if different)
Impact of *Hampshire* and *Hughes* court judgments	Uplifts to liabilities of: For the 50% minimum test required by the *Hampshire* judgment: • 0.1% for members receiving compensation • 0.3% for deferreds • £nil for arrears For removal of the compensation cap provisions: • £17.8m for arrears due • 0.9% for members receiving compensation (including the cost of further arrears and tax charges) • 0.5% for deferreds The amount of arrears of PPF compensation actually paid has been determined not to be affected by time limits under the Limitation Act 1980.	Uplifts to liabilities of: For the 50% minimum test required by the *Hampshire* judgment: • 0.1% for members receiving compensation • 0.3% for deferreds • £nil for arrears For removal of the compensation cap provisions: • £19.5m for arrears due • 0.52% for members receiving compensation (including the cost of further arrears) • 0.50% for deferreds The amount of arrears of PPF compensation actually paid may be affected by time limits under the Limitation Act 1980.
GMP equalisation	No allowance needed, on the grounds that there are no members for whom we have not yet equalised for GMP	
Levels of compensation, revaluation in deferment and increase in payment	No change from current legislation	

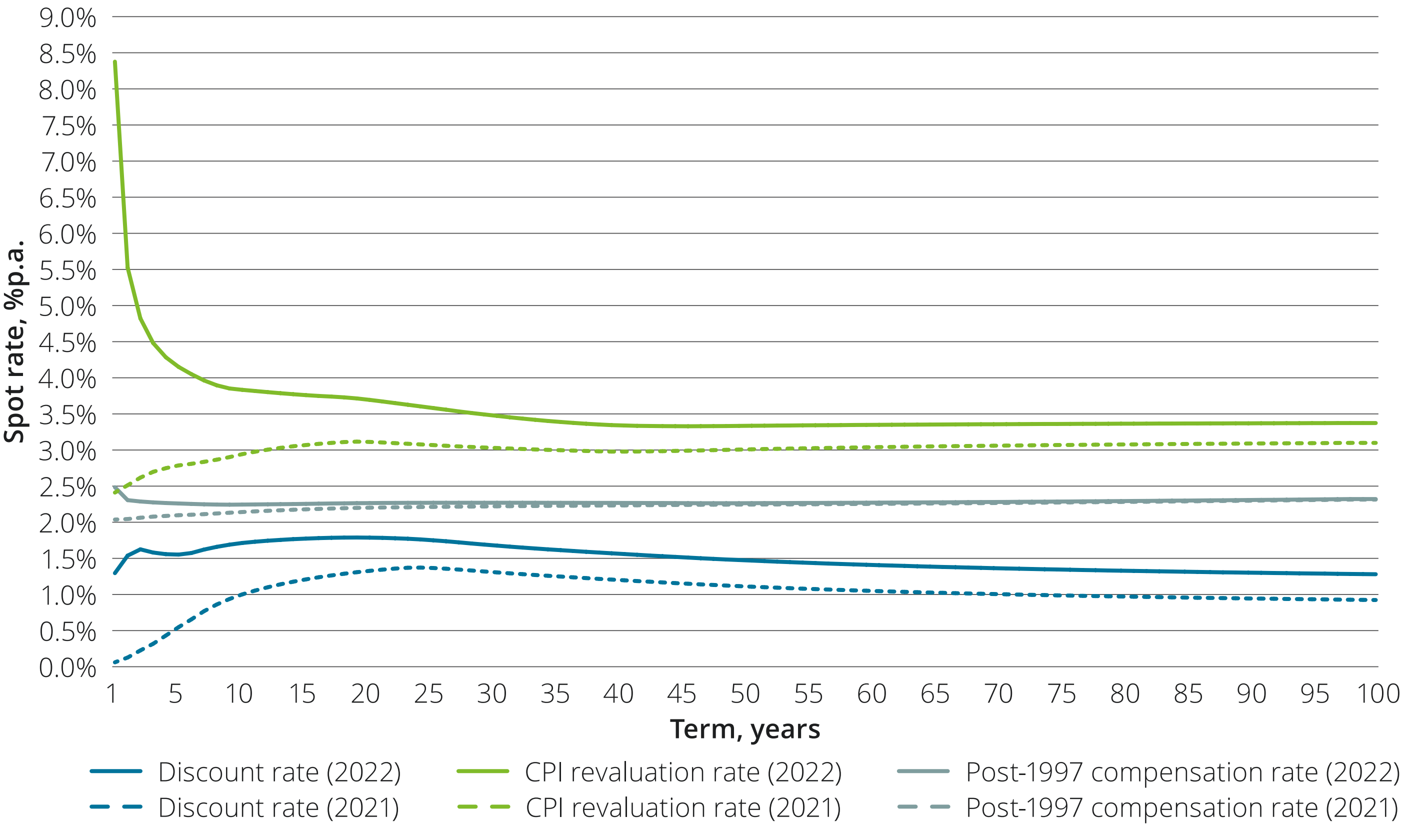
I give further information on these assumptions below.

