Pension Protection Fund

Annual Report and Accounts 2023/24

Inspiring confidence, securing better futures

HC 265

Pension Protection Fund
Annual Report and Accounts 2023–24

For the period 1 April 2023 to 31 March 2024

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Overview

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.

Overview of the PPF

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. That's 8.9 million people as at 31 March 2023.

We make sure members are looked after if the employer funding their pension becomes insolvent. We do this by paying our members, charging a levy and investing for the long term.

PPF members at 31 March 2024

292,605

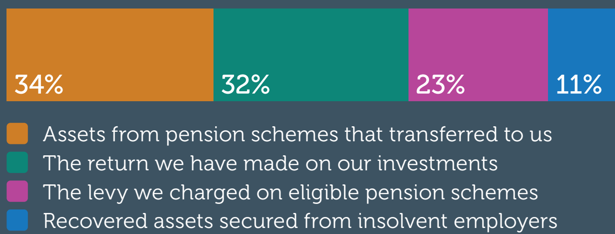
Of which:

197,140 in payment

95,465 deferred

How our funding has built up

Since we were formed, we've raised the money we need to pay PPF benefits and the cost of running the PPF in four ways:



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

34,026

PPF assets under management at 31 March 2024

£32.1bn

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 2024

139,891

Of which:

86,209 in payment

53,682 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 20)
- Meeting new challenges with brilliant service (see page 28)
- Making a difference (see page 36)
- Transforming how we work (see page 54)

See page 18 for more information.

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

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.

438
employees at 31 March 2024

See page 40 for more information.

Chair's statement

A year of productive engagement

"Representatives across the PPF, including myself, have engaged with members and pensions groups, such as the Deprived Pensioners Association, Pensions Action Group, Prospect, the union, and our own Member Forum to understand their circumstances and views on indexation."

As I reflect on all the important work at the PPF over the past 12 months, my overriding thought is of the productive engagement we've had with so many of our key stakeholder groups as we continue to make progress against our strategic priorities.

Ensuring the highest level of satisfaction for our members and levy payers remains at the forefront of our work and I'm keenly aware that it's been another difficult year for many people with the cost-of-living challenges persisting. The PPF's financial position remains robust, but I know from first-hand conversations and communications with our members over the year that the restrictions on, and in some cases, the absence of, annual increases for PPF and FAS compensation is an ongoing source of concern.

This matter has been central to our Board and Executive Committee discussions. Representatives across the PPF, including myself, have engaged with members and pensions groups, such as the Deprived Pensioners Association, Pensions Action Group, Prospect, the union, and our own Member Forum to understand their circumstances and views on the subject. We have shared these concerns, and the strength of feeling that exists, regularly with the government, and are pleased that our members' voices have been heard, and discussed at Work and Pensions Select Committee sessions in early 2024. Any future government action to consider PPF and FAS indexation rules would be welcomed.

Current governing legislation limits the extent to which the levy we charge on eligible pension schemes can be increased from year to year to 25 per cent. While this protects levy payers from sharp increases in the levy, it also restricts how low we can allow the levy to fall without damaging our ability to respond to a potential funding challenge. Respondents to our levy consultation in September told us they felt strongly that this legislation should be changed as soon as possible, so that we can charge a much lower or even a zero levy. We are committed to continued collaboration with the DWP to consider greater levy flexibilities for the Board.

While these legislative issues have dominated conversations with both members and levy payers this year, I would not want to overshadow our continued work to deliver the highest levels of service for both groups and the innovative improvements made to enhance service and efficiency.

The growth of a more sustainable pensions industry benefits everyone. Responsible investment remains at the heart of how we manage our portfolio so that we can ensure sustainable returns for our stakeholders. We take material Environmental, Social and Governance (ESG) risks and opportunities into consideration in all our business activities to help protect our assets, our members' futures and the world around us. This year we have taken steps to minimise the environmental impact of our own operations and focused on our community impact through volunteering with local charities in keeping with our commitment to making a difference and catalysing change.

Our strong investment performance and commitment to excellence in our asset and liability management was central to the DWP's review recommendations, published in late 2022, for us to work with the government to explore opportunities to use our capabilities and skills for wider public benefit. To that end, we've been working with others to explore a number of options, including the possibility of us running a public sector consolidator as a separate, additional function. Working in collaboration with a wide range of stakeholders, we developed a proposition for the design of the consolidator and published our response to the consultation in April. The positive engagement with so many across the sector will help ensure we are ready to support government in whatever way they ultimately determine.

Undoubtedly, the market is changing, and we must transform and change with it. In recent years we've seen a trend of schemes entering PPF assessment with enough assets to buy higher benefits for members than we would pay. Our team works with specialist panels to help them explore options beyond the PPF to secure the best possible benefits for members which is always our priority. This year we helped the Debenhams Retirement Scheme to secure a superfund deal with Clara that will allow members of the scheme to receive 100 per cent of their promised pensions in retirement.

As I hope all of these activities show, it's been a year of increased opportunities, as we continue to transform how we work. I would particularly like to thank my colleagues on the Board and the Executive Committee for their leadership and commitment to delivering for our varied stakeholder groups. It's also been a year of change, as Oliver Morley, our Chief Executive for the last five years, moved on to a new role at the Money and Pensions Service in January. We thank him for all that he has contributed and wish him well.

Part of Oliver's legacy is a strong, capable Executive team and I am grateful to them all for the way they stepped up to support the change of leadership. I am particularly grateful to Katherine Easter for assuming the role of Interim Chief Executive and smoothly transitioning to our new Chief Executive, Michelle Ostermann, who joined on 1 April 2024. Michelle brings a wealth of global pensions experience and knowledge and I feel confident that she is the leader to now take us forward on the next phase of our journey, as we approach our 20th year and shape our vision for our third decade.

Like the pensions sector, our Board is constantly evolving. I would like to thank Anna Troup, who has stepped down from the Board, for her contribution and I am delighted that Jim Gallagher joined us in October. Jim brings extensive board experience at some of the country's largest pension and life assurance companies, as well as valuable insight into the development of policy and legislation.

I must also express my thanks to the employees who make the PPF what it is. It is clear that they are driven by our purpose to protect the members of defined benefit schemes, and that they really care about the work they do. We will continue to do all within our power to ensure the safer futures of the millions of people we protect, to keep their interests at the forefront of all of our decisions, and ensure the voices of members and levy payers alike are heard.

Kate Jones
Chair

See page 31 for more information on indexation of PPF compensation.

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Chief Executive's review

A strong year and the start of an exciting new

"I'm delighted that the combined efforts of people across the organisation has seen us surpass our organisational target to spend 500 days volunteering this year."

I am pleased that we've continued to deliver on our mission and move forward with the goals in our Strategic Plan during an eventful year for the PPF. Our success in the year was rounded off by recognition at the IPE Awards, where we were awarded Best UK Pension Fund for a second year running. It's brilliant to see our people celebrated for their outstanding work as I see them 'behind the scenes' and how committed they are to delivering for our members.

Our members are at the heart of what we do, and this year we maintained our excellent customer service levels for our members and our levy payers. We have continued to improve the efficiency of our member website and to encourage our members to carry out transactions online where possible, which has resulted in 86 per cent of member transactions completed online at the end of the year.

Both of our investment portfolios have had extremely strong performance in 2023/24. The growth portfolio produced returns of 7.2 per cent, which reinforced our outperformance on our five-year rolling target. As part of our stewardship efforts to manage climate risks, we engage with a Climate Watchlist of 87 companies in our investment portfolio that account for a significant majority of our financed emissions. It's fantastic to see our efforts have made a difference, with 90 per cent of the Climate Watchlist companies making disclosures on their emissions in the year. We continue to put a focus on getting accurate baseline data so we can be clear on where we can make the biggest impact. Gaining a deeper understanding of how our investments affect and are affected by climate change means that we can make more informed decisions about the risks that are associated with investing in that way.

We were pleased to have met our diversity target to increase black representation at the PPF to nine per cent. Although we didn't reach our targets to increase representation of female and ethnic minority employees at senior manager level, we have made incremental progress in these areas. This is a challenge that requires a long-term focus and we will continue to ensure we find ways to improve in this area in the year ahead.

chapter

Our community impact is another important part of our sustainability strategy, and I'm delighted that the combined efforts of people across the organisation has seen us surpass our organisational target to spend 500 days volunteering this year. It's of no surprise to me that our people are as keen to give back to their community as they are to make a difference to our members and levy payers.

In December, we confirmed that we will halve the levy from £200 million in 2023/24 to £100 million for the year 2024/25. This is the lowest levy estimate we've ever set. A change to legislation would allow us to move to a much lower or even a zero levy. We will continue to work with DWP on this alongside considering members' concerns about the PPF and FAS rules on pre-97 indexation.

I'd like to thank the Board and the Executive Committee for their support while I stepped into the role of interim Chief Executive this year following the departure of Oliver Morley. I'd also like to extend my thanks to all our employees for their dedication to the success of the PPF, in particular those who have spoken at length with various member groups and levy payers to fully understand their concerns. These conversations mean that we can continue to bring their voice to those who decide on legislative change.

Finally, I'd like to welcome Michelle Ostermann into the role of Chief Executive. I am already enjoying hearing a new (global) perspective on solutions for long-term saving challenges and her excitement about the role the PPF can play is contagious. I look forward to working with her.

Katherine Easter
Chief People Officer
(Interim Chief Executive February 2024–April 2024)

I have long been aware of the PPF as a world-class scheme making a huge difference to the lives of many people, and it's truly a privilege for me to join this highly regarded organisation as Chief Executive.

I would like to extend my sincerest appreciation to Katherine Easter for expertly leading the PPF since February. She has guided the organisation through some very important initiatives, including the Business Plan for 2024/25 and our response to the DWP's consultation on the design of a public sector consolidator, all while ensuring that we continue to deliver for our members and levy payers.

It's an exciting time for the UK pensions industry. Many pensions professionals and policymakers are contemplating the long-term state of the industry, and, given our fundamental purpose, the PPF will be an important participant in those discussions. The PPF is poised to play a pivotal role in defining best practices and reshaping the UK pensions landscape. I'm keen to work with peers to explore how the PPF's highly successful investment and administrative functions could be leveraged to the benefit of more members, sponsors and the economy as a whole. I look forward to working alongside all my colleagues in this new chapter for the PPF.

Michelle Ostermann
Chief Executive

A potential additional role

In July 2023, the DWP launched a call for evidence for *Options for Defined Benefit schemes*, focusing on three areas:

- DB investment in productive finance;
- Building surplus, including potential future conditions for the extraction of surplus from DB schemes and the transfer of surplus between DB and DC schemes for hybrid schemes; and
- Public consolidation, including the need for and potential impacts of a public sector consolidator on the current DB pensions landscape.

In our response, we provided our views on how the current system could be improved for members of DB schemes, their sponsoring organisations and the wider economy. We highlighted that the current framework doesn't support DB schemes to substantially increase their allocations to productive finance assets. These are investments that better support British businesses and the wider UK economy, such as in infrastructure, private equity and private credit.

Consolidating schemes together in a public sector consolidator could help to support the wider UK economy. A consolidator that can invest for growth over time with professional investment management could, with sufficient scale, lead to greater productive finance allocations while providing security for members.

> We remain committed to our existing function and maintaining our customer service levels for our members and levy payers.

We set out how a public sector consolidator could be set up and that we'd be well placed to take on this additional and separate function, should this be the government's preferred solution. We remain committed to our existing function and maintaining our customer service levels for our members and levy payers.

In February 2024, the DWP launched a consultation to seek industry views on the design of a public sector consolidator to be run by the Board of the PPF. In March, in order to inform debate, we published our initial views on how a public sector consolidator could be structured. Our intention was to generate views and challenges that would help us to refine or change our proposals.

Our proposed design of the consolidator would maintain the security of members' benefits, give more choice to schemes and, dependent on scale, invest materially more in assets which support the wider UK economy and UK gilt market. Given the £1.4 trillion scale of the DB sector, we believe the public sector consolidator can work alongside existing commercial providers, supporting a healthy market by providing an attractive option for schemes unable to access existing solutions on reasonable terms.

We worked in collaboration with a wide range of stakeholders to develop our proposition for the design of the consolidator over the course of the consultation period, and we published our updated design proposal in April 2024 as part of our formal response to the DWP's consultation.

We stand ready to act on how government and Parliament wish to take this issue forward. We'll also continue to think how else we can support with solutions to challenges in the sector.

> "We worked in collaboration with a wide range of stakeholders to develop our proposition for the design of the consolidator."

Our Stakeholders

Creating value

for our stakeholders

557
days
of volunteering were carried out by our people

98%
of members
told us they are satisfied or very satisfied with our service

197,140
PPF members
in retirement

83%
of our people
believe we are an inclusive organisation that actively encourages diversity

£56
cost per member per year

41
industry experts
from PPF panels collaborated at our superforum

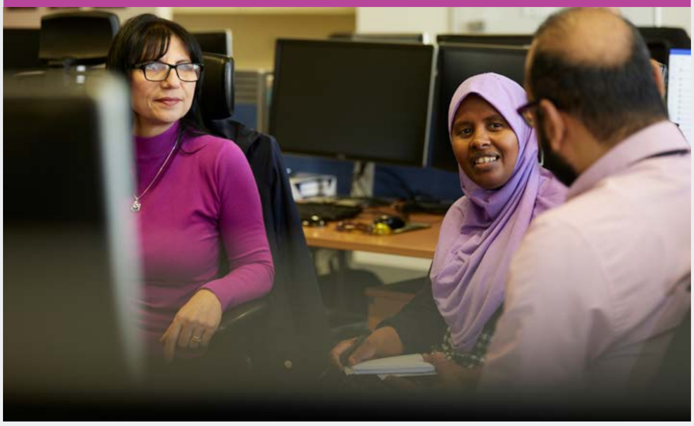
£1.2bn
PPF benefits paid to our members

"The people at the PPF live and breathe the ICARE values. This organisation cares about its employees and wants to help them develop as part of a career. Having made my own journey from an entry level position up to team leader, I love being responsible for guiding others on their own journeys, and I take great pride in seeing them flourish."

Matthew King
Contact centre team leader

9
D&I community groups
for our people to connect, support each other and share ideas

51
employees
took part in coaching sessions as part of their professional development



31
employees
joined our bespoke talent development, management development and future leaders programmes

"As trustees, we're focused on finding the best outcome for scheme members. The PPF's collaborative and supportive approach gives us the platform to achieve that aim even in the most challenging of situations. The PPF's knowledge and experience is invaluable and allows us to work as one team sharing both ideas and experience."

Tom Stockley
Client Director at Vidett Trustees

See page 33 for more information on how we deliver excellent customer service for schemes.

50+
charities,
community groups, schools and educational institutions were supported by our people through volunteering

We are recognised as a
Disability Confident Leader
for our success in recruiting and retaining people with disabilities

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.

Our strategic priorities

Excellence in asset and liability management

Our focus areas for 2023/24:
We set out to deliver investment performance consistent with the targets in our strategic risk budget, reviewing and updating processes for tracking investment fees. We said we would align the business with regulatory expectations, evolve our actuarial team, and establish how we will develop our levy methodology.

£100m

target for levy collection in 2024/25

See page 20 for more information.

Meeting new challenges with brilliant service

Our focus areas for 2023/24:
We committed to ensuring high levels of member satisfaction for both our members and levy payers, and improving our digital tools for our members. We said we would conclude payments for members requiring an uplift owing to *Hampshire* or uncapping, and to complete 20 FCF cases.

86%

of member transactions completed online

See page 28 for more information.

We published our Strategic Plan 2022–25 in April 2022, outlining our plans to drive 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 continue to be a trusted asset manager, deliver brilliant service for our members and levy payers, keep our commitment to sustainability and ensure the PPF is an exciting, attractive place to work.

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. Our priorities are designed to ensure we meet significant challenges, including cyber security and business continuity risks, necessary changes to the compensation we pay, and changing expectations of digital services and sustainability commitments.

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

Making a difference

Our focus areas for 2023/24:
We ensured that we continue to source all of our electricity through renewable tariffs, and that at least 80 per cent of our Climate Watchlist companies are making emissions disclosures. We worked to increase the representation of all under-represented groups at the PPF, and for our people to carry out 500 days of volunteering.

90%

of our Climate Watchlist companies making emissions disclosures

See page 36 for more information.

Transforming how we work

Our focus areas for 2023/24:
We focused on increasing our use of our data platform and data visualisation services, and reviewed our levy technical services and our IT services. We set targets to rationalise services and aimed to enhance our multi-channel services.

98%

of IT services are cloud based

See page 54 for more information.

Excellence in asset and liability

"When my previous employer JW Arrowsmith Ltd went bankrupt, I was contacted by the PPF very early on. Without the PPF, I would be a lot worse off.

Every time I have spoken to the PPF, the service I have received is impeccable. Whenever I call, I always get the response I need, and no questions are left unsolved. The customer service is second to none.

I can see how far the PPF has come financially from the first newsletter I received right at the beginning. The PPF has gone from strength to strength."

Stephen
PPF Member, East Sussex

management

Strategic activities and milestones for 2023/24

- We will deliver investment performance consistent with targets set by the Board within our strategic risk budget and implement the changes to our portfolio to align it to our funding objective of Maintaining our Financial Resilience.
- We will review and update our operational processes for tracking and reporting investment fees to ensure they remain aligned with industry best practice.
- We will continue to align the business with regulatory expectations through the provision of an appropriately resourced and skilled Risk and Compliance framework.
- We will evolve our actuarial team and processes to reflect significant improvements in our data processing and modelling tools, as well as ensuring resource is allocated in line with our strategic priorities.
- We will establish – including through engagement with stakeholders – how we expect to evolve key elements of our levy methodology in line with the revised funding strategy.

An integrated approach to funding and investment

At 31 March 2024, PPF assets were £32 billion (2023: £33 billion) and total liabilities were £19 billion (2023: £21 billion). We hold reserves for future claims from the universe of pensions we protect, and in case our members live longer than we have anticipated in our assumptions (known as longevity risk). We do not hold reserves for any market risks associated with our investment portfolio.

As we outlined in September 2022, our funding framework separates the funding requirements for current members from those of future claims. Our investment framework splits our assets into two portfolios to align with the separate funding requirements:

1. **Matching portfolio**: 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 a Liability Driven Investment (LDI) strategy or interest rate and inflation hedging strategy. We refer to this as our matching portfolio, and it has a long-term objective to be a fully funded interest rate and inflation hedging portfolio for current members. The matching portfolio contains Government bonds, Derivatives, Cash and Hedging Assets with Illiquid characteristics (HAIL) assets.

2. **Growth portfolio:** This is primarily focused on protecting our longevity and claims reserves and conservatively building up additional reserves. A secondary objective is to fund the unwinding of leverage through the purchase of physical assets in the matching portfolio. The growth portfolio contains Public equity, Emerging Market Debt, Investment Grade corporate bonds, Absolute return strategies, Private equity, Real Estate, Alternative credit, Infrastructure, and Timberland and farmland.

We use a conservative LDI strategy to ensure that the interest rate and inflation risks within our liabilities are hedged effectively. Since our matching portfolio largely immunises the exposure of our liabilities to interest rate and inflation risk, changes in our funding position are driven mostly by changes in the value of assets held in our growth portfolio.

Our assets under management have fallen over the year, reducing from £33 billion in March 2023 to £32 billion as at 31 March 2024 (reflecting £17 billion of growth assets and £15 billion of matching assets). This reduction is mostly a result of a fall in the value of the matching portfolio. Our growth portfolio performed positively over the year. The higher interest rate environment has meant that we have also experienced a corresponding fall in the value of our liabilities.

While around half of the assets we hold are used to fund our LDI strategy, the remaining assets are invested in our growth portfolio with the aim of generating returns to grow our reserves. We experienced 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 £15 million (2023: £14 million; 2022: £12 million).

Funding in the universe of schemes we protect

The changing economic outlook and higher interest rate environment has had a positive impact on the aggregate funding position of the schemes in the universe 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, not all will be fully hedged for interest rate and inflation risk in the same way that we are, meaning they benefit from rising interest rate and/or falling inflation expectations. This means that, in aggregate, the funding position in the universe has improved. We estimate that the number of schemes now in deficit on this basis has reduced from around 15 per cent at 31 March 2023 to around 10 per cent at 31 March 2024, with the combined deficit of those schemes in deficit falling from £8 billion to £3 billion.

We have made positive progress against our funding strategy. Our reported reserves of £13 billion are held to cover future risks to the PPF, including longevity and claims risks. Whilst our reported reserves exceed the combined deficit of the schemes we protect, the deficit of the schemes in deficit is sensitive to interest rates and inflation if those schemes remain only partially hedged for interest rate and/or inflation risk. Falling rates and/or rising inflation expectations could therefore result in an increase in the deficit of schemes in deficit. While the current reduction in deficits in the scheme universe lowers the current risk of significant claims on the PPF, the future outlook will hinge on how schemes choose to balance their exposure between LDI strategies and return-seeking strategies.

Target reserves during the PPF's maturing phase

Priority 1

Longevity Reserves
Cost of compensation above those expected in 90% of modelled longevity scenarios

+

Priority 2

Claims Reserves
Cost of claims covered in a high number of modelled scenarios

+

Priority 3

Additional Reserves
Provides additional security

Funded through investment return and levy (Priorities 1 and 2)

Funded primarily through investment return (Priority 3)

Meeting regulatory expectations

We have continued to align the business with regulatory expectations through our Risk and Compliance framework. In the year, we recruited for several roles that are key to this framework, and we continue to ensure we are attracting and securing talent for other relevant roles. We completed a gap analysis against ISO 22301 standards for Business Continuity, and we continue to carry out horizon scanning to ensure we meet regulatory expectations.

See page 58 for more information on how we manage risk.

Evolving our levy methodology

In our levy consultation in September 2022, we outlined our proposal to halve the levy from £200 million in 2023/24 to £100 million for the year 2024/25. In order to achieve the £100 million estimate, we proposed a small adjustment to the levy scaling factor and a corresponding adjustment to the scheme-based levy multiplier to ensure that the proportion of the levy that is scheme based does not exceed 20 per cent, as required by law. We invited views from levy payers and industry experts on our proposed estimate.

Our governing legislation limits the extent to which the levy can be increased from year to year to 25 per cent. This is intended to protect levy payers from sharp increases in the levy. However, it also constrains how low we can allow the levy to fall without damaging our ability to respond to a funding challenge, should one arise. A change to this legislation would allow us to move to a much lower or even a zero levy.

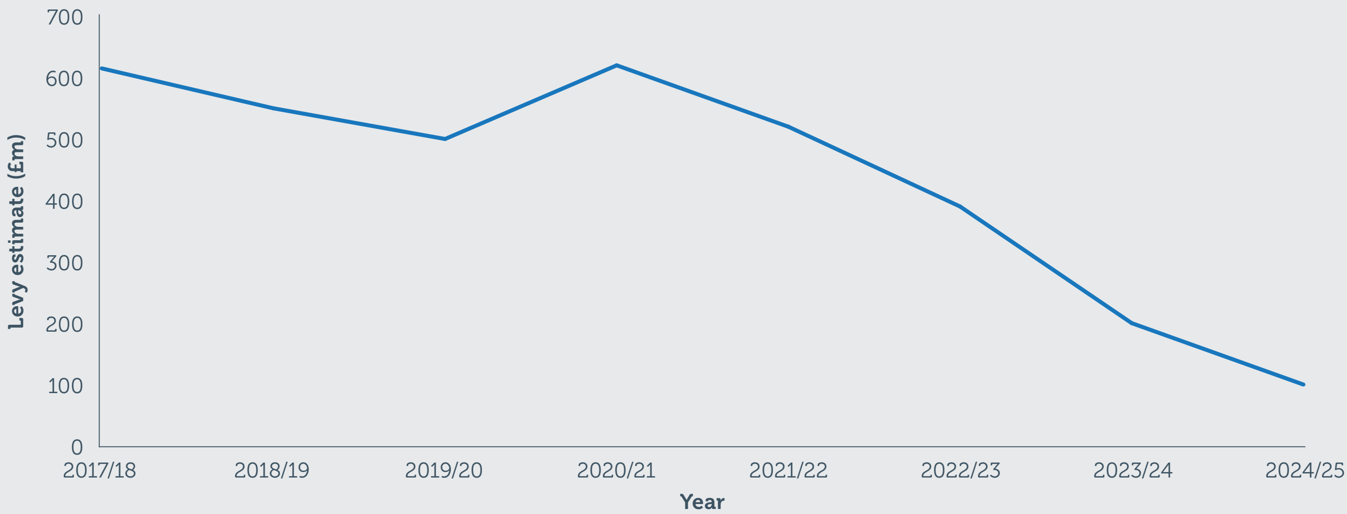
Levy payers and other stakeholders welcomed our proposals to reduce the levy to £100 million next year. The majority of consultation respondents also understood and supported our plans, in the light of legislative constraints, to maintain a levy at this level in future years. However, almost all respondents felt strongly that legislation should be changed as soon as possible. We shared these responses with the DWP.

We confirmed next year's levy estimate of £100 million in our levy rules for 2024/25, which we published in December. This will be the lowest estimate we've ever set, and it means that we will have reduced the levy by almost 85 per cent since 2020/21.

To maintain a levy of £100 million in future years, we expect that changes will need to be made to our levy approach in order to ensure there is not an increasing burden on a declining group of schemes that continue to pay a risk-based levy. The levy estimate is made before we receive the scheme data used for calculating levy invoices, therefore it relies on a range of assumptions about the scheme data. As a result, the levy estimate differs from the amount we invoice and collect.

How the levy has changed over time

In line with our funding strategy, we have been able to substantially reduce the levy we charge over the last few years as our financial position has improved. We have reduced the levy year-on-year since 2020/21 without compromising on the security we provide our members.



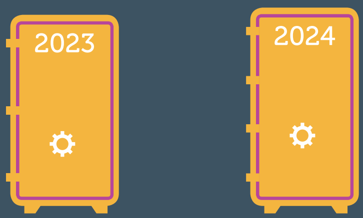
The change in estimate between 2019/20 and 2020/21 reflected deterioration in scheme funding due to a reduction in gilt yields. The PPF's levy methodology remained broadly unchanged between the two years.

Our Strategic Plan and priorities – continued

PPF reserves

£12.1bn

£13.2bn



PPF levy collected

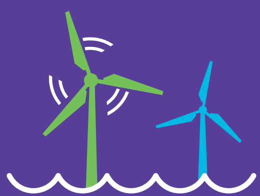
£173m
2024

£386m
2023

PPF assets under management

£32.1bn
2024

£32.5bn
2023



Return of growth assets

7.2%
2024

1.9%
2023

Actuarial liabilities

£18.8bn
2024

£20.3bn
2023

PPF benefits paid

£1.2bn
2024

£1.2bn
2023

Matching portfolio performance

The ultimate objective of our matching portfolio is to have a fully funded portfolio through time which is 100 per cent hedged for interest rate and inflation risks. This portfolio is currently 100 per cent hedged for interest rates and inflation and a plan exists to reduce the modest amount of unfunded hedges over time, through planned annual payments from the growth portfolio. We also look to outearn our liabilities over time as part of this portfolio is invested in investment grade corporate cashflows which are higher yielding that the liability discount rate.

We achieved all of these objectives in the financial year. The unfunded hedges were managed effectively, and were lower at the end of the financial year due to outearning the liability discount rate with the credit we hold, together with a pre-determined payment from the growth portfolio.

Growth portfolio performance

The focus of this portfolio is to grow our reserves prudently over time, with the financial objective of outperforming the modelled return on a five-year rolling basis. This return has been recalibrated since we split one portfolio into the matching and growth portfolios.

The portfolio has again outperformed our five-year rolling target. Over the last five years it has delivered an annualised return of six per cent, versus an annualised target of 4.2 per cent. Over the same time period, the Investment team delivered an annualised two per cent per annum outperformance over the Strategic Asset Allocation (SAA) benchmark. All asset classes delivered positive performance, and the main asset class performers were Private equity, Public equity and Infrastructure.

We're pleased that the growth portfolio delivered an annual return of 7.2 per cent this year, despite the uncertain inflation and interest rate backdrop. Liquid strategies were the main driver of performance, and private market strategies generally re-adjusted to the new interest rate environment. Public equity, Absolute return strategies and Emerging Market Debt were the highest returning asset classes, with only Real Estate being a minor detractor.

Monitoring investment fees

We engaged with numerous asset owners across the industry to compare our approach to budgeting, tracking and reporting of investment fees. Our analysis shows we are broadly consistent with others in terms of our processes.

Case study

RENK acquisition

In October 2020, Triton, one of our European private equity managers, acquired RENK from Volkswagen. RENK is a leading supplier of mechanical drive technology for vehicle transmissions, industrial and marine gear units, and slide bearings. During Triton's ownership, the company was reorganised to strengthen its customer focus. Triton also recruited a new Chief Executive Officer and Chief Financial Officer and completed two US acquisitions, which transformed RENK's operational capabilities in the Americas.

Under Triton's ownership, RENK's sales almost doubled, and its profits increased by nearly 80 per cent. In February 2024, Triton completed a successful listing of RENK on the Frankfurt Stock Exchange. Since the initial public offering (IPO), RENK's share price has traded strongly. On completion of the IPO sell-down, Triton's investment in RENK is expected to generate in excess of a five times gross return for PPF.

Our Strategic Asset Allocation

Through the year we ran a risk tolerance very similar to previous years across both our portfolios. We took a prudent approach at different parts of the year, particularly portfolios exposed to long-dated interest rates. At the macro level, we have been cautious on the direction of long-dated interest rates, and have generally been underweight in asset classes most affected by these. We saw good opportunities in short-dated Private and Public Credit, where there were attractive rewards versus risk and the impact of interest rates was far more muted.

The main deviations against target weights were:

- Underweights in Global Real Estate and Global corporate credit
- Overweights in Private credit, Short Duration credit and Cash

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 recognised at the IPE Awards in December 2023, where we were named UK Pension Fund of the Year for the second year in a row. The judges noted our impressive strategy of weekly LDI recalibrations, liquidity management, use of alternatives, downside protection, in-house fund management and approach to buy-and-hold credit.

