Pension
Protection
Fund

PENSION PROTECTION FUND
STRATEGIC PLAN 2017–2020

CONTENTS

FOREWORD

Our latest strategic plan sets out our vision for the next three years. In it, we outline how we intend to achieve our three strategic objectives, which focus on funding, customer service and risk, in order to provide the protection and security that the 11 million members of defined benefit schemes deserve.

In its 12 years of existence the PPF has grown to become an established part of the pensions landscape; the world before we existed where pension scheme members might be left with nothing is now unthinkable. A culture of continual improvement in every area – from our investment strategy through our member services to our levy model – has helped us to evolve into a sophisticated, efficiently-run organisation which strives to provide value for money for our levy payers and valuable protection for our members.

Our strong funding position stands us in good stead to face the future. We currently have around 225,000 members, and by the end of the period covered by this plan we expect this to have grown to as many as 300,000. Our assets will have increased to £32 billion, to enable us to pay compensation to all these members for as long as they need us.

However, there remains a great deal of uncertainty in our operating environment. We have a good understanding of the risks we face, and we make sure we mitigate them effectively where they are within our control. However there are other risks not directly within our control, such as the volatile funding levels among the universe of defined benefit (DB) schemes we protect.

The DB system itself is under significant scrutiny, and was the subject of a government Green Paper published in February this year, as well as an inquiry by the Work and Pensions Select Committee at the end of 2016. Any changes resulting from the Green Paper could have a significant impact on the PPF in future and we would welcome this opportunity being used to improve the security and sustainability of the system.

One of the biggest risks affecting the PPF is the future performance of the UK and global economies. There are a number of major uncertainties facing world markets at present and Brexit makes the outlook for the UK particularly unclear.

Despite these external risks, we are confident that our funding position and investment strategy put us in a good position to confront future challenges.

In the last year we have made significant progress in the insourcing of our liability-driven investments. We have successfully completed the first two phases of this project, giving us greater control and flexibility over our investments. Over the period of this plan we intend to insource sectors of our private and public market credit portfolio and will also, for example examine the rationale for insourcing currency hedging.

AT THE PPF, WE AIM TO PUT A POSITIVE CUSTOMER EXPERIENCE AT THE HEART OF EVERYTHING WE DO

We will continue to evolve our insolvency risk model, to ensure that the levy we charge is as reflective of risk as possible. We know that our levy payers appreciate stability so we will only make changes where there is a compelling case to do so. We will implement changes for the third levy triennium, and by the end of this three-year period we will have consulted on our initial proposals for the fourth triennium.

In addition to the main Pension Protection Fund, we also have responsibility for the Fraud Compensation Fund, which protects members of schemes who have suffered loss to their pensions as a result of dishonesty. We have recently been notified of potential future claims, and have therefore taken the decision to raise a levy in 2017/18 – the first time in five years. While the size and likelihood of these future claims remains unclear, with prudent forward planning in mind, the levy will be set at 25p per member. It is expected that this will raise £5 million, to ensure we are prepared for these potential claims while smoothing the costs over time.

At the PPF, we aim to put a positive customer experience at the heart of everything we do. In 2015 we completed work to bring our member services in-house, to enable us to provide the best possible service to our members. So we were incredibly proud to have this recognised at the 2017 Institute of Customer Service Awards, where we won the Best Customer Experience category.

Following on from the success of insourcing PPF member services, we want to provide Financial Assistance Scheme (FAS) members with the same excellent service. Together with DWP, we have made the decision to bring FAS member services in-house over the next three years. This will ensure that the FAS member experience is consistent with the PPF member experience and that the FAS is operated as efficiently as possible.

Overall, the heart of this strategic plan is a focus on delivering on our mission to pay the right people the right amount at the right time, staying on track to achieve our objectives in the face of an uncertain external environment, and ensuring that our members can be confident that we will protect them for as long as we are needed.

Arnold Wagner,
Chairman

Alan Rubenstein,
Chief Executive

1. ABOUT US

Who we are
The Pension Protection Fund is a public corporation, set up by the Pensions Act 2004, and run by an independent Board. We report to Parliament through the Secretary of State for Work and Pensions.

What we do

"PROTECTING PEOPLE'S FUTURES"

We protect millions of people throughout the United Kingdom who belong to defined benefit, e.g. final salary, pension schemes.

