

# Parliamentary Contributory Pension Fund Account 2014-15

# Parliamentary Contributory Pension Fund Account 2014-15

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The Government Actuary's valuation report as at 1 April 2014 referred to in these Accounts is available for review on <https://www.gov.uk/government/publications/actuarial-valuation-of-the-parliamentary-contributory-pension-fund-as-at-1-april-2014>

## Foreword

### Legislation relating to the Fund

The Parliamentary Contributory Pension Fund (The Fund), is a statutory scheme. Prior to 24 October 2011 the Fund was set up under the Parliamentary and Other Pensions Act 1987. The main governing Regulations were the Parliamentary Pensions (Consolidation and Amendment) Regulations 1993 (the 1993 Regulations). Other legislation relating to the Fund included the Parliamentary and Other Pensions Act 1972, which restructured the Fund and established the pension scheme for the holders of certain Ministerial and other offices, and the Pension (Increase) Act 1971, under which pension increases were granted.

With effect from 24 October 2011, following the enactment of Schedule 6 of the Constitutional Reform and Governance Act 2010 (the 2010 Act), the provisions of the 1993 Regulations became an IPSA scheme in relation to the administration and management of the Fund and benefits payable under the Fund for MPs, paid Committee Chairmen, and other paid office holders in Parliament; and The Ministerial Pension Scheme (MCS) in relation to benefits payable under the Fund for certain paid Ministers. Collectively these schemes create the Fund Rules.

Following the enactment of the 2010 Act, the Trustees are responsible for a number of areas, such as how Trustee business is conducted, administration of the Fund, dealing with investment matters, settlement of disputes and being consulted on requirements laid down in the 2010 Act.

Following consultation with the Trustees (and other parties), IPSA announced that following the 2015 General Election they would implement a new MPs' Pension Scheme. IPSA laid a new scheme, which contained the Rules of the MPs' Pension Scheme on 8 December 2014. The Rules state that the new benefit structure would take effect from the day after the first General Election that occurred after the 1 April 2015. This means that the MPs' Pension Scheme came into force on the 8 May 2015.

The MCS had also consulted on the provision of a new scheme for the paid Ministers that fall within their remit and announced that they would also implement a new Ministerial Pension Scheme. The MCS laid a new scheme which contained the Rules of the Ministerial Pension Scheme on 17 December 2014. The Rules state that the new benefit structure would take effect from the day after the Queen appoints a Prime Minister following the first General Election that occurred after 1 April 2015. This means that the Ministerial Pension Scheme came into force on 9 May 2015.

### Future Developments

Both IPSA and MCS have confirmed that they are not planning to make any further changes to the benefit structure of the MPs or Ministerial Pensions schemes.

### Trustees

From 24 October 2011 the governing legislation specified that there should be ten Trustees, eight of whom were Member Nominated Trustees (MNTs), plus one appointed by each of IPSA and the MCS.

### Method of appointment

On 24 October 2011, two Trustees stood down from the Trustee board and the eight remaining Trustees automatically became the first MNTs under the provisions of the 2010 Act. Future MNTs will be appointed in an MNT nomination and selection process which is determined by the Trustees. The IPSA Trustee is appointed by the IPSA Board after consultation with the MCS and the MNTs. The MCS Trustee is appointed by the MCS after consultation with IPSA and the MNTs.

## Resignation and removal of Trustees

MNTs do not have a term of office. However, an MNT will cease to serve as a Trustee if they resign as a Trustee by giving prior written notice to the other Trustees, they are removed by a unanimous agreement of the other Trustees or they cease to satisfy the eligibility criteria set out in the Trustees' MNT nomination and selection process.

The IPSA Trustee may resign by giving written notice to IPSA, or be removed by IPSA after consultation with the MCS and the other Trustees. The MCS Trustee may resign by giving written notice to the MCS, or be removed by the MCS after consultation with IPSA and the other Trustees.

### **Trustees during the year to 31 March 2015**

Brian Donohoe (Chairman)

Clive Betts MP

Sir Graham Bright

Rt Hon Peter Lilley MP

Andrew Love

Bridget Micklem (MCS Trustee)

David Mowat MP

Rt Hon the Lord Naseby PC

John Sills (IPSA Trustee)

Rt Hon the Viscount Thurso PC

During the year to 31 March 2015 there were eight Member nominated Trustees and an MCS and IPSA Trustee. All designations are correct as at the date of certification.

## Officers of the Fund

### **Secretary to the Trustees**

Myfanwy Barrett, Director of Finance, House of Commons

### **Secretariat**

The Trustees have appointed Officials from the House of Commons' Department of Finance to provide a full secretariat and administrative service to the Trustees. The Pensions Unit, based in the Department of Finance, act as Secretariat, along with the Secretary to the Trustees. However, the day-to-day administration of the Fund, including the operation of the pension payroll and accounting has been outsourced to RPMI Ltd.

Other parties who held office in connection with the Fund during the current accounting year:

|  |  | <b>Appointed under</b> |
|--|--|------------------------|
| Actuarial Advice   | The Government Actuary                                 | The 2010 Act           |
| External Auditor of Annual Accounts                        | Comptroller and Auditor General, National Audit Office | The 2010 Act           |
| Investment Advice  | Hymans Robertson LLP                                   | Trustees               |
| Fund Management  | MFS International (UK) Ltd                             | Trustees               |
|  | BlackRock Advisers (UK) Ltd                            | Trustees               |
|  | PIMCO Europe Ltd                                       | Trustees               |
|  | Sarasin and Partners LLP                               | Trustees               |
|  | Morgan Stanley Global Property Fund                    | Trustees               |
|  | Standard Life UK Property Fund                         | Trustees               |
|  | BlackRock UK Property Fund                             | Trustees               |
|  | UBS Global Asset Management Triton Property Fund       | Trustees               |
|  | Schroder Exempt Property Unit Trust                    | Trustees               |
| Legal Advice   | Sacker & Partners LLP                                  | Trustees               |
| Custodian  | The Northern Trust Company                             | Trustees               |
| Third Party Administration and Fund accounting and payroll | RPMI Ltd   | Trustees               |
| AVC providers  | Equitable Life   | Trustees               |
|  | Zurich Insurance plc                                   | Trustees               |

### Preparation of annual accounts

The Fund Rules, which under the 2010 Act reconstitute the provisions of the 1993 regulations, require that annual accounts are prepared in accordance with a direction given by the Comptroller and Auditor General. The Fund is a public service pension scheme and as such is exempt from the majority of the requirements of the 1995 Pensions Act including those relating to accounts. However, the accounts have been prepared, as far as appropriate, in accordance with the Statement of Recommended Practice (SORP), Financial Reports of Pension Schemes, revised in May 2007, in order to conform to best practice reporting requirements. The SORP does not require pension scheme accounts to reflect the pension scheme liabilities. The actuarial pension liabilities are shown in the triennial actuarial valuation. However, the House of Commons Members Annual Accounts, which are published separately from these accounts, reflect an assessment of the liabilities of the accrued benefits of the scheme. These are calculated in accordance with International Accounting Standards (IAS 19).

A Statement of the Trustees' responsibilities with regard to the preparation of the accounts is on page 10.

### Benefits payable

The Fund is made up of the MPs' pension scheme which provides benefits for MPs and certain office holders, and the Ministers' pension scheme which provides benefits for paid Government Ministers and certain office holders. The benefit structure of the MPs' pension scheme is determined by IPSA and the benefit structure of the Ministers' pension scheme is determined by the MCS.

### MPs' pension scheme

During the accounting year the MPs' pension scheme was a defined benefit final salary scheme based on a Member's salary over their last 12 months of service. During 2014-15 Members opted to pay contributions of 13.75% of their salary for a 1/40th accrual, 9.75% of their salary for a 1/50th accrual, or 7.75% of their salary for a 1/60th accrual (subject to a maximum pension of 2/3rds of final pensionable salary, less pensions built up prior to being elected as a Member).

During the accounting year, MPs' salaries (which are also set by IPSA) were £67,060.

IPSA did not increase pension contribution rates for MP's during the accounting year.