Financial assumptions

In general, I have applied the same approach to setting the financial assumptions as for the actuarial valuation at 31 March 2021. In particular, the financial assumptions vary according to the term of the compensation payment being estimated.

The graph on the following page 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 2022. The previous year's figures are shown as dashed lines for comparison. The rates are presented as spot rates.

Appendix M3
Assumptions – continued



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

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 cash flows 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.

Inflation and compensation increases

For the RPI inflation assumptions I have used a curve of RPI inflation swap yields as at 31 March 2022.

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. In November 2020 the UK Statistics Authority and HMT announced that RPI will be aligned with CPIH from February 2030. I have therefore used a best estimate of the margin between RPI and CPI of 0.9 per cent per year up to 31 January 2030 reducing to 0.1 per cent per year thereafter, reflecting the expected difference between CPI and CPIH. 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. The figures are shown in years.

Date of valuation			31 March 2022		31 March 2021	
			Men	Women	Men	Women
Median life expectancy	Members currently receiving compensation	Now	21.3	24.0	21.4	23.9
	Dependants currently receiving compensation		18.8	23.5	19.3	23.5
	Members due to receive compensation	In 25 years' time	22.9	26.5	23.1	26.3
	Future dependants		21.7	25.8	21.7	25.5
Minimum life expectancy	Members currently receiving compensation	Now	14.1	18.7	14.8	18.6
	Dependants currently receiving compensation		14.1	18.7	14.8	18.6
	Members due to receive compensation	In 25 years' time	19.0	22.3	19.1	22.4
	Future dependants		16.6	21.5	17.3	21.5
Maximum life expectancy	Members currently receiving compensation	Now	24.2	25.4	24.4	25.5
	Dependants currently receiving compensation		21.9	25.1	22.5	25.4
	Members due to receive compensation	In 25 years' time	26.2	27.6	26.3	27.6
	Future dependants		24.1	27.3	24.6	27.5
Range of life expectancies that covers 75% of compensation	Members currently receiving compensation	Now	19.4–23.6	21.8–25.1	19.2–23.6	21.8–25.0
	Dependants currently receiving compensation		17.1–21.2	21.1–25.1	17.3–21.3	21.3–25.4
	Members due to receive compensation	In 25 years' time	21.7–24.6	24.9–27.3	21.5–24.8	25.2–27.2
	Future dependants		19.6–24.0	23.5–26.6	19.8–23.6	23.5–26.8

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, postcode, 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 2022, I have adopted the CMI_2020 model, with all model parameters at their core values except an initial adjustment to mortality improvements of 0.25 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. I have assumed a long-term rate of mortality improvement of 1.5 per cent per year for men and women. I have, this year, made an allowance for potential short-term impacts of Covid-19 on life expectancy improvements. As such, I have assumed life expectancy does not improve over the next two years (2022 and 2023). Looking to the medium and longer term, there are various considerations around whether Covid-19 may increase or decrease life expectancy, but it will be some time before these effects are fully understood. On balance, I have not made an explicit allowance for the potential impacts, but I intend to keep this under review in future years as more data becomes available.

Member options – commutation, early retirement, late retirement

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

Appendix M3
Assumptions – continued

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 by 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 us overseeing it.

This results in an allowance of 3.1 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 transferred to the PPF has been included. This has increased the allowance to 3.4 per cent of liabilities.

Minimum compensation

i. *Hampshire* – 50 per cent minimum

The *Hampshire* ruling determined that compensation is subject to a minimum level of 50 per cent of the value of accrued old age pension. The Court of Appeal in the *Hughes* case supported the PPF's one-off calculation approach for increasing payments to the minimum level.

To determine the cost, I have calculated the uplifts that would apply to a large number of model points covering different ages, assessment dates and scheme benefit structures. These model points were then mapped to our current membership to determine the uplift to liabilities required. These are 0.1 per cent of liabilities in respect of members receiving compensation and 0.3 per cent of deferred liabilities, which are unchanged from the expected costs last year.

I have not allowed for any expected arrears as I expect these amounts to be very small.

ii. *Hughes* – the compensation cap

The Court of Appeal, also in the *Hughes* case, confirmed the High Court's decision that the compensation cap, as set in legislation, is unlawful based on age discrimination and has to be disapplied. At the time of preparing this report, most compensation payments have not been adjusted to reflect the ruling. Some capped members have, however, received increases to their PPF compensation to reflect the *Hampshire* ruling using the one-off value test method. I have included an allowance for the expected remaining cost of removing the compensation cap.

