Parliamentary Contributory Pension Fund Accounts 2017-18

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Presented to the House of Commons pursuant to Schedule 6 of the Constitutional Reform and Governance Act 2010

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The National Audit Office scrutinises public spending for Parliament and is independent of government. The Comptroller and Auditor General (C&AG), Sir Amyas Morse KCB, is an Officer of the House of Commons and leads the NAO. The C&AG certifies the accounts of all government departments and many other public sector bodies. He has statutory authority to examine and report to Parliament on whether departments and the bodies they fund, nationally and locally, have used their resources efficiently, effectively, and with economy. The C&AG does this through a range of outputs including value-for-money reports on matters of public interest; investigations to establish the underlying facts in circumstances where concerns have been raised by others or observed through our wider work; landscape reviews to aid transparency; and good-practice guides. Our work ensures that those responsible for the use of public money are held to account and helps government to improve public services, leading to audited savings of £741 million in 2017.

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The Government Actuary's valuation report as at 1 April 2017 referred to in these Accounts is available for review at: www.mypcpfpension.co.uk/docs/librariesprovider12/accounts/2017-valuation-report.pdf?sfvrsn=2.

Annual Report

Report of the Trustees

Statutory Basis for the Scheme

The Parliamentary Contributory Pension Fund ('the Fund') is a statutory pension scheme for Members of Parliament, Government Ministers and other Parliamentary office holders.

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 Minister for the Civil Service (MCS).

MPs' pension scheme

On 8 May 2015, the new MPs' Pension Scheme came into force. Prior to this the MPs' Pension Scheme was a defined benefit final salary scheme based on a Member's salary over their last 12 months of service.

From 8 May 2015, 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 off retirement on 1 April 2013 were given the option to continue in the final salary section for a defined period (transitional protection). 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 automatically entered the new Career Average Re-valued Earnings (CARE) section on 8 May.

Similarly, anyone who was appointed as an Office Holder from 8 May 2015, joined the CARE section as an Office Holder. However, transitional protection for those MPs who were between 10 and 13.5 years from retirement on 1 April 2013 does apply.

An Office Holder is a holder of the following Qualifying Offices:

Chairman and Deputy Chairman of Ways and Means
Chairman and Deputy Chairman of Committees of the House of Lords
Paid Select Committee Chairman
Member of Chairman's Panel

During the accounting year, MPs' salaries (which are also set by IPSA) were £76,011.

Member contribution rates for the final salary section were 13.75% for a 40th accrual rate, 9.75% for a 50th accrual rate and 7.75% for a 60th accrual rate. Members in the CARE section pay contributions of 11.09% of salary to build up 1/51st of pensionable earnings (revalued using the Consumer Prices Index (CPI)).

IPSA did not increase pension contribution rates for MPs' during the accounting year. IPSA have confirmed that they are not currently planning to make any further changes to the benefit structure of the MPs pension scheme.

Ministers' pension scheme

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 pay 11.1% of Ministerial salary for a 1.775% accrual on a CARE basis.

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.

Pension contributions to the Ministers' pension scheme did not change during the accounting year. The MCS have confirmed they are also not planning to make any further changes to the benefit structure of the Ministers' pension scheme.

Benefits Payable

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	**MPs' pension scheme – CARE section and Ministers' pension scheme from 9 May**
A pension payable at age 65 (once no longer a serving member).	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, based on age related factors.	An option to commute part of the annual pensions for a lump sum, using a factor of 12:1.
A pension before pension age (65), subject to certain restrictions.	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 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.	An adult dependant's pension of 3/8ths 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.	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 4 x salary.	A lump sum death gratuity on death in service equal to 2 x salary. Plus a lump sum equal to the contributions which the member has paid to the scheme, with interest.
Transfer of pension rights (into and out of the scheme) subject to certain restrictions.	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.	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.

Income

Income to the Fund is derived from three main sources:

1 contributions from MPs, Ministers and Office Holders;

2 an Exchequer contribution paid from the House of Commons Members Estimate; and

3 investment income.

In addition, transfers of pension benefits into the Fund amounted to £410,000 in 2017-18, (£1,214.000 in 2016-17).

Exchequer contribution

Paragraph 10 of Schedule 6 of the Constitutional Reform and Governance Act 2010 requires the Government Actuary to make a report to the Trustees, the Minister for the Civil Service, IPSA and HM Treasury, at three yearly intervals on;

- the general financial position of the Fund and
- make a recommendation as to the rate at which Exchequer contributions should be paid into the Fund in respect of any financial year beginning after the report is made.

In practice, the actuarial liability of the Fund is assessed every three years by the Government Actuary with an interim assessment in the years between valuations. The latest actuarial valuation was based on the membership as at 31 March 2017 as detailed below. The Actuary's report on the liabilities as at 31 March 2018 is shown on pages 42 to 45 of these Accounts.

Actuarial update as at 31 March 2018

The latest actuarial valuation was carried out as at 31 March 2017 with an actuarial update performed as at 31 March 2018.

The Scheme's net liability, or deficit, as at 31 March 2018, and the corresponding figures as at the 31 March 2017 valuation, are set out below:

	31 March 2018	31 March 2017
	£m	£m
Present value of scheme liabilities	887.3	941.5
Fair value of scheme assets	671.0	665.3
Deficit	**216.3**	**276.2**

The next valuation is due as at 31 March 2020.

Further information can be found in the Government Actuary's report which is published as a House of Commons paper and can be found on the Fund's website www.mypcpfpension.co.uk.

The pension liability reflected in this annual report and financial statements reflect an assessment of the liabilities of the accrued benefits of the scheme. These are prepared in accordance with International Accounting Standards (IAS 19).

Membership at 31 March 2018

Active	
Active members at the start of the year	637
New entrants	98
Rejoined	11
	746
Less:	
Retirements	(19)
Deferred	(86)
Opt out	(3)
	(108)
Active membership as at 31 March 2018	**638**
Pensioners	
Pensioners at the start of the year	1,090
Retirements	32
New dependant pensioners	23
Death of a pensioner	(30)
Death of a dependant	(13)
Closed	(2)
Pensioners as at 31 March 2018	**1,100***
Deferred members	
Deferreds at the start of the year	224
Actives becoming deferred	86
	310
Less:	
Retirements	(13)
Transfer out	(1)
Rejoined active	(5)
	(19)
Deferred members as 31 March 2017	**291**

*There are 319 (2017: 311) dependants included within the figures above.

Trustees during the year to 31 March 2018

Brian Donohoe (Chairman) *

Clive Betts MP **

Sir Graham Bright *

Richard Graham MP ** – appointed 12 October 2017

Ranil Jayawardena MP ** – appointed 12 October 2017

Rt Hon Peter Lilley MP - retired 9 May 2017

Andrew Love *

Bridget Micklem (MCS Trustee) ***

David Mowat MP - retired 4 April 2017

Rt Hon the Lord Naseby *

John Sills (IPSA Trustee) ***

RT Hon the Viscount Thurso *

* MNT pensioner   ** MNT active   *** non member

Two Trustees resigned from the Trustee Board during the year, Hon Peter Lilley (9 May 2017) and David Mowat (4 April 2017). The Trustees wish to record their thanks to both Trustees for their service on the Trustee Board. The Secretariat undertook a Member Nominated Trustee exercise to fill both positions and duly ratified the appointment of Richard Graham MP and Ranil Jayawardena MP at the October 2017 Trustee meeting.

Following the year end, at the Trustee meeting in July 2018, John Sills, the IPSA Trustee announced his resignation from IPSA and his Trustee role. A new nomination would be put forward by IPSA and it was expected that a new IPSA Trustee would be formally appointed at the October 2018 Trustee meeting.