Following the year end, on 8 May 2015, the new MPs' pension scheme came into force. From this date the benefit structure of the MPs' pension scheme was split into two sections. The final salary section was based on the rules of the scheme up to 7 May 2015, and would continue to apply to re-elected MPs that had been within 10 years of retirement on 1 April 2013. In addition, MPs who were between 10 and 13.5 years of retirement on 1 April 2013 were given the option to continue in the final salary section for a defined period. All new MPs elected on 7 May 2015, and any re-elected MPs that were not covered by protection from the changes due to their proximity to retirement age entered the new Career Average Re-valued Earnings (CARE) section on 8 May.

Members in the CARE section will pay contributions of 11.09% of salary to build up 1/51st of pensionable earnings (revalued using the Consumer Prices Index (CPI)).

### Ministers' pension scheme

During the scheme year the benefits payable from the Ministers' pension scheme were calculated on a CARE basis. This took account of the fact that Ministers may be in office for one or several short periods at a time and that they may revert to being backbenchers for several years before they retire.

If a Minister is also an MP, they may be members of both the MPs' pension scheme and the Ministers' pension scheme, although Ministers who are Members of the House of Lords are only eligible to join the Ministers' pension scheme. In the case of those Ministers, their salary is their Ministerial salary. The pension accrual rates for the MPs' and Ministers' pension scheme were the same during the accounting year.

During 2014-15 members opted to pay basic contributions of 11.9% of salary for a 1/40th accrual, 7.9% of their salary for a 1/50th accrual, or 5.9% of salary for a 1/60th accrual. From 1 April 2014 members paid an additional 6%, 4% or 2.5% of salary depending on the position of office held by the member. As a result of the MCS increasing pension contributions to the Ministerial pension scheme, the Exchequer contribution decreased on 1 April 2014 from 28.8% to 28.7%.

Following the end of the scheme year the new Ministerial pension scheme came into force on 9 May 2015. Unlike the MPs' pension scheme, there was no facility for members close to retirement age to stay in the former benefit structure of the scheme. All continuing and newly appointed Ministers entered the new scheme on 9 May 2015 and will pay 11.1% of Ministerial salary for a 1.775% accrual on a CARE basis.



## MPs' and Ministers' pension schemes

The table below outlines the benefit provision of the MPs' and Ministers' pension schemes prior to and following the implementation of the new Rules.

### MPs' pension scheme – final salary section and Ministers' pension scheme up to 8 May

A pension payable at age 65 (once no longer a serving member).

An option to commute part of the annual pensions for a lump sum, based on age related factors.

A pension before pension age (65), subject to certain restrictions.

An immediate pension on retirement at any age on the grounds of ill health.

An adult dependant's pension of 5/8ths of the member's pension.

Children's pensions at the rate of one quarter of the basic or prospective pension of the member if there is one child, 3/16ths if there is more than one child, up to a maximum of two children, or 5/16ths if there is no surviving parent.

A lump sum death gratuity on death in service equal to 4 x salary.

Transfer of pension rights (into and out of the scheme) subject to certain restrictions.

Options to purchase added years, and/or contribute to an AVC scheme with an outside provider.

### MPs' pension scheme – CARE section and Ministers' pension scheme from 9 May

A pension payable at state pension age (once no longer a serving member).

An option to commute part of the annual pensions for a lump sum, using a factor of 12:1.

A pension before or after pension age, subject to certain restrictions.

An immediate pension on retirement at any age on the grounds of ill health.

An adult dependant's pension of 3/8ths of the member's pension.

Children's pensions for one child, paid at the rate of 80% or 133% of adult dependant's pension depending on whether there is a surviving adult dependant. If there is more than one child, the amount of pension will be calculated by multiplying 80% of the adult dependant's pension by two and then dividing this amount by the number of children. Each child will then receive this percentage.

A lump sum death gratuity on death in service equal to 2 x salary.

Plus a lump sum equal to the contributions which you have paid to the scheme, with interest.

Transfer of pension rights (into and out of the scheme) subject to certain restrictions.

Options to purchase added pension, an effective pension age (to be no lower than age 65), an early retirement reduction waiver and/or contribute to an AVC scheme with an outside provider.

## Overall Membership of the Fund

| Categories*         | 31.03.2014 | 31.03.2015 |
|---------------------|------------|------------|
| Active Members      | 649        | 646        |
| Deferred Pensioners | 180        | 161        |
| Pensioners          | 1,003      | 1,010      |

\*Some members could be considered to be in more than one category, but each member is only shown once, in the most relevant category.

## Income

Income to the Fund is derived from three main sources:

- contributions from MPs, Ministers and Office Holders;
- an Exchequer contribution paid from the House of Commons Members Estimate; and
- investment income as detailed below.

In addition, transfers of pension benefits into the Fund amounted to £3,005,000 in 2014-15, (£421,000 in 2013-14).

## Investment details and performance

Section 35 of the Pensions Act 1995 requires that the Trustees of pension funds prepare and maintain a Statement of Investment Principles. Whilst the Fund is exempt from this provision, the Fund Rules require the Trustees to produce a Statement of Investment Principles (SIP).

The Statement covers areas such as how investments are chosen; the balance between asset classes; the Trustees' attitude to risk, and the expected return and review procedures. It has been designed to cover the fundamental aspects of investment policy that are not expected to differ greatly from one year to the next, and in the past the SIP has been drawn up in consultation with the relevant advisors and in consultation with the Leader's Office. The current SIP was adopted by the Trustees on 13 June 2013 following consultation with both IPSA and the MCS, as now required by the 2010 Act.

In June 2013, the Trustees commissioned Hymans, their investment consultant, to undertake a full investment strategy review of the Fund's assets. As the first part of this process the Trustees considered their overall investment objectives and agreed new investment objectives on 4 December 2013. During 2014-15 the Trustees turned their focus to setting an appropriate investment structure, starting with a review of equities. Over the scheme year the Trustees agreed to maintain an 80–90% allocation to growth assets, and that for the time being they would maintain 45% active to 55% passive management of equities. The Trustees also explored alternative forms of passive management to ensure diversification, although it was agreed that the Trustees would revisit the allocation to passive and active management over the next few years.

At their meeting in June 2014, the Trustees agreed to reduce the allocation to UK equities from 40% to 30%. At this meeting the Trustees also agreed to discontinue the BlackRock currency hedging programme, it was felt that the costs of currency hedging were unnecessary given that the Fund is a long term investor and can withstand short term volatility.

In November 2014 the Trustees agreed to make an allocation of 10% of the Funds' assets to the BlackRock RAFI 3000 Index Fund, which is a fundamental index and an alternative form of passive management. This was to be funded through a reduction in the fund's existing active Equity mandates with Sarasin and MFS and a reallocation within the BlackRock passive equity holdings. The transition was implemented in March 2015 largely by in specie transfer of stock in order to reduce transaction costs. To assist the fund's cash requirements for expected outflows due to the higher number of members retiring and taking their lump sums in May 2015, £6 million was retained in cash as part of the transition.

A further £12 million was also disinvested from the Blackrock Passive Multi Asset mandate to meet expected cash flow requirements following the General Election.

During February 2015 and following the year end, the Trustees turned their attention to review bond investments and to alternatives including property. As a result of these changes, as at 31 March 2015 the current investments are not in line with the SIP adopted on 13 June 2013. Following the changes to the investment strategy the Trustees have produced an updated SIP in draft form in January 2014 and June 2015. Once the new structure has been set, the Trustees will formerly adopt a new SIP following the required consultation with IPSA and the MCS.