Developing actuarial processes

In the year we continued to develop our data platform and our long-term risk model (LTRM), including modelling climate effects on our investments in the long term. We restructured our internal teams so that all our actuaries are now based in the same directorate, with dedicated teams for specific purposes. This has made it easier to allocate resources in line with our strategic priorities, and enables us to be more agile when we need to deploy actuaries to work on projects, for example, modelling carried out by the PPF to consider the impact of any future government decisions on indexation and the resultant impact on our funding.

> "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."

Tideway/Matthew Joseph

Case study

Thames Tideway Tunnel

We are pleased that one of our infrastructure investments, the Thames Tideway Tunnel, recently finished construction and will soon be operational. The tunnel was built to expand the sewer capacity in London and protect the River Thames from spills for generations to come.

The new 'super sewer' will dramatically improve water quality in the Thames and safeguard London's iconic river by intercepting the vast majority of the 39 million tonnes of sewage that currently spills into the river in an average year. Once fully operational, the tunnel will be operated by Thames Water as part of its existing network, providing investors like PPF with a stable, long-term core infrastructure investment.

Sustainability was core to this construction project. Initiatives to minimise its environmental impact included using the river to transport construction materials and excavated spoil, which kept 670,000 lorry journeys off London's road network. The project also had a strong focus on delivering social value, aligning its activity in this area with the UN's Sustainable Development Goals (SDGs).

Meeting new challenges with brilliant

"I worked as a director at John Mowlem Construction Group, and became a PPF member following the failure of the Mowlem pension scheme.

While PPF and FAS payments in general include indexation, pensionable service prior to 6 April 1997 is not eligible for indexation. This can be remedied only by a change in the Pensions Act 2004.

On learning that 3,500 former John Mowlem staff were caught in the pre-1997 trap, I set up the Deprived Pensioners Association (DPA) with three other former directors. We are leading a campaign to achieve a change to the Pensions Act 2004 on behalf of 350,000 PPF and FAS members who are affected.

The dialogue between the DPA and the PPF has been productive. I think we are on the same side in working for the wellbeing of PPF members."

Roger
PPF member, London

service

Strategic activities and milestones for 2023/24

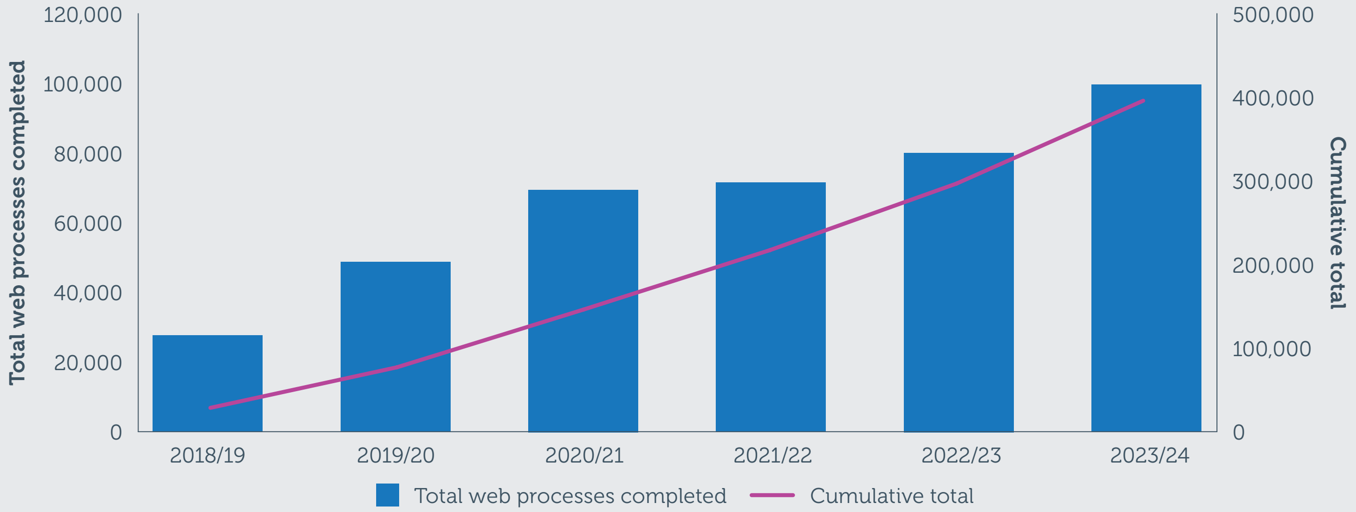
- We will ensure PPF and FAS member satisfaction levels are 90 per cent or above.
- We will improve the service and efficiency in our Member Services operation by:
  - at least 75 per cent of member services transactions being completed online, including 30 per cent of retirements; and
  - designing and implementing a new bereavement customer journey.
- We will conclude payments for the remaining members requiring an uplift owing to *Hampshire* or uncapping by March 2024.
- We will ensure levy payer satisfaction levels are at 90 per cent or above.
- We will complete 20 Fraud Compensation Fund cases by March 2024.

Continuous improvement in member services

We've always made outstanding customer service a priority. We're delighted that we continued to achieve 98 per cent PPF and FAS member satisfaction this year, with neutral responses counted as negative. In 2021, we retained the Institute of Customer Service's ServiceMark accreditation for three years. We will reapply for ServiceMark accreditation in 2024.

We have continued to improve the efficiency of our member services operation. More than 40 per cent of PPF members – over 117,000 people – have registered to use our member website. In the last year, 86 per cent of member services transactions and 64 per cent of retirements were completed on our member website. We're pleased to see strong growth in the number of transactions being carried out on our website in the last few years. The proportion of online transactions has increased by 39 percentage points since the start of 2019/20.

Annual growth in PPF online transactions



We made significant progress in redesigning and testing our bereavement customer journey during the year. In August 2023 we joined the government's Tell Us Once service. This free service allows people to report a death to most government departments in one go so they don't need to contact each of them separately. If the person reported was a PPF or FAS member, we receive a notification from Tell Us Once on the same day. This is now the most common way we hear about a member's death, meaning that almost half of members' families let us know without needing to contact us directly. The broader changes that we'll introduce in 2024/25 will further improve the service we offer to our members and their families, offering a full online bereavement service that will enable us to start paying members' spouses and partners more quickly. We will also create efficiencies and greater automation in our internal processes, for the benefit of employees, members and their families.

We're always looking for ways to make our service even better. In August we partnered with SignLive, an online British Sign Language interpreting service, so that we can receive calls from deaf members. When a member contacts us via SignLive, an interpreter relays the call to one of our contact centre advisors. We continue to use Relay UK, a service which helps people with hearing and speech difficulties to communicate over the phone using the national relay service.

Our research into how we could better support our members with certain needs highlighted mental health as an area to focus on. In 2023/24, our contact centre employees undertook mental health and grief awareness training run by an external specialist. The training focused on how to spot the signs of poor mental health, and how to communicate effectively, sensitively, and compassionately with callers.

As we often receive calls from members who value having a conversation on the phone, in 2023/24 we began trialling a befriending service for members. Our employees can use their volunteering hours to take part in this service, which partners PPF employees with members who have said they would like to be contacted regularly for a chat.

> **Every single agent I have spoken with on the phone has been outstanding. Helpful, patient and very polite.**
>
> **PPF member**

Indexation of PPF compensation

Compensation levels for our members were set in legislation in 2004. We recognise that cost-of-living increases are a significant cause for concern for our members, and, this year, we've seen an increase in members telling us they are seeing the value of their compensation dropping in real terms. Many have referenced specifically the absence of annual increases (known as indexation) for PPF compensation for benefits accrued before 6 April 1997 (pre-97 benefits). We've engaged with members on indexation, both individually and via groups such as the PPF member forum, the Deprived Pensioners Association, the Pensions Action Group and Prospect (the union), and shared their concerns with the government.

There is no provision in legislation for indexation of PPF compensation for pre-97 benefits and the Board has no discretion to apply increases to pre-97 benefits. In October, a PPF member's case was referred to The Pensions Ombudsman to review whether the lack of indexation on their pre-97 benefits constitutes unlawful age discrimination because it treats older members of the PPF less favourably than younger members. The Pensions Ombudsman found that the legislation governing the indexation of PPF benefits is not overridden by section 29 of the Equality Act.

Legislation does give the Board some discretion to change the rate of indexation of PPF compensation for 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. 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. The Board takes member needs very seriously and keeps the decision whether to increase the rate of indexation for post-97 compensation under review. The Board does not have the power to alter the rate of indexation of post-97 benefits payable to FAS members.

Any changes to PPF compensation would require legislative changes and as such remain a matter for government. We have informed the DWP that we have seen an increase in our members raising the issue of indexation with us. The PPF is in a robust financial position and the position of the DB schemes we protect has also improved since compensation levels were set in 2004. However, it's important to consider both the financial and wider impacts from any major changes to PPF compensation. Any changes to pre-97 or post-97 compensation would increase our liabilities and reduce our funding level. The impacts on schemes and the wider pensions system should also be fully considered.

In its *Options for Defined Benefit schemes* consultation, published in February, the DWP confirmed an intention to consult on levy changes and PPF compensation levels. The Work and Pensions Committee welcomed the consultation and made recommendations for new legislation to provide indexation on compensation for pre-97 benefits. It also recommended that government should work with the PPF to consider other changes to compensation, such as raising the cap on indexation of post-97 benefits above 2.5 per cent. A future consultation will be a decision for government.

While PPF and FAS compensation levels remain a matter for government, we'll continue to play an active and constructive role informing the DWP's assessment. We remain mindful of the need to balance the interests of our members and levy payers.

Legal challenges to compensation

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

All calculations for payments for members requiring an uplift due to uncapping or *Hampshire* were finalised and, where possible, payments were made by the end of March 2024. We are mindful that these members have waited a long time to receive the uplift in their compensation.

Miriam Kimber won Lawyer of the Year at the Women in Pensions Awards 2023.

"The PPF's core purpose is doing good, by helping those who would otherwise receive little or no pension. I feel very lucky to work for an in-house legal team that allows me to put my legal knowledge towards such a strong social purpose, and where the work is so interesting and varied.

My team and I have been very busy this year working on many things, including supporting the activity of the investment team, FCF cases, and advising on the implications of a possible future role as a public sector consolidator.

In August, we welcomed three interns from the 10,000 Black Interns programme on an employer placement. All three were aspiring lawyers studying at university, and our team gave them a unique insight into what life is like working as a lawyer at our organisation. We are proud to have blazed the trail for the PPF to participate in this programme in the future."

Fraud Compensation Fund

Occupational pension schemes set up as part of a scam are eligible to claim on the Fraud Compensation Fund (FCF). For compensation to be paid there must be an act of dishonesty leading to a loss to the scheme. Each claim we receive is scrutinised carefully by our FCF case team to make sure it is eligible. The FCF works responsibly to ensure members who are victims of fraud in certain circumstances receive the appropriate compensation. We completed 21 cases in 2023/24.

To help speed up the process, we sought legislative change to allow interim payments to be made to schemes. These are available where we have made a decision in principle that an act of dishonesty has taken place, but schemes have run out of assets and would otherwise not be able to progress a claim.

We have also worked flexibly and pragmatically to overcome the challenges posed by how FCF legislation is drafted. For example, if the employer no longer exists or there is no employer, we'll accept a sacrificial employer approach where a new employer company is put in place to satisfy the insolvency requirement. We have also introduced asset assignment, where we pay compensation to schemes on the assumption of no further recoveries, but make it a condition of that compensation that trustees pay any further recoveries onto the FCF to speed up the compensation payment process while ensuring that FCF levy payers benefit from any return.

Where we can, we use The Pensions Regulator (TPR) and The Pensions Ombudsman decisions and determinations to support our decisions on whether dishonesty took place. We also work closely with trustees of schemes in the pipeline to help us understand the challenges relevant to each scheme and to keep trustees updated on how we're evolving our processes to make them more efficient.

It's important the FCF and trustees work together to confirm the amount each member has already received to make sure the compensation supported by levy payers is not paid if the member has already received the money from the scheme. We consider our conditions are reasonable in this respect and we are hopeful that we can speed up this process in the future with agreement from trustees.

Case study

Norton Motorcycles

In 2022, Stuart Garner, the former owner of Norton Motorcycles and sole trustee of the Norton pension schemes, was given a suspended jail sentence for illegally investing the schemes' money into the business. In 2023/24 we carried out a detailed review of the evidence submitted to the FCF by the schemes' current trustees. We concluded that the claim met the FCF's eligibility criteria. In March 2024 we made the first compensation payment of £9.4 million to the trustees of the Norton pension schemes for them to distribute to the scheme members. We are conscious that these members have been waiting a long time for redress. We expect them to be fully compensated in 2024.

In March 2024, two Board members, Sara Protheroe and David Taylor, attended the Work and Pensions Committee's Norton inquiry to discuss how members of pension schemes that collapsed due to dishonesty or fraudulent behaviour can be better protected and supported in the future.

Delivering excellent service for schemes

Our levy payer satisfaction rate is 96 per cent. Less than one per cent of levy payers challenged the outcome of their insolvency risk score. 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 continued to provide levy payers with the Covid-19 easement plan this year, although no schemes took this up.

We have made several enhancements to our digital score portal, including functionality that allows portal users to remove a scheme from their portfolio. We have improved the access request process for delegates, so that the relevant trustees are identified, contacted and signposted to approve pending requests in the portal.

For the levy year 2024/25, trustees and others with access to a scheme will be able to download their levy invoice directly from the score portal as an alternative method of accessing their digital levy invoice. Given the improvement in automation and the reduction in the volume of queries directed to the levy team, we have not needed to replace team members following staff departures. We have created a new team structure to ensure we can maintain performance with a smaller team.

Helping schemes through PPF assessment

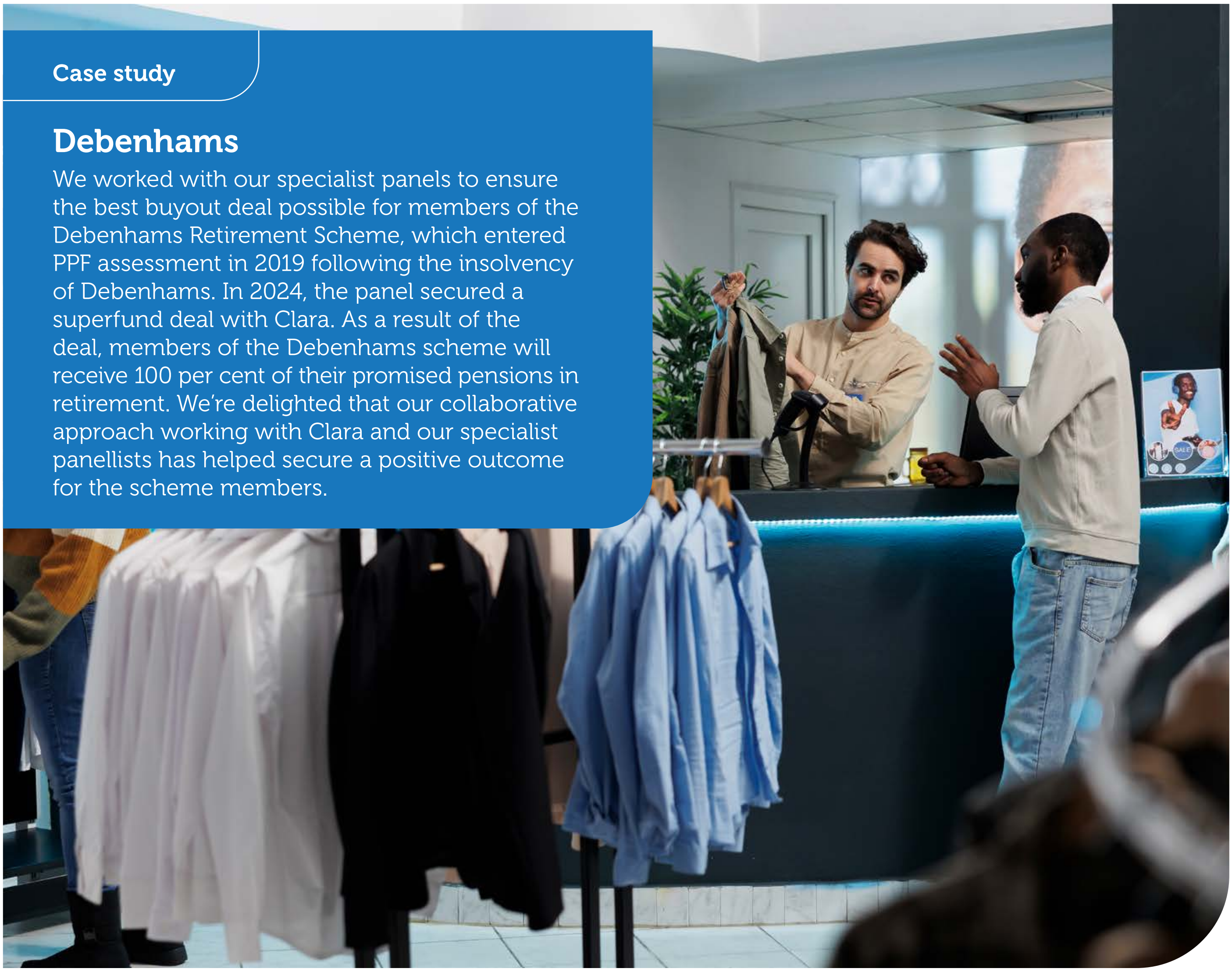
We work with several specialist panels, made up of various firms that provide specialist advice to help schemes move through the PPF assessment process as quickly and efficiently as possible. Working closely with our panel firms has improved the efficiency of our assessment period, with the process taking 18–24 months on average.

In 2023 we introduced the PPF Trustmark, providing our panel firms with a badge that recognises their expertise and high level of service supporting schemes through our assessment process. Panel firms can use the PPF Trustmark badge in their member communications for schemes in PPF assessment, on online member portals, and on scheme specific websites. We hope this will reassure members of schemes in assessment that they are in safe hands.

Time in assessment for overfunded schemes

When a scheme enters assessment, our focus is always to protect members and achieve the best available outcome for the scheme. In recent years, we've seen a trend of schemes entering PPF assessment with enough assets to buy higher benefits for members than we would pay, which means they can secure a buyout outside of the PPF. Our PPF+ Advisory panel, which we introduced in 2022/23, has continued to provide transaction advice to schemes in PPF assessment that are overfunded on a PPF basis, and support them in exploring options beyond the PPF. In 2023/24, we continued to work with the panel to enhance the service offering by streamlining and standardising a number of processes. This will enable more efficient transactions and deliver better outcomes for members.

The increased numbers of overfunded schemes entering our assessment period means that we're finding ourselves working more closely than ever with organisations that provide end-game solutions to DB schemes – including insurers and commercial consolidators.



Case study

Debenhams

We worked with our specialist panels to ensure the best buyout deal possible for members of the Debenhams Retirement Scheme, which entered PPF assessment in 2019 following the insolvency of Debenhams. In 2024, the panel secured a superfund deal with Clara. As a result of the deal, members of the Debenhams scheme will receive 100 per cent of their promised pensions in retirement. We're delighted that our collaborative approach working with Clara and our specialist panellists has helped secure a positive outcome for the scheme members.

As with all schemes that come into our assessment process, we complete rigorous checks – including identifying and cleansing data issues and carrying out a full administrative review – to ensure that the information relating to overfunded schemes' investments and members is accurate. This work means that insurers and commercial consolidators can treat the information they receive about the scheme with a high degree of confidence, which supports a more efficient transfer of the scheme.

We're really pleased to see the growth in end-game choices for DB schemes and that's why we're supportive of TPR's interim regime for superfunds.

Transfer of hybrid schemes

Some pension schemes, known as hybrid schemes, have both a DB and DC element to them. When these schemes enter the PPF assessment period, we can't transfer the DC element of the schemes as we're only able to pay DB pension benefits. We recognise that it's important these benefits are taken on by a third-party provider as quickly as possible to prevent a delay to the scheme transfer, and to give members certainty on who will pay their benefits in the future. In 2024 we partnered with Aviva, who will provide a Master Trust solution to ensure that members' DC benefits are protected.

While the Aviva Master Trust will be available for all DC benefits, trustees can look at the options available in the wider DC market to ensure that members are receiving the best possible outcome. Aviva's Master Trust solution will ensure that we can efficiently transfer schemes and achieve the best results for members both inside and outside of the PPF.

Making a difference

"I worked for Scotia Pharmaceuticals for over 20 years, and it is the only company I paid into a pension with. With the money I receive from the FAS, I can live comfortably.

I have found the staff at the FAS very respectful, and feel like they put themselves in the members' shoes. I am particularly impressed with the work that has been done to make the bereavement process as smooth as possible.

I have used the member website, and I found it worked very well."

Peter
FAS member, West Sussex

Strategic activities and milestones for 2023/24

- We will ensure at least 80 per cent of our Climate Watchlist companies are making disclosures on emissions, with a view to standardising how this is reported.
- We will continue to source 100 per cent of our electricity through renewable tariffs each year.
- Year-on-year, we will 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.
- We will ensure that at least 500 days are volunteered across the organisation to support initiatives identified in our sustainability strategy.

Our Sustainability Strategy

Our ultimate ambition is to help catalyse the growth of a sustainable pensions industry. We are committed to operating in a sustainable way, and our Sustainability Strategy acknowledges climate and sustainability risks and opportunities across the short, medium and long term. By developing this strategy, we aim to mitigate risks, enhance long-term business value, proactively address evolving regulatory requirements, and facilitate our transition to Net Zero for our operations by 2035 or earlier. We want to operate in a manner that is consistent with the Paris Agreement by minimising our own environmental impacts. In this way, we aim to protect our assets and our members' futures, as well as the pensions industry and the world around us.

We have established a clear line of leadership and accountability for developing, delivering and evaluating our strategy, starting at Board level. Our sustainability working groups have identified priority areas that we consider material to the PPF, and have ensured that we embed sustainability across our decision-making processes.

See page 44 for more information on our materiality assessment.

See page 46 for more information on the governance of our sustainability strategy.

Our sustainability goals

Our strategy unifies our efforts around four goals that resonate with our ICARE values. We used the Sustainability Accounting Standards Board (SASB) Materiality Map for Asset Management/Insurance and The Five Capitals framework for sustainability[1] to develop these goals. Following an assessment of the material ESG business risks that the PPF and/or our stakeholders could face, we are prioritising key topic areas under our four goals where we believe we have the control and potential to make the most impact.

See more on our assessment of material ESG business risks on page 44.

Ensuring effective stakeholder engagement with integrity and respect

Social capital

Community impact

We want to use our skills and experience to make a genuine impact. We encourage all employees to use five volunteering leave days annually to lend their skills to various charities, with a focus on supporting underrepresented groups and the environment.

Human capital

Employee and stakeholder engagement

We recognise the importance of excellent communication with our employees, and we promote a 'speak up' culture for our people to raise concerns and give feedback. We work hard to build strong relationships with our members and levy payers so we can better understand the issues that matter to them.

557 days

have been volunteered across the organisation

Championing collaboration and leading by example

Social capital

Diversity and inclusion

We have set ourselves ambitious representation targets, and we report on our progress against them annually. Through our apprenticeship schemes we provide career opportunities for local people and open up careers in the asset management industry to underrepresented groups.

Social capital

Business ethics

Understanding and managing our opportunities, challenges and risks is critical to protecting our members and achieving our objectives. We're committed to conducting business in the best interests of our beneficiaries, and have comprehensive controls to prevent conflicts of interest from affecting them.

83%

of our people agree that we are a diverse employer

1 The five capitals are Natural, Human, Social, Manufactured and Financial Capital.

Demonstrating excellence in responsible investment

Financial capital

Looking after our assets

We believe that by acting as a responsible asset owner, we can protect and enhance the value of our investments. The three priorities of our Responsible Investment (RI) strategy are climate change, stewardship and transparency. We embed material ESG considerations right across our investments and we expect the same from our external managers, from selection through to monitoring and reporting.

90%

of our Climate Watchlist companies are making disclosures on emissions

Being accountable for minimising our own environmental impacts

Natural capital

Operations

We support the Government's Greening Government Commitments and look to reduce greenhouse gas emissions from our building management, supply chain, technology and travel activities. We aim to reach Net Zero for our operations by 2035 or sooner.

Manufactured capital

Procurement and supply chain

We consider sustainability in all our procurement strategies and assess suppliers' commitments to Net Zero, carbon reduction plans and D&I reporting in many tenders. We ask our suppliers to communicate our Supplier Code of Conduct to their employees and third parties.

100%

of our electricity is sourced through renewable tariffs

Ensuring effective stakeholder engagement with integrity and respect

Employee and stakeholder engagement

We 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 April and November 2023, to discuss topics such as digital services and indexation. We also met with levy payers at our SME Forum in August 2023.

We are proud to have high levels of employee engagement. Our most recent employee survey had an engagement rate of 93 per cent, and our employee feedback scores remain high compared to industry benchmarks. In the survey, 79 per cent of PPF employees said they feel the PPF's culture allows them to be themselves, and 83 per cent of employees agreed that the PPF actively encourages diversity in all its aspects. We'll continue to focus on developing directorate people plans to support the development of inclusive teams.

During 2023/24, we have ensured that employees are aware of and engaged with our sustainability strategy through internal webinars, blogs and interviews with our employees.

We introduced a Sustainability Community hub on our staff intranet, where our employees can spark discussions and exchange sustainability tips.

Our Employee Liaison Committee (ELC) is made up of elected individuals from across the PPF who provide feedback to the Executive Committee and to the Chair of the Board on key areas. The ELC also plays an important role in the social life of the organisation.

Personal development and apprenticeships at the PPF

In our most recent employee survey, 80 per cent of employees said there are good opportunities for them to learn and grow at the PPF. This year, 23 employees began our talent development and management development programmes, and eight joined the Future Leaders programme to develop their skills.

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.

"The Employee Liaison Committee (ELC) represents PPF employees and their views. Each ELC representative is elected by colleagues in their business area, and we meet every six to eight weeks to discuss items that affect employees and topics driven by employee feedback.

The ELC is consulted before changes are made within the business so representatives can communicate how this will affect employees. A member of the Executive Committee attends every ELC meeting and reports back to the rest of the Executive Committee so employee views can be taken into consideration."

David Bambury
ELC Chair

Wellbeing support

In 2023/24, we reviewed our current mental health initiatives and support offered against the CCLA Corporate Mental Health Benchmark. PPF employees have 24/7 support via the Employee Assistance Programme, and they can also contact one of the PPF's internal mental health first aiders. In the year, we rolled out more mental health first aider training, and increased our total number of mental health first aiders to 15.

Employee remuneration

We know that the rising cost of living over recent years is still being felt in some areas. 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. We're comfortable that the total remuneration we pay is competitive for the roles, responsibilities and location.

A diverse and inclusive workplace

We aim to create a diverse and supportive culture that enables everyone at the PPF to be themselves and feel valued. We have nine employee-led communities that provide a safe space for employees to share their perspectives. These communities include Christian Fellowship, Diverse Ability Action and Awareness Group, Empowering Women, Islamic Circle, Kaleidoscope, Menopause Cafe, Men's Network, Race Action Group (RAG) and Working Families Alliance.

The RAG has led our reverse mentoring initiative, which helps to build awareness of the challenges faced by ethnic minority employees, and foster a culture where all experiences, skills and ideas are leveraged.

Ethnicity representation targets

We signed the Business in the Community Race at Work Charter in 2019 and we've been applying its seven standards across the PPF. When we set our ethnicity representation targets, we felt strongly that it was important to aim high and set targets that would challenge us. We identified that black people were underrepresented in ethnic minority groups at the PPF, so we set a target to reach nine per cent representation of black employees across the PPF in 2023. We're pleased that we achieved this. The overall proportion of ethnic minority employees was 26.3 per cent in September 2023, meaning that we did not meet our goal of 30 per cent ethnic minority representation across the organisation by December 2023.

At senior manager level, we missed our targets to achieve 25 per cent ethnic minority representation and 4.4 per cent black representation by December 2023. The proportion of senior managers from an ethnic minority background was 17.5 per cent, and black representation at senior manager level was 1.6 per cent in September 2023. While we are moving in the right direction in this area, we acknowledge that we need to adapt our approach to see more improvement.

Increasing female representation

We signed the Women in Finance Charter in 2018 and made a commitment to improve the gender balance at senior levels of the PPF. We set a target to achieve 45 per cent female representation in senior manager roles by December 2023. Although we made progress in this area, we fell short of this target, with women in 43 per cent of senior manager roles in December 2023. At the end of March, female representation in senior manager roles increased to 44.6 per cent and we remain positive that we'll continue to make progress in the right direction.

As outlined in our Diversity and Inclusion Strategy, we are focusing on building our talent pipeline for the future by hiring more women at junior levels. We ensure that we are an employer of choice for women supporting flexible working wherever feasible. We are also focused on creating a menopause-friendly organisation and promoting male allyship. We're developing our future female leaders through mentoring, coaching and internal development programmes.

This year we took action to improve the gender diversity across the Risk directorate, traditionally an area that lacks gender diversity. We carefully considered the language used in our job advertisements to ensure it was inclusive, and committed to gender diversity in the interview panel. We also worked with a coaching organisation that specialises in enabling the return to work of experienced professionals after an extended career break. This contributed to the team being able to fill two vacancies with very experienced female professionals, including one looking to return to work.

Supporting employees with disabilities

We are committed to being an employer of choice for people with disabilities. All our external vacancies are advertised on the job board of disability equality charity Scope. We were proud to become a Disability Confident Leader in 2020, and this year we retained our Disability Confident Leader status following an external testing and validation process. We were praised for our dedication and determination to supporting people with disabilities and our desire to continue to develop this support in the future. This year we continued to go beyond statutory requirements to report on our disability and long-term health condition pay gap.

Championing collaboration and leading by example

Sharing insights to reduce our environmental impact

As set out in our Sustainability Strategy published in 2023/24, we have an ambition to catalyse the growth of a sustainable pensions industry. We want to support the system to make a difference in a range of ways. We focus on impacts made via financial, human and social capital and minimising impact on natural capital. We are aiming to reduce our environmental footprint and seek to effect change through our supplier relationships.