Since 24 October 2011, the governing legislation has 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. During the year to 31 March 2018 there were eight Member nominated Trustees and two MCS and IPSA Trustees. All designations are correct as at the date of certification.

All of the Trustees apart from the IPSA and MCS Trustee are current beneficiaries or future beneficiaries of the Fund.

Method of appointment

Trustees are appointed under the provisions of the 2010 Act.

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.

Officers of the Fund

Secretary to the Trustees

Lucy Tindal, Head of Member Services, House of Commons Corporate Services

Secretariat

The Trustees have appointed Officials from the House of Commons' Corporate Services team to provide a full secretariat and administrative service to the Trustees. The PCPF Secretariat, based in Corporate Services, 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:

		Appointed under
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 BlackRock Advisers (UK) Ltd PIMCO Europe Ltd Sarasin and Partners LLP (until 7 July 2017) Standard Life UK Property Fund BlackRock UK UBS Global Asset Management Schroder Investment Management Ltd M&G Investments Ltd	Trustees Trustees Trustees Trustees Trustees Trustees Trustees Trustees 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 Zurich Insurance plc	Trustees Trustees

*During the year the Sarasin mandate was terminated with the proceeds being used to fund investment in the M&G Illiquid Opportunities Fund ICOF II.

Annual Report

Every year, the Trustees prepare 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: https://www.mypcpfpensionco.uk/.

Contact address

Further information about the Fund can be obtained from the Trustees website (mypcpfpension.co.uk) or by contacting the PCPF Secretariat at the following address:

PCPF Secretariat
Corporate Services
House of Commons
London
SW1A 0AA

Members should direct enquiries about their own pension position to :

PCPF Administration Team

RPMI
PO Box 193
Darlington
DL1 9FP

Customer helpline: 0345 112 0026
Email: PCPF@rpmi.co.uk

Investment details and performance

Over the year to 31 March 2018, the Fund returned 3.4% against a benchmark return of 3.6%. Over this time period, global equity markets performed strongly, driven for the most part by growing economic optimism. Global equities returned around 12% over the period in local currency terms. However, in Sterling terms, the return was significantly lower at around 3% over the year. This difference reflected Sterling's strength against a generally weak US dollar.

The Fund's UK property portfolio contributed strongly to overall performance over the year, delivering a return of 10%, broadly in line with the benchmark return. This performance reflects continued recovery in the UK commercial property market.

The Fund's fixed income assets also contributed positively to investment performance over the year.

The Trustees liquidated the global equity portfolio managed by Sarasin & Partners LLP during the year, with the majority of the proceeds used to support a new allocation to illiquid credit. The Fund's allocation to global equities, managed passively by BlackRock Advisors (UK) was also increased slightly as part of this process.

The Trustees completed an exercise to simplify the Fund's property portfolio, following the sale of the Fund's remaining investment in the Standard Life Pooled Property Fund during the year.

The Trustees have reaffirmed their commitment to Environmental Social and Governance (ESG) issues and have published their statement of beliefs and statement of responsible investment as part of the Fund's Statement of Investment Principles (SIP). These statements set out the key beliefs of the Trustees in relation to investment matters and their overall approach to ESG issues. The SIP has formally been agreed by the Minister for the Civil Service and IPSA and can be viewed on the Fund's website at www.mypcpfpension.co.uk/docs/librariesprovider12/investments/statement-of-investment-principles.pdf?sfvrsn=2.

To aid their active fund managers in voting and engagement issues, the Trustees have published an Engagement Policy. In addition, quarterly voting and engagement reports are published on the PCPF website. The Trustees continue to monitor and engage with their managers' activities in relation to ESG matters.

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

Manager	**Mandate**	**Holding as at 31.3.18 %**	**Target Allocation %**
BlackRock Advisors (UK)	Global equities	46.6	45.0
MFS International (UK) Ltd	UK equities	8.9	8.0
MFS International (UK) Ltd	Global equities	7.9	8.0
M&G	European Loans	9.4	10.3
M&G	Illiquid credit	5.0	5.0
Multi-managers	Property	10.4	10.0
PIMCO Europe Ltd	UK bonds	11.0	13.7
Transition cash*	Cash	0.8	–
Total		**100.0**	**100.0**

*Represents residual cash resulting from the liquidation of the global equity portfolio managed by Sarasin & Partners LLP during the year. The cash is being used to support ongoing cashflow commitments for the time being, and is expected to be invested following a review of the Fund's investment strategy during the 2018/19 Fund year.

There were no employer related investments during the year (2017: nil).

Preparation of annual accounts

The Fund Rules, which under the 2010 Act reconstitute the provisions of the 1993 regulations, require that annual accounts to be 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.

When the House reviewed the accounting arrangements for the Fund it decided that it would be more appropriate to align its accounting arrangements with those of other public sector pension schemes, which recognise the scheme liabilities as well as the scheme assets. The House sought the approval of the Members' Estimate Committee and the Trustees of the PCPF, who agreed the proposal. The Comptroller and Auditor General (C&AG) is responsible under legislation for setting the Accounts Direction for the PCPF and, after due consideration, updated the 2015-16 direction to facilitate the proposal put forward by the House.

The liability for the PCPF as at 31 March 2018 is assessed by the Government Actuary on an International Accounting Standards (IAS19) basis and is shown on pages 42 to 45 of the Accounts. The Trustees are content with the liability position of the Fund having taken advice from the Actuary and are satisfied that the Fund will continue in operation given the liability position.

A Statement of the Trustees' responsibilities with regard to the preparation of the accounts is on page 11.

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: 10 October 2018
by:

Brian H Donohoe
Chairman of Trustees

Accountability Report

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 2018 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 2018 of its assets and liabilities.

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.

The responsibilities of Trustees include confirming that as far as they are aware there is no relevant audit information of which the auditors are unware and that he has taken all the steps they ought to have taken to make themselves aware of any relevant audit information, and to establish that the auditors are aware of that information.

The Trustees confirm that the annual report and accounts as a whole is fair, balanced and understandable and take personal responsibility for the annual report and accounts and the judgments required for determining that it is fair, balanced and understandable.

Governance Statement

This statement covers the operation of the Fund for the year ended 31 March 2018. 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 (the Fund)

Collectively, the ten Trustees of the Fund have a range of legal duties for the Fund as well as maintaining overall responsibility for the management of the Fund.

Officials from the Corporate Services team at the House of Commons provide a full secretariat service to the Trustees which includes administrative advice and support. The Secretariat, who are part of Corporate Services, is led by Lucy Tindal, who is Secretary to the Trustees.

The Trustees have a balance of powers document in place which sets out their responsibilities relating to the administration and governance of the Fund. The roles and responsibilities the Trustees have delegated to the Secretariat are set out in the Secretariat terms of reference.

The Trustees Business Plan 2017-19 for the Fund sets out the expected projects over the three Fund years. During the year the Trustees monitored regular reports, provided by the Secretariat at Trustee meetings, on the progress being made in each area, including Secretariat performance. The Trustees have approved a new Business Plan commencing 1 April 2018 for a period of three years.

The Trustees have a conflicts of interest policy in place to meet the Pensions Regulator's expectation for schemes to manage conflicts of interest and improve their governance framework.

Arrangements are also in place to assess and address the ongoing training requirements of Trustees, to ensure that they keep up to date with new and current issues affecting the Fund's operations. Regular and relevant Trustee training sessions are arranged at Trustee meetings.

