Pension
Protection
Fund

Annual Report
and Accounts
2022/23

Providing security, building sustainable futures

HC 1639

Pension Protection Fund

Annual Report and Accounts 2022–23

For the period 1 April 2022 to 31 March 2023

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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Overview

Overview of the PPF

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.

What we do

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.

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 – 9.6 million as at 31 March 2022.

When these schemes fail, we're ready to help. We do this by paying our members, charging a levy and investing for the long term.

PPF members at 31 March 2023

295,528 of which:

193,218 in payment

102,310 deferred

Number of people who are members of schemes being assessed for PPF membership

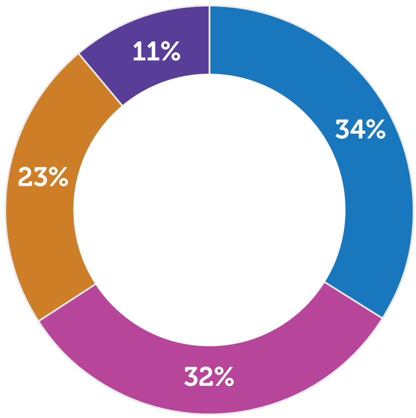
64,614

PPF assets under management at 31 March 2023

£32.5bn

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

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

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.

FAS members at 31 March 2023

142,127 of which:

84,176 in payment

57,951 deferred

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.

Delivering on our purpose

In order to achieve our ambitions, we continue to develop our culture at the PPF, and make sure that all colleagues understand our goals and the outcomes we want to achieve.

We are conscious that what we do has a real impact on people's lives, so we strive to do it well, and with members' futures in mind.

Our 2022–25 strategic priorities

Our priorities for the three years are designed to ensure we achieve our ambitions.

- Excellence in asset and liability management (see page 18)
- Meeting new challenges with brilliant service (see page 28)
- Making a difference (see page 34)
- Transforming how we work (see page 48)

Our people

We make sure all PPF employees understand our strategic priorities so that we can be successful in achieving our goals. The work of our dedicated colleagues is guided by our ICARE values.

441 employees at 31 March 2023

Our ICARE values

Our values guide our behaviours and are a key part of our commitment to our members and stakeholders, and to each other.

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

Offering stability to those who rely on us

Protecting and reassuring those who depend on us is central to everything we do. This responsibility is never more in focus than during periods of economic uncertainty.

At the end of the financial year, as I reflect on the successes and challenges of the past 12 months, it feels like the last few years have been characterised by a different kind of turbulence.

The rising cost of living has made it an exceptionally difficult year for many people, including our members and employees. We have kept this at the forefront of our Board discussions and decisions, as I know the Executive Committee have too. We take our responsibilities extremely seriously. The PPF has weathered the storms again and remains strong and robust, offering stability to those who rely on us year after year, evolving and adapting to the world in which we live.

Our strategy and the way we manage risk help us to make sure we can keep protecting and paying members for decades to come. The review of our funding strategy, which we published last autumn, was an important step in our evolution and a recognition that we've moved into a new phase.

Our aim is to lead by example and catalyse the growth of a more sustainable pensions industry. Investing responsibly has always been at the heart of how we manage our investment portfolio, and we firmly believe that this is critical to ensuring sustainable returns for our stakeholders. By taking material environmental, social and governance (ESG) risks and opportunities into consideration, not only in our investments but in all our activities, we aim to protect our assets, our members' futures and the world around us.

£1.2bn

paid to PPF members in 2022/23

437,655

PPF and FAS members

We have already, over the last several years, made tangible progress in many aspects of sustainability. We embed material ESG considerations right across our investments as well as expecting the same from our external managers, from selection through to ongoing monitoring and reporting, as evidenced by the growth over the last few years in the number of our external managers who have become Principles of Responsible Investment (PRI) signatories. We've made meaningful progress since beginning our Diversity and Inclusion (D&I) journey in 2018 and have set ourselves ambitious targets. We also look beyond our own operations and our portfolio, embedding sustainability and social value into our procurement and contract lifecycles. The new sustainability strategy brings together all of this as we aim to build on the progress already made and look at the impact of our own operations, our supplier relationships and our impact in the community.

I was very pleased to read the positive feedback on our governance and strategy in the Department for Work and Pensions' (DWP) review of the PPF. The report was a real validation of our role, effectiveness and maturing as an organisation. We felt proud to be recognised for the value we bring and I personally welcome the encouragement to add further value by taking what we've learned to a wider audience. We have learned a great deal throughout the course of our evolution so far, in areas such as investment, customer service and D&I, and are actively seeking to make our learnings available to others in the industry. We are taking forward the review's recommendation for us to work with the Government to explore opportunities to use our capabilities and skills for wider public benefit.

Sadly, the current cost of living crisis has exacerbated inequalities that exist in the UK, bringing into sharp focus again the need to improve financial literacy across the population. Many children reach adulthood without the skills necessary to manage their own finances, lacking the confidence to budget, avoid debt and navigate the financial product marketplace. There is some great work happening in the industry, including a unique longitudinal study into the impact of financial education at primary school level over seven years, which I will be watching with interest. Much more can be done and the Government has shared its ambition for all pupils to study maths until the age of 18. My hope is that the PPF can go further and use our collective expertise to help raise financial literacy through our new Community Impact programme.

Chair's statement – continued

I would also like us to collaborate with others in the industry to do more on financial inclusion, keeping in mind our responsibility to make sure the information we share with pension scheme members is clear, understandable and accessible to all.

The past year saw significant market volatility. The stresses last autumn in the gilts market, which necessitated the Bank of England to intervene, may understandably have caused concern to members of DB schemes. While we remained financially robust, we welcome steps taken since the crisis by the Bank of England and The Pensions Regulator to strengthen the resilience of DB pension schemes. While the impacts on individual schemes will take some time to be fully known, we expect that the increase in gilt yields will have a positive impact on the aggregate funding position of DB schemes. Against this backdrop, we also welcome the renewed focus on the DB Funding Code. It is vital to ensure schemes are appropriately funded in order to reduce risks to members and the PPF, particularly as more schemes reach maturity.

While claims on the PPF have been low over the course of the year, we haven't become complacent. We've worked hard to support schemes where the employer has become insolvent, but the scheme can afford to buy higher benefits than the PPF would pay. Our team works with specialist panel experts to help these schemes progress through the PPF assessment period as seamlessly as possible and help them secure the best possible benefits for members outside the PPF. Earlier this year our team helped the Arcadia pension schemes to agree an £850 million buy-in with Aviva following a period in PPF assessment – an excellent result for the schemes' 8,800 members.

In closing, I want to thank my colleagues on the Board and the Executive Committee for their care, leadership and commitment to delivering for all of our stakeholder communities. I'd particularly like to thank Rodney Norman, who stepped down from his non-executive role in December 2022, and Anna Troup, who will be stepping down in June 2023, for all they have contributed to the PPF. I am delighted to welcome David Atkinson to the Board. He brings valuable experience in risk and financial services and I look forward to the contribution he will make.

I'd also like to express my thanks to the employees who make the PPF what it is. It is rare to find a more committed and engaged group of people who care about our members and the difference we continue to make in supporting those who look to us to protect their future.

Together we will continue to build on these strong foundations and ensure safer futures for those who rely on us.

Kate Jones
Chair

"The PPF remains strong and robust, offering stability to those who rely on us year after year, evolving and adapting to the world in which we live."

DWP's review of the PPF

In December 2022, the DWP published the findings of its departmental review of the PPF. Public bodies under the remit of government departments are often reviewed to provide assurance, ensure good governance, and challenge their continuing need and efficiency. We're pleased that this recent review by the DWP has been positive. You can read the full report at https://www.gov.uk/government/publications/departmental-review-of-the-pension-protection-fund-ppf/departmental-review-of-the-pension-protection-fund-ppf

"

In conducting this review, I have found the PPF to be a well-run public body offering high standards of service and value for money to those who use it and pay for it... It is well-managed and well-governed and is highly regarded by the full range of its stakeholders.

My recommendations are therefore limited in number, focusing on areas where there is an opportunity to enhance rather than a need to rectify. In particular, there is an opportunity for the PPF to share its good practice in certain areas more widely and an opportunity for the DWP and the PPF to consider whether it and its expertise can be used in other ways for public benefit.

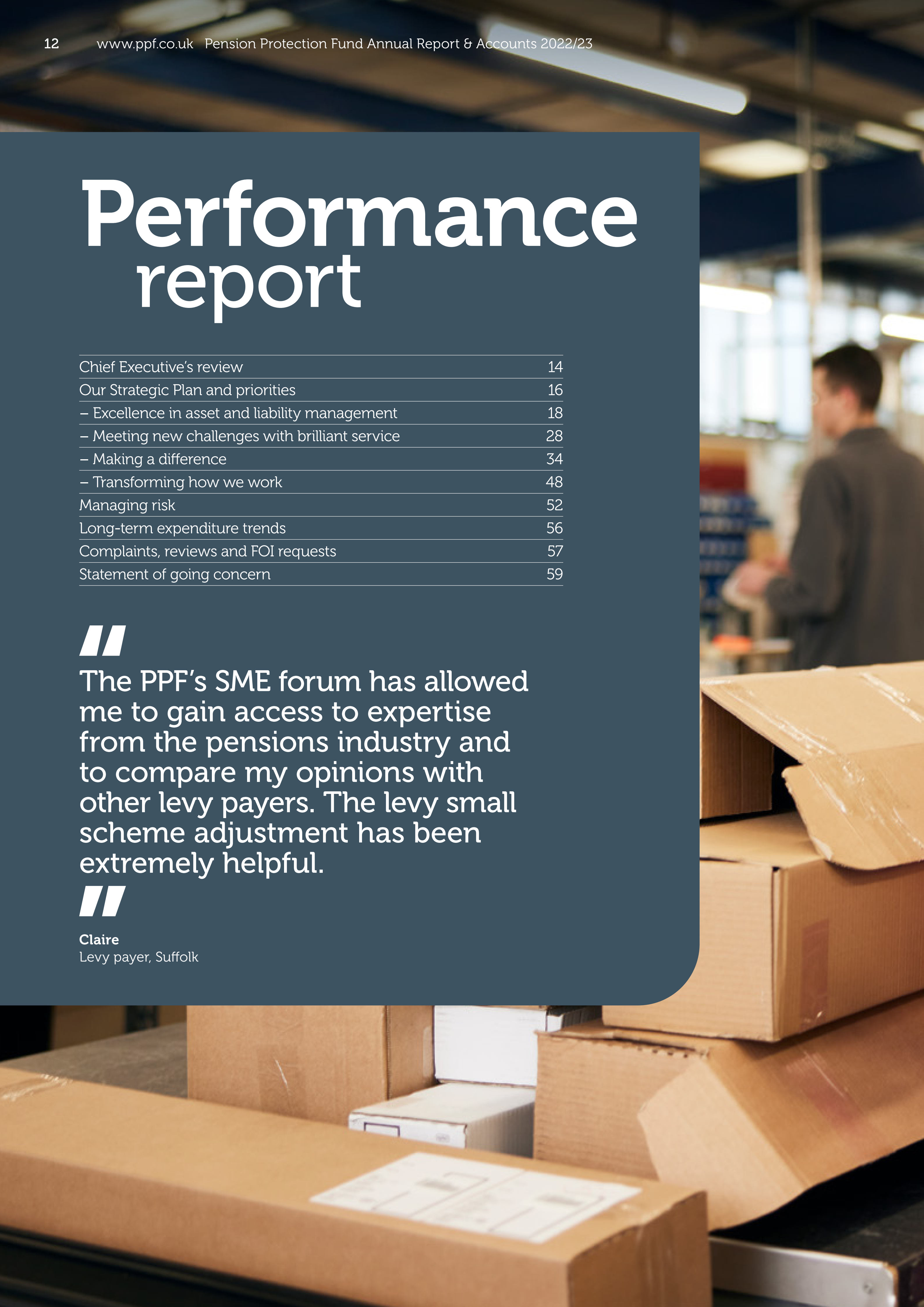
"

Lesley Titcomb, CBE,
Lead reviewer of the DWP's review of the PPF

Performance report

"The PPF's SME forum has allowed me to gain access to expertise from the pensions industry and to compare my opinions with other levy payers. The levy small scheme adjustment has been extremely helpful."

Claire
Levy payer, Suffolk



Proud of our teams' achievements

As we mark the end of another eventful year, I am pleased to report that we've been successful in achieving our objectives for 2022/23. Despite all the challenges we've seen over the year, including economic and market turbulence, we've continued to deliver on our mission, move forward with our Strategic Plan and meet our goals.

> **In many ways, the events of the year have once again proved that our in-house operating model works and our capabilities are strong, even in tough times.**

It was a pleasure to see our teams recognised for their outstanding work this year. The PPF was named joint Best UK Pension Fund at the IPE Awards, where the judges highlighted our commitment to responsible investment. Our Chief Investment Officer was also recognised for Efforts in ESG at the CIO's Industry Innovation Awards 2022. ESG is critical to our mission and risk management, as we set out in our sustainability strategy.

We've also maintained our excellent customer service, with 98 per cent member satisfaction and 96 per cent for levy payers, and both our member and levy customer service teams retaining their ServiceMark accreditation. Our Member Services team work extremely hard to support members and we were proud to hear they'd won the Pensions Administration award at the Pensions Age Awards for the third time.

We published our Funding Strategy Review in the autumn, in which we redefined our funding objective now that we've entered a maturing phase from a position of significant financial strength. Because of this, we've established a new investment framework, with a matching portfolio and a growth portfolio to align with the separate funding requirements. We've also been able to halve the PPF levy in 2023/24. It is excellent news that as a result of our strong financial position, and the current level of perceived risk posed to the PPF, we've been able to reduce the levy while ensuring a positive and secure outcome for our current and future members. Levy payers welcomed this as a time when there are significant financial pressures on employers.

Last September, when interest rates rose rapidly after the mini-Budget, many pension schemes had to liquidate assets in order to fund their liability-driven investment strategies. The cycle of increasing rates necessitated an intervention from the Bank of England. Fortunately, we did not have a liquidity issue and were well prepared for such a scenario. We weren't in any danger of having to sell assets to meet collateral calls, so the impact on our Fund was limited and we protected our reserves.

This was possible because our tried and tested liability-driven investment (LDI) strategy performed exactly as it should. The situation was a clear validation of our in-house operating model. In many ways, the events of the year have once again proved that our model works and our capabilities are strong, even in tough times.

Markets have been challenging for many asset classes we hold, but we have delivered a healthy return on our growth portfolio over the year, which is above the benchmark we use to measure our performance against other funds.

I would like to thank all our employees for their dedication to the success of the PPF, working together to keep delivering on behalf of our members and stakeholders. I'd also like to extend my thanks to the Executive Committee, and particularly to Lisa McCrory, who has stepped down as Chief Finance Officer and Chief Actuary. Lisa joined us as an actuary in 2009 and her impact has grown significantly since then. Her advice to the Board has been invaluable and she led the recent work to evolve our long-term funding strategy. I look forward to working with Shalin Bhagwan, whom we've recently welcomed as Chief Actuary. He brings extensive pensions, actuarial and investment experience, having advised some of the UK's largest pension funds. I am also delighted that Dana Grey was appointed Chief Risk Officer in December after previously stepping into the role on an interim basis.

Together with everyone at the PPF, I look forward to building on our success to date and continuing to protect and serve our members.

Oliver Morley
Chief Executive

Our Strategic Plan and priorities

Strong foundations,

safer futures

Our purpose is to protect the futures of people in the UK with a DB pension. The strong foundation we've established has put us in a better position than ever to deliver on this purpose.

Strategic Plan 2022–2025

Excellence in asset and liability management

We will begin implementing the outcomes of our funding strategy review, review our levy methodology and demonstrate best practice in asset management.

Meeting new challenges with brilliant service

Focus areas include continuing to provide high standards of service to our members and levy payers, and amending our compensation in response to court rulings and legislation.

We published our Strategic Plan 2022–25 in April 2022, having achieved the goals of our Strategic Plan 2019–22. This success means we can focus on driving forward our ambitions and solidify our status as a role model for best practice in the industries we operate in.

We remain ambitious on behalf of our members, levy payers and the millions of DB scheme members we protect. We must be a trusted and highly regarded asset manager. We want to deliver brilliant service for our members and levy payers, and keep our commitment to sustainability. And we want to be an exciting, attractive place to work.

Our operating environment

When setting our strategic priorities for 2022–25, we considered how our operating environment could change over that period and how this might affect the action we need to take to achieve our goals. We'll face significant challenges. Business continuity and cyber security risks continue to grow, considerable changes have become necessary to the compensation we pay, and expectations of digital services and sustainability commitments are changing. Our priorities are designed to ensure we meet these challenges and achieve our ambitions.

Our four strategic priorities are set out below. This report covers the first year of our 2022–25 Strategic Plan period.

Making a difference

We will focus on developing a holistic sustainability strategy, aim to set the standard in our approach to responsible investment, and drive forward our diversity and inclusion strategy.

Transforming how we work

Key goals include making the best use of technology to evolve business processes, developing our approach to hybrid working and completing our move to cloud-based services.

Excellence in asset and liability management

> To me, the PPF means security. The PPF has provided me with the confidence that a comprehensive assessment of my pension plan is being undertaken and that members will be protected to a certain defined level.

Jackie
Member of a scheme in PPF assessment, Bedfordshire

Strategic activities and milestones for 2022/23

- We will share the outcome of the review of the funding strategy which will confirm our short- and longer-term aspirations for our levy and investment strategy.
- By the end of October, we will have consulted on our approach to the 2023/24 levy (including reflecting the outcomes of the funding strategy review) and will publish the final rules by the end of January 2023.
- We will review our operating model against the regulatory standards, culture, processes and governance required for a fund of our size, given our statutory role.
- We will deliver investment performance consistent with targets set by the Board and our long-term investment objectives within our strategic risk budget.

Funding position

At 31 March 2023, our total consolidated reserves were £12.1 billion, an increase of £0.4 billion from last year. Our funding ratio has increased significantly to 156.0 per cent, an increase of 18.1 percentage points year-on-year.

Our funding ratio gives a measure of how our reserves compare to our reported liabilities. The strong growth in our funding ratio is mainly because our reported liabilities have fallen by around 25 per cent over the year. The dramatic reduction in liabilities has been caused by the increase in interest rates observed over the first half of the financial year. To calculate our liabilities, we first estimate the cash flows we expect to pay in the future. In a higher interest rate environment, the amount of money we need to invest today to meet these cash flows, referred to as our liabilities, falls.

The increase in interest rates over the year has been unprecedented and we've also seen record levels of inflation. We recognise that the increase in the cost of living is worrying for our members. For more information on indexation of PPF compensation, see page 31.

Our approach to managing the risk of changing interest and inflation rates has always been to hold assets that behave in the same way as our liabilities when these rates change. This approach is commonly referred to as an LDI strategy or hedging strategy. This has meant that our assets under management have seen a sharp fall over the year, reducing from £39 billion to £33 billion as at 31 March 2023.

To read more about how our LDI strategy performed over the year, see page 26.

While around half of the assets we hold are used to fund our LDI strategy, the remaining assets are invested in a low-risk growth strategy with the aim of generating returns to grow our reserves. As well as being a volatile time for our hedging assets, it has been a challenging market for many of the other asset classes we hold too. Despite this, growth assets have contributed a return of 1.9 per cent on our total assets under management over the year. This has increased our reserves by around £600 million and is above the return on the portfolio of assets we use to benchmark our performance relative to other similar funds.

We had relatively low claims on the PPF over the year. As well as the number of claims being low, the size of these claims has also been very small. The total value of PPF claims on the Fund was £14 million, similar to last year's claims of £12 million.

Our Strategic Plan and priorities – continued

Funding in the universe of schemes we protect

The changing economic outlook and higher interest rate environment has had a dramatic impact on the funding position of the schemes we protect. Our PPF 7800 Index tracks the assets and liabilities of these schemes, with the liability assessment aiming to estimate the cost of securing PPF levels of compensation with an insurer.

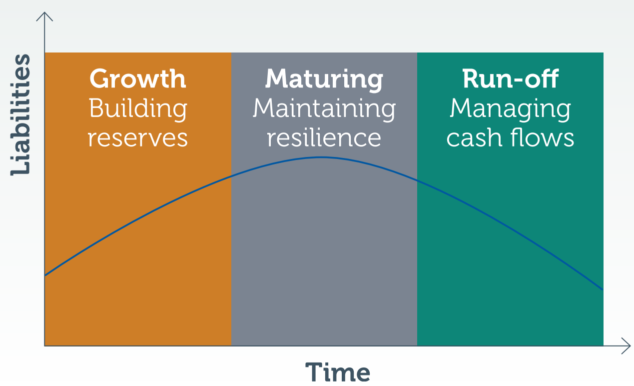
Rising interest rates have resulted in a lower assessment of the total liabilities in our universe. While many of these schemes will also have hedging strategies to manage the risk from changing interest and inflation rates, they will not be exactly matched in the way that we are. This means that in aggregate, our expectation is that the funding position in the universe will have materially improved. We estimate that the number of schemes now in deficit on this basis has reduced from around 34 per cent at 31 March 2022 to 15 per cent at 31 March 2023, with the combined deficit of those schemes in deficit falling from £60 billion to £6 billion.

For the first time in our history, our reported reserves now exceed the combined deficit of the schemes we protect. This represents a material change in the risk profile of the universe we protect.

Our funding strategy

In September 2022 we published our funding strategy review, which outlined that we are entering a maturing phase in our funding journey. This new phase is characterised by lower claims on the Fund as a result of a reduced risk of underfunding in the universe we protect.

The different phases of the PPF's journey



We have entered the maturing phase from a position of significant financial strength. Our current level of reserves provides a high level of protection against the risk that we need to pay more in compensation than expected. We have therefore redefined our funding objective to 'maintaining our financial resilience'.

We define financial resilience as having reserves that are sufficient to provide a high level of protection against members living longer than expected and higher-than-expected claims. Based on our funding position at 31 March 2022, we concluded that our reserves were very close to the level needed to meet this test and as a result we began the process of transitioning to a lower levy.

We reduced the amount we aim to collect from £390 million in the 2022/23 levy year to £200 million in the 2023/24 levy year. By reducing the levy by almost half, almost all schemes will pay less levy. Industry experts told us our proposals are sensible and welcome at a time when there are many financial pressures on employers.

Our intention is to continue to grow our reserves above those needed to meet the financial resilience test in order to provide a higher level of protection to our members. This approach will also reduce the risk of funding being eroded in the future and the subsequent need to raise more funds through levy. We expect any reserves in excess of those needed to meet the financial resilience test will predominantly be generated through a low-risk investment strategy.

This year, our reserves have seen a small increase and the risks we face have reduced. This will act to increase the likelihood of us meeting our funding objective.

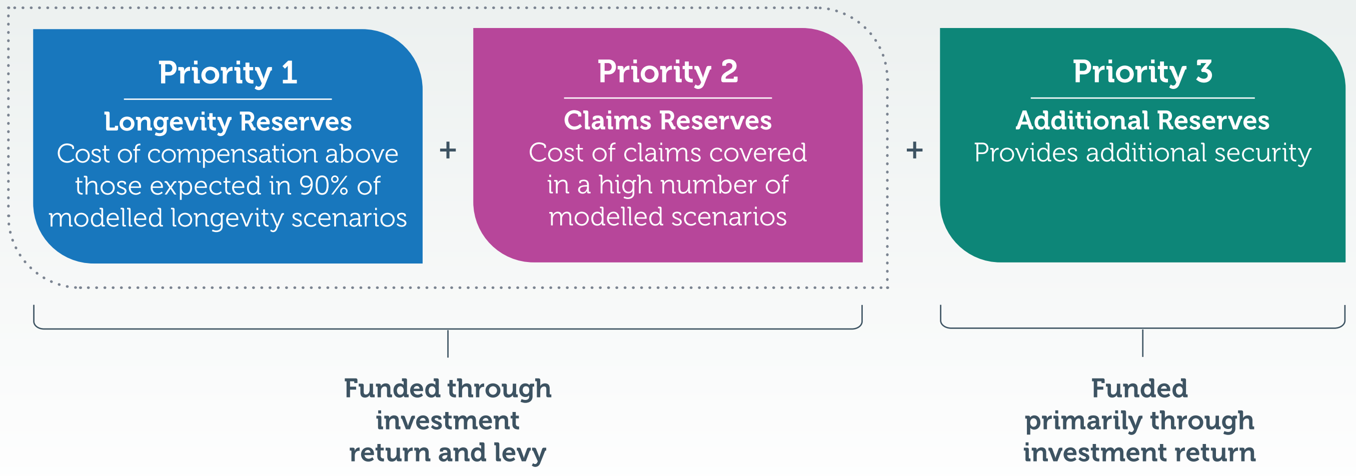
The final phase of our funding journey will be our run-off phase, when our balance sheet will be reducing as we settle members' benefits.

Our modelling shows that our run-off phase is unlikely to happen before 2035. We expect that during this phase, risks from claims will not be material, therefore our financial resilience will depend on us having sufficient reserves to provide a higher level of protection against members living longer than expected.

Based on our current approach to levy and investments, our modelling shows the likelihood of the PPF not having sufficient reserves to provide this level of protection in 2035 is less than five per cent.

The Longevity Reserves and Claims Reserves are designed to cover all but the worst longevity and claim scenarios. These reserves will be funded through both investment return and levy. Any additional reserves built up will be funded primarily through investment return.

Target reserves during the PPF's maturing phase



Changes to levy rules

In December, following a six-week consultation on levy rules, we confirmed we will decrease the increments between levy bands in the year 2023/24 to significantly reduce volatility in levies.

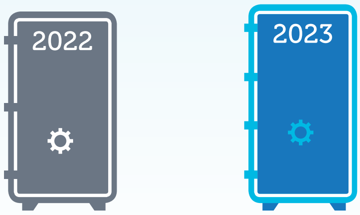
We will also integrate the new asset class information collected by The Pensions Regulator in 2023 into the levy. These proposals were strongly supported by stakeholders during the consultation.

Our Strategic Plan and priorities – continued

PPF reserves

£11.7bn

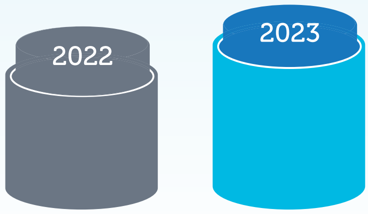
£12.1bn



Funding ratio

137.9%

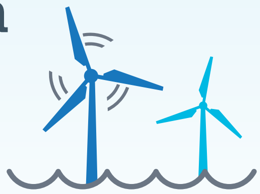
156.0%



PPF assets under management

£32.5bn
2023

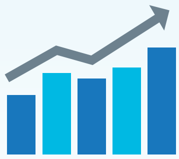
£39bn
2022



Return of growth assets

1.9%
2023

7.6%
2022



Actuarial liabilities

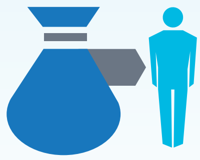
£20.3bn
2023

£27.4bn
2022

PPF benefits paid

£1.2bn
2023

£1.1bn
2022



PPF levy collected

£386m
2023

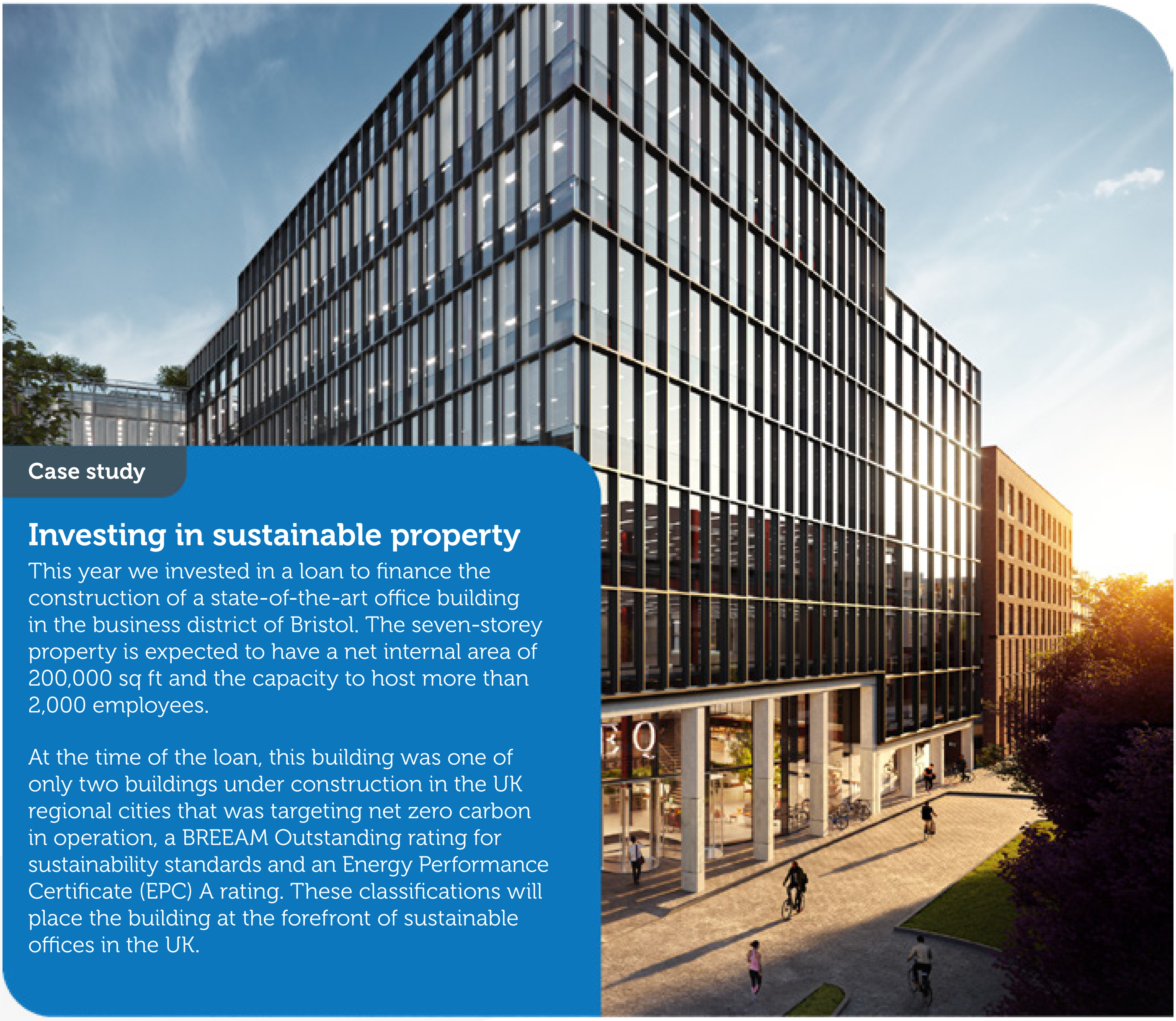
£476m
2022

Five-year performance

The investment portfolio has again outperformed our five-year rolling target. Over the last five years, the total Fund has delivered an annualised contribution of 3.09 per cent versus an annualised target of 2.37 per cent. Non-LDI assets alone delivered an annualised contribution of 4.61 per cent. Over the same period, the investment team contributed 96bps over and above the return of the Strategic Asset Allocation (SAA) benchmark. The main contributors to total outperformance versus benchmark were Private Equity, Infrastructure, and Timberland & Farmland.