The cost for deferred members was accurately assessed since uncapped benefits are recorded on our administration system. This increased deferred liabilities by 0.5 per cent.

For members in payment an approximate approach was taken. We are currently in the process of collating data to enable compensation to be adjusted – where possible this data has been used and has been supplemented with 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, allowing for any tax charge and any arrears payable, is an estimated increase in the pensioner liability of 0.9 per cent.

I have also allowed for liabilities of £17.8 million for expected arrears due to some members who have already received some uplift to compensation as a result of the judgment. This has reduced from £19.5 million last year as £1.7 million has been paid to members over the year.

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 2021 actuarial valuation.

In November 2020 the High Court ruled that trustees of DB schemes that provide GMPs are required to top up historical cash equivalent transfer values (CETVs) that were calculated on an unequalised basis if the CETV would have been higher had allowance been made for GMP equalisation.

At this stage it has not been possible to provide a reliable estimate of the potential impact this ruling could have on the liabilities given the lack of availability of data and the uncertainty inherent in the calculations.

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.	We are 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. We are 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 HMT in accordance with Part 4 of Schedule 5 of the Pensions Act 2004.	This states that the discount rate used to discount future cash flows and liabilities should be that advised by the PPF's actuary.
Government Financial Reporting Manual (FReM) (accounting principles and disclosure requirements therein). HMT's PES (Public Expenditure Systems) Guidance on the Preparation of Annual Reports and Accounts for 2021–22. Other guidance issued by HMT in respect of accounts that 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, we are required to prepare accounts in compliance with these.
IAS 37 Provisions, Contingent Liabilities and Contingent Assets.	In accordance with the FReM, we are required to take account of this. It follows from this that we are required to place a best estimate value on the provisions. We are 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.
The Pension Protection Fund (Valuation of the Assets and Liabilities of the Pension Protection Fund) Regulations 2006 (SI 2006/597).	The value of the PPF 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 and provisions of the PPF as at 31 March 2022

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 2022.

This report mainly deals with schemes in PPF assessment as at 31 March 2022 that are expected to transfer to the PPF. This is a broad definition of the schemes that form the 'provisions'.

Fuller details of schemes in assessment (SIA) (the 'provisions') can be found in Appendix S1 – Definition of a provision.

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 our 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 HMT 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 Government Financial Reporting Manual (FReM), and other relevant guidance issued by HMT. 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 us 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.

Signed:

Lisa McCrory

Name of Appointed Actuary: Lisa McCrory

Date: 28 June 2022

Job title: Chief Finance Officer and Chief Actuary

Qualification: Fellow of the Institute and Faculty of Actuaries

Employer: The Board of the Pension Protection Fund

2. Valuation approach

Where possible, I have taken the same approach to value the liabilities forming the provisions as I took to value the liabilities of the schemes that transferred to the PPF by 31 March 2022. This is covered in my main report to the Board dated 28 June 2022.

I have used recent individual member data for six of the largest schemes included in the provisions for use in this valuation. These schemes make up 71 per cent of the liabilities for schemes in the provisions and eight per cent of the total liabilities of transferred schemes and those in the provisions. There are a further two schemes for which I have used individual membership data requested for previous valuations. For all these eight 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.

Similar to the approach for transferred schemes, liabilities have been adjusted for member movements over the period between the effective date of the data and the calculation date as well as the expected cost of uplifting compensation for the *Hampshire* and *Hughes* judgments[1]. The adjustments applied have been calculated in the same way as those used for transferred schemes – however, where appropriate, the calculation has been updated to reflect the demographics of the individual scheme.

For all other SIA, I have estimated the liabilities by adjusting the results of the latest section 179 (s179) valuations. The adjustments made allow for changes in market conditions, the passage of time, differences in assumptions used for s179 purposes and this valuation, and 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 2021 to 31 March 2022, but in addition liabilities have increased to reflect the expected cost of uplifting compensation for the *Hampshire* and *Hughes* judgments.

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, 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, the main exception being that assets have been reduced for lump sum payments on retirement for members of the schemes for which individual data was provided.