If their employers become insolvent, and their pension schemes cannot afford to pay people their promised pensions, we will compensate them financially for the money they have lost. We take over responsibility for payments once we have assessed that a scheme can't afford to buy from an insurance company benefits which are equal to, or more than, the PPF would pay.

More than 120,000 people now receive compensation from the PPF and hundreds of thousands more will do so in the future. Without us, these people could face significant financial uncertainty and hardship.

We get the money we need to pay compensation and the cost of running the PPF in a number of ways.

We:
- charge a levy on all eligible pension schemes
- take on the assets of schemes that transfer to the PPF
- recover money, and other assets, from the insolvent employers of the schemes we take on, and
- invest all income and assets, as part of a prudent yet innovative strategy, with the aim of making sure we can pay members' compensation for as long as they are entitled to it.

We are also responsible for:

Financial Assistance Scheme (FAS)
We are responsible for the day-to-day running of the Financial Assistance Scheme (FAS) on behalf of the Government. FAS activities are funded by the taxpayer rather than a levy.

FAS pays financial assistance to people who were members of certain 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.

Fraud Compensation Fund
We also pay compensation to members of all types of work-based pension schemes whose employers become insolvent and whose schemes have lost out financially due to dishonesty. Fraud compensation is paid for through a separate levy on all pension schemes.

2. OUR OBJECTIVES

Over the next three years we will be seeking to deliver on our mission and meet our strategic objectives

MISSION

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

STRATEGIC OBJECTIVES

The PPF's work is focused on three strategic objectives:

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

3. OUR OPERATING ENVIRONMENT

Over the next three years, the environment in which we will be operating, and the risks we are exposed to, are almost uniquely uncertain and have the potential to significantly impact our ability to meet our objectives. Factors that are particularly critical, because together they determine the level of claims we will receive and the deficits we inherit from schemes, are:

- The level of pension scheme funding
- Corporate insolvency rates; and
- Risk reduction measures that schemes put in place.[1]

Movements in financial markets also affect the performance of our own investments and will therefore be a key determinant in our overall funding position.

Over the last three years scheme funding levels have fallen substantially, with an aggregate deficit on a PPF basis of some £226.5 billion at the end of March 2017, largely as a result of falling interest rates and gilt yields. Over the three years, 15-year gilt yields fell by 1.6 percentage points while the FTSE All-Share index rose by 12 per cent. Over the same period there has been a significant fall in the number of new schemes entering assessment with the national liquidation rate having dropped to an all-time low.

How these trends will unfold over the next three years is heavily dependent on the performance of the wider UK and global economy. At the current time there are a number of major uncertainties facing the world economy and Brexit makes the outlook for the UK particularly uncertain. Over the period of this plan the UK Government intends to negotiate the terms of the UK's withdrawal from the EU alongside new trade arrangements with the EU and other countries. Commentators have noted that, until the shape of these new arrangements becomes clear, the resulting uncertainty could lead to financial market volatility as well as real economy effects e.g. postponement of business investment. The medium to long-term impacts are likely to depend on the nature of the final settlement, including the extent of access to the single market and any wider implications (including the outcome of a further Scottish referendum, if there were to be one).