One-year performance

In a very challenging year for all listed asset classes, the investment portfolio delivered a contribution of 2.02 per cent. The main drivers of positive performance were our Private Market asset classes, whereas most if not all publicly listed asset classes had a negative performance for the year. The investment team added 97bps above the SAA benchmark, the main contributors being Infrastructure, Private and Public Equity. Asset class positioning also contributed strongly, as we were predominately underweight in Public Equity and overweight in Cash and Short-Duration Corporate Bonds.

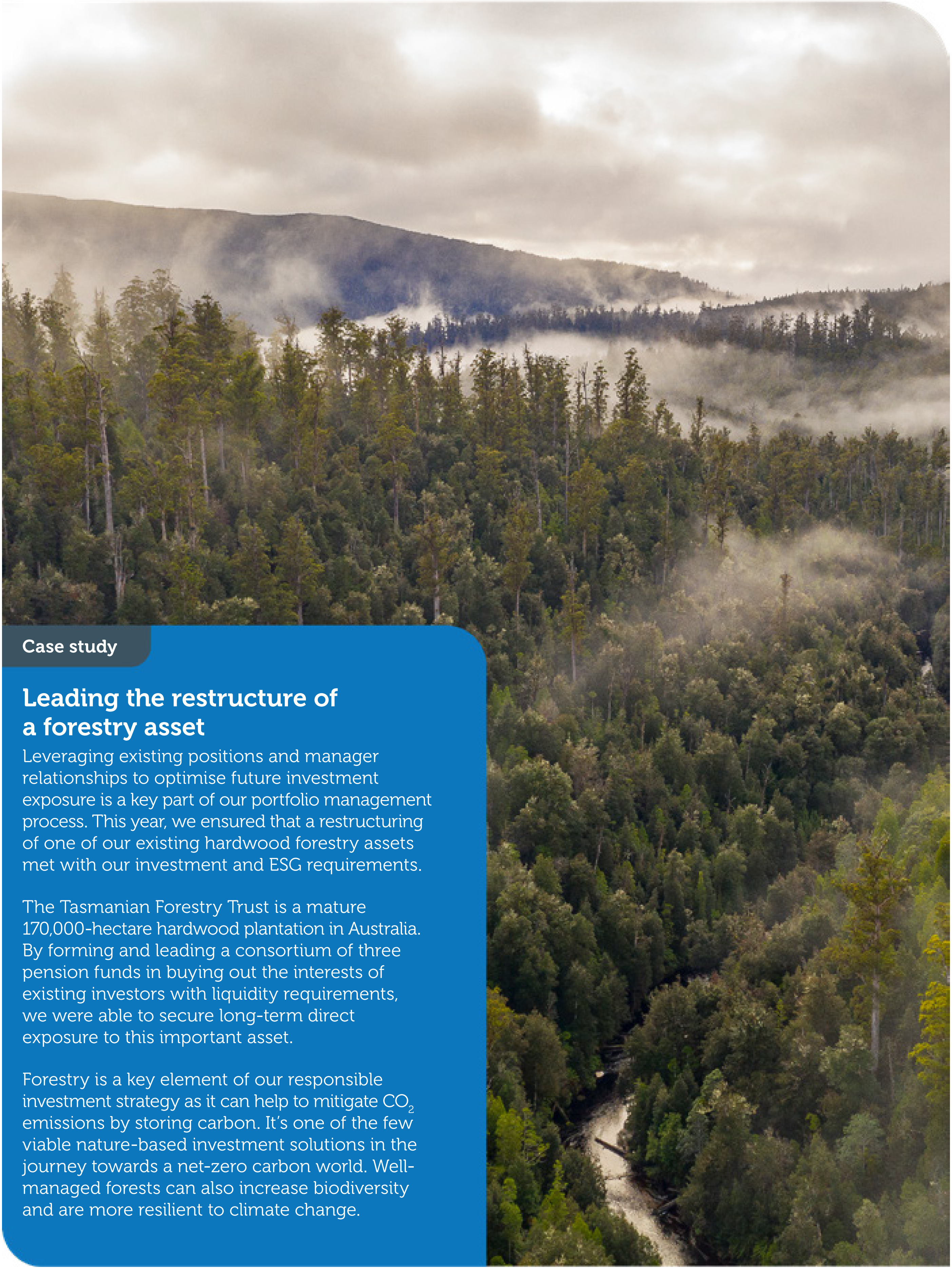


Case study

Investing in sustainable property

This year we invested in a loan to finance the construction of a state-of-the-art office building in the business district of Bristol. The seven-storey property is expected to have a net internal area of 200,000 sq ft and the capacity to host more than 2,000 employees.

At the time of the loan, this building was one of only two buildings under construction in the UK regional cities that was targeting net zero carbon in operation, a BREEAM Outstanding rating for sustainability standards and an Energy Performance Certificate (EPC) A rating. These classifications will place the building at the forefront of sustainable offices in the UK.



Case study

Leading the restructure of a forestry asset

Leveraging existing positions and manager relationships to optimise future investment exposure is a key part of our portfolio management process. This year, we ensured that a restructuring of one of our existing hardwood forestry assets met with our investment and ESG requirements.

The Tasmanian Forestry Trust is a mature 170,000-hectare hardwood plantation in Australia. By forming and leading a consortium of three pension funds in buying out the interests of existing investors with liquidity requirements, we were able to secure long-term direct exposure to this important asset.

Forestry is a key element of our responsible investment strategy as it can help to 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.

Changes in our investment operations

Having completed our derivatives clearing project last year, we chose two brokers through a procurement process and worked with them through the year to be operationally ready to clear. We now clear our interest rate derivatives through the London Clearing House.

We also completed our cash unitisation project. The creation of internally managed unitised cash funds has simplified internal cash management by consolidating the cash holdings into one of two unitised funds. This has significantly improved the robustness of the operational processes in this area.

Our response to higher interest rates

In the first half of the year, interest rates and inflation were increasing predictably. Through prudent rebalancing, we reduced our absolute exposure to higher risk assets, which built up our cash buffers. When interest rates rose sharply at the end of September, our LDI programme performed as we expected given our robust risk and liquidity management framework. When interest rates became materially higher, we allocated some of the additional cash buffer to sub five-year corporate bonds, which had become attractively priced. We remained under-risked for most of the year, holding additional cash buffers.

Restructuring our investment approach

Following the publication of our funding strategy review in September, and the shift in market dynamics, we completed a detailed review of our SAA. Our new funding framework separates the funding requirements for current members from those of future claims. In response to this, we've established a new investment framework that splits our investment portfolio into two to align with the separate funding requirements and to deliver the required returns.

- **Matching portfolio** The objective of this portfolio is to be a fully funded annuity portfolio for current members. This portfolio will use a limited amount of leverage to manage interest rate and inflation risk, but the leverage is expected to diminish over time. The matching portfolio contains Government Bonds, Derivatives, Cash and HAIL assets.
- **Growth portfolio** This will primarily be focused on protecting our claims reserves and conservatively building up additional reserves. A secondary objective is to fund the purchase of physical assets in the matching portfolio. The growth portfolio contains Public Equity, Emerging Market Debt, Investment Grade Corporate Bonds, Absolute Return, Private Equity, Real Estate, Alternative Credit, Infrastructure, and Timberland & Farmland.

We will continue to use a well-managed, conservative LDI strategy to ensure that the interest rate and inflation risks within our liabilities are fully hedged.

Adjustments to the Strategic Asset Allocation

Overall, the risk profile of the aggregate investment portfolio remains consistent to that being run previously. However, we seek to add long-term value by optimising the strategic risk budget allocation within the investment portfolio. Although the growth and matching portfolios start with similar asset values, the allocation of the strategic risk budget between the two is differentiated to align with the objectives of each portfolio. Most of the strategic risk budget has been allocated to the growth portfolio, with a much smaller amount of risk being allocated to the matching portfolio.

Changes to the SAA have also been driven by an additional risk consideration which is consistent with the funding strategy, and which focuses on minimising the risk of eroding the reserves over the medium term.

The main changes to the SAA are:

- An increase in Short-Dated Corporate Bonds, HAIL, Private Equity and Infrastructure
- A decrease in Public Equity, Emerging Market Debt and Absolute Return, Government Bonds.

How our Liability Driven Investment (LDI) strategy has performed

The liability side of the PPF balance sheet reflects the value of payments we expect to make in the future to current scheme members. Changes to interest rates and inflation affect the valuation of those future payments. Our LDI strategy helps us to control the impact of these changes on our reserves through investing in assets that will behave in the same way as our liabilities: things like UK Government bonds (known as gilts) that go up and down in value as interest rates change.

Like most LDI strategies, we use leverage to balance managing our interest rate sensitivity whilst continuing to invest in return-seeking assets like equities that allow us to grow the size of our reserves. When interest rates rose sharply in September 2022, we had to move assets totalling £1.6 billion quickly to meet collateral calls. This was not a problem for us, as we keep lots of suitable assets available for exactly this purpose.

The situation was, however, more challenging for some pension schemes, which had to sell investments to raise money to put into their LDI strategies. Some had to sell their LDI assets. This selling created a cycle of increasing interest rates and the selling of LDI assets. In order to break the cycle, the Bank of England bought UK gilts on a temporary basis, and, by November, market interest rates had largely fallen back to where they were before September.

The direct impact of the situation on the PPF was limited. We were never in any danger of being forced to sell any of our assets and could have weathered further substantial rises in interest rates, and our reserves remained steady. This outcome is a validation of our decision to manage our LDI strategy in-house, which meant we had a real-time view of our position and were able to react very quickly as conditions changed. We also have an excellent in-house investment operations team, who oversaw the timely transfer of the extra security we had to pledge, and made sure that the information we had about our portfolio was up to date at all times.

Managing risk in our portfolio

Managing risk is at the heart of our investment strategy. Managing volatility in our reserves protects our members and levy payers. LDI helps us to manage the risks we don't want to take and lets us focus measured risk-taking where it generates best returns. 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.

Recognition for our investment team

We were incredibly proud to be named Best UK Pension Fund as a joint winner at the IPE Awards in December 2022. The prestigious awards reward excellence in Europe's diverse and innovative pensions industry. The judges highlighted our "steady performance, with Environmental, Social, and Governance (ESG) at the heart of our investment strategy".

Also in December 2022, our Chief Investment Officer (CIO) Barry Kenneth won the CIO Asset Owner Industry Innovation Award for Efforts in ESG. The awards recognise asset owners driving change and enhancing institutional fund performance.

These wins recognise our efforts to be a leading responsible investor and the progress we have made over the past year in the following areas:

- improving our access to insightful ESG-related data (especially in private markets)
- the continued adoption and evolution of ESG practices by our external managers across all markets
- supporting several ESG-themed opportunities, including a fund specialising in resilience infrastructure, social housing investment, and seeding an afforestation fund that plants new areas of woodland.

Read more about our responsible investment work on pages 34–39.

Our operating model

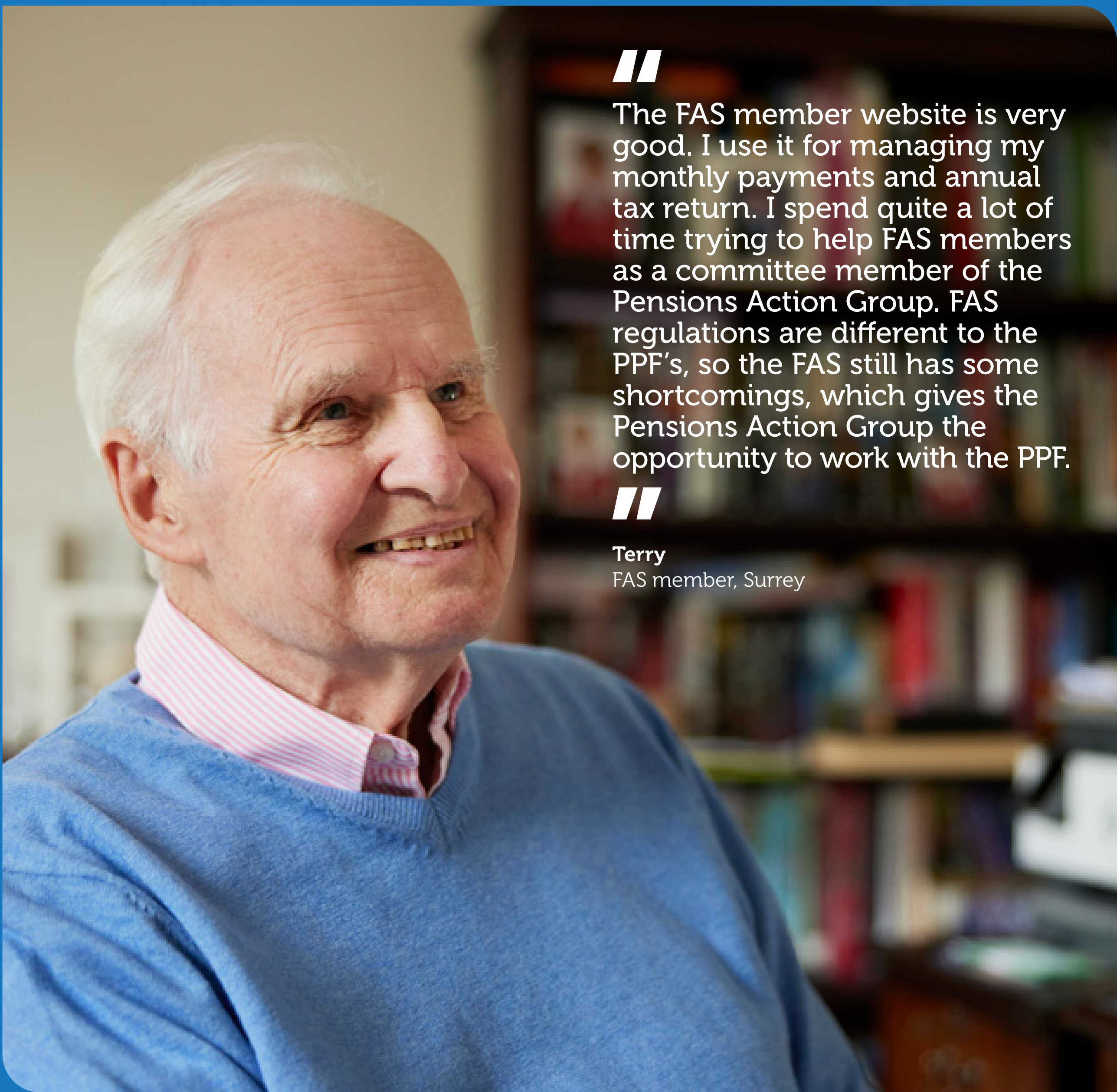
We are exempt from authorisation by the Financial Conduct Authority (FCA). Even as an unregulated entity, we align to many of the requirements that a regulated firm would be subject to.

This year we commissioned an external consultant to conduct an independent review of our operating model. The review recommended that we focus on our purpose, strategy and continued alignment with regulatory expectations. We have developed a plan of actions in response to these recommendations.

> **We're delighted to have won a prestigious IPE award that recognises our extensive efforts to put ESG at the centre of our investment strategy.**

Claire Curtin,
Head of ESG and Sustainability

Meeting new challenges with brilliant service



"The FAS member website is very good. I use it for managing my monthly payments and annual tax return. I spend quite a lot of time trying to help FAS members as a committee member of the Pensions Action Group. FAS regulations are different to the PPF's, so the FAS still has some shortcomings, which gives the Pensions Action Group the opportunity to work with the PPF."

Terry
FAS member, Surrey

Strategic activities and milestones for 2022/23

- We will ensure PPF and FAS member satisfaction levels are 90 per cent or above.
- We will ensure levy payer satisfaction levels are at 90 per cent or above.
- We will improve the service and efficiency in our Member Services operation by:
  - at least 75 per cent of member services transactions being completed online, including 30 per cent of retirements;
  - implementing at least five initiatives to increase automation and efficiency.
- We will conclude payments for 80 per cent of PPF and FAS members needing an uplift owing to *Hampshire* or uncapping by December 2022. The remaining members will be concluded in 2023.
- We will complete 10 FCF cases by March 2023, which represents 75 per cent of applications received by 1 April.

Legal challenges to the compensation we pay

We have continued to carry out the complex work involved in uplifting payments and paying arrears to members affected by the *Hampshire* and *Hughes* legal cases. *Hampshire* requires us to ensure that all members are receiving at least 50 per cent of the benefits accrued in the failed scheme and *Hughes* requires us to remove the cap on PPF compensation, which was found to be unlawful on the basis of age discrimination.

We met our target to conclude payments for 80 per cent of affected PPF and FAS members by December 2022. The payments for the remaining members will be concluded in 2023/24.

Continuous improvement in member services

We take great pride in delivering a consistently high level of service to our members. In the last year, we've continued to achieve above 98 per cent member satisfaction, with neutral responses counted as negative.

We are always looking for ways to improve further. In 2021, we retained the Institute of Customer Service's (ICS) ServiceMark accreditation for three years. This year we asked members and employees to complete an independent ICS survey to ensure we're still achieving the high standards we set out to deliver, and scored very highly on both measures. Our next goal is to achieve ServiceMark with Distinction – an accolade currently held by only 21 organisations in the UK.

Over the last year we have continued to improve the efficiency of our member services operation. This has allowed us to maintain award-winning levels of service alongside stable direct costs and headcount.

More than one third of PPF members – over 100,000 people – have registered to use our member website. We've added further tools to the site to ensure members can take the actions they wish to quickly and easily. In the last year, 81 per cent of member services transactions and 60 per cent of retirements were completed on our member website.

Recent developments on our member website include the launch of downloadable forms, and the addition of a document upload tool that enables members to send us any documents quickly and securely.

We also launched a bereavement notification tool that enables the relatives of members to contact us online and upload documents easily when their loved one has passed away, instead of having to tell us over the phone. This is our first step on our journey to further improve the bereavement process for the families of our members.

Awards and recognition

Pensions Age Awards

We won the Pensions Administration Award for delivering outstanding customer service.

Professional Pensions Rising Star Awards

One of our contact centre advisors, Lea-Ann Nelson, was given the Award for Excellence in Customer Service. The judges commented that she stood out from the shortlist for her compassion and dedication to supporting vulnerable customers.

> "When I speak to a vulnerable member, I take my time to make sure they are at ease and comfortable. I reassure them I am here to help. Each day at the PPF makes me smile as I know the members we have helped are smiling."

Lea-Ann Nelson,
Contact Centre Advisor

> Every time I ring there is no exception. Staff are courteous, helpful and very polite. You couldn't ask for better service.

PPF member

£56

Cost per member per year

Vulnerable members

We have always strived to be recognised for delivering outstanding customer service. The service and support required differs from member to member, but our ambition remains the same.

CEM Benchmarking Ltd, which benchmarks our pension administration and customer service against other similar-sized UK DB pension providers, recognises the PPF as a global leader in adjusting systems and processes to support vulnerable members.

In 2022 we conducted qualitative research to find out how vulnerable members experience our services. Along with some suggestions for ways we could further improve, the key recommendation was for us to keep doing what we're doing. Since reviewing the findings of this research, we have put together a comprehensive action plan and have been working through it over the course of the year.

Indexation of PPF compensation

We recognise that the increase in the cost of living this year is a cause for concern for our members. Legislation defines the extent of any annual increases to compensation when it's being paid, also known as indexation. There is no provision in legislation for indexation of PPF compensation for benefits accrued before 6 April 1997 ('pre-97 benefits'), and the Board of the PPF does not have the power to change indexation levels for pre-97 benefits for PPF or FAS members.

Legislation does, however, give our Board some discretion to change the rate of indexation of PPF compensation that relates to benefits accrued on and after 6 April 1997 ('post-97 compensation').

The Pensions Act 2004 sets the rate of indexation of post-97 compensation as the lower of 2.5 per cent or the annual increase in prices as specified by the Secretary of State. Our Board does not have the power to alter the rate of indexation of post-97 benefits payable to FAS members.

We understand that a key purpose of the Board's power to alter the rate of indexation of post-97 compensation was to help reduce the PPF's liabilities in the event of a funding crisis for the PPF. However, given the current high level of inflation, we're aware that our members will see the value of their compensation dropping in real terms. Our Board takes member support very seriously and this year considered in detail whether to increase the rate of indexation for post-97 compensation.

The considerations the Board discussed included the extent to which an increase could effectively address the impact of cost-of-living increases, the long-term funding implications associated with an increase, and the knock-on implications for ongoing pension schemes. More information on the factors the Board considered is available on our website.

The Board concluded that it would not change the rate of indexation of post-97 compensation at this time, though it recognised the importance of keeping this position under review. Any changes to PPF compensation levels are also an important matter for the Government.

Fraud Compensation Fund

Since a court ruling clarified that occupational pension schemes set up as part of a scam were eligible to claim on the Fraud Compensation Fund (FCF), we've been processing and validating the claims received to date.

The FCF works efficiently and responsibly to ensure members who are victims of fraud in certain circumstances receive the appropriate compensation. For compensation to be paid there must be an act of dishonesty leading to a loss to the scheme. This requires a detailed consideration of the facts on a case-by-case basis.

The Board has established a FCF case team and new processes to progress these cases. Each claim is scrutinised carefully to make sure it is eligible and all reasonable recoveries have been made. We've been working through the claims received and completed 10 cases in 2022/23.

Delivering excellent service for schemes

Our levy payer satisfaction rate is 96 per cent, and we've seen fewer than 1.5 per cent of levy payers challenge the outcome of their insolvency risk score this year. We continue to engage with a forum of small and medium sized employers so we can better understand the issues facing our levy payers. We also gather feedback from larger employers through our Industry Steering Group.

We've introduced several digital features to improve our customer service for schemes, including how-to guides and videos, downloadable score reports and multi-factor authentication. We've also made it easier for levy payers to set up email alerts about changes to their score and/or levy band.

We continued to provide levy payers with the Covid-19 easement plan this year, although a minimal number of schemes took this up. We also implemented a cap of 25 per cent on increases to individual bills in the year 2022/23, reducing shocks that might otherwise emerge in the wake of Covid-19.

Time in assessment for overfunded schemes

In recent years, 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. Of the 23 cases that entered assessment this year, 10 were overfunded. Our aim is to help these schemes progress through the PPF assessment period as seamlessly as possible and ensure they secure the best possible outcome for members outside the PPF.

We work with a panel of buyout experts that can help schemes secure an insurance company buyout faster. In the last year we've continued working with our panel to standardise procedures, and reduce timeframes and costs.

We've embedded processes so that we can understand the funding level of a scheme as soon as possible, allowing the right advisors to be brought in at the right time. We expect this to shorten timeframes significantly. We've also held panel forums to help foster collaboration and to ensure consistent approaches between panellists. Several new efficiency innovations will be launching in 2023, resulting in better outcomes for members.

Case study

The Arcadia Group Pension Scheme

In February, the Arcadia Group Pension Scheme (AGPS) and Arcadia Group Senior Executive Pension Scheme (AGSEPS) agreed an £850 million buy-in with Aviva following a period in PPF assessment. Aviva was selected following a robust insurance market review and a competitive and comprehensive selection process.

The agreement enabled the trustees to secure benefits in excess of PPF levels for around 8,800 members of the schemes. The trustees secured full scheme benefits for members of AGPS, while members of AGSEPS will receive no less than 90 per cent of the value of full scheme benefits. The collaborative approach taken by the PPF and the buyout panel working with this scheme helped to gain this positive result for members of the Arcadia schemes.

Making a difference

"After spending most of my career at the same company, I retired on full pension. The company went into administration 24 years later. Even though it's difficult that I no longer receive annual increases, I am extremely grateful for the PPF's compensation. Without it I would not have had a pension and my retirement would have been very different."

David
PPF member, Bedfordshire

Strategic activities and milestones for 2022/23

- We will conduct a review of all areas relating to sustainability, as a first step towards developing a sustainability strategy. This will put Environmental, Social and Governance (ESG) factors at the heart of our decision making and enable us to consider how we can influence others we work with or those who work on our behalf to improve outcomes across a number of ESG measures.
- We will finalise a baseline assessment of our portfolio's alignment with the Paris Agreement and implement a watchlist of companies to engage with on Paris alignment.
- We will establish a baseline of our own environmental impact as a business and publish targets to reduce impacts over the period to 2025 (reflecting best practice standards).
- Year-on-year, we'll achieve an increase in our representation across all under-represented groups, showing the industries we recruit from that change in this area is achievable and building a pipeline of talent for the future.
- Through our staff survey, 85 per cent of our people will agree that we are a diverse employer that supports inclusion.

Our sustainability strategy

As an organisation that takes a long-term view in all that it does, we have always been committed to operating in a sustainable way. As climate change, social inequality and corporate purpose receive unprecedented global attention, it's important that we embed environmental, social and governance considerations not only into our investment decisions, but across all our operations.

We recently published our sustainability strategy, bringing together our work and ambitions in responsible investment, D&I, stakeholder engagement, Community Impact and managing our operational footprint. Our strategic aim is to catalyse the growth of a more sustainable pensions industry and clearly demonstrate our commitment to doing the right thing, making a difference and leading by example. We believe that making sustainability a priority in all our business activities and decisions will enhance value for all our stakeholder groups. We also believe that this approach is critical to mitigating some of the risks we face (see page 52 for more information).

Our sustainability goals

- Demonstrating excellence in responsible investment
- Ensuring effective stakeholder engagement with integrity and respect
- Championing collaboration and leading by example
- Being accountable for minimising our own environmental impacts

Demonstrating excellence in responsible investment

During the year, we received several awards and recognitions for our responsible investment approach (see box below). We have also shared our experience through other forums, roundtables and working group discussions, for example on the topic of ESG in private markets at meetings held by the Occupational Pension Schemes Council and the UK Pension Schemes RI Roundtable.