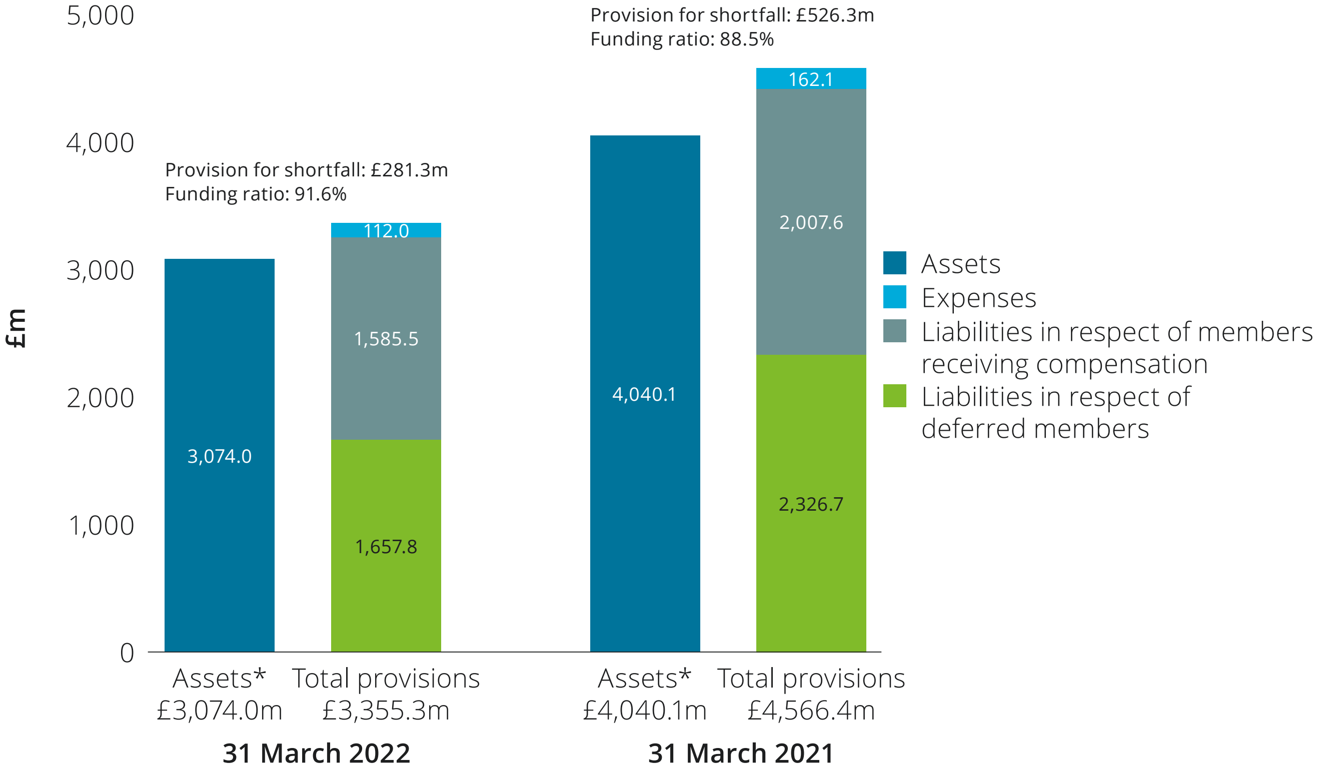
A scheme is only included in the calculation if it is expected that it has insufficient assets to secure benefits above PPF levels of compensation. See Appendix S1 – Definition of a provision for further details of the definitions used and Appendix S2 – Data for further details on the number of schemes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

1 See section 2 of my main report for further information relating to the requirements of these judgments.

3. Results for schemes in PPF assessment

Provisions

Sixty schemes were included in the provisions as at 31 March 2022. 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.



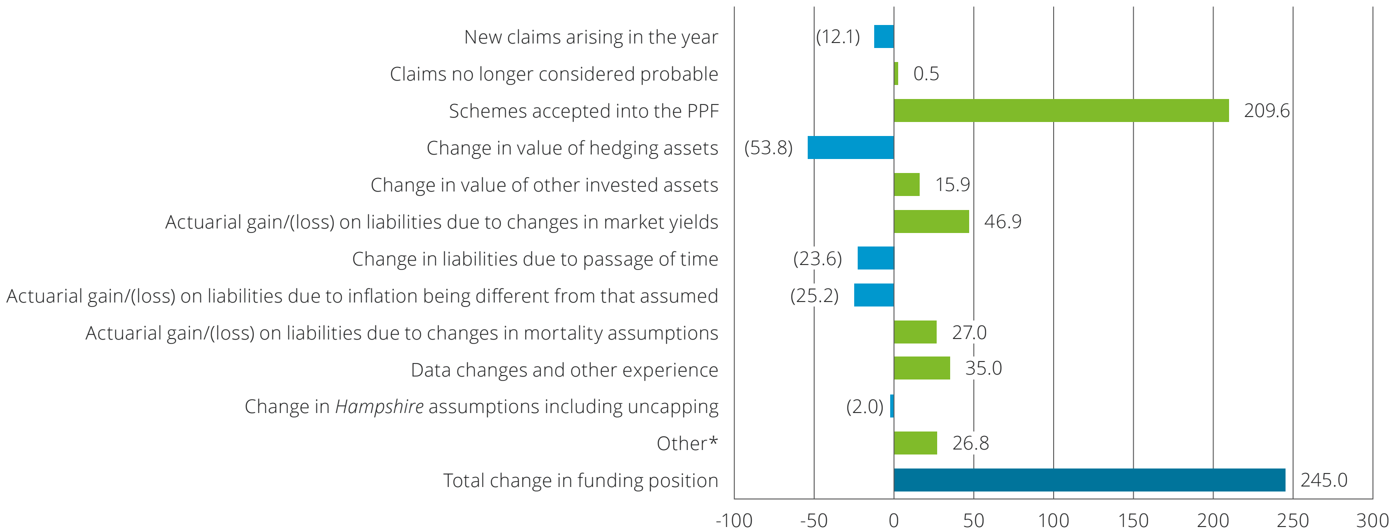
* Includes anticipated recoveries of £87.2 million (2021: £86.3 million).