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. Three of these meetings were specifically investment focussed. The Trustees have agreed to hold additional investment focussed meetings for the foreseeable future to allow sufficient time being given to investment matters.

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.

During the year the Trustees have spent considerable time considering environmental, social and governance (ESG) matters. The focus has been on reviewing Fund Managers' voting and engagement activity and formulating a formal Engagement Policy to set out the Trustees' engagement with their Fund managers.

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.

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 risks to the Fund is the risk of pension fraud and the Trustees have agreed to undertake an NFI exercise every three to five years. The Trustees took part in the 2016 National Fraud Exercise. The results have showed there were in fact no cases of fraud identified. It is likely the Trustees will next participate in this exercise in 2019.

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 actuarial liabilities are measured by the Government Actuary and reported to the Trustees via the Actuarial Valuation every three years. The Trustees undertook a Valuation as at 1 April 2017 and the next valuation is now due as at 1 April 2020. This will be published during the 2020/21 Fund year.

In addition, the value of liabilities on an IAS19 basis has been calculated as at 31 March 2018 for the purpose of these accounts. It has been determined by calculating the liabilities as at 1 April 2017, based on the data for the 2017 actuarial valuation, and rolling forward that liability to 31 March 2018. The assumptions adopted for the assessment are the responsibility of the Trustees, having regard to both the Government's Financial Reporting Manual (FReM) and advice from the actuary. The report from the Actuary on the pensions liability as at 31 March 2018 is included in these accounts on pages 42 to 45.

The Trustees have taken reasonable steps to satisfy themselves that the data provided is of adequate quality for the purposes of the liability assessment. The administrators are contracted to update and maintain membership information and to carry out basic tests to detect obvious inconsistencies and inaccuracies in basic member data. The Government Actuary has carried out reasonableness checks on the detailed data provided and has had discussions with the administrators. These checks have given no reason to doubt the correctness of the information supplied.

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 the custodian and the administrator.

Financial management

The Trustees review all expenditure incurred by the Fund at each meeting. The Trustees receive a report on the Fund budget and costs being incurred by the Fund. This report forms part of the Business Plan which is taken to the Trustees at each meeting and aims to help increase governance around spending behaviour and improves decision making.

Procurement

During 2017-18 no procurement exercises were undertaken. After the year-end, an invitation to tender for administration services was issued with a view to appointing/re-appointing an administration provider with effect from 1 April 2019.

The Trustees are supported by the Secretariat and the House's Parliamentary Procurement and Commercial Services (PPCS) to ensure that all tender exercises follow public procurement guidelines and comply with the EU procurement directives, ensuring equal treatment, non-discrimination and transparency.

The Trustees have other external contracts that are coming to the end of their terms over 2018-2019. The Trustees have previously been unable to use the National Framework Agreement (NFA) for tendering as it has not been legally possible to use them. However, it is anticipated that the Trustees will be able to use these frameworks in some instances in future where the frameworks allow public sector pension funds to do so. This will be beneficial for the Trustees as the procurement process will be streamlined in some cases, bring comfort around transparency and market benchmarking as well as providing value for money contracts.

Fund Administration

RPMI currently undertake 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. 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. 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.

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 2017-18 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 10 October 2018
by:

Brian H Donohoe
Chairman of Trustees

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 2018 under Schedule 6 of the Constitutional Reform and Governance Act 2010. The financial statements comprise: the Statements of Comprehensive Net (Expenditure)/Income, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them.

In my opinion:

- the financial statements give a true and fair view of the state of the Fund's affairs as at 31 March 2018 and of its net comprehensive income for the year then ended; and
- the financial statements have been properly prepared in accordance with the Constitutional Reform and Governance Act 2010 and directions issued thereunder.

Opinion on regularity

In my opinion, in all material respects:

- the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK), and Practice Note 15 – The Audit of Occupational Pension Schemes in the United Kingdom. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the Parliamentary Contributory Pension Fund in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Trustees' for the financial statements

As explained more fully in the Statement of Trustees' Responsibilities, the Trustees' are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Constitutional Reform and Governance Act 2010.

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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Parliamentary Contributory Pension Fund's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Parliamentary Contributory Pension Fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

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

Other Information

The Trustees' are responsible for the other information. The other information comprises information included in the Annual Report, other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters

In my opinion:

- in the light of the knowledge and understanding of the Parliamentary Contributory Pension Fund and its environment obtained in the course of the audit, I have not identified any material misstatements in the Annual Report; and

- the information given in the Report of the Trustees' 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 and 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

24 October 2018

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

Statement of Comprehensive Net Income/(Expenditure) Income for the year to 31 March 2018

	Note	2017-18	2016-17
Income		**£000**	£000
Contributions	6	**12,731**	12,654
Individual transfers in		**410**	1,214
		13,141	13,868
Expenditure			
Benefits payable	7	**(25,944)**	(24,523)
Individual transfers out		**(663)**	(1,120)
Management expenses	8	**(2,041)**	(2,034)
		(28,648)	(27,677)
Finance income			
Investment income	9	**9,831**	9,702
Change in market value of investments	10	**11,155**	112,955
		20,986	122,657
Finance expenditure			
Interest charged		**(30)**	(110)
Changes in provision for pension liability	17	**(25,600)**	(24,200)
Net (expenditure)/income		**(20,151)**	**84,538**
Other comprehensive net income /(expenditure)			
Pension re-measurements			
Actuarial gain/(loss)	17	**58,200**	(153,300)
Other re-measurements	17	**21,600**	13,500
Total comprehensive net income /(expenditure)		**59,649**	(55,262)

The notes on pages 23 to 48 form part of these accounts

Statement of Financial Position as at 31 March 2018

	Note	2017-18 £000	2016-17 £000
Non-current assets			
Financial assets	11	**725,917**	728,924
Additional voluntary contribution assets	14	**2,371**	2,502
Total non-current assets		**728,288**	731,426
Current assets			
Trade and other receivables	15	**1,054**	1,162
Cash	15	**1,881**	1,174
Total current assets		**2,935**	2,336
Total assets		**731,223**	733,762
Current liabilities			
Trade and other payables	16	**(961)**	(1,026)
Total current liabilities		**(961)**	(1,026)
Non-current assets plus net current assets		**730,262**	732,736
Non-current liabilities			
Financial liabilities	11	**(56,974)**	(64,897)
Provision for pension liability	17	**(887,300)**	(941,500)
Total non-current liabilities		**(944,274)**	(1,006,397)
Assets less liabilities		**(214,012)**	(273,661)
Tax Payers Equity			
General Fund		**(214,012)**	(273,661)

The financial statements on pages 23 to 48 were approved by the Trustees on: 12 October 2017

Signed on behalf of the Trustees:
by:

Brian H Donohoe 10 October 2018
Chairman of Trustees

Statement of Cash Flows for the Year to 31 March 2018

	2017-18 £000	2016-17 £000
Cash flows from operating activities		
Net (expenditure)/income for the year	**(20,151)**	84,538
Adjustments for non-cash transactions		
Change in market value of investments and gains	**(11,155)**	(112,955)
Less : market value of movements on cash equivalents	**1,963**	(3,110)
(Increase)/decrease in receivables		
Decrease in accrued investment income receivable	**56**	210
(Decrease)/Increase in trade and other receivables	**108**	(111)
Increase/(decrease) in payables		
Decrease/(increase) in trade and other payables	**(65)**	(423)
Increase in pension provision	**25,600**	24,200
Net cash (outflow) from operating activities	**(3,644)**	(7,651)
Cash flows from operating activities		
Purchase of investment assets	**(588,951)**	(241,825)
Proceeds of disposal of investment assets	**609,662**	235,323
Net cash (inflow)outflow from investing activities	**20,711**	(6,502)
Net (increase)/decrease in cash and cash equivalents	**17,067**	(14,153)
Cash and cash equivalents at the beginning of the year	**(21,408)**	(7,255)
Cash and cash equivalents at the end of the year *	**(4,341)**	(21,408)

* Totals are made up of cash at bank note 15 2018: £1,881.000 (2017: £1,174.000) and cash and cash equivalents note 11 2018: -£6,222.000 (2017: -£22,582.000) totalling 2018: -£4,341 (2017: -£21,408.000).