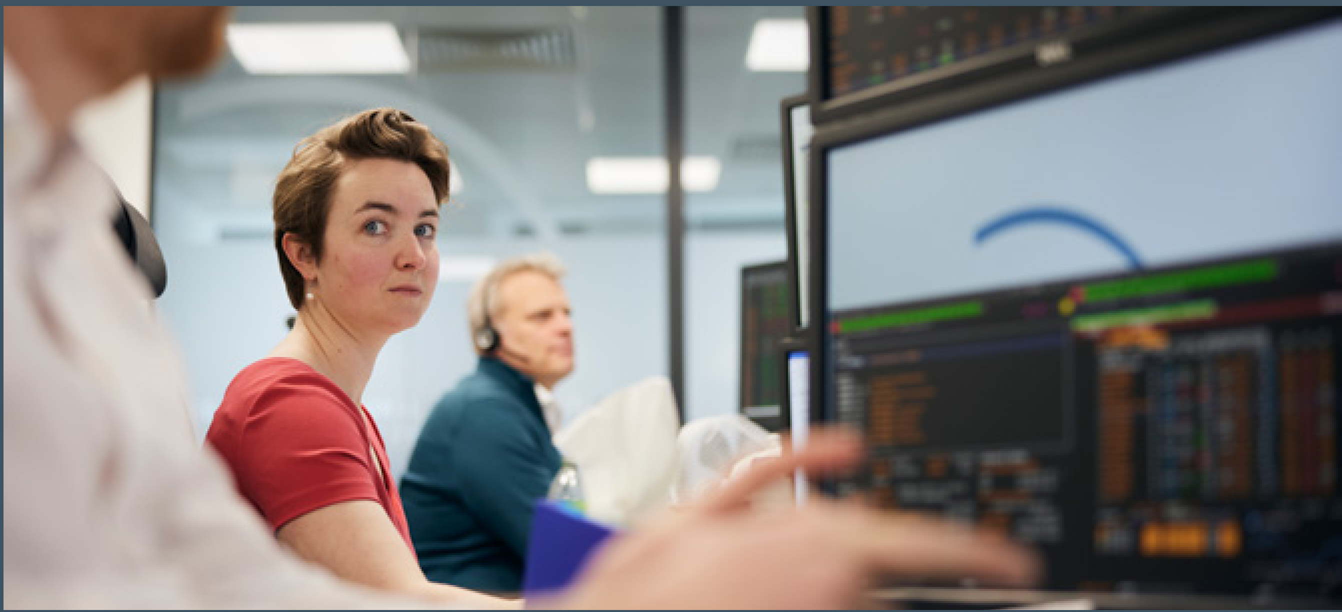
Awards for responsible investment

IPE Awards 2022: Joint winners for Best UK Pension Fund

CIO's Industry Innovation Awards 2022: Winner for Efforts in ESG (Barry Kenneth)

Paris Alignment Awards 2022: Shortlisted for Best Climate Change Member Communication and Best Climate Change Policy Statement

Lowering our operational emissions through technological change



Sustainability lies at the heart of our decision making and has been a priority throughout our recent digital transformation. We're pleased to have made some carbon efficiencies through the way we use technology.

By completing the migration of all our data and technology services to the cloud, we've managed to make significant reductions in our operational energy emissions. We are moving away from on-premises traditional datacentres, which can be CO_2 intensive, to cloud-based platforms, such as Microsoft Azure. We've decommissioned one physical datacentre and rationalised the other by 60 per cent, and our ambition is to have none. In March 2022 our datacentres consumed 7,111 kWh of power, and by March 2023, after the cloud migration, our datacentre and server consumption had reduced to 2,951 kWh.

Because of our cloud-based services, we've also been able to introduce 'Bring Your Own Device', where employees are encouraged to use their own phones instead of corporate mobiles. In doing so, we've reduced the number of PPF-issued mobile phones by 72 per cent, so in time we will see less electronic waste being produced. As a result of our transformation programme, the digital services available to the PPF have increased and matured. We're now able to collaborate more seamlessly using digital services, leading to the reduction of our printers by 33 per cent. This has allowed us to lower our emissions footprint further, including toner cartridge disposal, site service attendance and paper usage.

> "Our devices have a heavy environmental cost. Working in collaboration with our colleagues to reduce our corporate devices helps to reduce our overall operational carbon footprint."

Simon Liste,
Chief Technology Officer

Reporting on climate change

We consider climate change to be a systemic risk, which can affect the value of our investments across the short, medium and long term. As a supporter of the Task Force on Climate-related Financial Disclosures (TCFD), we commit to reporting on our climate-related governance, strategy, risk management and metrics and targets.

We've taken important steps to address key climate-related risks facing our portfolio and pursue a market-leading approach in this area. Our dedicated TCFD climate reports share this information in-depth, and we've included an annual summary here.

TCFD progress in 2022/23

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
- Finalised our project to establish a baseline for our Fund's alignment with the Paris Agreement by estimating the degrees of warming by 2100 the Fund is aligned with. Continued to focus on measuring and implementing a plan to improve the alignment of the Fund on an asset class basis
- Enhanced our Voting Guidelines to reflect our higher expectation of boards and senior management in managing and reporting on climate change strategy and setting emissions reduction targets

Risk management

- Continued to benchmark our listed equities against our custom benchmark incorporating climate risks. This benchmark targets at least a 50 per cent reduction in carbon intensity compared to the broad equity market[1]
- Using the results of our portfolio alignment baseline, we created a Climate Watchlist of approximately 80 companies that account for a significant majority of our financed emissions from our Equities and Credit holdings, so that we can focus our risk management where there is opportunity for the most real-world impact. These companies will be engaged with to publish transition plans and set clear emissions reduction targets

Metrics and targets

- A summary of carbon footprint metrics for our Public Equities and Credit holdings is provided in the tables on page 38.
- Year-on-year, the total financed emissions associated with our aggregate liquid equity holdings reduced by a further 57 per cent from end 2021 to end 2022. In part, this is due to the lower size of assets allocated to this asset class
- There has been an overall decline of nearly 80 per cent since 2020 which has been driven by our shift to a climate-aware benchmark in mid-2021[1]
- However, even when normalising the total financed emissions by the amount invested in the asset class, the financed carbon emissions invested declined 12 per cent year-on-year. The WACI has also declined by 30 per cent
- For our aggregate liquid credit holdings, we continue to include the corporate bonds from our Strategic Cash, Investment Grade Credit, Emerging Market Debt and Absolute Return portfolios. We saw a reduction in the total financed carbon emissions of 27 per cent, which was due to a reduction in the assets being assessed. Therefore, the normalised financed emissions by investment has remained stable year-on-year, but the financed emissions on a revenue basis declined by 12 per cent
- The WACI increased over the year by 36 per cent, although it is still a 43 per cent reduction from 2020 (compared with a 36 per cent reduction from 2020 for the credit benchmark). The increase from last year is largely attributable to a holding in a South African Utilities company in our Emerging Markets Debt strategy. We have included this company in our Climate Watchlist and will engage with them to publish transition plans and set clear emissions reduction targets
- For 2023/24, we are targeting at least 80 per cent of companies in our Climate Watchlist to provide disclosure on their emissions

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.

PPF carbon footprint listed equities scope 1 & 2 metrics

	2022	2021	2020	% Change from 2021 to 2022
Metrics based on investor allocation (EVIC)				
Total financed carbon emissions (tCO_2e)	170,370	395,353	796,972	-57%
Financed carbon emissions (tCO_2e/$m invested)	57	65	122	-12%
Financed carbon emissions intensity (tCO_2e/$m revenues)	112	151	226	-26%
Metrics based on portfolio weights (WACI)				
Weighted average carbon intensity (tCO_2e/$m revenues)	108	154	243	-30%
Equity benchmark weighted average carbon intensity (tCO_2e/$m revenues)*	83	83	299	–
Market value of the fund's equities covered by carbon data ($m)	2,948	6,090	6,528	
Proportion of the fund's equities for which data is available (%)	99%	99%	98%	

PPF carbon footprint corporate credit scope 1 & 2 metrics

	2022	2021	2020	% Change from 2021 to 2022
Metrics based on investor allocation (EVIC)				
Total financed carbon emissions (tCO_2e)	233,705	321,205	329,106	-27%
Financed carbon emissions (tCO_2e/$m invested)	51	50	53	+2%
Financed carbon emissions intensity (tCO_2e/$m revenues)	179	204	192	-12%
Metrics based on portfolio weights (WACI)				
Weighted average carbon intensity (tCO_2e/$m revenues)	181	133	318	+36%
Credit benchmark weighted average carbon intensity (tCO_2e/$m revenues)	162	279	255	-42%
Market value of the fund's corporate credit covered by carbon data ($m)	4,475	6,451	6,214	
Proportion of the fund's corporate credit for which data is available (%)	96%	89%	93%	

Source: Certain information ©2023 MSCI ESG Research LLC. Reproduced by permission; no further distribution (PPF holdings as of 31/12/2022). 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 US$ 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.

Progress on active stewardship and transparency

We were delighted to receive confirmation from the Financial Reporting Council (FRC) that we continue to meet the expected standard of reporting to remain a signatory to the UK Stewardship Code.

Signatory of: UK STEWARDSHIP CODE | 2021

We are pleased that our efforts and our drive to be continually improving have been recognised.

We've seen significant progress in our fund managers' own ESG practices, as evidenced by the growth over the last few years in the number of our external managers who have become PRI signatories (from 70 per cent in 2020 to 90 per cent in 2022).

During the year, we have developed a detailed Stewardship plan that targets better quality disclosure and clearer transition strategies from our issuers. Some of these companies still need to start disclosing so we will continue to encourage this through supporting channels like leading in direct company engagement for a number of companies as part of the annual CDP Non-Disclosure Campaign.

In private markets, we have been heavily engaging with our private markets managers to support an ESG outreach project led by one of our data solution providers. Our extensive involvement in the pilot in 2022 was very fruitful – with our strong encouragement, 60 per cent of our managers that were included in the pilot reported portfolio company data, which is four times higher than the overall response rate.

Industry and investor collaborations

Collaborating with partners and others in the industry is fundamental to our RI strategy and we will continue to help define best practice. Our active involvement in collaborative engagements and industry working groups continued during the year.

We have been chairing a subgroup as part of our membership of the DWP Taskforce for Integrating Social Factors, focusing on the sources of data available to pension funds and other investors.

As part of the 'Find It, Fix It, Prevent It' initiative on Modern Slavery, we led a collective investor engagement with one UK company in the building sector, focusing on modern slavery in its supply chain and operations, and acted as a support investor during a meeting with another. Our findings have been fed back to the wider investor group and will form part of a sector analysis later this year.

We've been actively contributing to the FCA Vote Reporting Group, whose objective is to significantly raise global standards of vote disclosure reporting and potentially revolutionise the ability of stakeholders to access and analyse individual manager vote rationales at shareholder meetings. The proposals will go out to wider consultation shortly.

Case study

CDP
DRIVING SUSTAINABLE ECONOMIES

Helping to boost corporate transparency

CDP is an organisation that provides a global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts. During the year, we supported its annual CDP Non-Disclosure Campaign (NDC) which is an investor collaboration to engage with companies that have failed to respond to requests to disclose through the CDP's climate change, forests and/or water security questionnaires. The NDC campaign runs annually alongside the main CDP disclosure request, to boost transparency and drive up rates of corporate disclosure.

To support the campaign, we led direct outreach efforts with eight companies held in our portfolios to encourage them to respond to CDP, and were pleased to see three companies submitted responses as a result of this. The 2022 campaign overall was fruitful, and companies engaged in the 2022 NDC were 2.3 times more likely to disclose than those not engaged in the campaign. This highlights the importance of direct engagement from financial institutions.

Being accountable for minimising our own environmental impacts

Greening Government Commitments

We support the Government's Greening Government Commitments and reflect the ambitions, commitments and targets through our investment practices and business operations where possible.

Our ambition is to operate in a manner which is consistent with the Paris Agreement[1] by minimising our own environmental impacts. We will aim to reduce greenhouse gas (GHG) emissions from our building management, supply chain, technology and travel activities.

Given that our Scope 1 and Scope 2 direct GHG emissions are already negligible owing to HVAC and renewable electricity systems, we will focus more on reducing our Scope 3 emissions from travel, and capture reductions in electricity through resource efficiency.

The Greening Government Commitments refer to establishing a 2017/18 baseline and reducing emissions, waste and water consumption from that point. As we do not have reliable data from that time, we have established a baseline for 2019/20 instead and are now in a position to report our progress against this baseline.

While we don't yet have the systems in place to report on every measure, we're working with our suppliers to capture reliable data and we are steadily putting together a better picture of our operational impact on the environment. As we lease our offices, we are gathering much of this information through the building managers.

We have provided data based on the information available. In some situations we've estimated our usage or spend based on a proxy, such as the proportion of floor space we occupy in our buildings.

Our two shared-lease office buildings are already efficient. Both buildings have no direct combustion facilities onsite and our offices in Croydon and Cannon Street have BREEAM ratings of 'Excellent' and 'Very Good' respectively. All of the electricity our offices use is sourced via 100 per cent renewable electricity tariffs, which have been in place in both offices since October 2019. Therefore, our direct operational Greenhouse Gas emissions (Scope 1 and 2) are effectively zero using the Scope 2 market-based approach.

We have also begun to make progress on reducing our environmental impact through the technology we use. For example, through our cloud migration we have moved away from higher carbon intensive data centres; and by encouraging our staff to move to Bring Your Own Device we have reduced the number of PPF company mobile phones by 72 per cent (see page 36).

We're pleased that use of paper in our offices has not reverted to pre-pandemic levels. We don't currently have accurate data for all our Scope 3 paper use, such as letters sent on our behalf. However, we have been reducing the paper we use in our corporate publications and communications for several years. Most of our publications are now digital-only. We still send a paper copy of our annual PPF member newsletter where we don't have an email address for the member, but as we encourage members to register for our member website, we are constantly getting more members' email addresses and therefore the number of paper newsletters decreases year-on-year. Now that many member transactions can be completed online, we are sending far less physical paperwork to members. For example, the online retirement process dramatically reduces the amount of paperwork required.

With Covid-19 travel restrictions largely falling away in 2022, we saw the number of business flights being taken return to similar levels as our 2019/20 pre-pandemic baseline. Business travel is still an essential element of our business, particularly when carrying out due diligence of our investments and key suppliers. However, we are working to understand the impacts of our business travel and will focus on encouraging employees to consider alternatives where possible.

1 The Paris Agreement aims to keep the increase in the average global temperature to well below 2°C above pre-industrial levels and pursue efforts to restrict the temperature increase to 1.5°C above pre-industrial levels.

Energy emissions – Scope 2

	2022/23	2021/22	2020/21	2019/20
Total location-based emissions (CO_2e)[1]	**181.2 tonnes**	**228.7 tonnes**	**261.9 tonnes**	**275.1 tonnes**
by floor space (m^2) (CO_2e)	0.0 tonnes	0.1 tonnes	0.1 tonnes	0.1 tonnes
by FTE (CO_2e)	0.4 tonnes	0.5 tonnes	0.6 tonnes	0.6 tonnes
Total location-based consumption (KWh)[3]	**936,935 KWh**	**1,076,948 KWh[2]**	**1,123,197 KWh[2]**	**1,076,231 KWh**
by floor space (m^2) (KWh)	224.9 KWh	258.5 KWh[2]	269.6 KWh[2]	258.3 KWh
by FTE (KWh)	2,105.5 KWh	2,414.7 KWh[2]	2,546.9 KWh[2]	2,497.1 KWh
Total energy expenditure[4]	**£366,225**	**£269,212[2]**	**£267,565[2]**	**£301,626**

Notes

1 Using DEFRA conversion factors.

2 Restated due to inclusion of consumption of PPF datacentres.

3 Data from building managers with estimates when not available.

4 From invoices for PPF usage, from building managers for share of communal usage.

Travel emissions – Scope 3

	2022/23	2021/22	2020/21	2019/20
CO_2e emission from business travel[1]	**53.2 tonnes**	**2.3 tonnes[2]**	**0.2 tonnes**	**60.3 tonnes**
Domestic by air	0.8 tonnes	0.7 tonnes[2]	–	2.2 tonnes
Domestic by other means	3.7 tonnes	1.2 tonnes[2]	0.2 tonnes	12.9 tonnes
International by air	48.7 tonnes	0.4 tonnes[2]	–	45.2 tonnes
International by other means	–	–	–	–
Total distance travelled by air[3]	**241,839 km**	**10,024 km**	**–**	**233,667 km**
Domestic	6,208 km	5,571 km	–	16,635 km
International – Business	204,241 km	–	–	185,527 km
International – Economy	31,390 km	4,453 km	–	31,505 km
Number of flights[3]	**73**	**22**	**–**	**86**
Domestic	11	18	–	29
International	62	4	–	57
Total expenditure on business travel[3]	**£91,112**	**£7,550**	**£1,286**	**£118,321**

Notes

1 Using DEFRA conversion factors.

2 Restated due to new information.

3 Data is taken from expense reports and invoices.

Our Strategic Plan and priorities – continued

Paper

	2022/23	2021/22	2020/21	2019/20
Total volume purchased in reams	45	20	27	1,300
Total expenditure	£235	£59	£73	£4,136

Notes

Data is taken from invoices.

Waste

	2022/23	2021/22	2020/21	2019/20
Total waste[2]	26.1 tonnes	17.2 tonnes	10.6 tonnes	25.4 tonnes
Total waste recycled[2]	18.4 tonnes	13.5 tonnes[1]	8.7 tonnes	17.9 tonnes
Total waste incinerated with energy recovery[2]	3.9 tonnes	2.8 tonnes	1.8 tonnes	7.5 tonnes
Total waste to landfill[3]	0.2 tonnes	–	–	–
ICT waste recycled, reused or recovered[3]	3.6 tonnes	0.9 tonnes	0.1 tonnes	–
Total expenditure[4]	£11,114	£8,862	£8,369[1]	£8,492

Notes

1 Restated due to more information being available.

2 Data on non-confidential waste comes from building managers. For missing data we have made estimates based on current waste levels. Data on confidential waste comes from the supplier and is based on the number of bins collected rather than actual volume, converted to weight by assumption.

3 ICT waste refers to obsolete equipment. Data is based on individual items. Waste to landfill in 2022/23 relates to the closure of a datacentre.

4 Expenditure is based on data from building managers for communal waste services (with estimates for missing data based on previous costs), invoices for confidential waste and recycling ICT equipment (if not donated).

Water

	2022/23	2021/22	2020/21	2019/20
Total water consumption[1]	1,401.8m^3	898.4m^3*	966.5m^3*	3,228.3m^3
Total water consumption by FTE	3.2m^3	2.0m^3*	2.2m^3*	7.5 m^3
Total expenditure[2]	£5,484	£3,540	£3,506	£9,468

* Restated because more accurate data is available.

1 Data from building managers with estimates when not available.

2 From invoices for PPF usage, from building managers for share of communal usage.

Ensuring effective stakeholder engagement with integrity and respect

Employee and stakeholder engagement

Employee engagement is key to the responsible management of human capital, and therefore forms part of our sustainability strategy. We are proud to have high levels of employee engagement. In our most recent employee survey, 95 per cent of people agreed that the PPF makes a positive difference to the world we live in, and 87 per cent said they feel proud to work for the PPF.

In January 2023 we launched our new intranet, Connect Online, which aims to improve employee engagement further through the sharing of news, comments, personal stories and praise, and is a particularly important way of connecting people in our hybrid working model.

Our Employee Liaison Committee (ELC), which represents colleagues' views, gives feedback on key areas, such as hybrid working. The ELC also plays an important role in the social life of the organisation.

We also work hard to build and maintain strong relationships with external stakeholders including our members, levy payers, parliamentarians, regulators, trade bodies and industry groups. Through two-way communication with these groups, we understand the issues that matter to them and our effectiveness in fulfilling our role. We met with our Member Forum, which includes PPF and FAS members, in October 2022 to discuss topics including our digital services and responsible investment. To read more about how we've engaged with levy payers on page 32.

A diverse and inclusive workplace

Making sure the PPF is an inclusive place to work remains a priority. Our aim is to create a diverse and supportive culture that enables everyone to be themselves and feel valued. We've focused on investing in future leaders by bringing in more people from under-represented groups in junior roles and promoting internal talent. Over the year, we've seen an increase in representation of several under-represented groups.

With a year-on-year increase of employees from an ethnic minority background from 23.7 per cent in 2021 to 26.1 per cent in 2022, we've made steps in the right direction towards our target to increase ethnic minority representation across the organisation to 30 per cent by December 2023. Overall, our progress on narrowing our ethnicity pay gap is slow, partly due to our low levels of staff turnover. We know that the reason for our pay gap is that most of our senior leaders are white. Also, ethnic minority employees are still under-represented in business areas that command higher pay and bonuses, such as investment and technology.

The Race at Work Charter

As part of our commitment to create a representative organisation and to tackle barriers that ethnic minority employees face in the workplace, we signed the Business in the Community Race at Work Charter in 2019. We've continued to apply its seven standards across the organisation.

We have an employee-led Race Action Group that provides a safe space for employees to share their perspectives and proposals for building a more inclusive organisation. The group has led our reverse mentoring initiative, which enables employees, often senior leaders, to be mentored by colleagues from an ethnic minority background. This builds awareness of the challenges faced by ethnic minority employees, fostering a culture where all experiences and ideas are valued.

> "The Race Action Group is a breath of fresh air. The engagement is passionate and those that head up the group really target the issues that need to be openly discussed."
>
> **PPF employee**

Increasing female representation

Improving representation of women in senior management and higher-paid positions is one of our key D&I objectives. We're nurturing our future female leaders through mentoring, coaching, and internal development programmes.

We remain positive that we'll reach our Women in Finance Charter target to have women in 45 per cent of senior roles by December 2023. Women make up half of our Board and Executive Committee.

While we have a long way to go to close our gender pay gap, we've made progress on reducing the gap since we started reporting it in 2017. In order to be an employer of choice for women, we support flexible working wherever feasible. We've introduced even more flexibility with hybrid working and flexible working hours. We've also focused on creating a menopause-friendly organisation and promoting male allyship.

85%

of employees say the PPF is a diverse employer that supports inclusion

> "I believe that the PPF is fully committed to diversity and inclusion, and I am confident that will stay the case."

PPF employee

85%

of employees with disabilities and long-term health conditions feel positive about working at the PPF

Supporting employees with disabilities

We are committed to being an employer of choice for people with disabilities, and to make sure we're doing all we can to support our employees with disabilities. This year we went beyond statutory requirements to report on our disability and long-term health condition pay gap for the first time.

As a Disability Confident Leader, we're attracting a more diverse candidate pool for our vacancies and we've seen an increase in applicants who disclosed a disability or health condition during the recruitment process. All our external vacancies are advertised on the job board of disability equality charity Scope.

Over the course of the year we've made practical adjustments to our head office, workstations and IT software to support our employees with disabilities with their work and to enable easier access to open-plan office areas and meeting rooms.

Mental health support

Understanding mental health issues and promoting openness surrounding these issues within our organisation is crucial to supporting our employees. All managers have mental health training within their first six months of joining the PPF or becoming a line manager. This training is designed to provide them with the tools they need to promote open communication with their team members.

We also have eight trained Mental Health First Aiders who are on hand to advise our employees on where they can find the appropriate support for their individual needs.

Apprenticeships

We believe that apprenticeships benefit our organisation by improving the diversity of our workforce and developing skills that meet our future needs. We're proud to provide a range of apprenticeships across the business, including a partnership with Investment20/20, a scheme designed to bring talented young professionals from all backgrounds into the investment industry. We also work with a local college in Croydon, where our head office is located, to provide insight into what a career in investment looks like.

Employee remuneration

We know that the rising cost of living has been challenging. We want to continue to attract and retain talented people. We continually review our reward strategy and benefits package to make sure we can do this, and we commissioned an independent review of our reward strategy. We're comfortable that the total remuneration we pay is competitive for the roles, responsibilities and location..

"My apprenticeship at the PPF not only allowed me to work close to home, but I was also being paid to learn. Balancing the work with my role was challenging, but I loved it. After finishing my apprenticeship with a distinction, I secured a permanent job at the PPF, and, more recently, a promotion."

Grace Nebbett
Resolutions Case Handler

Championing collaboration and leading by example

Managing our impact through our supply chain

Although our investment portfolio accounts for our biggest impact by far, we also aim to minimise our environmental footprint and increase the positive impact we have through our own supplier relationships. We aim to embed sustainability through our procurement processes and contract lifecycles, focusing on the same themes of climate change, D&I and modern slavery as our RI approach.

We now consider sustainability in all our procurement strategies and assess ESG practices and commitments in many tenders, including the suppliers' net-zero commitment, carbon reduction plan, commitment to ESG reporting to meet TCFD requirements, and D&I reporting.

Over the last year we've set up a working group to champion sustainable procurement and make sure sustainable procurement practices are embedded into our processes across the business. We've updated our sourcing framework to further embed sustainability factors in our procurement strategies and consider appropriate criteria for evaluating proposals, bids and tenders. We've developed contract management mechanisms and processes to begin evaluating the effectiveness of key suppliers' sustainability commitments. These include questionnaires, site visits and specifically incorporating sustainability into contract management plans.

Asset manager assessments

For the second year, we asked D&I-related questions as part of our annual asset manager operational due diligence process in 2022/23. We are using the responses to these questions, which are the same questions as those asked in our manager selection and appointment process, to monitor their year-on-year progress on D&I. We've chosen not to set formal targets on this as yet, but now that we have two years of data we have begun incorporating the findings into our manager assessments.

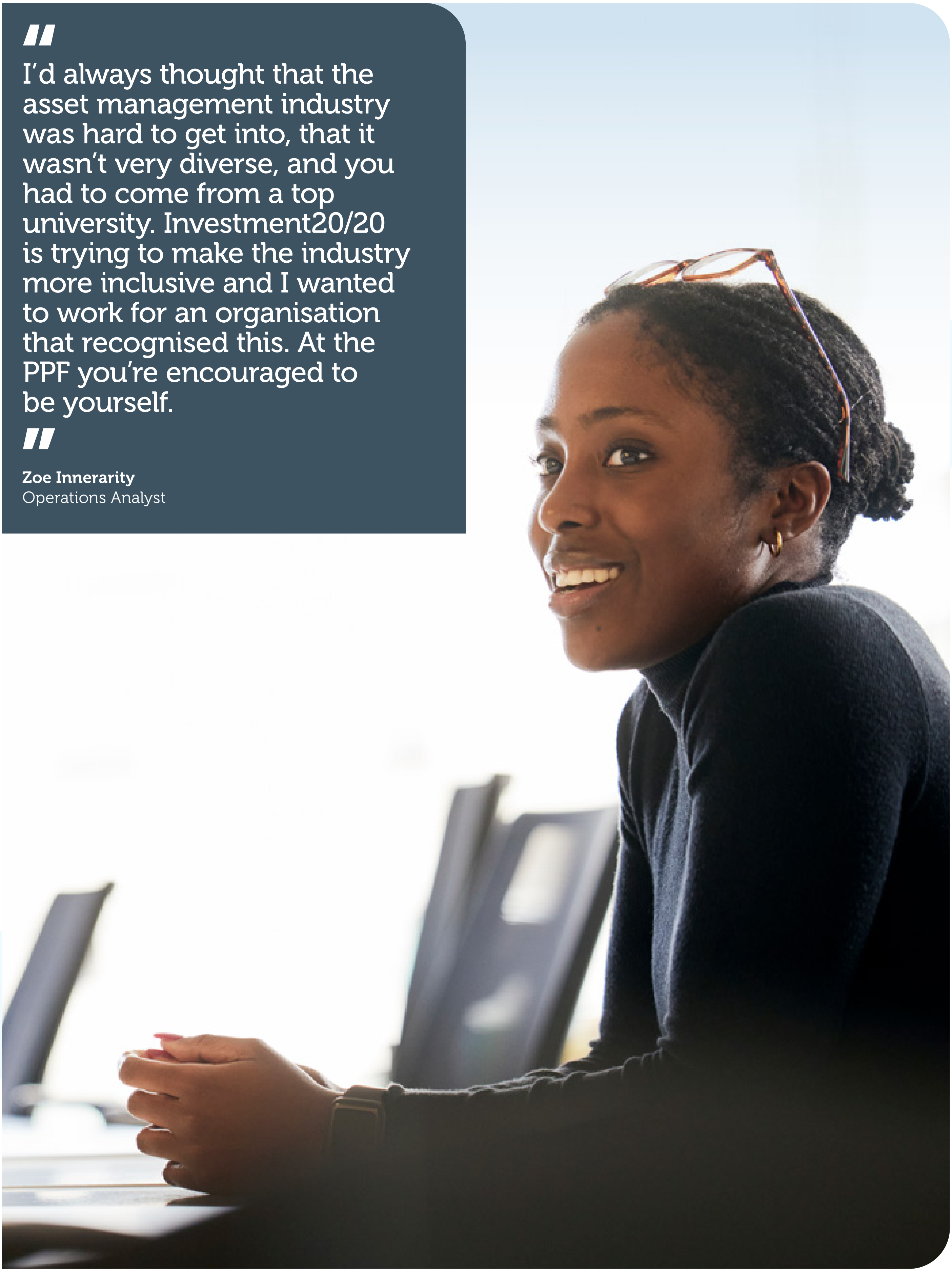
Community Impact

As part of our sustainability strategy, we recently launched a new Community Impact programme, replacing our former Corporate Social Responsibility programme. We believe we can use our collective skills and experience to make a genuine impact in the communities and industries in which we operate. We are encouraging our employees to use the volunteering leave available to them and we're providing them with a range of volunteering opportunities with a particular focus on helping disadvantaged people in the local area.