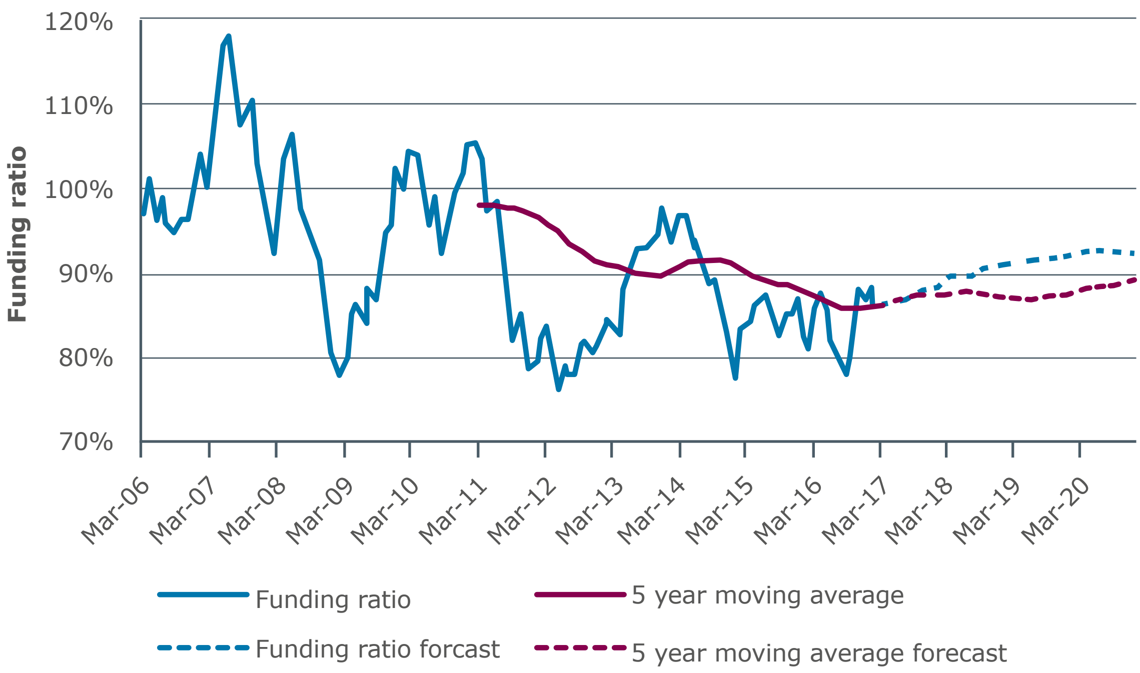
There could also be consequences for the EU and global economies. While political change in the US could result in tax cuts and public spending increases, boosting US growth in 2017 and 2018, measures to protect US industries from foreign competition and lower immigration could result in slower US and global growth in the longer term. A number of major European economies also face general elections in 2017.

SIGNIFICANT FALL IN THE NUMBERS OF NEW SCHEMES ENTERING ASSESSMENT

[1] The volume of insolvencies among employers of PPF-eligible pension schemes determines the number of schemes that will enter our assessment period. The number of schemes entering assessment, combined with scheme funding levels, determines the number of members and the amount of scheme assets that will transfer to the PPF.

Currently, independent economic forecasters have revised down their 2017 forecasts to show UK growth slowing from 1.8 per cent in 2016 to around 1.7 per cent in 2017 (before the referendum result, growth was forecast to be around 2 per cent in both 2016 and 2017 although the 2016 undershoot reflected pre-Referendum weakness). Markets have also revised down their interest rate expectations a little with policy rates and gilt yields forecast to remain extremely low over the next four years. Slower economic growth in line with these forecasts might be expected to lead to a modest increase in insolvencies but this could be offset by sustained low interest rates (meaning borrowing costs for employers remain low). The same scenario would see little improvement in scheme funding due to the modest rise in gilt yields built into financial markets. Appendix A summarises our planning assumptions for the period of this plan.

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



It is not however just the economy that influences our operating environment. Currently the legislative and regulatory regime for defined benefit pension schemes is under significant scrutiny. The Work and Pensions Select Committee launched a significant inquiry in the autumn of 2016, publishing its findings in December. This was followed in February by the Government Green Paper "Security and Sustainability in Defined Benefit Pension Schemes". The paper sets out a range of issues and options for consideration including areas of the wider regime that are critical to the fulfilment of our objectives (e.g. ensuring strong recovery plans are in place and preventing avoidance of pension scheme liabilities). Any resulting changes could therefore have a significant impact on the PPF in the future.

Much of this scrutiny was triggered by events surrounding two particular large schemes: the British Steel Pension Scheme (BSPS) and the BHS scheme. The future of the latter is now being resolved (following a settlement between Sir Philip Green and The Pensions Regulator). The future for the BSPS is still to be finalised, though a Regulated Apportionment Arrangement (RAA) has been agreed in principle which could pave the way for a new scheme to be set up. Members would be given the choice between this scheme and the PPF. They can be reassured that they are protected by the PPF and can therefore be confident they will as a minimum receive the substantive levels of compensation the PPF provides – in broad terms this is 100% of pensions in payment, and 90% of accrued pension (subject to a cap) for non-pensioner members.

MEMBERS CAN BE CONFIDENT THAT THEY WILL, AS A MINIMUM, RECIEVE PPF LEVELS OF COMPENSATION

Given the size of BSPS it presents a significant planning uncertainty for us over this period (should the PPF be required to assume responsibility for the scheme in full it would significantly increase the current size of the PPF in terms of members and assets under management).