Throughout the year, we proactively engaged with various organisations to learn and share approaches to reducing Scope 3 operational emissions. We joined the DWP's arm's-length body (ALB) sustainability delivery working group, which acts as a knowledge sharing forum, and presented our sustainability strategy and Net Zero commitments. We collaborated with the DWP, other ALBs, asset managers and suppliers.

By fostering these connections, we aimed to champion collaboration, deepen our understanding of sustainability, and facilitate cross-organisational learning. This engagement has also enhanced our comprehension of the evolving developments in sustainability reporting and assurance processes.

We reviewed HM Treasury's 2023/24 Sustainability Reporting Guidance, which focuses on new Task Force on Climate-related Financial Disclosures (TCFD) aligned Phase 1 disclosure requirements, including a TCFD Compliance Statement, Governance disclosures and Metrics and Targets disclosures. While we established that, as a public corporation, the PPF is not in scope, we will adopt best practice disclosures where possible. We also reviewed the newly developed International Sustainability Standards Board S1 and S2 reporting frameworks against our sustainability reporting, and we will review any new UK public sector guidance that comes from this.

Managing our impact through our supply chain

It's important that sustainability is considered throughout our organisation. We aim to meet our need for goods and services in a way that delivers long-term value while benefiting society and minimising impact on the environment. We've developed a Sustainable Procurement Policy and Statement, which sets out our approach to ensure that all aspects set out in our Sustainability Strategy are considered and embedded throughout our procurement and contract management practices.

> "Part of my role involves having ongoing conversations with our suppliers about their sustainability commitments and progress against targets. Supplier engagement and collaboration is crucial. We've developed a sustainability assurance questionnaire for key suppliers, focusing on Climate Change, D&I and Human Rights, aligned with our key stewardship themes. We can individually and collectively make a difference for a more sustainable future."

Denise Avis
Supplier Assurance Manager

"By surpassing our 500-day volunteering target, we've shown our commitment as an organisation to come together and use our collective skills and strengths to make a positive difference. It's been brilliant to see so many colleagues use their volunteering leave to support causes that they're passionate about."

Connie Howley
Internal Communications and Community Impact Coordinator

We have set up a Sustainable Procurement Working Group to help to implement and support our approach. This group is attended by key stakeholders from across the PPF.

We seek to influence our suppliers to adopt sustainable practices and disclosures, and to promote innovative solutions to extend sustainability practices throughout their own supply chain.

Asset manager reviews

As part of our asset manager oversight process, this year we continued our review of D&I policies and the progress of our external asset managers. By analysing responses year-on-year and incorporating findings into our manager assessments, we aim to contribute to the broader industry's progress on D&I. While we are not setting specific targets at this stage, we recognise that there needs to be much further progression on D&I throughout the asset management industry, especially within investment teams and senior roles.

Community impact

We believe we can use our collective skills and experience to make a genuine impact in the communities and industries in which we operate. As part of our Community Impact programme, we encourage our employees to use the volunteering leave available to them and we provide a range of volunteering opportunities with a particular focus on helping disadvantaged people in the local area.

This year, employees across the organisation used their volunteering leave to lend their skills and support to more than 50 local charities and community organisations, including RedSTART, which delivers financial education to primary-school children, and our elected charity partner, Lives Not Knives, which works to prevent knife crime, serious youth violence and school exclusions. In 2023/24, PPF employees carried out a total of 557 days of volunteering.

Case study

Prioritising ESG business risks

Considering materiality has been integral to the development of our Sustainability Strategy. We believe that ESG and sustainability-related information can be material, based on the nature and magnitude of the topic and the way it affects the overall operations, values and stakeholders of the PPF. In 2023/24, we conducted a materiality assessment to prioritise actions related to the most material ESG business risks we and/or our stakeholders could face. Our focus included our operations, investments, stakeholders and sphere of influence. We considered the risks both to the PPF, and arising from the PPF's activities, alongside our level of control of these risks.

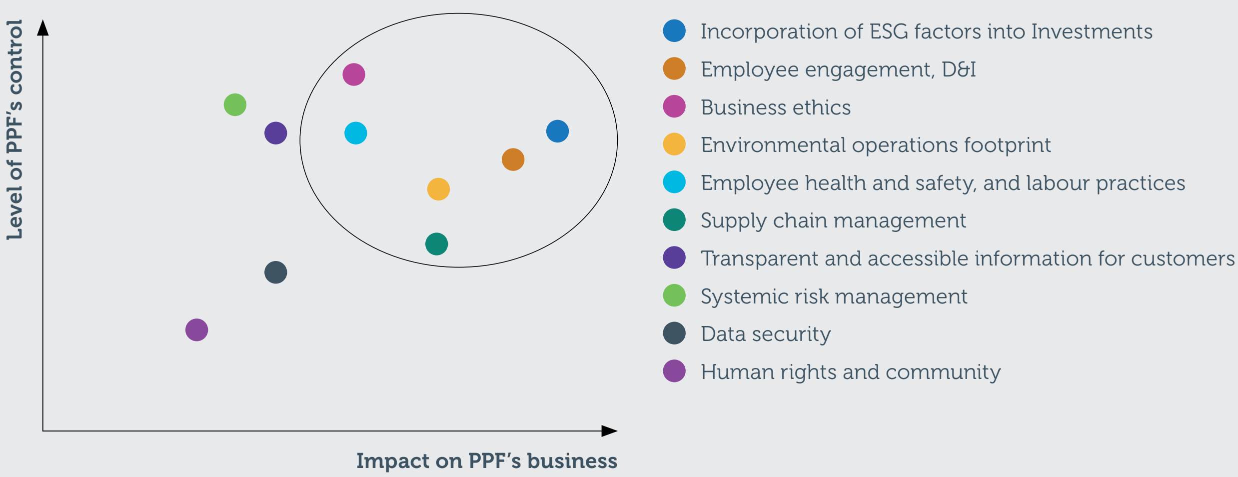
To conduct the assessment, we developed a list of topics that could be material for the PPF using the SASB Materiality Maps for Asset Management/ Insurance sectors. We explored each topic in detail to understand its relevance to the PPF business and stakeholders, and short-listed 10 topics for the Board to consider. The Board was asked to rank them based on our level of control and the impact on the PPF. The Board's responses were plotted on our materiality matrix.

Following the materiality assessment, we have agreed to prioritise six areas where we believe we have the control and potential to make the most impact:

- Incorporation of ESG factors into investments
- Employee engagement, labour practices and health/wellbeing
- Diversity and inclusion
- Business ethics
- Environmental operations footprint/ greenhouse gas (GHG) emissions
- Supply chain management

These topics have informed our sustainability strategy and provided the opportunity to apply a sustainability lens to our wider enterprise risk management processes. Whilst some of the other topics were considered important and material (such as data security), it was felt that we should continue to work with these as a focus in the relevant teams.

Materiality matrix



Demonstrating excellence in responsible investment

Active stewardship and transparency

Stewardship is one of the most powerful ways we can drive companies to transform, generating real-world impact. In February, the Financial Reporting Council confirmed that we continue to meet the standard of reporting required to remain as a signatory to the UK Stewardship Code for a third consecutive year. The Code establishes high standards of stewardship for asset managers, asset owners and service providers when investing money on behalf of UK savers and pensioners, and those that support them. Retaining our signatory status to the UK Stewardship Code underlines our unwavering focus on managing the Fund robustly through active stewardship. Our Responsible Investment report 2022/23 covers our stewardship activities during the reporting period 1 April 2022 to 31 March 2023.

With a large portion of our investments managed externally, we primarily focus our direct engagement efforts on our oversight of our managers' practices and progress. Our engagement with our private market managers over the year encouraged a high response rate for ESG portfolio reporting, with 89 per cent of the managers in-scope reporting portfolio data. We continued to support the ESG outreach campaign that was piloted in 2022. This year we expanded it to 49 of our General Partners, and 50 per cent of them provided data.

As part of our stewardship efforts to manage climate risks, in 2023/24 we created a Climate Watchlist of 87 companies with the purpose to drive greater Net Zero action and disclosure. During the year, we also formalised a stewardship escalation policy to explain how we would consider escalating our engagement efforts in the absence of desired progress at a company, if appropriate.

In January 2024, we put this policy into practice with one of our Climate Watchlist companies, co-filing a shareholder resolution at the Shell 2024 AGM, along with other prominent pension funds. The resolution is an advisory vote, requesting that the management aligns its Scope 3 medium term emission reduction targets with the goal of the Paris Agreement.

We developed a comprehensive ESG questionnaire for our bank counterparties centred around the topics of climate change, social issues and governance. These questions were shared with six key banks, and our ESG team used their responses to feed into the annual counterparty review process for the Investment team.

Case study

CK Hutchison

One of our Climate Watchlist companies that is held in a number of our equity and credit portfolios, and is a high contributor to our financed emissions, is CK Hutchison. This Hong Kong-based conglomerate has international presence in infrastructure, retail, ports, and telecommunications, and a strong presence in retail and utilities in the UK. Since our stewardship services provider engaged with the company, it has committed to Net Zero by 2050 at the group level with medium-term targets and phasing out coal-fired power generation globally by 2035. It has published its first TCFD report and is conducting scenario analyses to formulate a detailed climate transition plan for the group.

Awards for climate change reporting

During the year, we were highly commended for the Most effective alignment with TCFD in our Annual Report and Accounts at the Corporate Reporting Awards.

We were also highly commended in the Paris Alignment Award for Best Climate Change Policy Statement category at the Pensions for Purpose Pension Fund Awards.

Reporting on climate change

We have set ourselves high standards on climate change and responsible investment. Our target is to reach Net Zero for our operations by 2035 or sooner. For our investments, we seek to contribute to the global transition to Net Zero through our portfolio and engagement activities.

As a supporter of the TCFD, we commit to reporting on our climate-related governance, strategy, risk management, and metrics and targets. Our dedicated TCFD climate change report shares an in-depth view of this information for our investments. We've included an annual summary here, which outlines progress made in relation to our investments as well as our operations.

TCFD summary and progress in 2023/24

Governance, strategy and risk management

We have established robust climate governance to manage and oversee our sustainability and climate-related risks and opportunities, both within our investments and across the organisation. We consider climate change to be a systemic risk, which can affect the value of our investments across the short, medium and long term. We've taken important steps to address key climate-related risks facing our portfolio and pursue a market-leading approach in this area. We believe our Climate change policy is fundamental to our long-term investment goals and are committed to improving our understanding of mitigating these risks and opportunities on behalf of our members.

The Board has oversight of our organisational sustainability strategy in terms of considering and managing climate-related risks and opportunities across the business. The responsibility for overseeing each of our four sustainability goals sits with the Board or a specified Board Committee. We recognise that our investment portfolio has the greatest potential exposure to climate change factors, which is reflected through our first sustainability goal: Demonstrating excellence in responsible investment. The Investment Committee is responsible for developing our RI and stewardship principles and policies. The Investment Committee regularly reviews our climate change and stewardship policies, and is updated on climate-related risks at every meeting. The Risk and Audit Committee is responsible for oversight of the risks relating to sustainability at the broader organisational level and how these are being managed.

The Executive Committee ensures the implementation of our sustainability strategy and oversees the progress of our sustainability working groups. In the year we added sustainability as a responsibility within the role of our Chief People Officer in our Senior Managers and Certification Regime (SMCR).

Each sustainability working group meets on a regular basis and is chaired by a designated senior manager who is accountable for the implementation of the relevant sustainability goals. These groups ensure that sustainability principles are embedded, and progress is communicated, across the PPF.

Led by the Chief Investment Officer, the Investment team is responsible for ensuring adherence to the RI framework, stewardship principles and associated policies across all asset classes whether internally or externally managed. We consider material ESG and climate-related risks as one of our key risks within our Statement of Investment Principles. The ESG & Sustainability team, which is part of the Investment team, oversees implementation of the RI framework and climate change strategy of our investments by monitoring investments for climate-related risks and opportunities, engaging with internal and external portfolio managers and our stewardship services provider.

Our Risk & Strategy working group supports the implementation of the Sustainability Strategy by ensuring sustainability issues are considered at an enterprise level and in our strategic decision making, and that risks are reported within our risk management processes. We enhance our climate governance by addressing ESG and climate-related risks. In the year, we developed a Climate Change Adaptation Strategy, which outlines how climate-related risks that impact the resilience of our operations are managed, and identifies further actions. We also investigated how to use the Long-term Risk Model (LTRM) to provide insight into the potential impact of climate change on the DB scheme universe, future claims and our funding position. To date, we have run four scenarios which include orderly and disorderly transitions to net-zero, a high-warming, failed transition scenario, and a scenario which considers limited action in reducing emissions. We continue to discuss the limitations of quantitative economic climate scenarios with our provider, and monitor innovation in this area.

Metrics and targets

A summary of carbon footprint metrics for our Public equities and Credit investment holdings is provided in the tables on pages 48–49. In Public equity[1], the total financed carbon emissions associated with our aggregate Public equity holdings has increased slightly by 11 per cent from 2022 to 2023. When normalising the total financed carbon emissions by the total amount invested, the financed carbon emissions invested also increased by 16 per cent over the same period. This is because of an increase in allocation to one of our active portfolios that currently contributes around two thirds of the financed emissions.

However, there is still an overall decline of 77 per cent in the total financed emissions and near-halving of the financed carbon emissions since our baseline year of 2020. Four of the top five emitters in this portfolio have been included within our focused Climate Watchlist and the other one is engaged by EOS, our external stewardship services provider (see right for more information on our Climate Watchlist).

In contrast to the financed emissions metrics, the weighted average carbon intensity (WACI) for the equity aggregate decreased year-on-year by 14 per cent, with all Public equity portfolios seeing a lower WACI year-on-year. This decline indicates that our equity holdings have, in aggregate, become less carbon intensive per unit of revenue generated (even though the carbon emissions have increased). A similar trend downwards can be seen in the Equity benchmark's WACI year-on-year. The WACI for the equity holdings is now 60 per cent lower than our baseline year of 2020.

In Corporate credit[2], we saw an increase in the total financed carbon emissions by 18 per cent for the aggregated credit holdings. This is mainly being driven by an increase in the amount invested in Credit, as we increased our allocation to Strategic cash and Short Duration credit during the year. However, the normalised financed emissions by the amount invested decreased by 27 per cent, predominantly due to the Strategic cash and Sterling Short Duration credit strategies having a lower exposure to high carbon assets. However, there is still an overall decline of 23 per cent in the total financed emissions and 36 per cent decline in the financed carbon emissions since our baseline year of 2020. The WACI for the aggregated credit portfolio decreased by 44 per cent year-on-year, in contrast to the credit benchmark's WACI, which increased by 16 per cent. The portfolio decline was driven in part by one of the highest-emitting holdings reducing its carbon sales intensity, alongside a decreased allocation to this name. The WACI for the credit holdings is now 63 per cent lower than our baseline year of 2020.

This year, we are also able to report on our internally-managed public UK Credit[3] holdings. We saw an increase of 72 per cent in the total financed carbon emissions for the UK Credit portfolio from 2022 to 2023, and an increase of 31 per cent in the normalised financed emissions by the amount invested. This was driven by two aspects: partly due to a higher portfolio value (which increased by nearly a third) and partly due to new positions added to the portfolio.

Four of the top five emitters in this portfolio are included in our Climate Watchlist and the remaining one is engaged by both EOS and the Climate Action 100+ initiative. One of the new additions to the portfolio that partially drives emissions up is a multi-national utilities company that provides diversification benefits and defensive characteristics to the portfolio. The company is actively transitioning its energy mix towards renewable sources like wind and solar, also providing exposure to a strong transition opportunity.

Targets relating to our Climate Watchlist

Our Climate Watchlist Companies (CWCs) are predominantly companies in sectors such as energy, materials and utilities, and are mainly in North America and Europe. They account for a significant majority of our financed emissions.

We set a target for the 2023/24 financial year to ensure at least 80 per cent of our CWCs are making disclosures on emissions, with a view to standardising how this is reported. We have ensured that CWCs are engaged, either through our external managers, our stewardship services provider, collaborative initiatives (such as Climate Action 100+ or IIGCC's Net Zero Engagement Initiative), or by the PPF directly if necessary.

We participated again this year in the CDP's Non-Disclosure Campaign to encourage greater corporate disclosure. The campaign was successful in getting an additional five companies from our Climate Watchlist to disclose to CDP (including one of our highest contributors), resulting in 90 per cent of our CWCs disclosing emissions, up from 84 per cent last year. The quality of disclosure also improved since last year, with 68 per cent of our CWCs receiving one of the top four CDP scores (up from 66 per cent). We are pleased to see that one in three (29) CWCs have made progress in achieving engagement objectives.

1 For our aggregate Public equity holdings, we continue to include the equities from our Public equity and Absolute return portfolios (long positions only).

2 For our aggregate liquid Credit holdings, we continue to include the corporate bonds from our Strategic cash, Investment grade credit (including Sterling Short Duration credit), Emerging Market Debt and Absolute return portfolios (long positions only).

3 For our UK Credit holdings, we continue to include the corporate bonds from our public Hybrid Assets (HAIL) portfolios.

Our Strategic Plan and priorities – continued

PPF carbon footprint Public equity Scope 1 & 2 metrics

	2023	2022	2020 (Baseline yr)	Changes from 2022 to 2023 (%)	Changes from 2020 to 2023 (%)
Metrics based on investor allocation (EVIC)					
Total financed carbon emissions (tCO_2e)	181,172	162,496	797,637	11%	-77%
Financed carbon emissions (tCO_2e/\$m invested)	64	55	122	16%	-48%
Metrics based on portfolio weights (WACI)					
Weighted average carbon intensity (tCO_2e/\$m revenues)	96	111	243	-14%	-60%
Equity benchmark weighted average carbon intensity (tCO_2e/\$m revenues)*	74	86	300	-14%	-75%
Market value of the fund's equities covered by carbon data (\$m)	\$2,820	\$2,977	\$6,528		
Proportion of the fund's equities for which data is available (%)	98%	99%	97%		

Note: We have restated our carbon footprint figures for 2022 and our baseline year (2020). This is because we have moved to a new analytics and reporting platform through our ESG data provider. We have chosen to report these figures using this system now, because it offers 'point in time' data and calculations (i.e. provides the result as if we were running the analysis at that time). All comparisons are provided using these restated figures. Public equity aggregate includes equity positions from our Absolute return mandates.

* Equity benchmark changed from FTSE All-World Minimum Variance Index to FTSE Custom All-World Climate Minimum Variance 100% GBP Hedged Index on 1 August 2021.

PPF carbon footprint Corporate credit Scope 1 & 2 metrics

	2023	2022	2020 (Baseline yr)	Changes from 2022 to 2023 (%)	Changes from 2020 to 2023 (%)
Metrics based on investor allocation (EVIC)					
Total financed carbon emissions (tCO_2e)	277,238	235,233	361,360	18%	-23%
Financed carbon emissions (tCO_2e/\$m invested)	37	51	58	-27%	-36%
Metrics based on portfolio weights (WACI)					
Weighted average carbon intensity (tCO_2e/\$m revenues)	122	218	328	-44%	-63%
Credit benchmark weighted average carbon intensity	200	173	257	16%	-22%
Market value of the fund's corporate credit covered by carbon data (\$m)	\$7,533	\$4,618	\$6,214		
Proportion of the fund's corporate credit for which data is available (%)	97%	94%	90%		

Note: We have restated our carbon footprint figures for 2022 and our 2020 baseline year. This is because we have moved to a new reporting platform from our ESG data provider. All time period comparisons are provided using these restated figures. Corporate credit aggregate includes credit positions from our Strategic cash, IG credit, Short Duration credit and credit holdings from our EMD and Absolute return mandates.

PPF carbon footprint UK Credit Scope 1 & 2 metrics

	2023	2022	2020 (Baseline yr)	Changes from 2022 to 2023 (%)	Changes from 2020 to 2023 (%)
Metrics based on investor allocation (EVIC)					
Total financed carbon emissions (tCO_2e)	106,522	61,786	102,249	72%	4%
Financed carbon emissions (tCO_2e/$m invested)	46	35	51	31%	-10%
Metrics based on portfolio weights (WACI)					
Weighted average carbon intensity (tCO_2e/$m revenues	131	122	156	7%	-16%
Market value of the fund's UK credit covered by carbon data ($m)	$2,328	$1,770	$2,012		
Proportion of the fund's UK credit for which data is available (%)	96%	92%	67%		

Source: Certain information ©2023 MSCI ESG Research LLC. Reproduced by permission; no further distribution. PPF portfolio holdings as of 31/12/2023. Equity benchmark = FTSE Custom All-World Climate Minimum Variance 100% GBP Hedged Index. Credit benchmark = Bloomberg Barclays Global Credit Index 100% GBP Hedged.

Metric definitions:

1. Financed Carbon Emissions (tCO_2e/$m invested)
Measures the Scope 1 + Scope 2 tonnes of CO_2 equivalent emissions, for which an investor is responsible, per US$ million invested, by their total overall financing. Emissions are apportioned across all outstanding shares and bonds (% Enterprise Value including cash).

2. Total Financed Carbon Emissions (tCO_2e)
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).

3. Weighted Average Carbon Intensity (tCO_2e/$m revenues)
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).

4. Enterprise value including cash (EVIC)
Market capitalisation at fiscal year-end date + preferred stock + minority interest + total debt.

Case study

Solar120 sustainable warehouse

Within our portfolio of direct real estate assets, we financed the construction of one of the most ambitious sustainable warehouses in the UK. The 120,000sq ft Solar120 building in Warrington has 85 per cent solar panel coverage on its roof and qualifies as a zero-emission building. It has a BREEAM rating of Excellent and an EPC rating of A+. The building offers a cycle store, EV charging, a health and wellbeing area with a pétanque court and games area, a wellness garden and several bee hives.

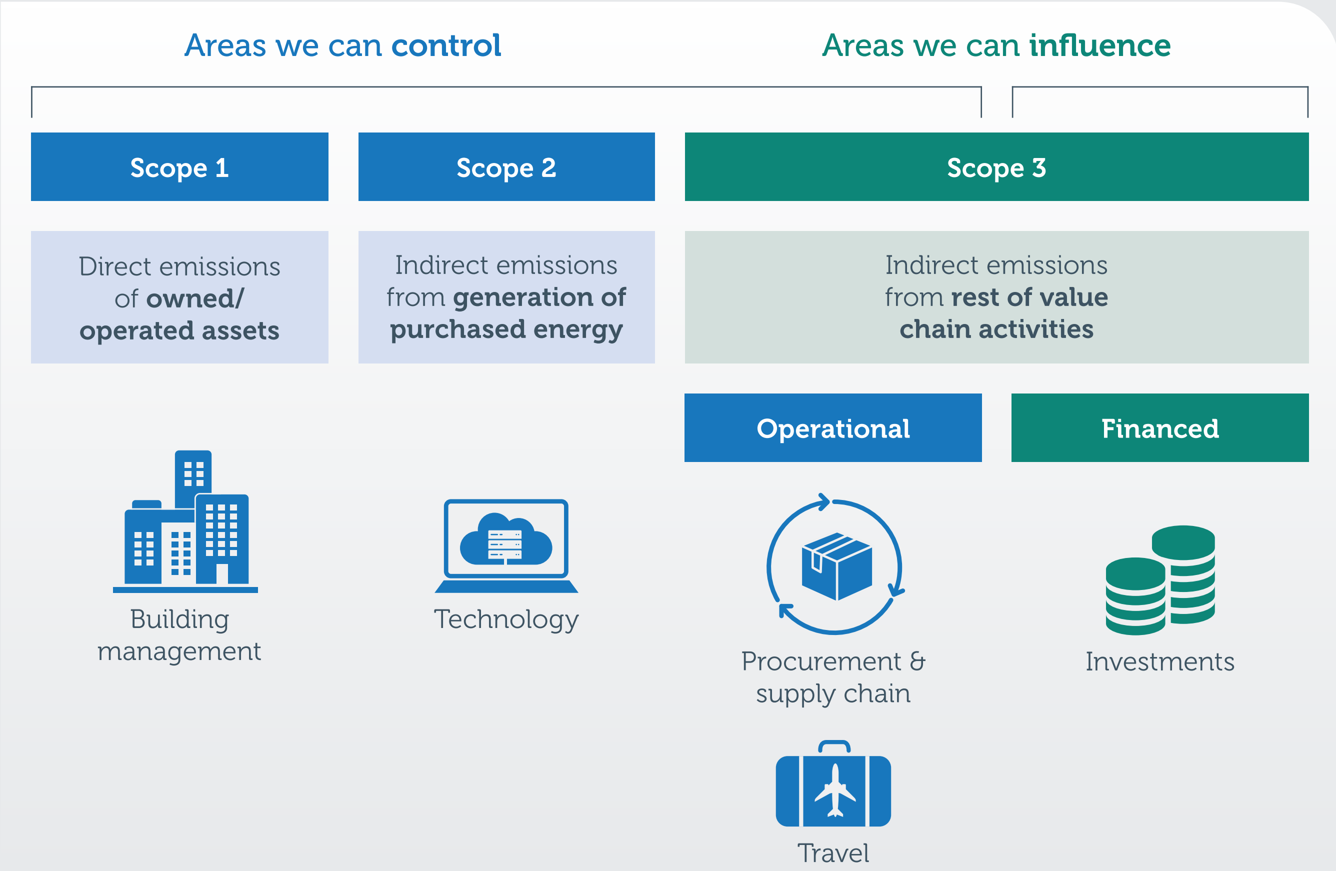
Our Strategic Plan and priorities – continued

Working towards Net Zero for our Scope 3 operational supply chain

Achieving our ambition ultimately depends on our level of influence with our stakeholders, and the ambition of governments and policymakers. We have reasonable control over our direct emissions (Scope 1 and Scope 2), but we can only influence our indirect emissions (Scope 3) to a degree. For example, we can only reduce emissions across our supply chain and investments if our suppliers and portfolio companies or sovereign issuers reduce their own emissions and contribute to the global transition to Net Zero.

Our preference is to reduce emissions as much as possible, so we will only consider using high-quality carbon offsets to offset those emissions we cannot reduce.

Over the year we implemented a sustainable procurement policy, sought sustainability responses from some key suppliers, and assessed the impact of our business travel. These steps are essential to steer our supply chain toward our Net Zero operational goal by 2035 or sooner.



Being accountable for minimising our own environmental impacts

We are taking all reasonable steps as an organisation to achieve Net Zero for our own operations by 2035 or sooner. Scope 3 financed emissions from our investments will be considered separately.

We support the Government's Greening Government Commitments and reflect them through our investment practices and business operations where possible. Our baseline for emissions, waste and water consumption is taken from our data from 2019/20. We work with our suppliers to capture reliable data and 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 two shared-lease office buildings.

Our offices in Croydon and Cannon Street have BREEAM ratings of 'Excellent' and 'Very Good' respectively, and neither building has direct combustion facilities on site. Over the year, we continued to source electricity via 100 per cent renewable electricity tariffs for both our offices, meaning our operational Scope 1 and Scope 2 market-based Greenhouse Gas emissions (Scope 1 and 2) are effectively zero.

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. We have been reducing the paper we use in our corporate publications and communications for several years, and all of our corporate publications are now digital-only. As the retirement process and many transactions can be completed on our member website, we have reduced the amount of paperwork we send to members. We continue to encourage members to complete online registration so we can send them a digital version of the annual PPF member newsletter instead of a paper copy. This resulted in a 10 per cent reduction in the volume of paper versions sent to members this year.

The number of business flights being taken has returned to similar levels as our 2019/20 pre-pandemic baseline. While we recognise that business travel is still an essential element of our business, particularly when carrying out due diligence of our investments and key suppliers, we will be focusing on encouraging employees to consider alternatives where possible. During the year, we reviewed the need for a sustainable business travel approach, and investigated the possibility of using a travel booking platform, the data collection from which would allow more granular reporting on travel emissions.

As we have achieved Net Zero for our operational Scope 1 and 2 emissions, our focus going forward is on what we can do to achieve Net Zero in our Scope 3 operational, supply chain and travel emissions. We believe our target date of 2035 provides a reasonable timeframe for advances in both data transparency and technological solutions.

Over the year, we completed a Climate Change Risk Assessment and conducted Risk and Control Self-Assessments across all of our sustainability strategy working groups. We also updated our supplier Code of Conduct and enhanced our supplier sustainability questionnaire to reflect our sustainability commitments.

"As we have achieved Net Zero for our operational Scope 1 and 2 emissions, our focus going forward is on what we can do to achieve Net Zero in our Scope 3 operational, supply chain and travel emissions."

Our Strategic Plan and priorities – continued

Energy consumption – Scope 2

	2019/20	2020/21	2021/22	2022/23	2023/24
Total location-based emissions (gross tonnes of CO_2e)*	275.1	261.9	228.7	181.2	130.2
Total gross tonnes of CO_2e by floor space (m^2)	0.1	0.1	0.1	–	–
Total gross tonnes of CO_2e by FTE	0.6	0.6	0.5	0.4	0.3
Total market-based emissions (gross tonnes of CO_2e)	160.5	–	–	–	–
Total energy consumption KWh	1,076,231	1,123,197	1,076,948	936,935	631,321
Total energy consumption by floor space (m^2) KWh	258.3	269.6	258.5	224.9	151.5
Total energy consumption by FTE KWh	2,497.1	2,546.9	2,414.7	2,105.5	1,418.7
Total energy expenditure (£)	301,626	267,565	269,212	366,225	392,849

Notes

* The data has been prepared using DESNZ conversion factors.

Information is provided by building managers. Estimates are used when information is not available. All electricity used in our offices is on 100% renewable tariffs which have been in place in both offices since October 2019.

