Pension Protection Fund

PPF Strategic Plan 2016

June 2016

The sections of this document are:

Foreword

This strategic plan sets out how the PPF intends to meet its business objectives over the next three years and to provide the security that the 11 million people we protect deserve. We go into 2016/17 with a strong balance sheet and the confidence that we are well placed for the future, as our modelling continues to indicate that our Funding Strategy remains on track.

However, recent events only serve to highlight the risks we face in protecting a universe which had an aggregate deficit at the end of March 2016 of £302 billion. While claims on the PPF were relatively low for the year 2015/16, with just one large claim coming into assessment at the end of the year from BHS, the defined benefit landscape faces a period of uncertainty. Scheme funding levels have worsened since the PPF's creation. The most recent PPF 7800 Index indicates that collective scheme funding is 82.6 per cent on the PPF's s179 basis – down from 97 per cent in 2006, which was the first year of the Purple Book which tracks this data, while deficit reduction contributions have been on a downward trend since 2012.

The plans set out in this document aim to put us into the best possible position to face these uncertainties. Over the next three years a major focus will be to bring more of our investment management in-house. The PPF is equivalent in size to some of the largest pension funds in the UK, and we believe it is important that we continue to develop our asset management capabilities to reflect this. This includes insourcing part of our investment management capability which will allow us greater control to manage our growing assets effectively. We will take a phased approach to this investment insourcing, starting with our liability-driven investments – a project which is well underway in terms of systems and personnel.

We will also embed two major developments from last year which were important steps in improving the PPF experience for our stakeholders. We successfully brought our PPF member services operations in-house, giving us more control and flexibility over the service and experience we offer our members, and we issued our first levy invoices under the new PPF-specific model for assessing insolvency risk.

Over the period of this plan we will continue to develop our member services, listening to member feedback to ensure we provide a service best tailored to their needs. We will also consult on proposals for the third levy triennium – the three-year cycle in which we aim to keep levy rules stable. As part of this we intend to build on the successes of the Experian model, improving it where there is a strong case to do so. We will listen to and engage with levy payers to ensure that their views are understood and reflected upon in developing our levy calculation methodology.

The coming months will see another significant change as the Financial Assistance Scheme closes to new applications from 1 September 2016. Originally set to close in 2006, we have kept FAS open for a further ten years to ensure that any remaining eligible schemes have had an opportunity to come forward. Since assuming responsibility for the Financial Assistance Scheme from the Government in 2009 we have successfully transferred over 1,000 schemes to provide assistance to 167,000 members.

Overall our strategic plan focuses on building on our strength and experience, ensuring we can pay the right amount to the right people at the right time, and provide certainty and excellent service to our members. It will be another busy period, but we are confident we can continue to fulfil our mission of protecting people's futures.

Alan Rubenstein
Chief Executive

1: About us

1.1 This is what we do

Pension Protection Fund (PPF)

We protect millions of people who belong to defined benefit, such as final salary, pension schemes in the United Kingdom.

If their employers fail, and their pension schemes cannot afford to pay what they promised, we will pay compensation for their lost pensions. Now, more than 200,000 people are receiving compensation from the PPF.

Compensation, and the cost of running the PPF, are paid for through levies on eligible pension schemes; from the income of our own investments; taking on the assets of schemes that transfer to the PPF; and recovering money, and other assets, from insolvent employers of the schemes we take on.

We are a public corporation, set up by the Pensions Act 2004, and run by an independent Board which is responsible to Parliament through the Secretary of State for Work and Pensions.

Fraud Compensation Fund

We pay compensation to members of all types of pension scheme whose employers fail and whose schemes have lost out financially due to dishonesty.

Fraud compensation is funded through a separate levy on all pension schemes.

Financial Assistance Scheme (FAS)

We manage the FAS on behalf of the Government, which funds it.

The FAS pays financial assistance to people who were members of specific defined benefit pension schemes and which are ineligible for compensation from the PPF - in particular, those schemes which started winding up between January 1997 and April 2005.

1: About us

1.2 Our strategic framework

Our employees work together to achieve our vision, mission, values and strategic objectives. Our vision will be realised as we fulfil our mission; to do this we must be successful in delivering our strategic objectives. These are underpinned by the values that all PPF employees share and which drive everything we do.

Vision:

- Protecting people's futures

Mission:

- To pay the right people the right amount at the right time.