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 £256.4 million.

The shortfall of assets compared to liabilities has reduced from £526.3 million as at 31 March 2021 to £281.3 million as at 31 March 2022. This change, along with the reductions in aggregate assets and liabilities, is a result of significantly more schemes transferring to the PPF compared with those coming into assessment.

Supplementary report: actuarial liabilities and provisions of the PPF as at 31 March 2022 – continued

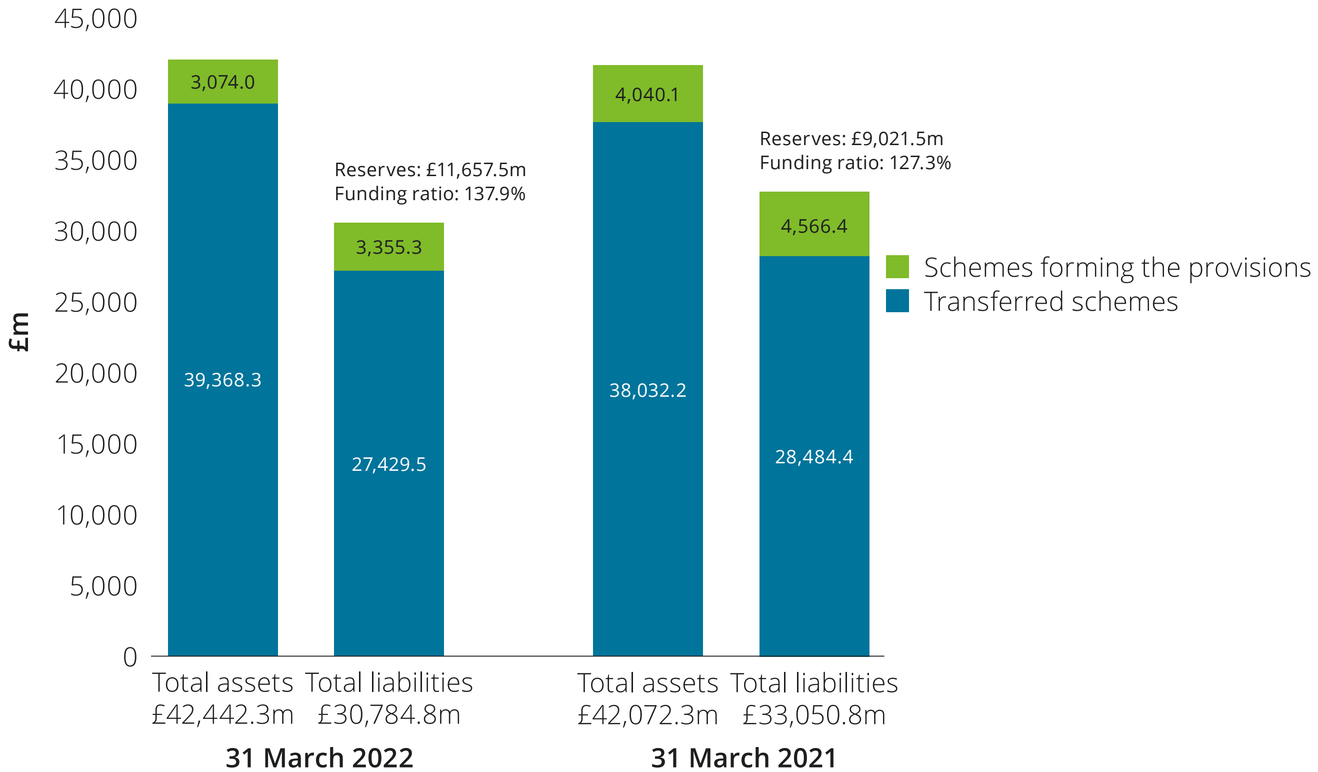
A full analysis of this change over the year is set out in the following chart.