The target asset allocation for the Fund at the year end was:

| <b>Asset Class/Region</b>      | <b>Total Fund<br/>Benchmark</b> | <b>Lower range</b> | <b>Upper range</b> |
|--------------------------------|---------------------------------|--------------------|--------------------|
|                                | <b>%</b>                        | <b>%</b>           | <b>%</b>           |
| <b>Total Equities</b>          | 66.0                            | 62.0               | 70.0               |
| UK Equities                    | 26.4                            | 23.9               | 28.9               |
| Europe (ex UK) Equities        | 9.2                             |                    |                    |
| North American Equities        | 11.1                            |                    |                    |
| Sterling Currency Hedging Fund | 6.7                             |                    |                    |
| Japan Equities                 | 3.8                             |                    |                    |
| Asia Pac ex Japan Equities     | 1.8                             |                    |                    |
| Emerging Market Equities       | 7.0                             |                    |                    |
| Total Overseas Equities        | 39.6                            | 37.1               | 42.1               |
| Bonds                          | 21.5                            | 17.5               | 25.5               |
| UK Property                    | 10.0                            | No lower range     | No upper range     |
| Global Property                | 2.5                             | No lower range     | No upper range     |
| <b>Total</b>                   | <b>100.0</b>                    |                    |                    |

The manager proportions and mandates at the year end are shown in the table below:

| <b>Manager</b>   | <b>Mandate</b>          | <b>Actual<br/>proportion %</b> | <b>Target<br/>proportion %</b> |
|--|-------------------------|--------------------------------|--------------------------------|
| MFS International (UK) Ltd                                     | UK Equities             | 8.3                            | 8.0                            |
| MFS International (UK) Ltd                                     | Global Equities         | 8.1                            | 8.0                            |
| Sarasin and Partners LLP                                       | Global Equity           | 8.3                            | 8.0                            |
| BlackRock Advisers (UK) Ltd                                    | Multi-Asset*<br>Passive | 52.6                           | 49.8                           |
| PIMCO Europe Ltd   | UK Bonds                | 12.5                           | 13.7                           |
| BlackRock, Morgan Stanley, Schroders, Standard Life<br>and UBS | Property                | 10.2                           | 12.5                           |
| <b>Total</b>   |                         | <b>100.0</b>                   | <b>100.0</b>                   |

\*The BlackRock multi-asset fund contains both equities and bonds.

Investment income in 2014-15 was £7.551million and the change in market value of assets was £61.883 million. The net assets of the Fund at the year end were £589.221 million. This figure includes the value of AVC investments.

The overall effect of the movements in pensions payable, income and investments, was an increase of £65.724 million in the net assets of the Fund during the year.

### Actuarial position of the Fund

The Government Actuary's Department's valuation of the Fund as at 1 April 2014 was published as a House of Commons paper on 18 March 2015. The report showed a decrease in the deficit from £55.9 million to £7.6 million, this was due to the investment return achieved on the Scheme's assets being higher than the assumptions made, and salary increases being lower than the assumptions made. During the year from 1 April 2014 the Exchequer contribution was 28.7%.

As a result of the reduction in the deficit and the introduction of the CARE benefit structure from May 2015 the Government Actuary recommended that the Exchequer contribution payable from 1 April 2015 should be 12.9% of MP and Office Holder salaries.

The next actuarial valuation is due as at 1 April 2017.

## Annual Report

In order to comply with best practice reporting requirements as set out in the SORP, the Trustees have prepared an Annual Report, which incorporates, inter alia, a Trustees' Report and Investment Report. A copy of the Report is sent to all active members, deferred members and pensioners of the Fund. Following the year end the annual report will also be made available on the Trustees' website: [mycpfpension.co.uk](http://mycpfpension.co.uk).

## Contact address

Further information about the Fund can be obtained from the Trustees website ([mycpfpension.co.uk](http://mycpfpension.co.uk)) or by contacting the PCPF Secretariat at the following address: Pensions Unit, Department of Finance, House of Commons, London SW1A 0AA.

## Disclosure of Information

So far as the Trustees are aware, there is no relevant audit information of which the Comptroller and Auditor General (the C&AG) is unaware, and we have taken all steps that we ought to have taken to make ourselves aware of any relevant audit information and to establish that the C&AG is aware of that information.

Approved on behalf of the Trustees on 15 October 2015 by:

*Brian H Donohoe*  
Chairman of Trustees

## Statement of Trustees' responsibilities

The Fund Rules require the Trustees of the Fund to prepare annual accounts in such a form and in such a manner as the Comptroller and Auditor General may direct. The financial statements for the year ended 31 March 2015 were prepared on an accruals basis to give a true and fair view of the financial transactions of the Fund during the year then ended, and of the disposition at 31 March 2015 of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Fund year.

In preparing those financial statements, the Trustees were required to:

- observe the accounts direction issued by the Comptroller and Auditor General, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgments and estimates on a reasonable basis;
- state whether applicable accounting standards were followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis, on the presumption that the Fund will continue in operation.

The Trustees are responsible for the keeping of proper accounting records, for ensuring that proper financial procedures are followed, for the regularity and propriety of public finances provided by the Exchequer contribution, for safeguarding the assets of the Fund and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

# Governance Statement

## Introduction

This statement covers the operation of the Fund for the year ending 31 March 2015. On behalf of all of the Trustees, I acknowledge our responsibility for ensuring that an effective system of governance is maintained and operated in connection with the Fund.

## Governance framework of the Parliamentary Contributory Pension Fund (Fund)

While the Trustees maintain overall responsibility for the management of the Fund, in practise they have appointed Officials from the House of Commons' Department of Finance to provide a full secretariat and administrative service to the Trustees. The Pensions Unit, based in the Department of Finance, act as Secretariat, along with Myfanwy Barrett, Director of Finance, who is Secretary to the Trustees. The Secretariat is responsible for providing support and advice to Trustees, arranging all meetings, drafting papers including agendas and minutes, responding to first stage complaints and drafting responses to press enquiries, Parliamentary Questions and Freedom of Information requests. This responsibility includes maintaining Trustee records and ensuring minuted decisions are actioned.

The Secretariat is also responsible for assisting the Trustees in the discharging of their legal and regulatory duties. This includes, for example: the preparation of the annual accounts; ensuring the Statement of Investment Principles (SIP) is agreed and maintained in consultation with IPSA and the MCS; monitoring that the current investment strategy is consistent with the SIP; drafting and issuing Fund communications; the preparation and maintenance of the Trustees' risk register; management of applications for retirement on grounds of ill-health and management of procurement exercises. The Secretariat also manage all the Trustees contracts with third parties in accordance with the House of Commons Finance and Procurement Rules.

In order to keep the Trustees' knowledge and understanding of general pensions matters and the Fund up to date, the Secretariat arrange Trustee training 2 to 3 times per year. Training is specialised and often focuses on Fund events or current pensions issues to ensure its relevance. During the scheme year the Trustees received training on the role of the Fund's Custodian including how potential custody risks are mitigated, the possibility of forming an investment partnership with the London Pension Funds Authority to access alternative investments and economies of scale and alternative forms of passive management (specifically fundamental indices, minimum volatility indices and equal-weighted indices) to improve diversification within this area.

The Secretariat support the Trustees by managing contracts with external parties held by the Trustees. This includes the third party pension administrators, the legal adviser, independent investment adviser, investment consultant, investment managers, custodian, communications specialist and medical advisers.

The Trustees have previously adopted a codified conflicts of interest policy to meet the Pensions Regulator's expectation for schemes to manage conflicts of interest and improve their governance framework. As part of this policy, all Trustees are given an opportunity to declare any conflicts of interest at the beginning of each meeting as a standing agenda item.

As the Secretariat are based in the Department of Finance, House of Commons, they are subject to review by the House's internal audit team. Internal audit undertook a comprehensive review of the work of the Pensions Unit in 2012-13. This included the Fund's Secretariat. The conclusions of the review were finalised in June 2013 and the Trustees were informed that there was a need for proactive contract management and periodic review of contracts; and some improvement should be made in the Fund's governance arrangements. The Trustees have addressed these issues by agreeing to adopt a conflicts of interest policy and to hold additional investment focused meetings. A follow up of the internal audit report conducted in November 2014 showed that corrective action had been taken to address all areas of concern highlighted in the initial audit report. Over 2014-15 the Secretariat have continued to monitor the Trustees governance framework considering and implementing ways to improve governance.

The day to day administration of the Fund, including the operation of the pension payroll and accounting has been outsourced by the Trustees to RPMI Ltd (RPMI). The safekeeping of the Fund's assets is undertaken by the Northern Trust Company, in their capacity as custodian to the Fund.

## Work of the Trustee Board

The Trustees held seven formal meetings during the year. Two in June, one in October, November and December 2014 and two meetings in February 2015. There were no changes to membership of the Board during the year.