Strategic Objectives:

1. Meet our funding target through prudent and effective management of our balance sheet
2. Deliver excellent customer service to our members, levy payers and other stakeholders
3. Pursue our mission within a high calibre framework of risk management

Our Values:

Integrity	Collaboration	Accountability	Respect	Excellence
'Do the right thing'	'Work as one'	'Own your actions'	'Value every voice'	'Be your best'

2: The next three years: 2016 - 2019

2.1 Our vision of the PPF in 2019

By the end of March 2019, we are a mature, high performing financial organisation, effectively leveraging our increased scale and expertise to the benefit of our members and levy payers. We have completed the transformation of our operating model that was started by bringing our member services in-house, and we have subsequently insourced key elements of our investment management. We have closed the FAS to new applications and, following this, completed a review of the best approach for FAS administration and implemented our chosen approach. The changes we have made give us the confidence that, despite the uncertainties and risks in our operating environment, we can achieve our mission to pay the right people, the right amount, at the right time.

Almost 300,000 members have now transferred to the PPF, and a positive customer experience is at the heart of everything we do. Our members report that our in-house team provides excellent customer service, and we are proud to offer a choice in the way members interact with us.

Schemes where the employer has become insolvent continue to transfer to us quickly. We have reviewed the efficiency with which we carry out tasks in the assessment period to ensure we make best use of money, time, and resource, and to give schemes and the members we protect certainty as soon as we reasonably can.

We have in excess of £26 billion in assets under management and are running our liability driven investment (LDI) in-house. Further work on investment insourcing has been completed providing us with greater efficiency, flexibility and control in managing our assets.

We closed the FAS to new applications in September 2016 and, working with the Department for Work and Pensions (DWP), have completed work to identify and implement the best approach to FAS administration. Our chosen approach aims to make sure FAS members receive a high quality service and that the assistance scheme is operated as efficiently as possible.

We have continued to operate a system of robust risk management, having further developed our processes and controls to reflect the changes in our operating model. We maintain a good understanding of the internal and external risks that we face, and we have a framework in place to measure and enhance our resilience to adverse scenarios.

We have retained our engagement and influence in the broader pensions landscape, working closely with our key partners to maintain and improve protection for the PPF against future claims. In light of the risks we face, we are particularly proud that our members, and the members in the schemes that we protect, are confident that our effective management of our funding level, and our long term funding strategy, will ensure we can make compensation payments throughout their retirement.

We have also completed investment in our own infrastructure and business support services to keep in-step with our increasing scale and complexity, and to make sure we make best use of the resources available to us.

The levy has remained stable throughout the second triennium of the New Levy Framework, and the changes in the third triennium, including any refinements of the insolvency risk scoring model, have been launched successfully with wide support. The amount of levy we collect is transparent, proportionate to the risk schemes pose, and levy payers feel their views are heard. Both our in-house levy team, and our insolvency risk provider, offer high levels of customer service.

As the PPF matures and our capability increases, our people continue to work to a shared goal to provide great service and to operate efficiently and effectively.

2.2 How we're going to achieve it

Our operations are built on the strong foundation of our people working efficiently and effectively and communicating clearly what we do, both within the organisation and outside of it, thus giving confidence in our ability to deliver our mission.

Our foundations

People

As our organisation has grown and we have new commitments and challenges, our people grow with us. We are proud to have a strong and committed workforce with a wide range of professional skills.

Our in-house member services team and levy operations team are well trained to provide excellent customer service. We continue to enhance the capability of our investment team, by bringing in people with industry experience into our organisation, and continually developing our existing employees, so that we can effectively and successfully manage our assets in-house.

Our employees know what is expected of them, and we encourage and support them to reach their full potential through a robust model of performance review, training and development. In turn, our people know what they can expect from the PPF as an employer of choice. We value diversity and are focused on attracting, developing and retaining the right people to achieve our mission. During this three year period we will review and enhance our HR functions to ensure that we continue to work effectively together, which will be key as the organisation continues to grow.

The views of our employees are important and we continue to measure employee engagement. We are delighted to have been awarded one star in the Sunday Times Best Companies Survey, and to retain our place in the Sunday Times 100 Best Not for profit organisations to work for 2016. During 2016 we will continue to improve employee engagement throughout the organisation and will listen to the views of our people using a new survey, which is tailored to the PPF.

Communication

Our customers are at the heart of everything we do, and it's crucial that we communicate with our members and other stakeholders in an effective and clear way. All our communications are clear, consistent and easily understood. Our customers feel that we listen to them and understand their needs. Key messages and changes will continue to be consulted on, and stakeholder views will be used to shape our actions in the future. For example, during the period of this strategic plan, we will consult on proposals for the third levy triennium. We will also continue to share information we hold, collate and use it openly and transparently, including through existing publications such as the Purple Book, the PPF 7800 Index and our Annual Report and Accounts.

