

PENSION PROTECTION FUND STRATEGIC PLAN 2018-2021

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FOREWORD

As the Pension Protection Fund (PPF) grows to hundreds of thousands of members and tens of billions of pounds in assets, the Isle of Man may seem an unusual place from which to draw inspiration.

In January 2018, the media covered a story about a Manx pension scheme that wound up after its sponsoring company went bust. The Isle of Man provides no protection to members of Defined Benefit pension schemes of the sort the PPF does. The pension scheme was severely underfunded, able to pay only a fraction of the benefits due, with members facing receiving very little of their promised pensions.

This reminder of the difference the PPF makes is striking. Without a capable and successful PPF, recent UK corporate collapses might have meant penury for pension scheme members. Instead, we have been there to compensate members for the vast majority of their promised benefits. These members are not 'falling' into a PPF which 'slashes' their pensions. Rather, members are compensated, in part by the contribution of our levy-payers, and are receiving more than their pension scheme could otherwise have afforded.

Our latest Strategic Plan sets out our vision for the next three years; how we continue to ensure we will be there to protect members in an uncertain world. Despite that uncertainty our three strategic objectives focussing on funding, customer service and risk management, remain unchanged. We continue to believe that these are the right priorities for us to ensure the PPF remains a successful and established part of the pensions landscape.

Of course, much does change. In January we said goodbye to Alan Rubenstein as our Chief Executive following nearly nine successful years. We are excited about his excellent successor, Oliver Morley. Oliver has the opportunity to use his proven skills to take the PPF into the next phase of its development.

The forthcoming White Paper also heralds changes to the pensions landscape. As we did with the Green Paper, we welcome the opportunity to contribute to the continuing debate on how the regulatory regime should evolve. We believe there are opportunities to better challenge the

kind of corporate behaviour that increases risks to us and our levy-payers, and to improve outcomes for schemes and employers in genuine distress. Close engagement with Government and our colleagues at the Pensions Regulator remains key to achieving our objectives.

As we make clear on pages 6-8, while the outlook for claims and the scale of those claims remain changeable and uncertain, we remain on track toward our Funding Target. Whilst we remain mindful of the risks we face, we are confident that our funding position and investment strategy put us in a good position to confront future challenges.

We are continuing to strengthen our investment approach, developing it as the Fund grows. This growth makes it all the more important that we hold ourselves to the standards that a regulated financial services organisation would face (although we are not required to do so), ensuring a culture of accountability and responsibility.

While our headquarters will remain in Croydon, our new Cannon Street office in the City of London will bring us closer to our investment peers, facilitate engagement and cooperation, and help us to recruit and retain the talented investment people we have and need. This will help as we continue to insource investment activities where appropriate to do so.

Delivering excellent customer service remains at the heart of what we do. We are therefore delighted that in January this year, we secured the coveted Institute of Customer Service ServiceMark accreditation. We can, of course, do more, whether through better understanding the needs of our members, learning from peers, or through increased use of digital functionality and improving our ways of working. We'll also complete our work to bring the member service function for the Financial Assistance Scheme in-house, alongside our existing PPF member services team.

With a new levy triennium just starting, our focus in the coming year will be on levy customer service and ensuring we implement the changes we've introduced effectively. We want to charge schemes a proportionate

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

levy that reflects the risks they pose to us. We'll therefore also start to think about how the levy may need to evolve further in the coming years.

We also run the Fraud Compensation Fund (FCF) and intend to raise a Fraud Compensation Levy in the coming year. The FCF protects members of schemes who have suffered loss to their pensions as a result of dishonesty. The size and likelihood of future claims continues to be unclear. With prudent forward planning in mind, the FCF levy will remain set at 25p per member. This will ensure we are better prepared for potential claims while smoothing the costs over time.

Underpinning all these areas of work we will continue to aim to be an employer of choice, attracting and retaining the right people. We want to continue to ensure we communicate effectively ensuring the protection we provide, and the value of that protection, is well understood. We also want to continue to be efficient and effective in how we work. This will mean more investment in our IT capabilities.

All of this will help us to deliver our mission to pay the right people the right amount at the right time, ensuring that in an uncertain environment our levy-payers and members can be confident we will continue to serve them well. For the nearly 11 million members of UK pension schemes we protect, we're proud of the difference the PPF and its people make.



Arnold Wagner,
Chairman



Andrew McKinnon,
Acting Chief Executive



1. ABOUT US

"PROTECTING
PEOPLE'S
FUTURES"

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

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 cannot afford to buy benefits from an insurance company which are equal to, or more than, the PPF would pay.

More than 130,000 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 raise 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

MORE THAN 130,000 PEOPLE NOW RECEIVE COMPENSATION FROM 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 investment strategy.