A new risk emerging from BHS is the issue of a scheme with no substantive sponsoring employer. It is possible that other schemes may also consider similar structures. This changes the nature of the risks we face (especially if this approach was not restricted to just one scheme). Without a genuine business sponsoring the scheme, there is no income stream to offset unexpected scheme costs or poor investment performance, and so the PPF would become the first port of call should scheme funding deteriorate rather than – as currently – a second line of defence after the employer. In March we confirmed our new rules for calculating an appropriate levy for this sort of arrangement and indicated our intention to keep the area under close review.

Like other organisations, we are affected by changes in the wider legal environment. Key changes relevant to us over the period include the introduction of mandatory clearing for "Over-The-Counter" derivatives, established by the European Markets Infrastructure Regulations, in 2018 and the introduction of the General Data Protection Regulation. Brexit may also lead to direct implications for us if UK law changes – for example if there are changes in employment law. Finally, we are particularly concerned about the growth in cyber-crime and the risks it poses to the data we hold. This is an area we continue to monitor closely (see section 4), and we are joined up with other public sector organisations to discuss concerns and share lessons learned.

We will keep an active watch on our operational environment throughout the year ahead and are well prepared and positioned to react, should circumstances call for it.

4. OUR VISION OF THE PPF IN 2020

OUR MEMBERS

Over **300,000** members have transferred to the PPF

A positive customer experience is at the heart of everything we do

Better online services

INVESTMENT

£32BN in assets under management

In-house asset management continues to grow – "efficiency" "flexibility" "control"

FAS

Almost **160,000** members have transferred to FAS

FAS member services transferred to our in-house team

LEVY

Successful launch of third levy triennium

Approach to fourth triennium developed

Excellent customer service to our levy payers

Continuous improvement, responding to feedback – a more risk reflective levy

RISK

Technical and process improvements to keep our data secure

Confident that our management of our funding level and our long-term funding strategy will ensure that we can make compensation payments both now and in the future

Enhanced risk management framework

PEOPLE

Engaged and diverse workforce

An employer of choice

HOW WE'RE GOING TO ACHIEVE IT – OUR PLANS FOR THE NEXT 3 YEARS

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

Fundamental to our mission is that we have enough money to pay our members compensation, both now and in the future. In our 2015/16 Annual Report and Accounts we reported a strong position, finishing the year with £4.1 billion in reserve. Our funding ratio rose from 115.1 per cent to 116.3 per cent by the end of the year.

While this is a strong position, our funding objective is a long-term one. We aim to be financially self-sufficient by our funding horizon, currently 2030. This is the point at which, given growth in our liabilities together with reductions in the number of DB schemes and improved scheme funding, the amount of levy we could collect will be limited in relation to the size of our balance sheet. At this point we therefore need to have confidence that we are sufficiently funded to meet our long-term liabilities.

Clearly there are significant risks to the achievement of that objective. As set out in section 3, the external environment and the universe of schemes we protect continue to present challenges.

During the next three years, the following activities will be key to the effective management of our balance sheet in this uncertain environment:

- We will conduct an annual review of our funding strategy to ensure it remains appropriate and continue to follow and evolve our award-winning investment strategy
- To increase the level of flexibility and control we have over our investments we will bring more of our assets under in-house management. This process started in 2016/17 with part of our liability driven investment (LDI) portfolio. Once this has been embedded we plan to transfer our private and public market credit portfolio to our in-house team. We will then explore the possibility of insourcing passive currency hedging
- We will ensure that we have the correct asset allocation in place, prior to the introduction of mandatory clearing for OTC derivatives, established by the European Markets Infrastructure Regulations, in 2018

In parallel, we will continue to enhance our control environment. We will formalise our compliance and ethics function to ensure that we have the necessary requirements in place to support the organisation and, in particular, in-house asset management.

> WE WILL BRING MORE OF OUR ASSETS UNDER MANAGEMENT IN HOUSE

In addition to having enough money to pay our members compensation, we must also ensure that we have enough money to pay fraud compensation to members of schemes (both defined benefit and defined contribution) who have lost their pensions due to dishonesty. We have recently been notified of some possible claims which might come to the Fraud Compensation Fund in the next couple of years. Therefore, with forward planning in mind and to smooth the impact to schemes over time, we have taken the decision to raise a fraud compensation levy in 2017/18. The levy will be set at 25p per member – around £5 million in total – which is the same level as in 2012/13 and lower than the maximum we are permitted to collect (75p per member).