To ensure our vision and goals are clearly articulated to, and understood by, our customers and other stakeholders, we use a varied and diverse range of communication methods. These include face to face meetings, providing telephone support, written and electronic communication, maintaining our website and hosting and attending external events and conferences. Our effective communication provides confidence, not only to our members because they feel they are in a safe pair of hands, but also to schemes because they know that we are there for protection. Our communication also maintains our strong reputation with external media and industry bodies.

Over this period we will be enhancing our communication offering, including exploring improvements to our website and digital services, to ensure that we remain in line with the service expected from a leading customer service provider.

We continue to use our experience and expertise to engage with government, the Pensions Regulator (TPR) and the wider pensions industry on issues that affect us and the wider defined benefit universe.

2: The next three years: 2016-2019

Efficiency and effectiveness

Our members and levy payers trust us to operate efficiently and effectively and we strive to demonstrate and enhance efficiency in everything we do. Where possible, we will look to benchmark our current performance and costs against comparators in the financial services industry. This will deepen our understanding about the use of our own resource and financial expenditure. We will use these findings to develop efficiencies across our organisation. We will also identify where it is cost effective to insource externally managed services to provide efficiencies while maintaining or improving service levels. Insourcing of some of our investment portfolio is already in progress and savings from this are evidenced in the financial plan.

To ensure that our systems and processes continue to keep pace with our increasing size and scale, we will implement enhancements to our internal infrastructure to help drive effectiveness and cost savings. This will include, for example, implementing planned improvements to the way we manage information across the organisation and to our HR and finance systems and processes. Our robust change management function will support these efficiency improvements.

2: The next three years: 2016-2019

To deliver our mission we must meet our strategic business objectives, keeping our funding strategy on a steady course, and delivering excellent customer service to our members and levy payers. As a key part of the pension protection regime in the UK, we must ensure we remain at the forefront of effective risk management.

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

It's crucial that we have enough money to pay our members compensation, both now and in the future.

Our funding objective is to be self-sufficient by our funding horizon. This is the point at which the amount we can raise by the risk-based levy is immaterial against the size of our liabilities. This will be driven by a reduction in the number of defined benefit schemes in existence, improvements in the funding of defined benefit schemes together with a move into lower risk investments across the defined benefit universe. We now estimate this point to be reached by around 2030.

We use the 'probability of success' as a key measure of progress against our funding objective. This measure is derived from an internal model that generates an extensive range of asset returns, insolvency and longevity scenarios and then projects a range of PPF balance sheet outcomes allowing us to identify the percentage of scenarios in which our funding objective is successfully met.

In our 2015 Funding Strategy Update and 2014/15 Annual Report and Accounts, we reported a reserve of £3.6 billion and an increase in our funding ratio from 112.5 per cent to 115.1 per cent. While our financial position has strengthened, the external environment and the universe of schemes we protect, continue to present challenges. This is reflected in a change in our probability of success from 90 per cent in March 2014 to 88 per cent in March 2015.

During 2015 we have seen a reduction in the total number of claims on the PPF. However, the outlook for the global economy continues to be uncertain, and operating in a low yield environment continues to be a challenge to pension scheme funding.

Given the risks we face, we regularly review our funding strategy to ensure it remains appropriate, having regard to the interests of both our members and levy payers. We closely monitor the position of our 'probability of success' and 'downside risk' to ensure that we are effectively managing our balance sheet.

During the next three years, we will continue to improve our management information to help to identify trends or events that could impact our funding position, helping to inform decisions on our funding strategy.

Critical to the management of our balance sheet is effective control and oversight of our assets. We continue to follow our award-winning investment strategy, and despite the uncertain economic environment, see a strong return. Over the last year we have continued to evolve our strategy, moving to a hybrid asset allocation and making greater use of illiquid assets, which will provide long-term cash-flows and match our liability profile.

As the size and scale of the fund increases, it is more important than ever that we have the control, agility and flexibility to manage a fund that is expected to grow to £26 billion by the end of the period of this plan. In the next year we will make a significant change to our investment strategy, bringing part of our liability driven investment (LDI) portfolio to be managed in-house. During the next three years we then expect, in phases, to bring in-house the management of more of our hedging portfolio, and other assets through time. Our strong Investment Operations team and compliance function will provide the appropriate governance for in-house investment operations.

As well as strong return on investment, recoveries from insolvent employers continue to provide an income stream and we work closely with TPR and industry participants to ensure the best outcome for the fund.

2: The next three years: 2016-2019

2. Deliver excellent customer service to our members, levy payers and other stakeholders

We were delighted to successfully complete the programme to bring PPF member services in-house. We expect almost 300,000 PPF members to have transferred to us by 2019 and we want to offer a level of service that ensures all our members would choose us if they could. Our people are the most important element in realising this vision – we will continue to invest in training and development to make sure we continue to provide excellent customer service.