We aim to make 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 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 offences involving 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 achieve 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

The environment in which we will be operating over the period of this strategic plan continues to pose significant uncertainties, and the economic and political risks we are exposed to have the potential to impact our plans and the achievement of our objectives.

There are a number of factors that determine the level of claims on the PPF and the size of the deficit we will inherit from a scheme. In particular, the uncertain operating environment plays a significant role in the following areas:

- corporate insolvency rates; and
- the level of pension scheme funding¹.

In addition, financial market volatility can also affect the performance of our investments and balance sheet, and is therefore key to our overall funding position.

The recent years have been highly unusual for the schemes we protect. Economic recovery and exceptionally low interest rates and gilt yields have contributed to extremely low levels of insolvencies across the UK economy. The national liquidation rate² fell from a peak of 0.95 per cent at the end of 2009 to 0.41 per cent by the third quarter of 2016. Since then, new company insolvencies in the economy as a whole have risen a little, possibly reflecting slower GDP growth.

The evidence so far for this year also points to a potential increase in the number of new cases entering PPF assessment. Our current forecast for schemes entering assessment in 2017/18 is around 60, up from around 45 in the 2016/17 financial year, but lower than we forecasted in the 2017/18 Strategic Plan.

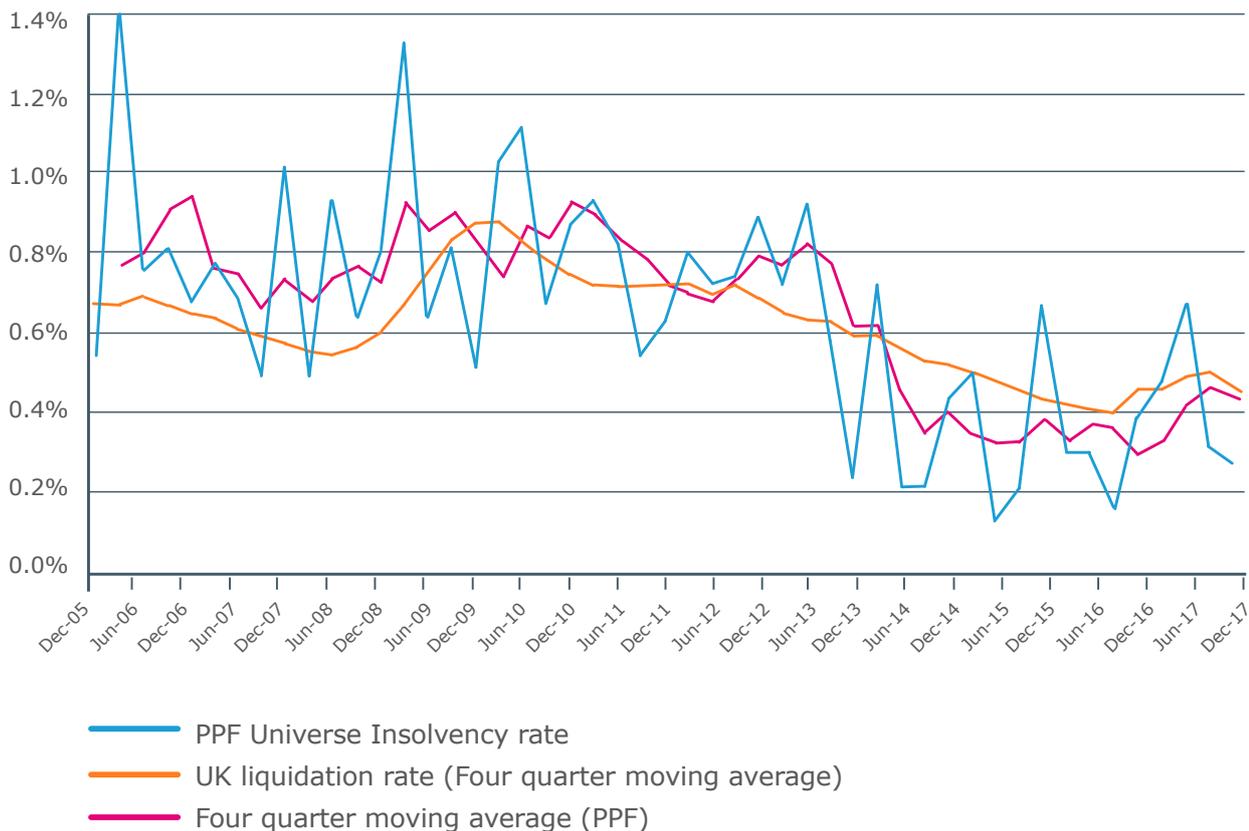
Economic forecasters reduced their growth forecasts for 2017 after the EU referendum result. The average independent GDP growth forecast is for growth of 1.6 per cent in 2017, 1.4 per cent in 2018 and growth of around 1.8 per cent thereafter. (The Office for Budget Responsibility's November 2017 forecast for growth after 2018 was a little lower at 1.5 per cent.) Given the outlook for economic growth, weak productivity growth and further budget deficit reduction, economists are expecting modest increases in the Bank of England's key interest rate to around 1.3 per cent by 2021. Meanwhile, financial markets are building in a rise in gilt yields of only 0.8 per cent.