The Trustees are not bound by the Treasury and Cabinet Office's Corporate Governance Code, and the governance framework adopted by the Trustees reflects the fact that the Fund's governance circumstances are inherently different from those of Government departments. However, I am content that the governance framework meets the overall objective of separating policy and operations. The Trustees pay due regard to codes of practices and guidance issued by the Pensions Regulator, where relevant.

The Trustees monitor the performance of the Fund's investments through quarterly reports prepared by the Fund's investment consultant, Hymans Robertson LLP, showing the performance of each manager against the Fund's benchmark. In June, the Trustees commissioned Hymans to undertake a formal review of the investment structure of the Fund, in view of the upcoming benefit structure changes introduced by IPSA and the MCS which will be implemented from May 2015. The Trustees spent a lot of time on the investment strategy review during 2014-15 and this will continue to be an important area of focus during 2015-16 as the investment review progresses. It is hoped that the review of the Fund's investment strategy will be completed by March 2016 following which a review of individual portfolios may be required.

As work on investment matters continues to demand a high level of time and commitment from the Trustees, at the end of 2014 the Trustees agreed to continue to hold additional meetings for the foreseeable future. This will continue to help the Trustees to concentrate on continuing to improve governance of investment matters. If in the future the requirement for more regular investment focused meetings reduces, the Trustees will review whether to continue holding additional meetings at that time.

Each quarter the Trustees monitor the performance of the Fund's administrator, RPMI, against contractual service level agreements. The Secretariat, on behalf of the Trustees, hold regular administration meetings with RPMI to monitor performance and update the Trustees at meetings. Representatives from RPMI also attend Trustee meetings as and when they are required. The Fund's actuarial adviser, The Government Actuary's Department (GAD), also attend Trustee meetings when necessary.

In order to improve scheme governance, by ensuring all parties are aware of their obligations, the Trustees have previously approved a balance of powers document which sets out the Trustees' responsibilities in relation to the administration and governance of the scheme. The roles and responsibilities the Trustees have delegated to the Secretariat are set out the Secretariat terms of reference which was approved by the Trustees on 26 June 2014.

In March 2014, the Trustees approved a Trustee Business Plan for the Fund. The Business Plan sets out the expected projects over the next three scheme years. During the scheme year the Trustees monitored regular reports, provided by the Secretariat at Trustee meetings, on the progress being made in each area, including Secretariat performance.

For the first time, last year, the Pensions Regulator issued a draft code of practice on the governance and administration of public service pension schemes. The final code of practice was issued in April 2015. Improving scheme governance has been a key focus of the Trustees for the last few years. The Trustees have made improvements in various areas such as agreeing the formal conflicts of interest policy, improving Trustee training to comply with the Pensions Regulators' Trustee Knowledge and Understanding requirements and increasing time spent on investment matters. The Trustees are meeting and in some areas exceeding the expectations of the Regulator in relation to administration and governance, although the new guidance will continue to inform their work during 2015-16.

## Risks

The Secretariat, on behalf of the Trustees, maintain a Risk Register for the Fund to support the active management of risk. This identifies and analyses potential issues that pose a risk to the Fund's objectives in terms of impact and probability. The full Risk Register is taken to the Trustees once a year, but at each meeting they receive a report highlighting any significant risks along with actions planned to reduce the impact or likelihood of these potential risks. Lower level risks are managed by the Secretariat and are escalated to the Trustees for action as necessary under the system of risk management.

One of the key risks to the Fund is the risk of pension fraud. The Trustees agreed to take part in the 2013 National Fraud Initiative (NFI) Exercise and ultimately the results showed there were in fact no cases of fraud identified. The Trustees agreed they would take part in the NFI exercise every three to five years, although more frequently if it was felt necessary.

## Review of effectiveness

The Trustees have responsibility for reviewing the effectiveness of the system of internal control. Our review of internal control effectiveness is informed by the work of the Secretariat, who have been tasked with the development and maintenance of the control framework.

In authorising investment managers to make investments on our behalf, the Trustees receive sufficient information to make informed decisions and to understand the risks associated with those investments. Specifically, they take advice from Hymans Robertson LLP and receive regular updates as to the investment managers' performance and movement of the Fund's assets. The Fund's liabilities are measured by the Government Actuary and reported to the Trustees via the Actuarial Valuation every three years. Due to the focus on investment structure the Trustees have not recently considered whether they wish to receive annual reports to monitor funding in the periods between actuarial valuations. The Trustees undertook a Valuation as at 1 April 2014 which was published during the scheme year, so it is likely that they would reconsider the need for this in 2015-16.

The organisations that provide the Fund's secretariat, custodianship and administration functions are subject to review by their respective organisations' internal audit units, which operate to relevant professional Internal Audit Standards. On behalf of the Trustees, the Secretariat regularly review independent reports on internal operational controls for custodian and investment managers (excluding property managers), the audit opinions of the reviewed reports contain no qualifications.

## Financial management

As well as receiving quarterly administration and investment reports, and reviewing a list of documents signed by the Secretariat on our behalf, which are presented to the Trustees at each meeting, the Trustees also review all expenditure incurred by the Fund at each meeting. During the scheme year for the first time the Secretariat provided a detailed report on the scheme budget and the costs being incurred by the Fund. This report forms part of the Business Plan which was taken to the Trustees at each meeting and aims to help increase governance around spending behaviour and improve decision making.

In March 2013, the Trustees agreed to adopt a statement of compliance to the UK Stewardship Code and received their first report on voting activity of PCPF managers to the year ending 30 September 2013 at their 2013 December Trustee meeting in compliance with the Code. The Trustees received a report for the year to 31 December 2014 at their meeting in February 2015. The Trustees will receive a report on voting activity of PCPF managers annually.

## Procurement

During 2014-15 no procurement exercises were undertaken.

Since June 2012 the Trustees have been following the House's Finance and Procurement Rules, working with House's Parliamentary Procurement and Commercial Services (PPCS) to ensure that all tender exercises follow House guidelines and comply with the EU procurement directives, ensuring equal treatment, non-discrimination and transparency. As the Trustees' external contracts are coming to the end of their terms over the next few years, it is anticipated that the Secretariat will arrange tender exercises as appropriate, gradually ensuring that all contracts conform to standard House terms.

The area of contract management has continued to be a focus for the Secretariat during 2014-15. In line with guidance from PPCS the Fund's three main contracts (Administration, Investment consultancy and Legal) are managed closely by the Secretariat. This management includes annual service review meetings, which are held in addition to regular business meetings, and following the year end, an annual review of contractual responsibilities. Any concerns are reported to the Trustees and to PPCS.



## Fund Administration

RPMI has been appointed by the Trustees to undertake the day to day administration of the Fund. The delegation extends to the administration, fund accounting, and the calculation and payment of all pension benefits. The Trustees have free access to all documents and records maintained by RPMI, on their behalf.

The Fund Secretariat undertake regular reviews of work undertaken by RPMI, to ensure that the benefits have been calculated in accordance with the Fund's rules and legislative requirements, and that responses to members have been provided within the agreed service levels and are to a high standard.

The Secretariat meets regularly with RPMI (at a minimum three times a year), to discuss performance against the contractual service level agreements and the Internal Control Assurance Report (AAF 01/06). At each non-investment focused Trustee meeting, the Trustees receive a quarterly administration report from RPMI and have an opportunity to discuss any concerns.

A separation of duties exists at RPMI whereby the officer initiating a payment cannot authorise the production of the payable instrument or, dispatch the instrument. Furthermore, password controls and authorisation levels are in operation within the operating systems of RPMI.

RPMI undertake a monthly reconciliation of expected member and Exchequer contributions and this has been carried out every month during the accounting year. This enables RPMI to uncover any incorrect contributions from Ministerial Departments and to liaise with IPSA and/or the department to rectify the position as soon as possible. RPMI also monitor the timing of payments received from departments. During the year, the December 2014 and January 2015 Opposition Minister employee contributions were paid late as the cheques were lost in the post. This issue has now been resolved as these contributions are now being paid by BACS. There was no other late payment of contributions.