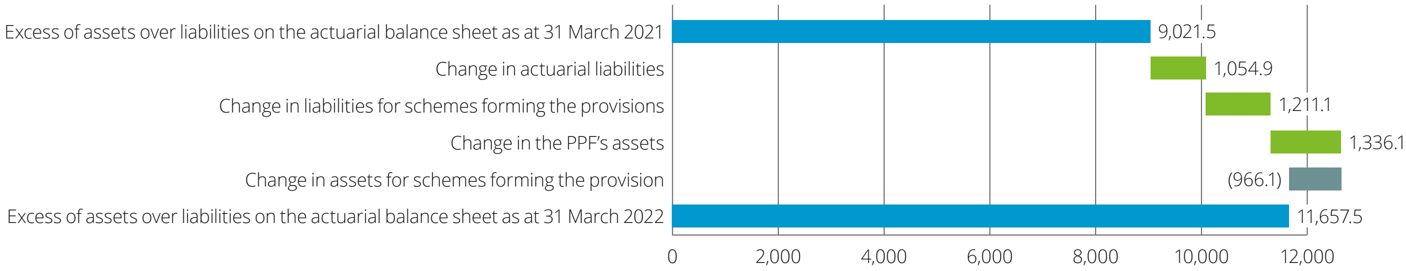
* Includes such items as expenses and recoveries.

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.



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).



Supplementary report: actuarial liabilities and provisions of the PPF as at 31 March 2022 – continued

4. Sensitivity analysis

The value placed on liabilities will be very sensitive to the assumptions used; it is also 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 in section 3 (Actuarial liabilities and provisions in aggregate).
1	Nominal yields are assumed to increase by 0.5% p.a.
2a	Inflation is assumed to decrease by 0.5% p.a.
2b	Inflation is assumed to increase by 0.5% p.a.
3	Average life expectancy is assumed to be one year shorter than assumed in the main valuation.
4	Improvements in life expectancy are assumed to be nil for the next five years.
5	The value of return-seeking assets as at the valuation date (excluding those that 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.

Scenario	Excess of assets over liabilities £bn	Funding ratio	Compared to main scenario £bn
Main	11.7	137.9%	–
1	11.3	139.8%	↓ (0.4)
2a	11.6	138.5%	↓ (0.1)
2b	11.7	137.4%	0.0
3	13.2	145.1%	↑ 1.5
4	12.0	139.4%	↑ 0.3
5	9.4	130.5%	↓ (2.3)
6	11.6	137.5%	↓ (0.1)
7	11.2	135.7%	↓ (0.5)

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. 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 S1

Definition of a provision

Schemes that make up the provisions as at 31 March 2022 are those schemes that meet either of the following criteria:

- 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

Schemes were considered to be in assessment as at 31 March 2022 if on or before that date an insolvency event occurred and all of the following apply:

- 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
- transfer to the PPF had not yet occurred

Some schemes may have had insolvency events occur on or before 31 March 2022 but had not yet reported this to us. 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 any of the following criteria are met (in the order shown):

- 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
- 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 and I have considered the impact the *Hampshire* and *Hughes* judgments may have on the scheme's funding status as well as the most recent information available of the scheme's draft section 143 funding position

1 Full details of the methodology can be found at https://www.ppf.co.uk/sites/default/files/2021-12/Transformation_Appendix__2223.pdf.

Appendix S2

Data

Transferred schemes

The data for the PPF members whose compensation forms the actuarial liabilities is summarised in my main report dated 28 June 2022.

Schemes that form the provisions

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

	31 March 2022	31 March 2021
Number of schemes	60	79
Estimated number of members receiving compensation in these schemes	28,382	33,846
Estimated number of deferred members in these schemes	20,308	27,749

In addition, there are 18 schemes currently in assessment that are not included as the expectation is that they will secure benefits above PPF levels and therefore not 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 asset values at 28 February 2022 from the scheme trustees. There are six such schemes in the provisions this year. All of these were in assessment as at 31 March 2021, and I have valued them based on membership with effective dates between September 2020 and October 2021. For assets I rolled these forward from February to March with market indices and allowed for cashflows over the period, and checked these results were not materially different from the actual values at 31 March 2022. Membership data was collected in a standard template and gave 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 2021. 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 97 per cent of the total liabilities and provisions.

There are two schemes that were classified as material at a previous valuation date but do not classify as such at the 31 March 2022 valuation. For these schemes I have used the same individual member data and starting asset values I used for the 31 March 2021 valuation, which had effective dates of December 2015 and November 2016. I have allowed for expected member movements since the effective dates of the data. These schemes account for less than one per cent of the total liabilities and provisions.

Non-material schemes

For producing the assets and liabilities of the remaining 52 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 simplified approach should not be material to the overall results.

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 £87.2 million.