A combination of low growth, leading to modest increases in interest rates, and continuing low corporate bond yields suggest that any rise in insolvencies and claims on the PPF may remain limited in the next three year period. Whilst not certain, the figure below shows the relationship between the PPF and the national insolvency rate.

¹ The volume of insolvencies among employers of PPF-eligible pension schemes determines the number of schemes that will enter our assessment period. Scheme funding levels then determine the number of these schemes that transfer to the PPF.

² The number of company liquidations in the latest 12-month period as a percentage of the average number of active companies in that period. The figures relate to England and Wales.

Fig 1: UK and PPF insolvency rates compared



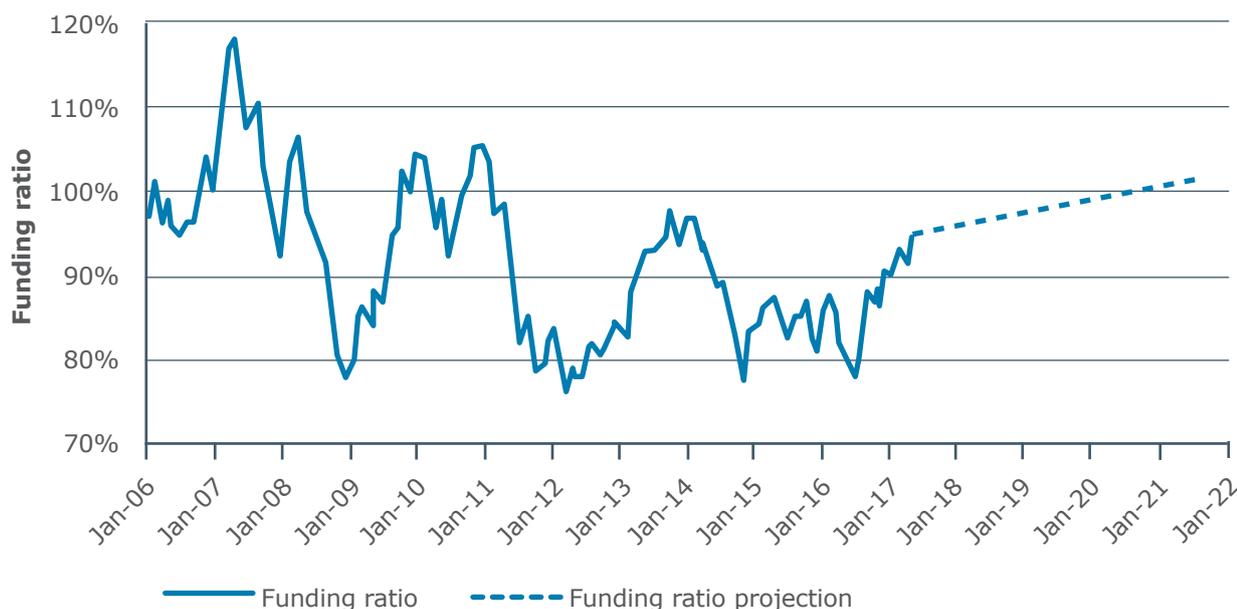
DB scheme funding on a PPF s179 basis decreased in mid-2016 on the back of falling gilt yields, reaching a low of 78 per cent in August 2016, not far above the all-time low seen in May 2012. Scheme funding then rebounded as gilt yields recovered, and rose further reflecting strong growth in equity markets and more up-to-date information from schemes.

By November 2017 the funding level had reached 95 per cent, the highest since May 2014. With markets

expecting limited increases in gilt yields and with possibly limited upside for equity markets, further improvement of scheme funding over the next three years may be limited and we may see continuing volatility.

It should also be remembered that even if the overall scheme funding level is 100 per cent, which is possible over the next five years, around 60 per cent of schemes would still be in deficit, and thereby still posing a risk to the PPF.

Fig 2: History and projection of the aggregate funding level of PPF eligible schemes (PPF s179 basis)



There is, of course, considerable uncertainty around the outlook for the economy and claims, particularly given the current uncertainties surrounding Brexit. The PPF performs stress scenarios to analyse how resilient it is to different economic shocks. In late 2016 we conducted modelling of three 'Brexit' scenarios to help us understand the risks facing the PPF given the range of possible outcomes. Even under the most severe of the three, which assumed three years of recession in the UK against a back-drop of global economic contraction for two years, the PPF remained resilient. However, our modelling does show that we need to remain vigilant to the developments and emerging risks in the UK economic climate and beyond. There are major uncertainties surrounding the global background which could affect UK growth and interest rates. For example, ultra-loose monetary policies in major industrialised countries could result in much higher inflation and bond yields and falling equity markets.