Travel emissions – Scope 3

CO_2e emissions from business travel [1]

	2019/20	2020/21	2021/22	2022/23	2023/24
Domestic by air (tonnes CO_2e)	2.2	–	0.7	0.8	2.6
Domestic by other means (tonnes CO_2e)	12.9	0.2	1.2	3.7	3.3
International by air (tonnes CO_2e)	45.2	–	0.4	48.7	59.5
International by other means (tonnes CO_2e)	–	–	–	–	–
Total CO_2e emissions from business travel (tonnes CO_2e)	60.3	0.2	2.3	53.2	65.4*

* Excludes 21.1 tonnes of CO_2e emissions from travel paid for by third parties.

Distance travelled by air [2]

	2019/20	2020/21	2021/22	2022/23	2023/24
Total distance travelled by air (km)	233,667	–	10,024	241,839	231,009*
Domestic (km)	16,635	–	5,571	6,208	16,067
International Business (km)	185,527	–	–	204,241	155,171
International Economy (km)	31,505	–	4,453	31,390	59,771

* Excludes 66,194km of travel paid for third parties.

Number of flights [2]

	2019/20	2020/21	2021/22	2022/23	2023/24
Domestic	29	–	18	11	28
International	57	–	4	62	66*

* Excludes 18 flights paid for by third parties.

Expenditure on business travel [2]

	2019/20	2020/21	2021/22	2022/23	2023/24
Total expenditure on business travel (£)	118,321	1,286	7,550	91,112	79,432*

* Excludes £28,456 reimbursed by third parties.

Notes
1 The data has been prepared using DESNZ conversion factors.

2 Information is taken from expense claim reports and invoices.

3 Estimates are used when exact distance travelled is unknown.

4 Some flights in 2023/24 were reimbursed by third parties.

Paper

	2019/20	2020/21	2021/22	2022/23	2023/24
Total volume purchased in reams*	1,300	27	20	45	335
Total expenditure (£)	4,136	73	59	235	1,545

Notes
* Data is taken from invoices.

Waste

	2019/20	2020/21	2021/22	2022/23	2023/24
Total waste (tonnes)[1]	25.4	10.6	17.2	26.1	25.8
Total waste recycled (tonnes)[1]	17.9	8.7	13.5	18.4	20.0
Total waste incinerated with energy recovery (tonnes)[1]	7.5	1.8	2.8	3.9	5.4
Total ICT waste recycled, reused or recovered (tonnes)[2]	–	0.1	0.9	3.6	0.4
Total waste sent to landfill (tonnes)[3]	–	–	–	0.2	–
Total waste expenditure (£)[4]	8,492	8,369	8,862	11,114	9,224

Notes
1 Data on non-confidential waste comes from building managers. Confidential waste comes from the supplier and is estimated based on bins collected.

2 ICT waste refers to obsolete equipment.

3 Waste to landfill in 2022/23 relates to the closure of a data centre.

4 Estimates are used where data is not available.

Water

	2019/20	2020/21	2021/22	2022/23	2023/24
Total water consumption (m^3)*	3,228.3	966.5	898.4	1,401.8	1,587.5
Total water consumption by FTE (m^3)	7.5	2.2	2.0	3.2	3.6
Total water expenditure (£)	9,648	3,506	3,540	5,484	7,239

Notes
* Data comes from building managers with estimates when not available.

Transforming how we work

"I worked for Allders for 30 years until they went into administration. I'd heard dreadful stories of pensions being lost. Fortunately, the PPF stepped in to ensure that all was not lost.

When I have spoken to the PPF, the customer service I've received has been absolutely wonderful. The staff I have spoken to have been exceedingly polite. They have genuinely seemed interested in me, and care.

The member website is very professional. In my eyes the PPF can do no wrong. My financial situation would be very different if it wasn't for the PPF."

Raymond
PPF member, West Yorkshire

Strategic activities and milestones for 2023/24

- We will commit to increasing the use of the data platform and data visualisation services by 20 per cent across the business.
- We will ensure less than two per cent of our yearly IT incidents are priority one or priority two issues.
- We will undertake a feasibility review of the digital levy technical services. We will establish if the solutions can be more effective and deliver more value to our stakeholders. We will continue to meet our operational and levy invoicing needs.
- We will review our IT services to ensure value and effectiveness. We will set targets to rationalise services and reduce cost appropriately.
- We will continue to enhance our technical services, develop and enhance our multi-channel services, and commit to the delivery of a PPF mobile application.

Harnessing digital solutions

Digital services, data and security are core to the PPF's function. We review the market continuously for appropriate digital services that will benefit our members and levy payers, help our employees to work more effectively and enable us to achieve our business objectives.

We have continued to evolve our business applications, security solutions and server solutions over the year. As part of our commitment to working with integrity, we regularly review and challenge ourselves on our security solutions. We work with industry partners to ensure we are proactive and responsive to security issues.

Less than two per cent of IT incidents in the year were priority one or priority two issues, which means we experienced no sustained system unavailability. This has kept the impact of incidents across the whole organisation to a minimum, ensuring we continue to deliver for members and levy payers.

In the year we introduced the controlled use of Artificial Intelligence (AI) into our business activities. We believe that with appropriate care and consideration, AI can be helpful to assist our employees with their work. It is important that all employees understand how to use these tools safely and appropriately, and we have created an acceptable use standard for employees to refer to.

The development and data team have begun work on the design for an innovative PPF mobile application. Due to changing business requirements and priorities during the year, the Executive Committee decided to defer the delivery of the application to 2024/25.

Ensuring value

We continue to operate a cost effective IT estate. In the year, we implemented a new consolidated cloud-based contact centre solution that aligns to our performance and business continuity demands. The solution ensures interoperability with future solutions that we believe will deliver even more value to our members, levy payers and employees.

We have taken steps to minimise our physical footprint by continuing to migrate to the cloud. Our cloud presence is now at 98 per cent, and we have reduced our use of physical racks at data centres to two racks in one location.

Levy technical services

We have carried out a feasibility review of the digital levy technical services. The review found that the preferred approach is to replace the existing system with several separate services, which can be adapted for stakeholder demands and other changes. We have completed a blueprint design for these technical services, which we will begin to implement in 2024/25. We expect this work to continue into 2026.

Utilising the data platform

We have increased the use of the data platform and data visualisation services by 20 per cent across the business by identifying and introducing ways our Risk, Business Support, Scheme and Member Services, and Technology and Change Services directorates can make use of this technology.

We have seen further development of our investment data model, along with more efficient reporting from the data platform in the Financial Reporting team. Improvements to annuity reconciliations have created significant efficiencies for Financial Control.

Data platform workshops, user guides and training sessions have resulted in useful engagement and feedback from users to help guide further development and wider adoption of the technology for ad-hoc analysis and in-house report development in 2024/25.

> "We continue to realise efficiencies in our standard data processes in the actuarial team, and adding more processes to the data platform has freed up our team's time. As our familiarity with the technology grows, we are exploring ways of taking our analysis to the next level to gain insights we'd never have had time to aim for before."

James Emmott
Actuary

> The automation of spreadsheet collation into the data platform has made significant improvements in data quality and time for the Operational Risk team, as we previously carried out this process manually. The automation is guaranteed to highlight all data issues. We are working towards automated reporting capabilities for elements of our risk reporting for various purposes across the PPF.

George Tabeart
Senior Operational Risk Manager

Understanding and managing opportunities

Understanding and managing our opportunities, challenges and risks is critical to protecting our members and achieving our objectives. Risk management is integral to the delivery of our Strategic Plan. Effective risk management not only helps us to mitigate risk, but also to make the most of opportunities.

Risk identification and evaluation is a key part of our strategic and operational planning process. Our plans are considered and evolve with our understanding of external developments, our internal risk profile and our risk appetite. The potential for the PPF to broaden its remit is an example of where we have considered both the opportunities and risks ahead of us. We regularly review the external landscape to identify new and emerging risks.

See page 79 for more information on the Emerging risks we keep in focus.

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 reported to the Risk and Audit Committee. At each of their meetings, the Risk and Audit Committee reviewed the risk management and assurance of one or two selected principal risks.

The most important risk we manage is our funding risk. As the PPF has matured to a position of significant financial strength, our focus is on 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 is complementary to the regular reporting from the Long-Term Risk Model (LTRM).

See page 72 for more information on our principal risks.

Managing risk

Managing risk on a day-to-day basis is embedded in all that we do, whether it is considering financial risk, investment risk, credit risk or operational risk. 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 risk type outlined in our risk universe is assigned to a member of the Executive Committee, in line with the PPF's own SMCR.

An essential part of our framework is our risk appetite statements, which communicate the Board's attitude to risk, so managers understand the level of value, resource or money we want to put at risk in order to meet our objectives. The risk appetite statements ensure senior managers understand the amount of risk they can actively take or need to mitigate. For example, this year we articulated our risk appetite for the use of AI within the PPF in a new Acceptable Use Standard, which has been shared with all employees.

Operational resilience

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, operation resilience and business continuity activities, so that we: understand the threats and risks that might cause operational strain or severe disruption; can ensure we have mitigants to prevent or minimise disruption; and be well prepared to respond and recover quickly should the worst happen.

We consider our Important Business Services, those which if disrupted could cause detriment to our members or the viability of the PPF, to be:

- Paying members;
- Servicing members; and
- Making investments.

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

To test our assumptions, we use desktop exercises to play through potential scenarios, review and maintain a suite of playbooks, conduct simulation exercises and work through a business continuity testing schedule.

This year, we developed our Climate Change Risk Assessment and Climate Change Adaptation Strategy, in line with the requirements of the Government's Greening Government Commitments. Together, these outline our consideration of how the climate may impact the resilience of an organisation. Understanding and responding to external climate change factors is one aspect of our well-established risk management framework and operational resilience protocols.

Sustainability

Last year, we set out our sustainability strategy. The sustainability lens crosses many different types of risk, and this year we conducted risk workshops to validate and identify new and existing risks in respect of responsible investments, diversity and inclusion, sustainable procurement, stakeholder management and formal reporting. The outputs have been used to enhance the articulation of our risk appetite and understanding of risk exposure, which in turn supports our decision-making.

The Compliance and Ethics team continue to review our Sustainability Strategy and have so far found it to be aligned with the expectations and guidance set out by the Financial Conduct Authority (FCA).

See page 37 for more information on our Sustainability Strategy.

Risk culture

Creating and maintaining an appropriate risk culture is essential. We place great store on 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 in a timely manner.
- **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; and
- 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 ISO 22301. For Information Security, we are accredited with ISO 27001 and Cyber Essentials Plus, and align to the National Cyber Security Centre and National Institute of Standards and Technology security frameworks.

Compliance and Ethics

The Compliance and Ethics team supports the Board and Senior Managers with their requirements to comply with relevant laws, regulations, internal procedures, and standards. Central to this is the Compliance and Ethics Programme, which includes reviewing our compliance to the key areas of legislation, regulations, and compliance standards applicable to the PPF.

Our compliance obligations include statutory compliance regulations which the PPF must adhere to, including, but not limited to, the Pensions Act 2004, financial crime (including bribery and fraud, money laundering), data protection, freedom of information and modern slavery. The compliance standards the PPF has adopted are those that align to an asset manager regulated by the 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. We completed 14 reviews as part of our compliance programme with no material or significant observations to report. At the end of the year, a review of the Senior Managers and Certification Regime (SMCR) was conducted, and we are satisfied the regime in place remains appropriate. Our regime closely resembles regulatory expectations with the key differences arising from our Senior Management Function holders not being directly approved by the FCA and we are not required to file reports with the FCA.

Assurance

Assurance is the confirmation that what should be happening is happening. We are committed to supporting the three lines model. This year, we embedded our programme of Checking Key Controls which puts an increased emphasis on the first line to demonstrate effective operation of their key controls within our key processes. Similarly, the critical models used across the organisation are supported by a programme of second line review.

Our Oversight and Assurance Approach provides a comprehensive, co-ordinated and, where appropriate, combined programme of oversight and assurance across the PPF, that is proportionate to the risks faced, provides appropriate assurance available 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

	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Investment expenses	152.6	250.0	330.4	223.5	174.2

Operating expenses

	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
PPF	43.6	45.6	48.7	54.6*	54.2*
PPF Administration Fund	13.7	12.4	13.3	14.9*	13.7*
FAS Administration Fund	7.8	8.1	8.3	7.7	6.8
Total operating expenses	65.1	66.1	70.3	77.2*	74.7*

* Excludes recovery of prior years' VAT (see note 11).

Our costs are accounted for in three funds as explained on page 116 and further analysed on pages 142–143.

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

Expenditure continues to be impacted by inflationary pressures, particularly on staff costs. However, other costs were lower than in 2022/23 mainly due to a lower level of advisory services.

Our annual cost per member remains the same at £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. While the overall levels of assets under management are close to last year's, those for fee-earning assets are lower so fund manager fees are lower. 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 (0.13 per cent). The total number of complaints is slightly less than for 2022/23. The following tables provide an analysis of the complaints received and dealt with during the year ended 31 March 2024.

Complaints

	PPF 2023/24	FAS 2023/24	PPF 2022/23	FAS 2022/23
Complaints brought forward from previous year	31	6	33	8
Complaints received	445	121	528	106
of which:				
– resolved at stage one	390	118	455	102
– resolved at stage two	49	5	57	4
– resolved at stage three	14	2	15	2
– resolved at stage four	2	0	3	0
– carried forward	21	2	31	6

Complaint categories*

	PPF 2023/24	FAS 2023/24	PPF 2022/23	FAS 2022/23
Payment-related	81	13	55	7
Communication	75	24	120	24
Process/regulation	98	29	106	25
Delay	39	14	42	12
Entitlement	97	21	91	16
Other	244	67	373	76

* Complaints can have multiple categories.

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

Freedom of Information (FOI) requests

	2023/24	2022/23
FOI requests received	53	53
of which:		
– we fully disclosed the information	20	42
– we partially disclosed the information	22	4
– we did not hold the information	1	1
– we declined to disclose the information	7	6
– carried forward	3	0

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 did not receive any Environmental Information Requests (2022/23: one, for which we declined to disclose the information).

We declined to disclose information where statutory exemptions applied.

Complaints, reviews and FOI requests – continued

Reviewable matters

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

Levy-related reviewable matters

	2023/24	2022/23
Review decisions issued	6	5
of which:		
– the scheme was found to be levied correctly	1	2
– we agreed with some or all of the scheme's appeal	5	3
Decisions made by the Reconsideration Committee	0	0

Non-levy-related reviewable matters*

	2023/24	2022/23
Review decisions issued	35	44
Decisions made by the Reconsideration Committee	7	15

Maladministration complaints*

	2023/24	2022/23
Formal complaints of maladministration considered	19	17
of which:		
– maladministration was found to have occurred	4	5
– maladministration was found to have occurred in part	7	7
– no maladministration was found to have occurred	8	5
Five of these cases also involved a reviewable matter (2022/23: four).		
Maladministration decisions made by the Reconsideration Committee	6	4
of which:		
– maladministration was found to have occurred	0	0
– maladministration was found to have occurred in part	0	4
– no maladministration was found to have occurred	6	0

* 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 2024.

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 the fund is 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 136 possible claims totalling £424.4 million net of recoveries as at 31 March 2024. The liquid assets of the FCF totalled £74.7 million at that date. We are in the process of assessing the applications and anticipate paying any of these and others of which we are aware, over a 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.

Michelle Ostermann
Chief Executive

15 October 2024

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The Board of the Pension Protection Fund

Kate Jones
Chair of the Board

NE D N

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 has been a non-executive director of the PPF since 2016, becoming Chair of the Board in 2021.

Kate is non-executive chair of JP Morgan Funds Limited. Prior roles have included Trustee and Chair of the Investment Committee for Smart Pension Master Trust and Director of Blackfinch Spring VCT and also 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.

Michelle Ostermann
Chief Executive

D I

Michelle Ostermann joined the PPF as Chief Executive on 1 April 2024. She brings over 30 years of pension investment and senior leadership experience. She is the Chair of the global pension industry association, International Centre for Pension Management (ICPM), and is widely recognised for her outstanding global network and knowledge of pension systems.

Michelle has held several other senior positions at leading firms, including the Managing Director of Railpen Investments in the UK and, most recently, Senior Vice President and Global Head of Capital Markets at PSP Investments in Canada.

Emmy Labovitch
Non-executive Board Member (to 30 June 2024)

NE R I

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 Chair of the board of Forester Life Limited and a member of the With-Profits Committee of the Royal London Mutual Insurance Society. Formerly, she was Chair of the inaugural Employer Committee of the Social Housing Pension Scheme, a trustee of Phoenix Futures, a UK charity, and a member of the Conduct Committee of the Financial Reporting Council.

Nailesh Rambhai
Non-executive Board Member

NE RC RA

Nailesh is an experienced international lawyer and non-executive director. He began his career at Linklaters and then McDermott, Will and Emery, before moving to Coventry Building Society as Group General Counsel and Company Secretary.

Nailesh has lived and worked in the UK, Canada, the USA and South-East Asia, including as a Senior Executive with Petronas. During the Covid-19 pandemic he worked as a Senior Adviser to the COVAX facility (working with GAVI, the WHO and UNICEF).

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, Whittington Health NHS Trust, and the charity United Way UK.

D Decision Committee | NE Non-executive Committee | N Nomination Committee | I Investment Committee
R Remuneration Committee | RC Reconsideration Committee | RA Risk and Audit Committee | ■ Chair of that committee

Chris Cheetham
Senior Independent Director
NE **I** RA N

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 and the Science Museum Foundation.

David Atkinson
Non-executive Board Member
NE **RA** I RC

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 plc, Hertfordshire Partnership University NHS Foundation Trust, and Credit Suisse UK Limited.

In his spare time David is a lifeboat volunteer for the RNLI in Wales and an independent 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 the PPF's Director of Strategy and Policy, where she had responsibility for developing strategy and policy in relation to all aspects of the PPF, including the levy.

Before joining the PPF as a founding employee in 2005, Sara undertook a number of roles in the DWP, including Private Secretary to a former Pensions Minister, the late Malcolm Wicks, and was a pivotal member of the DWP team who designed the PPF. Sara was awarded an OBE in October 2020 for services to pensioners.

David Taylor
General Counsel
D

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

Jim Gallagher
Non-executive Board Member

NE | I | RC | R

Jim Gallagher is an experienced non-executive director, having been a board member for some of the country's largest pension and life assurance companies. Prior to joining the PPF's Board, he held non-executive roles at Phoenix Life, Standard Life, Reassure UK, Legal & General, Police Mutual, Royal London Assurance, Scottish Mutual and others.

In addition to his extensive board experience, Jim has held a fellowship at Nuffield College, Oxford, and is an Honorary Professor in the School of Law at Glasgow and in the Centre for Constitutional and Legal Research at St Andrews. He is a Trustee of the Royal Society of Edinburgh, Scotland's National Academy, and chairs the think tank Our Scottish Future. He has been a Member of the Council and then the Regulatory Committee of the Law Society of Scotland and held other charity directorships.

During his senior executive career in public service Jim held a number of civil service positions in Number 10, the Cabinet Office and the Scottish Office, including as senior advisor on devolution to both Prime Ministers Gordon Brown and Tony Blair, Head of the Scottish Justice Department and as Private Secretary to successive Secretaries of State for Scotland.

Liz Woolman
Non-executive Board Member

NE | RC | R | RA

Liz is an accredited associate executive coach and non-executive director with over 25 years' experience in the technology and financial services sectors. She 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 the charity Friends of High Weald Churches.

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's Board she was also a non-executive director at the Places for People Group.

Note: Simon Gadd and Sonia Gogna were appointed to the Board as non-executive members on 1 September 2024.

D Decision Committee
NE Non-executive Committee
N Nomination Committee
I Investment Committee
R Remuneration Committee
RC Reconsideration Committee
RA Risk and Audit Committee
■ Chair of that committee

Members of the Executive Committee

1 Dana Grey
Chief Risk Officer

2 David Taylor
General Counsel

3 Sara Protheroe OBE
Chief Customer Officer

4 Shalin Bhagwan
Chief Actuary and
Interim Chief Financial Officer

5 Michelle Ostermann
Chief Executive

6 Simon Liste
Chief Technology Officer (to September 2024)

7 Katherine Easter
Chief People Officer

8 Barry Kenneth
Chief Investment Officer

Governance statement

Governance framework

During 2023/24, the Board had seven non-executive members until 30 June 2023, when non-executive member, Anna Troup, retired from the Board. The Board operated with six non-executive members from that point in time until 23 October 2023, when non-executive member, Jim Gallagher joined the Board.

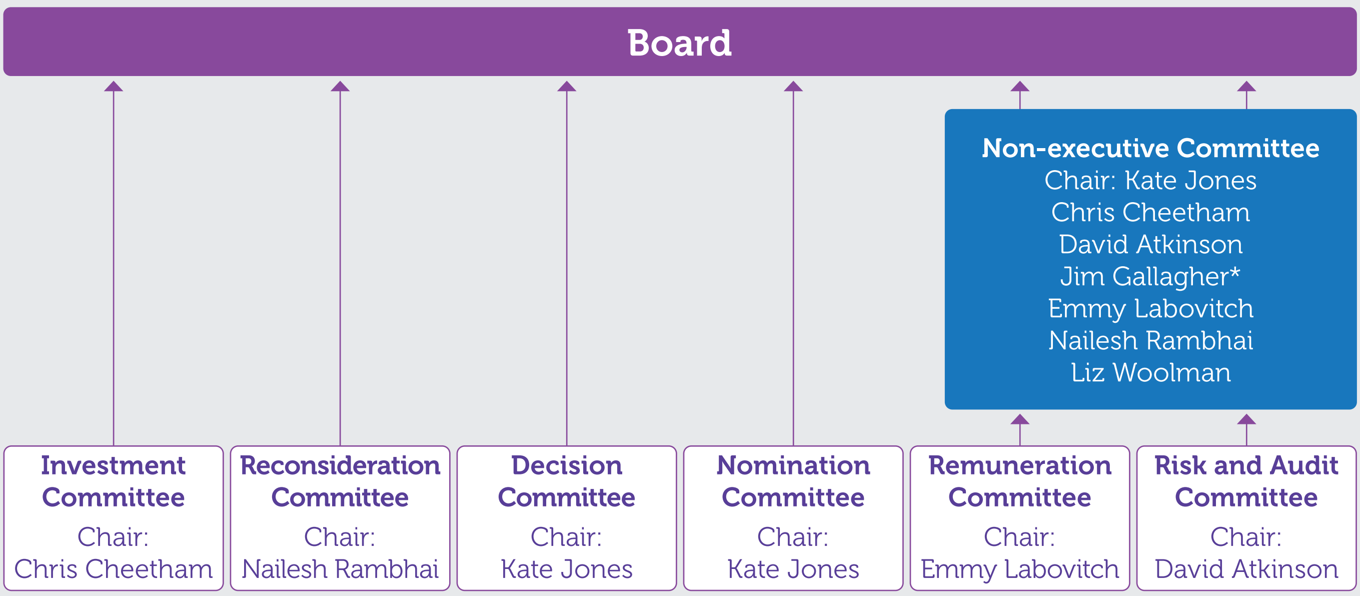
In addition, there were three executive members, including the Chief Executive. On 31 January 2024, Oliver Morley resigned from his position as Chief Executive and stepped down from the Board. On 1 April 2024, Michelle Ostermann took up the position of Chief Executive and her appointment as a Board member. Katherine Easter served as the Interim Chief Executive during the interim period. Katherine Easter returned to her role as Chief People Officer after successfully managing the organisation during this transition period.

Board members' attendance at Board and committee meetings is set out on pages 82–88.

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 they 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 2024



* Jim Gallagher appointed 23 October 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 has carried out a formal self-assessment exercise against the guidance and plans to undertake these on a regular basis.

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 14 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. As such they are integral to managing the risks to achieving the objectives in our Business Plan.

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 58–60.

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.

Further information about the potential for PPF's remit to change can be seen on pages 14–15.

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 mitigate 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 21–22.

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 mitigate this risk and 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 eligible schemes with significant deficits.
- We work closely with TPR 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 rate and inflation movements.

4. Investment strategy

Definition: This is the risk that the PPF's investment strategy fails to meet its objectives, is inappropriate or inappropriately executed.

This matters because the success of our investment strategy is key to maintaining and improving our financial resilience.

Key mitigating actions:

- We ensure that we comply at all times with our Statement of Investment Principles, Statement of Operating Principles and Investment Risk policy.
- 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.
- The Investment team comprises experienced investment professionals with excellent track records.
- We actively manage our liquidity position to ensure that we can always meet liabilities such as collateral calls on derivatives.

Further information about our investment strategy can be seen on pages 21–22.

5. Liability benchmark

Definition: This is the risk that changes in the value of the PPF's liabilities are not matched by changes in the value of the liability benchmark.

This matters because the liability valuation basis is a key input into constructing a portfolio to protect the PPF's funding position against changes in future interest rates and inflation.

Key mitigating actions:

- We calculate the liability benchmark quarterly with weekly recalibrations to ensure that it remains aligned with the interest rate and inflation sensitivity of our liabilities.
- We apply scaling factors to the liability benchmark to allow for changes in the liabilities in between the quarterly updates.
- We monitor the performance of the PPF liabilities versus the liability benchmark to make sure the difference is both understood and minimised.

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.
- We enter prestigious award competitions where we can perform well.
- Where appropriate, we use the advice and support of a leading financial services PR consultancy.
- 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.

Key mitigating actions:

- We have implemented a wide range of policies, training and support, underpinned by our ICARE values, 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 (ELC).
- ExCo monitors key information (e.g. grievances, staff turnover etc).
- We monitor staff performance via a formal performance assessment programme.

Further information about our ways of working can be seen on pages 40–41.

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 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.
- Project governance requires impact assessments and stakeholder communication to be in place to evaluate and manage operational impact.
- We prioritise at both the organisation level and the function level so that individual functions have only manageable change project requirements at any time.

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 department monitors/tests compliance with our policies.
- 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 business continuity recovery training exercises.

Further information about our digitisation strategy can be seen on pages 55–56.

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, weaken our internal control environment or result in significant inefficiencies or heighten the risks we face.

Key mitigating actions:

- We prepare project mandates that review and analyse the risk, cost, value and benefit of the project. They are used to inform the appropriate audiences and to decide on 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.

12. 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 94.

13. 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.

Further information about the outlook of this risk can be seen on page 78.

14. 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.

Notable changes in our principal risks

No new principal risks have been added this year.

We have noted an increased risk in our cyber threat exposure, reflecting the volatile and evolving external landscape. We consider both likelihood and potential impact have increased.

How might principal risks change?

We anticipate that the cyber threat landscape will continue to evolve and we must continue our approach of high vigilance and ongoing development of our defences. Government policy in relation to a possible separate role running a public sector consolidator and compensation may impact our funding, operations and capacity to change which we must anticipate and plan for.

Emerging risks

We continually scan the horizon to identify emerging risks. These are risks which although identified may be imperfectly understood. They could be significant but the time horizon of manifestation, the way they manifest, the potential impact on the PPF and appropriate risk management options, cannot be determined with confidence.

We hold regular meetings with management at all levels to identify emerging risks as well as consult with external peer groups and monitor industry papers for insight. Where we can, we attempt to understand emerging risks by using for example – modelling techniques, scenario analysis, stress testing and resilience and business continuity exercising.

The emerging risks which are receiving Board attention at present are the following:

1. Geopolitical landscape

Definition: The risk of escalation of adverse events associated with war, conflict, terrorism and/or changes in international relations and political administrations which may impact the PPF.

This matters because economic sanctions, policy change and/or war can impact the PPF either through our supply chain, by barring the PPF from dealing or interacting with certain investments and people, or by hampering the PPF's ability to provide a full service (overseas members for example).

How we are monitoring/responding:

- We have conducted investment risk scenario analysis for escalated conflict in certain geopolitical areas.
- We remain alert to emerging risks that could impact our base case estimates.
- We actively monitor via a body of external sources (such as the UK Government's National Risk Register), changes in risk profile and track this through our Emergency Response Team.
- We have conducted a claims impact analysis for escalated conflict in certain geopolitical areas.
- We have identified all suppliers based overseas.
- We have identified how many members we have in different countries overseas.

2. Artificial Intelligence (AI)

Definition: This is the risk of potential for misuse of artificial intelligence leading to security implications, or hackers and malicious actors harnessing the power of AI to develop more advanced cyberattacks.

This matters because unstructured use raises questions around ownership of the data, and concerns about data quality and biases. See also Information security and Cyber threat above.

How we are monitoring/responding:

- We have mandated that open source and internet-based AI solutions, such as Chat GPT, are not to be used on any work devices as they have not gone through the appropriate security and governance checks.
- We have mandated that all staff read and sign an AI acceptable use standard.
- We require any staff that want to use Microsoft Copilot (our approved AI solution) to undertake specific training that highlights the risks of using the tool.
- We are liaising with our security partners and other technology vendors to develop existing monitoring arrangements.

3. Climate change

Definition: This is the risk of physical disruption from the effects of weather-related climate change on the PPF and our supply chain.

This matters because it could lead to reduced operations or, in extreme cases, impact our important business services.

How we are monitoring/responding:

- We have established a PPF Climate Change Adaptation Strategy which includes an operational risk assessment, an outline of key mitigations and action plan for the year.
- Business continuity plans cover our response to extreme weather events, which for the most part will be managed locally by team managers.

4. Pandemic

Definition: This is the risk of a widespread infectious disease with a high mortality rate.

This matters because an emerging infectious disease could cause large numbers of people to fall ill, potentially disrupting our ability to operate our important business services, as well as having impacts on our members and supply chain.

How we are monitoring/responding:

- We have an emergency response team that would be invoked to deal with any major incident (including pandemics) and would direct the PPF response.
- We have a pandemic plan and the ability for full homeworking for all staff, which during the Covid-19 pandemic was maintained for almost all employees for at least 18 months.
- We have identified and mapped our important business services, the thresholds for disruption and dependencies (systems, suppliers, people etc.) for these services.
- We have business continuity plans and business impact assessments that cover our response to reduced staffing, which for the most part will be managed locally by team managers.
- We monitor regular updates from the Department of Health and Social Care in relation to public health issues.

Ministerial directions

No directions have been issued.

Personal data related incidents

There were no required notifications of a personal data breach to the ICO in 2023/24.

Significant control issues

We have had no significant control issues in 2023/24.