We invited employees to nominate a charity partner for the PPF to support for the next two years. We were very pleased with the number of nominations received and put the list to a vote. Our people selected Lives Not Knives, which works to prevent knife crime, serious youth violence and school exclusions. We look forward to supporting them through fundraising and volunteering and hope to develop a successful partnership with them.

"I'd always thought that the asset management industry was hard to get into, that it wasn't very diverse, and you had to come from a top university. Investment20/20 is trying to make the industry more inclusive and I wanted to work for an organisation that recognised this. At the PPF you're encouraged to be yourself."

Zoe Innerarity
Operations Analyst



Transforming how we work

Strategic activities and milestones for 2022/23

- We will evolve our technical and digital services to align with the needs of our members, as well as our internal and external stakeholders via improvements in the way we manage data and completing the migration of key services to the cloud.
- We will continue to review and enhance our security services and solutions, ensuring the best level of protection for the data we hold.
- We will rationalise our technical services to bring efficiencies and enhanced collaboration, stability and performance to legacy business solutions.
- We will create a hybrid way of working that harnesses the benefits of technology and allows people to work in a way that delivers the best outcomes for the organisation.

"From day one with the PPF, I have found the tech and systems so easy to use. I was smoothly onboarded and can easily find the resources I need to do my day-to-day role. I am also really impressed with the new intranet, Connect Online, which allows for further collaboration between departments."

Tori Kilford
PPF new starter

Making the best use of digital technology

Digitalisation continues to be a priority for the PPF. It allows members, levy payers and other stakeholders to get what they need from us, it helps our employees to work more effectively, and it enables us to achieve our business objectives.

For example, in January 2023 we launched our new intranet, built on SharePoint Online, which integrates with other applications used across the business, allowing people to collaborate seamlessly and much more effectively.

Following our successful digital transformation, which we completed last year, we've continued to improve, mature and bring further efficiencies to our digital services. Any business transformation requires a degree of culture change to adapt to new ways of working. Changing established practices is never easy in any organisation, but through supporting and communicating with people, we help them to adopt new tools and services and manage transitions.

Our IT operating model continues to provide flexibility by drawing on both internal and external resources. We use external bodies to support and complement our internal team, as well as to provide independent assurance.

New data platform

This year we have successfully deployed a data platform and data visualisation programme into the PPF. As a data-hungry organisation, we identified a risk deriving from an over-reliance on spreadsheets. The data platform has automated key reports and processes, opening channels for teams to explore and exploit data for further insight and giving them power to bring data to life however they like, no developer expertise required.

The platform lowers the risk of human error and enables us to make better informed decisions. It has delivered efficiencies in teams previously carrying out manual spreadsheet work, in some projects giving back weeks of resource time.

> In order to value our liabilities accurately, it's critical we have the ability to process member data. The data platform has reduced data processing times in the Actuarial Financial Management team tenfold.
>
> We are currently working on leveraging the platform's advanced features to develop tools that will further enhance our understanding of the data.

Aaron Pang
Head of Actuarial Financial Management

Managing risk

Uncertainties in the changing environment in which we operate

- Changing institutional landscape
- Changes to trading relationships
- Impacts of changing pension scheme regulation/legislation
- Inflation and wage demands
- Competitive recruitment market
- Economic outlook and insolvency
- Geopolitical landscape
- Climate change
- Continued growth of cyber security risks, including cyber warfare
- Investment return volatilities
- Innovative technology, digitisation and expectations of digital services
- Energy crisis

Managing and understanding our opportunities, challenges and risks is critical to protecting our members and achieving our objectives. Effective risk management not only helps us to mitigate risk, but also to make the most of opportunities and take risk. Risk management is integral to the delivery of our strategic plans, including our sustainability strategy. Risk identification and evaluation is a key part of our strategic and operational planning process. Our plans evolve in the light of consideration of the external landscape, our internal risk profile and our risk appetite. We continually review the external landscape to identify new and emerging risks (see opposite).

The biggest risk we manage is our funding risk. As we set out in our Long-Term Funding Strategy Review in autumn 2022 (see page 20), we are entering our maturing phase from a position of significant financial strength. Our focus has shifted to maintaining our financial resilience. We conduct sensitivity testing to determine the impact of dynamic factors on our funding position.

We carefully monitor the exposures we have to insolvencies of companies whose members we protect. We produce regular forecasts and compare actual experience against the forecasts made 12 months earlier. Our Short-Term forecasting model complements the regular reporting from the Long-Term Risk Model (LTRM).

> "The PPF maintains a good understanding of risk areas on the horizon, primarily through its oversight and business intelligence process. In addition, policy issues are identified early, explained, and discussed in detail with DWP."
>
> **Department for Work and Pensions review of the PPF**

Principal risks

Our principal risks are the most significant or key risks facing the organisation, including those that may threaten the PPF's operating model, future performance, solvency or liquidity and reputation. These may be identified from our top-down strategic approach or may be identified through bottom-up risk assessment from risk and control self-assessments and financial risk management metrics.

Each principal risk is owned by a member of our Executive Committee and is assessed in terms of residual risk exposure and position in terms of our risk appetite. The position is routinely discussed and scrutinised at the Risk and Audit Committee. This year, we introduced a new 'Deep Dive' agenda item, whereby two principal risks are reviewed in detail by the Risk and Audit Committee every quarter.

Our principal risks

Find more information on our principal risks on pages 67–72.

- Policy
- Longevity
- Claims experience
- Investment strategy
- Hedging
- Reputation management
- Culture
- Employee capacity and capability
- Conduct
- IT service
- Delivery of change portfolio
- Operational capacity for change
- Information Security
- Cyber threat
- Third-party service

Managing risk

Managing risk on a day-to-day basis is embedded in all that we do. Our risk framework extends enterprise-wide to ensure a consistency of approach, language, assessment, reporting and escalation. Accountability is paramount and responsibility and oversight for each type of risk outlined in our risk universe is assigned to a member of the Executive Committee, in line with the PPF's own Senior Managers and Certification Regime (SMCR). In support, our risk teams provide advice, tools and challenge in respect of all risk management.

An essential part of our framework is our risk appetite statements, which communicate the Board's attitude to risk, so managers know and understand the level of resource 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. For example, the business was able to consider our appetite for managing short-term and long-term funding liabilities and take the opportunity to reduce the level of the levy.

Operational resilience

At the PPF we seek to ensure that our operations are resilient, both internally and within our supply chain. In practice this means combining the insights and outputs from operational risk, operational resilience and business continuity activities, so that we can both understand the risks and threats which might give cause to operational strain or severe disruption and ensure we have mitigants to prevent or minimise disruption where we can and be well prepared, to respond and recover quickly.

Much of the work we have completed over the last 12 months has been to align ourselves to the FCA/PRA Operational Resilience Policy Standard. One of the key requirements of which is to identify our Important Business Services – those which, if disrupted, could cause detriment to our staff, members or the viability of the PPF.

Our Important Business Services are:

- Paying members
- Servicing members
- Making investments

For each of these Important Business Services, we have mapped potential dependencies and sources of disruption so that we understand clearly where there is reliance on systems, people, suppliers, facilities and processes. We have identified the relative impacts of disruption and the maximum tolerable disruption period for each of the Important Business Services.

To test our assumptions, we have run desktop exercises to play through potential scenarios, alongside our standard business continuity testing schedule, including a full-scale simulation exercise for our Emergency Response Team.

We continually benchmark ourselves against industry good practice for operational resilience and business continuity, and are pleased to say that we are working in line with regulatory timelines. We also align with government good practice, participating in the DWP Cross Government Business Continuity Forum and local Croydon Resilience meetings and exercises.

Cybersecurity breach

A third-party that we and many other organisations use for secure file transfer, suffered a cyber-attack in February 2023. Having received assurances that our data had not been affected, we continued to use the product, until we became concerned in March that this may not have been the case. We immediately stopped using the product, stood up our Emergency Response Team and began a detailed investigation, working with our security partners.

Using our well-established business continuity processes and playbooks, we worked tirelessly to understand and minimise the impact of the breach. We were able to provide alternative options to the organisation to ensure none of our Important Business Services were affected and that we continued to provide services to our members, levy payers and colleagues.

Our top priority was to understand what data may have been compromised and contact anyone potentially affected. We can reassure our members and levy payers that none of their data was involved in the breach. Regrettably, some of our current and former employees were affected. We were able to inform them quickly and provide support to help mitigate the risk.

Our own systems were never compromised and we continue to work to the very highest information security standards and certifications including ISO 27001, Cyber Essentials Plus and NCSC 10 Steps to Cyber Security. The incident was reported to the appropriate cybercrime agencies.

We have well-rehearsed processes and teams across the business to deal with such challenges and they performed extremely well on this occasion to investigate and contain the threat, while communicating quickly with those affected. After the incident we evaluated our response and processes to make sure we identified any areas to strengthen our response in future.

Sustainability and risk

Our risk management approach supports the identification, measurement and management of risks that fall under the umbrella of sustainability, including the PPF, our portfolio and the suppliers and partners we work with.

Risk culture

Creating and maintaining a risk culture is essential. We prioritise three core aspects of risk culture, and these are measured and reported to the Chief Risk Officer and the Executive Committee.

- **Acknowledgement and understanding of risks**
  Risks and emerging risks are identified, assessed and recorded in a timely manner.
- **Transparency, openness and escalation**
  There is an openness to share risk information, report and escalate threats, concerns, new risks, vulnerabilities and/or control failures promptly.
- **Risk responsiveness**
  Risk remediation actions are appropriate and completed in a timely manner for material risk exposures and risk incidents.

Risk management good practice

We set ourselves high standards for risk management, and measure our effectiveness by benchmarking ourselves against industry good practice, including:

- The Risk Coalition's 'Raising the Bar'
- HM Government Orange Book: Management of Risks – Principles and Concepts
- ISO 31000 Risk Management Guidelines

For Operational Resilience and Business Continuity, we align to the FCA/PRA Operational Resilience Policy Standard, BCI Good Practice Guidelines and ISO22301. For Information Security, we are accredited with ISO 27001 and aligned to Cyber Essentials Plus, and align to NCSC and NIST security frameworks.

Compliance and ethics

The Compliance and Ethics team reviews the effectiveness of compliance and conduct activities at the PPF, and reports to the Risk and Audit Committee and our Board. Central to this is the Compliance and Ethics Programme, which includes reviewing our compliance to key areas of legislation, regulations and compliance standards applicable to the PPF.

Our compliance obligations include the Pensions Act 2004 and regulations relating to financial crime (including bribery and fraud), money laundering, data protection, freedom of information and modern slavery. The compliance standards we have adopted are those that align to an asset manager regulated by the Financial Conduct Authority (FCA) and the accountabilities set out under the SMCR as they apply to the PPF.

The programme includes a core set of compliance monitoring activities supplemented by regular in-depth testing and reviews alongside new starter, online and bespoke compliance training to the business. We performed a review focusing on our progress against regulatory aims and objectives within environmental social governance (ESG). At the end of year, a review of the SMCR was conducted and we are satisfied the PPF Regime in place remains appropriate. Our Regime closely resembles regulatory expectations, with the key differences being that our Senior Management Function holders are not directly approved by the FCA and that we are not required to file reports to the FCA.

Assurance

We are committed to supporting the Three Lines Model, which outlines collaboration between the first, second and third lines. In 2022/23 we've been putting an increased emphasis on the first line of defence by training employees in all business areas in how to identify and manage risk effectively.

Our oversight and assurance approach provides appropriate assurance to decision makers and reinforces a 'Trust and Verify' approach to risk management.

Long-term expenditure trends

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

Investment expenses

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
Investment expenses	141.8	152.6	250.0	330.4	223.5

Operating expenses

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
PPF	46.8	43.6	45.6	48.7	54.0
PPF Administration Fund	13.1	13.7	12.4	13.3	14.7
FAS Administration Fund	9.1	7.8	8.1	8.3	7.7
Total operating expenses	69.0	65.1	66.1	70.3	76.4

Our costs are accounted for in three funds as explained on page 106 and further analysed on pages 132–133.

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

Expenditure has increased from 2021/22 due to inflationary pressures, particularly on staff and office costs. The majority of the remainder of the increase in 2022/23 is due to our continuing investment in our IT capability and capacity. However, the IT cost per employee remains lower than before the transformation and was 14 per cent lower than it was in 2018/19. Higher IT costs are also the main reason why our cost/member per year for PPF and FAS has increased in 2022/23 from £53 to £56.

Investment expenses mainly comprise fees paid to fund managers which are driven by the levels of assets under management, and performance fees, which depend on managers exceeding certain returns. The fall in levels of assets under management seen in the year were largely in non-fee bearing assets such as gilts so had little impact on fund manager fees paid. Performance fees were lower as returns were lower for the relevant asset classes.

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 (0.14 per cent). The total number of complaints is about the same as for 2021/22. The following tables provide an analysis of the complaints received and dealt with during the year ended 31 March 2023.

Complaints

	PPF 2022/23	FAS 2022/23	PPF 2021/22	FAS 2021/22
Complaints brought forward from previous year	33	8	13	3
Complaints received	528	106	421	119
of which:				
– resolved at stage one	455	102	349	101
– resolved at stage two	57	4	33	11
– resolved at stage three	15	2	13	2
– resolved at stage four	3	0	6	0
– carried forward	31	6	33	8

Complaint categories*

	PPF 2022/23	FAS 2022/23	PPF 2021/22	FAS 2021/22
Payment-related	55	7	60	8
Communication	120	24	141	43
Process/regulation	106	25	94	30
Delay	42	12	44	19
Entitlement	91	16	108	37
Other	373	76	279	78

* 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

Complaints, reviews and FOI requests – continued

Freedom of Information (FOI) requests

	2022/23	2021/22
FOI requests received	53	51
of which:		
– we fully disclosed the information	42	39
– we partially disclosed the information	4	3
– we did not hold the information	1	0
– we declined to disclose the information	6	9

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 also received one Environmental Information Request for which we declined to disclose the information.

We declined to disclose information where statutory exemptions applied.

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

	2022/23	2021/22
Review decisions issued	5	15
of which:		
– the scheme was found to be levied correctly	2	9
– we agreed with some or all of the scheme's appeal	3	6
Decisions made by the Reconsideration Committee	0	2

Non-levy-related reviewable matters*

	2022/23	2021/22
Review decisions issued	44	25
Decisions made by the Reconsideration Committee	15	8

Maladministration complaints*

	2022/23	2021/22
Formal complaints of maladministration considered	17	8
of which:		
– maladministration was found to have occurred	5	1
– maladministration was found to have occurred in part	7	2
– no maladministration was found to have occurred	5	5
Four of these cases also involved a reviewable matter (2021/22: six).		
Maladministration decisions made by the Reconsideration Committee	4	7
of which:		
– maladministration was found to have occurred	0	0
– maladministration was found to have occurred in part	4	1
– no maladministration was found to have occurred	0	6

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

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 facility 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 2023.

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.

We are aware of 131 possible claims totalling £435.2m as at 31 March 2023. The liquid assets of the FCF totalled £74.9m 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 three-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 facility from the DWP which we expect will enable us to ensure a continuation of claims payments.

Oliver Morley
Chief Executive

4 July 2023

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
Chair of the Nomination 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 has been Chief Executive of the PPF since 2018. He was previously Chief Executive of the DVLA, which had over 45 million customers and £6 billion of revenue. Before joining the DVLA, he was Chief Executive and Keeper of The National Archives.

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

Oliver was awarded a CBE in 2017 for his work in digital services. He is a non-executive director of Kodak Alaris.

Emmy Labovitch
Non-executive Board Member

Chair of the Remuneration Committee
Member of the Investment Committee

Emmy has held a variety of international roles in financial services and was a member of the executive committees of Fortis Investments and UBP Asset Management. Until 2018 Emmy was Senior Policy Advisor at the 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, and a non-executive director and Chair of the Risk and Investment Committee of Forester Life Limited.

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 McDermott, Will and Emery.

He then moved to Coventry Building Society as Group General Counsel and Company Secretary, where he was also Secretary to the Pension Scheme Trustees.

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

He then completed an assignment as a Senior Adviser to the COVAX facility, working with Gavi, the Vaccine Alliance, during the Covid-19 pandemic.

He is also a non-executive director of University College London Hospitals NHS Trust, Birmingham Women's and Children's Hospital NHS Trust, Newbury Building Society and the charity United Way UK (part of the global United Way network).

Chris Cheetham
Senior Independent Director

Chair of the Risk and Audit Committee
Member of the Investment Committee
Member of the Nomination 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 People's Pension, the Science Museum Foundation and the charity Chance to Shine.

David Atkinson
Non-executive Board Member

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

David has held a variety of senior international roles in finance and risk management during his 23-year career at Goldman Sachs, most recently as a Senior Managing Director of the Risk Division.

A Chartered Accountant by training David is also a non-executive director at Mizuho International and Hertfordshire Partnership University NHS Foundation Trust, a health and social care provider specialising in mental health, learning disabilities and autism.

In his spare time David is a lifeboat volunteer for the RNLI in Wales and an accredited humanist funeral celebrant.

Sara Protheroe OBE
Chief Customer Officer

Sara is responsible for overseeing the assessment and transfer of pension schemes to the PPF, the processing of Fraud Compensation Fund claims, 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.

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 Board support. The PPF levy has been a particular focus throughout, with David leading both development and operational delivery since 2014.

Earlier in his career, David specialised in corporate and commercial law. He spent 10 years in private practice at Linklaters and US firm WilmerHale. He is a trustee of Roundabout Dramatherapy.

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

Anna practised 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 Aberdeen Diversified Income and Growth Trust plc and Marathon Asset Management Limited and the independent Chair of both MS Amlin Investment Management Limited and BAE Systems Pension Fund Management Limited.

Liz Woolman

Non-executive Board Member

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

Liz is an accredited associate executive coach and non-executive director with over 25 years' experience in the technology and financial services sectors.

Liz is currently a non-executive director at both the Local Pensions Partnership Administration Limited and Anglo Saxons Friendly Society. Liz is also a trustee of Friends of High Weald Churches, a charity.

During her executive career Liz managed an extensive technology portfolio for BT Group leading a successful digital transformation, launching innovative new products and services, increasing efficiency and implementing new systems and technology platforms.

Prior to joining the PPF Board she was also a non-executive director at the Places for People Group.

Members of the Executive Committee

Oliver Morley CBE
Chief Executive

Katherine Easter
Chief People Officer

Dana Grey
Chief Risk Officer

Barry Kenneth
Chief Investment Officer

Simon Liste
Chief Technology Officer

Lisa McCrory
Chief Finance Officer and Chief Actuary

Sara Protheroe OBE
Chief Customer Officer

David Taylor
General Counsel

Governance statement

Governance framework

During 2022/23, the Board had eight non-executive members until 30 June 2022, when non-executive member, Jayne Nickalls, retired from the Board. The Board operated with seven non-executive members from that point in time until 31 December 2022, when Rodney Norman also retired from the Board. Non-executive member, David Atkinson joined the Board on 1 January 2023.

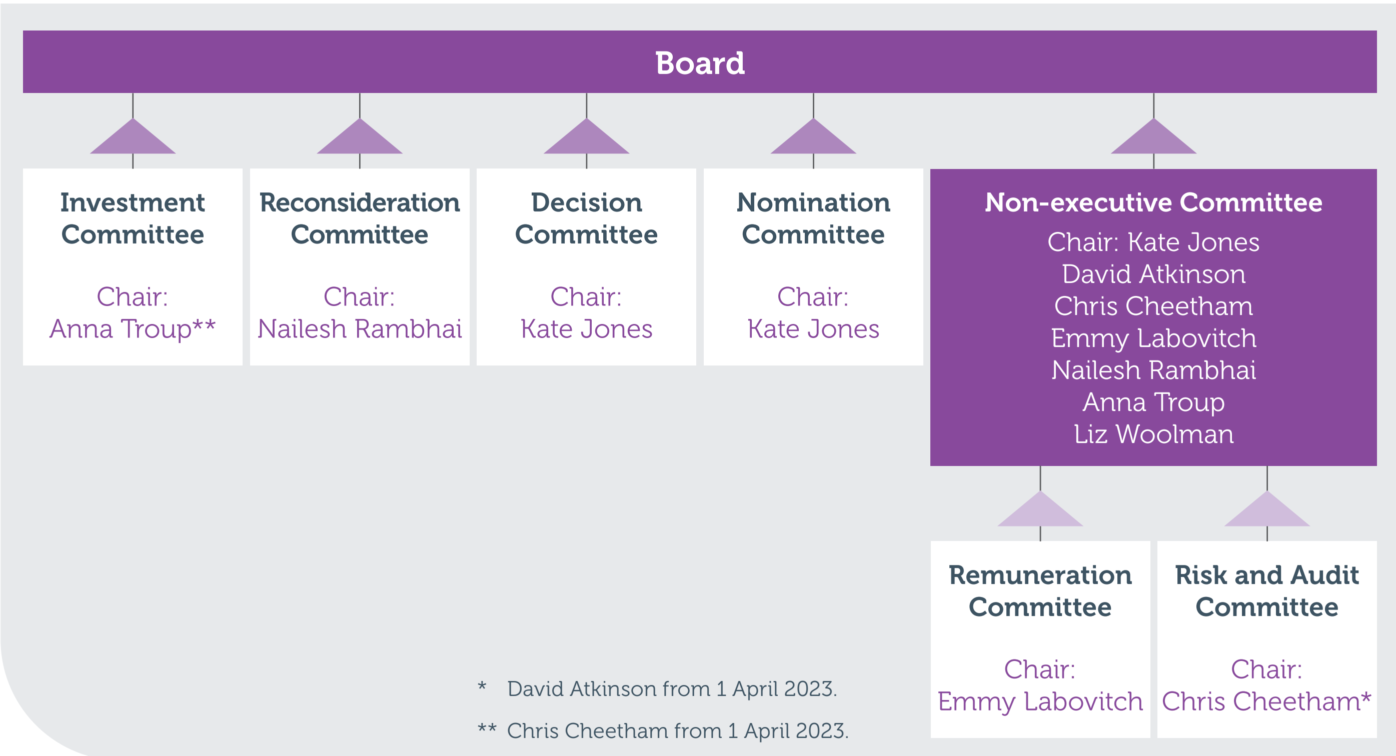
In addition, there were three executive members, including the Chief Executive. Board members' attendance at Board and committee meetings is set out on pages 74–80.

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 as at 31 March 2023



Account of corporate governance

The Board is committed to maintaining high standards of corporate governance and reviews its operations 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 function 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 function carries out an annual, formal self-assessment exercise 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.

Principal risks

We have identified 15 principal 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.

The Chief Risk Officer sets formal policies which outline minimum requirements for managing the different types of risk. These principal risks, along with all other risks, are managed by the relevant Executive Committee (ExCo) member as part of the normal course of business.

For more information about how we manage risk, see pages 52–55.

Principal risk	Explanation
1. Policy	**Definition:** This is the risk of novel and/or challenging legal requirements being placed on us. **This matters because** as a body created by statute, and bound by legislation and court rulings, we must accept and implement change. **Key mitigating actions:** – We run business intelligence and horizon scanning programmes (including obtaining input from legal firms) to identify potential issues. – We manage litigation and threats of litigation carefully, including through our in-house legal team and external specialist advisors. – We work closely with the Government in relation to emerging issues and the Government's own plans.
2. Longevity	**Definition:** This is the risk that actual or potential members have a significantly longer life than expected. **This matters because** the longer current or future members live, the greater the total compensation they will receive over their lifetimes so the larger the reserves we need to manage this risk. **Key mitigating actions:** – Our assumptions on life expectancy are derived from analysis of recent experience of our membership as well as that of other occupational pension schemes. – We use industry standard models to project how life expectancy may change in the future. – We review our assumptions regularly and update them as experience changes. – We hold a reserve that provides a high level of protection against members living longer than expected. Further information about reserving for longevity risk can be seen on pages 20–21.

Governance statement – continued

Principal risk	Explanation
3. Claims experience	**Definition:** This is the risk that claims made on the PPF by eligible defined benefit schemes are significantly greater than expected. **This matters because** we need sufficient reserves to meet our purpose. **Key mitigating actions:** – We carry out short and long term modelling and use the results to build and maintain a reserve for future claims. – We monitor the credit risk of the sponsoring organisations of schemes with significant deficits. – We work closely with The Pensions Regulator to understand/identify sponsoring organisations at risk. – When a scheme enters assessment, we assume creditor rights and then seek to maximise recoveries from all sources. – We hedge potential liabilities once they reach a predetermined level of likelihood to protect against interest/inflation rate movements.
4. Investment strategy	**Definition:** This is the risk that our investment strategy fails to meet its objective. **This matters because** the success of our investment strategy is key to maintaining and improving our financial resilience (see page 25). **Key mitigating actions:** – We track the performance of our portfolios against our internal performance benchmarks. – We maintain a balanced, diversified portfolio of investments. – We seek to appoint reputable external fund managers and monitor their performance. – We manage some strategies in-house, where this is practicable, so we can exercise direct control. – We regularly review the market to identify new investment opportunities. – We monitor actual and modelled risk against appropriate short-term and long-term risk measures and review the strategy where necessary.
5. Hedging	**Definition:** 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. **This matters because** this is how we protect the PPF's funding position against changes in future interest rates and inflation. **Key mitigating actions:** – We calculate (and regularly update) the theoretical changes in the value of our liabilities to pay compensation as interest rates and inflation change. – We manage the hedging portfolio to match these changes. – We monitor the performance of this matching process to make sure it is as accurate as possible. – We actively manage our liquidity position to ensure that we can always meet liabilities such as collateral calls on derivatives.

Principal risk	Explanation
6. Reputation management	**Definition:** This is the risk that we are unable to maintain and protect our reputation. **This matters because** we have identified that, in almost all sets of circumstances, the most important element of maintaining our 'licence to operate' is maintaining stakeholder confidence. **Key mitigating actions:** – We have established formal arrangements for maintaining relationships with key stakeholder groups. – We use media (including social media) pro-actively. – Where appropriate, we seek external advice. – We have implemented policies about staff use of social media. – We have established formal internal communication channels to enable staff to contact our communications team as soon as they become aware of a matter.
7. Culture	**Definition:** This is the risk that staff engagement and cultural cohesion are adversely affected. **This matters because** without this engagement and cohesion the quality of our service could fall significantly. This would have a direct link to our success and reputation (see also Reputation Management above). **Key mitigating actions:** – We have implemented a wide range of policies, training and support to communicate what is required of our staff. – We provide additional training and support for managers. – We monitor staff opinion, for example, via a comprehensive annual survey and regular meetings with the Employee Liaison Committee. – ExCo monitors key information (e.g. grievances, staff turnover etc). – We monitor staff performance via a formal performance assessment programme.
8. Employee capability and capacity	**Definition:** This is the risk that the capacity and/or the capability of the workforce is compromised. **This matters because** in some teams, one or a small number of individuals are critical to the success of the team. In others, it is necessary to have sufficient numbers to complete the work. Both are essential to deliver our purpose. **Key mitigating actions:** – We provide support to staff to develop their skills. This includes opportunities for staff to train for roles outside their existing jobs. – We also have a development programme to help provide our future leaders. – We develop relationships with third-party suppliers for the provision of cover. – We maintain a 'working from home' capability so that attendance at the office is, in many cases, not required to perform work. This adds to our operational resilience and assists with recruitment and retention. – We actively review remuneration and benefits to support recruitment and retention. – ExCo monitors key HR metrics.

Governance statement – continued

Principal risk	Explanation
9. Conduct	**Definition:** This is the risk of actions, decisions and behaviours leading to inappropriate working practices and poor outcomes for stakeholders. **This matters because** inappropriate activity, either collectively or individually, could result in stakeholder detriment, reputational damage, losses and other harm that would prevent us from fulfilling our main purposes. **Key mitigating actions:** – We undertake formal background checks during the recruitment process and, periodically, thereafter. – We have created formal policies setting out how staff are expected to conduct themselves. – We carry out formal training of all staff on all key conduct areas. – The Compliance and Ethics team monitors/tests compliance with our policies. – The Internal Audit department carries out reviews of important areas. – We have a formal diversity and inclusion strategy.
10. IT service	**Definition:** This is the risk of an IT failure which adversely affects critical operations. **This matters because** our important business services (paying and servicing members and making investments) are heavily reliant upon IT systems. **Key mitigating actions:** – We have a robust systems development/implementation process. – We have a formal programme of system maintenance. – We have formal arrangements for giving priority to incident resolution. – We have entered into an 'infrastructure as a service' arrangement with a reputable supplier. – We carry out regular disaster recovery training exercises.
11. Delivery of change	**Definition:** This is the risk that we are unable to accommodate and deliver, in whole or in part, our change portfolio. **This matters because** not meeting important legislative requirements is likely to have severe consequences for us while failing to implement important business changes could damage our reputation (see above), weaken our internal control environment or result in significant inefficiencies or heighten the risks we face. **Key mitigating actions:** – We prepare project mandates and cost benefit analyses which are used to make acceptance and prioritisation recommendations. – We carry out technical reviews of project proposals to ensure that they are realistic. – ExCo determines/approves acceptance and prioritisation proposals. – We plan the sequence of delivery to address priorities and inter-relationships. – We have project and programme governance arrangements to ensure delivery is as planned.