Away from the economy, there are other issues which may impact our operating environment. The legislative and regulatory framework for defined benefit pensions continues

to come under considerable scrutiny most recently with the high profile collapse of Carillion. The Prime Minister has announced plans to introduce tough new rules to end the "unacceptable abuse" by executives who seek personal gain by putting worker's pensions at risk. Details on this and other proposals are expected in a White Paper due to be published by the Government this Spring.

Given this ongoing scrutiny, we will continue to use our knowledge and experience, including leveraging the information we hold, to help inform debate and the development of policy for DB pensions. A key aspect of this will be taking steps to ensure that the role and purpose of the PPF, and our performance, is effectively communicated and understood. We will also continue work to identify, monitor and mitigate any wider implications of Brexit (beyond the economic impacts discussed above) including any operational risks or issues that could arise.

Appendix A summarises our planning assumptions for the period of this strategic plan.

4. THE PPF IN 2021

OUR PPF MEMBERS



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

Over
380,000
members have transferred to the PPF



We have retained our ICS ServiceMark accreditation

INVESTMENT

More than
£37BN
in assets under management

We will have insourced asset management where appropriate to deliver best value for our members and levy payers

OUR FAS MEMBERS

Almost
150,000
members have transferred to FAS

As with our PPF members, a positive experience is at the heart of everything we do. We have looked to extend our ICS ServiceMark accreditation to our FAS members

LEVY



Third levy triennium successfully implemented including use of credit ratings



Approach to fourth triennium developed with wide stakeholder support



We offer consistently good customer service to our levy payers and their advisers

RISK



We are confident that our risks are well managed and that we can make compensation payments both now and in the future

A culture of risk and compliance has been fully embedded throughout the organisation

OUR FOUNDATIONS



We are seen as an employer of choice



Our workforce is engaged and diverse



We make the best use of technology



Our reputation gives confidence to our members, stakeholders and employees



The value of our protection is well understood by members and levy payers

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

Essential to achieving our mission is that we have enough money to pay our members compensation, both now and in the future. In our 2016/17 Annual Report and Accounts we reported a robust financial position. Our funding ratio rose from 116.3 per cent to 121.6 per cent and our reserves increased by £2 billion to £6.1 billion.

Our long term ambition is to be financially self-sufficient by our funding horizon, currently 2030. That means we will be confident our assets are sufficient to meet our anticipated long term liabilities. We believe by this point future claims will be low relative to our liabilities, as fewer defined benefit schemes remain. This, along with improved scheme funding, will mean that the amount of levy we need to collect will be small in relation to the size of our balance sheet. Over the next three years, we will continue to regularly review our funding strategy in order to assess whether it remains appropriate.

As mentioned in section three, in the last few years we have seen a reduction in the total number of claims on the PPF. However, the outlook for the global economy and the schemes we protect continues to be uncertain, and it is essential that we put appropriate measures in place to continue to manage our balance sheet effectively. During the next three years we plan to:

- insource investment activities where it give us more control and drives performance in circumstances where we believe we have the skills and infrastructure to do so. We will also undertake a wider IT review to ensure that our infrastructure appropriately supports all our investment activity
- remain at the leading edge of asset management by recruiting the best people with the capability and skills to innovate successfully, and continuously engage with latest discussion and debate within the asset management sector. To aid this, we will see the completion of our office move to central London for members of staff in this area of the business
- continue to hold ourselves to the standards expected of regulated financial institutions (although we are not regulated and not required to do so), and ensure we are ready to respond to changes in the regulatory landscape, such as compliance with MIFID II.

We must also make sure we have enough money to pay compensation from the Fraud Compensation Fund to members of pension schemes where there have been losses due to offenses involving dishonesty. In 2017/18 we set a fraud levy at 25p per member, amounting to around £5 million in total. We intend to raise a levy at the same level in 2018/19, and will continue to monitor potential claims over the period of this plan.

WE ARE COMMITTED TO UNDERSTANDING OUR CUSTOMERS BETTER AND STAYING IN TOUCH WITH THE SERVICE THEY EXPERIENCE AND ARE EXPECTING

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

Excellent customer service is at the heart of everything we do and it is essential that our members and levy payers trust us to fulfil our core mission.

Our members

Our goal is to provide excellent customer service to ensure that our members would choose us if they could, whilst also providing great value for money. In January 2018 we were delighted to achieve ICS ServiceMark accreditation, but given the pace of service change and customer expectations we know that remaining excellent is going to be an ongoing challenge – one we are determined to meet.