## Custody of Assets

The Northern Trust Company acts as Custodian of the assets managed on a segregated basis on the Trustees' behalf. Securities are registered in the name of the Custodian's nominee name (wherever the local market permits) and identified as investments of the Fund. Cash with Northern Trust is held in accounts in the Fund's name. Monthly reconciliations are undertaken by Northern Trust against the records of all of the investment managers appointed by the Trustees. The Trustees have free access to all documents and records maintained by the Custodian on their behalf.

The Custodians of the assets underlying the unitised equity and bond pooled funds (BlackRock and the property funds) are appointed by the respective managers.

Separation of duties exists whereby responsibility for investment dealings and stock settlements is segregated between the appointed fund managers and Custodian, respectively.

## Conclusion

I am satisfied that during 2014-15 there have been no significant control issues relating to the management of the Fund's assets or the administration of pensions and there have been no implications for the effectiveness of the Fund's internal controls.

Approved on behalf of the Trustees:

*Brian H Donohoe*  
Chairman of Trustees

15 October 2015

# The Certificate and Report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements of the Parliamentary Contributory Pension Fund for the year ended 31 March 2015 under Schedule 6 of the Constitutional Reform and Governance Act 2010. The financial statements comprise a Fund Account, a Net Assets Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

## Respective responsibilities of the Trustees and Auditor

As explained in the Statement of Trustees' Responsibilities, the Trustees are responsible for the preparation of the financial statements in accordance with the Constitutional Reform and Governance Act 2010, and directions made thereunder, and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Constitutional Reform and Governance Act 2010. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Parliamentary Contributory Pension Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Trustees; and the overall presentation of the financial statements.

In addition, I read all the financial and non-financial information in the Foreword, the Statement of Trustees Responsibilities and the Governance Statement to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my certificate.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

### Opinion on regularity

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

### Opinion on the financial statements

In my opinion:

- the financial statements give a true and fair view of the financial transactions of the Parliamentary Contributory Pension Fund for the year ended 31 March 2015 and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Fund year; and
- the financial statements have been properly prepared in accordance with the Constitutional Reform and Governance Act 2010 and directions issued thereunder.

### Opinion on other matters

In my opinion, the information given in the Foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Matters for which I report by exception**

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

**Report**

I have no observations to make on these financial statements.

*Sir Amyas C E Morse*  
Comptroller and Auditor General

26 October 2015

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

## Fund Account for the year to 31 March 2015

|   | Notes | <b>2014-15</b><br><b>£000</b> | 2013-14<br>£000 |
|---|-------|-------------------------------|-----------------|
| <b>Contributions and Benefits</b>               |       |                               |                 |
| Contributions                                   | 3     | <b>19,654</b>                 | 19,796          |
| Individual transfers in                         | 4     | <b>3,005</b>                  | 421             |
| Other income                                    | 5     | <b>15</b>                     | -               |
|   |       | <u><b>22,674</b></u>          | <u>20,217</u>   |
| Benefits payable                                | 6     | <b>(21,899)</b>               | (21,566)        |
| Individual transfers out                        | 7     | <b>(1,535)</b>                | (341)           |
| Administrative expenses                         | 8     | <b>(1,037)</b>                | (518)           |
|   |       | <u><b>(24,471)</b></u>        | <u>(22,425)</u> |
| <b>Net decrease from dealings with members</b>  |       | <u><b>(1,797)</b></u>         | <u>(2,208)</u>  |
| <b>Returns on investments</b>                   |       |                               |                 |
| Investment income                               | 9     | <b>7,551</b>                  | 7,271           |
| Change in market value of investments           | 10    | <b>61,883</b>                 | 33,334          |
| Investment management expenses                  | 11    | <b>(1,913)</b>                | (1,951)         |
| <b>Net returns on investments</b>               |       | <u><b>67,521</b></u>          | <u>38,654</u>   |
| <b>Net increase in the Fund during the year</b> |       | <b>65,724</b>                 | 36,446          |
| <b>Net assets of the Fund as at 1 April</b>     |       | <b>523,497</b>                | 487,051         |
| <b>Net assets of the Fund as at 31 March</b>    |       | <u><b>589,221</b></u>         | <u>523,497</u>  |

*The notes on pages 19 to 30 form part of these accounts*

## Net Assets Statement as at 31 March 2015

|   | Notes | <b>2014-15</b><br><b>£000</b> | 2013-14<br>£000       |
|---|-------|-------------------------------|-----------------------|
| Investment assets                             | 12    | <b>679,579</b>                | 547,503               |
| Investment liabilities                        | 12    | <b>(97,271)</b>               | (31,699)              |
| Additional voluntary contribution investments | 14    | <b>3,275</b>                  | 2,970                 |
| Current assets                                | 15    | <b>5,685</b>                  | 6,483                 |
| Current liabilities                           | 16    | <b>(2,047)</b>                | (1,760)               |
| <b>Net assets of the Fund as at 31 March</b>  |       | <b><u>589,221</u></b>         | <b><u>523,497</u></b> |

The Financial Statements summarise the transactions of the Fund and deal with the net assets at the disposal of the Trustees. They do not deal with the obligations to pay pensions and benefits which fall due after the end of the year. The actuarial position of the Fund, which does take account of such obligations, is dealt with in the Government Actuary's valuation report on the position of the Fund as at 1 April 2014 and these financial statements should be read in conjunction with that report.

The financial statements on pages 19 to 30 were approved by the Trustees on 15 October 2015

Signed on behalf of the Trustees:

*Brian H Donohoe*  
Chairman of Trustees

*The notes on pages 19 to 30 form part of these accounts*

# Notes to the Financial Statements

## 1 Basis of Preparation

The financial statements meet the accounting and disclosure requirements of the Statement of Recommended Practice (SORP) Financial Reports of Pension Schemes (revised May 2007) as far as is appropriate.

## 2 Accounting Policies

The principal accounting policies, which have been applied consistently, are:

- a Normal member contributions, contributions for the purchase of added years, additional voluntary contributions, and employer (Exchequer) contributions, including deficit contributions, are accounted for in the year that the contributions are due.
- b Benefits are accounted for on the date that they fall due and refunds of contributions are accounted for when they are made.
- c Transfer values from and to other pension funds represent the amounts received and paid during the year for members who either joined or left the Fund.
- d All other expenditure is accounted for in the period to which it relates.
- e Investment income.

Income from equities and any pooled investment vehicles which distribute income, is accounted for on the date stocks are quoted ex-dividend/interest.

The income from equities is received into the income statement at the security 'pay date' in line with contractual settlement arrangements. This date may differ as to when the monies are actually received in custody.

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments and unrealised changes in market value. In the case of pooled investment vehicles which are accumulation funds, change in market value also includes income, net of withholding tax, which is reinvested in the fund.

Income from fixed interest securities, index-linked securities, cash and short term deposits is accounted for on an accruals basis.

- f Investments.

Quoted investments are stated at the bid price or last traded price, depending on the convention of the stock exchange on which they are quoted, at the date of the net assets statement.

Fixed interest securities are stated at their 'clean' prices, with accrued income accounted for within investment income.

Unquoted securities are valued by each fund manager at the year end in accordance with accounting guidelines.

Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published, or if single priced, at the closing single price.

### *Transaction costs*

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the Fund such as fees, commissions, stamp duty and other fees.

### *Derivatives*

Derivative contracts are valued at fair value. Derivative contract assets are fair valued at bid price and liabilities are fair valued at offer price.

Changes in fair value are included in change in market value where the economic purpose of the contracts relates to assets. Where the economic purpose relates to income, the change in fair value is included in investment income.

Futures contracts' fair value is determined using exchange prices at the reporting date. The fair value is the unrealised profit or loss at the current bid or offer market quoted price of the contract. Amounts due from the broker represent the amounts outstanding in respect of the initial margin (representing collateral on the contracts) and any variation margin which is due to or from the broker. The amounts included in change in market value are the realised gains and losses on closed futures contracts and the unrealised gains and losses on open futures contracts.

Exchange traded options' fair value is determined using the exchange price for closing out the option at the reporting date. If a quoted market price is not available on a recognised exchange, the over the counter ("OTC") contract options' fair value is determined by the Investment Manager using generally accepted pricing models, where inputs are based on market data at the year end date.

All OTC contracts are priced per the Asset Manager at month end valuation periods.