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

Excellent customer service is at the heart of everything we do and we strive to meet our members' and levy payers' highest expectations.

We are proud to have embedded our in-house member services function, and in the next three years aim to continue to enhance our service, listening to feedback and making changes to ensure that our members feel that they would choose us if they could. In particular, we will:

- Invest in the training and development of our people, to ensure that they continue to provide excellent customer service
- Review the standard of the service we provide, including exploring the possibility of benchmarking our service against other members of the Institute of Customer Service
- Look to increase the range of services available online, and the ease of use of web transactions, encouraging more of our members to use our online channel as their default choice. This will deliver both a great customer experience and cost efficiencies

It is also important that we progress schemes through the PPF assessment period as efficiently as possible, to provide certainty for schemes and members, and to maximise use of money, time and resource. Within the period of this plan we will:

- Explore the possibility of delivering in-house more of the work currently done by third parties during the assessment period, where it is cost effective to do so, whilst also delivering a high level of service
- Work with our data specialist partner, Target Professional Services, to continue to improve the data quality of schemes in assessment, so that the data we receive when a scheme transfers to us is fit for purpose. This will ensure that fewer corrections need to be made and our customers will receive a better experience
- Remain committed to completing the assessment of at least 75 per cent of PPF schemes within two years
- Given the highly uncertain environment, ensure we build flexibility into our operating model with the aim of delivering services effectively if insolvency volumes were to rise suddenly or if we were to receive a very large claim on the Fund

On 1 September 2016 we closed FAS to new applications and we aim to have completed all FAS transfer activity within the next two years.

In addition, following work with DWP to complete a review of the best approach to FAS administration in the long-term, we have taken the decision to insource FAS administration within the next three years. This will help to ensure that the FAS member experience is consistent with the PPF member experience, and that FAS is operated as efficiently as possible, in the most cost effective way.

Delivering excellent customer service to our levy payers and their representatives is also key for us. Our levy payers tell us that stability, simplicity and transparency are important to them, and we strive to offer that wherever we can. Over the period of this strategic plan, we have the following priorities for the levy:

- 2018/19 marks the start of the third triennium, and following responses from consultations held in 2017, we will implement changes including to our insolvency risk model to help ensure that levies charged are as risk reflective as possible
- Over the period, work will also begin on developing our strategy for the fourth levy triennium (beginning in 2020/21) and we will have consulted upon our initial proposals
- We will explore how we can continue to improve the service that both our in-house team and our insolvency risk provider, Experian, provide to our levy payers and their advisers. This will include exploring possible improvements to our online offering

Pursue our mission within a high calibre framework of risk management

Whilst the PPF continues to grow and we remain in a good funding position, the economic environment is particularly uncertain and we face significant risks. Where risks are within our control, we make sure that they are effectively mitigated. However, there are some risks that are not directly within our control, such as the significant worsening of funding levels in the schemes we protect due to low interest rates and low investment returns.

We use data which schemes provide to The Pensions Regulator to model the state of DB pension scheme funding in the UK. We collate and publish this data through the Purple Book and the monthly PPF 7800 Index to inform the industry and other stakeholders about the financial health of the DB universe. The underlying data set supports our modelling and risk management, as well as our Funding Strategy Update.

A STRONG RISK MANAGEMENT FRAMEWORK IS EMBEDDED ACROSS THE ORGANISATION

As well as the uncertain external backdrop, we also face changing operational risks as we make changes to our operating model. Bringing more of our investment functions in-house and insourcing FAS will both give us greater control, but also greater responsibility, as more risk that was previously managed by third parties will now sit directly within the PPF. Matters such as cyber-security and fraud risks also continue to be a threat to us, and as a consequence our commitment to best practice in risk management is more important than ever.

Over the past few years, we have worked to ensure that a strong risk management framework is embedded across the organisation. To continue to enhance this, our priorities for risk management during the period of this strategic plan include:

- Refinement and embedding of a new scenario and stress test framework for operational and financial risk, which will help us to better understand the risks we face and will drive risk mitigation actions
- We will fully embed the Own Risk and Solvency Assessment (ORSA) that we undertook in 2016/17, using the outputs to inform future risk management
- We will design and implement a new investment risk management framework that builds upon our existing financial risk management policies and ensures that we adopt and maintain best practice for the next stages of investment insourcing
- Recognising the increasing risk of cyber-attack, we will explore technical and process improvements to continue to secure our data effectively.