In order to enhance our offering to our members and measure success, over the next three years we will undertake the following key areas of work:

- We are committed to understanding our customers better and staying in touch with the service they experience and are expecting. As well as regularly surveying our members, we will benchmark ourselves against comparator organisations to understand what we are doing well and identify where improvements are needed to keep us in step with those organisations. To aid us with this, we will undertake focus groups with our members, and will also look to

learn from best practice in comparable organisations

- Key to giving excellent service to our members is increasing the awareness and take-up of our existing digital offering. We will look to re-design our customer journeys to increase digital take-up, which will also help us to manage increased volumes and deliver efficiencies
- We will also look to identify new areas of digital functionality that would help achieve service or efficiency improvements. We will explore digital tools, drawing on what other service providers are offering, and seek to increase our online and social media presence through a range of channels. We are monitoring the developments on the Pensions Dashboard closely and will ensure our data and systems enable us to participate should that be the right thing to do for our members
- We will also look to optimise our ways of working by implementing a performance improvement programme that will increase effectiveness and efficiency, and in turn improve member outcomes.

It remains important that we progress schemes through assessment as efficiently as possible, providing certainty to our members and the schemes we protect. We remain committed to completing the assessment of at least 75 per cent of PPF schemes within two years.

PROVIDING EXCELLENT CUSTOMER SERVICE TO OUR LEVY PAYERS AND THEIR REPRESENTATIVES IS CRITICALLY IMPORTANT TO US

Given our uncertain claims environment, we will ensure that as an organisation we have the appropriate governance, people, processes and structure in place so that if a large or particularly complicated claim (or number of claims) were to arise, we would be able to cope and continue to provide an effective service.

Part of the reason we are able to operate with this uncertainty is due to the lead-in time, known as the assessment period, before a scheme actually transfers to the PPF. This is usually around 18 months and therefore allows us time to ensure that we have the right level of resource internally so we can continue to provide excellent customer service to all our members. During the assessment period the scheme is managed by Trustees and advisors selected from one of our panels. These panels have been constructed in a way that provides flexibility to deal with a volatile claims profile and, to date, this has worked well. In addition our own internal systems have been built with scale in mind so that we can have confidence that we can deal with large volumes of members coming our way.

Over the period we will also review our governance processes and structures to ensure we can remain agile and effective in scenarios where the scale of our operations grows significantly.

As previously announced, within the next year we plan to have completed the insourcing of FAS administration, to help ensure that the FAS member experience is consistent with the PPF

experience and it is provided in the most efficient and cost effective way. Following the transition, we will look to make sure that the service is effectively embedded and provides a high quality service to members.

Our levy payers

We aim to charge a proportionate levy, calculated using a risk reflective, evidence based and stable methodology. To aid this, we regularly review the levy calculation methodology to ensure it remains evidence based, in line with best practice, and consult on proposed changes to understand and consider levy payer concerns. The 2018/19 levy period will see the start of the third levy triennium and the introduction of a number of improvements to our approach, including the use of credit ratings to derive insolvency risk scores for some of our largest levy payers. Ensuring the effective implementation of these changes will be a key area of focus over 2018/19. We will also be developing our approach for the fourth triennium (beginning 2021/22) and by the end of this planning period aim to have consulted on and confirmed our proposals.

Providing excellent customer service to our levy payers and their representatives is also critically important to us. As well as responding effectively to queries and concerns, we want levy payers to be able to understand their bills, and encourage forward planning and risk reduction. We will be seeking to understand how we can utilise cost effective technology solutions to help us achieve this.

WE REMAIN COMMITTED TO BEST PRACTICE IN BOTH RISK MANAGEMENT AND COMPLIANCE

Pursue our mission within a high calibre framework of risk management

Our members and levy payers need to know that their money and the data we hold on them is safe, and whilst the PPF continues to grow and our operating model evolves, we also face changing operational risks. Bringing the FAS administration in-house and insourcing more of our investment activity will bring the benefits of certainty, flexibility and greater control. It will however bring additional risks to the PPF in relation to the increased number of suppliers and information managed directly by us. Therefore, we remain committed to best practice in both risk management and compliance, and having effective risk analysis, management and reporting practices that minimise the risks to the achievement of our objectives.

We have made a number of enhancements to our risk framework over recent years and over the period of the plan a key theme will be to embed these.

Additionally, over the period of this plan we will:

- complete the implementation of a comprehensive risk policy framework, which will document the minimum requirements the organisation must follow to manage our enterprise risks, with a policy and Executive owner for each of those risks
- embed greater process ownership and develop an inventory of key controls

- continue to develop a rolling programme of stress tests, which will help us to continually improve our understanding of the risks we face and identify mitigating activity, and
- continue to invest in protecting ourselves against external threats.