Principal risk	Explanation
12. Operational capacity for change	**Definition:** This is the risk that delivery of programme of change projects will impair operational efficiency, effectiveness or resilience. **This matters because** implementing change typically affects the parts of our business which are key to achieving our purpose. **Key mitigating actions:** – We have appointed change managers for each area of the organisation. – We prepare a business impact assessment for all change projects. These are reviewed by the relevant change managers. – We consider the above in planning and sequencing delivery. – We prioritise at both the organisation level and the function level so that individual functions have only manageable change project requirements at any time.
13. Information security	**Definition:** This is the risk of theft, loss or compromise of or unauthorised access to our stakeholder data or systems by internal sources (including third-party service providers). **This matters because** we, and our suppliers, hold stakeholder data and they could be severely affected if this fell into the wrong hands. Such an event would also damage our reputation. See also Cyber threat below. **Key mitigating actions:** – We carry out background checks on new staff and, periodically, on existing staff to identify evidence of or potential for criminal activity. – Remote access to our systems is protected by a VPN. – Individual systems and applications therein are password protected. – We have formal arrangements for segregation of duties. – We appoint Information Asset Owners to determine the necessary access rights and then to ensure that these rights are properly implemented. – We carry out due diligence on third-party suppliers and include appropriate terms in their contracts. – We use secure data transfer software when we need to transfer data to third parties. Further information about management of this risk can be seen on page 54.

Principal risk	Explanation
14. Cyber threat	**Definition:** This is the risk of theft, loss or compromise of or unauthorised access to our stakeholder data or systems, including those held/operated by third-party service providers, by malicious external sources. **This matters because** it could also cause us to have to stop operations, in whole or in part, with the resultant consequences. See also Information Security above. **Key mitigating actions:** – We have appropriate boundary and estate monitoring/protection. – We have formal arrangements for maintaining the physical security of our premises and for controlling access by staff and visitors. – We engage expert consultants to carry out regular penetration tests. – We carry out regular simulation (of an attack) exercises. – We keep system patching and anti-virus software up to date. – We carry out due diligence on third-party suppliers and include appropriate terms in their contracts.
15. Third-party service	**Definition:** This is the risk of material compromise or unexpected cessation of vendor service delivery which adversely affects critical operations. **This matters because** our main business activities all use third-party service providers to some extent. **Key mitigating actions:** – We have a well-established procurement process that is aligned to the Managing Public Money rules. – We have formal contractual (including service level) arrangements with our suppliers. – We have formal contract oversight arrangements in place. – We have a vendor assurance programme that ensures that we carry out appropriate due diligence (including information security) and that suppliers continue to meet our business requirements.

Market events

The LDI strategy requires pension schemes and other users to maintain sufficient liquidity to cope with changes to interest rates and inflation rates. In September 2022, the scale and speed of interest rate rises presented significant problems to some users who did not have sufficient liquidity to deal with such changes. We had maintained sufficient liquidity and so were able to fulfil all the obligations that arose.

A full explanation can be found on page 26.

Ministerial directions

No directions have been issued.

Personal data related incidents

We made one notification of a personal data breach to the ICO this year. In February 2023, a third-party supplier of a file transfer system, which we use for transferring large files, experienced a cyber incident. In March, having had assurances that our data hadn't been compromised, we became aware that this incident potentially has compromised the security of certain personal data of a number of employees and ex-employees. Those individuals were notified and assistance offered. The ICO confirmed that, from their perspective, the matter is closed.

For more information about the incident and how it was managed, see page 54.

Significant control issues

We have had no significant control issues in 2022/23.

Review of effectiveness of the system of internal control

For the purposes of the 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 information from our Senior Managers and Certification Regime (SMCR). This requires holders of Senior Management Functions to provide assurance that they have sufficient oversight of all the risks and controls for which they are responsible
- 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 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 eight times during the year.

	Attendance
Kate Jones	8/8
David Atkinson	2/2
Chris Cheetham	8/8
Emmy Labovitch	8/8
Jayne Nickalls	3/3
Rodney Norman	5/6
Nailesh Rambhai	8/8
Anna Troup	7/8
Liz Woolman	8/8
Oliver Morley	8/8
Sara Protheroe	8/8
David Taylor	8/8

These meetings were held as a mixture of face-to-face, virtual and hybrid.

The 2023/24 Business Plan and the budget were both agreed.

The Board completed its review of the PPF's Funding Strategy which was published on 29 September 2022 including discussing and approving the funding thresholds. It also considered emerging proposals on the medium-term reform and simplification of the pension protection levy, given the prospect of lower levies overall. The levy estimate of £200 million for 2023/24 was agreed, and the Board approved the key features of the autumn consultation and December 2022 final determination.

Completion of the Funding Strategy also led to consequential changes to the Board's investment approach. During the year the Board reviewed and approved the changes to the Strategic Asset Allocation, the Statement of Investment Principles, and the Investment Risk Framework. 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 was approved.

The Board regularly discussed the implementation of the Bauer judgment and considered the PPF's longer term policy aspirations.

The Board discussed and approved the updated risk appetite statements.

The Board received regular updates on investment performance including the gilt market volatility and its implication for pension funds.

The Board received regular updates on Member Services including member satisfaction levels, alongside updates on performance against the organisation's key measures and discussed the results from the independently undertaken vulnerable members research, including the key findings.

Following a review of the PPF regulatory framework and operating model, the Board approved the recommendation to continue regulatory alignment to best practice.

The Board discussed a number of staff-related matters, including Health and Safety, talent management, hybrid working, the D&I Strategy, pay and reward practices, employee survey results and organisational culture.

The Board discussed digital technology and updates on the organisation's IT strategy and high-profile projects were received.

The Board received regular updates on the progress of the RI strategy and on the development of the new sustainability strategy.

The Board approved the SMCR's Responsibilities Map and Statement of Responsibilities. The Board approved a number of publications, including the 2021/22 Annual Report and Accounts.

The PPF's Modern Slavery Act Statement was approved.

DWP's review of the Board of the PPF report was published in December 2022. The Board discussed the actions planned to address the recommendations.

The Board approved updates to the Board Committees' Terms of References. The Board also reviewed and approved the Board Registers of Interest.

Committee membership changes, effective 1 April 2023, were approved. A number of formal training sessions for Board members took place.

Board committees and sub-committees

Remuneration Committee		
Terms of Reference	Approved in May 2022. Current review was completed in April 2023.	
Roles and responsibilities	The Remuneration Committee is formally a sub-committee of the Non-executive Committee which has authorised the Remuneration Committee to discharge its remuneration functions on its behalf.	
Chair	Emmy Labovitch*	
Number of meetings in the year	5	
Membership and Attendance	Jayne Nickalls*	1/1
	Emmy Labovitch*	5/5
	Nailesh Rambhai	5/5
	Liz Woolman	5/5
	Kate Jones (non-member)	3/5
	Anna Troup (non-member)**	1/1
	* Jayne Nickalls stepped down from the Board on 30 June 2022 and Emmy Labovitch became Chair on 1 July 2022. ** Anna Troup became a member from 1 April 2023.	
Issues covered	– Agreed objectives for executive directors for the 2022/23 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 including responding to cost-of-living challenges.	

Risk and Audit Committee		
Terms of Reference	Approved in May 2022. Current review was completed in April 2023.	
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 systemic 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[1]	
Number of meetings in the year	5	
Membership and Attendance	Chris Cheetham[1]	5/5
	David Atkinson	1/1
	Emmy Labovitch	3/3
	Jayne Nickalls[2]	2/2
	Rodney Norman[3]	4/4
	Anna Troup	4/5
	Liz Woolman	4/5
	Tim Palmer (co-opted member)[4]	1/2
	Oliver Morley (non-member)	5/5
	Sara Protheroe (non-member)	4/5
	David Taylor (non-member)	5/5
	1 Chris Cheetham was Chair until 31 March 2023 when he was succeeded by David Atkinson. 2 Jayne Nickalls stepped down from the Board on 30 June 2022. 3 Rodney Norman stepped down from the Board on 31 December 2022. 4 Tim Palmer was appointed as a co-opted member on the 25 November 2022.	

Risk and Audit Committee continued	
Issues covered	– Reviewed and recommended to the Board the approval of the Annual Report and Accounts – Reviewed and approved the Accounting Policies, Risk Management Framework and policy, and the Compliance and Ethics Mandate and the Compliance Monitoring Plan for 2023/24, risk appetite statements and risk universe, and various risk policies – 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 – Received regular reports from Compliance and Ethics on outputs from the Compliance Monitoring Plan including the Data Protection Officer's annual report – Reviewed the SMCR as applied to the PPF – Approved the Internal Audit strategy and plan and reviewed regular reports on progress against the plan, the results of audit work, sufficiency of audit resources – Reviewed the Whistleblowing Framework, process and policy. Considered reports on concerns raised under the Whistleblowing policy and any actions taken. – Received deep dives on: Valuing our liabilities, Off-balance sheet risk, Cloud services versus on premise hosting and the principal risks of Policy, Reputation management, Employee capacity and capability, and Culture. – Reviewed the risk position of the change, information security and IT report. Cyber security remained a major focus for the Committee – Reviewed the annual Actuarial Valuation and annual Health and Safety report – Reviewed the assessment of the Compliance Framework undertaken by an external party – Assurance was received on: Compliance with Greening disclosures; conformance of Internal Audit with Public Sector Internal Audit Standards

Investment Committee		
Terms of Reference	Reviewed and approved by Board in March 2023.	
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	4	
Membership and Attendance	Anna Troup*	4/4
	Chris Cheetham*	4/4
	Emmy Labovitch	4/4
	Oliver Morley	4/4
	Robert Groves (co-opted member)**	1/1
	Mike O'Brien (co-opted member)**	2/3
	David Taylor (non-member)	4/4
	David Bennett (non-member, Investment Advisor)	2/2
	Pete Drewienkiewicz (non-member, Investment Advisor)	2/2
	* Anna Troup was Chair until 31 March 2023 when she was succeeded by Chris Cheetham.	
	** Mike O'Brien stepped down from the Investment Committee on 2 December 2022 and Robert Groves joined on 1 March 2023.	
Issues covered	– Reviewed and approved the Stewardship Policy and Voting Guidelines for 2023 – Considered and agreed the SAA – Reviewed and agreed the new Investment Framework – Reviewed and approved the investment assumptions – Considered regular investment risk reports and reviews – Considered regular markets and strategy reviews – Considered deep dives on: Absolute Return, Private Equity, Short Term Credit, and HAIL asset classes – Reviewed and approved the Performance Framework of the Short Duration Credit portfolio – Considered the performance of the hedge – 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 and TCFD reporting – Reviewed and approved the RI Policies – Reviewed the performance of the Investment Advisor – Reviewed asset class benchmarks – Considered the annual report on HAIL performance – Undertook a contractual review of the custodian – Reviewed Investment Operations	

Governance statement – continued

Non-executive Committee		
Terms of Reference	Approved in May 2022. Current review is expected to complete in April 2023.	
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	
Number of meetings in the year	3	
Membership and Attendance	Kate Jones	3/3
	Chris Cheetham	3/3
	Emmy Labovitch	3/3
	Jayne Nickalls*	1/1
	Rodney Norman*	2/3
	Nailesh Rambhai	3/3
	Anna Troup	3/3
	Liz Woolman	3/3
	* Jayne Nickalls stepped down from the Board on 30 June 2022 and Rodney Norman stepped down from the Board on 31 December 2022.	
Issues covered	– Received regular reports from the Risk and Audit, Nomination and Remuneration Committees – Reviewed and discussed the Board Effectiveness Review report – Considered Board and Committee succession and recruitment – Discussed ExCo recruitment and succession plans for the roles of the Chief Risk Officer, Chief Actuary, and the Chief Financial Officer – Reviewed future Board attendance	

Nomination Committee		
Terms of Reference	Approved in May 2022. Current review was completed in April 2023.	
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	Kate Jones	
Number of meetings in the year	Five in total, but participants are only invited if relevant for the recruitment activity taking place.	
Membership and Attendance	Rodney Norman* Kate Jones Chris Cheetham * Rodney Norman stepped down from the Board on 31 December 2022.	5/5 5/5 4/5
Issues covered	– Recruitment and appointment of David Atkinson – Revision of the induction process – Discussed the Board training plan – Succession planning – Changes to Board Committee membership from 1 April 2023 – Remuneration of Non-executive directors	

Governance statement – continued

Reconsideration Committee		
Terms of Reference	Approved in May 2022. Current review was completed in April 2023.	
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	8	
Membership and Attendance	David Atkinson	2/2
	Nailesh Rambhai	8/8
	Rodney Norman*	6/6
	Liz Woolman	3/4
	Diane Franklin (co-opted member)	8/8
	Alan Jenkins (co-opted member)	6/8
	Oliver Morley (non-member)	2/4
	Sara Protheroe (non-member)	8/8
	* Rodney Norman stepped down from the Board on 31 December 2022.	
Issues covered	– Complaints from members 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 – There were no levy cases to review in the year – Considered and issued decisions on 15 non-levy review cases: 12 relating to alleged compensation entitlement (four also involving maladministration) and three regarding legislation (two including formal reviews)	

Decision Committee	
Terms of Reference	Approved in May 2022. Current review is expected to complete in April 2023.
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 operations 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 the Board 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 met with the non-executives without the Chair present at the June 2023 Board meeting.

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 2022/23 by Lintstock Ltd. Lintstock Ltd presented the outcome of the review in January 2023 concluding that the Board had overseen an organisation that had enjoyed sustained success over recent years, thanks to an exceptionally clear sense of purpose and a talented workforce. A further internally facilitated review will be undertaken towards the end of 2023.

The DWP completed a departmental review of the Board of the PPF in early 2022. The report was published on 21 December 2022 and is discussed on page 11. The Board considered these recommendations in line with the PPF's strategic priorities at Board meetings and Board Strategy Days.

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:

- 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 2023 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 previously 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 management 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 (see pages 52–55).

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, 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, services, and awareness programmes. This is further cemented through maintaining our certification of compliance with the ISO 27001 Information Security Standard and Cyber Essentials Plus frameworks.

We work with industry recognised security partners and remain vigilant on the ever-changing threat landscape through threat intelligence services. We have a vendor review programme in place when procuring services. We request compliance and adherence to our security standards from our partners. This is because there is an understanding and appreciation that the attack methodology of threat actors focuses on the supply-chain and not only on exploiting system vulnerabilities within organisations.

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 (second)	18 March 2023	17 March 2026
David Taylor	Fixed Term Contract (third)	1 June 2021	31 May 2024
Chris Cheetham	Term of office (second)	1 May 2021	30 April 2024
David Atkinson	Term of office (first)	1 January 2023	31 December 2025
Emmy Labovitch	Term of office (second)	1 July 2021	30 June 2024
Nailesh Rambhai	Term of office (second)	2 September 2022	1 September 2025
Anna Troup	Term of office (second)	2 September 2022	1 September 2025
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 ended 31 March 2023	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	210–215	50–55	2.2	48	315–320
Sara Protheroe, Chief Customer Officer	135–140	10–15	1.8	3	155–160
David Taylor, General Counsel	140–145	10–15	0.9	17	170–175
Non-executive directors					
Kate Jones, Chair	55–60	–	–	–	55–60
Chris Cheetham	20–25	–	–	–	20–25
David Atkinson	0–5	–	–	–	0–5
(from 1 January 2023)	(15–20)[4]				
Emmy Labovitch	20–25	–	–	–	20–25
Jayne Nickalls	5–10	–	–	–	5–10
(to 30 June 2022)	(15–20)[4]				
Rodney Norman	15–20	–	–	–	15–20
(to 31 December 2022)	(15–20)[4]				
Nailesh Rambhai	20–25	–	–	–	20–25
Anna Troup	20–25	–	–	–	20–25
Liz Woolman	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.

4 Full year equivalent.

* Subject to audit.

Year ended 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.

Directors' pension benefits*

	Total accrued pension at pension age as at 31 March 2023 (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 2023 £'000	Cash equivalent transfer value as at 31 March 2022 £'000	Real increase in CETV £'000	Employer contribution to partnership pension account (to nearest £100) £'000
Oliver Morley, Chief Executive	0–5	2.5–5.0	35	–	25	16.2
Sara Protheroe, Chief Customer Officer	50–55[1]	0–2.5	712	650	(15)[2]	–
David Taylor, General Counsel	55–60	0–2.5	824	745	(4)[2]	–

1 Plus a lump sum of £80–85,000.

2 Taking account of inflation, the CETV funded by the employer has decreased in real terms.

Oliver Morley joined the Principal Civil Service Pension Scheme during 2022/23 but was not a member in 2021/22.

* Subject to audit.

Remuneration and staff report – continued

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.

CETV figures are calculated using the guidance on discount rates for calculating unfunded public service pension contribution rates that was extant at 31 March 2023. HM Treasury published updated guidance on 27 April 2023; this guidance will be used in the calculation of 2023/24 CETV figures.

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			
2022/23	265–270	215–220	50–55
2021/22	255–260	210–215	45–50
% change	**3.3**	**2.5**	**7.0**
Average employee			
2022/23	70–75	60–65	10–15
2021/22	65–70	55–60	10–15
% change	**7.2**	**6.1**	**12.5**

Year ended 31 March 2023	25th Percentile	Median	75th Percentile
Employee total remuneration	£38,114	£53,424	£84,654
Employee salary element	£33,691	£49,216	£74,528
Ratio to total remuneration of highest paid Board member	7.0	5.0	3.2

* Subject to audit.

Year ended 31 March 2022	25th Percentile	Median	75th Percentile
Employee total remuneration	£35,858	£51,312	£78,442
Employee salary element	£33,033	£45,165	£70,000
Ratio to total remuneration of highest paid Board member	7.2	5.0	3.3

In 2022/23, nine employees (2021/22: ten) 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 £800,000–£805,000 (2021/22 Salaries: £20,000–£25,000 to £330,000–£335,000; 2021/22 Bonuses: £0–£5,000 to £725,000–£730,000).

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:

	2022/23		2021/22	
	Average no. employees	Staff costs £m	Average no. employees	Staff costs £m
Permanent employees and fixed term contracts	440	43.2	445	41.5
Short-term, seconded and temporary staff	5	0.3	1	0.1
Total	**445**	**43.5**	**446**	**41.6**

Sickness, absence and staff turnover

The number of days we lost to sickness during the year averaged 7.1 days per person (2021/22: 5.9 days). This included long-term absences of more than 28 days, of which we had one employee absent for more than six months for serious health issues. Excluding long-term absences, we lost 4.7 days per person (2021/22: 3.9 days).

Staff turnover was 11.2 per cent in 2022/23 and 8.1 per cent in 2021/22.

Staff composition

As at 31 March we had:

	2023		2022	
	Men	Women	Men	Women
Total employees	**211**	**230**	**218**	**226**
Senior management	9	11	10	12
Other management	24	13	27	16

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 2023, we have 113 employees who consider themselves to have a disability or long-term health condition.

* Subject to audit.

We published our Diversity Pay Gap Report in March 2023. In December 2019 we signed the Race at Work Charter and this is the third year we have voluntarily published our ethnicity pay gap, which stood at a median 14.26 percent on 31 March 2022, a small decrease from 15.60 per cent on 31 March 2021 and 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 16.64 per cent on 31 March 2022, an increase from 15.86 per cent on 31 March 2021 (31 March 2020: 15.71 per cent). This is the first year we have reported on the disability and long-term health conditions pay gap, with a median pay gap of 2.04 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 43–44.

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. 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, training courses, in house accredited development programmes, apprenticeships (see page 45), professional qualifications, professional subscriptions and much more.

Health, safety and wellbeing

In recognition of the benefits of both home and office working, we are now working in a hybrid way.

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

We do not have any trade union relationships or union recognition.

Off-payroll staff

There were a total of 31 off-payroll engagements for more than £245 per day between 1 April 2022 and 31 March 2023. All off-payroll engagements undertaken during the year have been assessed as compliant with the requirements of IR35.

There were 14 off-payroll engagements as of 31 March 2023 for more than £245 per day of which eight of these engagements have existed for less than a year and six existed for between one and two years at the time of reporting.

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

* Subject to audit.

Staff exit packages*

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

Exit package cost band	Total number of exit packages by cost band 2023	2022
£0–£25,000	3	4
£25,000–£50,000	–	1
£50,000–£100,000	–	1
Total number of exit packages	**3**	**6**
Total cost	**£36,581**	**£139,410**

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

There were three compulsory redundancies in 2022/23 (2021/22: one). These were in the £0–£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 £10 million (2020/21: £8.5 million). The net increase of £1.5 million is mainly due to consultancy on *Hampshire* and on the Risk function.

* 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. The HMRC charges were higher than normal in the year due to work following the *Hampshire* judgment. 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:

	2022/23 £	2021/22 £
Member payments written off	183,612	163,745
Member payments waived	1,119,983	992,545
Interest on underpaid compensation – following *Hampshire* judgment	2,022,723	121,220
Interest on underpaid compensation – on transfer of a specific scheme	44,567	523,639
Interest on underpaid compensation – other	3,591	997
HMRC charges and interest on unauthorised payments	986,336	242,045
Waived interest on late levy payments	90,339	180,381
Total	**4,451,151**	**2,224,572**

During the year, a data source error in our hedging programme resulted in a detriment of £4 million.

Remote contingent liabilities*

Claims which are considered possible are recognised as contingent liabilities. The aggregate value of all other potential claims at 31 March 2023 is estimated at £6 billion. This is calculated as the net deficit of the schemes in the PPF 7800 Index on the PPF's internal valuation basis, less those schemes included within the provision for claims or contingent liabilities disclosed in the PPF Financial Statements.

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.

Government functional standards

Government functional standards do not apply to the PPF.

* 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

4 July 2023

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 2023 under the Pensions Act 2004.

The financial statements comprise the PPF and its Group's

- Consolidated Statement of Financial Position as at 31 March 2023;
- Consolidated Statement of Comprehensive Net Income, Consolidated Statement of Cash Flows and Consolidated Statement of Changes in Reserves for the year then ended; and
- the 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 2023 and its comprehensive net income for the year then ended; and
- have been properly prepared in accordance with the Pension 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 Bodies in the United Kingdom (2022)*. 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 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 12 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 is anticipated that the services which they provide will continue into the future

Other information

The other information comprises the information included in the Overview, Performance Report and the Accountability Report, but does not include the financial statements nor my auditor's certificate thereon. The Board and the Chief Executive are 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.

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:

- 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
- I have not received all of the information and explanations I require for my audit; 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 for the financial statements

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

- maintaining proper accounting records;
- providing the C&AG with access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- providing the C&AG with additional information and explanations needed for his audit;
- providing the C&AG with unrestricted access to persons within the PPF and its Group from whom the auditor determines it necessary to obtain audit evidence;
- ensuring such internal controls are in place as deemed necessary to enable the preparation of financial statement to be free from material misstatement, whether due to fraud or error;
- ensuring that the financial statements give a true and fair view and are prepared in accordance with Secretary of State directions made under the Pensions Act 2004;
- ensuring that the Annual Report, which includes the Remuneration and Staff Report, is prepared in accordance with Secretary of State directions made under the Pensions Act 2004; 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.

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

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.

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, I:

- considered 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.
- inquired of management, the PPF's Interim 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 on:
  - identifying, evaluating and complying with laws and regulations;
  - detecting and responding to the risks of 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.
- inquired of management, the PPF's Interim Head of Internal Audit and those charged with governance whether:
  - they were aware of any instances of non-compliance with laws and regulations;
  - they had knowledge of any actual, suspected, or alleged fraud.
- discussed with the engagement team and the 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, change in market value, existence of investments, 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.

I obtained an understanding of the PPF and its Group's framework of authority and other legal and regulatory frameworks in which the PPF and its Group operates. I focused 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 Pensions Act 2004, Managing Public Money, Tax legislation, Pensions Legislation, the Sanctions and Money Laundering Act 2018, the Russia (Sanctions) (EU Exit) Regulations 2018 and Employment Law.

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

Audit response to identified risk

To respond to the identified risks resulting from the above procedures:

- I reviewed the financial statements' 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;
- I enquired of management, the Risk and Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- I reviewed 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, I tested the appropriateness of journal entries and other adjustments; assessed whether the judgements on estimates are indicative of a potential bias; and evaluated 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 communicated relevant identified laws and regulations and potential risks of fraud 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 expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

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 I identify during my audit.

Report

I have no observations to make on these financial statements.

Gareth Davies
Comptroller and Auditor General

7 July 2023

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

Financial statements

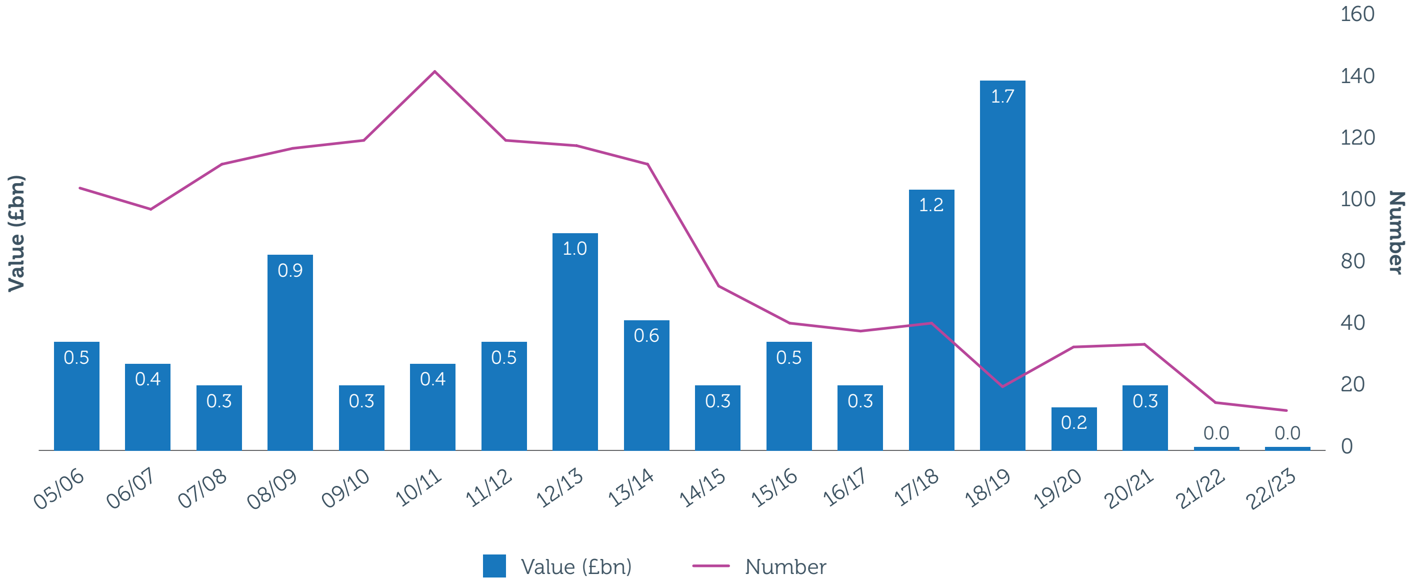
Financial review[1]

Summary

Our approach to funding is to hold assets in excess of our liabilities to provide protection against the risk that future experience is different to what we expect. As we hedge our interest and inflation risk, the largest risks we currently 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 £11.7bn to £12.1bn. This is mostly driven by a return of £0.6bn from PPF non-hedging assets and levy income of £0.4bn. Higher interest rates reduced actuarial liabilities by 25 per cent but there was limited impact on reserves due to the hedging programme. The level of PPF claims continue to be low in 2022/23 with 14 new claims totalling £13.5m as shown in the following chart:

Cost of new PPF claims since inception



Whilst current claims levels remain lower than expected, we still expect that insolvency rates in the universe of schemes that we protect will increase. However, the improvement in scheme funding means that our expectation is that a significant number of these schemes would not transfer to the PPF. Our funding ratio improved from 137.9 per cent to 156.0 per cent.

The consolidated results include the Fraud Compensation Fund. This fund compensates schemes for losses arising from fraudulent activities and has seen a rise in cases due to pension liberation. There have been 138 claims to date and these are being assessed over a number of years. The net cost of claims in 2022/23 was £78m (2021/22: £7m) and the fund's reserves reduced by £42m in the year to net liabilities of £0.5m.

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.