Appendix S3

Assumptions

The assumptions used to value the provisions 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 cash flows are not produced without individual member data. Instead, I determined six single rates of discount, inflation and compensation increases such 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 cash flows 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 2022 % p.a.	31 March 2021 % p.a.
In deferment	Before 6 April 2009	Deferred	-2.2	-1.7
	After 5 April 2009	Deferred	-0.9	-1.2
In payment	Before 6 April 1997	Receiving compensation	1.7	1.1
		Deferred	1.7	1.2
	After 5 April 1997	Receiving compensation	-0.5	-1.0
		Deferred	-0.6	-1.0

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, an additional allowance is made where the scheme in assessment does not already have data that includes equalised GMP. This is 1.2 per cent of liabilities in respect of members receiving compensation and 0.6 per cent of deferred liabilities. This includes an 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.

Expenses

In addition to expenses incurred after transfer to the PPF, the following expenses for schemes forming the provisions are also included:

- expenses 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, subject to a cap on 100 per cent of the expenses of £3 million per scheme. Two of the SIA have had this cap applied
- expenses incurred by us in transferring members into the PPF. This has been calculated as a per-member cost determined by dividing the cost to us of transferring members by the number of members involved. We have used the same figures as last year as a recalculation was not expected to significantly change the result

The total expense allowance for provisions is 3.4 per cent of the liabilities (2021: 3.6 per cent).

Appendix S3
Assumptions – continued

Minimum compensation

A similar approach has been used to assess the expected cost of uplifting members' compensation in respect of the *Hampshire* and *Hughes* court rulings as the approach taken for transferred schemes.

i. *Hampshire* – 50 per cent minimum

Each scheme in assessment was categorised according to the type of benefits provided by the original benefit structure. Each category was assigned a loading based on the model used to derive the uplifts for the transferred scheme data. This resulted in an allowance of 0.2 per cent of deferred liabilities and 0.1 per cent of pensioner liabilities for these schemes when considered in aggregate.

ii. *Hughes* – the compensation cap

The loadings for removal of the compensation cap have been set to be the same for schemes in assessment as for transferred schemes, except to adjust expected future arrears to reflect that schemes in assessment will generally have more recent dates of entering PPF assessment than transferred schemes. These loadings are 0.7 per cent of liabilities in respect of members receiving compensation and 0.5 per cent of deferred liabilities.

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 calculated in a more approximate manner than the main results.

Scenario	Description	Reasoning
1	Nominal yields are assumed to increase by 0.5% p.a.	This is an illustration of a plausible move in yields.
2a	Inflation is assumed to decrease by 0.5% p.a.	This is an illustration of a plausible move in market-implied inflation rates.
2b	Inflation is assumed to increase by 0.5% p.a.	This is an illustration of a plausible move in market-implied inflation rates, the opposite of scenario 2a.
3	Average life expectancy is assumed to be one year shorter than assumed in the main valuation.	This is an illustration of a plausible move in life expectancy.
4	No improvements in life expectancy are assumed for the next five years.	This is an illustration of what could plausibly happen to life expectancy improvements given the Covid-19 pandemic.
5	The value of return-seeking assets as at the valuation date (excluding those that 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 our 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, % p.a.					
Payment status	**In deferment**		**In payment**			
Service	**Before 6 April 2009**	**After 5 April 2009**	**Before 6 April 1997**		**After 5 April 1997**	
Member type						
Scenario	**Deferred**		**Deferred**	**Receiving compensation**	**Deferred**	**Receiving compensation**
Main	-2.2%	-0.9%	1.7%	1.7%	-0.6%	-0.5%
1	-1.7%	-0.4%	2.2%	2.2%	-0.1%	0.0%
2a	-1.7%	-0.9%	1.7%	1.7%	-0.5%	-0.4%
2b	-2.6%	-0.9%	1.7%	1.7%	-0.6%	-0.6%
3	-2.2%	-0.9%	1.7%	1.7%	-0.6%	-0.5%
4	-2.2%	-0.9%	1.7%	1.7%	-0.6%	-0.5%
5	-2.2%	-0.9%	1.7%	1.7%	-0.6%	-0.5%
6	-2.2%	-0.9%	1.7%	1.7%	-0.6%	-0.5%
7	-2.4%	-0.7%	1.6%	1.9%	-0.7%	-0.3%

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.