Key to the achievement of successful risk management will be to establish the right mind-set and culture of risk management throughout the organisation. We aim to deliver this by:

- ensuring that we manage conduct risk in the right way – through educating and reminding our staff of their obligations, and then monitoring and testing that as part of our wider compliance monitoring plan
- enhancing staff accountability and promoting this throughout the organisation. To support our employees understanding of how they can behave accountably, we have developed a framework of best practice. This will help to explain what is expected of our staff when we talk about being accountable and sits alongside our behavioural framework. It specifically focuses on the relationship between the manager and their direct reports, reflecting the responsibility that each individual has, as well as helping managers to make sure that their teams are demonstrating accountability.
- as our in-house functions become more complex, we strive for the highest standards of governance across the PPF. Whilst we are not

regulated, at a senior level we will be applying the most appropriate parts of the Senior Manager and Certification Regime to the PPF, demonstrating our commitment to accountability at all levels and ensuring that senior management are leading by example.

Whilst the PPF has a good funding position, the economic environment remains particularly uncertain and we face significant risks from areas outside our control, such as the worsening of scheme funding levels in the schemes we protect. We have a detailed understanding of our risks and use data that schemes provide to the Pensions Regulator to model the state of DB scheme funding in the UK. From that, we publish in the PPF 7800 Index and *The Purple Book* to give us and the industry a longer-term picture of the DB universe. We use this data to ensure our capability to model long term risks can meet current and future business need and support the updates we make to our funding strategy.

WE HAVE A DETAILED UNDERSTANDING OF OUR RISKS AND USE DATA THAT SCHEMES PROVIDE TO THE PENSIONS REGULATOR TO MODEL THE STATE OF DB SCHEME FUNDING IN THE UK

Our Foundations

Delivery of our three core strategic objectives is dependent on the strong foundation of our people working efficiently and effectively, with access to the best infrastructure and support functions, and communicating clearly what we do.

People

As our organisation continues to grow, our people are critical to achieving our mission, and we are proud to have a talented, committed and diverse workforce with a wide range of professional skills.

We want to be recognised as a great place to work, and in our last staff survey we received excellent feedback with 86 per cent of our employees reporting that, if asked, they would recommend the PPF to a friend or family member as a great place to work. We aim to maintain our high performance, so that our people continue to feel that they are listened to and their views are acted upon wherever practicable and appropriate.

During the period of this plan we will build on our position as an employer of choice by maintaining our staff experience to attract and retain the right people for the roles we need. We will do this by listening to our employees and delivering improvements that work for the needs of the business, whilst meeting our employee expectations. We will develop digital communications to meet the needs of our staff, and explore different ways of working to ensure that the business is able to adapt if our size or needs change.

OUR ICARE VALUES ARE CENTRAL TO OUR REPUTATION, PROVIDING A STANDARD WHICH WE EXPECT FROM ALL OUR PEOPLE

We will work with the Board to create and implement a diversity strategy that is appropriate for the organisation, building on the work already in place to value contributions from all employees.

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

INTEGRITY
COLLABORATION
ACCOUNTABILITY
RESPECT
EXCELLENCE

To make sure that our people live these values and are equipped to deliver an excellent service to our members and levy payers, we will support our staff through a range of learning and development activities. To ensure that our senior managers have the qualities needed to steer the organisation through continued change, our programme will include focused leadership development, driven by additional information we have available to us from our staff survey and 360 feedback tools.

Not only is accountability one of our core values, it also underpins the delivery of our mission. It is crucial that our people own their actions and their outcomes. In the coming years, we will embed a culture of accountability and responsibility throughout the organisation which will focus both on behavioural aspects and how we measure them.

Efficiency and effectiveness

Our members and levy payers expect and trust us to provide value for money and provide our services efficiently, and our support functions are key to the success of our strategic objectives. We will drive efficient use of resources through continuous improvement, including through rigorous assessment of value and benchmarking of efficiency against comparable services in other organisations.

Key drivers of savings during this period will include changes such as the insourcing of FAS member services and parts of investment management, and a strategic review of our future IT provision.

In the next three years we will make sure the organisation is ready to adapt to future change and will make the best use of technology. Already underway and continuing over this period will be the development of a digital strategy which will ensure we have an IT department and an IT service that supports and meets the organisation's needs. To build the capability to identify and take opportunities to improve business outcomes through the use of technology and digitisation, we will ensure that we have the technical platform to utilise new technology. We are looking to adopt an approach that follows the trends of new technologies in the market, using industry to demonstrate how to best maximise developments in service, while also focusing on cost saving and effectiveness.