We will also continue to work closely with DWP, The Pensions Regulator and other stakeholders to support the effective management and mitigation of risks across the wider DB universe, and ensure the best outcome for PPF members and levy payers. This will include active engagement with the Government on its thinking around the future of defined benefit pension schemes.

OUR FOUNDATIONS

Delivery of our three core strategic objectives is dependent on the strong foundation of our people working efficiently and effectively and communicating clearly what we do.

People
As our organisation continues to grow, our people need to grow with us, and we are proud to have a strong, committed and diverse workforce with a wide range of professional skills.

Our ICARE values are central to our reputation, providing a standard which we expect from all our people.

Ensuring that people live these values in their day-to-day interactions with colleagues and customers is vital, and we support these through effective performance reviews and development of staff.

INTEGRITY
COLLABORATION
ACCOUNTABILITY
RESPECT
EXCELLENCE

As well as our staff knowing what's expected of them, our people know what they can expect from us as an employer of choice. Over the next three years we will embed a robust model for talent management, to attract, develop and retain the right people and advocate the PPF employer brand.

We will continue to ensure that our people are well equipped to deliver an excellent service to our members and levy payers, and throughout the organisation we will develop and embed a culture of compliance and ethics, which will enhance accountability and responsibility at every level.

The views of our employees are important to us and in the last year we have refreshed our employee engagement survey. We had a record number of responses and a large number of employees were highly positive. Scores relating to confidence in our leadership were consistently high, as were those for willingness to recommend us as an employer. We will continue to improve employee engagement throughout the organisation, listening to and acting upon the views of our people.

Communications
Our customers are at the heart of everything we do, and it is crucial to us that we communicate with our members and other stakeholders in an effective and clear way, with consistent and easily understood messaging. We want our customers to feel that we listen to their feedback and use it to make operational improvements and shape our future work. During this period we will use stakeholder feedback to develop the methodology for the third levy triennium, and will have consulted on the proposals for the fourth triennium. We will also continue to use member feedback to enhance the service we offer to our members.

Effective communication not only provides confidence to our members that we will deliver on our promises, but also to schemes and members outside the PPF who know that we are here for protection. Pensions and retirement issues have been a focus in the UK media this year and we will continue to ensure that our role is portrayed correctly, and that people understand the benefit we provide.

We continue to use our experience and expertise to engage with government, The Pensions Regulator and other stakeholders on issues that affect us and the wider pensions industry.

Efficiency and effectiveness
Our members and levy payers expect and trust us to operate efficiently and effectively, and we strive to demonstrate this in everything we do – making enhancements through continuous improvement. Where possible, we will look to benchmark our performance and costs against comparable services and contracts in the financial services industry, which will give us a better understanding about the use of our own resource and financial expenditure. Once embedded, we will be doing this as a matter of routine and will use the findings to develop efficiencies and process improvements.

A key driver of savings over this period will be the further insourcing of asset management. Whilst increasing control and maintaining or improving service levels, savings from this insourcing activity are evidenced in the financial plan.

To ensure that our systems and processes continue to be fit for purpose and keep pace with our increasing size and scale, we will consider our future growth needs in all areas of change, particularly when investing in technology. This will include continued investment in infrastructure, including information management, to ensure that we make the best use of our time and resources. We will also be looking to make sure that our future developments in the digital area will satisfy our future needs, and within the period of this plan we will look to develop a digital strategy to set our direction in this area and ensure that we are focussed on cost savings and effectiveness, as well as excellent service to our customers.

5. FOCUS ON 2017/18

Our 'success factors' cover the 2017/18 financial year and set out specific areas of priority for the year ahead

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

SUCCESS FACTOR

1. Remain on track to deliver our funding strategy
2. We deliver returns in line with plan and will continue to develop our investment strategy in light of the Fund's increasing scale
3. Strong governance and compliance standards that support a culture of accountability and responsibility have been embedded

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

SUCCESS FACTOR

4. Our service to members is consistently good, measured by our customer satisfaction score and operational measures
5. We offer consistently good customer service to our levy payers, and will have agreed the methodology for the first year of the third levy triennium

Pursue our mission within a high calibre framework of risk management

SUCCESS FACTOR

6. We will embed a new stress testing framework and will drive forward risk mitigation activity
7. We will proactively engage with government, The Pensions Regulator and other stakeholders on areas that pose a risk to the PPF and provide input to work on the future of defined benefit schemes

People

SUCCESS FACTOR

8. We will build on our position as an employer of choice to attract and retain the right people for the roles we need

Communications

SUCCESS FACTOR

9. 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

10. We will ensure that all major projects remain on track against time and budget and deliver their expected business benefits to the organisation

6. UPDATED FINANCIAL PLAN AND BUDGET ESTIMATE

FUNDING

The PPF Administration Fund incurs operating expenditure related to administering the 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 DB pension schemes by The Pensions Regulator.