Our in-house administration platform is modern and customer focused. We already have a number of channels in place to enable our members to interact with us easily, in a way that suits them - including by telephone, internet, email or letter. Over the next three years we will be looking to enhance this offering, giving our members more choice, especially with the online services we have available, and keeping our services in-step with leading customer service providers.

We respond to all communications promptly, ensuring that all information is clear and easy to understand. To ensure that our service remains at a high standard, we will listen to our members and endeavour to make any reasonable changes to adapt and improve our service. Over time, our new administration platform will also enable us to bring down administration costs.

Since the introduction of the FAS in 2005, more than 1000 schemes have been processed successfully and, by 2019 we expect to have transferred 155,000 members. We have taken the decision to close the FAS to new applications from 1 September 2016, giving a final window of opportunity for any remaining schemes to come forward. Following this decision, we will work with DWP to complete a review of the best approach to FAS administration in the long term – aiming to provide FAS members with a high quality service and ensure that the FAS is operated as efficiently as possible. By the end of the period of this plan, our preferred approach will have been implemented.

We continue to review the efficiency with which tasks in the assessment period are completed, and seek opportunities to improve our operating model and systems to achieve certainty for schemes and members, and maximise use of money, time and resource. For example, in 2016/17 we will move from two panels, which separately provide actuarial and administration services to one new panel of preferred suppliers combining both. This panel will also be extended to provide further administration services, such as payroll and processing member events, providing greater consistency in cost and service. We remain committed to completing the assessment of at least 75 per cent of PPF schemes within two years.

We will ensure that the data we hold for our members is as up to date as possible, allowing us to pay PPF compensation and FAS assistance and communicate with our members, efficiently and effectively. Accurate data is also important for us to effectively manage our investments and to reduce fraud risk. It is also key to our compliance with legislation such as the Data Protection Act 1998. We have recently appointed Target Professional Services as our data specialist partner who will manage our data exercises with us, including working with schemes in assessment so that the data we receive when a scheme transfers to us is fit for purpose.

In the past year we have completed the move to our new insolvency risk provider, Experian, and we have implemented changes that we believe significantly improve the pension protection levy. Levy payers tell us that stability is important and we will be seeking to minimise change to the levy rules throughout the remainder of the second triennium (2016/17 and 2017/18).

Over the period of this strategic plan, we will also be consulting on, and implementing changes to, the levy for the third triennium beginning in 2018/19. We will be seeking to build upon the successes of the Experian model and, through consultations, will listen to and engage with levy payers to ensure that their views are reflected and incorporated where possible. In parallel, we will also be working to offer levy payers and their representatives excellent customer service, whether they contact our in-house team or Experian.

3. Pursue our mission within a high calibre framework of risk management

While our funding position remains strong relative to our liabilities, the risks we face are significant. At the end of March 2016, the aggregate funding ratio in the schemes we protect was estimated to be 81 per cent, with an aggregate deficit of £302.1 billion. While insolvency levels, and so claims, have remained low throughout the year, the future is extremely uncertain. A particular concern is the impact the first increases in UK interest rates will have on scheme employers if and when they arise. The global economy also faces some significant challenges, for example: increases in US interest rates could hit highly indebted emerging economies; the Chinese economy could experience a much sharper downturn than expected; and there are continuing uncertainties in the Eurozone.

The main reason for the poor level of scheme funding has been the very low level of government bond yields. This reflects factors such as the extremely low policy rates in most countries; quantitative easing in a number of major economies; worries about the sustainability of the euro area; and the impact of low oil prices and deflation concerns. There are also worries that the slowdown in productivity growth, in particular in the UK, may reflect structural factors and could be long-lived, leading to low growth and low interest rates. Other concerns include a global excess of savings relative to investment opportunities. Many countries, including the UK, still have high levels of debt making it difficult for monetary authorities to raise rates aggressively. This means there are substantive risks to the prospect of rapid interest rates 'normalisation' resolving scheme deficits.

As well as external risks, the changes to our operating model – bringing member services and certain investment management functions in-house – have brought us greater control, but also greater responsibility, and have changed the profile of our operational risks. Matters such as cyber-security and fraud risks are now of even greater concern to us. As a consequence, our commitment to pursuing best practice in risk management is more important than ever. We have already made significant changes to our risk processes and controls. In 2015 we appointed our first Chief Risk Officer and over the past year have expanded our risk team. We are also putting in place a new risk management framework across the organisation as well as investing in systems, including a new system to support the management of investment risks.