The notes on pages 23 to 48 form part of these accounts

Statement of Changes in Taxpayers' Equity for the year ended 31 March 2018

	2017-18 £000	2016-17 £000
Balance as at 1 April	**(273,661)**	(218,399)
Net expenditure/(income) for the year	**(20,151)**	84,538
Change in provision for pension liability	**79,800**	(139,800)
Net change in taxpayers' equity	**59,649**	(55,262)
Balance as at 31 March	**(214,012)**	(273,661)

Notes to the Financial Statements

1 Description of the Fund

The PCPF is a defined benefit scheme providing final salary and career average revalued earnings (CARE) pension and lump sum benefits on retirement, death and leaving service. It is made up of the MPs pension scheme and the Ministers Pension scheme providing benefits for Members of the House of Commons and Office Holders. The Fund is managed by Trustees in line with scheme rules and any relevant legislation. The Independent Parliamentary Standards Authority (IPSA) is responsible for oversight of the MP's scheme; the Minister for the Civil Service for the Ministers' scheme (MCS).

Previously, the main legislative provisions containing the rules of the Scheme were consolidated in the Parliamentary Pensions (Consolidation and Amendment) Regulations 1993 (SI 1993 No. 3253) as amended. The benefit provisions for MPs and office holders within IPSA's remit are now contained within 'The MPs' Pension Scheme' which was laid before Parliament on 8 December 2014, and the benefit provisions for Ministers are now contained within the Rules of the PCPF (the Ministerial etc Pension Scheme 2015), which was laid before Parliament on 17 December 2014.

A further description of the fund and relevant legislation can be found in the Report of the Trustees on pages 2-9 and on the Fund's website www.mypcpfpension.co.uk.

2 Basis of Preparation

The accounting arrangements of the PCPF are aligned with other public sector pension schemes to ensure comparability of the accounts and improve transparency.

These arrangements requires that the PCPF Trustees prepare accounts that recognise the assets of the Fund and liabilities arising from past and present service in accordance with International Financial Reporting Standards (IFRS) as interpreted by the Government Financial Reporting Manual (FReM) to the extent the FReM is relevant and appropriate, and include such notes and disclosures as deemed appropriate and in accordance with best practice to the extent that the notes and disclosures exceed, but do not conflict with the FReM.

The Statement of Accounts summarises the fund's transactions for the 2017-18 financial year and its position at year-end as at 31 March 2018.

3 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 payroll period to which they relate.

b Benefits are accounted for in the period in which they fall due for payment. When there is a choice, benefits are accounted for in the period in which the member notifies the Trustees of their decision on the type and amount of benefit to be taken, so date of recognition is the latter of the date of retirement or the date the option was exercised, if there is no member choice, they are accounted for on the date of retirement or leaving.

c Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year.

Individual transfers in/out are accounted for when the member liability is accepted or discharged which is normally when the transfer amount is paid or received.

d Management expenses

These are broken down in note 8 and are all accounted for in the period that they relate.

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 fund account 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.

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

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.

f Investments

Financial assets are included in the Statement of Financial Position on a fair value basis as at the reporting date. A financial asset is recognised in the Statement of Financial Position on the date the fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of asset are recognised in the Statement of Financial Position.

The values of investments as shown in the Statement of Financial Position have been determined as follows:

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 Statement of Financial Position.

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.

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 overnight indexed swap (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.

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

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

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.

g 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.

h Cash and cash equivalents

Cash comprises cash in hand and demand deposits. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

i Long term liability – pension provision

A long term liability is a liability that is not due within one year. The pension liability and interest on the liability for the fund are valued on an IAS 19 basis for inclusion in the accounts. The liability is shown in note 21.

4 Critical Judgements In Applying Accounting Policies

Pension fund liability

The pension fund liability is calculated by the appointed actuary. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in note 21. This estimate is subject to significant variances based on changes to the underlying assumptions.

5 Assumptions made about the future and other major sources of estimation uncertainty

The preparation of the accounts requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the Statement of Financial Position date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimate.

The items in the Statement of Financial Position at 31 March 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows.

Item	Uncertainty	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. Consulting actuaries are engaged to provide the Fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance: ■ A 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £71 million ■ A 0.5% increase in assumed earnings inflation would increase the value of liabilities by approximately £14 million ■ A one year increase in assumed life expectancy would increase the liability by approximately £33 million.

6 Contributions

	2017-18	2016-17
	£000	£000
Members		
Normal	**5,671**	5,702
Added years	**176**	212
Additional voluntary contributions	**109**	42
Employer (Exchequer)		
Normal	**6,146**	6,075
Deficit	**629**	623
	12,731	12,654

Following the 2017 valuation, the standard contribution and deficit contribution rates required from 1 April 2018 were maintained at 12.9%.

The contribution rates will be reassessed following the 2020 valuation.

7 Benefits payable

	2017-18 £000	2016-17 £000
Pensions	**22,674**	22,430
Lump sum retirement benefits*	**3,225**	1,934
Lump sum death benefits	**45**	159
	25,944	24,523

* Lump sum payments are higher as 2017 was an election year and there was a higher level of retirements from the fund.

8 Management expenses

	2017-18 £000	2016-17 £000
Trustees – Secretariat	**135**	133
Third party administration and advisor fees	**301**	303
Actuarial fees	**168**	80
Legal fees	**121**	51
External Audit fee	**40**	35
Investment management basic fees	**1,068**	1,208
Investment management performance fees	**39**	27
Custody fees	**71**	79
Investment consultancy	**98**	118
	2,041	2,034

The auditors were not paid any remuneration for non-audit work.

9 Investment income

	2017-18	2016-17
	£000	£000
Fixed interest securities	**2,086**	2,698
Index-linked securities	**8**	8
Equities	**3,179**	3,495
Derivatives	**183**	91
Pooled investment vehicles	**4,374**	3,410
	9,830	9,702
Interest on cash held on deposit	**1**	–
	9,831	9,702

10 Change in market value of investments

	Note	**2017-18**	2016-17
		£000	£000
Defined benefit assets	11	**11,109**	112,618
Additional voluntary contribution assets	14	**46**	337
		11,155	112,955

11 Investment movements

	Market value 1 April 2017 £000	Purchases at cost and derivative payments £000	Sales proceeds and derivative receipts £000	Change in Market value £000	**Market value at 31 March 2018 £000**
Fixed Interest	95,207	106,004	(117,362)	(3,551)	**80,298**
Index Linked	3,394	2,991	–	(339)	**6,046**
Derivatives	433	399,757	(399,365)	365	**1,190**
Equities	163,353	13,802	(65,060)	(1,461)	**110,634**
Pooled Investment vehicles	422,933	66,347	(27,648)	14,132	**475,764**
	685,320	588,901	(609,435)	9,146	**673,932**
Cash and cash equivalents	(22,582)			1,963	**(6,222)**
Accrued income	1,289				**1,233**
	664,027			11,109	**668,943**

Included within the above purchases and sales figures are transaction costs of 2018: £33,789 (2017: £95,281). In addition 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.