The fair value of the interest rate swaps and currency swaps is calculated using pricing models based on the market price of comparable instruments at the year end date, if they are publicly traded. Interest is accrued monthly on a basis consistent with the terms of the contract. The amounts included in change in market value are the realised gains and losses on closed contracts and the unrealised gains and losses on open contracts. Net receipts or payments on swap contracts are either reported in investment income (where the economic purpose relates to income) or change in market value (where the economic purpose relates to assets).

Interest rate swaps have been priced using an OIS discounting methodology.

The fair value of the forward currency contracts is based on market forward exchange rates at the year end date and determined as the gain or loss that would arise if the outstanding contract was matched at the year end with an equal and opposite contract.

### *Foreign currencies*

Assets and liabilities in foreign currencies are expressed in sterling at the rates of exchange ruling at the year end.

Foreign currency transactions are translated into sterling at the spot exchange rate at the date of the transaction.

Gains and losses arising on conversion or translation are dealt with as part of the change in market value of investments.

Funds invested to secure additional benefits are included in the Net Assets Statement as AVC investments and are stated at the value as advised by the provider on a going concern basis.

Loans and deposits and net current assets/liabilities are included at book costs which the Trustees consider represents a reasonable estimate of fair value.

**3 Contributions**

|                                    | <b>2014-15</b>       | 2013-14       |
|------------------------------------|----------------------|---------------|
|                                    | <b>£000</b>          | £000          |
| Members                            |                      |               |
| Normal                             | <b>5,588</b>         | 5,799         |
| Added years                        | <b>269</b>           | 258           |
| Additional voluntary contributions | <b>205</b>           | 142           |
| Employer (Exchequer)               |                      |               |
| Normal                             | <b>9,567</b>         | 9,570         |
| Deficit                            | <b>4,025</b>         | 4,027         |
|                                    | <b><u>19,654</u></b> | <u>19,796</u> |

During 2014-15 the standard Exchequer contribution was 20.1% of pensionable salaries. Following the 2014 valuation, the standard contribution rate required from 1 April 2015, decreased to 11.7% of pensionable salaries due to the introduction of a new benefit structure from May 2015.

During the scheme year the Exchequer was required to contribute 8.6% of pensionable salaries to amortise the accumulated deficit as required by the 2011 valuation. Following the 2014 valuation, which showed a decrease in the deficit, this contribution has decreased to 1.2% of pensionable salaries from 1 April 2015 to 31 March 2018.

The contribution rates will be reassessed following the 2017 valuation.

**4 Individual transfers in**

|                         | <b>2014-15</b>      | 2013-14    |
|-------------------------|---------------------|------------|
|                         | <b>£000</b>         | £000       |
| Individual transfers in | <b>3,005</b>        | 421        |
|                         | <b><u>3,005</u></b> | <u>421</u> |

The number of MPs transferring benefits into the Fund were higher this year. This was possibly due to members wanting to transfer benefits into the scheme, before the implementation of scheme changes that occurred following the year end, after which members contributing to the new section would no longer be able to transfer benefits into the old section of the scheme.

**5 Other income**

|              | <b>2014-15</b>   | 2013-14  |
|--------------|------------------|----------|
|              | <b>£000</b>      | £000     |
| Other income | <b>15</b>        | –        |
|              | <b><u>15</u></b> | <u>–</u> |

During the year, some pensioner members were overpaid pensions, following pension increase errors due to the incorrect recording of GMP values. The administrators reimbursed the Fund to cover the amount overpaid and corrected ongoing payments.



**6 Benefits payable**

|                              | <b>2014-15</b>       | 2013-14       |
|------------------------------|----------------------|---------------|
|                              | <b>£000</b>          | £000          |
| Pensions                     | <b>19,804</b>        | 19,285        |
| Lump sum retirement benefits | <b>1,783</b>         | 1,974         |
| Lump sum death benefits      | <b>312</b>           | 265           |
| Annuities                    | <b>–</b>             | 42            |
|                              | <b><u>21,899</u></b> | <u>21,566</u> |

**7 Individual transfers out**

|                          | <b>2014-15</b>      | 2013-14    |
|--------------------------|---------------------|------------|
|                          | <b>£000</b>         | £000       |
| Individual transfers out | <b>1,535</b>        | 341        |
|                          | <b><u>1,535</u></b> | <u>341</u> |

**8 Administrative expenses**

|   | <b>2014-15</b>      | 2013-14    |
|---|---------------------|------------|
|   | <b>£000</b>         | £000       |
| Trustees – Secretariat                      | <b>142</b>          | 126        |
| Third party administration and advisor fees | <b>359</b>          | 141        |
| Actuarial fees                              | <b>216</b>          | 20         |
| Legal fees                                  | <b>289</b>          | 200        |
| External Audit fee                          | <b>31</b>           | 31         |
|   | <b><u>1,037</u></b> | <u>518</u> |

The auditors were not paid any remuneration for non-audit work. The third party administrator fees were significantly higher this year due to the cost of implementing the new calculation system, required as a result of the introduction by IPSA and the MCS of new pension schemes which come into effect following the year end. The increase in legal fees this year was due to the extra work involved finalising the new schemes rules. The actuarial fees were also higher this year due to the additional work required to undertake the triennial valuation and provide sign off of calculations and revised factors for the new schemes.

**9 Investment income**

|                                  | <b>2014-15</b>      | 2013-14      |
|----------------------------------|---------------------|--------------|
|                                  | <b>£000</b>         | £000         |
| Fixed interest securities        | <b>2,332</b>        | 2,185        |
| Index-linked securities          | <b>2</b>            | 20           |
| Equities                         | <b>3,798</b>        | 3,695        |
| Derivatives                      | <b>144</b>          | 105          |
| Pooled investment vehicles       | <b>1,209</b>        | 1,233        |
|                                  | <b><u>7,485</u></b> | <u>7,238</u> |
| Interest on cash held on deposit | <b>66</b>           | 33           |
|                                  | <b><u>7,551</u></b> | <u>7,271</u> |

**10 Change in market value of investments**

|  | Note | 2014-15<br>£000 | 2013-14<br>£000 |
|--|------|-----------------|-----------------|
| Defined benefit assets                   | 12   | <b>61,638</b>   | 33,167          |
| Additional voluntary contribution assets | 14   | <b>245</b>      | 167             |
|  |      | <b>61,883</b>   | <b>33,334</b>   |

**11 Investment management expenses**

|  | 2014-15<br>£000 | 2013-14<br>£000 |
|--|-----------------|-----------------|
| Investment management basic fees       | <b>1,282</b>    | 1,120           |
| Investment management performance fees | <b>408</b>      | 638             |
| Custody fees                           | <b>83</b>       | 77              |
| Investment consultancy                 | <b>140</b>      | 116             |
|  | <b>1,913</b>    | <b>1,951</b>    |

**12 Investments**

|                            | Market value<br>1 April 2014<br>£000 | Purchases at<br>cost and<br>derivative<br>payments<br>£000 | Sales proceeds<br>and<br>derivative<br>receipts<br>£000 | Change in<br>Market value<br>£000 | Market<br>value at<br>31 March<br>2015<br>£000 |
|----------------------------|--------------------------------------|--|---|-----------------------------------|--|
| Fixed Interest             | 72,687                               | 207,511  | (189,994)   | 4,763                             | <b>94,967</b>                                  |
| Index Linked               | –                                    | 3,442  | (2,097)   | 246                               | <b>1,591</b>                                   |
| Derivatives                | (428)                                | 6,062  | (4,724)   | (2,019)                           | <b>(1,109)</b>                                 |
| Equities                   | 154,870                              | 96,678   | (128,852)   | 16,919                            | <b>139,615</b>                                 |
| Pooled Investment vehicles | <u>292,052</u>                       | <u>1,001,903</u>   | <u>(974,563)</u>  | <u>40,953</u>                     | <b>360,345</b>                                 |
|                            | <u>519,181</u>                       | <u>1,315,596</u>   | <u>(1,300,230)</u>                                      | <u>60,862</u>                     | <b>595,409</b>                                 |
| Cash and cash equivalents  | (5,020)                              |  |   | 776                               | <b>(14,666)</b>                                |
| Accrued income             | <u>1,643</u>                         |  |   |                                   | <b>1,565</b>                                   |
|                            | <u>515,804</u>                       |  |   | <u>61,638</u>                     | <b>582,308</b>                                 |

Included within the above purchases and sales figures are transaction costs of £74,545 (2014: £114,388). Costs are also borne by the Fund in relation to transactions in pooled investment vehicles, however, such costs are taken into account in calculating the bid/offer spread of these investments and are not separately identifiable.