Over the next three years, as we insource some of our investment management and make other changes to our operating model, we will further develop and expand our risk function to ensure we continue to meet our objective to pursue our mission within a high calibre framework of risk management. We will also be developing our in-house compliance function as part of our drive to make sure our governance, controls, processes and management information remain fit for purpose.

Another focus over this period will be to review and improve our scenario and stress testing framework to reflect the changes in our organisation and the external environment. This will include identifying new, negative scenarios that help us understand the effectiveness of our controls and any further mitigating actions that can be put in place.

We will also continue to work closely with TPR, DWP and other stakeholders to support the effective management of risks across the wider defined benefit universe.

3: Our operating environment

3.1 Legislative regime

Our powers and responsibilities were originally set out in the Pensions Act 2004 and have been amended and augmented in subsequent primary and secondary legislation.

The introduction of pensions flexibilities in 2014/15 led to significant changes for pension schemes. These did not directly apply to the PPF, but legislation is to be introduced at the beginning of 2016/17 which will make some small amendments to our compensation provisions.

We continue to monitor wider changes to pensions legislation, for instance the potential changes to the pensions tax regime, following a Treasury consultation in 2016.

3.2 The Economic Environment

Future claims on the PPF depend on:

- the level of pension scheme funding
- corporate insolvency rates, and
- risk reduction measures schemes put in place.

These factors have a direct impact on our workload. The volume of insolvencies among employers of PPF-eligible schemes determines the number of schemes entering assessment. The number of schemes entering assessment, combined with scheme funding levels, determines the number of members and the amount of scheme assets that transfer to the PPF.

We closely monitor trends in each of the three areas above to make assumptions about the level of resources required in the years ahead. Our current assumptions are set out in Table 1. This includes schemes that have entered assessment up until 31 March 2016. It should be noted that it is extremely difficult to predict factors, such as the number of employer insolvencies, and these assumptions are used as an indicator only. Volumes will be revised each year as new information is made available to us.

3: Our operating environment

Table 1: Scheme and member volume assumptions.

Estimates for end of financial year:	2015/2016	2016/2017	2017/2018	2018/2019
PPF				
New schemes entering assessment in the year	46	75	80	80
Schemes transferred to the PPF	33	50	70	80
Schemes leaving assessment by other means	25	10	25	10
Total schemes completing assessment	58	60	95	90
Schemes in assessment at year end	135	150	135	125
FAS[1,2]				
FAS 2 qualifying schemes transferring	20	16	5	2
FAS 1 qualifying schemes transferring	2	1	0	0
PPF				
Members in assessment at year end	120,000	132,500	65,000	40,000
Cumulative members transferred to the PPF	225,000	240,000	260,000	285,000
FAS				
Cumulative members transferred	147,500	152,500	154,000	155,000
PPF				
Assets under Management £bn	£ 21.6	£ 23.0	£ 24.1	£ 26.2[3]

[1] FAS 1 – Schemes that bought members their own annuity policy. Members receive payments through a combination of scheme payment / annuity payment and FAS assistance.

FAS 2 - Schemes that have not bought members their own annuity policy and are a transferring scheme. Members receive a single payment from FAS – incorporating any payments that were due from the scheme.

[2]Assumes no / few cases emerge in lead up to the closure of the FAS to new applications.

[3] Given the timing of asset transfers, this is an approximate allowance made on a number of assumptions.

