Parliamentary Contributory Pension Fund Accounts 2020-21

HC 969

Parliamentary Contributory Pension Fund 2020-21

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

Ordered by the House of Commons to be printed on 16 December 2021

HC 969

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ISBN: 978-1-5286-2246-2

Printed on paper containing 75% recycled fibre content minimum

Printed in the UK on behalf of the Controller of Her Majesty's Stationery Office

PARLIAMENTARY CONTRIBUTORY PENSION FUND

Annual Report and Financial Statements

Year ended 31 March 2021

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Annual Report

REPORT OF THE TRUSTEES

Statutory Basis for the Fund

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 the Independent Parliamentary Standards Authority (IPSA) and the benefit structure of the Ministers' Pension Scheme is determined by the Minister for the Civil Service (MCS). The Constitutional Reform and Governance Act 2010 passed responsibility for the schemes to the above mentioned bodies.

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. Transitional protections brought in at the same time, meant that re-elected MPs that had been within 10 years of retirement on 1 April 2013 would remain in the final salary section. 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 (this was known as partial 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 2015.

Transitional and partial transitional protection also applied to those appointed as an Office Holder from 8 May 2015. Those who had transitional protection in respect of their MPs service built up additional Office Holder benefits under the Rules in force prior to 2015, while those without transitional protection joined the CARE section as an MP Office Holder.

An Office Holder is a holder of one 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

The McCloud/Sargeant court cases (later referred to solely as McCloud) declared that the transitional protection within the Judges' and Firefighters' Pension Schemes gave rise to age discrimination. In July 2019 having been denied leave to appeal, the Government accepted that the discriminatory transitional protections would be removed across all public service schemes affected by transitional protections. The PCPF was not initially directly affected by the judgement, as it would be for IPSA, not the Government, to make a decision about whether to compensate those affected by transitional protection in the MPs' Pension Scheme. In September 2019, IPSA confirmed their continued intention to ensure that the PCPF remains in line with the Government's approach to other public service schemes. During the Fund year, in July 2020, the Government issued consultations on the suggested remedies they will use to rectify the position within the majority of public service schemes, the consultations closed in October 2020 and the Government issued their response on 5 February 2021. Following a review of the Government consultation response, IPSA issued their own consultation about a potential McCloud remedy within the MPs' Pension Scheme on 11 March 2021. The IPSA consultation closed, following the Fund year end, on 13 May 2021. IPSA confirmed their intention to launch a second consultation on the McCloud remedies for the PCPF

later in 2021. Once IPSA's review is final, the Trustees will work with IPSA to make any required amendments to the PCPF.

In 2018-19 the Government Actuary's Department (GAD) estimated that the impact of McCloud within the PCPF would amount to a past service cost of £30m. Following a change in the expected scope of the McCloud remedy, the potential McCloud costs were reassessed by GAD and the past service cost calculated in 2018-19 and the current service cost for 2019-20 were revisited and adjusted in the 2019-20 accounts. There were two adjustments. Firstly, a negative past service cost of £2m was included in the 2019-20 accounts to correct the current service cost in the Parliamentary Contributory Pension Fund annual report and financial statements Year ended 31 March 2020 for 2019-20 quoted in the 2018-19 accounts. Secondly a negative past service cost of £7m was included in the 2019-20 accounts to reduce the past service cost of £30m included in the 2018-19 accounts. As at the 31 March 2021 GAD calculated that the incremental cost for a potential McCloud remedy was £24m on the 2019-20 accounting basis, which included an allowance for a McCloud uplift during 2020-21. Once the final remedy is confirmed GAD will update their estimate of the costs.

During the accounting year, MPs' salaries (which are also set by IPSA) were £81,932.

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.

Ministers' Pension Scheme

The new Ministers' 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. As a result, the Ministerial Scheme is not affected by McCloud.

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.

Benefits Payable

The table below outlines the benefit provision of the MPs' and Ministers' Pension Schemes.

MPs' Pension Scheme – final salary section and Ministers' Pension Scheme up to 8 May 2015	**MPs' Pension Scheme – CARE section and Ministers' Pension Scheme from 9 May 2015**
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. Additional benefits payable if a member dies whilst undertaking Parliamentary duties.

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 a 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.

Benefits payable from the MPs' Pension Scheme – CARE section and Ministers' Pension Scheme from 9 May 2015 are subject to a cost capping mechanism. The cost cap was put in place to protect the Government against future increases in the cost of pension liabilities. If the cap was exceeded, then benefits could be reduced, or member contributions could rise to compensate. Similarly, a floor in each scheme means that if costs decrease below the floor, member benefits could increase, or contributions decrease to compensate. The calculation to determine which, if any, of these circumstances would apply is the cost cap valuation which should be carried out following each pension scheme valuation.

The Ministers' Pension Scheme is covered by the same cost capping mechanism that is used for the major public service pension schemes. However, the MPs' Pension Scheme is covered by a "light touch" approach which is set out in the MPs' pension scheme rules.