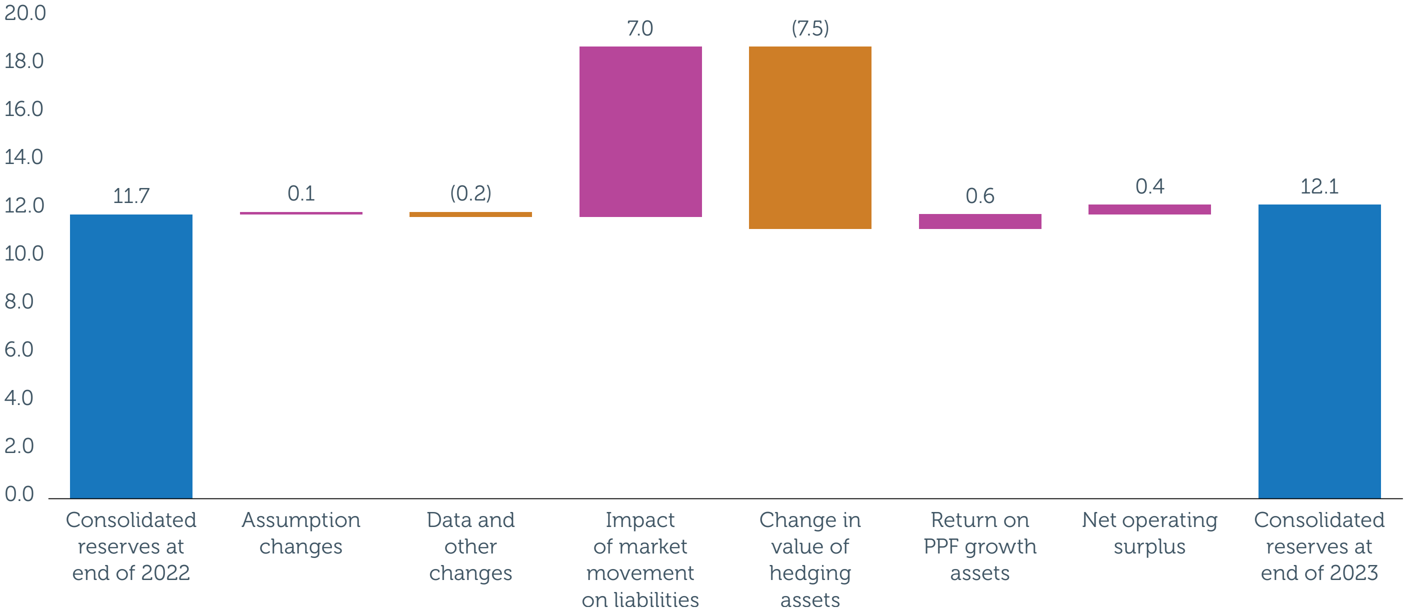
The report from the Comptroller and Auditor General on pages 94–97 confirms that there are no matters that need to be brought to the reader's attention.

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 Financial review is not subject to audit.

Movement in reserves (£bn)



The reserves have increased by £0.4bn in the year. Assumption changes for mortality and expenses together with data and other changes have reduced reserves by £0.1bn. Higher gilt yields during the year acted to reduce our liabilities by £7.0bn in the year. However our hedging programme meant that asset values reduced by £7.5bn. The net impact of our hedging programme is less than £0.5m implied in the above chart since assets are hedged on a non-accounting basis. The return on our PPF non-hedging assets was around £0.6bn.

Net operating surplus is at about the same level as last year at £0.4bn. Net operating income comprises total levy income of £420m (2021/22: £490m), income from grants £22m (2021/22: £20m), less operating costs of £76m (2021/22: £70m). Levy income comprises PPF levies of £386m and £34m levies for the FCF.

The Consolidated Statement of Financial Position

The Consolidated Statement of Financial Position sets out the details, at 31 March 2023, 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.

Consolidated reserves at 31 March 2023

	Consolidated Statement of Financial Position excluding claims provisions for SIA £m	Claims provisions for SIA £m	Total £m
Net assets of the Administration Funds	–	–	–
Net assets of the FCF	(0.5)	–	(0.5)
Net assets of the PPF	32,585.6	1,203.7	33,789.3
Total	**32,585.1**	**1,203.7**	**33,788.8**
Actuarial estimates of liabilities of the PPF	(20,317.1)	(1,342.9)	(21,660.0)
Total consolidated reserves	**12,268.0**	**(139.2)**	**12,128.8**
Funding Ratio of the PPF			156.0%

Over the year our actuarial liabilities, including those schemes included in the provision for SIA, have decreased from £30.8bn to £21.7bn. Market movements and changes to our data and assumptions have acted to reduce liabilities by £7.2bn. Scheme movements reduced liabilities by £0.6bn. In addition, £1.2bn of compensation has been paid to our members, with a further £0.1bn paid to those schemes included as a provision.

Consolidated Statement of Comprehensive Net Income

For the year ended 31 March	Notes	2023 £m	2022 £m
Operating income			
Income from levies	3	420.4	490.4
Income from grants	3	21.9	20.2
Total operating income		**442.3**	**510.6**
Operating expenses			
Staff costs	11	(43.5)	(41.6)
Other costs	11	(32.9)	(28.7)
Total operating expenses		**(76.4)**	**(70.3)**
Net operating surplus		**365.9**	**440.3**
Investment activities			
Net investment income	5	674.9	813.2
Change in value of investments	5	(6,811.0)	740.6
Investment expenses	5	(223.5)	(330.4)
Net investment return		**(6,359.6)**	**1,223.4**
Claims activities			
Current year claims for compensation	2	(93.0)	(19.4)
Revaluation of claims for compensation	2	118.1	61.3
Gains on actuarial liabilities	1	6,398.1	936.6
FCF claims recoveries		–	(0.2)
Net cost of claims		**6,423.2**	**978.3**
Comprehensive net income for the year		**429.5**	**2,642.0**

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 106–135 form part of these financial statements.

Consolidated Statement of Financial Position

As at 31 March	Notes	2023 £m	2022 £m
Assets			
Operating cash		42.8	110.6
Investment assets	4a	44,371.2	52,755.2
Levy receivables		1.8	1.0
Transfer-in receivables		16.5	24.1
Other assets		89.6	17.8
Total assets		**44,521.9**	**52,908.7**
Liabilities			
Investment liabilities	4a	(11,803.6)	(13,402.1)
Other liabilities		(59.2)	(89.1)
Actuarial liabilities	1	(20,317.1)	(27,429.5)
Claims provisions	2	(213.2)	(288.7)
Total liabilities		**(32,393.1)**	**(41,209.4)**
Total assets less total liabilities		**12,128.8**	**11,699.3**
Represented by: **Total levy and tax payer funds**		**12,128.8**	**11,699.3**

The Board of the PPF approved the financial statements on 28 June 2023 and authorised the Chief Executive to sign this Consolidated Statement of Financial Position on the same date.

Oliver Morley
Chief Executive

4 July 2023

The accounting policies and notes on pages 106–135 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 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**
Total recognised net income for 2022/23	430.0	(0.5)	429.5
Balance at 31 March 2023	**12,129.4**	**(0.6)**	**12,128.8**

The accounting policies and notes on pages 106–135 form part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 March	Notes	2023 £m	2022 £m
Cash flows from operating activities			
Net operating surplus		365.9	440.3
Purchase of property and equipment		–	(0.1)
Depreciation, amortisation and impairment charges	11	0.7	1.6
Movement in current liabilities		(72.9)	18.3
Movement in receivables		(3.8)	(0.6)
Net cash inflow from operating activities		**289.9**	**459.5**
Cash flows from investing activities			
Cash proceeds from net investment (purchases)		(10.6)	(189.8)
Cash proceeds from net investment return		1,864.3	1,510.3
Net gains on cash equivalents		75.4	38.5
Net cash inflow from investing activities		**1,929.1**	**1,359.0**
Cash flows from claims activities			
Cash receivable from schemes transferring into the PPF		381.0	736.5
Compensation payments to members of the PPF	1	(1,217.0)	(1,114.9)
FCF paid claims	2	(9.2)	(0.3)
FCF recoveries		–	0.1
Net cash (outflow) from claims activities		**(845.2)**	**(378.6)**
Net increase in cash and cash equivalents in the year		**1,373.8**	**1,439.9**
Cash and cash equivalents at beginning of the year		**1,971.2**	**531.3**
Cash and cash equivalents at end of the year		**3,345.0**	**1,971.2**
Cash and cash equivalents comprise the following:			
Operating cash		42.8	110.6
Cash at fund managers	4a	3,826.5	2,786.0
Net repurchase agreements	4a	(153.6)	(801.8)
Net unsettled trades	4a	(370.7)	(123.6)
		3,345.0	**1,971.2**

The accounting policies and notes on pages 106–135 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 17 Insurance Contracts (effective for the public sector for the periods beginning on or after 1 April 2025). 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.

IFRS 16 Leases is effective for the public sector for periods beginning 1 April 2022. The PPF does not have any leases which have a significant value.

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 2023 the PPF estimated the value of existing liabilities to pay compensation to members at £20.3bn. During the year, the PPF paid members compensation of £1.2bn. After the Actuarial Valuation as at 31 March 2023 was completed, a net gain of **£6.4bn 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 136.

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

Accounting policy

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

- the present value of the liability to pay compensation to the members, both deferred and retired, of all pension schemes for which the Board has assumed responsibility, valued on the assumptions set out in the Appointed Actuary's Report
- 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, 2022 version, with mortality rate scaling factor of 95% for men
Future improvements in life expectancy	CMI 2021 model (core form, except for addition to initial improvements, 'A', of 0.25% p.a., and no improvements over calendar years 2020 to 2024), 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 152, 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

	2023 £m	2022 £m
Opening value of actuarial liabilities	27,429.5	28,484.4
Actuarial liabilities of schemes which transferred to the PPF during the year	502.7	996.6
Actuarial gains	(6,398.1)	(936.6)
Benefits paid to members	(1,217.0)	(1,114.9)
Total actuarial liabilities	**20,317.1**	**27,429.5**

The minimum amount of the total actuarial liabilities expected to be settled within 12 months is £1,402.1m (2022: £1,321.4m).

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:

	2023 £m	2022 £m
Change due to the passage of time	631.9	96.3
Change in liabilities due to change in market yields	(7,208.8)	(1,027.8)
Change in assumptions	212.4	61.8
Data changes and other experience	(33.1)	(121.1)
Change in past service cost	(0.5)	54.2
Total actuarial gains	**(6,398.1)**	**(936.6)**

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:

	2023		2022	
	£m	%	£m	%
Nominal yields are 0.5% higher per year than assumed*	(1,278.7)	(6.3)	(2,106.1)	(7.7)
Inflation is 0.5% higher per year than assumed	332.3	1.6	568.7	2.1
Inflation is 0.5% lower per year than assumed	(362.2)	(1.8)	(598.4)	(2.2)
Average life expectancy is one year shorter than assumed*	(831.1)	(4.1)	(1,368.2)	(5.0)

* 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 80 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 £213.2m for claims from pension schemes**, with £139.2m being for the PPF (see page 112) and £74.0m for the FCF (see page 114). The Consolidated Statement of Comprehensive Net Income shows **cost of current year claims of £93.0m**, £13.5m being the PPF and £79.5m being the FCF. There is also a net **decrease to the values of claims previously recorded of £118.1m** with £116.3m being the PPF and £1.8m being FCF.

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.

Paying compensation – continued

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, 2022 version, with mortality rate scaling factor of 95% for men
Future improvements in life expectancy	CMI 2021 model (core form, except for addition to initial improvements, 'A', of 0.25% p.a., and no improvements over calendar years 2020 to 2024), 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.

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:

	2023 £m	2023 Number of schemes	2022 £m	2022 Number of schemes
Claims provisions at start of year	**281.3**	**60**	**526.3**	**79**
Current year claims for compensation				
Protected liabilities	115.7		77.5	
Scheme assets including recoveries	(102.2)		(65.4)	
Total current year claims for compensation*	**13.5**	**14**	**12.1**	**17**
Revaluation of claims for compensation				
Release of provision for schemes no longer considered probable for entry	(0.3)	(8)	(0.5)	(3)
Revaluation of provisions brought forward from previous year end	(76.4)		(4.4)	
Change in provisions for schemes transferring into the PPF during the year	(39.6)		(56.4)	
Revaluation of claims	**(116.3)**		**(61.3)**	
Release of provisions for claims transferred to the PPF	**(39.3)**	**(24)**	**(195.8)**	**(33)**
Claims provisions at end of year	**139.2**	**42**	**281.3**	**60**

* Current year claims for compensation comprises newly notified claims, reapplications, and claims for schemes which had been in surplus 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 £14.6m (2022: £81.3m).

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:

	2023 £m	2022 £m
Total estimated actuarial liabilities for SIA	1,342.9	3,355.3
Total assets owned by SIA	(1,203.7)	(3,074.0)
Total net deficits of SIA	**139.2**	**281.3**

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.

	2023		2022	
	£m	%	£m	%
Nominal yields are 0.5% higher per year than assumed*	33.7	24.2	(47.3)	(16.8)
Inflation is 0.5% higher per year than assumed	(44.7)	(32.1)	(48.0)	(17.0)
Inflation is 0.5% lower per year than assumed	43.7	31.4	48.1	17.1
Average life expectancy is one year shorter than assumed*	(56.1)	(40.3)	(167.9)	(59.7)

* 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 claims provision would be approximately 80 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 over the next 12 months identified as reasonably foreseeable at 31 March 2023, net of the value of related scheme assets, was estimated as £38.1m (2022: £134.7m).

It should be noted that although £38.1m is our best estimate of the contingent liabilities for possible claims as at 31 March 2023, 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 2023 there is a 2.5 per cent chance that the number could be higher than £140.4m and a 2.5 per cent chance it could be lower than £4.1m.

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, while the United Kingdom was in the European Union, 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. There will be no potential liabilities arising from the Bauer judgment for members of schemes whose employer experiences a qualifying insolvency event after 31 December 2023 once the Retained EU Law (Revocation and Reform) Bill (REUL) receives Royal Assent and comes into force. However, there remains some uncertainty about the effect of REUL on the potential liabilities arising from the Bauer judgment for periods on and from 1 January 2024 for members of schemes whose employer has experienced a qualifying insolvency event before that date.

Paying compensation – continued

Claims on the FCF

The total value of claims on the FCF as at 31 March 2023 is summarised below:

	2023 £m	2023 Number of schemes	2022 £m	2022 Number of schemes
Claims provision at the start of the year	7.4	3	0.4	1
Current year claims for compensation	79.5	28[1]	7.3	3[1]
Paid claims	(9.2)	(5)[2]	(0.3)	(1)[2]
Outstanding claims	(1.9)	(1)[2]	–	–
Revaluation of claims	(1.8)	–	–	–
Claims provision at the end of the year	**74.0**	**25**	**7.4**	**3**

1 Excludes four claims which were declined totalling £1.0m (2021/22: one, £0.9m).

2 Payments of part of these claims have been deferred conditional on certain conditions being satisfied and these amounts remain in the claims provision.

The amount of the claims provision expected to be settled within 12 months is £71.6m (2022: £7.4m).

Contingent liabilities for possible claims on the FCF

At 31 March 2023 there were 25 claims in assessment for which we have concluded that fraudulent events have occurred. 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 £29.3m.

Components of paid and outstanding claims for which we have not yet been able to reliably estimate have been included in contingent liabilities and amount to £2.0m.

We have received a further 13 claim applications (including reapplications) amounting to £37.1m 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 93 potential claims with estimates (before any recoveries) totalling £292.8m but there is uncertainty as to their eligibility and to the validity of the amounts claimed.

Contingent liabilities for the FCF total £361.2m (2022: £420.7m).

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 Statement of Investment Principles (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 £70.0m to £420.4m, £385.8m for the PPF itself and £34.6m for the FCF**.

The PPF levy amount collected in relation to the 2022/23 levy year was £385m, close to the estimate of £390m published in December 2021.

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:

	2023 £m	2022 £m
Risk-based levies in respect of the current year	353.0	442.2
Scheme-based levies in respect of the current year	32.0	32.8
Total protection levies in respect of the current year	**385.0**	**475.0**
Risk-based levies in respect of prior years	0.8	0.5
Scheme-based levies in respect of prior years	–	–
Total protection levies in respect of prior years	**0.8**	**0.5**
Income from protection levies	**385.8**	**475.5**
Income from fraud compensation levy	**34.6**	**14.9**
Total income from levies	**420.4**	**490.4**

The fraud compensation levy is collected by The Pensions Regulator (TPR) on the Board's behalf.

Funding compensation – continued

Income from grants

The Consolidated Statement of Comprehensive Net Income shows that **income from grants increased by £1.7m to £21.9m**. 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:

	2023 £m	2022 £m
Levy payer funds	14.7	12.7
Tax payer funds	7.2	7.5
Total	**21.9**	**20.2**

4. Financial instruments

Financial instruments are categorised as financial assets and financial liabilities. Financial assets are a contractual right to receive cash or another financial asset from another entity. Financial liabilities are a contractual obligation to deliver cash or another financial asset to another entity. Financial instruments comprise investments, cash and cash equivalents, levy receivables, transfer-in receivables and 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 2023

	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	40,055.9	(11,090.9)	**28,965.0**	4,315.3	(712.7)	**32,567.6**
Cash at bank	–	–	–	42.8	–	**42.8**
Levy receivables	–	–	–	1.8	–	**1.8**
Transfer-in receivables	–	–	–	16.5	–	**16.5**
Other assets	–	–	–	0.3	–	**0.3**
Other liabilities	–	–	–	–	(57.7)	**(57.7)**
Total	**40,055.9**	**(11,090.9)**	**28,965.0**	**4,376.7**	**(770.4)**	**32,571.3**

* Of the financial assets measured at fair value through profit and loss £20,411.4m have been designated at initial recognition.

Funding compensation – continued

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.

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 £44.4bn and investment liabilities of £11.8bn**, a net investment portfolio of £32.6bn. The Consolidated Statement of Comprehensive Net Income shows a **net investment return (income and gains less investment expenses) of £(6.4)bn**.

The Board's approach to investment is summarised in the SIP, 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:

	2022 £m	Assets transferred from SIA £m	Net purchases/ (sales) £m	Net gains/ (losses) £m	Other movements £m	2023 £m
Annuities	366.7	78.3	–	(125.8)	–	319.2
Corporate bonds	4,978.7	–	3,056.2	(597.4)	(973.7)	6,463.8
Index-linked corporate bonds	461.9	–	(17.6)	(82.1)	–	362.2
Government bonds	14,163.1	–	(377.5)	(3,840.8)	(9.7)	9,935.1
Index-linked government bonds	608.5	–	(41.0)	(195.4)	(0.5)	371.6
Other debt	3,875.0	–	(392.7)	29.0	(232.6)	3,278.7
Public equity	4,355.3	–	(2,012.5)	(198.0)	(25.5)	2,119.3
Private equity	2,048.7	8.5	(168.4)	355.2	–	2,244.0
Absolute return strategies	2,496.7	–	(830.4)	120.6	–	1,786.9
Investment property funds	1,661.8	3.4	(22.3)	(45.2)	(12.8)	1,584.9
Investment property held directly	601.3	–	(46.6)	(100.1)	–	454.6
Infrastructure	1,193.4	–	(59.0)	163.9	(2.2)	1,296.1
Timberland and farmland	920.2	–	(10.3)	71.4	–	981.3
	37,731.3	**90.2**	**(922.1)**	**(4,444.7)**	**(1,257.0)**	**31,197.7**
Other investment assets						
Unsettled trades	60.8					325.8
Derivatives	10,629.1					7,787.4
Cash at fund managers	2,786.0					3,826.5
Repurchase agreements	1,430.6					1,070.8
Accrued income	117.4					163.0
Total investment assets	**52,755.2**					**44,371.2**
Other investment liabilities						
Unsettled trades	(184.4)					(696.5)
Derivatives	(10,982.5)					(9,866.5)
Repurchase agreements	(2,232.4)					(1,224.4)
Interest payable	(2.8)					(16.2)
Total investment liabilities	**(13,402.1)**					**(11,803.6)**
Net investment portfolio	**39,353.1**					**32,567.6**

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 £2,247.1m (2022: £2,537.9m) managed in-house.

The amounts of the net investment portfolio expected to be recovered or settled within 12 months are assets of £5,839.2m and liabilities of £2,533.1m (2022: assets of £4,750.6m and liabilities of £3,046.7m).

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
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

Description of asset	Level	Basis of valuation	Inputs and sensitivities affecting valuations
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 2023

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Annuities	–	–	319.2	319.2
Corporate bonds	–	4,358.1	2,105.7	6,463.8
Index-linked corporate bonds	–	208.1	154.1	362.2
Government bonds	–	9,935.1	–	9,935.1
Index-linked government bonds	–	371.6	–	371.6
Other debt	93.5	943.1	2,242.1	3,278.7
Public equity	1,794.6	323.8	0.9	2,119.3
Private equity	–	–	2,244.0	2,244.0
Absolute return strategies	–	733.0	1,053.9	1,786.9
Investment property funds	94.4	475.4	1,015.1	1,584.9
Investment property held directly	–	–	454.6	454.6
Infrastructure	–	–	1,296.1	1,296.1
Timberland and farmland	–	–	981.3	981.3
Derivatives	(27.5)	(1,929.4)	(122.2)	(2,079.1)
Repurchase agreements	–	(153.6)	–	(153.6)
Total	**1,955.0**	**15,265.2**	**11,744.8**	**28,965.0**

Funding compensation – continued

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**

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

Level 3 financial instruments

	2023 £m	2022 £m
Balance at start of year	**12,780.2**	**10,809.3**
(Losses)/gains included in the Statement of Comprehensive Net Income	(89.3)	1,172.3
Purchases and assets transferred in	1,593.4	2,788.1
Sales	(1,929.0)	(1,969.2)
Transfers into Level 3	47.2	26.1
Transfers out of Level 3	(657.7)	(46.4)
Balance at end of year	**11,744.8**	**12,780.2**

Transfers into Level 3 during the year relate to public equity reclassified from Level 1 and corporate bonds and other debt and 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, government bonds, corporate bonds and property funds which were reclassified to Level 2. There were no transfers between Level 1 and Level 2.

4c. Investment property held directly

Accounting policy

Investment properties held directly are measured initially at cost, including transaction costs. The PPF follows the fair value model option in IAS 40 Investment Property. Investment properties are valued at their fair value by independent valuers with recognised and relevant qualifications and recent and relevant experience. The latest available valuation is used, rolled forward to the reporting data 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 2023, the Board owned 27 (2022: 34) commercial properties in the UK, with a total fair value of £454.6m (2022: £601.3m). Rental income recognised was £28.9m (2021/22: £41.9m). 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:

	2023 £m	2022 £m
Not later than one year	22.1	25.9
Later than one year but not later than five years	68.1	87.0
Later than five years	117.4	182.2
Total	**207.6**	**295.1**

5. Net investment return

Accounting policy

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

- interest income arising from cash deposits, fixed and variable interest securities and similar investments are accounted for using the effective interest rate method
- 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.

Funding compensation – continued

	2023			2022		
	Net investment income £m	Change in value of investment £m	Total 2023 £m	Net investment income £m	Change in value of investment £m	Total 2022 £m
Investment return						
Financial assets held at fair value through profit and loss	1,023.8	(4,291.9)	**(3,268.1)**	937.7	685.2	**1,622.9**
Financial liabilities held at fair value through profit and loss	(419.9)	(2,436.5)	**(2,856.4)**	(153.8)	103.4	**(50.4)**
Financial assets held at amortised cost	71.0	(83.4)	**(12.4)**	29.3	(47.7)	**(18.4)**
Financial liabilities held at amortised cost	–	0.8	**0.8**	–	(0.3)	**(0.3)**
Total investment return	**674.9**	**(6,811.0)**	**(6,136.1)**	**813.2**	**740.6**	**1,553.8**
Investment expenses						
Fund management fees			(210.9)			(304.8)
Custody charges			(1.6)			(2.5)
Other investment expenses			(11.0)			(23.1)
Total investment expenses			**(223.5)**			**(330.4)**
Net investment return			**(6,359.6)**			**1,223.4**

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 the SIP.

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
- investment management agreements require fund managers to deal with the highest-rated counterparties consistent with best execution
- collateral is taken under the terms of the relevant Credit Support Annex to the International Swaps and Derivatives Association Master Agreement
- fund managers that invest in credit-sensitive products do so within guidelines as set in the investment management agreement

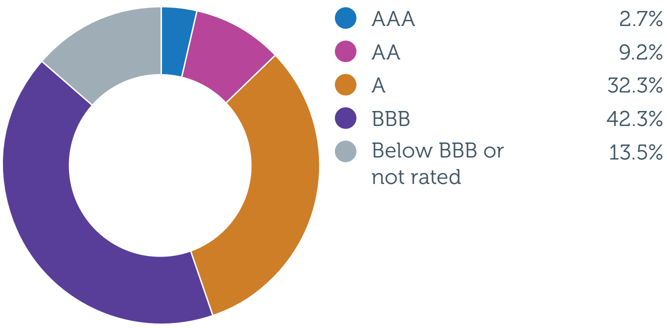
The PPF manages concentration risk (the risk of excessive exposure to a single institution or institutions that share a common risk factor) by ensuring that the spread of assets, the fund managers' policies on investing in individual securities and the PPF's investment guidelines to fund managers provide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

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

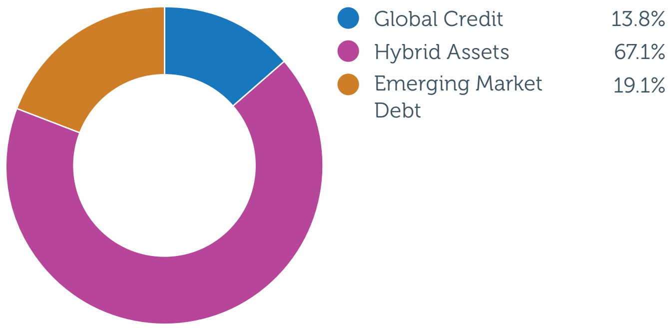
Financial risk management – continued

As at 31 March 2023, the rating distribution of the fixed income investment portfolio (excluding UK gilts and derivatives) was as follows:

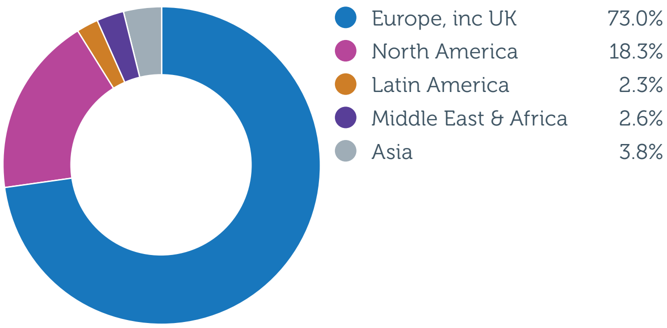
Fixed Income Portfolio Allocation (£6.3bn)
by Rating Category



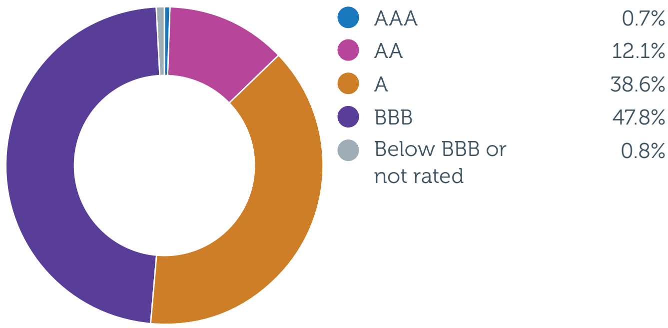
Fixed Income Portfolio Allocation (£6.3bn)
by Asset Type



Fixed Income Portfolio Allocation (£6.3bn)
by Region



Hybrid Asset Allocation (£4.2bn)
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 £4.8m, 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 provisions (as per the Statement of Financial Position, excluding FCF) of £32.5bn (2022: £39.4bn) under a number of scenarios would change by:

	2023		2022	
	£m	%	£m	%
Nominal yields are 0.5% higher per year than assumed*	(1,515.6)	(4.7)	(2,498.3)	(6.3)
Inflation is 0.5% higher per year than assumed	364.4	1.1	601.7	1.5
Inflation is 0.5% lower per year than assumed	(365.6)	(1.1)	(608.3)	(1.5)
Non-LDI assets fall by 10%*	(1,585.6)	(4.9)	(2,208.3)	(5.6)

* 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 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.

Financial risk management – continued

Asset class[1]

Asset Class	2023 £m	Actual %	Tolerance range
Global bonds[2]	3,517.2		
UK bonds and cash	12,564.0		
Cash and bonds	**16,081.2**	**49.5%**	**35% – 64%**
Public equity	1,965.5	6.1%	4% – 9%
Alternatives[3]	8,467.6	26.0%	21% – 31%
Absolute return	1,788.6	5.5%	3% – 8%
Hybrid assets	4,209.6	12.9%	11% – 16%
Total assets allocated per SIP	**32,512.5**	**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 2023, the exposure and therefore sensitivity to each major currency is illustrated by the following table.