Investments analysed by Fund Manager

	Market Value 2018 £000	**% of Investments**	Market Value 2017 £000	% of Investments
Pimco Europe Ltd	**73,300**	**11.0**	74,754	11.3
MFS International (UK) Ltd	**112,425**	**16.8**	112,963	17.0
BlackRock Advisors (UK) Ltd	**311,570**	**46.6**	305,527	46.0
UBS Global Asset Management	**27,092**	**4.0**	19,730	3.0
BlackRock UK Property Fund	**26,645**	**4.0**	19,966	3.0
Standard Life IK Property Fund	**334**	**0.1**	5,678	0.8
Schroder Exempt Property Unit Trust Fund	**15,795**	**2.3**	9,875	1.5
Sarasin and Partners LLP	**5,485**	**0.8**	52,597	7.9
M & G European Loans Fund	**62,853**	**9.4**	62,937	9.5
M & G ICOF	**33,444**	**5.0**	–	–
	668,943		664,027	

Investments

	2017-18	2016-17
	£000	£000
Investment assets		
Fixed Interest Securities	**80,298**	95,207
Index Linked Securities	**6,046**	3,394
Equities	**110,634**	163,353
Pooled investment vehicles	**475,764**	422,933
Derivative contracts		
Swaps – OTC	**560**	428
Options – OTC	**–**	–
Futures	**669**	443
FX contracts – OTC	**32,528**	29,632
Other investment assets		
Cash and cash equivalents	**10,284**	4,482
Repo	**2,400**	–
Pending sales	**5,501**	7,763
Accrued income	**1,233**	1,289
Total investment assets	**725,917**	728,924
Investment liabilities		
Derivative contracts		
Swaps – OTC	**(163)**	(281)
Options – OTC	**(3)**	–
FX contracts – OTC	**(32,250)**	(29,737)
Futures – exchange traded	**(151)**	(52)
Other investment liabilities		
Pending purchases	**(10,760)**	(14,731)
Repo	**(11,989)**	(19,043
Cash margin	**(1,658)**	(1,053)
Total investment liabilities	**(56,974)**	(64,897)
Net investment assets	**668,943**	664,027

Analysis of investments

	2017-18 **£000**	2016-17 £000
Investment assets		
Fixed Interest Securities		
UK public sector quoted	**21,824**	27,906
UK quoted	**24,538**	27,710
Overseas public sector quoted	**15,900**	20,822
Overseas quoted	**18,036**	18,769
	80,298	95,207
Index Linked Securities		
Overseas public sector quoted	**6,046**	3,394
Derivative contracts		
Swaps – OTC	**560**	428
Futures	**669**	443
FX contracts – OTC	**32,528**	29,632
	33,757	30,503
Equities		
UK quoted	**51,552**	56,873
Overseas quoted	**59,082**	106,480
	110,634	163,353
Pooled investment vehicles		
UK – equity	**67,002**	71,200
UK – property	**68,231**	54,903
Overseas – hedge funds	**33,444**	–
Overseas – equity	**244,234**	233,893
Overseas – bond	**62,853**	62,937
	475,764	422,933
Other investment assets		
Cash and cash equivalents	**10,284**	4,482
Pending sales	**5,501**	7,763
Accrued income	**1,233**	1,289
Repo	**2,400**	–
	19,418	13,534
Total investment assets	**725,917**	728,924

	2017-18 £000	2016-17 £000
Investment liabilities		
Derivative contracts		
Swaps – OTC	**(163)**	(281)
Options – OTC	**(3)**	–
FX contracts – OTC	**(32,250)**	(29,737)
Futures – exchange traded	**(151)**	(52)
	(32,567)	(30,070)
Other investment liabilities		
Pending purchases	**(10,760)**	(14,731)
Cash margin	**(1,658)**	(1,053)
Repo	**(11,989)**	(19,043)
	(24,407)	(34,827)
Total investment liabilities	**(56,974)**	(64,897)
Net investment assets	**668,943**	664,027

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 Years**	**Nominal amount £000**	**Asset value at year end £000**	**Liability value at year end £000**
Credit default	0 to 10	900	6	–
Synthetic default	0 to 10	6,300	–	(6)
Inflation rate	over 20	300	1	–
Exchange Rate Swap	0 to 10	118,300	447	(47)
Exchange Rate Swap	10 to 20	345,800	10	(38)
Exchange Rate Swap	Over 20	3,800	96	(72)
			560	**(163)**

Collateral deposited by counterparties in respect of swap contracts at the year-end date amounted to £315,000 (2017: £16,000). 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:

Type of future	Expiration	Economic exposure at year end £000	Asset value at year end £000	Liability value at year end £000
Assets				
Interest Rate Future	3 months	22,056	–	(9)
Interest Rate Future	9 months	18,343	–	(42)
Interest Rate Future	12 months	17,974	–	(14)
Interest Rate Future	21 months	22,071	34	–
Interest Rate Future	24 months	17,918	–	(6)
Interest Rate Future	33 months	8,589	–	(7)
Currency Rate Future	3 months	38,974	635	(73)
			669	(151)

Included within cash balances is £337,000 (2017: £305,000) in respect of initial and variation margins arising on open futures contracts at the year end.

Forward Foreign Exchange (FX)

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

Buy/Sell currency	Nominal Amount £000	Asset £000	Liability £000
Assets			
Colombian Peso/US Dollar	178	183	(178)
Euro/Sterling	41	41	(41)
Euro/US Dollar	8	8	(8)
Sterling/Australian Dollar	450	450	(436)
Sterling/Swiss Franc	279	279	(271)
Sterling/Euro	5,701	5,701	(5,626)
Sterling/Japanese Yen	1,124	1,124	(1,122)
Sterling/US Dollar	18,866	18,866	(18,697)
Mexican Peso/US Dollar	1,080	1,098	(1,072)
Russian Ruble/US Dollar	711	712	(708)
US Dollar/Brazilian Real	351	352	(348)
US Dollar/Sterling	155	156	(154)

Buy/Sell currency	Nominal Amount £000	Asset £000	Liability £000
Liability			
Brazilian Real/ US Dollar	350	348	(351)
Swiss Franc/Sterling	80	80	(80)
Euro/Sterling	229	226	(229)
Sterling/Australian Dollar	269	269	(270)
Sterling/Euro	291	291	(292)
Indonesian Rupiah/US Dollar	176	175	(175)
Turkish Lira/US Dollar	520	503	(515)
US Dollar/Sterling	1,677	1,666	(1,677)
Total	**32,536**	**32,528**	**(32,250)**

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

Repo

A repo is a form of short-term borrowing for dealers in government securities. The dealer sells the government securities to investors and buys them back at an agreed date.

Nature of asset	Underlying Investment	Counterparty	Maturity Date	Notional Value	£000's
Repo	UK Gilt	Barclays	3 April 2018	2,400	2,400
Reverse Repo	UK Gilt	Standard Chartered	2 May 2018	(11,989)	(11,989)

Classification of Financial Instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses are recognised. The following table analyses the carrying amounts of financial assets and liabilities (excluding cash) by category and Statement of Financial Position heading. No financial assets were reclassified during the accounting year.