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:

- Reporting in respect of Senior Managers and Certification Regime (SMCR).
- 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 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. These meetings were held as a mixture of face-to-face, virtual and hybrid.

	Attendance
Kate Jones	8/8
David Atkinson	7/8
Chris Cheetham	8/8
Jim Gallagher	4/4
Emmy Labovitch	8/8
Nailesh Rambhai	8/8
Anna Troup	3/3
Liz Woolman	8/8
Oliver Morley	6/6
Katherine Easter	2/2
Sara Protheroe	8/8
David Taylor	7/8

In addition to the scheduled Board meetings, the Board held two strategy sessions during the year and members were provided with regular opportunities to meet in informal settings.

The 2024/25 Business Plan and the budget were both agreed.

The Board monitored progress of the PPF's Funding Strategy and discussed and approved the funding thresholds. It also considered the future of the levy and noted that a significantly lower or zero levy would be dependent on legislative change. The levy estimate of £100 million for 2024/25 was agreed, and the Board approved the key features of the autumn levy consultation and December 2023 final determination.

The Board considered levels of post-97 indexation, for the purposes of the 1 January 2024 uprating exercise, and concluded no intervention was appropriate. See discussion on indexation more generally on page 31.

The Board regularly discussed and provided a steer to management on the development of the PPF's response to the DWP consultation on *Options for Defined Benefit schemes*, including on our engagement with stakeholders.

The updated Governance Manual covering the Statement of Operating Principles and Delegations from the Board along with the revised Board Manual were both approved.

The Board received regular updates on the implementation of the *Hampshire*, *Hughes* and *Bauer* judgments.

The Board was kept informed of the work being carried out by Member Services, including performance and member satisfaction levels, and also reviewed the trends of cases being received by the Reconsideration Committee. It also undertook a review of the PPF's investment into insourcing of member services operations. The Board noted that the PPF Trustmark was launched in September 2023.

The Chief Investment Officer continued to brief the Board on investment performance, following changes to the Strategic Asset Allocation approved in January 2023. The Board also approved the Risk and Audit Committee's recommendation for the assumptions used in the annual Actuarial Valuation.

The Board approved the PPF's Sustainability Strategy and the approach for oversight, along with the target to reach Net Zero for operations by 2035 or sooner. Sustainability deep-dives on diversity and inclusion, and employee engagement were received. The Board received regular updates on the progress of the strategy.

The Board discussed and approved the updated risk appetite statements, and the PPF's Modern Slavery Act Statement. The Board reviewed the Principal Risks facing the PPF, which were monitored regularly by the Risk and Audit Committee.

The Board also approved the SMCR's Responsibilities Map and Statement of Responsibilities.

The Board approved the 2022/23 Annual Report and Accounts and publication, following recommendation from the Risk and Audit Committee.

The Board discussed a number of staff-related matters, including Health and Safety, talent management, hybrid working, pay and reward practices, employee survey results and organisational culture. The Board also received updates on progress made on the People Strategy, taking into consideration the cost-of-living pressures.

The Board received updates from the Chief Technology Officer on information security, cyber security, digital technology and projects.

The Board approved updates to the Board Committees' Terms of Reference, following recommendation from each respective Board Committee. The Board also reviewed and approved the Board Registers of Interest. The Board received regular updates from Chairs of Board Committees.

A number of formal Board training sessions took place, to help support Board members to deliver their role and further information on topics can be found on pages 92–93.

Board committees and sub-committees

Remuneration Committee		
Terms of Reference	Reviewed and approved by the Board in March 2024.	
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	4	
Membership and Attendance	Emmy Labovitch	4/4
	Jim Gallagher*	3/3
	Anna Troup**	1/1
	Liz Woolman	4/4
	Kate Jones (non-member)	3/4
	Oliver Morley (non-member)***	2/3
	Katherine Easter (non-member)****	3/4
	* Jim Gallagher became a member from 23 October 2023. ** Anna Troup stepped down from the Board on 30 June 2023. *** Oliver Morley stepped down from the Board on 31 January 2024. **** Katherine Easter served as Interim Chief Executive from 1 February 2024 to 31 March 2024.	
Issues covered	– Agreed objectives for executive directors for the 2023/24 financial year – Undertook yearly and half-yearly performance reviews of the executive Board members, discussed their pay and approved bonus payments for them, based on performance against the objectives set – Undertook yearly and half-yearly performance reviews of the Executive Committee and discussed their pay and bonus payments for them, based on performance against the objectives set – Reviewed processes associated with reward across the organisation – Agreed the Interim Chief Executive's objectives – Undertook a review of the remit of the Committee, in collaboration with PwC, and considered the recommendations	

Risk and Audit Committee	
Terms of Reference	Reviewed and approved by the Board in March 2024.
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 focused and informed Board discussions on matters related to these topics and to monitor the integrity of the Board's financial statements.
Chair	David Atkinson
Number of meetings in the year	5

Governance statement – continued

Risk and Audit Committee continued		
Membership and Attendance	David Atkinson	5/5
	Chris Cheetham	5/5
	Nailesh Rambhai	5/5
	Liz Woolman	5/5
	Tim Palmer (co-opted member)	5/5
	Oliver Morley (non-member)*	3/4
	Katherine Easter (non-member)**	1/1
	Sara Protheroe (non-member)	5/5
	David Taylor (non-member)	5/5
	* Oliver Morley stepped down from the Board on 31 January 2024. ** Katherine Easter served as Interim Chief Executive from 1 February 2024 to 31 March 2024.	
Issues covered	– Reviewed and recommended to the Board the approval of the Annual Report and Accounts – Reviewed and recommended to the Board the approval of the annual Valuation assumptions, following the independent review undertaken by Government Actuary's Department – Reviewed and approved the Risk Mandate – Assessed the performance of the Risk directorate against the responsibilities set out in the Risk Mandate and Risk Management Framework – Reviewed and approved the Compliance and Ethics Mandate, including the Compliance Monitoring Plan for 2023/24 – The Committee continued to work with the Investment Committee to ensure full coverage of the risks facing the PPF, including a review of the processes underpinning management of the LDI hedging risk – Reviewed the assessment of the matching portfolio performance undertaken by an external party – Reviewed model validation activities and the Model Risk Framework – Reviewed the LTRM assumptions – Monitored the risk exposures in the organisation via reports from the Chief Risk Officer. Volatility in the geopolitical environment remained a focus for the Committee – Received regular reports from Compliance and Ethics on outputs from the Compliance and Ethics Programme, including the Data Protection Officer's annual report – Reviewed the SMCR as applied to the PPF – Approved the Internal Audit strategy and plan, and the Aligned Assurance Approach to Auditing, and reviewed regular reports on progress against the plan, the results of audit work and sufficiency of audit resources – Assurance was received on conformance of Internal Audit with Public Sector Internal Audit Standards – Monitored sustainability risks in line with the Sustainability Strategy and discussed the Climate Change Risk Assessment forming part of the PPF's support to the Government's Greening Commitments – Reviewed and approved the Whistleblowing policy and regularly considered reports on concerns raised under the Whistleblowing policy and any actions taken – Received deep dives on: Claims Experience, Conduct Risks, IT Service, Information Security and Cyber Threats, Investment Strategy and Hedging, Third Party Service and Longevity – Reviewed the risk position of the technology, change and information security report. Cyber security remained a major focus for the Committee – Reviewed the annual Health and Safety report	

Investment Committee		
Terms of Reference	Reviewed and approved by the Board in March 2024.	
Roles and responsibilities	The Board has authorised the Investment Committee to discharge certain investment functions on its behalf.	
Chair	Chris Cheetham	
Number of meetings in the year	4	
Membership and Attendance	Chris Cheetham	4/4
	David Atkinson	3/4
	Katherine Easter*	1/1
	Emmy Labovitch	4/4
	Oliver Morley**	3/3
	Anna Troup***	1/1
	Robert Groves (co-opted member)	3/4
	David Taylor (non-member)	4/4
	Pete Drewienkiewicz (non-member, Investment Advisor)	3/4
	* Katherine Easter joined the Committee following appointment to Interim Chief Executive on 1 February 2024. ** Oliver Morley stepped down from the Board on 31 January 2024. *** Anna Troup stepped down from the Board on 30 June 2023.	
Issues covered	– Reviewed and approved the Stewardship Policy and Voting Guidelines for 2024 – Reviewed and approved the investment assumptions – Considered regular investment risk reports and reviews – Considered regular markets and strategy reviews – Considered deep dives on: Strategic Cash, Sterling Short Duration Credit (SSDC), Global IG Credit Portfolios, Listed Equity and Alternative Credit – Considered strategic focused topics on: Leverage and Credit Risk and the Approach to Managing Collateral and Cash – Reviewed and approved the PPF Minimum Standards Policy; the Climate Change Policy and the PPF's Escalation Policy – Received regular updates on RI Strategy and TCFD reporting, including updates on involvement across industry working groups, with a focus on the FCA Vote Reporting Group, the DWP Taskforce for Integrating Social Factors and the eFront ESG Outreach project – Considered the performance of the hedge – Reviewed and considered investment performance fees – Monitored compliance with, and approved updates to, the Statement of Investment Principles (SIP) and the FCF SIP – Reviewed asset class benchmarks and approved the asset class benchmarks for the growth portfolio and approved change to the composition of the Alternative Credit Benchmark – Considered the annual report on HAIL performance – Undertook a contractual review of the custodian – Reviewed Investment Operations – Reviewed investment performance	

Governance statement – continued

Non-executive Committee		
Terms of Reference	Reviewed and approved by the Board in March 2024.	
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 and any member of staff who is also to be an Executive member of the Board. 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	6	
Membership and Attendance	Kate Jones	6/6
	David Atkinson	5/6
	Chris Cheetham	6/6
	Jim Gallagher*	2/2
	Emmy Labovitch	5/6
	Nailesh Rambhai	6/6
	Anna Troup**	2/2
	Liz Woolman	6/6
	* Jim Gallagher joined the Board on 23 October 2023. ** Anna Troup stepped down from the Board on 30 June 2023.	
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 the design and outcome of the Interim Chief Executive appointment – Discussed the design and outcome of the Chief Executive appointment – Discussed ExCo recruitment and succession plans for the role of the Chief Financial Officer – Reviewed and regularly discussed the PPF's response to the DWP public consultation on *Options for Defined Benefit schemes*	

Nomination Committee		
Terms of Reference	Reviewed and approved by the Board in March 2024.	
Roles and responsibilities	The Board has authorised the Nomination Committee to discharge the following functions on its behalf: – succession planning needs at Board level to ensure the necessary balance of skills, knowledge, and experience – 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 – ensuring that Board members receive training	
Chair	Kate Jones	
Number of meetings in the year	11 in total, but participants are only invited if relevant for the recruitment activity taking place.	
Membership and Attendance	Kate Jones	11/11
	Chris Cheetham	11/11
	David Atkinson (panel member)	4/11
	Nailesh Rambhai (panel member)	4/11
	David Taylor (panel member)	1/11
	Liz Woolman (panel member)	5/11
	Katherine Easter (non-member)	11/11
	Jim Gallagher (non-member)	2/11
	Emmy Labovitch (non-member)	2/11
Issues covered	– Recruitment and appointment of Michelle Ostermann – Recruitment and appointment of Jim Gallagher – Invited Board members and external panellists to sit on the recruitment panel formed for both the Chief Executive and non-executive director (NED) recruitment respectively – Discussed and reviewed the tailored induction programme for Jim Gallagher – Considered the Board training plan – Succession planning and Board Committee membership appointments and rotation – Review of contract terms, renewal periods and vacancies	

Governance statement – continued

Reconsideration Committee		
Terms of Reference	Reviewed and approved by the Board in March 2024.	
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 scheduled but one cancelled due to there being no cases to consider.	
Membership and Attendance	Nailesh Rambhai	7/7
	David Atkinson*	7/7
	Jim Gallagher**	3/3
	Liz Woolman	6/7
	Diane Franklin (co-opted member)	6/7
	Alan Jenkins (co-opted member)	7/7
	Oliver Morley (non-member)***	1/1
	Sara Protheroe (non-member)	6/7
	* David Atkinson steps down from the Committee on 30 April 2024. ** Jim Gallagher joined the Committee from 23 October 2023. *** Oliver Morley stepped down from the Board on 31 January 2024.	
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 14 non-levy review cases: six relating to alleged maladministration (one also involving compensation entitlement), seven to compensation entitlement, and one formal review regarding legislation	

Decision Committee	
Terms of Reference	Reviewed and approved by the Board in March 2024.
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 she refers back to the Committee, as well as any specific cases assigned to it by the Board.	

Appendix 2

Governance framework

The Board's governance framework 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 Board has established a Non-executive Committee and the functions are set out in section 112 of the Pensions Act 2004 and can be summarised as:

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

As well as the Non-executive and Reconsideration Committees, the Board has also established a Decision Committee, Investment Committee and a Nomination Committee.

A Risk and Audit Committee and a Remuneration Committee have been established as sub-committees of the Non-executive Committee.

Each committee has a majority of non-executive members and relevant members of the Executive Committee are invited by the Chair to attend regularly.

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 unless the terms of reference permit otherwise.

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

Purpose

The Board is a body corporate established under s.107 of the Pensions Act 2004. The Board's primary functions are set out in the 2004 Act and the 2008 Act and in regulations made under those laws. The Board sets and approves the Strategic Plan and Business Plan and oversees its implementation.

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

Oversight of culture and employee engagement

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, including attending Town Halls, the Senior Managers' conference, Lunch and Learn sessions, and Meet the NEDs/Board events. The Board operates in accordance with its Board Manual which sets outs expectations of the running of Board meetings and Board members' conduct. The Board reviews and approves the Board manual annually.

The Board holds the management to account on a range of diversity and inclusion outcomes and monitors these as part of performance reporting.

There are various speak up tools available to staff as a way to raise concerns confidentially and anonymously. The Risk and Audit Committee maintains oversight of the Whistleblowing policy and receives regular updates from the Chief Risk Officer.

External stakeholder engagement

The Board recognises its responsibility to engage with our members, levy payers and wider stakeholders outside of the organisation. Board and management's engagement with stakeholders during the year included:

- Board members regularly attending Member Forums to listen and discuss current issues with members. At least one NED was represented at each Member Forum meeting.
- New NEDs being provided with the opportunity to join the Reconsideration Committee upon their initial appointment to the Board, helping to provide a direct platform to understanding members' issues.
- Board members visiting the call centre to better understand the types of conversations that are taking place with members.
- Several non-executive Board members sitting on the Sustainability Strategy Group, helping to provide strategic input and steer to the Sustainability Strategy and ensure the work of the Group and Strategy is shared within the PPF, and externally where appropriate.
- As part of our levy work, the organisation regularly engaging with industry stakeholders to ensure we make policy decisions that have a reasonable and appropriate impact on levy payers. Throughout the year, we speak to a wide range of stakeholders through panels and committees run by industry trade bodies, regular meetings with actuarial consultancy firms, and through our Small and Medium Enterprise (SME) Forum, made up of schemes, advisors and industry experts. During the consultation period when we share proposals to set the levy rules for the following year, we also take part in speaking events and forums hosted by key stakeholders and industry bodies to share our proposals and gather feedback from wider audiences.
- On a regular basis, the organisation engaging directly with members, both individually, and through groups such as the Pensions Action Group and Deprived Pensioners Association, on indexation and share their feedback with government.
- Board members, executives and other staff engaging with a wide range of stakeholders in relation to the DWP's consultation on *Options for Defined Benefit schemes*. This has included speaking at industry events and round tables as well as meeting one on one with industry players, representative bodies, and government and parliamentary stakeholders.
- Meet with parliamentarians and policy makers, other pension and financial services organisations, arm's length bodies and our industry regulators.

Conflicts of interest and Code of Conduct

Individual members adhere to the relevant Code of Conduct policies, including Conflicts of Interest, Gifts and Hospitality, Whistleblowing, Disciplinary, Anti Bribery, Data Protection, Personal Account Dealing, and Handling Material Non-Public Information.

The Board Register of Interests is reviewed annually with members discussing with the Chair any proposed additional appointments as they arise. In accordance with the Conflicts of Interest policy, the Chair reports proposed appointments to the Compliance team for review and approval before the relevant member's Register of Interests is updated to reflect the new appointment. Members are asked to declare any actual or potential conflicts of interest at the start of every Board and Committee meeting.

Division of Responsibilities

Governance framework

The Governance framework is detailed in Appendix 2.

Board Balance and director independence

The Board's structure is detailed on page 70.

The Board is not mandated by the UK Corporate Governance Code but strives to apply its principles in relation to the composition of the Board and only where this does not conflict with the legislative requirements set out in the Pensions Act 2004 and 2008.

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 December 2023 Board meeting and reported back to the Chair on the outcomes.

Board composition, succession and evaluation

Skills and experiences

The structure of the Board is underpinned by the framework set out in the Pensions Act 2004 as well as governance and operational requirements.

Board members bring a range of skills, experience, independence, diversity, and knowledge needed to deliver the PPF's statutory functions and to make a valuable contribution to the effectiveness of the Board's activity. Board members bring financial, investment, legal, policy, risk management, strategy and customer service knowledge.

Board appointment process

The Board has authorised the Nomination Committee to oversee Board appointments in line with the requirements of the Pensions Act 2004. The Nomination Committee works with the steer of the Non-executive Committee when undertaking recruitment and appointment, having due regard as to the benefits of a balanced and skilled Board in candidate search and selection.

More information on the role of the Nomination Committee can be found on page 87.

Each non-executive and executive Board member is appointed for a fixed term with the option to extend subject to Secretary of State approval. A non-executive Board member can serve a maximum of two terms of three years unless otherwise granted by the Secretary of State. When overseeing succession plans and the renewal of term periods, the Nomination Committee consider any factors which may impact the independence of members.

Governance statement – continued

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 at least every three years.

An externally facilitated review was completed in 2023 by Lintstock Ltd. Lintstock Ltd's report highlighted that the Board and its Committees continued to operate effectively during the year, with no material issues or concerns raised and priorities for the following year clarified.

Good progress had been made on matters identified in the 2022 Board effectiveness review, including focusing on the format of Board meeting attendance, developing a greater understanding of the cultural barriers to technological change and a greater focus on management succession. As part of management succession focus and engagement, the Chair hosted a number of informal events to help the Board build relationships with management and other staff.

The main areas arising from the 2023 review which the Board plans to focus on in 2024 are in respect of onboarding the new Chief Executive, continuing to strengthen the relationships and build exposure to wider management, enhancing the Board's capabilities through NED succession, and continuing to focus on delivering the PPF's strategic priorities. The Board holds itself accountable in taking forward the recommendations of the review through the delivery and monitoring of an action plan.

The report recognised the high ratings of the Board's composition and dynamics, its stakeholder oversight, and the effectiveness of Board Committees.

The next review will be undertaken towards the end of 2024.

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.

The Board and its Committees are supported by a dedicated secretariat led by a Chartered Company Secretary.

Directors' induction and development

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 and Nomination Committee when planning for the recruitment of new Board members. The matrix provides an overview of the breadth of knowledge and experience of Board members and is used to identify any gaps to be addressed.

The Board Secretary arranges a tailored and comprehensive induction programme for incoming non-executive members. The induction programme's purpose is to provide support and relevant information about the organisation and the environment it operates in, to assist them in being as effective as possible in their new role. The induction programme includes:

- Meetings with other Board members and the Executive Committee
- Internal expert focused meetings across key areas of the organisation
- Visiting business areas to develop insight into the organisation's operations and key risks
- Call shadowing with the Member Services team
- Meeting with the Board Secretary regarding the governance framework and the role of the Board and its Committees
- Providing access to background information including key organisational documents and Board material, including the Board Manual

In addition to this, Board members received a number of formal training sessions throughout the year to help aid learning and development across a range of subjects. Topics included: Sustainability Strategy, Cyber Security, Funding Strategy, Board Member Roles and Responsibilities, Compliance, and Member Website Functionality. The Board Chair along with the Board Secretary continue to identify member training needs when creating annual training plans for the Board.

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
- 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 2024 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 58-60).

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
Michelle Ostermann	Fixed Term Contract (first)	1 April 2024	31 March 2029
Sara Protheroe	Fixed Term Contract (second)	18 March 2023	17 March 2026
David Taylor	Fixed Term Contract (fourth)	1 June 2024	31 May 2027
Chris Cheetham	Term of office (third)	1 May 2024	30 April 2027
David Atkinson	Term of office (first)	1 January 2023	31 December 2025
Simon Gadd	Term of office (first)	1 September 2024	31 August 2027
Jim Gallagher	Term of office (first)	23 October 2023	22 October 2026
Sonia Gogna	Term of office (first)	1 September 2024	31 August 2027
Nailesh Rambhai	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.

Katherine Easter, Interim Chief Executive from 1 February 2024, was an unpaid non-executive of the National Infrastructure Commission. Oliver Morley, Chief Executive to 31 January 2024, 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 2024	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					
Katherine Easter, Interim Chief Executive	30–35	5–10	0.3	17	55–60
(from 1 February 2024)	(205–210)[4]				
Oliver Morley, Chief Executive	300–305[5]	45–50	1.8	72	415–420
(to 31 January 2024)	(220–225)[4]				
Sara Protheroe, Chief Customer Officer	140–145	10–15	1.6	43	200–205
David Taylor, General Counsel	150–155	15–20	1.7	89	255–260
Non-executive directors					
Kate Jones, Chair	55–60	–	–	–	55–60
Chris Cheetham	20–25	–	–	–	20–25
David Atkinson	20–25	–	–	–	20–25
Jim Gallagher	5–10	–	–	–	5–10
(from 23 October 2023)	(15–20)[4]				
Emmy Labovitch	20–25	–	–	–	20–25
Nailesh Rambhai	20–25	–	–	–	20–25
Anna Troup	0–5	–	–	–	0–5
(to 30 June 2023)	(15–20)[4]				
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.

5 Includes a payment in lieu of notice period (in line with the terms of his contract) made to facilitate an efficient managed move to MaPS.

* Subject to audit.

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.

Directors' pension benefits*

	Total accrued pension at pension age as at 31 March 2024 (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 2024 £'000	Cash equivalent transfer value as at 31 March 2023[1] £'000	Real increase in CETV £'000	Employer contribution to partnership pension account (to nearest £100) £'000
Katherine Easter, Interim Chief Executive from 1 February 2024	40–45	0–2.5	579	505	9	–
Oliver Morley, Chief Executive to 31 January 2024	5–10	2.5–5	142	71	48	–
Sara Protheroe, Chief Customer Officer	40–50[2]	2.5–5	938	836	20	–
David Taylor, General Counsel	55–60	5–7.5	1,108	945	70	–

1 The pension benefits of any members affected by the public service pensions remedy which were reported in 2022–23 on the basis of alpha membership for the period between 1 April 2015 and 31 March 2022 are reported in 2023–24 on the basis of PCSPS membership for the same period.

2 Plus a lump sum of £120,000–£125,000.

* Subject to audit.

Cash equivalent transfer value

This is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A cash equivalent transfer value (CETV) is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figure shown relates to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The figure includes the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. It also includes any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real increase in CETV

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

Fair pay disclosures*

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

	Total remuneration (in bands of £5,000) £'000	Salary and benefits-in-kind (in bands of £5,000) £'000	Bonus (in bands of £5,000) £'000
Highest paid Board member			
2023/24	240–245	205–210	30–35
2022/23	265–270	215–220	50–55
% change	**(9.7)**	**(3.1)**	**(37.3)**
Average employee			
2023/24	75–80	60–65	10–15
2022/23	70–75	60–65	10–15
% change	**4.7**	**4.9**	**3.7**

Year ended 31 March 2024	25th Percentile	Median	75th Percentile
Employee total remuneration	£39,530	£55,732	£87,241
Employee salary element	£36,925	£51,278	£77,475
Ratio to total remuneration of highest paid Board member	6.1	4.4	2.8

* Subject to audit.

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

In 2023/24, 18 employees (2022/23: nine) 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 £870,000–£875,000 (2022/23 Salaries: £20,000–£25,000 to £330,000–£335,000; 2022/23 Bonuses: £0–£5,000 to £800,000–£805,000).

The highest paid Board member acted in an interim capacity for part of 2023/24. This meant that the total remuneration of the highest paid Board member for 2023/24 was less than for 2022/23.

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 2018/19, 2019/20, 2020/21, 2021/22 and 2022/23.

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:

	2023/24		2022/23	
	Average no. employees	Staff costs £m	Average no. employees	Staff costs £m
Permanent employees and fixed term contracts	434	44.2	440	43.2
Short-term, seconded and temporary staff	5	0.2	5	0.3
Total	**439**	**44.4**	**445**	**43.5**

Sickness, absence and staff turnover

The number of days we lost to sickness during the year averaged 6.4 days per person (2022/23: 7.1 days). This included long-term absences of more than 28 days, of which we had 21 employees absent for more than six months for serious health issues. Excluding long-term absences, we lost 3.8 days per person (2022/23: 4.7 days).

Staff turnover was 13.6 per cent in 2023/24 and 11.2 per cent in 2022/23.

Staff composition

As at 31 March we had:

	2024		2023	
	Men	Women	Men	Women
Total employees	**206**	**232**	**211**	**230**
Senior management	10	10	9	11
Other management	26	20	24	13

* Subject to audit.

Other employee matters

Diversity and inclusion

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

We are a Level 3 Disability Confident Leader under the Disability Confident Employer Scheme, which recognises that we take action to meet commitments regarding employment, retention, training and career development of disabled employees. As at 31 March 2024, we have 108 employees who consider themselves to have a disability or long-term health condition.

We published our Diversity Pay Gap Report in March 2024. Our median gender pay gap stood at 17.5 per cent on 31 March 2023, up from 16.6 per cent on 31 March 2022 (2020: 15.7 per cent). We are a signatory to the Women in Finance Charter. This is the fourth year we have voluntarily published our median ethnicity pay gap, which stood at 15.9 per cent on 31 March 2023. This is an increase from 14.3 per cent on 31 March 2022, although an improvement on the median in 2020, which was 23.2 per cent. We signed the Race at Work Charter in December 2019. This is the second year we have reported on our median disability and long-term health condition pay gap, which was -2.4 per cent, an improvement on 2.0 per cent in 2022.

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 page 41.

Employee consultation and participation

We have an active Employee Liaison Committee (ELC) which is made up of representatives from each directorate, with an elected Chair and an Executive Committee sponsor. The Committee meets quarterly. Its role is to provide a voice for employees and a line of two-way communication between staff and senior management. The ELC gives and receives feedback on key areas of interest or concern, and takes responsibility to ensure that issues are raised with the right people and resolved. 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 40), 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.

* Subject to audit.

Off-payroll staff

There were a total of 47 off-payroll engagements for more than £245 per day between 1 April 2023 and 31 March 2024. All off-payroll engagements undertaken during the year have been assessed as compliant with the requirements of IR35.

There were 29 off-payroll engagements as of 31 March 2024 for more than £245 per day of which 27 of these engagements have existed for less than a year, one existed for between one and two years and one existed for between two and three years at the time of reporting.

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

Staff exit packages*

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

	Total number of exit packages by cost band	
Exit package cost band	2024	2023
£0–£25,000	2	3
£25,000–£50,000	1	–
£50,000–£100,000	1	–
Total number of exit packages	4	3
Total cost	£132,213	£36,581

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

There were no compulsory redundancies in 2023/24 (2022/23: three).

Consultancy costs

We use professional service providers to help with specialist work, including consultancy and contingent labour, when we believe it appropriate. Total expenditure on consultancy during the year amounted to £7.6 million (2022/23: £10 million). The net decrease of £2.4 million is mainly due to less consultancy associated with the Investment and Risk functions.

* Subject to audit.

Parliamentary accountability

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

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

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

Losses and special payments*

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

Incorrect payments do occasionally arise. Sometimes we will pay the best estimate of compensation at the correct time, based on inaccurate or incomplete data from scheme trustees.

We may occasionally make errors ourselves in the administration of compensation. When more accurate information is made available, or an error has occurred and is subsequently identified, we will reassess the compensation calculation. This can lead to us making additional compensation payments, reclaiming overpaid compensation from members or occasionally incurring unauthorised payment HMRC charges. We also have to make similar adjustments where amounts have in the past been paid incorrectly by schemes which subsequently transferred into the PPF.

Our policy for overpayments is to seek recovery by offset against future compensation payments or by immediate settlement where this is not possible (or if the member prefers to do so). Under certain circumstances, including financial hardship, the overpaid amount will be written off. If the amount is uneconomic to recover or relates to the remainder of the month in which a member dies, the overpaid amount will be waived.

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

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

The losses were:

	2023/24 £	2022/23 £
Member payments written off	222,557	183,612
Member payments waived	1,020,333	1,119,983
Interest on underpaid compensation – following *Hampshire* judgment	2,514,180	2,022,723
Interest on underpaid compensation – on transfer of a specific scheme	3,062	44,567
Interest on underpaid compensation – other	18,595	3,591
HMRC charges and interest on unauthorised payments	6,943,565	986,336
Waived interest on late levy payments	43,982	90,339
Total	10,766,274	4,451,151

The HMRC charges and interest on unauthorised payments were higher than normal in 2023/24 and 2022/23 due to work following the *Hampshire* judgment.

Remote contingent liabilities*

Claims which are considered possible are recognised as contingent liabilities. The aggregate value of all other potential claims at 31 March 2024 is estimated at £5 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; and
- confirm that the Annual Report and Accounts as a whole is fair, balanced and understandable and take personal responsibility for the Annual Report and Accounts and the judgements required for determining that it is fair, balanced and understandable.

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

As Chief Executive I confirm the following:

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

Michelle Ostermann
Chief Executive

15 October 2024

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 2024 under the Pensions Act 2004.

The financial statements comprise the PPF and its Group's:

- Consolidated Statement of Financial Position as at 31 March 2024;
- Consolidated Statement of Comprehensive Net Expenditure, Consolidated Statement of Cash Flows and Consolidated Statement of 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 2024 and their comprehensive net income for the year then ended; and
- have been properly prepared in accordance with the Pensions Act 2004 and Secretary of State directions issued thereunder.