Residual unhedged currency exposure

	2023 £m	2022 £m
Euro	836.9	880.2
US dollar	811.6	267.9
Australian dollar	329.7	290.4
Chinese yuan renminbi	(53.0)	(51.8)
Singapore dollar	(56.7)	(0.7)
Other currencies	367.5	456.8
Total	**2,236.0**	**1,842.8**

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
2023	1,402.1	4,655.6	14,259.4	**20,317.1**
2022	1,321.4	4,514.2	21,593.9	**27,429.5**

Financial risk management – continued

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
2023	596.0	2,042.7	981.1	6,246.7	**9,866.5**
2022	627.1	1,587.5	1,229.7	7,538.2	**10,982.5**

Collateral arrangements

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

Collateral pledged	2023 £m	2022 £m
Cash delivered as collateral for traded positions including repurchase agreements	1,197.2	483.4
Securities delivered as collateral for traded positions including repurchase agreements	2,156.6	1,170.1
Total assets provided as collateral with counterparties	**3,353.8**	**1,653.5**

Collateral held	2023 £m	2022 £m
Cash held as collateral for traded positions including repurchase agreements	338.5	1,065.3
Securities held as collateral for traded positions including repurchase agreements	191.3	4.3
Collateral received from counterparties on securities lending	153.1	269.7
Total assets received as collateral from counterparties	**682.9**	**1,339.3**

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:

	2023	2023 £m	2022	2022 £m
Denominated in US dollars	$1,641.0m	1,327.2	$2,022.6m	1,536.2
Denominated in euros	€820.0m	720.5	€941.9m	796.0
Denominated in sterling	£705.1m	705.1	£754.3m	754.3
Denominated in Australian dollars	A$23.2m	12.6	A$26.0m	14.8
Total		**2,765.4**		**3,101.3**

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 £40.4m (US$50m) relating to its holding in KAHL – this loan facility is currently unused.

9. FCF financial risks

The FCF has £74.9m (2022: £48.4m) of cash and money market funds, receivables of £0.5m (2022: £0.3m), outstanding claims of £1.9m and provisions valued at £74.0m (2022: £7.4m). 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 £435.2m. Future levy income will be insufficient to fund these claims, so the PPF has obtained a loan facility from the DWP to cover the shortfall as projected as at 31 March 2023. This loan facility is currently unused.

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.

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 2022/23 are summarised as follows:

	PPF £m	PPF Administration Fund £m	FAS Administration Fund £m	2023 £m
Staff costs				
Wages and salaries	22.2	6.6	3.5	32.3
Social security costs	2.7	1.0	0.4	4.1
Other pension costs	4.3	1.6	0.9	6.8
Short-term, seconded and temporary staff	0.2	0.1	–	0.3
Total staff costs	**29.4**	**9.3**	**4.8**	**43.5**
Other costs				
Member payroll services	0.4	–	0.2	0.6
Staff-related and recruitment	0.9	0.3	0.2	1.4
Advisory and other professional services	8.5	2.5	0.4	11.4
Statutory audit costs	0.2	0.1	0.1	0.4
Accommodation and general office	3.9	1.2	0.7	5.8
IT and telephony	10.8	1.5	1.1	13.4
Depreciation and amortisation charges	0.5	–	0.2	0.7
Prior year VAT recovered	(0.6)	(0.2)	–	(0.8)
Total other operating expenses	**24.6**	**5.4**	**2.9**	**32.9**
Total operating expenses	**54.0**	**14.7**	**7.7**	**76.4**

Statutory audit costs were £283,400 (2022: £260,000).

	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**

Information on the staff numbers and exit packages can be found in the Remuneration and Staff Report on pages 85–91.

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 2023, employer contributions of £6.5m (2021/22: £6.5m) 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 (2021/22: 26.6 per cent to 30.3 per cent).

Employer contributions for the year ended 31 March 2024 are expected to be approximately £8.2m. 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 £264,000 (2021/22: £234,000) 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 (2021/22: 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 2023 were £581,000 (2022: £552,000).

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	2023 £m	2022 £m
PPF		
Net operating surplus	331.8	426.8
Net investment return	(6,360.9)	1,223.4
Net cost of claims	6,500.9	985.8
Net comprehensive income	**471.8**	**2,636.0**
FCF		
Income from levies	34.6	14.9
Investment return	1.3	–
Net cost of claims	(77.7)	(7.5)
Net comprehensive (expense)/income	**(41.8)**	**7.4**
Administration Funds		
Income from grants	21.9	20.2
Operating expenses	(22.4)	(21.6)
Net comprehensive expense	**(0.5)**	**(1.4)**
Consolidated net comprehensive income	**429.5**	**2,642.0**

Consolidated Statement of Financial Position

For the year ended 31 March	2023 £m	2022 £m
Total assets less total liabilities		
PPF	12,129.3	11,657.5
FCF	(0.5)	41.3
Administration Funds	–	0.5
Consolidated Statement of Financial Position	**12,128.8**	**11,699.3**

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 2023 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 received on the KAHL loan notes was used to purchase further loan notes to the same value. 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 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

£21.9m (2021/22: £20.2m) was received from the DWP in grants in respect of recovery costs for administering FAS and for costs incurred in the PPF Administration Fund which is ultimately funded by the PPF Administration Levy, which is set by the DWP and collected by TPR. The DWP is the sponsoring department of the PPF. There are no other related party transactions to disclose other than transactions with subsidiaries shown in note 13.

15. Events after the reporting period

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

The financial statements were authorised for issue by the Chief Executive on 7 July 2023, the date the Comptroller and Auditor General certified them.

The financial statements do not reflect events after this date.

Actuarial reports

Summary of the two actuarial valuation reports

Over the year to 31 March 2023 our reserves (across both transferred schemes and those in assessment) increased to £12.1 billion, from £11.7 billion as at 31 March 2022. This corresponds to an increase in funding ratio to 156.0 per cent from 137.9 per cent. Interest rates significantly increased over the year, overall reducing liabilities by around 25 per cent, but there was limited impact on our reserves due to our hedging programme. The main factors influencing the increase in reserves were:

- gains on invested (non-hedging) assets of £0.6 billion
- levy receipts of £0.4 billion.

Over the year 29 schemes entered PPF assessment. Of these schemes, it is expected that nine will ultimately transfer.

The shortfall of assets compared with liabilities is around £14 million for those schemes that entered assessment and were recognised on our balance sheet for at least some time over the year.

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)	32,585.6	1,203.7	**33,789.3**
Liabilities (£m)	20,317.1	1,342.9	**21,660.0**
Reserves (£m)	**12,268.5**	**(139.2)**	**12,129.3**
Funding ratio (assets/liabilities)	**160.4%**	**89.6%**	**156.0%**
Number of records in respect of members receiving compensation*	199,894	18,334	**218,228**
Number of records in respect of deferred members*	106,977	10,599	**117,576**

* 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 Pension Protection Fund as at 31 March 2023 (transferred schemes only)

1. Introduction and framework

This report has been prepared for the Board of the PPF (the Board). It sets out the results of the actuarial valuation of the Pension Protection Fund (the PPF) as at 31 March 2023 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 on or before 31 March 2023. It should be read alongside my supplementary report, dated 29 June 2023, which also includes those schemes that are currently in an assessment period and 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 2023 is broadly the same as that adopted for the valuation as at 31 March 2022.

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: 29 June 2023
Job title: Chief Actuary
Qualification: Fellow of the Institute and Faculty of Actuaries
Employer: The Board of the Pension Protection Fund

The actuarial valuation of the Pension Protection Fund as at 31 March 2023 (transferred schemes only) – continued

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.

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. We are currently in the process of updating compensation for the *Hampshire* and *Hughes* judgments, but for some members the benefits make no allowance for these court rulings. Liabilities have therefore been adjusted for the expected cost of uplifting compensation for the remaining members.

- 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. There will be no potential liabilities arising from the Bauer judgment for members of schemes whose employer experiences a qualifying insolvency event after 31 December 2023 once the Retained EU Law (Revocation and Reform) Bill (REUL) receives Royal Assent and comes into force. However, there remains some uncertainty about the effect of REUL on the potential liabilities arising from the Bauer judgment for periods on and from 1 January 2024 for members of schemes whose employer has experienced a qualifying insolvency event before that date. 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 2022 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; and
- 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 2022. I have no concerns over the accuracy of the data.

A full summary of the data used, including that used for the actuarial valuation as at 31 March 2022 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 2023, are set out in the following table:

Member status	Number of records	Compensation, £m p.a.
Receiving compensation	199,894	975.8
Deferred	106,977	382.2

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 2023 is broadly the same as that adopted for the valuation as at 31 March 2022.

Assets

The value of the PPF assets is taken from the PPF's accounts for the financial period ending 31 March 2023.

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 2023, 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; and
- the chances compensation will be paid out to dependants.

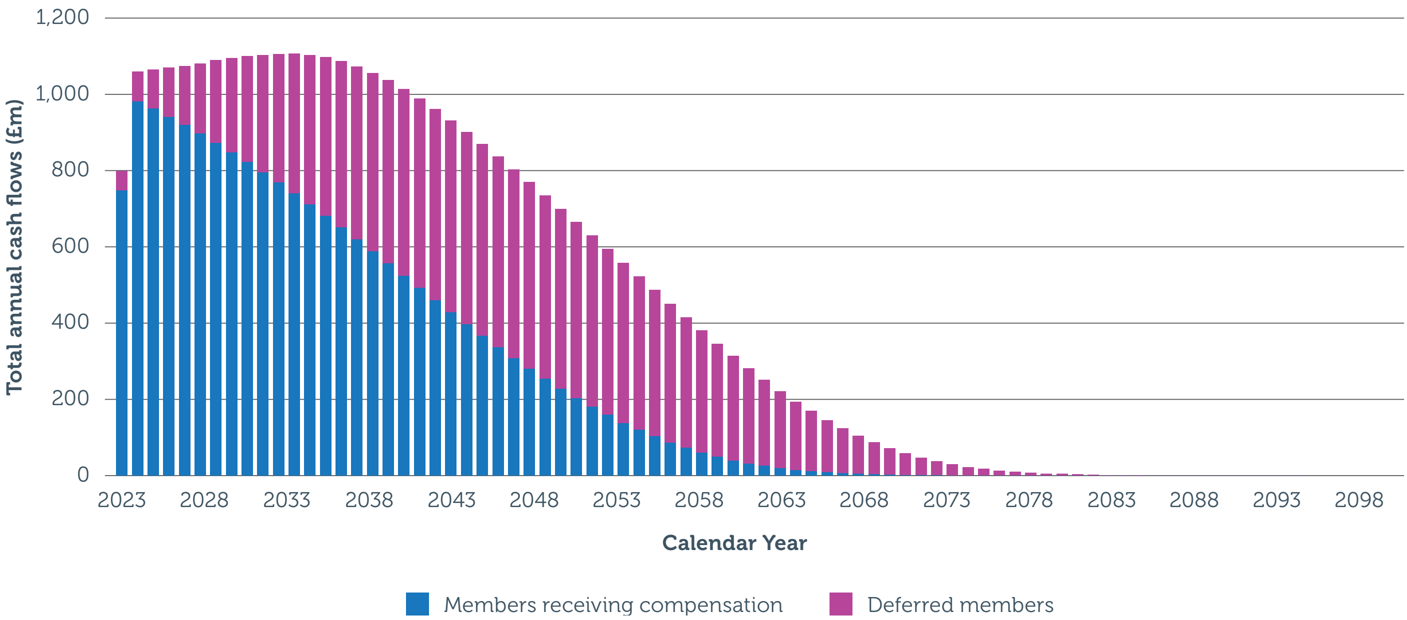
Future expenses are calculated by projecting our current per-member cost and membership numbers and adding on the expected cost of administering the portfolio of assets used to determine the discount rate.

The 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 actuarial valuation of the Pension Protection Fund as at 31 March 2023 (transferred schemes only) – continued

The chart below summarises the expected future payments (and associated expenses) to all members who had transferred to the PPF by 31 March 2023 (note that calendar year 2023 excludes payments made before 31 March 2023). 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 2023 using assumptions derived from market conditions at that date for all schemes that transferred before 31 March 2023. I then adjusted for changes in market conditions between 28 February 2023 and 31 March 2023 as well as such adjustments as:

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

I have also included in the liabilities the value of any Additional Voluntary Contributions (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 PPF. As in previous years, the proposed assumptions were discussed and agreed with the Board prior to completing the valuation.

I have taken account of the relevant legislation, regulations, and guidance when setting the assumptions, details of which are included in Appendix M4 – Legislation and guidance. None of these items 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.

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 2023	31 March 2022
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	A full curve derived from CPI inflation capped at 2.5% p.a. and floored at 0% p.a.	A full curve derived from CPI inflation capped at 2.5% p.a. and floored at 0% p.a.
Baseline life expectancy	Club Vita life expectancy curves, 2022 version, with mortality rate scaling factor of 95% for men (Curves allocated to membership based on PPF compensation)	Club Vita life expectancy curves, 2021 version (Curves allocated to membership based on estimated original scheme pension)
Future improvements in life expectancy	CMI 2021 model (core form, except for addition to initial improvements, 'A', of 0.25%, and no improvements over the calendar years 2020 to 2024, inclusive), long-term rate 1.5% p.a.	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.
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 – 0.1% for deferreds – £nil for arrears For removal of the compensation cap provisions: – £1.1m for arrears due – 0.4% for members receiving compensation (including the cost of further arrears and tax charges) – Deferreds valued directly without caps 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: – £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.

The actuarial valuation of the Pension Protection Fund as at 31 March 2023 (transferred schemes only) – continued

The most material assumptions changes compared with last year are the life expectancy assumptions:

- Baseline life expectancy: I have continued to use the latest curves provided by Club Vita, but I have changed the way I have allowed for how our actual experience compares with that expected using these curves. Historically, I have allowed for the fact that we have observed that male members live slightly longer than expected by assigning curves to members based on estimated scheme pension rather than compensation. This year I have assigned member curves using compensation with a scaling factor applied to the male base tables. The change in approach reflects the fact that our membership has become more stable over the last few years, increasing confidence that past experience can be used as a guide for future experience.
- Future improvements in life expectancy: While I have switched to a more recent version of the model, as usual, I have also removed a further three 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:

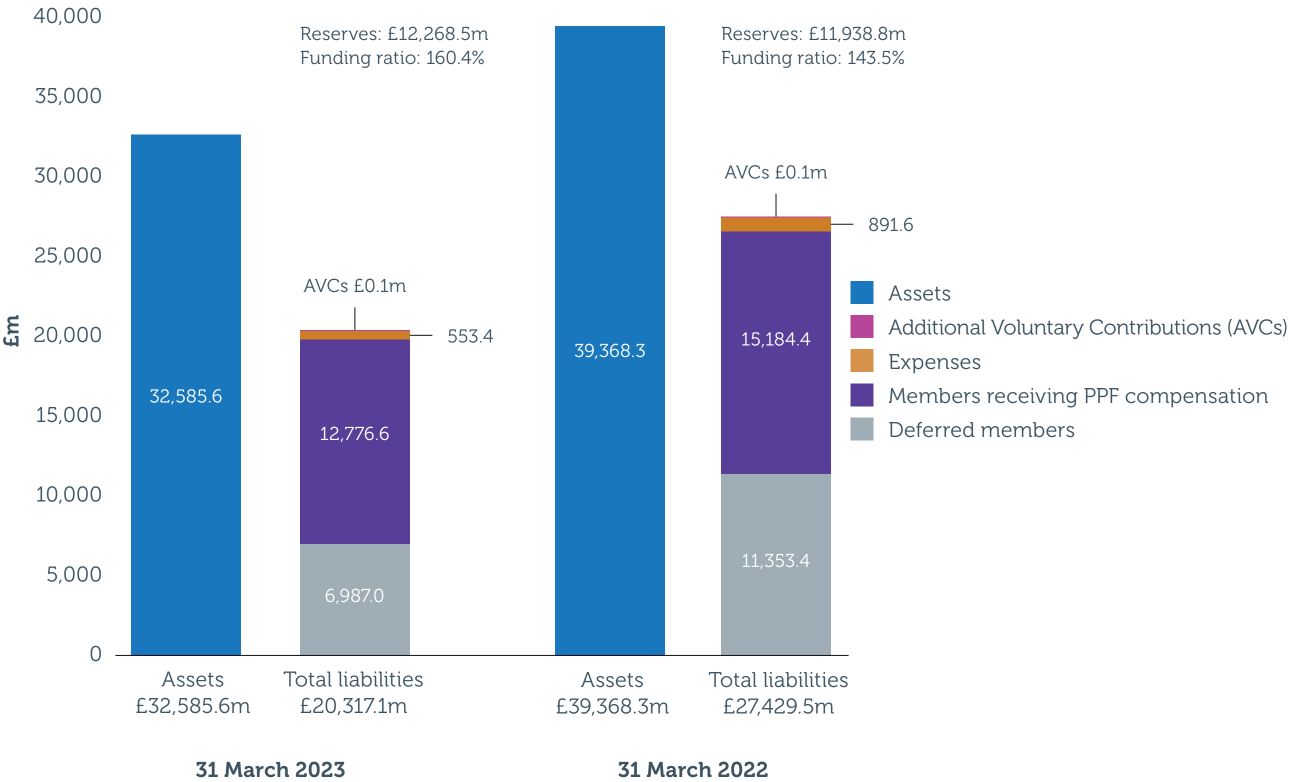
- Discount rates have significantly increased over the year as they are derived with reference to gilt yields, particularly in the short term.
- The assumption for the expected cost of *Hampshire* and *Hughes* have materially reduced reflecting the fact that the majority of members have now been processed.

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 2023 assets decreased by £6,782.7 million and liabilities decreased by £7,112.4 million. The reduction in liabilities was largely a result of:

– a decrease of £7,208.8 million due to changes in market yields over the year; and

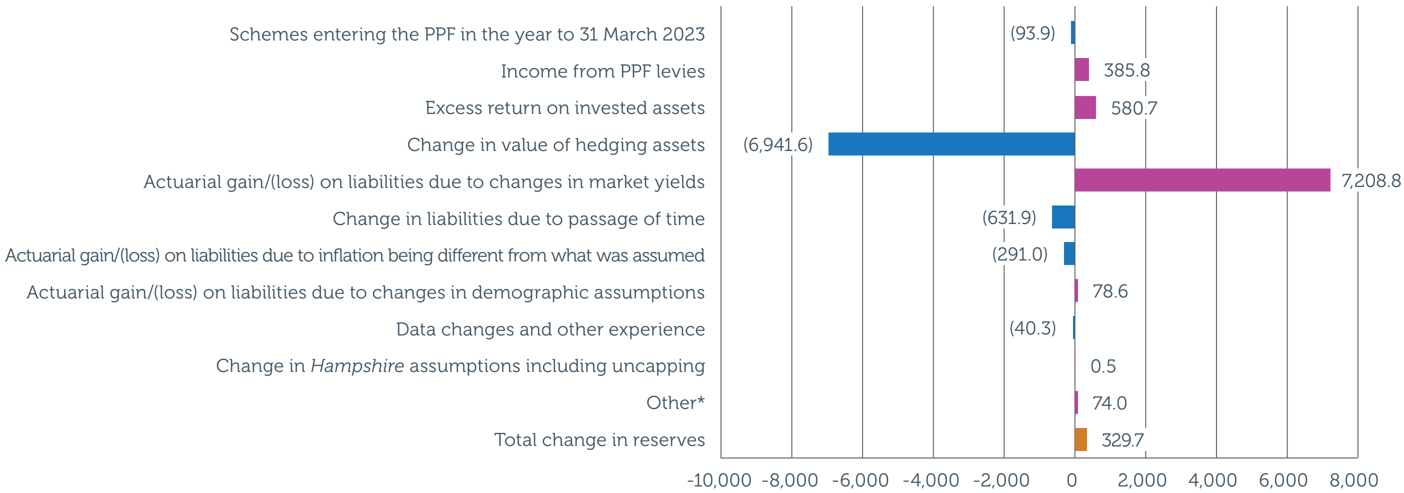
– a decrease of £152.5 million due primarily to changes in the life expectancy and expense assumptions.

This was partially offset by an increase of £291.0 million due to actual inflation being higher than expected.

The reduction in asset values was mostly due to total returns on assets of (£6,360.9) million. This comes from a reduction of £6,941.6 million in those assets used to hedge our liabilities offset by a gain on invested (non-hedging) assets of £580.7 million.

The net impact is an increase in the reserves in respect of transferred schemes between 31 March 2022 and 31 March 2023 of £329.7 million.

A full analysis of change is set out in the following chart (figures are in £ million):



* Includes such items as assets from schemes that transferred in prior years, and expenses. The £74.0 million increase in reserves comprises a £73.4 million decrease in liabilities and a £0.6 million increase 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 change in liabilities as a result of the change in life expectancy assumptions has resulted in a small reduction in liabilities. The two assumptions changes made were more material in isolation and are offsetting to some extent. The change in approach for allowing for actual experience in our base table has acted to increase liabilities by £85.0 million, which has been more than offset by the £171.9 million reduction in liabilities by changing the assumption for future life expectancy improvements. (The demographic assumptions changes also include a change to the proportion married assumptions.)

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 £139.2 million. Therefore, had these schemes transferred to the PPF on the calculation date our reserves would have reduced to £12,129.3 million.

6. Risks and uncertainties

Based on our current approach to funding, it is our central expectation that over the longer term our reserves should continue to increase; predominantly as a result of returns on our assets. It is, however, possible over the short and longer term that experience is different than I have assumed and that our funding position could deteriorate.

Our funding framework is designed to help the Board understand the level of protection our reserves provide and to help guide funding decisions in the future as our funding position evolves. While our current position remains strong, I have summarised below some areas of uncertainty along with the likely impacts on our funding if the risks were to materialise:

- Although our current investment strategy is designed to be low risk and well diversified, some volatility in the market value of our assets in the short term is expected. If, for example, the value of our growth assets was to fall by 10 per cent, our reserves would fall by around £1.6 billion.
- Over the last year we have seen significant increases in gilt yields and interest rates. Our approach has always been to hedge our interest rate exposure, so that any movement in yields impacts our assets and liabilities in the same way. Therefore, while we may expect future volatility in the short term, the likely impact on our reserves will be very small.
- Inflation has been high over the last year and while our current forecast for short-term inflation is much lower than a year ago, there remains a risk that short-term inflation is higher than expected. This would cause liabilities to rise, but as we hedge our inflation risk there would be limited impact on our 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.

- Future changes in life expectancy are very uncertain. While we hope that the worst effects of Covid-19 are behind us, the longer-term impacts of the pandemic remain unclear and mortality rates remain higher than those we observed prior to the pandemic. While I still expect there to be improvements in life expectancy over the long term, in the short term there are a number of challenges that will act to curtail such improvements and it is difficult to know for how long these might continue. While some allowance has been made for these short-term impacts in our valuation, actual experience could still be materially different. The sensitivity analysis included in Appendix S4 provides the likely impact if experience is different from that 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 £0.9 billion.
- 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 show that our central forecast over the next year is low. This reflects the significant improvement in scheme funding we have observed in our universe over the year as the movements in gilt yields reduced scheme liabilities by more than scheme assets. Although future claims experience is subject to much uncertainty and actual experience can be materially different to our best estimate, I understand that the likelihood of claims exceeding £100 million over the next year is around 5 per cent.

- While estimating the funding position of schemes in our universe is always subject to a degree of uncertainty, this year this is particularly true. A rapid increase in gilt yields in September 2022 meant that some pension schemes needed to sell assets quickly to enable them to meet collateral calls on unfunded LDI arrangements. For impacted schemes this will have affected their asset allocations and may have capitalised investment losses on assets sold. We do not yet have full information on these impacts but have undertaken some scenario modelling to better understand what they could be. For an assumed amount of forced asset selling to meet collateral calls in September 2022, we estimate the total value of claims on the PPF over the next 12 months (identified as reasonably foreseeable at 31 March 2023, net of the value of related scheme assets) would increase by around £3 million. Under the same stress, we estimate the total deficit of schemes in deficit in the PPF universe would increase by around £0.9 billion. (Both figures as measured on the PPF valuation assumptions.)
- Over the longer term it is likely that climate change, including measures taken to tackle it, will have an impact on investment markets. Our processes have been designed to ensure this risk is well managed within our investment portfolio, although there are other risks that could impact our balance sheet in the future. The two most likely are our claims exposure and life expectancy risk. It is, at this stage, difficult to quantify this, but 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. Modelling has indicated that it is unlikely to be sufficiently material to impact our current approach to funding. The level of compensation payable by the PPF has remained an area of interest for many of our stakeholders. While the compensation we pay is for the Government to decide, any increases would act to increase our liabilities as well as forecasts of future claims.

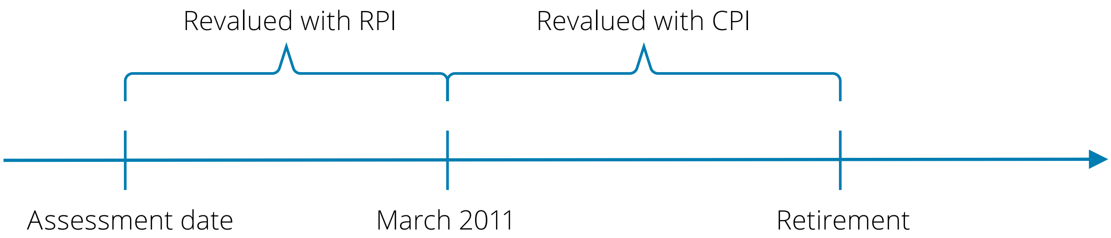
The calculated liabilities will also be sensitive to the assumptions used. The choice of assumptions requires a degree of judgement. To help illustrate the likely impact in funding position if different assumptions were used, my supplementary report shows the results using a number of different assumptions. In all of these our funding position remains strong.

Appendix M1

Summary of compensation provided by the PPF

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

Revaluation of compensation between coming into assessment and retirement



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

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

Compensation increases in payment

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

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

Compensation cap

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, although we are still in the process of removing the impact of the compensation cap from members' compensation payments.

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. Where not already in the data, 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 2022. 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 2023	13 January 2023
February 2023	17 February 2023
March 2023	No schemes transferred in March 2023

Adjustments have been applied to ensure the data is consistent with the valuation date 31 March 2023 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 2023			31 March 2022		
		Male	Female	Total / average	Male	Female	Total / average
Deferred members	Number	69,485	37,492	**106,977**	73,186	38,809	**111,995**
	Average age (unweighted)	55.9	54.7	**55.4**	55.2	54.0	**54.8**
	Total compensation (£m pa)	284.3	95.2	**379.5**	280.2	90.4	**370.6**

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. Average ages are as at 31 March.

Members receiving compensation

		31 March 2023			31 March 2022		
		Male	Female	Total / average	Male	Female	Total / average
Members receiving compensation (excl. dependants)	Number	120,270	45,733	**166,003**	117,093	44,372	**161,465**
	Average age (unweighted)	72.0	72.7	**72.2**	71.7	72.5	**71.9**
	Total compensation (£m pa)	741.7	123.0	**864.7**	716.5	116.5	**833.0**
Dependants receiving compensation (excl. children)	Number	3,530	29,861	**33,391**	3,358	28,628	**31,986**
	Average age (unweighted)	75.9	77.9	**77.7**	75.5	77.6	**77.3**
	Total compensation (£m pa)	5.3	105.2	**110.5**	5.0	99.9	**104.9**
Children receiving compensation	Number	249	252	**501**	256	276	**532**
	Average age (unweighted)	16.0	16.5	**16.3**	16.0	16.3	**16.2**
	Total compensation (£m pa)	0.3	0.3	**0.6**	0.3	0.3	**0.6**
All members receiving compensation	**Number**	**124,049**	**75,846**	**199,895**	**120,707**	**73,276**	**193,983**
	Average age (unweighted)	**72.0**	**74.5**	**73.0**	**71.7**	**74.3**	**72.7**
	Total compensation (£m pa)	**747.3**	**228.5**	**975.8**	**721.8**	**216.7**	**938.5**

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:

– include the removal of the PPF compensation cap for members where we have completed that analysis. For other members, compensation shown is prior to that.
– include any *Hampshire* uplifts that have been applied to members who have been assessed, which is over 80 per cent of our membership. Given the small number of members still to be processed I would not expect the compensation amounts quoted to materially change.

Suspended payments

There were around 2,600 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, and members not successfully traced during an exercise. A proportion of the member deaths will have an eligible spouse, and some of the untraced members were reinstated before the end of March. I have included a reserve of £13 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 2022 valuation assumption, if different.