	Fair value though profit and loss	Loans and receivables	Financial liabilities at amortised cost	Fair value though profit and loss	Loans and receivables	Financial liabilities at amortised cost
	31 March 2018			31 March 2017		
	£000	£000	£000	£000	£000	£000
Financial assets						
Fixed interest securities	80,298	–	–	95,207	–	–
Index Linked Securities	6,046	–	–	3,394	–	–
Equities	110,634	–	–	163,353	–	–
Pooled investment vehicles	475,764	–	–	422,933	–	–
Derivative contracts	33,757	–	–	30,503	–	–
Additional voluntary contributions	2,371	–	–	2,502	–	–
Cash and cash equivalents	–	12,165	–	–	5,656	–
Other investment balances	9,134	–	–	9,052	–	–
Trade and other receivables	–	1,054	–	–	1,162	–
	718,004	**13,219**	**–**	**726,944**	**6,818**	**–**
Financial liabilities						
Derivative contracts	(32,567)	–	–	(30,070)	–	–
Other investment balances	(24,407)	–	–	(34,827)	–	–
Trade and other payables	–	–	(956)	–	–	(1,026)
	(56,974)	**–**	**(956)**	**(64,897)**	**–**	**(1,026)**
Total	**661,030**	**13,219**	**(956)**	**662,047**	**6,818**	**(1,026)**

Net gains and losses on financial instruments

	31 March 2018 £000	31 March 2017 £000
Financial assets		
Fair value through profit and loss	**9,192**	115,993
Loans and receivables	**2,159**	(3,110)
Financial assets		
Fair value through profit and loss	**(196)**	(265)
Total	**11,155**	112,618

Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as Level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Financial instruments in Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

Such instruments would include unquoted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in hedge funds are based on the net asset value provided by the fund manager. Assurances over the valuation are gained from the independent audit of the value.

Values at 31 March 2018	**Level 1 £000**	**Level 2 £000**	**Level 3 £000**	**Total £000**
Financial assets				
Financial assets at fair value	162,076	461,333	102,508	725,917
Financial liabilities				
Financial liabilities at fair value	(12,140)	(44,532)	(302)	(56,974)
Net financial assets	149,936	416,801	102,206	668,943

Values at 31 March 2017	**Level 1 £000**	**Level 2 £000**	**Level 3 £000**	**Total £000**
Financial assets				
Financial assets at fair value	209,539	463,890	55,495	728,924
Financial liabilities				
Financial liabilities at fair value	(19,096)	(45,788)	(13)	(64,897)
Net financial assets	190,443	418,102	55,482	664,027

12 Nature and extent of risks arising from financial instruments

Risk and risk management

The Fund's primary long-term risk is that the Fund's assets will not be sufficient to meet the payment of benefits promised to members (i.e. meet the liabilities) in full as they fall due. The primary objective of investment risk management is to reduce, or remove, the risk that the Fund's assets will be insufficient to meet the liabilities in full. In order to meet the risk management objective, strategic requirements for asset growth, income generation and capital preservation must be balanced. The Fund aims to minimise risk through asset diversification to reduce market risk exposure (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. This is supported by management of liquidity risk to ensure that there is sufficient liquidity to meet the Fund's shorter-term obligations. The Trustees manage these risks as part of their overall risk management policy.

Overall responsibility for the Fund's risk management strategy resides with the Trustees, although day to day management is delegated to the Secretariat. The Fund's risk management processes are reviewed regularly to ensure they remain appropriate.

Market risk

Market risk is the risk of loss from variations in equity prices, interest and foreign exchange rates, property values and credit spreads. The Fund is exposed to market risk through the investments within the overall portfolio. The overall level of risk exposure depends on market conditions, expectations of future prices and yields and the extent of diversification across the portfolio. The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

Market risk – Currency risk

The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than pound sterling, and the Fund's primary exposure to currency risk is via its overseas equity holdings.

The 1 year expected standard deviation for an individual currency as at 31 March 2018 is 10%. This assumes no diversification with other assets and, in particular, that interest rates remain constant. This is the same as the measure of currency risk as at 31 March 2017.

Market risk – Other price risk

Potential price changes are based on the observed historical volatility of asset class returns. For example, riskier assets, such as equities typically display greater volatility than other asset classes such as government bonds, so the overall outcome will depend on the Fund's allocation to various asset classes at any given point in time.

Price risk is managed through diversification which is expected to reduce the overall impact of price changes on the combined value of the Fund's assets. The individual mandates within the Fund's investment strategy are also monitored regularly by the Trustees and the Secretariat, to ensure that they are being managed in accordance with their objectives, so as to remain aligned to the overall portfolio strategy.

The table below shows the volatility of the asset classes the Fund invests in, and an estimate of the combined volatility for the Fund's combined assets. The assets detailed below are the assets in the underlying PIV's:

Table 1: Parliamentary Contributory Pension Fund – Other price risk

Asset class	1 year expected volatility (%)	% of Fund	Asset values as at 31 March 2018 (£m)
UK equities	16.8	17.8	118.5
Global equities (ex UK)	17.9	45.0	303.3
Property	14.3	10.3	68.2
Corporate bonds/Non-Gilts (medium term)	10.2	4.7	31.4
Fixed gilts (medium term)	9.5	3.9	26.4
Senior Loans	5.1	10.3	68.9
High Yield Debt	6.7	5.4	36.3
Cash	0.5	2.6	17.8
Total Fund volatility	**10.6**	**100.0**	**670.8**

Note: Asset values are as at 31 March 2018. Numbers may not sum due to rounding. Asset values are sourced from Northern Trust and also includes £1.9million in the PCPF Trustee Bank account as at 31 March 2018.

The total Fund volatility takes into account the expected interactions between the different asset classes shown, based on the underlying volatilities and correlations of the assets, in line with mean variance portfolio theory.

Market risk - Interest rate risk

In general, the Fund's bond investments are subject to interest rate risk, which represents the risk that the value of the investments will fluctuate due to changes in interest rates. Duration is a measure of the sensitivity of an investment to changes in interest rates.

Table 2 below shows the duration estimates for the different components within the Fund's bond investments.

Table 2: Parliamentary Contributory Pension Fund – Interest Rate Risk

Asset class	Duration (years)	Asset values as at 31 March 2018 (£m)
Corporate bonds/Non-Gilts (medium term)	3.2	31.5
Fixed gilts (medium term)	6.7	26.5
Senior Loans	0.4	69.0
High Yield Debt	0.4	36.4
Total bond investments	**2.0**	**163.4**

Note: Durations sourced from manager data (PIMCO, M&G) as at 31 March 2018. Numbers may not sum due to rounding.

Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation that is entered into directly with the Fund, or indirectly via the Fund's investment managers.

The Fund is exposed to direct credit risk in relation to the Fund's bank account, custodian and investment managers who are appointed to manage the Fund's investments. The Fund has had no experience of default or uncollectable deposits in recent years from its cash holdings. The Fund's cash holdings (including cash balances with investment managers) as at 31 March 2018 was £17.8 million as shown in the table below.

Table 3: Parliamentary Contributory Pension Fund – cash holdings

Summary	**Rating (S&P)**	**Asset values as at 31 March 2018 (£m)**
Money market funds: Northern Trust	A-1+	9.7
Bank current accounts: Royal Bank of Scotland	BBB+	1.9
Net cash equivalents: Investment managers	n/a	6.2
Total		**17.8**

Note: Asset values are sourced from Northern Trust and from manager data (PIMCO). Credit ratings for investment manager net cash equivalent balances is not available.