Opinion on regularity

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

Basis for opinions

I conducted my audit in accordance with International Standards on Auditing (UK) (ISAs UK), applicable law and Practice Note 10 *Audit of Financial Statements and Regularity of Public Sector 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 twelve months from when the financial statements are authorised for issue.

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

The going concern basis of accounting for the PPF and its Group is adopted in consideration of the requirements set out in HM Treasury's Government Financial Reporting Manual, which requires 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 information included in the Overview, Performance Report and Accountability Report, but does not include the financial statements and my auditor's certificate thereon. The Board and the Chief Executive is responsible for the other information.

My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in my certificate, I do not express any form of assurance conclusion thereon.

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 their 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 statements to be free from material misstatement, whether due to fraud or error;
- preparing financial statements which give a true and fair view in accordance with Secretary of State directions issued under the Pensions Act 2004;
- preparing the Annual Report, which includes the Remuneration and Staff Report, in accordance with Secretary of State directions issued 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 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.
- inquired of management, the PPF's Head of Internal Audit and those charged with governance, including obtaining and reviewing supporting documentation relating to the PPF and its Group's policies and procedures 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 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 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 misappropriation of investment assets, 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 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 the Pensions Act 2004, Managing Public Money, tax legislation, pensions legislation, the Sanctions and Money Laundering Act 2018, the Russia (Sanctions) (EU Exit) Regulations 2019 and employment law.

I considered the 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 statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described above as having direct effect on the financial statements;

- 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;
- I addressed the risk of fraud through management override of controls by testing the appropriateness of journal entries and other adjustments; assessing whether the judgements on estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business;
- I performed substantive testing over a number of schemes in assessment; and
- I reviewed 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 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 sufficient appropriate audit evidence 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

Date 18 October 2024

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

Financial statements

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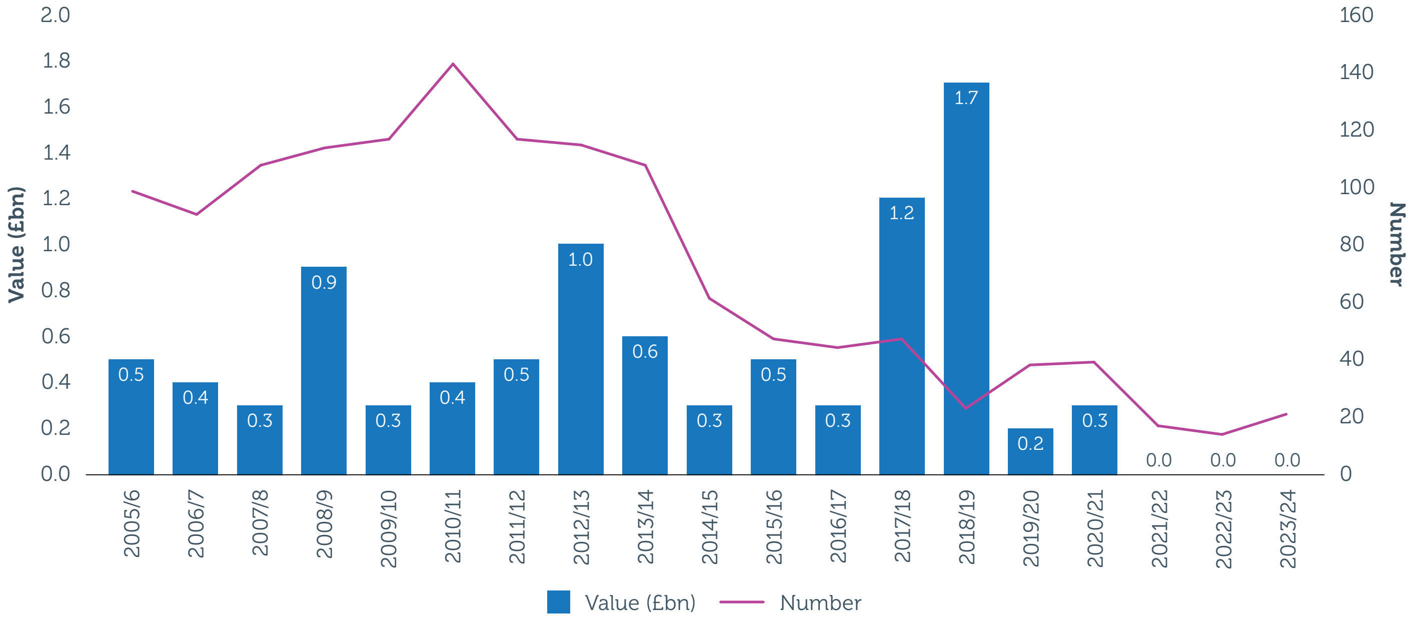
Financial review[1]

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 £12.1bn to £13.2bn. This is mostly driven by a return of £1.1bn from assets in the PPF growth portfolio and levy income of £0.2bn. Higher interest rates reduced actuarial liabilities by seven per cent but there was limited impact on reserves due to the hedging programme. The level of PPF claims continue to be low in 2023/24 with 21 new claims totalling £14.7m as shown in the following chart:

Cost of new PPF claims since inception



Whilst current claims levels remain lower than expected, insolvency rates in the universe of schemes that we protect could 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.

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 164 claims to date and these are being assessed over a number of years. The net cost of claims in 2023/24 was £115m (2022/23: £78m) and the fund's reserves reduced by £75m in the year to net liabilities of £75m.

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.

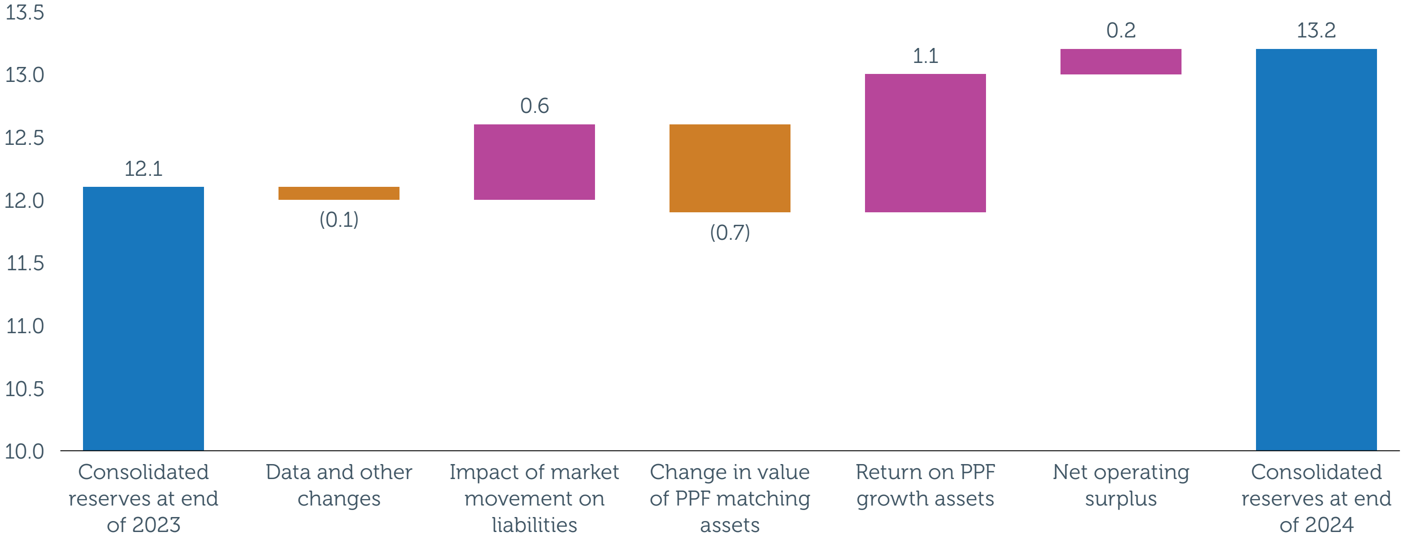
The report from the Comptroller and Auditor General on pages 104–107 confirms that there are no matters that need to be brought to the reader's attention.

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 consolidated reserves (£bn)



The consolidated reserves have increased by £1.1bn 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 £0.6bn in the year. However our hedging programme meant that asset values reduced by £0.7bn. The return on our PPF growth assets was around £1.1bn.

Net operating surplus is lower than last year by £0.2bn due to a lower level of levy being charged. Net operating income comprises total levy income of £209m (2022/23: £420m), income from grants £21m (2022/23: £22m), less operating costs of £72m (2022/23: £76m). Levy income comprises PPF levies of £173m and £36m levies for the FCF.

The Consolidated Statement of Financial Position

The Consolidated Statement of Financial Position sets out the details, at 31 March 2024, 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 2024

	Consolidated Statement of Financial Position excluding claims provisions for SIA £m	Claims provisions for SIA £m	Total £m
Net assets of the Administration Funds	1.5	–	1.5
Net assets of the FCF	(75.1)	–	(75.1)
Net assets of the PPF	32,176.9	963.8	33,140.7
Total	**32,103.3**	**963.8**	**33,067.1**
Actuarial estimates of liabilities of the PPF	(18,826.2)	(1,076.3)	(19,902.5)
Total consolidated reserves	**13,277.1**	**(112.5)**	**13,164.6**
Funding ratio of the PPF			166.5%

Over the year our actuarial liabilities, including those schemes included in the provision for SIA, have decreased from £21.7bn to £19.9bn. Market movements and changes to our data and assumptions have acted to reduce liabilities by £0.6bn. Scheme movements increased liabilities by £0.1bn. 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	2024 £m	2023 £m
Operating income			
Income from levies	3	208.9	420.4
Income from grants	3	21.0	21.9
Total operating income		**229.9**	**442.3**
Operating expenses			
Staff costs	11	(44.4)	(43.5)
Other costs	11	(27.2)	(32.9)
Total operating expenses		**(71.6)**	**(76.4)**
Net operating surplus		**158.3**	**365.9**
Investment activities			
Net investment income	5	611.7	674.9
Change in value of investments	5	25.8	(6,811.0)
Investment expenses	5	(174.2)	(223.5)
Net investment return		**463.3**	**(6,359.6)**
Claims activities			
Current year claims for compensation	2	(131.6)	(93.0)
Revaluation of claims for compensation	2	19.8	118.1
Gains on actuarial liabilities	1	526.0	6,398.1
Net cost of claims		**414.2**	**6,423.2**
Comprehensive net income for the year		**1,035.8**	**429.5**

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

The accounting policies and notes on pages 116–145 form part of these financial statements.

Consolidated Statement of Financial Position

As at 31 March	Notes	2024 £m	2023 £m
Assets			
Operating cash		25.5	42.8
Investment assets	4a	43,440.3	44,371.2
Levy receivables		1.2	1.8
Transfer-in receivables		10.1	16.5
Other assets		98.4	89.6
Total assets		**43,575.5**	**44,521.9**
Liabilities			
Investment liabilities	4a	(11,248.2)	(11,803.6)
Other liabilities		(72.7)	(59.2)
Actuarial liabilities	1	(18,826.2)	(20,317.1)
Claims provisions	2	(263.8)	(213.2)
Total liabilities		**(30,410.9)**	**(32,393.1)**
Total assets less total liabilities		**13,164.6**	**12,128.8**
Represented by: **Total levy and tax payer funds**		**13,164.6**	**12,128.8**

The Board of the PPF approved the financial statements on 19 June 2024 and authorised the Chief Executive to sign this Consolidated Statement of Financial Position on the same date.

Michelle Ostermann
Chief Executive

15 October 2024

The accounting policies and notes on pages 116–145 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 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**
Total recognised net income for 2023/24	1,035.8	–	1,035.8
Balance at 31 March 2024	**13,165.2**	**(0.6)**	**13,164.6**

The accounting policies and notes on pages 116–145 form part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 March	Notes	2024 £m	2023 £m
Cash flows from operating activities			
Net operating surplus		158.3	365.9
Purchase of property and equipment		(0.1)	–
Depreciation, amortisation and impairment charges	11	0.3	0.7
Movement in current liabilities		84.3	(72.9)
Movement in receivables		(81.6)	(3.8)
Net cash inflow from operating activities		**161.2**	**289.9**
Cash flows from investing activities			
Cash proceeds from net investment sales/(purchases)		(874.2)	(10.6)
Cash proceeds from net investment return		1,589.7	1,864.3
Net gains on cash equivalents		70.1	75.4
Net cash inflow from investing activities		**785.6**	**1,929.1**
Cash flows from claims activities			
Cash receivable from schemes transferring into the PPF		151.5	381.0
Compensation payments to members of the PPF	1	(1,207.6)	(1,217.0)
FCF paid claims	2	(40.2)	(9.2)
Net cash outflow from claims activities		**(1,096.3)**	**(845.2)**
Net increase in cash and cash equivalents in the year		**(149.5)**	**1,373.8**
Cash and cash equivalents at beginning of the year		**3,345.0**	**1,971.2**
Cash and cash equivalents at end of the year		**3,195.5**	**3,345.0**
Cash and cash equivalents comprise the following:			
Operating cash		25.5	42.8
Cash at fund managers	4a	3,142.1	3,826.5
Net repurchase agreements	4a	101.9	(153.6)
Net unsettled trades	4a	(74.0)	(370.7)
		3,195.5	**3,345.0**

The accounting policies and notes on pages 116–145 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. HMT has released guidance on the application of IFRS 17 to the public sector. Based on this guidance, the Board does not consider that IFRS 17 will have a material impact on its financial statements.

IFRS 18 Presentation and Disclosure in Financial Statements. IFRS 18 replaces IAS 1 Presentation of Financial Statements and introduces new requirements on presentation within the statement of profit or loss, including specified totals and subtotals, in order to improve the comparability and transparency of entities' performance reporting. It also requires disclosure of management-defined performance measures and includes new requirements for aggregation and disaggregation of financial information based on the identified 'roles' of the primary financial statements and the notes. HMT has not yet provided guidance for adoption by the public sector. The Board will fully assess the impact of IFRS 18 once this has been done.

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 had 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 2024 the PPF estimated the value of existing liabilities to pay compensation to members at £18.8bn. During the year, the PPF paid members compensation of £1.2bn. After the Actuarial Valuation as at 31 March 2024 was completed, a net gain of **£0.5bn 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 146.

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 take responsibility for carrying out 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: 80% of the gilt yield, plus 20% of the SONIA swap yield, 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, 2023 version, with mortality rate scaling factor of 95% for men
Future improvements in life expectancy	CMI 2022 model (core form, except for addition to initial improvements, 'A', of 0.25%, weight parameter, 'W' for 2022 of 0%, and no improvements over calendar years 2020 to 2025, inclusive), 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 162, 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

	2024 £m	2023 £m
Opening value of actuarial liabilities	20,317.1	27,429.5
Actuarial liabilities of schemes which transferred to the PPF during the year	242.7	502.7
Actuarial gains	(526.0)	(6,398.1)
Benefits paid to members	(1,207.6)	(1,217.0)
Total actuarial liabilities	**18,826.2**	**20,317.1**

The minimum amount of the total actuarial liabilities expected to be settled within 12 months is £1,440.8m (2023: £1,402.1m).

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:

	2024 £m	2023 £m
Change due to the passage of time	902.6	631.9
Change in liabilities due to change in market yields	(1,451.4)	(7,208.8)
Change in assumptions*	(81.6)	212.4
Data changes and other experience	104.4	(33.1)
Change in past service cost	–	(0.5)
Total actuarial gains	**(526.0)**	**(6,398.1)**

* 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:

	2024		2023	
	£m	%	£m	%
Nominal yields are 1.0% lower per year than assumed*	2,560.6	13.6	3,026.1	14.9
Inflation is 1.0% higher per year than assumed	539.1	2.9	650.5	3.2
Inflation is 1.0% lower per year than assumed	(642.7)	(3.4)	(777.4)	(3.8)
Average life expectancy is one year longer than assumed*	743.2	3.9	831.1	4.1

* 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 88 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 £263.8m for claims from pension schemes**, with £112.5m being for the PPF (see page 122) and £151.3m for the FCF (see page 124). The Consolidated Statement of Comprehensive Net Income shows **cost of current year claims of £131.6m**, £14.7m being the PPF and £116.9m being the FCF. There is also a net **decrease to the values of claims previously recorded of £19.8m** with £17.4m being the PPF and £2.4m 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: 80% of the gilt yield, plus 20% of the SONIA swap yield, 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, 2023 version, with mortality rate scaling factor of 95% for men
Future improvements in life expectancy	CMI 2022 model (core form, except for addition to initial improvements, 'A', of 0.25%, weight parameter, 'W' for 2022 of 0%, and no improvements over the calendar years 2020 to 2025), 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:

	2024 £m	2024 Number of schemes	2023 £m	2023 Number of schemes
Claims provisions at start of year	**139.2**	**42**	**281.3**	**60**
Current year claims for compensation				
Protected liabilities	269.0		115.7	
Scheme assets including recoveries	(254.3)		(102.2)	
Total current year claims for compensation*	**14.7**	**21**	**13.5**	**14**
Revaluation of claims for compensation				
Release of provision for schemes no longer considered probable for entry	–	(4)	(0.3)	(8)
Revaluation of provisions brought forward from previous year end	(15.2)		(76.4)	
Change in provisions for schemes transferring into the PPF during the year	(2.2)		(39.6)	
Revaluation of claims	**(17.4)**		**(116.3)**	
Release of provisions for claims transferred to the PPF	**(24.0)**	**(16)**	**(39.3)**	**(24)**
Claims provisions at end of year	**112.5**	**43**	**139.2**	**42**

* 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 £0.7m (2023: £14.6m).

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:

	2024 £m	2023 £m
Total estimated actuarial liabilities for SIA	1,076.3	1,342.9
Total assets owned by SIA	(963.8)	(1,203.7)
Total net deficits of SIA	**112.5**	**139.2**

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.

	2024		2023	
	£m	%	£m	%
Nominal yields are 1.0% lower per year than assumed*	(23.3)	(20.7)	(55.5)	(39.9)
Inflation is 1.0% higher per year than assumed	(22.0)	(19.6)	(89.7)	(64.5)
Inflation is 1.0% lower per year than assumed	17.1	15.2	86.2	61.9
Average life expectancy is one year longer than assumed*	47.1	41.9	56.1	40.3

* 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 claims provision.

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 86 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 2024, net of the value of related scheme assets, was estimated as £32.7m (2023: £38.1m).

It should be noted that although £32.7m is our best estimate of the contingent liabilities for possible claims as at 31 March 2024, 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 2024 there is a 2.5 per cent chance that the number could be higher than £130.2m and a 2.5 per cent chance it could be lower than £3.2m.

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.

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. The Retained EU Law Bill that came into force from 1 January 2024 has removed the PPF's obligation to implement the *Bauer* judgment for members of schemes whose employers become insolvent from that date but it is unclear if the Bill removes the obligation to pay the *Bauer* supplement for members of schemes that have already transferred to the PPF or were in the PPF's assessment period prior to 1 January 2024.

Whilst there remains considerable uncertainty as to the scope and amount of payments which would become due, the Board's best estimate of the potential obligation indicates that it would not be significant to the PPF.

The Virgin Media Limited/NTL Pension Trustees II decision, handed down by the Court of Appeal in July 2024, considered the implications of section 37 of the Pension Schemes Act 1993, which required that certain rules of a salary-related contracted-out scheme could not be altered unless the actuary confirmed in writing that the scheme would continue to satisfy the statutory standards. The Court of Appeal confirmed that, where the required actuarial confirmation was not supplied, the effect of section 37 was to render the amendment to any relevant scheme benefits void, including amendments to both past and future service rights. The Board does not currently have sufficient information about schemes that have transferred into the PPF to be able to produce a reliable estimate of any potential impact.

Claims on the FCF

The total value of claims on the FCF as at 31 March 2024 is summarised below:

	2024 £m	2024 Number of schemes	2023 £m	2023 Number of schemes
Claims provision at the start of the year	74.0	25	7.4	3
Current year claims for compensation	116.9	53	79.5	28[1]
Paid claims	(40.2)[2]	(22)	(9.2)[2]	(5)
Claims recoverable	1.1[3]	–	–	–
Movement in outstanding claims	1.9	1	(1.9)	(1)
Revaluation of claims	(2.4)	–	(1.8)	–
Claims provision at the end of the year	**151.3**	**57**	**74.0**	**25**

1 Excludes four claims which were declined totalling £1.0m.

2 Includes deferred payments on prior year claims and excludes amounts payable on current year claims if certain conditions are satisfied.

3 Comprises redemptions notified after the year end.

The amount of the claims provision expected to be settled within 12 months is £6.9m (2023: £71.6m).

Contingent liabilities for possible claims on the FCF

At 31 March 2024 there were 52 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 £35.3m.

Components of paid claims for which we have not yet been able to reliably estimate have been included in contingent liabilities and amount to £7.2m.

We have received a further two claim applications amounting to £17.0m 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 77 potential claims with estimates (before any recoveries) totalling £214.7m but there is uncertainty as to their eligibility and to the validity of the amounts claimed.

Contingent liabilities for the FCF total £274.2m (2023: £361.2m).

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 £211.5m to £208.9m, £172.8m for the PPF itself and £36.1m for the FCF**.

The PPF levy amount collected in relation to the 2023/24 levy year was £172.8m, lower than the estimate of £200m published in December 2022. This reflects that the estimate is published several months before the data used to calculate levy invoices is available.

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

Accounting policy

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

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

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

	2024 £m	2023 £m
Risk-based levies in respect of the current year	145.7	353.0
Scheme-based levies in respect of the current year	27.1	32.0
Total protection levies in respect of the current year	**172.8**	**385.0**
Risk-based levies in respect of prior years	–	0.8
Scheme-based levies in respect of prior years	–	–
Total protection levies in respect of prior years	**–**	**0.8**
Income from protection levies	**172.8**	**385.8**
Income from fraud compensation levy	**36.1**	**34.6**
Total income from levies	**208.9**	**420.4**

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 decreased by £0.9m to £21.0m.** 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:

	2024 £m	2023 £m
Levy payer funds	14.0	14.7
Tax payer funds	7.0	7.2
Total	**21.0**	**21.9**

4. Financial instruments

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

Accounting policy
Classification
Financial instruments are classified at initial recognition as one of:

- financial assets and liabilities at fair value through profit or loss, further identified by:
  (a) those financial assets mandatorily held at fair value through profit or loss;
  (b) those financial assets designated as held at fair value through profit or loss at initial recognition; and
  (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. 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 2024

	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	39,966.6	(11,051.4)	**28,915.2**	3,473.7	(196.8)	**32,192.1**
Cash at bank	–	–	**–**	25.5	–	**25.5**
Levy receivables	–	–	**–**	1.2	–	**1.2**
Transfer-in receivables	–	–	**–**	10.1	–	**10.1**
Other assets	–	–	**–**	0.9	–	**0.9**
Other liabilities	–	–	**–**	–	(63.3)	**(63.3)**
Total	**39,966.6**	**(11,051.4)**	**28,915.2**	**3,511.4**	**(260.1)**	**32,166.5**

* Of the financial assets measured at fair value through profit and loss £20,415.5m have been designated at initial recognition.

Funding compensation – continued

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 £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 £43bn and investment liabilities of £11bn**, a net investment portfolio of £32bn. The Consolidated Statement of Comprehensive Net Income shows a **net investment return (income and gains less investment expenses) of £0.5bn**.

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:

	2023 £m	Assets transferred from SIA £m	Net purchases/ (sales) £m	Net gains/ (losses) £m	Other movements £m	2024 £m
Annuities	319.2	6.9	(0.1)	(21.3)	–	304.7
Corporate bonds	6,463.8	–	1,943.9	199.9	(603.0)	8,004.6
Index-linked corporate bonds	362.2	–	(16.5)	(15.4)	–	330.3
Government bonds	9,935.1	–	(691.6)	(608.8)	(75.2)	8,559.5
Index-linked government bonds	371.6	19.6	(99.5)	(11.3)	–	280.4
Other debt	3,278.7	–	179.0	58.6	(275.6)	3,240.7
Public equity	2,119.3	26.6	(78.6)	367.5	(2.2)	2,432.6
Private equity	2,244.0	–	(126.7)	23.4	–	2,140.7
Absolute return strategies	1,786.9	–	(196.3)	154.3	–	1,744.9
Investment property funds	1,584.9	31.5	(82.5)	(115.7)	(19.1)	1,399.1
Investment property held directly	454.6	–	(42.7)	(25.3)	–	386.6
Infrastructure	1,296.1	–	73.5	44.8	–	1,414.4
Timberland and farmland	981.3	–	101.9	(8.8)	–	1,074.4
	31,197.7	**84.6**	**963.8**	**41.9**	**(975.1)**	**31,312.9**
Other investment assets						
Unsettled trades	325.8					106.1
Derivatives	7,787.4					7,076.0
Cash at fund managers	3,826.5					3,142.1
Repurchase agreements	1,070.8					1,577.7
Accrued income	163.0					225.5
Total investment assets	**44,371.2**					**43,440.3**
Other investment liabilities						
Unsettled trades	(696.5)					(180.1)
Derivatives	(9,866.5)					(9,575.6)
Repurchase agreements	(1,224.4)					(1,475.8)
Interest payable	(16.2)					(16.7)
Total investment liabilities	**(11,803.6)**					**(11,248.2)**
Net investment portfolio	**32,567.6**					**32,192.1**

Other movements include calls and redemptions (£917.7m), cash from mergers and takeovers (£57.1m) and other (£0.3m). Assets transferred are in specie movements from schemes coming into the PPF.

Cash at fund managers includes £1,584.7m (2023: £2,247.1m) managed in-house.

The amounts of the net investment portfolio expected to be recovered or settled within 12 months are assets of £5,520.7m and liabilities of £2,692.6m (2023: assets of £5,839.2m and liabilities of £2,533.1m).

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.

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

Description of asset	Level	Basis of valuation	Inputs and sensitivities affecting valuations
Private equity	3	Discounted cash flow models, net asset values based on recognised accounting standards or valuation models recognised by the International Private Equity and Venture Capital Guidelines	Discount rate, EBITDA multiple and revenue assumptions impact the valuation
Non exchange-traded managed funds (priced using unobservable inputs)	3	Closing bid or single prices which are derived from the net asset value of underlying investments	Discount rate, interest rate, credit rating, EBITDA multiple and revenue assumptions can impact the valuation
Investment property held directly	3	Valuations are undertaken by qualified real estate valuation professionals	Price assumptions based on recent transactions of a similar nature which may be impacted by the timing and specific nature of those transactions used

Financial instruments measured at fair value at 31 March 2024

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Annuities	–	–	304.7	304.7
Corporate bonds	–	5,823.8	2,180.8	8,004.6
Index-linked corporate bonds	–	196.2	134.1	330.3
Government bonds	–	8,559.5	–	8,559.5
Index-linked government bonds	–	280.4	–	280.4
Other debt	97.9	791.6	2,351.2	3,240.7
Public equity	2,083.1	342.7	6.8	2,432.6
Private equity	–	–	2,140.7	2,140.7
Absolute return strategies	–	1,079.0	665.9	1,744.9
Investment property funds	90.8	330.4	977.9	1,399.1
Investment property held directly	–	–	386.6	386.6
Infrastructure	–	0.7	1,413.7	1,414.4
Timberland and farmland	–	–	1,074.4	1,074.4
Derivatives	(9.8)	(2,391.0)	(98.8)	(2,499.6)
Repurchase agreements	–	101.9	–	101.9
Total	**2,262.0**	**15,115.2**	**11,538.0**	**28,915.2**

Funding compensation – continued

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**

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

Level 3 financial instruments

	2024 £m	2023 £m
Balance at start of year	**11,744.8**	**12,780.2**
Losses included in the Statement of Comprehensive Net Income	(37.7)	(89.3)
Purchases and assets transferred in	1,516.0	1,593.4
Sales	(1,517.5)	(1,929.0)
Transfers into Level 3	16.1	47.2
Transfers out of Level 3	(183.7)	(657.7)
Balance at end of year	**11,538.0**	**11,744.8**

Transfers into Level 3 during the year relate to Public equity reclassified from Level 1 and Corporate bonds reclassified from Level 2.

Transfers out of Level 3 during the year relate to Public equity reclassified to Level 1 and Other debt, Infrastructure and Absolute return strategies which were reclassified to Level 2. There were no transfers between Level 1 and Level 2.

Transfers of existing assets between levels are treated as being applied on the first day of the financial year.

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 2024, the Board owned 23 (2023: 27) commercial properties in the UK, with a total fair value of £386.6m (2023: £454.6m). Rental income recognised was £19.4m (2022/23: £28.9m). 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:

	2024 £m	2023 £m
Not later than one year	19.4	22.1
Later than one year but not later than five years	63.6	68.1
Later than five years	125.6	117.4
Total	**208.6**	**207.6**

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

	2024			2023		
	Net investment income £m	Change in value of investment £m	Total £m	Net investment income £m	Change in value of investment £m	Total £m
Investment return						
Financial assets held at fair value through profit and loss	1,314.1	206.3	**1,520.4**	1,023.8	(4,291.9)	**(3,268.1)**
Financial liabilities held at fair value through profit and loss	(809.8)	(159.9)	**(969.7)**	(419.9)	(2,436.5)	**(2,856.4)**
Financial assets held at amortised cost	107.4	(20.2)	**87.2**	71.0	(83.4)	**(12.4)**
Financial liabilities held at amortised cost	–	(0.4)	**(0.4)**	–	0.8	**0.8**
Total investment return	**611.7**	**25.8**	**637.5**	**674.9**	**(6,811.0)**	**(6,136.1)**
Investment expenses						
Fund management fees			**(151.6)**			**(210.9)**
Custody charges			**(1.8)**			**(1.6)**
Other investment expenses			**(20.8)**			**(11.0)**
Total investment expenses			**(174.2)**			**(223.5)**
Net investment return			**463.3**			**(6,359.6)**

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; and

– fund managers that invest in credit-sensitive products do so within guidelines as set in the investment management agreement.