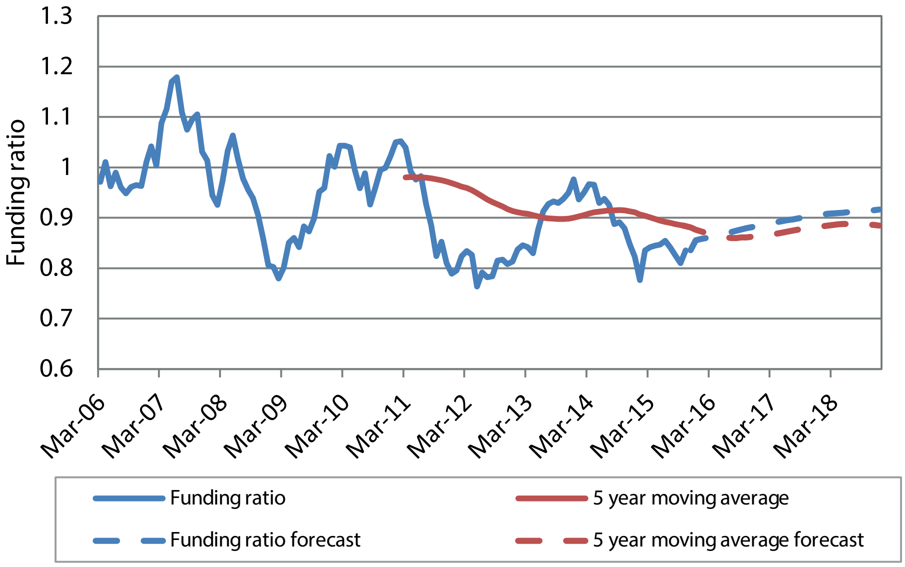
3: Our operating environment

Background to assumptions

In the last two years there has been a significant drop in the number of insolvencies among employers of PPF-eligible schemes and the number of new schemes entering assessment. The economy has been growing while interest rates have remained low, and the national liquidation rate has kept falling to an all-time record low. The UK economy is expected to continue to grow by around 2.2per cent in 2016, 2017 and 2018, and the markets are building in a very gradual rise in interest rates and gilt yields over coming years. Based on this, our assumption is that the number of schemes entering assessment by the end of the three-year period will be slightly lower than we were forecasting in our previous strategic plan (from 85 in the 2015-18 plan to 80 in this one).

Funding levels of PPF-eligible schemes remain low as at the end of February 2016. The aggregate funding ratio (total assets / total liabilities) on a section 179 PPF basis was estimated to be 79.8 per cent with an aggregate deficit of £322.8 billion. Over the next few years scheme funding may only improve slightly, reflecting what is in the futures market for gilt yields, the modest upside forecast for equity markets and estimates of schemes' special contributions.

Chart 1: Scheme funding may improve only slightly over the next few years given low yields expectations and modest upside in equity markets.



However, as set out in section 2, there are a number of factors which make any assumptions about the future particularly uncertain at the present time. The level of uncertainty reflects the risks that exist to economic growth both globally and in the UK, and concerns about the timing and extent of gilt yield recovery.

These uncertainties mean it is critical to maintain flexibility in our operating model so that we are capable of adapting effectively and efficiently to changes in our operating environment, including fluctuating volumes of claims.

For more detailed information on the PPF's operating environment, please see the PPF 7800 Index and the Purple Book.

4: Our Business Plan for 2016/17

Our business plan covers the financial year 2016/17 and sets out how we intend to achieve the strategic objectives set by the Board.

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

Success Factor
1. We remain on track to deliver our funding strategy
2. We will have made enhancements to our investment strategy. Insourcing of our LDI strategy will be on track and we will be managing substantial assets in-house

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

Success Factor
3. Over the first year of managing our member services in-house, we deliver an efficient service and our members report that the customer service they receive is consistently good
4. We will have defined an approach to FAS administration that will deliver FAS members a comparable level of service to our PPF members, and will be cost-effective
5. We will complete the assessment of at least 75 per cent of schemes within two years and continue to review the efficiency with which assessment period tasks are completed
6. We offer excellent customer service to our levy payers, and we will have engaged widely and consulted on proposals for the next triennium

4.3 Pursue our mission within a high calibre framework of risk management

Success Factor
7. We will have fully developed our risk and compliance teams to support an insourced investment function and other changes to our operating model
8. We proactively engage with DWP, TPR and other stakeholders to help ensure effective management of risks to the defined benefit universe

4: Our Business Plan for 2016/17

Foundations:

Success Factor
9. Surveys show at least sustained levels of employee engagement and organisational understanding, confirming that our culture and behaviours are appropriate for a customer focused financial institution

Communications:

Success Factor
10. Our vision and goals are clearly articulated and understood by our customers and other stakeholders. We have a reputation for being professional and trusted

Efficiency and Effectiveness:

Success Factor
11. We will have successfully implemented key projects in line with our plans to deliver efficiency improvements and cost savings

5: Updated financial plan and budget estimate

5.1 Funding

The PPF Administration Fund incurs operating expenditure related to administering the pension protection levy and delivering schemes through the PPF assessment process. The funding for this is provided by DWP and is drawn down via Grant in Aid (GiA). GiA is then recovered through the operation of the PPF Administration Levy, which is imposed by the Secretary of State and collected from pension schemes by TPR.

Funding for the PPF is provided by the pension protection levy, the transfer of assets from schemes completing the PPF assessment process, recoveries from insolvent employers and investment returns. The costs charged to the Protection Fund are in line with set regulations and include investment fees and associated costs, insolvency fees, some member payroll services fees and the associated staff and infrastructure costs.

Funding for the FAS is provided entirely by GiA drawn down from DWP. This funding is not recoverable from pension schemes.

5.2 Three-year financial plan

The key volume assumptions in section 3.2 form the basis of our financial plan. However, as insolvencies, legal claims and the financial markets are difficult to forecast and to control, costs impacted by these are based on a "most-likely" case forecast and are therefore subject to an element of risk.