Communications

The increased interest in pensions and how benefits are protected has, in recent years, significantly raised the profile of the PPF. As reflected throughout this plan, managing reputational issues and our ability to communicate effectively with members, levy payers and others is central to achieving our objectives. It therefore remains crucial that we continue to communicate with our members and other stakeholders in an effective and clear way, with consistent and easily understood messaging. We want to understand their views, help them feel that we listen to their feedback and use it to make operational improvements and shape our future work. We are therefore committed to ensuring that the PPF has the capacity and capability to communicate effectively. As with other areas of our work, during this period we will increasingly look to the opportunities that digital communication channels provide.

We also continue to recognise the importance of our role in giving confidence to schemes and their members outside the PPF. We are proud of our achievements to date in protecting our members. By definition, they are better off as a result of PPF protection than they would have been if we weren't here. Pension and retirement issues are likely to remain a focus for the UK media and we will continue to actively work with the Government and the Pensions Regulator. We will also continue to work to ensure that our role is portrayed correctly, the value of our protection is understood, and that members can make informed decisions.

**WE WILL ALSO
CONTINUE TO
WORK TO
ENSURE THAT
OUR ROLE IS
PORTRAYED
CORRECTLY, THE
VALUE OF OUR
PROTECTION IS
UNDERSTOOD
AND THAT
MEMBERS CAN
MAKE INFORMED
DECISIONS**

5. FOCUS ON 2018/19

Our ‘success factors’ cover the 2018/19 financial year and set out specific areas of priority for the year ahead. Given our mission and objectives remain the same, a number of priority areas have been carried over from 2017/18.



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 achieve returns in line with the plan and will continue to develop our investment strategy in light of the Fund’s increasing scale



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

SUCCESS FACTOR

- 3 Our service to members is consistently good or better, as measured by our customer satisfaction score and operational measures
- 4 Our service to levy payers is consistently good or better and we have successfully implemented changes necessary for the third triennium



Pursue our mission within a high calibre framework of risk management

SUCCESS FACTOR

- 5 We maintain strong governance and compliance standards that support a culture of accountability and responsibility
- 6 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

- 7 We will continue to build on our position as an employer of choice to attract, retain and engage the right people for the roles we need



Communications

SUCCESS FACTOR

- 8 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

- 9 We will ensure that all major projects remain on track against time and budget and provide 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 processing schemes through the PPF assessment period. 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 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 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 grants 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.

The impact of the British Steel pension scheme and the Carillion pension schemes entering the PPF is shown in 2020/21 and is subject to significant assumptions. For the purposes of this plan, we have assumed that 39,000 and 27,000 members respectively enter the PPF in 2020/21 and that we receive £2.5 billion and £2.0 billion assets respectively.

Table 1: Operational expenditure by funding source

All figures in £m	2017/18 Forecast	2018/19 Plan	2019/20 Plan	2020/21 Plan
Protection Fund	177.6	178.3	182.3	193.8
PPF Admin Levy	14.4	15.8	15.7	15.6
FAS Admin (Taxpayer)	8.5	10.4	7.1	6.2
Total	200.5	204.5	205.1	215.6

During the period, increases in overall costs due to the scale of the PPF are expected to be contained by achieving efficiencies in our operations. PPF membership is forecast to increase by 52 per cent and assets under management by 26 per cent. Over the same period we plan to reduce direct per member service costs by 17 per cent in real terms. Our strategy is to make efficient use of resources and as far as possible leverage costs as we grow, insource where appropriate, and look for continuous improvement in everything we do.

Table 2: Expenditure by type

All figures in £m	2017/18 Forecast	2018/19 Plan	2019/20 Plan	2020/21 Plan
Fund Manager Fees	130.2	128.3	130.5	141.8
Custodian fees	2.0	2.0	2.6	3.5
Member Payroll Services	4.2	2.3	0.6	0.6
Insolvency Professional Services	0.5	1.0	1.0	1.0
Levy Risk Scoring Services	0.3	0.7	0.9	0.9
Other Outsourced Services	4.4	2.1	2.2	2.4
Outsourced Delivery Services	141.6	136.4	137.8	150.2
Staff Costs	28.4	36.9	37.2	38.7
Training and Staff Benefits	1.0	1.2	1.3	1.4
Recruitment	1.1	0.7	0.7	0.6
Travel and Meetings	0.2	0.2	0.2	0.2
Total Staff Costs	30.7	39.0	39.4	40.9
Accommodation and General Office	3.2	4.7	4.7	4.9
Communication and Publications	0.2	0.2	0.2	0.2
IT and Telecommunications	12.9	11.5	11.3	8.3
Infrastructure	16.3	16.4	16.2	13.4
Investment Advisory Fees	0.9	0.8	1.1	1.1
General Legal Services	1.5	1.2	1.2	1.1
Audit and Assurance	0.6	0.7	0.6	0.7
Other Professional Services	5.1	7.3	6.6	6.4
Assurance and Advisory	8.1	10.0	9.5	9.3
Controlled Overheads	55.1	65.4	65.1	63.6
Depreciation	3.8	2.7	2.2	1.8
Total Resource	200.5	204.5	205.1	215.6

The PPF is due to complete insourcing its FAS administration and parts of investment management activities in 2018/19. During the year, over 150,000 FAS members will be administered on the same platform as the 275,000 PPF members, leading to cost per member savings. Over the period of the plan, the total cost per member for PPF is expected to fall by 39 per cent.