Funding for the Protection Fund itself is provided by the 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 the relevant legislation 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.

THREE-YEAR FINANCIAL PLAN

The key volume assumptions in Appendix A 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.

In particular, there is ongoing uncertainty over the future of the British Steel Pension Scheme. The possibility of this coming to the PPF is not allowed for in the following cost projections, which would alter materially if it were to be.

Table 1: Operational expenditure by funding source

The impact of investment insourcing activities, which started in 2016/17, and the insourcing of FAS administration, expected to complete in 2018/19, are the main drivers behind the decreasing cost base of the PPF for directly managed costs. Continuing to leverage these initiatives enables us to achieve an overall reduction in our costs even as member numbers grow and our operations continue to expand. The costs of the Administration Fund came significantly behind budget in 2016/17 but revert to normal levels in 2017/18, reflecting the costs of implementing the new levy triennium review and other initiatives. The overall level of cost charged to this fund decreases over the period of the Plan.

All figures in £m	2016/17 Fcst	2017/18 Plan	2018/19 Plan	2019/20 Plan
Protection Fund	180.5	186.3	180.0	182.3
PPF Admin Levy	14.2	16.5	16.2	16.0
FAS Admin (Taxpayer)	7.5	9.3	10.6	6.6
Total core operating costs	**202.2**	**212.1**	**206.8**	**204.9**

Table 2: Expenditure by type

All figures in £m	2016/17 Fcst	2017/18 Plan	2018/19 Plan	2019/20 Plan
Fund Manager Fees	140.4	138.3	134.8	133.6
Custodian fees	1.8	1.5	1.5	1.6
Member Payroll Services	5.0	4.2	2.5	0.7
Insolvency Professional Services	0.1	1.0	1.0	1.0
Levy Risk Scoring Services	0.4	0.3	0.4	0.7
Other Outsourced Services	2.5	2.0	1.8	1.7
Outsourced Delivery Services	150.2	147.3	142.0	139.3
Staff Costs	28.0	32.5	32.8	33.3
Training & Recruitment	0.4	1.5	1.6	1.5
Travel and Meetings	0.7	0.3	0.3	0.4
Staff Related	29.1	34.3	34.7	35.2
Accommodation and General Office	2.9	3.8	3.8	3.9
Communication and Publications	0.2	0.3	0.3	0.3
IT and Telecommunications	11.4	10.5	10.7	11.0
Infrastructure	14.5	14.6	14.8	15.2
Investment Advisory Fees	0.5	0.9	0.9	0.9
General Legal Services	1.2	1.6	1.6	1.6
Audit and Assurance	0.8	0.5	0.5	0.5
Other Professional Services	2.3	9.0	8.1	7.9
Assurance and Advisory	4.8	12.0	11.1	10.9
Controlled Overheads	48.4	60.9	60.6	61.3
Depreciation	3.6	3.9	4.2	4.3
Total Core Operating costs	202.2	212.1	206.8	204.9
Capital Expenditure	3.0	1.8	2.3	2.5

During 2016/17 we have achieved an acceleration to the planned phased insourcing of the LDI portfolio and the impact of this, along with the planned transfer of our credit portfolio and insourcing of the FAS member payroll from 2018/19, drives a reduction in our reliance on outsourced delivery services.

Assets under management will grow to £32.0 billion, enabling us to continue to exploit our scale in negotiating with fund managers and the scalability of in-house management. There will be a decrease in fund manager fees over the period to 2019/20 and as a percentage of assets under management the overall cost will fall from an average of 0.54 per cent to an average of 0.43 per cent

Other controlled overheads increase from £48.4 million in 2016/17 to £61.3 million in 2019/20, mostly staff costs reflecting the headcount necessary to manage our newly insourced functions. Costs are projected to increase as further schemes transfer although this effect has been mitigated through the scalability of our in-house administrative model and is demonstrated by a 10 per cent reduction in costs per member over the period of the plan.