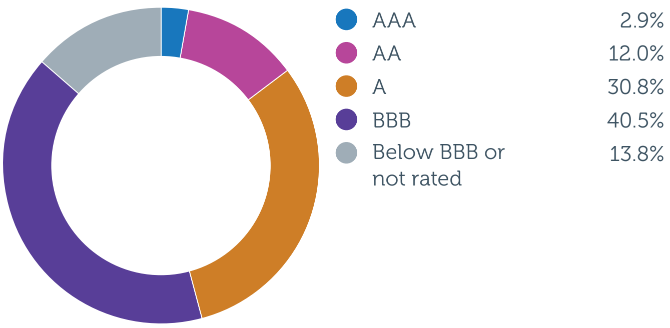
The PPF manages concentration risk (the risk of excessive exposure to a single institution or institutions that share a common risk factor) by ensuring that the spread of assets, the fund managers' policies on investing in individual securities and the PPF's investment guidelines to fund managers provide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

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

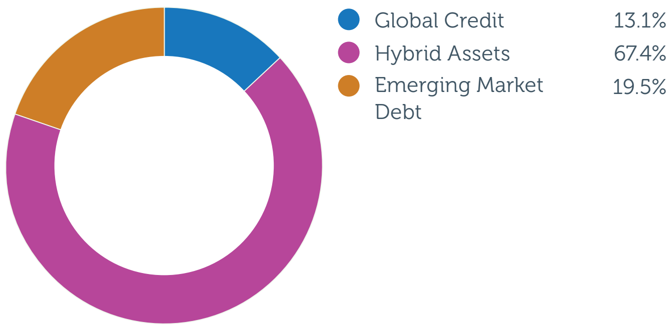
Financial risk management – continued

As at 31 March 2024, the rating distribution of the fixed income investment portfolio (excluding UK gilts and derivatives) was as follows:

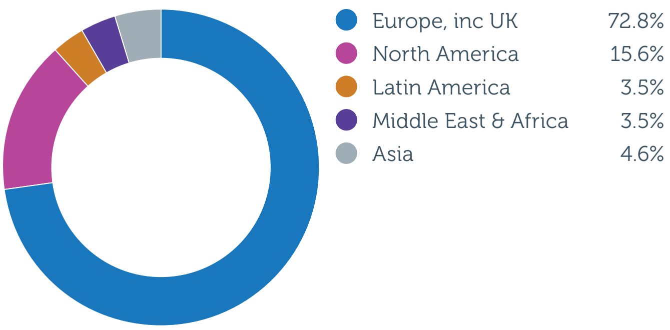
Fixed Income Portfolio Allocation (£6.5bn)
by Rating Category



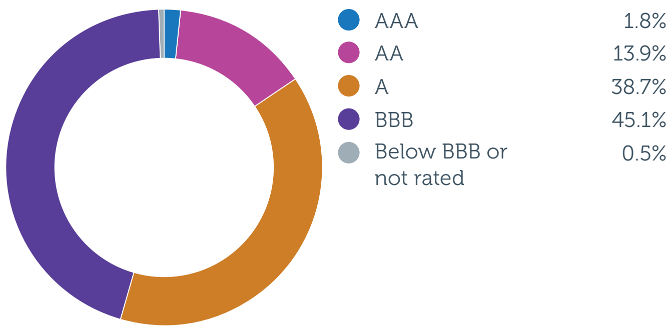
Fixed Income Portfolio Allocation (£6.5bn)
by Asset Type



Fixed Income Portfolio Allocation (£6.5bn)
by Region



Hybrid Asset Allocation (£4.4bn)
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 £32.2bn (2023: £32.5bn) under a number of scenarios would change by:

	2024		2023	
	£m	%	£m	%
Nominal yields are 1.0% lower per year than assumed*	2,354.1	7.3	2,856.0	8.8
Inflation is 1.0% higher per year than assumed	619.4	1.9	723.5	2.2
Inflation is 1.0% lower per year than assumed	(619.4)	(1.9)	(723.5)	(2.2)
Return-seeking (growth) assets fall by 20%*	(3,155.9)	(9.8)	(3,157.6)	(9.7)

* 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 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]

	2024 £m	Actual %	Tolerance range
Matching Portfolio			
UK bonds	10,863.2	71.3%	
Hybrid assets	4,380.9	28.7%	
Total Matching Portfolio	**15,244.1**	**100.0%**	
Growth Portfolio			
Cash	360.4	2.2%	0% – 9%
Public equity	2,299.2	13.9%	7% – 17%
Fixed income EMD	1,269.5	7.7%	3% – 13%
Fixed income IG credit	853.4	5.2%	1% – 11%
GBP Short Duration credit	1,697.5	10.3%	5% – 15%
Absolute return strategies	1,596.0	9.7%	5% – 15%
Alternatives	8,409.2	51.0%	43%–58%
Total Growth Portfolio	**16,485.2**	**100.0%**	
Total assets allocated per SIP	**31,729.3**		

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

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 2024, the exposure and therefore sensitivity to each major currency is illustrated by the following table.

Residual unhedged currency exposure

	2024 £m	2023 £m
Euro	859.3	836.9
US dollar	608.9	811.6
Australian dollar	295.0	329.7
Japanese yen	64.7	17.2
Chinese yuan renminbi	(41.6)	(53.0)
Other currencies	194.6	293.6
Total	**1,980.9**	**2,236.0**

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
2024	1,440.8	4,696.2	12,689.2	**18,826.2**
2023	1,402.1	4,655.6	14,259.4	**20,317.1**

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
2024	1,020.0	1,524.8	844.4	6,186.4	**9,575.6**
2023	596.0	2,042.7	981.1	6,246.7	**9,866.5**

Collateral arrangements

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

Collateral pledged	2024 £m	2023 £m
Cash delivered as collateral for traded positions including repurchase agreements	1,306.4	1,197.2
Securities delivered as collateral for traded positions including repurchase agreements	1,977.5	2,156.6
Total assets provided as collateral with counterparties	**3,283.9**	**3,353.8**

Collateral held	2024 £m	2023 £m
Cash held as collateral for traded positions including repurchase agreements	178.2	338.5
Securities held as collateral for traded positions including repurchase agreements	133.0	191.3
Collateral received from counterparties on securities lending	257.7	153.1
Total assets received as collateral from counterparties	**568.9**	**682.9**

Collateral pledged for securities lending, repurchase, reverse repurchase agreements and over the counter 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:

	2024	2024 £m	2023	2023 £m
Denominated in US dollars	$1,476.8m	1,169.0	$1,641.0m	1,327.2
Denominated in sterling	£753.9m	753.9	£705.1m	705.1
Denominated in euros	€695.3m	594.5	€820.0m	720.5
Denominated in Australian dollars	A$1.2m	0.6	A$23.2m	12.6
Total		**2,518.0**		**2,765.4**

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 provided a loan facility of up to £39.6m (US$50m) relating to its holding in KAHL – this loan facility was unused.

9. FCF financial risks

The FCF has £74.7m (2023: £74.9m) of cash and money market funds, receivables of £1.5m (2023: £0.5m), outstanding claims of £nil (2023: £1.9m) and provisions valued at £151.3m (2023: £74.0m).

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, net of confirmed redemptions, of £424.4m. 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 2024. 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 2023/24 are summarised as follows:

	PPF £m	PPF Administration Fund £m	FAS Administration Fund £m	2024 £m
Staff costs				
Wages and salaries	23.1	6.6	3.2	32.9
Social security costs	2.7	0.9	0.4	4.0
Other pension costs	4.7	1.7	0.9	7.3
Short-term, seconded and temporary staff	0.1	0.1	–	0.2
Total staff costs	**30.6**	**9.3**	**4.5**	**44.4**
Other costs				
Member payroll services	0.4	–	0.1	0.5
Staff-related and recruitment	1.0	0.5	0.3	1.8
Advisory and other professional services	7.4	1.2	0.3	8.9
Statutory audit costs	0.3	–	–	0.3
Accommodation and general office	4.1	1.3	0.7	6.1
IT and telephony	10.1	1.4	0.9	12.4
Depreciation and amortisation charges	0.3	–	–	0.3
Prior year VAT recovered	(2.4)	(0.7)	–	(3.1)
Total other operating expenses	**21.2**	**3.7**	**2.3**	**27.2**
Total operating expenses	**51.8**	**13.0**	**6.8**	**71.6**

Statutory audit costs were £294,500 (2023: £283,400).

	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**

Information on the staff numbers and exit packages can be found in the Remuneration and Staff Report on pages 95–101.

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 2020 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 2024, employer contributions of £6.9m (2022/23: £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 (2022/23: 26.6 per cent to 30.3 per cent).

Employer contributions for the year ended 31 March 2025 are expected to be approximately £8.7m. 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 £308,000 (2022/23: £264,000) 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 (2022/23: 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 2024 were £622,000 (2023: £581,000).

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	2024 £m	2023 £m
PPF		
Net operating surplus	121.0	331.8
Net investment return	459.2	(6,360.9)
Net cost of claims	528.7	6,500.9
Net comprehensive income	**1,108.9**	**471.8**
FCF		
Income from levies	36.1	34.6
Investment return	3.8	1.3
Net cost of claims	(114.5)	(77.7)
Net comprehensive expense	**(74.6)**	**(41.8)**
Administration Funds		
Income from grants	21.0	21.9
Interest income	0.3	–
Operating expenses	(19.8)	(22.4)
Net comprehensive income/(expense)	**1.5**	**(0.5)**
Consolidated net comprehensive income	**1,035.8**	**429.5**

Consolidated Statement of Financial Position

For the year ended 31 March	2024 £m	2023 £m
Total assets less total liabilities		
PPF	13,238.2	12,129.3
FCF	(75.1)	(0.5)
Administration Funds	1.5	–
Consolidated Statement of Financial Position	**13,164.6**	**12,128.8**

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 2024 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)

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.

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 USA, Luxembourg, Republic of Ireland and Texas USA.

14. Related party transactions

£21.0m (2022/23: £21.9m) was received from the DWP in grants in respect of recovery costs for administering FAS and for costs incurred in the PPF Administration Fund which is ultimately funded by the PPF Administration Levy, which is set by the DWP and collected by TPR. The DWP is the sponsoring department of the PPF. There are no other related party transactions to disclose other than transactions with subsidiaries shown in note 13.

15. Events after the reporting period

There have been no material events after the reporting period.

The financial statements were authorised for issue by the Chief Executive on 18 October 2024, the date the Comptroller and Auditor General certified them. The financial statements do not reflect events after this date.

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Summary of the two actuarial valuation reports

We published our funding framework in September 2022. We hold assets to firstly meet our liabilities and then also as reserves to:

a) protect against longevity risk;

b) protect against future claims risk; and

c) provide additional security for our members.

At 31 March 2024 our total assets, across both transferred schemes and those in assessment, were £13.2 billion greater than our total liabilities (£12.1 billion, 31 March 2023).

Long-term interest rates increased over the year, reducing liabilities by around seven per cent but our liability hedging programme means that changes in interest rates and inflation expectations are offset by changes in the value of our hedging assets. The main factor influencing the increase of assets over liabilities was a return on our growth portfolio of assets of £1.1 billion.

Over the year 26 schemes entered PPF assessment. Of these schemes, it is expected that 13 will ultimately transfer.

For those schemes that entered assessment over the year, the shortfall of assets compared with liabilities is around £15 million and this shortfall was 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)	32,176.9	963.8	**33,140.7**
Liabilities (£m)	18,826.2	1,076.3	**19,902.5**
Assets less liabilities (£m)	**13,350.7**	**(112.5)**	**13,238.2**
Funding ratio (assets/liabilities)	**170.9%**	**89.5%**	**166.5%**
Number of records in respect of members receiving compensation*	204,831	17,573	**222,404**
Number of records in respect of deferred members*	99,533	9,681	**109,214**

* 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 2024 (transferred schemes only)

1. Introduction and framework

I have prepared this report for the Board of the PPF (the Board). It sets out the results of the actuarial valuation of the Pension Protection Fund (PPF) as at 31 March 2024 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 2024. It should be read alongside my supplementary report, dated 10 July 2024, which also includes those schemes that are currently in an assessment period and are ultimately expected to transfer.

Framework under which I have prepared this valuation

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 2024 is broadly the same as that adopted for the valuation as at 31 March 2023.

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).

I have prepared this valuation 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 Hymans Robertson.

Signed:

Name of Appointed Actuary: Shalin Bhagwan
Date: 10 July 2024
Job title: Chief Actuary and Interim Chief Financial Officer
Qualification: Fellow of the Institute and Faculty of Actuaries
Employer: The Board of the Pension Protection Fund

2. Compensation and data

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

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. Over the last few years, compensation has been updated for the majority of members impacted by the *Hampshire* and *Hughes* judgments, therefore the data received from our administration team already reflects these uplifts. Liabilities therefore only need to be adjusted for the expected cost of uplifting compensation for the small proportion of 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 now that the Retained EU Law (Revocation and Reform) Bill (REUL) has come 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, I applied adjustments 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 2023 and ensures that 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 that date; 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 2023. 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 2023 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 2024, are set out in the following table:

Member status	Number of records	Compensation, £m p.a.
Receiving compensation	204,831	1,011.8
Deferred	99,533	354.9

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 2024 is broadly the same as that adopted for the valuation as at 31 March 2023.

Assets

The value of the PPF assets is taken from the PPF's accounts for the financial period ending 31 March 2024.

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 2024, 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 managing 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 – Compensation and data, 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 2024 (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 2024 (note that calendar year 2024 excludes payments made before 31 March 2024). 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 29 February 2024 using assumptions derived from market conditions at that date for all schemes that transferred before 31 March 2024. I then adjusted for changes in market conditions between 29 February 2024 and 31 March 2024 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 2024	31 March 2023
Discount rate	A full curve, consisting of: 80% of the gilt yield, plus 20% of the SONIA swap yield, 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, 2023 version, with mortality rate scaling factor of 95% for men	Club Vita life expectancy curves, 2022 version, with mortality rate scaling factor of 95% for men
Future improvements in life expectancy	CMI 2022 model (core form, except for addition to initial improvements, ‘A’, of 0.25%, weight parameter, ‘w’, for 2022 of 0%, and no improvements over the calendar years 2020 to 2025, inclusive), long-term rate 1.5% p.a.	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.
Impact of the *Hampshire* and *Hughes* court judgments	Uplifts to liabilities of: For the 50% minimum test required by the *Hampshire* judgment: – £5 million for members receiving compensation – £10 million for deferreds – £nil for arrears For removal of the compensation cap provisions: – £0.1m for arrears due – 0.1% 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 – 0.1% 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.

The actuarial valuation of the Pension Protection Fund as at 31 March 2024 (transferred schemes only) – continued

The most material assumption change compared with last year's valuation was the assumption for 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 one year of improvements in the immediate future in light of recent heavier mortality experience and continuing healthcare pressures in the UK. This means that I have assumed no mortality improvements in calendar years 2020–2025, inclusive.

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:

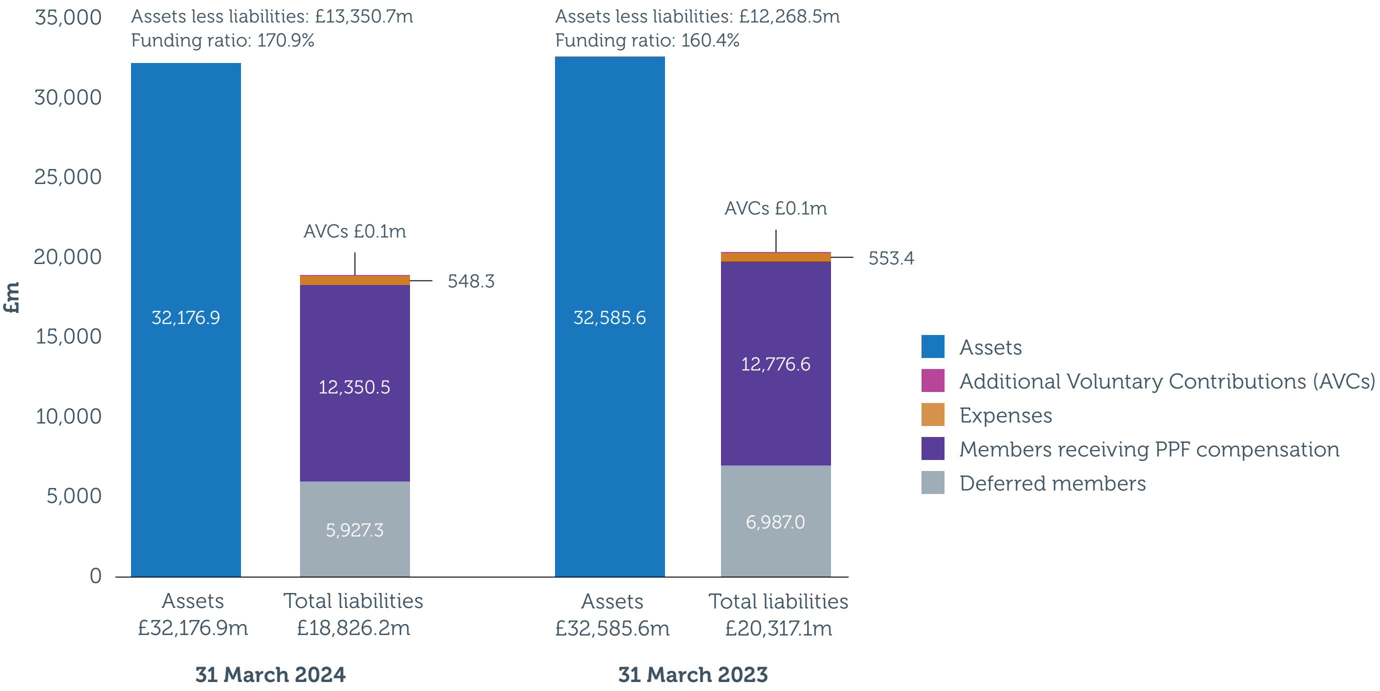
- Discount rates have increased, and expected inflation has reduced, over the year.
- The assumptions for the expected remaining costs of *Hampshire* and *Hughes* have materially reduced, reflecting the fact that the majority of members have now been processed.

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 2024 assets decreased by £408.7 million and liabilities decreased by £1,490.9 million. The value of each will naturally decrease as benefits are paid out. These amounted to £1,207.6 million over the year. Otherwise, the reduction in liabilities was largely a result of:

– a decrease of £1,451.4 million for changes in market yields over the year; and

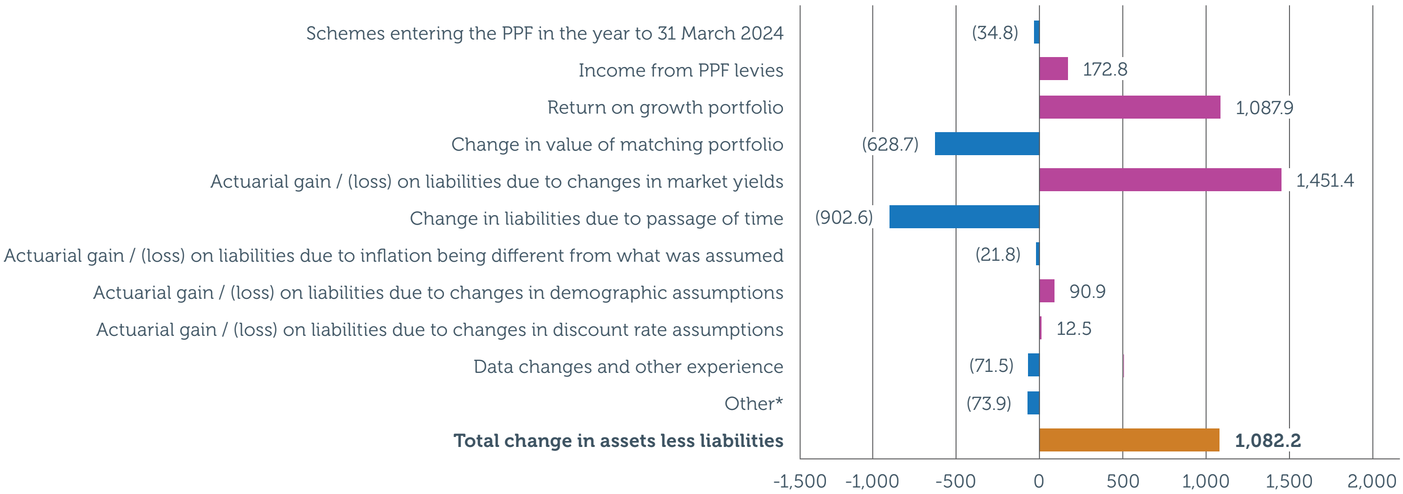
– a decrease of £90.9 million for changes in the life expectancy assumption.

This was partially offset by an increase of £902.6 million for the passage of time, where the level of discounting in the liabilities decreases as the membership ages.

The total returns on assets were £459.2 million. This comes from a reduction of £628.7 million in our matching portfolio (the assets used to hedge our liabilities) offset by a gain of £1,087.9 million on our growth portfolio (the invested non-hedging assets).

The net impact is an increase in assets over liabilities, in respect of transferred schemes, between 31 March 2023 and 31 March 2024, of £1,082.2 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. This £73.9 million item comprises a £32.9 million increase in liabilities and a £41.0 million decrease in assets.

I determined the analysis of change by aggregating actual experience observed over each month of the year.

The liability items covered by our matching portfolio of 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 the value of our matching portfolio because, for instance, some of the assets held in respect of transferred schemes are used to hedge schemes currently in PPF assessment.

The difference between assets and liabilities for transferred schemes 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 £112.5 million. Therefore, had these schemes transferred to the PPF on the calculation date the aggregate difference between assets and liabilities would have reduced to £13,238.2 million.

The actuarial valuation of the Pension Protection Fund as at 31 March 2024 (transferred schemes only) – continued

6. Risks and uncertainties

Based on our current approach to funding, it is our central expectation that over the longer term our assets should continue to outperform our liabilities, predominantly as a result of returns on our growth assets. It is, however, possible 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 assets provide to meet both our liabilities and the contingent events the Board has deemed necessary to hold reserves against. It also helps 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:

- In February 2023 the DWP published a consultation on *Options for Defined Benefit schemes*[1]. This consultation discussed potential changes to the pensions landscape in the UK, including allowing easier access to pension scheme surplus and the introduction of a public sector consolidator. Any changes made on the back of the consultation may impact the PPF directly or indirectly. For example, changes to rules around surplus extraction may change the risk to the PPF and there is also a discussion about whether a portion of the PPF's assets in excess of its liabilities could be used to underwrite the public sector consolidator. It is, at this stage, difficult to accurately quantify the impact of any of these changes especially when the outcome of the consultation is unknown. However, we monitor these risks to ensure our approach to funding remains robust.
- If, in the future, it is decided that indexation should be offered for pre-1997 compensation, the PPF's transferred scheme and provision liabilities would increase, along with our claims expectations for the years ahead.
- Although our current investment strategy is designed to be low risk and well diversified, some short-term volatility in the market value of our assets can be expected. If, for example, the value of our growth assets was to fall by 20 per cent, our total assets would fall by around £3.1 billion.
- Over the last year we have seen increases in sterling gilt and swap yields. 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 continued future volatility in yields, we expect any impact on the difference between our assets and our liabilities from this source to be very small.
- Inflation has been relatively high over the last year and while our current forecast for short-term inflation is 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; and
  - limits on compensation increases in deferment.

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

1 https://www.gov.uk/government/consultations/options-for-defined-benefit-schemes/options-for-defined-benefit-schemes

2 https://committees.parliament.uk/oralevidence/14051/pdf/ – Q338 onwards

- 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 I have made some allowance for these short-term impacts in our valuation, actual experience could still be materially different. The sensitivity analysis included in Appendix S4 – Sensitivity analysis 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 total liabilities would increase/decrease by around £0.8 billion.
- The Provisions for claims on the PPF and the FCF note to the Financial Statements gives further details on claims expectations for the year ahead and shows 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 increase in gilt yields reduced scheme liabilities by more than scheme assets. However, future claims experience is subject to much uncertainty and actual experience can be materially different to our best estimate.
- While estimating the funding position of schemes in our universe is always subject to a degree of uncertainty, this is particularly true this year. 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 may have affected their asset allocations and potentially crystallised investment losses on assets sold. We will not know the full impact of this period for several years, until each scheme goes through their triennial valuation process and submits new s179 valuations via their scheme return. Last year we undertook scenario modelling to better understand how forced selling to meet collateral calls in September 2022 may have impacted our estimated claims in the next 12 months and the total deficit of schemes in deficit in the PPF universe. The estimated impact was small for both, and we expect a similar conclusion this year if the modelling was repeated.
- Over the longer term it is likely that climate change, including measures taken to tackle it, will have an impact on investment markets and may impact both our own investments as well as the investments for schemes we protect. It may also impact life expectancy. It is, at this stage, difficult to quantify these risks with certainty but we continue to develop our existing processes to monitor these risks to underpin our robust approach to funding. This includes the use of economic climate scenarios in our long-term risk modelling.
- I have included no allowance for the potential additional increase to compensation as a result of the *Bauer* judgment. Although we do not have sufficient information to reliably estimate the impact of the judgment, modelling has indicated that it is unlikely to be sufficiently material to impact our current approach to funding. 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.

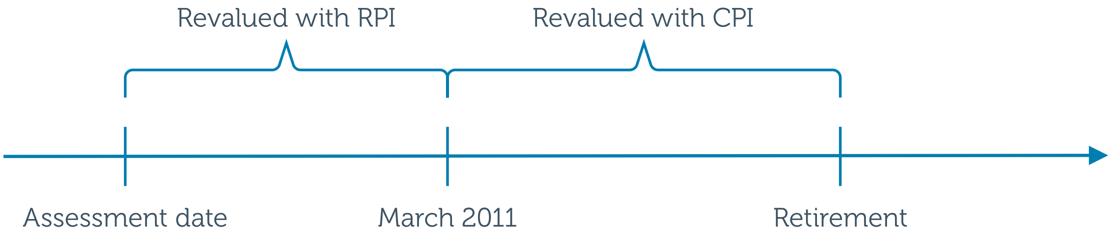
The calculated liabilities will also be sensitive to the assumptions used. The choice of assumptions requires a degree of judgement. To help illustrate the likely impact in funding position if different assumptions were used, my supplementary report shows the results using a number of different assumptions.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

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 for all members. In practice, there still remains a small proportion of members where we still need to remove the compensation cap from their 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, I have made an approximate allowance for the expected additional cost of providing this minimum – see Appendix M3 – Assumptions for details.

I have made no allowance for any potential increase in compensation as a result of the *Bauer* judgment. See section 2 – Compensation and data 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. See page 31 for more information on indexation.

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 2023. 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 2024	12 January 2024
February 2024	16 February 2024
March 2024	No schemes transferred in March 2024

Adjustments have been applied to ensure the data is consistent with the valuation date 31 March 2024 and that the accuracy of the valuation results is not materially affected.

The following tables summarise the member data used in the valuation (columns/rows may not always sum to the totals due to rounding):

Deferred members

		31 March 2024			31 March 2023		
		Male	Female	Total / average	Male	Female	Total / average
Deferred members	Number	64,333	35,200	**99,533**	69,485	37,492	**106,977**
	Average age (unweighted)	56.5	55.3	**56.0**	55.9	54.7	**55.4**
	Total compensation (£m p.a.)	263.6	90.8	**354.4**	284.3	95.2	**379.5**

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 2024			31 March 2023		
		Male	Female	Total / average	Male	Female	Total / average
Members receiving compensation (excl. dependants)	Number	122,767	47,060	**169,827**	120,270	45,733	**166,003**
	Average age (unweighted)	72.3	72.8	**72.4**	72.0	72.7	**72.2**
	Total compensation (£m p.a.)	765.0	130.4	**895.4**	741.7	123.0	**864.7**
Dependants receiving compensation (excl. children)	Number	3,689	30,811	**34,500**	3,530	29,861	**33,391**
	Average age (unweighted)	76.1	78.2	**78.0**	75.9	77.9	**77.7**
	Total compensation (£m p.a.)	5.6	110.2	**115.8**	5.3	105.2	**110.5**
Children receiving compensation	Number	255	249	**504**	249	252	**501**
	Average age (unweighted)	16.4	16.8	**16.6**	16.0	16.5	**16.3**
	Total compensation (£m p.a.)	0.3	0.3	**0.6**	0.3	0.3	**0.6**
All members receiving compensation	**Number**	**126,711**	**78,120**	**204,831**	**124,049**	**75,846**	**199,895**
	Average age (unweighted)	**72.3**	**74.8**	**73.2**	**72.0**	**74.5**	**73.0**
	Total compensation (£m p.a.)	**770.9**	**240.9**	**1,011.8**	**747.3**	**228.5**	**975.8**

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 the removal of the cap.
- Include any *Hampshire* uplifts that have been applied to members who have been assessed, which is over 99 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 2,300 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. A proportion of the member deaths will have an eligible spouse and some of the suspensions will be reinstated. I have included a reserve of £10 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 types of pension 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 2023 valuation assumption, if different.