The amount recorded in the derivative payments and receipts are the settlements of each leg of the transactions settled in the year which relate to the gross nominal exposure of the contracts rather than their market value.

|                                   | <b>2014-15</b>  | 2013-14  |
|-----------------------------------|-----------------|----------|
|                                   | <b>£000</b>     | £000     |
| <b>Investment assets</b>          |                 |          |
| <b>Fixed Interest Securities</b>  |                 |          |
| UK public sector quoted           | <b>47,606</b>   | 32,971   |
| UK quoted                         | <b>21,938</b>   | 20,167   |
| Overseas public sector quoted     | <b>6,682</b>    | 3,642    |
| Overseas quoted                   | <b>18,741</b>   | 15,907   |
|                                   | <b>94,967</b>   | 72,687   |
| <b>Index Linked Securities</b>    |                 |          |
| UK Public Sector quoted           | <b>1,591</b>    | –        |
| <b>Derivative contracts</b>       |                 |          |
| Swaps – OTC                       | <b>351</b>      | 118      |
| Options – OTC                     | <b>72</b>       | 42       |
| Futures                           | <b>6</b>        | 4        |
| FX contracts – OTC                | <b>57,024</b>   | 22,088   |
|                                   | <b>57,453</b>   | 22,252   |
| <b>Equities</b>                   |                 |          |
| UK quoted                         | <b>50,825</b>   | 54,719   |
| Overseas quoted                   | <b>88,790</b>   | 100,151  |
|                                   | <b>139,615</b>  | 154,870  |
| <b>Pooled investment vehicles</b> |                 |          |
| UK – equity                       | <b>57,857</b>   | 79,810   |
| UK – bond                         | <b>47,127</b>   | 43,691   |
| UK – property                     | <b>42,905</b>   | 37,583   |
| Overseas – equity                 | <b>197,953</b>  | 119,522  |
| Overseas – other                  | <b>14,503</b>   | 11,446   |
|                                   | <b>360,345</b>  | 292,052  |
| <b>Other investment assets</b>    |                 |          |
| Cash and cash equivalents         | <b>12,607</b>   | 3,515    |
| Reverse Repo                      | <b>200</b>      | 200      |
| Pending sales                     | <b>11,236</b>   | 284      |
| Accrued income                    | <b>1,565</b>    | 1,643    |
|                                   | <b>25,608</b>   | 5,642    |
|                                   | <b>679,579</b>  | 547,503  |
| <b>Investment liabilities</b>     |                 |          |
| <b>Derivative contracts</b>       |                 |          |
| Swaps – OTC                       | <b>(1,407)</b>  | (485)    |
| Options – OTC                     | <b>(164)</b>    | (68)     |
| FX contracts – OTC                | <b>(56,981)</b> | (22,127) |
| Futures – exchange traded         | <b>(10)</b>     | –        |
|                                   | <b>(58,562)</b> | (22,680) |

**Other investment liabilities**

|                   |                 |          |
|-------------------|-----------------|----------|
| Pending purchases | <b>(38,378)</b> | (8,790)  |
| Cash margin       | <b>(331)</b>    | (38)     |
| Repo              | –               | (191)    |
|                   | <b>(38,709)</b> | (9,019)  |
|                   | <b>(97,271)</b> | (31,699) |

**Derivative contracts***Objectives and policies*

The Trustees have authorised the use of derivatives, where they are specifically permitted in the investment management agreement, as part of their investment strategy for the pension fund.

*Swaps*

Swap contracts are over the counter arrangements in which the parties agree to exchange one stream of cash flows for another. The details of swap contracts in place at the year end date are as follows:

| Type of swap       | Duration<br>Years | Nominal | Asset value | Liability            |
|--------------------|-------------------|---------|-------------|----------------------|
|                    |                   | amount  | at year end | value at<br>year end |
|                    |                   | £000    | £000        | £000                 |
| Credit default     | 0 to 3            | 2,400   | 9           | (102)                |
| Credit default     | 3 to 5            | 2,500   | 92          | (42)                 |
| Credit default     | 5 to 10           | 7,800   | –           | (129)                |
| Exchange Rate Swap | 0 to 3            | 23,400  | 12          | (46)                 |
| Exchange Rate Swap | 3 to 5            | 12,200  | –           | (167)                |
| Exchange Rate Swap | 5 to 10           | 3,900   | 204         | (40)                 |
| Exchange Rate Swap | Over 10           | 11,900  | –           | (265)                |
| Interest Rate Swap | Over 10           | 4,600   | 34          | (616)                |
|                    |                   |         | <b>351</b>  | <b>(1,407)</b>       |

Collateral deposited by counterparties in respect of swap contracts at the year end date amounted to £163,000 (2014: £20,000). Collateral received in this way is not reported within the Fund's net assets.

**Futures**

Futures contracts are standardised, transferable, exchange traded contracts that require delivery of a commodity, bond, currency or stock index, at a specified price, on a specified future date. The details of open futures contracts at the year end date are as follows:

| <b>Type of future</b> | <b>Expiration</b> | <b>Economic exposure at year end<br/>£000</b> | <b>Asset value at year end<br/>£000</b> | <b>Liability value at year end<br/>£000</b> |
|-----------------------|-------------------|---|---|---|
| <b>Assets</b>         |                   |   |   |   |
| Interest Rate Future  | 3 months          | 44,983  | –                                       | (8)   |
| Currency Rate Future  | 3 months          | 5   | –                                       | (2)   |
| Currency Rate Future  | 3 months          | 1   | 6                                       | –   |
|                       |                   |   | <u>6</u>                                | <u>(10)</u>                                 |

Included within cash balances is £12,000 (2014: (£5,000)) in respect of initial and variation margins arising on open futures contracts at the year end.

**Swaptions**

The swaptions below give the Fund the right to enter into pre-agreed interest rate swap or currency rate swap contracts on a single future day. The premium for each swaption has been taken into account when setting the fixed rate for each underlying transaction.

| <b>Type of contract</b> | <b>Expiration</b> | <b>Call or put</b> | <b>Notional amount of outstanding contracts<br/>£000</b> | <b>Asset value at year end<br/>£000</b> | <b>Liability value at year end<br/>£000</b> |
|-------------------------|-------------------|--------------------|--|---|---|
| Currency rate swap      | Apr 15            | Put                | 3,100  | –                                       | –   |
| Interest rate swap      | Jun 15            | Call               | 1,900  | –                                       | (37)  |
| Interest rate swap      | Jun 15            | Put                | 1,900  | –                                       | (2)   |
| Currency rate swap      | Sept 16           | Call               | 1,250  | 72                                      | (125)                                       |
|                         |                   |                    |  | <u>72</u>                               | <u>(164)</u>                                |

**Reverse Repo**

This is where money is lent out in order to generate a better return on any excess cash. At the year end the contract details and collateral are as follows:

| <b>Nature of asset</b> | <b>Underlying Investment</b> | <b>Counterparty</b> | <b>Maturity Date</b> | <b>Notional Value</b> | <b>£000's</b> |
|------------------------|------------------------------|---------------------|----------------------|-----------------------|---------------|
| Reverse repo           | UK Gilt                      | Barclays            | 1 April 2015         | 200,000               | 200           |