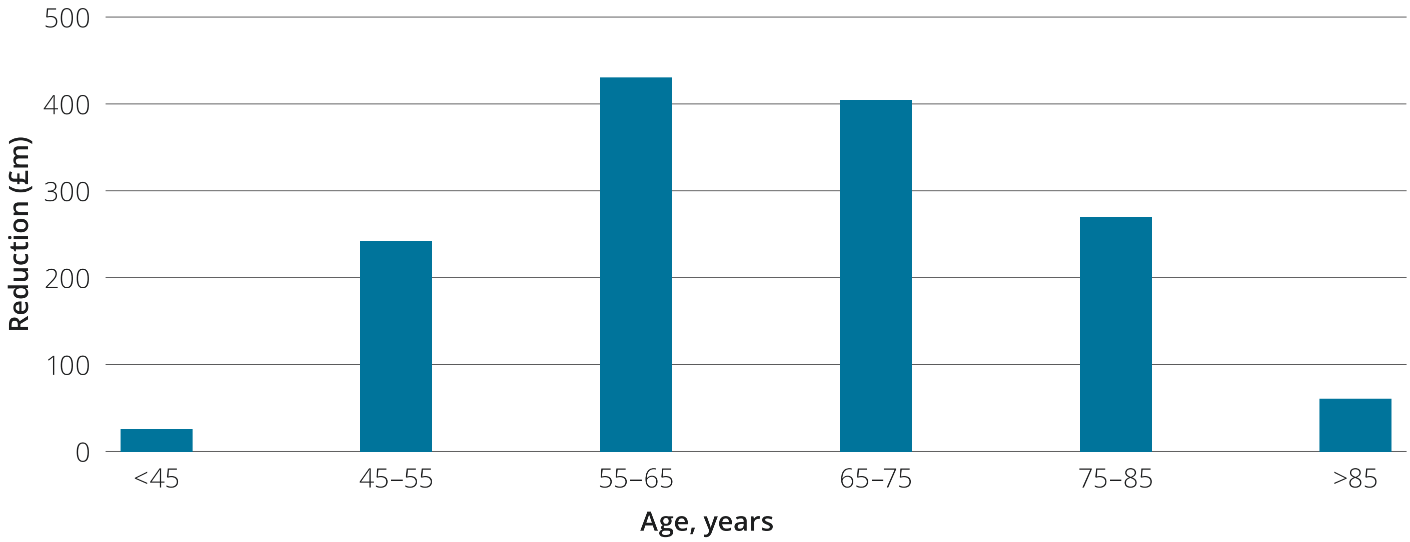
Appendix S4
Sensitivity analysis – continued

The following table sets out the range of results under the above scenarios for both transferred schemes and those in assessment. Figures are in £ billion, unless stated otherwise.

	Assets			Liabilities				
Scenario	PPF	Provisions	Total	PPF	Provisions	Total	Reserves	Funding ratio
Main	39.37	3.07	42.44	27.43	3.36	30.78	11.66	137.9%
1	36.87	2.87	39.74	25.32	3.10	28.42	11.31	139.8%
2a	38.76	2.95	41.71	26.83	3.28	30.11	11.60	138.5%
2b	39.97	3.19	43.16	28.00	3.42	31.42	11.74	137.4%
3	39.37	3.07	42.44	26.06	3.19	29.25	13.19	145.1%
4	39.37	3.07	42.44	27.13	3.32	30.45	11.99	139.4%
5	37.16	3.01	40.17	27.43	3.36	30.78	9.39	130.5%
6	39.37	3.07	42.44	27.50	3.36	30.86	11.58	137.5%
7	39.37	3.07	42.44	27.83	3.44	31.27	11.17	135.7%

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.

From the table above, a one-year reduction in life expectancy reduces liabilities by around £1.5 billion. The chart below shows how this is distributed across our membership – this distribution will be impacted by both the proportion of liabilities in each age band as well as the fact that the impact increases with age.



The results of all the sensitivities 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 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.

Legislation/guidance	Valuation aspect it applies to
IAS 37 Provisions, Contingent Liabilities and Contingent Assets	**Provisions** A provision should be recognised when all of the following apply: • 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 • a reliable estimate can be made of the amount of the obligation
The following sections of the Pensions Act 2004:	
Section 143	Actuarial valuations performed to determine whether the scheme should transfer to the PPF
Section 179	Actuarial valuations performed to determine the level of scheme funding for the purpose of calculating the risk-based pension protection key

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

COP26 – The 26th United Nations Climate Change Conference

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

ExCo – Executive Committee

FAS – Financial Assistance Scheme

FCA – Financial Conduct Authority

FCF – Fraud Compensation Fund

FReM – Government Financial Reporting Manual

Fund – Protection Fund

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

HMT – Her Majesty’s Treasury

Hybrid assets – Investments which possess attributes of both liability hedging and growth assets

IAS – International Accounting Standard

IFRS – International Financial Reporting Standard

ISAs – International Standards of Auditing

ISO – International Organization for Standardization

KAHL – Kodak Alaris Holdings Limited

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

RI – Responsible Investment

RPI – Retail Prices Index

SAA – Strategic Asset Allocation

SIA – Schemes In Assessment

Section 143 – Actuarial valuations performed to determine whether the scheme should transfer to the PPF

Section 179 – Actuarial valuations performed to determine the level of scheme funding for the purpose of calculating the risk-based pension protection key

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