Valuation date	31 March 2024	31 March 2023 (if different)
Discount rate	A full curve, consisting of 80% of the gilt yield, plus 20% of the SONIA based swap yield, at each term	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, 2023 version, with mortality rate scaling factor of 95% for men	Club Vita life expectancy curves, 2022 version, with mortality rate scaling factor of 95% for men
Future improvements in life expectancy	CMI 2022 model (core form, except for addition to initial improvements, 'A', of 0.25% p.a., weight parameter, 'w', for 2022 of 0%, and no improvements over the calendar years 2020 to 2025, inclusive), long-term rate 1.5% p.a.	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.
Commutation, early retirement, late retirement	No allowance on the grounds that member options are exercised on terms that aim to be cost neutral on our latest accounting basis; therefore, these options should not materially 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	
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 3.3% of the liabilities	An allowance of 3.1% of the liabilities

Valuation date	31 March 2024	31 March 2023 (if different)
Impact of the *Hampshire* and *Hughes* court judgments	Uplifts to liabilities of: For the 50% minimum test required by the *Hampshire* judgment: – £5 million for members receiving compensation – £10 million for deferreds – £nil for arrears For removal of the compensation cap provisions: – £0.1m for arrears due – 0.1% 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 – 0.1% 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
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	

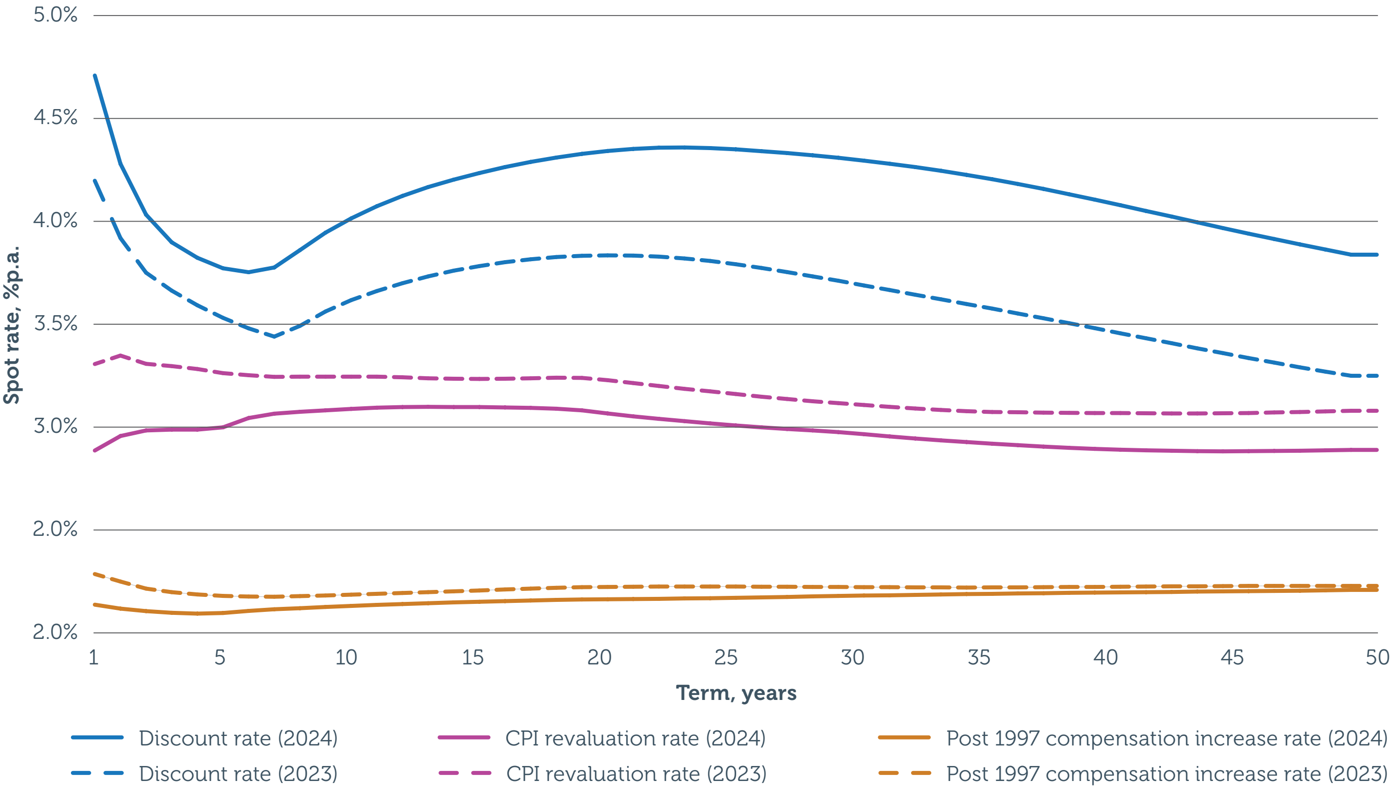
I give further information on these assumptions below.

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 2023. 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 2024. The previous year's figures are shown as dashed lines for comparison. The rates are presented as spot rates.



Source: BlackRock, investment banks, PPF.

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 80 per cent gilts and 20 per cent swaps. The discount rate for each term is a blend of 80 per cent of the gilt yield and 20 per cent of the SONIA-based swap yield.

Inflation and compensation increases

For the RPI inflation assumptions I have used a curve of RPI inflation swap yields as at 31 March 2024.

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 2024		31 March 2023	
			Men	Women	Men	Women
Median life expectancy	Members currently receiving compensation	Now	21.4	23.7	21.4	23.4
	Dependants of members currently receiving compensation	Now	19.7	23.2	19.1	23.0
	Members due to receive compensation	In 25 years' time	23.3	26.1	23.3	26.1
	Future dependants of members due to receive compensation	In 25 years' time	22.0	25.2	22.0	25.4
Minimum life expectancy	Members currently receiving compensation	Now	14.1	18.3	14.3	18.7
	Dependants of members currently receiving compensation	Now	14.1	18.3	14.3	18.7
	Members due to receive compensation	In 25 years' time	19.1	21.4	19.2	22.0
	Future dependants of members due to receive compensation	In 25 years' time	16.7	21.1	16.8	21.4
Maximum life expectancy	Members currently receiving compensation	Now	24.5	25.3	24.5	25.2
	Dependants of members currently receiving compensation	Now	22.1	24.9	22.3	25.0
	Members due to receive compensation	In 25 years' time	26.5	27.4	26.4	27.4
	Future dependants of members due to receive compensation	In 25 years' time	24.3	27.1	24.4	27.2
Range of life expectancies that covers 75% of compensation	Members currently receiving compensation	Now	19.6–23.5	21.4–24.9	19.6–23.4	21.4–25.0
	Dependants of members currently receiving compensation	Now	17.7–21.9	20.6–24.9	17.5–21.6	20.5–25.0
	Members due to receive compensation	In 25 years' time	21.4–24.9	24.5–27.3	21.9–24.7	24.6–27.2
	Future dependants of members due to receive compensation	In 25 years' time	20.2–24.1	23.3–26.5	20.0–24.3	23.3–26.5

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 2019, 2020 and 2021 (with 2020 therefore being the 'central year' of the baseline mortality). For the years 2020 and 2021, which include COVID-19 pandemic deaths, Club Vita has stripped out deaths in excess of those which would have been expected based on experience in 2019.

As with the 2023 valuation, this year I have made an allowance for how our population's mortality experience has differed from that expected by Club Vita's 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. To reflect this experience, I apply a scaling factor, currently of 95 per cent, to the relevant Club Vita curves. I will keep this adjustment under review, particularly as new experience emerges.

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 2024, I have adopted the CMI_2022 model, with all model parameters at their core values, with a few exceptions as summarised below:

- An initial adjustment to mortality improvements of 0.25 per cent per year. This is to reflect the population differences between members of DB pension schemes and the general population of England and Wales.
- I give no weight to the actual 2022 experience data in the CMI_2022 model (i.e. by setting the w-parameter to zero). I have instead retained last year's approach of assuming no improvements for a given number of years.

I have assumed life expectancy does not improve over the calendar years 2020 to 2025, inclusive. This allows for the potential short-term impacts of COVID-19 and the measures taken during this period on life expectancy improvements.

I have retained last year's assumption of a long-term rate of mortality improvement of 1.5 per cent per year for men and women. Looking to the medium and longer term, there are various considerations around whether the knock-on effects of 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 these 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 the investment arrangement.

This results in an allowance of 3.0 per cent of liabilities, which compares with 2.8 per cent at the last actuarial valuation, using the same methodology.

In addition, I have included the expected future cost of administering five longevity swap contracts that have transferred to the PPF. This has increased the allowance to 3.3 per cent of liabilities.

Minimum compensation

i. *Hampshire* – 50 per cent minimum

The *Hampshire* ruling determined that compensation is subject to a minimum level of 50 per cent of the value of accrued old age pension.

The majority of 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 liabilities uplifts are £5 million in respect of members receiving compensation and £10 million in respect of deferred members.

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, although the majority of compensation payments have now been adjusted, there are a residual number that still need to be 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.

No additional allowance is needed for deferred members since their uncapped benefits are recorded on our administration system.

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 0.1 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 2023 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)	The value of the PPF liabilities is determined in accordance with regulation 3, which required that: a) the liabilities of the PPF shall be any sums or properties falling to be paid or transferred out of the Fund required to meet liabilities listed in section 173(3) of the Pensions Act 2004; and b) the value of a liability shall be the present value of that liability at the valuation date. The value of the PPF assets is determined in accordance with regulations 2, 4 and 5. Regulations 4 and 5 make available adjustments but these have not been made in this valuation.

Supplementary report: actuarial liabilities and provisions of the Pension Protection Fund as at 31 March 2024

1. Introduction and framework

I have prepared this supplementary valuation report for the Board of the Pension Protection Fund (the Board) for inclusion in its Annual Report and Accounts as at 31 March 2024.

This report mainly deals with schemes in PPF assessment as at 31 March 2024 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 I have prepared this valuation

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.

I have prepared this valuation 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 Hymans Robertson.

Signed:

Name of Appointed Actuary: Shalin Bhagwan
Date: 10 July 2024
Job title: Chief Actuary and Interim Chief Financial Officer
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 2024. This is covered in my main report to the Board dated 10 July 2024.

I have used recent individual member data for the largest scheme included in the provisions for use in this valuation. This scheme makes up 55 per cent of the liabilities for schemes in the provisions and three per cent of the combined liabilities of transferred schemes and liabilities for schemes in the provisions. There are a further two schemes for which I have used individual membership data requested for previous valuations. For these three 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, I have updated the calculation 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 I've taken is broadly consistent with the methodology used to calculate the PPF levy for the financial year 1 April 2023 to 31 March 2024 but, in addition, I have made an approximate allowance for benefits paid and increased liabilities 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. 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.

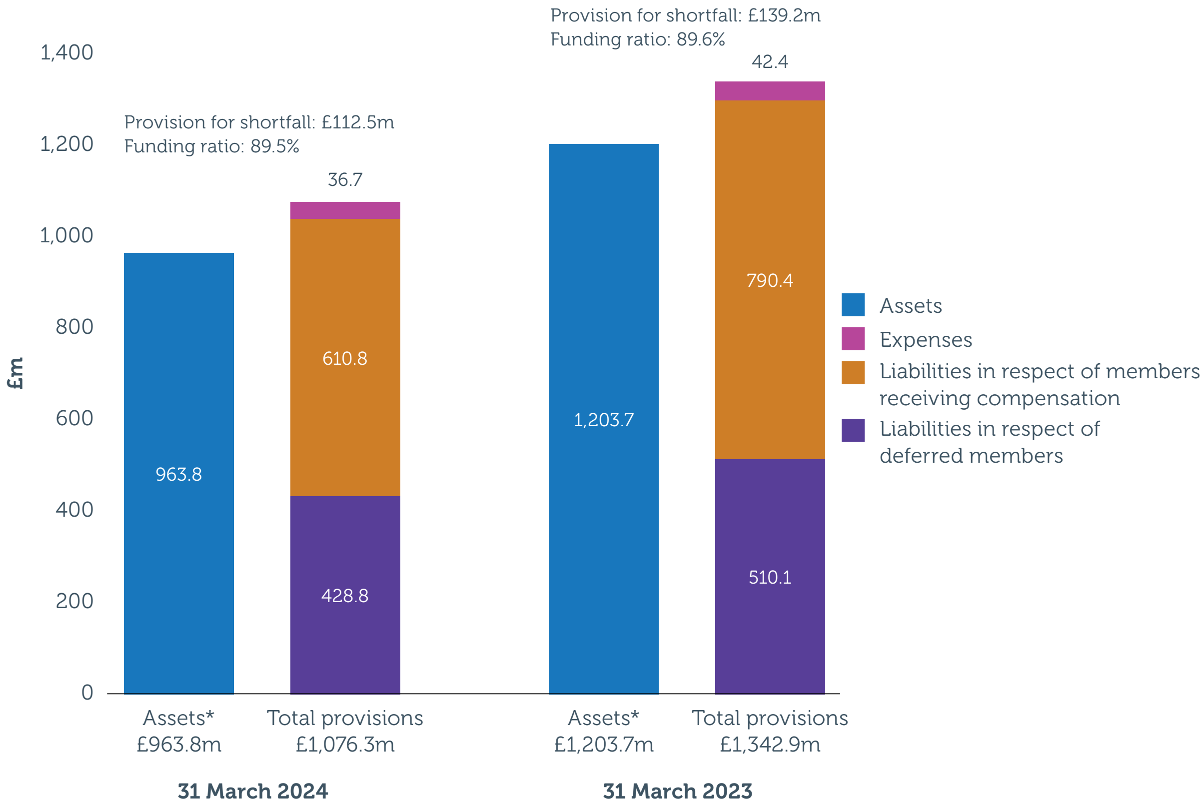
A scheme is only included in the calculation if it is expected that it has insufficient assets to secure benefits above PPF levels of compensation. See Appendix S1 – Definition of a provision for further details of the definitions used and Appendix S2 – Data for further details on the number of schemes 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-three schemes were included in the provisions as at 31 March 2024. 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 £50.1 million (2023: £53.5 million) prior to asset restriction – 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 £30.8 million.

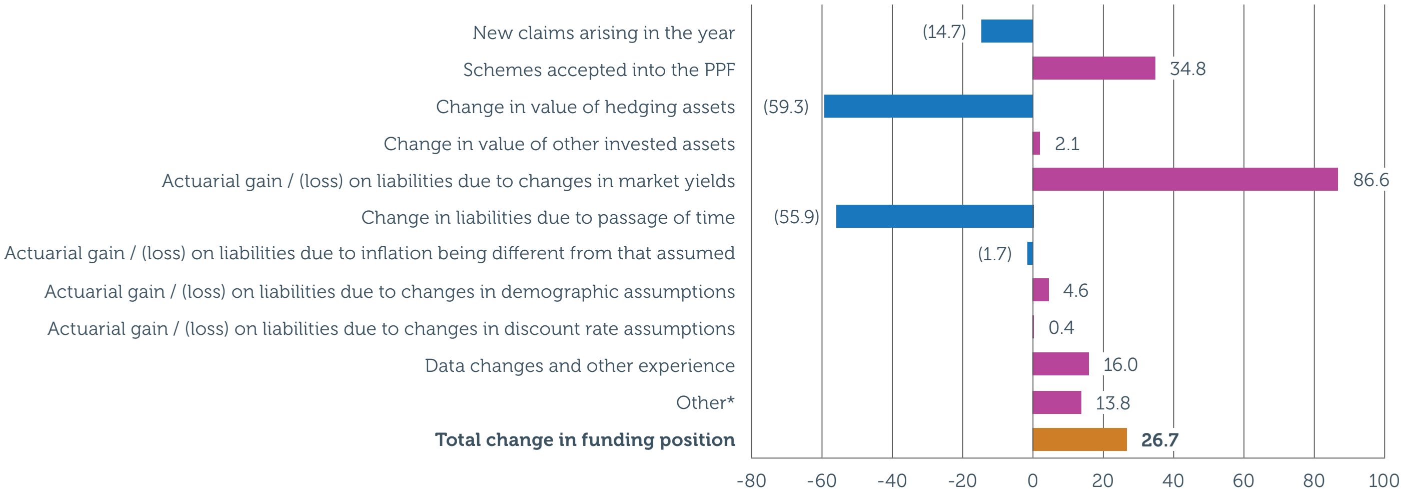
Both the assets and liabilities have reduced over the year, with only a small change to the shortfall for the provisions. This is a result of:

- An increase in the discount rate caused by rising gilt yields over the year, which has acted to reduce both the assets and liabilities.
- More assets and liabilities transferring to the PPF compared with those coming into assessment (and deemed likely to transfer so treated as a provision).

The shortfall of assets compared to liabilities has reduced from £139.2 million as at 31 March 2023 to £112.5 million as at 31 March 2024.

Supplementary report: actuarial liabilities and provisions of the Pension Protection Fund as at 31 March 2024 – continued

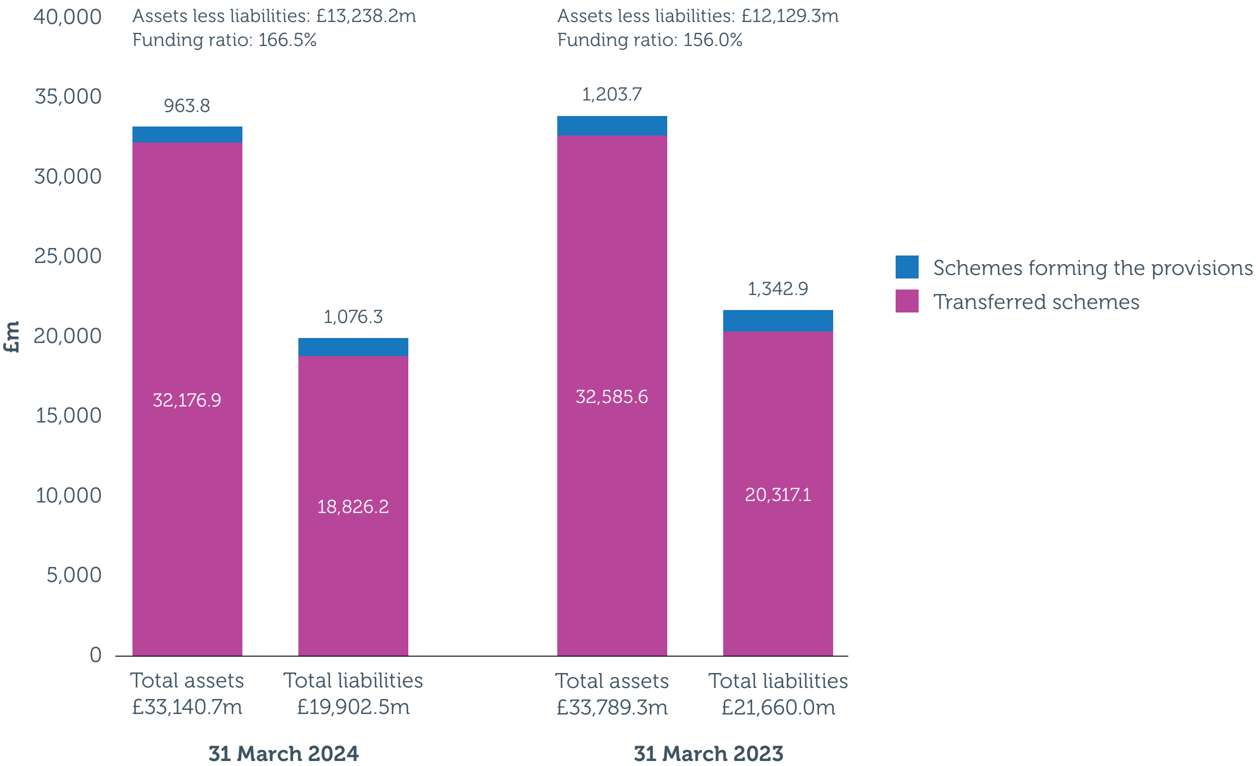
A full analysis of this change over the year is set out in the following chart (figures are in £ million).



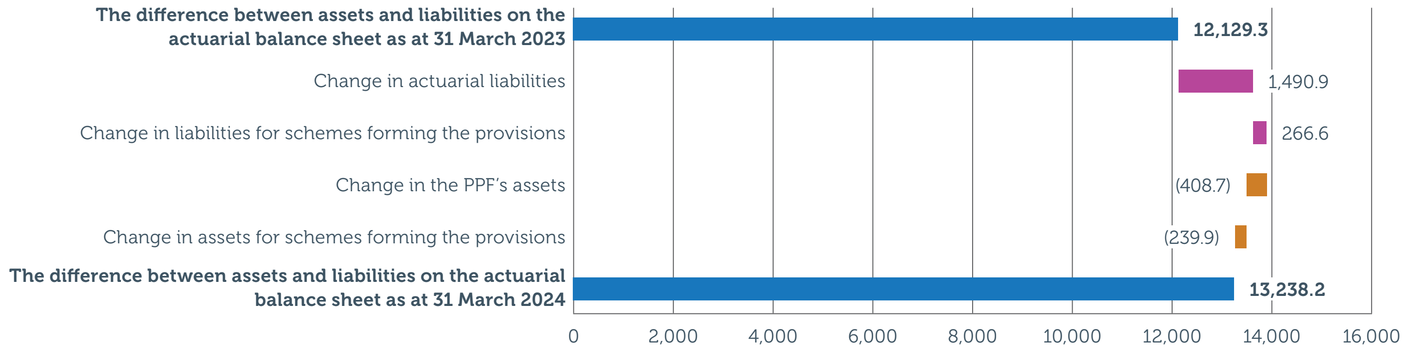
* Includes such items as expenses and recoveries.

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 2024 – 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 the difference between assets and liabilities, and funding ratio.

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 decrease by 1% p.a.
2a	Inflation is assumed to decrease by 1% p.a.
2b	Inflation is assumed to increase by 1% p.a.
3	Average life expectancy is assumed to be one year longer than assumed in the main valuation.
4	No improvements to life expectancy assumed in years 2020 to 2027, inclusive.
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 20%.
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	Assets less liabilities, £bn	Funding ratio	Compared to main scenario, £bn
Main	13.2	166.5%	–
1	13.1	157.8%	↓ (0.1)
2a	13.2	168.9%	↓ (0.0)
2b	13.3	165.2%	↑ 0.1
3	12.4	160.2%	↓ (0.8)
4	13.3	167.2%	↑ 0.1
5	10.1	150.6%	↓ (3.1)
6	13.2	166.1%	↓ (0.0)
7	13.3	167.4%	↑ 0.1

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 2024 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 2024 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 2024 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/Files/Levy/2023-24-levy-year/Appendices/Transformation_Appendix_2324.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 10 July 2024.

Schemes that form the provisions

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

	31 March 2024	31 March 2023
Number of schemes	43	42
Estimated number of members receiving compensation in these schemes	17,573	18,334
Estimated number of deferred members in these schemes	9,681	10,599

In addition, there are 27 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 used a recent cut of individual member data. There is one such scheme in the provisions this year. It was in assessment as at 31 March 2023, 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.

For the 31 March 2023 valuation I carried out checks on all the data received for general reasonableness and, where appropriate, for consistency with that used in previous actuarial valuations. 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 98 per cent of the total liabilities and provisions.

There are two schemes that were classified as material at a previous valuation date but do not classify as such at the 31 March 2024 valuation. For these schemes I have used the same individual member data I used for the 31 March 2023 valuation, which had effective dates of 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 2024. These schemes account for around one per cent of the combined liabilities of transferred schemes and liabilities for schemes in the provisions.

Non-material schemes

For producing the assets and liabilities of the remaining 40 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 £50.1 million (before allowing for any asset restrictions required by the accounting standards, as explained in section 3 – Results for schemes in PPF assessment).

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			31 March 2024	31 March 2023
Payment status	Service	Member type	% p.a.	% p.a.
In deferment	Before 6 April 2009	Deferred	1.1	0.4
	After 5 April 2009	Deferred	1.7	1.1
In payment	Before 6 April 1997	Receiving compensation	4.1	3.7
		Deferred	4.2	3.7
	After 5 April 1997	Receiving compensation	2.0	1.5
		Deferred	2.0	1.4

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 schemes in assessment has had this cap applied.
- Expenses incurred by the PPF in transferring members into the PPF. I have calculated this as a per-member cost determined by dividing the cost to the PPF of transferring members by the number of members involved. I have used the same figures as last year as I don't expect a recalculation to significantly change the result.

The total expense allowance for provisions is 3.5 per cent of the liabilities (2023: 3.3 per cent).

Appendix S3
Assumptions – continued

Minimum compensation
I have used a similar approach 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
For one large scheme, I have used the figure estimated by the scheme's PPF panel actuary.

For the other schemes in assessment, I categorised them according to the type of benefits in their original scheme. I assigned each category a loading based on the model used to derive the uplifts for the transferred scheme data. This resulted in an allowance of 0.5 per cent of deferred liabilities and 0.2 per cent of pensioner liabilities for these schemes in aggregate. In previous years these loadings were smaller but illustrated differently as all schemes were combined to calculate the aggregate loading.

ii. *Hughes* – the compensation cap
For one large scheme, I have used the figure estimated by the scheme's PPF panel actuary.

For the two schemes that were classified as material at a previous valuation date, 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 0.9 per cent of liabilities in respect of members receiving compensation and 0.5 per cent of deferred liabilities.

Appendix S4

Sensitivity analysis

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

Please note that the sensitivities are calculated in a more approximate manner than the main results.

Scenario	Description	Reasoning
1	Nominal yields are assumed to decrease by 1% p.a.	This is an illustration of a plausible move in yields.
2a	Inflation is assumed to decrease by 1% p.a.	This is an illustration of a plausible move in market-implied inflation rates.
2b	Inflation is assumed to increase by 1% 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 longer than assumed in the main valuation.	This is an illustration of a plausible move in life expectancy.
4	No improvements to life expectancy assumed in years 2020 to 2027, inclusive.	This is an illustration of a short to medium-term reduction in life expectancy possibly due to COVID or any other reason.
5	The value of return-seeking assets (the growth portfolio) as at the valuation date (i.e. excluding those assets that are used to hedge liabilities) is assumed to decrease by 20%.	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 or 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.

Appendix S4
Sensitivity analysis – continued

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. For the s143 valuation basis our calculations are based on the full yield curves specified in assumptions guidance B10. In the table below I have quoted the A11 s179 valuation basis at 31 March 2024 which is a single equivalent basis which approximates the s143 valuation basis.

	Net 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	1.1%	1.7%	4.2%	4.1%	2.0%	2.0%
1	0.1%	0.7%	3.2%	3.1%	1.0%	1.0%
2a	2.1%	2.1%	4.2%	4.1%	2.2%	2.3%
2b	0.1%	1.7%	4.2%	4.1%	1.9%	1.8%
3	1.1%	1.7%	4.2%	4.1%	2.0%	2.0%
4	1.1%	1.7%	4.2%	4.1%	2.0%	2.0%
5	1.1%	1.7%	4.2%	4.1%	2.0%	2.0%
6	1.1%	1.7%	4.2%	4.1%	2.0%	2.0%
7	0.7%	1.5%	4.4%	4.6%	2.1%	2.4%

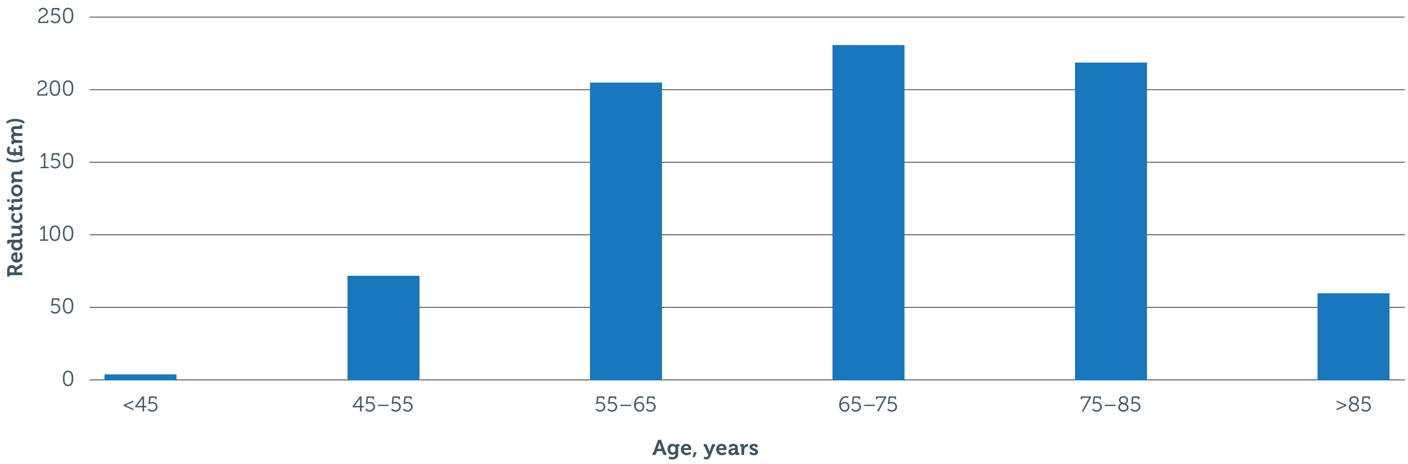
None of the scenarios and assumptions variations described above should be interpreted as upper or lower bounds of the range of reasonable estimates that might be made.

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	Assets less liabilities	Funding ratio
Main	32.18	0.96	33.14	18.83	1.08	19.90	13.24	166.5%
1	34.53	1.12	35.65	21.39	1.21	22.59	13.05	157.8%
2a	31.56	0.91	32.47	18.18	1.04	19.22	13.25	168.9%
2b	32.80	1.01	33.81	19.37	1.10	20.47	13.34	165.2%
3	32.18	0.96	33.14	19.57	1.12	20.69	12.45	160.2%
4	32.18	0.96	33.14	18.75	1.07	19.82	13.32	167.2%
5	29.02	0.95	29.97	18.83	1.08	19.90	10.07	150.6%
6	32.18	0.96	33.14	18.87	1.08	19.95	13.19	166.1%
7	32.18	0.96	33.14	18.72	1.08	19.80	13.34	167.4%

Figures in the table are subject to rounding discrepancies. For scenarios 1–3, inclusive, only UK yields have been shocked, and so on the asset side this means that, essentially, only the values of assets in our matching portfolio have moved under these scenarios. 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 increase in life expectancy increases liabilities by around £0.8 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

AI – Artificial Intelligence

AVC – Additional Voluntary Contribution

BCI – British Continuity Institute

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

ELC – Employee Liaison Committee

EMD – Emerging Market Debt

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

GMP – Guaranteed Minimum Pension

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

HMT – His Majesty's Treasury

IAS – International Accounting Standard

IFRS – International Financial Reporting Standard

IG – Investment grade

IPE – Investments and Pensions Europe

ISAs – International Standards of Auditing

ISO – International Organization for Standardization

IT – Information Technology

KAHL – Kodak Alaris Holdings Limited

LDI – Liability Driven Investment

LTRM – Long Term Risk Model

PRA – Prudential Regulation Authority

RI – Responsible Investment

RPI – Retail Prices Index

SASB – Sustainability Accounting Standards Board

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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