The cumulative number of PPF and FAS members is forecast to grow by 18 per cent to 440,000 by 2018/19. The project to insource member services for the PPF successfully went live in 2015/16 and remains on track to deliver efficiencies and financial benefits over the coming years.

Table 1: Operating Expenditure by funding source

In order to effectively illustrate planned efficiencies in our operating cost base, Table 1 below shows separately the fund manager costs for the assets we are investing in for growth (external fund manager fees are generally related to the size of assets under management). This illustrates how directly-managed operating expenditure will decline by 2018/19 as we realise the benefits of investment insourcing and other efficiencies.

Projecting forward a further year, by 2020 our annual operating costs are expected to have fallen to £61.8 million, a real-terms reduction against our budget for 2015/16 of 30 per cent.

All figures in £m	2015/16 Fcst	2016/17 Plan	2017/18 Plan	2018/19 Plan
Protection Fund	48.4	48.6	45.3	42.2
PPF Admin Levy	18.5	17.9	17.9	18.2
FAS Admin (Taxpayer)	6.4	8.0	7.9	7.7
Total core operating costs	**73.3**	**74.5**	**71.1**	**68.1**
Fees for management of growth assets	105.8	112.9	117.1	123.0
Total	**179.1**	**187.4**	**188.2**	**191.1**

5: Updated financial plan and budget estimate

During 2016/17 we will begin to manage part of our LDI portfolio in-house and in subsequent years expect to phase in more of our hedging portfolio and other assets, generating significant savings. Over the period of the strategic plan, fees for LDI assets fall by 59 per cent while LDI assets under management are assumed to increase by 24 per cent.

Over the period of this plan, operating expenditure funded by the administration levy falls by 2 per cent to £18.2 million. This is driven by enhancements to our internal infrastructure and reducing our reliance on external providers. We typically measure this by the average administration cost per member. This cost increases over the plan period from the £78 reported in our 2014/15 Annual Report and Accounts to £83 by the end of 2018/19. However, this calculation is impacted by our assumption that two large schemes will leave the assessment process and not transfer to the PPF. Were the members in these schemes to transfer to the PPF, the average cost per member would fall to £69.

FAS operations continue to wind-down with consequent decreases in expenditure. As set out earlier in this plan, over this period we will complete work to determine and implement the best approach to FAS administration. For the purpose of this financial plan we have made some high level assumptions about the costs of conducting this work and implementing any change. These costs are the driver of the assumed increase in FAS expenditure during the period.

Table 2 sets out our view of total estimated expenditure for the three years to 2018/19.

Some figures on this page have been amended to correct rounding differences.

5: Updated financial plan and budget estimate

Table 2: Expenditure by type

All figures in £m	2015/16 Fcst	2016/17 Plan	2017/18 Plan	2018/19 Plan
LDI Portfolio Fees	12.3	9.6	6.6	5.0
Custodian fees	1.8	2.2	2.4	2.6
Member Payroll Services	6.7	4.5	4.5	2.5
Insolvency Professional Services	0.4	1.0	1.0	1.0
Levy Risk Scoring Services	0.4	0.3	0.3	0.3
Other Outsourced Services	0.8	1.1	1.0	1.0
Outsourced Delivery Services	**22.4**	**18.7**	**15.8**	**12.4**
Staff Costs	27.9	30.2	31.3	31.9
Training & Recruitment	1.6	1.4	1.3	1.4
Travel and Meetings	0.2	0.3	0.3	0.3
Staff Related	**29.7**	**31.9**	**32.9**	**33.6**
Accommodation and General Office	3.0	3.1	3.1	3.3
Communication and Publications	0.1	0.1	0.1	0.1
IT and Telecommunications	7.3	9.6	8.8	8.9
Infrastructure	**10.4**	**12.8**	**12.0**	**12.3**
Investment Advisory Fees	0.7	1.0	0.9	0.9
General Legal Services	2.0	1.9	1.6	1.6
Audit and Assurance	0.7	0.9	0.9	0.9
Other Professional Services	4.0	3.7	3.5	3.7
Assurance and Advisory	**7.4**	**7.5**	**6.9**	**7.1**
Controlled Overheads	**47.5**	**52.2**	**51.8**	**53.0**
Depreciation	**3.4**	**3.6**	**3.5**	**2.7**
Total Core Operating costs	**73.3**	**74.5**	**71.1**	**68.1**
Fees for Management of Growth Assets	**105.8**	**112.9**	**117.1**	**123.0**
Total Expenditure	**179.1**	**187.4**	**188.2**	**191.1**
Capital Expenditure	**1.2**	**3.5**	**2.6**	**2.3**

Figures in table 2 have been amended to correct a typesetting error and rounding differences.