Valuation date	31 March 2023	31 March 2022 (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 curve derived from CPI inflation capped at 2.5% p.a. and floored at 0% p.a.	
Baseline life expectancy	Club Vita life expectancy curves, 2022 version, with mortality rate scaling factor of 95% for men (Curves allocated to membership based on PPF compensation)	Club Vita life expectancy curves, 2021 version (Curves allocated to membership based on estimated original scheme pension)
Future improvements in life expectancy	CMI 2021 model (core form, except for addition to initial improvements, 'A', of 0.25% p.a., and no improvements over the calendar years 2020 to 2024, inclusive), long-term rate 1.5% p.a.	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.
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)/65% (women) (if any relevant partner) – 80% (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	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 3.1% of the liabilities	An allowance of 3.4% of the liabilities

Valuation date	31 March 2023	31 March 2022 (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 – 0.1% for deferreds – £nil for arrears For removal of the compensation cap provisions: – £1.1m for arrears due – 0.4% for members receiving compensation (including the cost of further arrears and tax charges) – Deferreds valued directly without caps 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: – £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.
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.

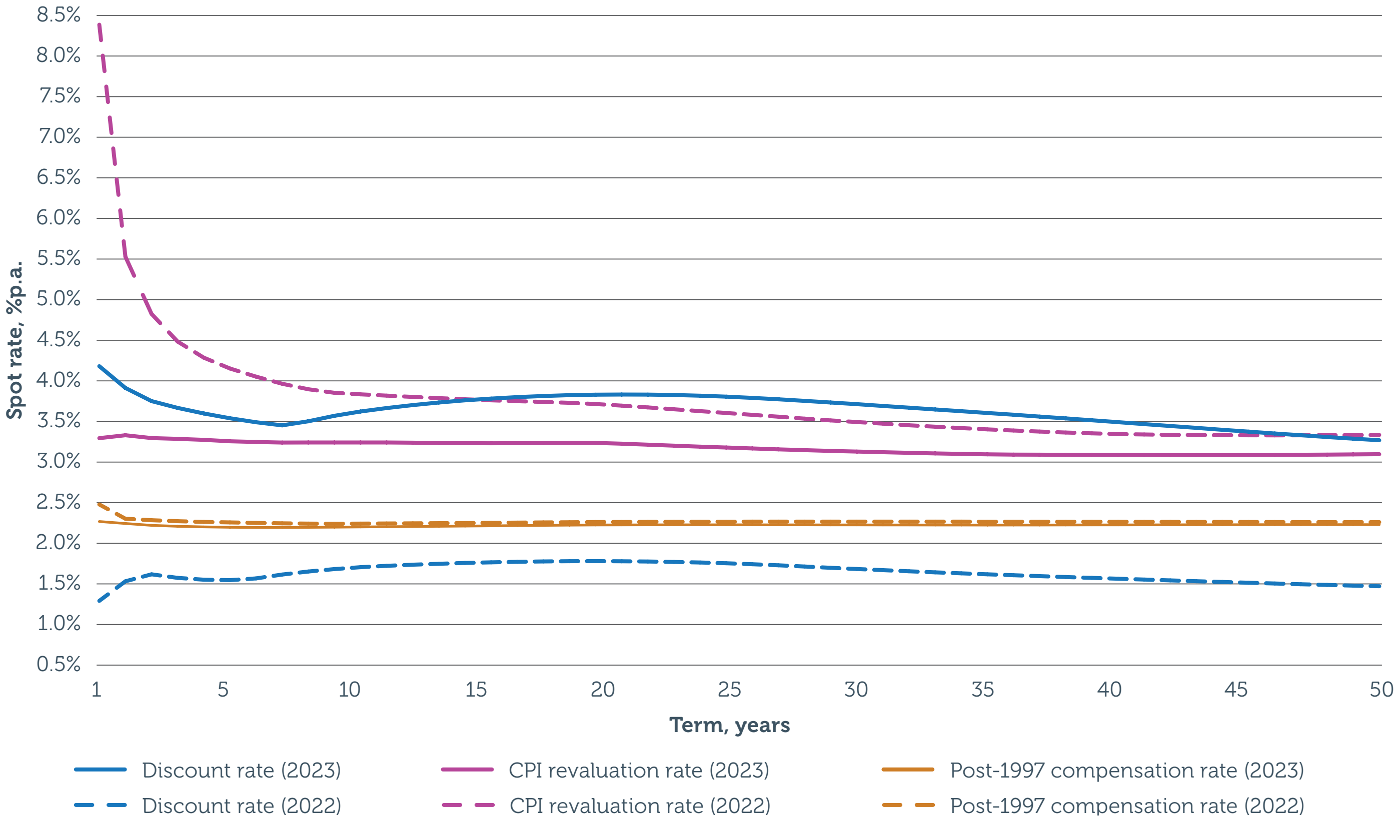
Appendix M3

Assumptions – continued

Financial assumptions

In general, I have applied the same approach to setting the financial assumptions as for the actuarial valuation at 31 March 2022. In particular, the financial assumptions vary according to the term of the compensation payment being estimated.

The graph below shows the annualised average term-dependent discount rates, CPI revaluation rates, and increases to compensation in payment, that have been assumed over the given term as at 31 March 2023. The previous year's figures are shown as dashed lines for comparison. The rates are presented as spot rates.



Source: BlackRock and a number of investment banks with, in some cases, 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 2023.

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 by 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 2023		31 March 2022	
			Men	Women	Men	Women
Median life expectancy	Members currently receiving compensation	Now	21.4	23.4	21.3	24.0
	Dependants of members currently receiving compensation		19.1	23.0	18.8	23.5
	Members due to receive compensation	In 25 years' time	23.3	26.1	22.9	26.5
	Future dependants of members due to receive compensation		22.0	25.4	21.7	25.8
Minimum life expectancy	Members currently receiving compensation	Now	14.3	18.7	14.1	18.7
	Dependants of members currently receiving compensation		14.3	18.7	14.1	18.7
	Members due to receive compensation	In 25 years' time	19.2	22.0	19.0	22.3
	Future dependants of members due to receive compensation		16.8	21.4	16.6	21.5
Maximum life expectancy	Members currently receiving compensation	Now	24.5	25.2	24.2	25.4
	Dependants of members currently receiving compensation		22.3	25.0	21.9	25.1
	Members due to receive compensation	In 25 years' time	26.4	27.4	26.2	27.6
	Future dependants of members due to receive compensation		24.4	27.2	24.1	27.3
Range of life expectancies that covers 75% of compensation	Members currently receiving compensation	Now	19.6–23.4	21.4–25.0	19.4–23.6	21.8–25.1
	Dependants of members currently receiving compensation		17.5–21.6	20.5–25.0	17.2–21.2	21.1–25.1
	Members due to receive compensation	In 25 years' time	21.9–24.7	24.6–27.2	21.7–24.6	24.9–27.3
	Future dependants of members due to receive compensation		20.0–24.3	23.3–26.5	19.6–24.0	23.5–26.6

While the statistics here show slight increases in male life expectancy, the overall liability decrease arising from our life expectancy assumption changes has been driven by the decreases in female life expectancy.

Appendix M3

Assumptions – continued

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 members, based on a number of factors such as sex, postcode, and pension amount. These curves are based on actual mortality experience in the years 2018, 2019 and 2020 (with 2019 therefore being the 'central year' of the baseline mortality).

This year we have amended our allowance for how our actual experience has been different to that expected using the Club Vita curves. Our experience for male members has shown that on average they live longer than expected when PPF compensation is used to assign a mortality curve. Our approach has been to instead use estimated original scheme pension to assign the curves, the rationale being that it puts members in a consistent position with similar members in other pension schemes. This year we have instead moved back to using compensation to assign members a curve and then, for male members, applied a scaling factor to these curves, as derived from actual experience. The change in approach reflects our view that our membership has now stabilised, increasing confidence that past experience can be used as a guide for future experience.

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 2023, I have adopted the CMI_2021 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 made an allowance for potential short-term impacts of Covid-19 on life expectancy improvements. I have assumed life expectancy does not improve over the calendar years 2020 to 2024. 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.

Other demographic assumptions

I have based these on the PPF's experience.

Expenses

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

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

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

This results in an allowance of 2.8 per cent of liabilities, which compares with 3.1 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 3.1 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.

Many members have been analysed and their calculated compensation uplift is present in our data. To determine the cost for the remaining members, 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. For our members who are yet to be analysed, these uplifts are 0.1 per cent of liabilities in respect of members receiving compensation and 0.1 per cent of deferred liabilities.

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, 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, some compensation payments have not been adjusted to reflect the ruling. I have therefore included an allowance for the expected remaining cost of doing so. For this I used data collected for the uncapping project and included an allowance for expected arrears. Given the small cost relative to our total liabilities I do not expect the cost to be materially different when full data becomes available.

I was able to assess the cost for deferred members accurately since uncapped benefits are recorded on our administration system. This increased deferred liabilities by around 0.6 per cent.

The expected cost for the removal of the cap for members with compensation in payment, where these increases are not already in our data and allowing for any tax charge and any arrears payable, is an estimated increase in the pensioner liability of 0.4 per cent.

GMP equalisation

All compensation of members of transferred schemes is equalised for GMP so no further adjustments are required. This was also the case at the 2022 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 HM Treasury 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 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)	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 Pension Protection Fund as at 31 March 2023

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 2023.

This report mainly deals with schemes in PPF assessment as at 31 March 2023 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 HM Treasury (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:

Name of Appointed Actuary: Lisa McCrory
Date: 29 June 2023
Job title: 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 2023. This is covered in my main report to the Board dated 29 June 2023.

I have used recent individual member data for the largest scheme included in the provisions for use in this valuation. This scheme makes up 50 per cent of the liabilities for schemes in the provisions and three per cent of the total liabilities of transferred schemes and those in the provisions. There are a further four schemes for which I have used individual membership data requested for previous valuations. For all these five 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 2022 to 31 March 2023 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.

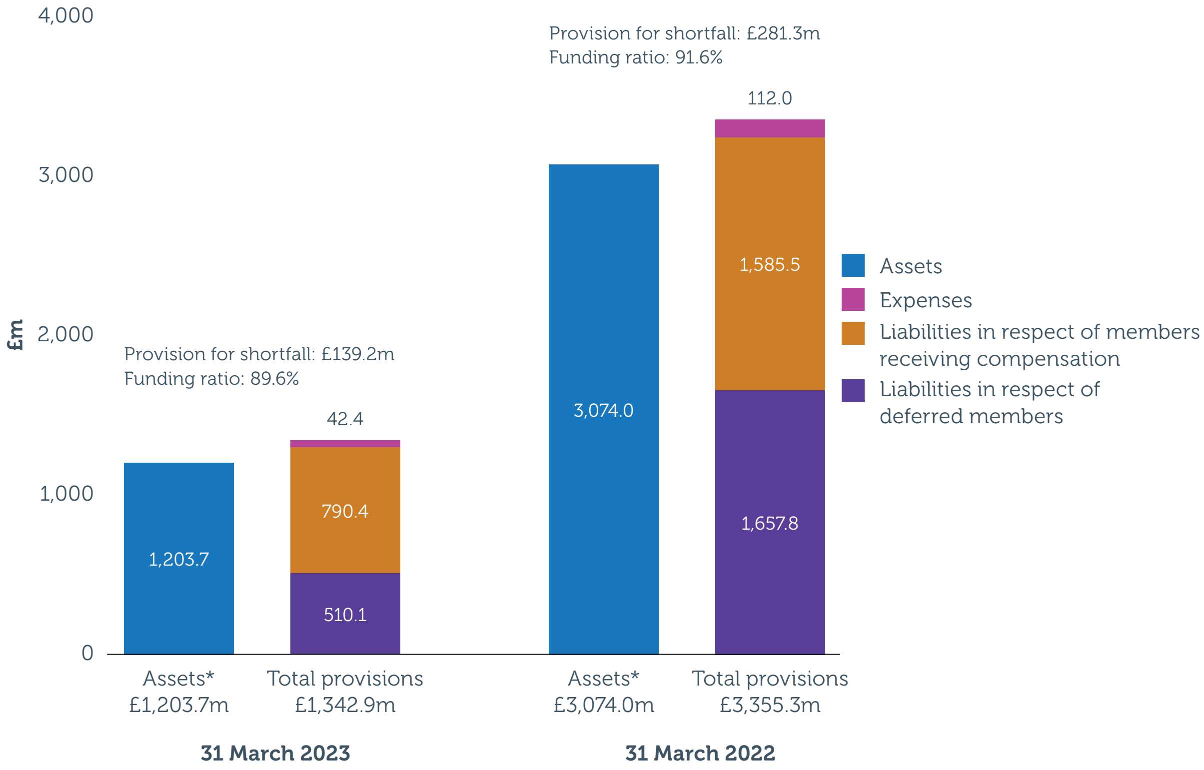
A scheme is only included in the calculation if it is expected that it has insufficient assets to secure benefits above PPF levels of compensation. See Appendix S1 – Definition of a provision for further details of the definitions used and Appendix S2 – Data for further details on the number of schemes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

Forty-two schemes were included in the provisions as at 31 March 2023. 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 £53.5 million (2022: £87.2 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 £25.2 million.

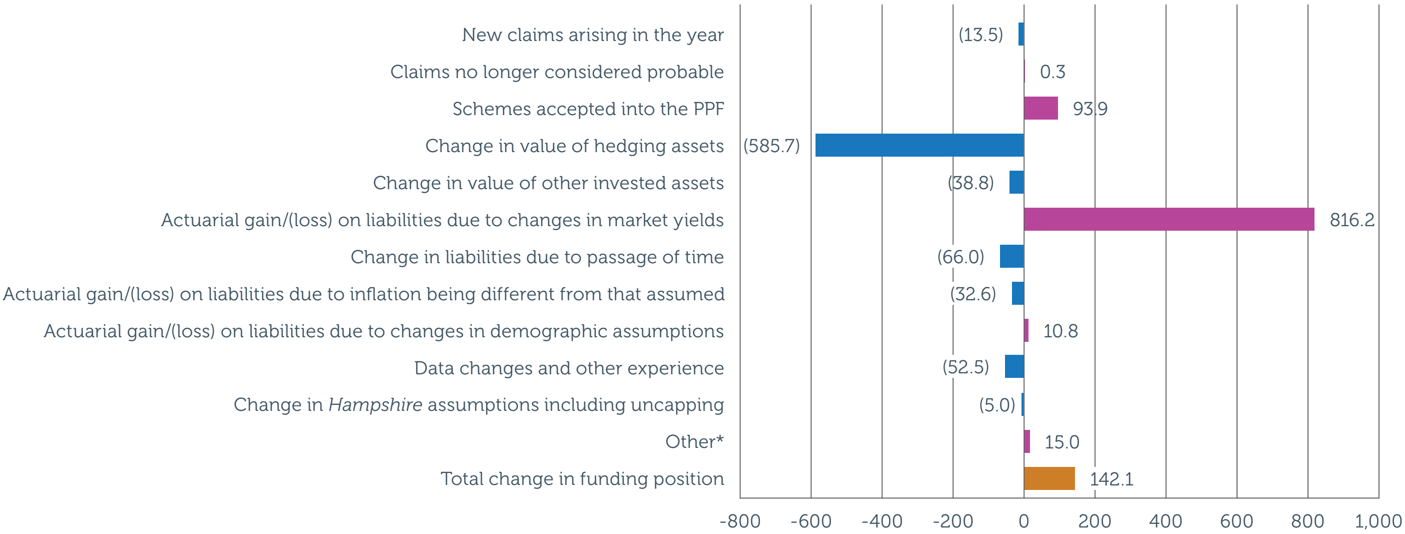
The most notable change over the year is the reduction in the size of both the assets and liabilities. This change is a result of:

- A significant increase in the discount rate caused by rising gilt yields over the year, which has acted to reduce both the assets and liabilities.
- Significantly more schemes transferring to the PPF compared with those coming into assessment.
- A large scheme included in last year's provision has been excluded as it is now expected that it will secure benefits in excess of PPF levels with an insurer.

The increase in the discount rate and schemes transferring out of assessment means that the shortfall of assets compared to liabilities has also reduced, from £281.3 million as at 31 March 2022 to £139.2 million as at 31 March 2023.

Supplementary report: actuarial liabilities and provisions of the Pension Protection Fund as at 31 March 2023 – continued

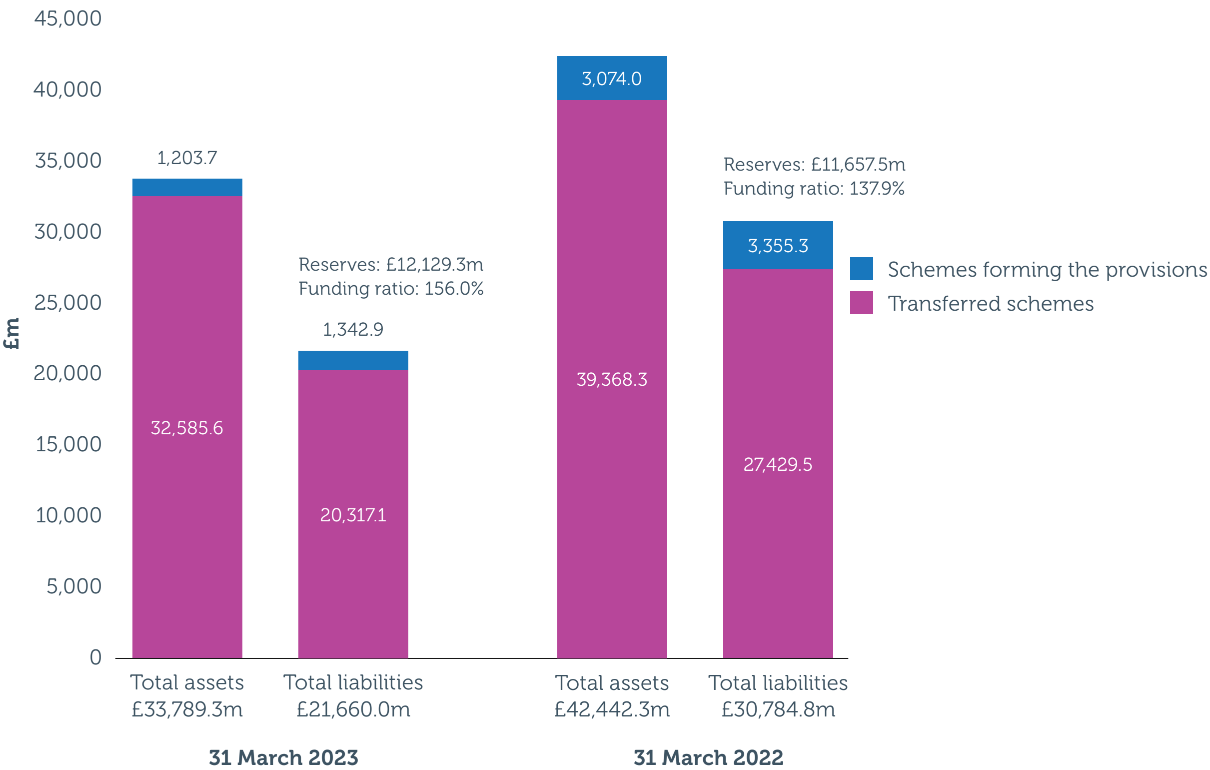
A full analysis of this change over the year is set out in the following chart.



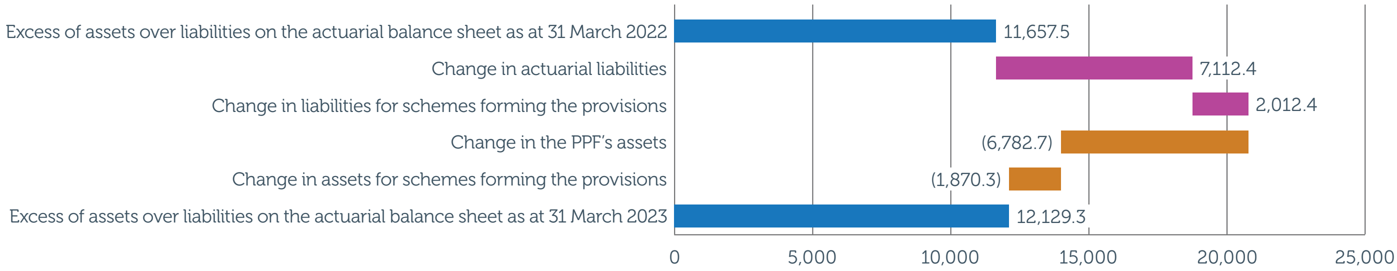
* Includes such items as expenses and recoveries.

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 Pension Protection Fund as at 31 March 2023 – 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	Long-term rate of life expectancy improvement is 1.0% p.a. rather than 1.5% p.a.
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	12.1	156.0%	–
1	11.9	158.4%	↓ (0.2)
2a	12.1	156.8%	↓ (0.0)
2b	12.2	155.5%	↑ 0.1
3	13.0	162.7%	↑ 0.9
4	12.4	158.0%	↑ 0.3
5	10.5	148.7%	↓ (1.6)
6	12.1	155.7%	↓ (0.0)
7	11.7	153.1%	↓ (0.4)

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 2023 are those schemes:

- in assessment whose asset value as at the insolvency date was likely to have been less than the expected cost of securing PPF levels of compensation with an insurer, and the scheme is expected to transfer to the PPF; or
- 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 2023 if on or before that date an insolvency event occurred and:

- an insolvency event notice had been received;
- the insolvency event had not been rejected;
- a withdrawal notice had not been received from an insolvency practitioner, nor was one expected; and
- transfer to the PPF had not yet occurred.

Some schemes may have had insolvency events occur on or before 31 March 2023 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 (in the following order):

- the section 143 entry valuation test shows the scheme to be underfunded;
- in the absence of a formal report, the valuation actuary has provided confirmation that the expected outcome of entry test is that the scheme will be underfunded; or
- my own assessment shows the scheme is likely to be underfunded. To do this I have adjusted the results of the latest s179 valuation using the methodology set out in the latest levy determination which applied over the financial year[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/-/media/PPF-Website/Public/Years/2021-12/T/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 29 June 2023.

Schemes that form the provisions

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

	31 March 2023	31 March 2022
Number of schemes	42	60
Estimated number of members receiving compensation in these schemes	18,334	28,382
Estimated number of deferred members in these schemes	10,599	20,308

In addition, there are 29 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 31 March 2023 from the scheme trustees. There is one such scheme in the provisions this year. It was in assessment as at 31 March 2022, and I have valued it based on membership with effective date August 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 2022. 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 four schemes that were classified as material at a previous valuation date but do not classify as such at the 31 March 2023 valuation. For these schemes I have used the same individual member data I used for the 31 March 2022 valuation, which had effective dates between December 2015 and September 2020. I have allowed for expected member movements since the effective dates of the data. For assets I used the values from actual statements at 31 March 2023. These schemes account for 1.6 per cent of the total liabilities and provisions.

Non-material schemes

For producing the assets and liabilities of the remaining 37 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 £53.5 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 2023 % p.a.	31 March 2022 % p.a.
In deferment	Before 6 April 2009	Deferred	0.4	–2.2
	After 5 April 2009	Deferred	1.1	–0.9
In payment	Before 6 April 1997	Receiving compensation	3.7	1.7
		Deferred	3.7	1.7
	After 5 April 1997	Receiving compensation	1.5	–0.5
		Deferred	1.4	–0.6

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. One of the SIA has 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 3.3 per cent of the liabilities (2022: 3.4 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 0.3 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

For material schemes in assessment, I have valued the deferred liabilities without any compensation cap applying in the calculation. I have set the remaining loadings for removal of the compensation cap 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. The increases to liabilities from not applying the compensation cap are 1 per cent of liabilities in respect of members receiving compensation and 0.6 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	Long-term rate of life expectancy improvement is 1.0% p.a. rather than 1.5% p.a.	This is an illustration of a long-term reduction in life expectancy possibly due to Covid or any other reason.
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	0.4%	1.1%	3.7%	3.7%	1.4%	1.5%
1	0.9%	1.6%	4.2%	4.2%	1.9%	2.0%
2a	0.9%	1.1%	3.7%	3.7%	1.5%	1.6%
2b	−0.1%	1.1%	3.7%	3.7%	1.4%	1.4%
3	0.4%	1.1%	3.7%	3.7%	1.4%	1.5%
4	0.4%	1.1%	3.7%	3.7%	1.4%	1.5%
5	0.4%	1.1%	3.7%	3.7%	1.4%	1.5%
6	0.4%	1.1%	3.7%	3.7%	1.4%	1.5%
7	0.2%	1.1%	3.9%	4.2%	1.6%	2.0%

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

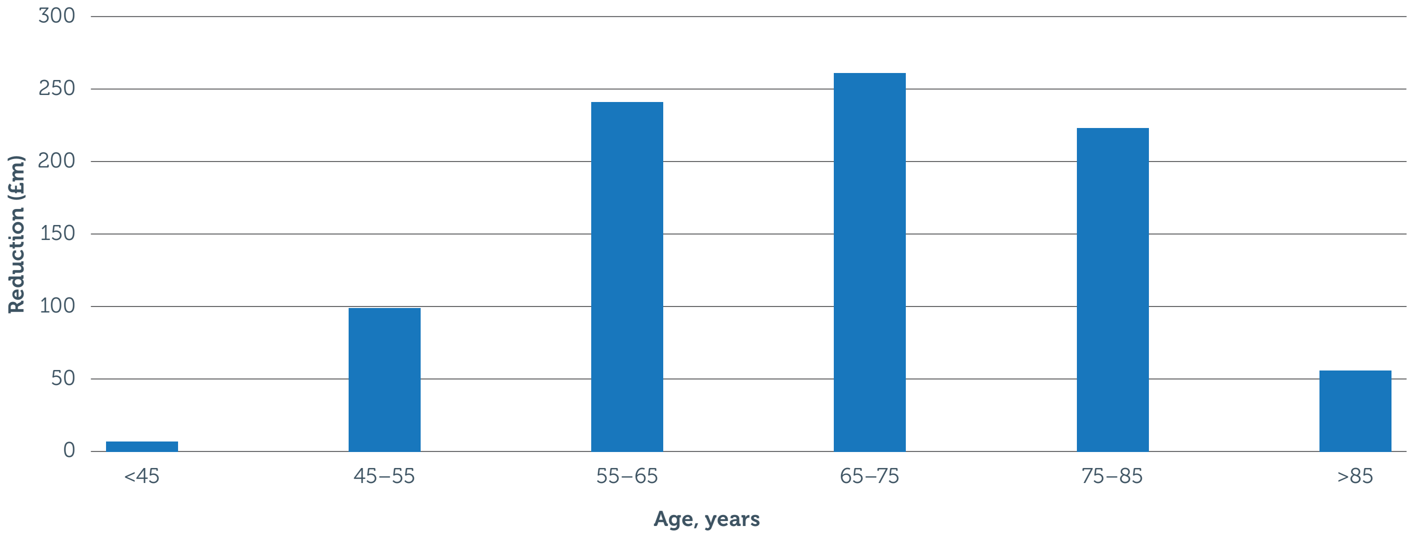
Sensitivity analysis – continued

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	32.59	1.20	33.79	20.32	1.34	21.66	12.13	156.0%
1	31.07	1.09	32.16	19.04	1.26	20.30	11.86	158.4%
2a	32.22	1.14	33.36	19.95	1.32	21.28	12.08	156.8%
2b	32.95	1.27	34.22	20.65	1.36	22.01	12.21	155.5%
3	32.59	1.20	33.79	19.49	1.29	20.77	13.02	162.7%
4	32.59	1.20	33.79	20.06	1.33	21.38	12.40	158.0%
5	31.00	1.20	32.20	20.32	1.34	21.66	10.54	148.7%
6	32.59	1.20	33.79	20.36	1.35	21.71	12.08	155.7%
7	32.59	1.20	33.79	20.68	1.39	22.07	11.72	153.1%

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 £0.9 billion. The chart below shows how this is distributed across our membership – this distribution will be affected by both the proportion of liabilities in each age band and 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 from 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: – an entity has a present obligation (legal or constructive) as a result of a past event; – it is probable that a transfer of economic benefits will be required to settle the obligation; and – a reliable estimate can be made of the amount of the obligation.
The 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 levy.

Common terms and abbreviations

AVC – Additional Voluntary Contribution

BREEAM – Building Research Establishment Environmental Assessment Method

CETV – Cash Equivalent Transfer Value

C&AG – Comptroller and Auditor General

CJEU – Court of Justice of the European Union

CMI – Continuous Mortality Investigation

CPI – Consumer Prices Index

CPIH – CPI plus owner occupiers' housing costs

DB – Defined Benefit

DC – Defined Contribution

DWP – Department for Work and Pensions

D&I – Diversity and Inclusion

EBITDA – Earnings Before Interest, Tax, Depreciation and Amortisation

ESG – Environmental, Social and Governance

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

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

HMT – His Majesty's Treasury

HVAC – Heating, ventilation and air conditioning

IAS – International Accounting Standard

IFRS – International Financial Reporting Standard

ISAs – International Standards of Auditing

ISO – International Organization for Standardization

KAHL – Kodak Alaris Holdings Limited

LDI – Liability-Driven Investment

LTRM – Long Term Risk Model

PRA – Prudential Regulation Authority

PRI – Principles for Responsible Investment

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

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