We remain focused on delivering efficiencies through enhancements to our internal infrastructure and realising the benefits of the specific initiatives we committed to in last year's Spending Review. There is however an impact on our costs from events in the external environment and in order to manage the changing operational risks we face as we continue to undertake more complex activities in-house.

Throughout the business where we are obliged to do so, or where this represents value for money, we use external advisers. External costs of Audit and Assurance reduce from 2017/18 as we are establishing an in-house internal audit function.

WE REMAIN FOCUSED ON DELIVERING EFFICIENCIES THROUGH ENHANCEMENTS TO OUR INTERNAL INFRASTRUCTURE

2018 marks the start of the third levy triennium and we have anticipated additional costs to support the changes proposed in our recent consultation.

Table 3: FTE

FTE	2016/17 Fcst	2017/18 Plan	2018/19 Plan	2019/20 Plan
Total	352	413	415	415

Table 3 summarises estimated FTE over the strategic plan years. The main drivers of the increase are the insourcing of FAS administration, further development of internal fund management, risk and associated support functions.

Table 4: Capital Expenditure

All figures in £m	2016/17 Fcst	2017/18 Plan	2018/19 Plan	2019/20 Plan
Protection Fund	0.6	1.0	2.0	2.3
PPF Admin Levy	0.0	0.2	0.2	0.2
FAS Admin (Taxpayer)	2.4	0.6	0.1	0.0
Total	3.0	1.8	2.3	2.5

By 2019/20 we are anticipating the completion of our programme of transformational change and based on our planning scenario the overall level of development spend begins to reduce.

2017/18 BUDGET ESTIMATE

The £212.1 million budget reflects the estimated cost to deliver 65 schemes through our assessment process, £615 million levy collection and 16 FAS scheme wind-ups as well as running the member payroll and administration functions. The budget also shows the impact of investment insourcing against a background of rising assets under management.

The budget is starting to show the benefits of investment insourcing as well as investing in the forthcoming FAS administration function, due to be implemented in the following year. Savings in fund manager fees on our insourced portfolios offset the growth in fees from higher assets under management.

Staff and infrastructure costs are £5.3 million higher, reflecting the full year costs of FTEs recruited during 2016/17 and the higher FTEs in preparation for the insourcing of FAS administration and associated member payroll costs.

Capital expenditure decreases as the FAS member payroll systems are implemented.

The 2017/18 budget estimate has been approved by DWP. All figures for later years are indicative based on the scenario and assumptions set out in this document.

THE BUDGET WILL START TO SHOW THE BENEFITS OF INSOURCING INVESTMENT AND FAS ADMINISTRATION

7. 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

Appendix A

Planning assumptions for strategic plan period: Our current assumptions – reflecting the factors identified in section 3 – are set out in the table below. This includes the schemes that have entered assessment up until 31 March 2017. It is extremely hard to predict factors such as the number of employer insolvencies especially given the current high level of uncertainty around the economy and the implications of Brexit and so these assumptions are used an indicator only. Volumes will be revised each year as new information is made available to us. These figures assume that the British Steel Pension Scheme does not enter a PPF assessment period within this planning period. As our volumetric assumptions were developed prior to the announcement on 28 February of a settlement in respect of the BHS schemes, our assumption was that BHS members would eventually transfer to the PPF. While it is expected that most members will opt to leave the BHS schemes, the number who might transfer to the PPF is unclear and therefore we have not yet updated these volumetric assumptions.

Estimates for years ending:	2016/2017 (Forecast)	2017/2018 (Forecast)	2018/2019 (Forecast)	2019/2020 (Forecast)
PPF	**Schemes**			
New cases entering assessment in the year	45	75	80	80
Cases transferred to the PPF	62	55	65	60
Cases leaving assessment by other means	19	10	10	10
Total cases completing assessment	81	65	75	70
Cases in assessment at year end	112	122	127	137
FAS				
FAS 2 qualifying schemes transferring	11	16	5	0
FAS 1 qualifying schemes transferring	0	1	0	0
PPF	**Members**			
Members in assessment at year end	123,000	60,000	45,000	50,000
Cumulative members in compensation	235,000	255,000	295,000	315,000
FAS				
Cumulative members transferred	150,500	154,500	157,000	157,000
Assets				
PPF				
Assets under Management £Bn	28.7	29.5	30.2	32.0