The Fund is also exposed to indirect credit risk in relation to underlying investments in which the Fund is invested, including the bond mandate managed by PIMCO and the European Loans and Illiquid credit mandates managed by M&G. The management of this indirect credit risk is delegated to the Fund's investment managers. The market values of investments in these mandates generally include an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's assets. A summary of the Fund's indirect credit risk exposures is also provided below:

Table 4: Parliamentary Contributory Pension Fund – Indirect Credit Risk

Credit rating of bond investments	**Asset values as at 31 March 2018(£m)**	**% of Bond investments**
A1/P1	0.7	0.4%
AAA	26.2	16.0%
AA	27.2	16.7%
A	7.0	4.3%
BAA	11.4	7.0%
BBB	3.0	1.8%
BBB-	0.6	0.4%
BB+	1.3	0.8%
BB	15.0	9.2%
BB-	11.6	7.1%
B+	9.7	6.0%
B	36.1	22.1%
B-	6.3	3.8%
CCC+	0.6	0.4%
CCC	3.0	1.8%
CC	0.7	0.4%
C	0.0	0.0%
Not rated	3.0	1.8%
Total	**163.4**	**100.0%**

Note: Asset values are as at 31 March 2018. Numbers may not sum due to rounding. Asset values are sourced from Northern Trust. Credit ratings are sourced from PIMCO and M&G.

Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due.

The majority of the Fund's direct and underlying investments are made up of listed securities which are considered readily realisable as they are listed on major security exchanges. The Fund invests in an illiquid credit fund managed by M&G, with capital committed for a period of 3 years. After that point, the fund will operate a redemption process on a quarterly basis, subject to 180 days' notice. The illiquid credit fund does, however, tribute income supporting the Fund's cashflow obligations. The Fund's allocation to illiquid credit is currently 5% of assets. The Fund has no further holdings in illiquid assets such as private equity, infrastructure or directly held property. The Fund also invests in certain assets that provide income which is used to support the Fund's cash flow obligations.

The Fund maintains investments in cash, outside of the investment assets held by the custodian that are highly liquid and can be used to meet short term obligations such as expenses, pension payments, pension commencement lump sums and the payment of transfer values.

The Secretariat undertakes regular reviews, with support from the Fund's advisors, to ensure the Fund's investment arrangements are appropriate for the Fund's liquidity requirements. The Secretariat has also put in place arrangements with the Fund's investment managers and custodian to allow for regular distributions of cash to support the Fund's cash flow obligations.

The Fund's cash position is also monitored by the Fund's administrator to ensure that there is sufficient cash to meet benefit payments as they fall due.

13 Concentration of investment

The Fund held the following investments which had a value exceeding 5% of the total value of assets less liabilities (excluding the long-term liability) as at 31 March 2018.

Pooled Investment Vehicles	**Market Value 2017-18 £000**	**% of Net Assets 2017-18**	Market Value 2016-17 £000	% of Net Assets 2016-17
BlackRock Pensions Management Aquila Life Global	**89,915**	**13.4**	71,895	10.8
Aquila Life UK Equity Index	**67,002**	**10.0**	71,200	10.7
M & G European Loan C	**62,853**	**9.3**	62,937	9.4
Aquila Life US Equity Index	**56,130**	**8.3**	57,892	8.7
BlackRock Emerging Markets	**38,867**	**5.8**	41,365	6.2
Aquila Life European Equity Index	**38,594**	**5.7**	41,309	6.2

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:

	2017-18 £000	2016-17 £000
AVC investments as at 1 April	**2,502**	2,461
AVC contributions purchases	**50**	53
AVC sales	**(227)**	(349)
Change in market value	**46**	337
AVC investments as at 31 March	**2,371**	2,502
Market value of AVC investments by provider		
Equitable Life	**1,110**	1,272
Zurich	**1,261**	1,230
	2,371	2,502

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

15 Current assets

	2018 £000	2017 £000
Contributions due to Fund:		
Member normal contributions	**466**	466
Employer normal contributions	**570**	506
Member AVC	**2**	3
Employer deficit contributions	**–**	52
Member added years	**12**	17
	1,050	1,044
Provision for overpaid Guaranteed Minimum Pension (GMP) owed by members to the Fund	**4**	5
Prepayment	**–**	113
Balance at bank	**1,881**	1,174
	2,935	2,336

16 Current liabilities

(amounts due within one year)

	2018 £000	2017 £000
Lump sums and taxation	**(566)**	(406)
Administrative expenses	**(247)**	(161)
Investment management expenses	**(136)**	(447)
Provision for GMP owed to members	**(12)**	(12)
	(961)	(1,026)

17 Actuarial Liability - IAS 19 Basis

The statement is based on an assessment of the liabilities as at 1 April 2017, with an approximate uprating to 31 March 2018 to reflect known changes.

Membership Data

Tables A and B summarise the principal membership data as at 1 April 2017 and 31 March 2018 used to prepare this statement.

Table A – Active members (MP's and officeholders combined)

	1 April 2017		2017-18
Number	Total salaries in membership data (pa) (£ million)	Total accrued pensions (£ million)	Total salaries (£ million)
792	52.8	12.5	52.5

Table B – Deferred members and pensions in payment

	1 April 2017	
Category	Number	Total deferred pension (pa) (£ million)
Deferreds	224	4.5
Pensioners	1,090	22.6

Methodology

The present value of the liabilities has been determined using the Projected Unit Credit Method, with allowance for expected future pay increases in respect of final salary benefits for active members, and the principal financial assumptions applying to the 2017-18 accounts. The contribution rate for accruing costs in the year ended 31 March 2018 was determined using the Projected Unit Credit Method and the principal financial assumptions applying to the 2016-17 accounts.

This statement takes into account the benefits normally provided under the scheme, including age retirement benefits and benefits applicable following the death of the member.

Principle financial assumptions

The principal financial assumptions adopted to prepare this statement are shown in Table C

Table C – Principal financial assumptions

Category	31 March 2018 (% p.a.)	31 March 2017 (% p.a.)
Gross discount rate	2.55	2.65
Price inflation (CPI)	2.30	2.35
Earnings increases (excluding promotional increases)	4.30	4.35
Real discount rate (net of CPI)	0.25	0.3

Demographic assumptions

The demographic assumptions adopted for the assessment of the liabilities as at 31 March 2018 are based on those adopted for the 2017 funding valuation of the PCPF.

The standard mortality tables known as S2NxA are used. Mortality improvements are in accordance with those incorporated in the 2016-based principal population projections for the United Kingdom.

The contribution rate used to determine the accruing cost in 2017-18 was based on the demographic and financial assumptions applicable at the start of the year: that is, those adopted for the 2016-17 accounts.

Liabilities

Table D summarises the assessed value as at 31 March 2018 of benefits accrued under the scheme prior to 31 March 2018 based on the data, methodology and assumptions described in paragraphs D to J. The corresponding figures for the previous year end are also included in the table.

Table D – Statement of Financial Position

	31 March 2018 £ million	31 March 2017 £ million
Total market value of assets (excl AVC'S)	671.0	665.3
Value of liabilities	887.3	941.5
Deficit	(216.3)	(276.2)
Funding Level	76%	71%

Table E – Movement in actuarial liability

	31 March 2018 £ million	31 March 2017 £ million
Actuarial liability at the start of the year	941.5	777.5
Movement in the year due to		
Current service cost (net of member contributions)	20.7	15.2
Member regular contributions	5.7	5.7
Past service cost	-	-
Benefits paid	(25.8)	(24.5)
Net transfers-in	(0.2)	0.1
Enhancements (i.e. added pension contributions)	0.2	0.2
Interest on scheme liability	25.0	27.5
Changes in assumptions	(58.2)	(153.3)
Experience gains or losses	(21.6)	(13.5)
Actuarial liability at end of year	**887.3**	**941.5**

Pension Cost

The cost of benefits accruing in the year ended 31 March 2018 (the Current Service Cost) is based on a standard contribution rate of 50.0% (including member contributions but excluding expenses) (2017: 40.3%), as determined at the start of the year. Table F shows the standard contribution rate used to determine the Current Service Cost for 2017-18 and 2016-17.