The insourcing of liability driven investments (LDI) completed in 2017/18. Together with planned insourcing of Credit portfolio in 2018/19, we expect to reduce

fund manager fees over the period as a proportion of assets under management, from 0.45 per cent to 0.41 per cent. The proportion of assets under management managed in-house is forecast to be 27 per cent as at 31 March 2021 compared to 24 per cent as at 31 March 2018.

Fund manager fees include an estimation of performance fees payable to managers to exceed specified targets – these fees are volatile but any significant underestimation would be covered by investment gains.

Table 3: FTE

FTE	2017/18 Forecast	2018/19 Plan	2019/20 Plan	2020/21 Plan
Total	372	421	430	450

Table 3 summarises estimated FTE over the strategic plan years. The main driver of the increase is the completion of insourcing of FAS administration, increased scale of PPF membership and a higher volumes of schemes.

Table 4: Capital Expenditure

All figures in £m	2017/18 Forecast	2018/19 Plan	2019/20 Plan	2020/21 Plan
Protection Fund	0.8	0.4	0.7	0.7
PPF Admin Levy	0.4	0.2	0.3	0.3
FAS Admin (Taxpayer)	0.7	0.1	0.0	0.0
Total	1.9	0.7	1.0	1.0

Capital expenditure (table 4) has been mostly in IT hardware and software. The capital expenditure in the plan reflects the implementation of the IT strategy.

The costs of member payroll services fall over the period following the insourcing of PPF and FAS administration. The increase in levy risk scoring services reflects operational changes that will be implemented in the third levy triennium.

Staff costs are expected to increase in line with increased membership volumes, including those from the British Steel Pension Scheme and Carillion pension schemes in 2020/21. Also, we are stepping up the resources dedicated to scheme delivery as we anticipate taking on more activity relating to assessment, which is currently charged directly to the schemes.

The development of a digital strategy and infrastructure to sustain the PPF in future necessitates investment in resources throughout the plan period but our total IT cost per head is planned to fall. This follows the implementation of the IT strategy in which we intend to adapt our technology and related resources to a new structure flexible enough to adapt to the needs of the future.

Accommodation costs increase following rates increases and setting up a London base for our investment team.

Throughout the business where we are obliged to do so, or where this represents value for money, we use external advisers. However, we do not expect assurance and advisory costs to rise other than for project costs supporting the scale of operations.

2018/19 budget estimate

The £204.5 million budget reflects the estimated cost to manage 60 schemes through our assessment process, £550 million levy collection and managing £31 billion assets under management. The budget also contains the administration of the PPF member payroll and the insourcing the FAS member payroll from the summer of 2018.

Fund management fees are relatively constant despite asset growth showing the impact of the insourcing of LDI and Credit portfolios. Staff costs increase following PPF membership growth and the start of the insourcing of the FAS member payroll, thereby reducing outsourced costs. The full resourcing of the Change and IT teams means that other outsourced services are lower than in 2017/18.

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

7. FURTHER READING

For further information 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 2018. It is extremely hard to forecast 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 as 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 and the Carillion pension schemes enter a PPF assessment period in March 2018, and a proportion of the members transfer in to the PPF in year three of the plan.

Whilst the BHS pension scheme is expected to transfer in late 2018, the number of members who have chosen to remain in that scheme and transfer in to the PPF is low, as expected.

Estimates for years ending:	2017/2018 Forecast	2018/2019 Plan	2019/2020 Plan	2020/2021 Plan
PPF	Schemes			
New cases entering assessment in the year	60	80	80	80
Cases transferred to the PPF	49	50	65	70
Cases leaving assessment by other means	6	10	10	10
Total cases completing assessment	55	60	75	80
Cases in assessment at year end	117	137	142	142
FAS				
FAS 2 qualifying schemes transferring	20	1	0	0
FAS 1 qualifying schemes transferring	1	0	0	0
PPF	Members			
Members in assessment at year end	154,000	149,000	150,000	84,000
Cumulative members transferred	250,000	275,000	295,000	381,000
FAS				
Cumulative members transferred	155,800	155,100	154,400	153,600
PPF	Assets			
Assets under Management £bn	30.0	31.0	31.5	37.8