5: Updated financial plan and budget estimate

Bringing the management of some of the investment portfolio in-house and the insourcing of PPF member services are the key drivers behind the 45 per cent fall in outsourced delivery services from £22.4 million to £12.4 million.

Controlled overheads increase from £47.5 million in 2015/16 to £53.0 million in 2018/19. Increased staff costs reflect the increased headcount necessary to manage our newly insourced functions but these are partly offset by full time equivalent (FTE) savings in other internal infrastructure areas in 2018/19. Increases in IT costs also reflect the insourcing of investment activities.

Over the remainder of the planning period, efficiencies are achieved through the delivery of enhancements to our internal infrastructure. This will include implementation of planned improvements to the way we manage information across the organisation and to our HR and Finance systems and processes. Also, there are savings and efficiencies from the transfer of the remaining FAS schemes. The combined effect of these over the four year plan contributes £4.4 million to the net reduction in core costs of £5.2 million.

Where we are obliged to do so, or where this represents value for money, we will continue to use external advisers. These costs are planned to be held at current levels, representing a real-terms saving in spite of the continued significant growth in the business. Other Professional Services includes amounts payable to the Government Actuaries Department (GAD), assurance of levy payers' contingent assets, and other specialist advice.

Assets under management will grow to £26.2 billon, enabling us to continue to exploit our scale in negotiating with fund managers. While there will be an increase in fund manager fees over the period to 2018/19, the overall cost as a percentage of assets under management will decrease to an average of 0.49 per cent.

Table 3 summarises estimated FTE over the strategic plan years. The increase in 2016/17 is driven by bringing the management of some of our investment portfolio in-house and strengthening our risk management team. Forecast FTE at the end of the period reflects assumptions about the impact of any change to FAS administration.

Table 3: FTE

FTE	2015/16 Fcst	2016/17 Plan	2017/18 Plan	2018/19 Plan
Total	346	373	367	385

Table 4 summarises estimated capital expenditure over the strategic plan years. Capital expenditure in 2015/16 mainly reflects the IT infrastructure costs for our member services platform and the costs to enhance our IT infrastructure to drive effectiveness and performance. Planned FAS capital expenditure relates to the assumptions on the cost of implementing any change to FAS administration.

Table 4: Capital Expenditure

All figures in £m	2015/16 Fcst	2016/17 Plan	2017/18 Plan	2018/19 Plan
Protection Fund	0.6	0.7	0.9	1.5
PPF Admin Levy	0.1	0.2	0.2	0.2
FAS Admin (Taxpayer)	0.5	2.6	1.5	0.6
Total	**1.2**	**3.5**	**2.6**	**2.3**

Figures in table 4 have been amended to correct a typesetting error and rounding differences.

5.3 2016/17 budget estimate

The £187.4 million budget reflects the estimated cost to deliver 60 schemes through our assessment process, £615 million levy collection and 17 FAS scheme wind-ups plus the continued growth in assets under management, investment insourcing and running the member payroll and administration function.

The budget is 4.6 per cent higher than the £179.1 million forecast for 2015/16. This is largely due to increased fund manager fees in line with the 7 per cent anticipated growth in assets under management although these increases are offset by anticipated savings of £3.6 million due to bringing a proportion of fund management in-house.

Investment insourcing and PPF member insourcing are also the main drivers behind the £2.3 million increase in IT and telecommunications costs versus 2015/16.

Outsourced services increase with the outsourcing of middle office functions but these additional costs are offset by scheme wind-up services ceasing at the end of 2015/16 and a reduction in work outsourced to GAD. Also the majority of 2016/17 member services costs are FAS costs following the insourcing of PPF member services in 2015.

The capital expenditure increase in 2016/17 reflects our continued investment in future efficiencies and the capability to bring our core functions in-house.

Some figures on this page have been amended to correct rounding differences.

6: Further reading

For further detail on the PPF and our work, please visit the following pages:

The Pension Protection Fund
http://www.pensionprotectionfund.org.uk

PPF Long-Term Funding Strategy (and updates)

Pension Protection Fund Annual Report & Accounts

Risk Appetite Statement
http://www.pensionprotectionfund.org.uk/About-Us/Pages/About-Us.aspx

The Purple Book
http://www.pensionprotectionfund.org.uk/Pages/ThePurpleBook.aspx

PPF 7800 Index
http://www.pensionprotectionfund.org.uk/Pages/PPF7800.aspx

For more information on the Pensions Regulator, see:

The Pensions Regulator
http://www.thepensionsregulator.gov.uk

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