**Forward Foreign Exchange (FX)**

The Fund had open FX contracts at the year end as follows:

| <b>Buy/Sell currency</b>     | <b>Amount<br/>bought<br/>Currency<br/>£000</b> | <b>Amount<br/>Sold<br/>Currency<br/>£000</b> | <b>Value at<br/>year end<br/>£000</b> |
|------------------------------|--|--|---------------------------------------|
| <b>Assets</b>                |  |  |                                       |
| Japanese Yen/ US Dollar      | 380  | 376  | 4                                     |
| Euro/ Sterling               | 119  | 118  | 1                                     |
| Sterling/ US Dollar          | 98   | 98   | –                                     |
| Sterling/ Swiss Franc        | 14   | 14   | –                                     |
| Sterling/ Euro               | 14,554   | 14,200                                       | 354                                   |
| Hong Kong Dollar/ US Dollar  | 658  | 658  | –                                     |
| Indian Rupee/ US Dollar      | 701  | 701  | –                                     |
| US Dollar/ Sterling          | 11,057   | 10,974                                       | 83                                    |
| Euro/ US Dollar              | 2  | 2  | –                                     |
| Polish Zloty/ US Dollar      | 72   | 71   | 1                                     |
| US Dollar/ Euro              | 263  | 255  | 8                                     |
| US Dollar/ Mexican Peso      | 302  | 296  | 6                                     |
| US Dollar/ Polish Zloty      | 84   | 82   | 2                                     |
| Mexican Peso/ US Dollar      | 131  | 129  | 2                                     |
|                              |  |  | <b>461</b>                            |
| <b>Liability</b>             |  |  |                                       |
| Australian Dollar/ US Dollar | 615  | 635  | (20)                                  |
| Euro/ US Dollar              | 75   | 76   | (1)                                   |
| Euro/ Sterling               | 183  | 185  | (2)                                   |
| Hong Kong Dollar/ US Dollar  | 730  | 730  | –                                     |
| Indian Rupee/ US Dollar      | 707  | 707  | –                                     |
| Japanese Yen/ Sterling       | 92   | 92   | –                                     |
| Japanese Yen/ US Dollar      | 1,436  | 1,443  | (7)                                   |
| Mexican Peso/ US Dollar      | 124  | 129  | (5)                                   |
| Sterling/ Swiss Franc        | 187  | 190  | (3)                                   |
| Sterling/ US Dollar          | 17,088   | 17,395                                       | (307)                                 |
| Sterling/ Japanese Yen       | 1,069  | 1,101  | (32)                                  |
| Sterling/ Euro               | 1,101  | 1,112  | (11)                                  |
| Sterling/ Australian Dollar  | 657  | 671  | (14)                                  |
| US Dollar/ GBP               | 1,022  | 1,025  | (3)                                   |
| US Dollar/ Hong Kong Dollar  | 1,392  | 1,392  | –                                     |
| US Dollar/ Japanese Yen      | 706  | 712  | (6)                                   |
| US Dollar/ Polish Zloty      | 18   | 18   | –                                     |
| US Dollar/ Indian Rupee      | 1,387  | 1,394  | (7)                                   |
|                              |  |  | <b>(418)</b>                          |
| <b>Total</b>                 | <b>57,024</b>                                  | <b>56,981</b>                                | <b>43</b>                             |

All FX contracts settle within 4 months of the year end.

### 13 Concentration of investment

The Fund held the following investments which had a value exceeding 5% of the total value of net assets as at 31 March 2015.

|  | <b>Market Value</b> | <b>% of Net Assets</b> | Market Value | % of Net Assets |
|--|---------------------|------------------------|--------------|-----------------|
|  | <b>2014-15</b>      | <b>2014-15</b>         | 2013-14      | 2013-14         |
|  | <b>£000</b>         |                        | £000         |                 |
| Pooled Investment Vehicles                       |                     |                        |              |                 |
| BlackRock Pensions Management Aquila Life Global | <b>61,063</b>       | <b>10.4</b>            | –            | –               |
| Aquila Life UK Equity Index                      | <b>57,857</b>       | <b>9.8</b>             | 79,810       | 15.2            |
| Aquila Life US Equity Index                      | <b>49,034</b>       | <b>8.3</b>             | 9,343        | 1.8             |
| BlackRock Pensions Management Aquila Life 5 yr   | <b>47,127</b>       | <b>8.0</b>             | 43,691       | 8.3             |
| Aquila Life European Equity Index                | <b>35,429</b>       | <b>6.0</b>             | 32,215       | 6.2             |
| BlackRock Emerging Markets                       | <b>34,282</b>       | <b>5.8</b>             | 28,361       | 5.4             |
| BlackRock active selection currency hedging      | –                   | –                      | 36,398       | 7.0             |

### 14 Additional Voluntary Contributions (AVCs)

The Trustees are responsible for administering an AVC Scheme whereby active members may make contributions to secure additional benefits to those provided by the Fund. These contributions are invested separately from the Fund, with outside providers (Equitable Life and or Zurich) securing additional benefits on a money purchase basis for those members electing to pay AVCs. Although the Trustees withdrew the option for Active members to pay AVCs to Equitable a number of years ago, some members still retain their funds with them. Scheme members who have AVCs invested with Equitable and Zurich, receive an annual statement confirming the amounts held in their accounts and the movements in the year. The aggregate movements and amounts of AVC investments are as follows:

|   | <b>2014-15</b>      | 2013-14      |
|---|---------------------|--------------|
|   | <b>£000</b>         | £000         |
| AVC investments as at 1 April               | <b>2,970</b>        | 2,826        |
| AVC contributions purchases                 | <b>244</b>          | 102          |
| AVC sales                                   | <b>(184)</b>        | (125)        |
| Change in market value                      | <b>245</b>          | 167          |
| AVC investments as at 31 March              | <b><u>3,275</u></b> | <u>2,970</u> |
| Market value of AVC investments by provider |                     |              |
| Equitable Life                              | <b>1,350</b>        | 1,349        |
| Zurich                                      | <b>1,925</b>        | 1,621        |
|   | <b><u>3,275</u></b> | <u>2,970</u> |

AVCs are held in with-profits, unit-linking and deposit balances.

**15 Current assets**

|   | <b>2014-15</b> | 2013-14 |
|---|----------------|---------|
|   | <b>£000</b>    | £000    |
| Contributions due to Fund:  |                |         |
| Member normal contributions   | <b>446</b>     | 485     |
| Employer normal contributions   | <b>938</b>     | 940     |
| Member AVC  | <b>5</b>       | 4       |
| Employer deficit contributions  | <b>194</b>     | 194     |
| Member added years  | <b>24</b>      | 20      |
|   | <b>1,607</b>   | 1,643   |
| Balance at bank   | <b>4,072</b>   | 4,684   |
| Provision for overpaid Guaranteed Minimum Pension (GMP) owed by members to the Fund | <b>6</b>       | 8       |
| Refund of investment management expenses  | –              | 148     |
|   | <b>5,685</b>   | 6,483   |

**16 Current liabilities**

(amounts due within one year)

|                                   | <b>2014-15</b> | 2013-14 |
|-----------------------------------|----------------|---------|
|                                   | <b>£000</b>    | £000    |
| Lump sums and taxation            | <b>(774)</b>   | (371)   |
| Administrative expenses           | <b>(241)</b>   | (219)   |
| Investment management expenses    | <b>(1,017)</b> | (1,157) |
| Unpresented cheques               | –              | (1)     |
| Provision for GMP owed to members | <b>(12)</b>    | (12)    |
| Cash in transit                   | <b>(3)</b>     | –       |
|                                   | <b>(2,047)</b> | (1,760) |

The actuarial pension liabilities are shown in the triennial actuarial valuation. However, the House of Commons members Annual Accounts, which are published separately from these accounts, reflect an assessment of the liabilities of the accrued benefits of the scheme. These are calculated in accordance with International Accounting Standards (IAS 19).

**17 Related Party Transactions**

The Exchequer contribution taking into account recommendations by the Actuary is paid from the House of Commons Members Estimate.

During the scheme year of the ten PCPF Trustees, two were pensioners within the Fund, six were active members of the Fund and the remaining two were not members of the Fund. Following the year end, four Trustees were pensioners within the Fund, one Trustee was a deferred member, three Trustees were active members and the remaining two were not members of the Fund. The Trustees who are pensioners or members of the Fund receive benefits on the same basis as other members of the Fund.

Other than the related party transactions disclosed above, the Trustees and key management staff have declared that neither they, nor any party related to them, has undertaken any material transactions with the Fund during the year.

**18 Employer Related Investments**

There were no employer related investments during the year.



**19 Events after the reporting period date**

Events are considered up to the date on which the accounts are authorised for issue. This is interpreted as the date of the Certificate and Report of the Comptroller and Auditor General.

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