Table F – Contribution Rate

	2017-18	2016-17
Standard contribution rate (excluding expenses)	50.0%	40.3%
Members' contribution rate (average)	10.6%	11.0%
Employer's share of standard contribution rate (excluding expenses)	39.4%	29.3%

The employer's share of the standard contribution rate determined for the purposes of the accounts is not the same as the actual rate of contributions payable by the Exchequer, currently 12.9%, which was determined based on the methodology and the financial and demographic assumptions adopted for the funding of the scheme. The most significant difference between the actuarial assessments for accounts and for scheme funding purposes is the discount rate net of pension increases, which was 0.3% pa for the 2017-18 Current Service Cost (1.3% pa for 2016-17) compared with 2.5% pa for scheme funding. The higher discount rate for scheme funding purposes results in a lower assessed cost of benefit accrual. The discount rate for scheme funding is determined considering the assets held by the scheme and the expected returns on those assets. The discount rate for accounts is set each year in accordance with IAS19.

The pensionable payroll for the financial year 2017-18 was £52.5 million (2016-17: £51.9 million). Based on this information, the accruing cost of pensions in 2017-18 (at 50.0% (2016-17: 40.3%) of pay) is assessed to be £26.2 million (2016-17: £20.9 million). There is no past service cost and so this is the total pension cost for 2017-18.

Sensitivity of results

The results of any actuarial calculation are inherently uncertain because of the assumptions which must be made. In recognition of this uncertainty the information below indicates the approximate effects on the actuarial liability as at 31 March 2018 of changes to the significant actuarial assumptions.

The principal financial assumptions are the future increases in pensionable salary due to general inflation (earnings increases), pension increases (both in payment and deferment), and the rate of interest (or discount rate) used to calculate the value of the benefits and contributions. A key demographic assumption is pensioner mortality.

Table F shows the indicative effects on the total liability as at 31 March 2018 of changes in these assumptions (rounded to the nearest ½%).

Sensitivity to main assumptions

Change in assumption*	**Approximate effect on total liability**		
Rate of return			
(i) in excess of earnings:	-½% a year	+1.0%	£9 million
(ii) in excess of pensions:	-½% a year	+8.5%	£75 million
Pensioner mortality			
(iii) two additional years increase to life expectancy at retirement:		+3.5%	£33 million

* Opposite changes in the assumptions will produce approximately equal and opposite changes in the liability.

In these sensitivity runs it is assumed that all assumptions, other than the one that is listed, remain the same.

18 Related Party Transactions

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

During the fund year of the ten PCPF Trustees, five were pensioners within the Fund (2017: five), three were active members of the Fund (2017: three) and the remaining two were not members of the Fund (2017: two). The Trustees who are pensioners or members of the Fund receive benefits on the same basis as other members of the Fund. The Trustees are listed on page 6.

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.

There were no fees paid to Trustees during the year (2017: nil).

19 Employer Related Investments

There were no employer related investments during the year (2017: nil).

20 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 Audit General..

21 Standards issued but not yet effective

A number of new standards have been issued, which are not yet effective for this scheme year, although earlier application is permitted; however, the Scheme has not early adopted the new standards in preparing these financial statements.

The following standards are not expected to have a material impact on the Scheme's financial statements in the period of initial application.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 is effective for period beginning on or after 1 January 2018, therefore the Scheme will adopt it in its next Report and Accounts.

i. Classification – Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which the assets are managed and their cash flow characteristics.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, Fair value through other comprehensive income ("FVTOCI") and Fair value through profit and loss ("FVTPL").

Based on its assessment, the Trustees do not believe that the new classification requirements will have a material impact on its accounting for investments assets that are managed on a fair value basis. As at 31 March 2018, the Scheme had investments assets of £668.9m. Under IFRS 9, the Scheme has designated these assets as measured at FVTPL. Consequently, all fair value gains and losses are reported during the year through profit and loss.

ii. Impairment – Financial assets and contract assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' ("ECL") model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will not apply to financial assets measured at FVTPL, so it is not relevant to the Scheme.

iii. Classification – Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

However, under IAS 39 all fair value changes of liabilities designated as at FVTPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes are generally presented as follows:

- The amount of change in fair value that is attributable to changes in the credit risk of the liability is presented in Other Comprehensive Income ("OCI"); and
- The remaining amount of change in the fair value is presented in profit or loss

The Trustees' assessment did not indicate any material impact regarding the classification of financial liabilities at 31 March 2018.

iv. Hedge accounting

All entities which apply the FReM guidelines should apply IFRS 9 hedge accounting requirements (with the scope exception only for fair value macro hedges of interest rate risk).

v. Disclosures

IFRS 9 will require new disclosures, in particular about hedge accounting and credit risk. The Trustees are identifying data gaps against current processes and will implement the changes it believes will be necessary to capture the required data.

vi. Transition

Changes to accounting policies resulting from the adoption of IFRS 9 will be applied retrospectively.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

IFRS 15 is effective for period beginning on or after 1 January 2018, therefore the Scheme will adopt it in its next Report and Accounts.

The Scheme does not receive any revenues and as such the Trustees do not consider IFRS 15 relevant to it.

IFRS 16 Leases

IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

IFRS 16 is effective for period beginning on or after 1 January 2019.

The Scheme does not hold any leases and as such the Trustees do not consider IFRS 16 relevant to it.

22 Funding Arrangements

Paragraph 10 of Schedule 6 of the Constitutional Reform and Governance Act 2010 requires the Government Actuary to make a report to the Trustees, the Minister for the Civil Service, IPSA and HM Treasury, at three-year intervals on;

- the general financial position of the Fund and
- make a recommendation as to the rate at which Exchequer contributions should be paid into the Fund in respect of any financial year beginning after the report is made.

The principal funding objective is to maintain a fund of assets which is expected to be sufficient to provide the benefits promised to members and their beneficiaries. Another important aim is to ensure that accruing benefits are paid for during members' participation in the PCPF and that the charges borne by the Exchequer for accruing benefits are reasonably stable over time.

The most recent report by the Government Actuary related to the position as at 1 April 2018.

Based on the method and assumptions adopted for this valuation, the value of liabilities accrued up to the valuation date (including an allowance for future expenses) was assessed as £887.3 million. The market value of the assets on the same date was £671.0 million. The deficit at 1 April 2018 was accordingly £216.3 million. This corresponds to a funding level of 76%.

The Government Actuary recommended that, taking account of the Exchequer share of future service costs (16.8% of pay) and of the reduction to contributions to remove just under half of the surplus (3.9% of pay), that the rate of Exchequer contribution to be paid from 1 April 2018 until 31 March 2021 should continue to be 12.9% of pensionable salaries in respect of MPs' and officeholders' benefits.

The valuation was carried out using the projected unit method, the principal assumptions used were as follows;

Principle Financial Assumptions

Gross rate of return	2.55%
Real rate of return, net of earnings increases	-1.65%
Real rate of return, net of pension increases	0.25%

Principal demographic assumptions

Mortality	**1 April 2017**
Males (retirements in normal health and dependants)	80% of SAPS (normal health males amounts) U=2014
Females (retirements in normal health and dependants)	85% of SAPS (normal health females amounts) U=2014
Male (ill-health pensioners)	80% of SAPS (ill-health males amounts) U=2014
Females (ill-health pensioners)	85% of SAPS (ill-health females amounts) U=2014

Further information can be found in the Government Actuary's report which is published as a House of Commons paper and can be found on the Fund's website www.mypcpfpension.co.uk.

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