Initial calculations for the cost cap valuation were undertaken in 2018, following the 2016 public sector schemes and 2017 PCPF Valuations. However, the Government paused the cost cap mechanism across the public sector due to unexpected initial results and uncertainty caused by McCloud. The cost cap mechanism was un-paused in July 2020 and the Government announced that schemes would need to include the cost of McCloud in the previously paused cost cap valuations. The implications for the PCPF remain uncertain as the cost cap mechanism in the PCPF Rules differs to the approach in other public sector schemes and excludes costs relating to transitional protections and relates to the cost of accruing future service benefits in the CARE Section only. As IPSA are the body responsible for the PCPF Rules relating to the MPs' pension scheme, IPSA are expected to clarify their proposals for the cost cap in due course.

Financial statements

During the year, contributions received into the Fund increased to £13.5 million compared with £13.0 million for the prior year. Member benefits payments have decreased year on year from £30.8 million in 2020 to £29.6 million in 2021.

The net returns on investments comprised; positive change in market value of investments of £151.5 million in the current year (2020: negative £53.6 million), and investment income of £7.3 million (2020: £9.9 million) offset by investment management expenses of £2.2 million (2020: £2.4 million).

The total taxpayers' deficit has decreased to £241.0 million at 31 March 2021 (2020: £271.9 million).

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 £557k in 2020-21, (£113k in 2019-20).

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's Department (GAD) with interim assessments undertaken in the years between valuations. A triennial actuarial valuation was last undertaken in 2020 and was based on the membership as at 1 April 2020. Following the valuation, GAD recommended that the exchequer contribution rate remain at 12.9% from 1 April 2021 onwards.

As with previous years, there were no issues arising from the Exchequer contributions in 2020-21.

Actuarial update as at 31 March 2021

In addition to the triennial actuarial valuations, every year GAD provide an accounting valuation report to the Trustees which sets out the current service cost and actuarial liability for the Fund year. The Actuary's report on the liabilities as at 31 March 2021 is shown on pages 56 to 60 of these Accounts, and the information below has also been taken from this report.

The Fund's net liability, or deficit, as at 31 March 2021, and the corresponding figures as at 31 March 2020, are set out below:

	31 March 2021	**31 March 2020**
	£m	**£m**
Present value of Fund liabilities	(1,016.2)	(908.3)
Fair value of Fund assets	772.6	633.3
Deficit	**(243.6)**	**(275.0)**

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 financial assumptions applying to the 2020-21 accounts. The contribution rate for accruing costs in the year ended 31 March 2021 was determined using the Projected Unit Credit Method and the financial assumptions applying to the 2019-20 accounts.

The financial assumptions used to value the liabilities at 31 March 2021 and a comparison as at 31 March 2020 are summarised below:

Financial assumption	**31 March 2021**	**31 March 2020**
	(% p.a.)	(% p.a.)
Gross discount rate	1.95	2.25
Price inflation (CPI)	2.40	2.00

Earning increases (excluding promotional increases)	4.15	3.75
Real discount rate (net of CPI)	(0.45)	0.25

The demographic assumptions adopted for the assessment of the liabilities as at 31 March 2021 are based on those adopted for the 2020 triennial actuarial valuation of the PCPF.

The value of benefits accrued under the Fund prior to 31 March 2021 are summarised below:

	31 March 2021 (Million)	**31 March 2020** (Million)
Total market value of assets	772.6	633.3
Value of liabilities	(1,016.2)	(908.3)
Surplus/(Deficit)	(243.6)	(275.0)
Funding Level	76%	70%

The cost of the accrued benefits for the year ended 31 March 2021 (the Current Service Cost) is based on a standard contribution rate of 53.6% (including member contributions but excluding expenses) (2020: 63.6%), as determined at the start of the year. The table below shows the standard contribution rate used to determine the Current Service Cost for 2020-21 and 2019-20:

	Percentage of pensionable pay	
	2020-21	**2019-20**
Standard contribution rate (excluding expenses)	53.6%	63.6%
Members' contribution rate (average)	(10.6%)	(10.6%)
Employer's share of standard contribution rate (excluding expenses)	**43.0%**	**53.0%**

The Trustees commission GAD to undertake an assessment of the Fund each year in accordance with International Accounting Standard 19 (IAS19) in order to inform the disclosures for inclusion in the accounts. This actuarial update outlines the Current Service Cost and actuarial liability for the relevant accounting period. The assumptions adopted for the assessment are the responsibility of the Trustees although IAS19 provides guidance on how the assumptions should be set. In particular, the methodology for setting the most significant assumption, the discount rate, is prescribed to ensure consistency across all schemes subject to the IAS19 requirements. The discount rate for accounting purposes is required to be based on corporate bond yields at the accounting date. This basis does not allow for how the assets are invested and therefore makes no allowance for the returns these assets are expected to generate in excess of corporate bonds. As a result, the discount rate tends to be significantly lower than the actual return expected on the scheme's assets. A lower discount rate will produce a higher actuarial liability and higher Current Service Cost. The actuarial liabilities and current service cost produced for accounting purposes are not reflective of the actual cost of providing the scheme benefits, which is assessed through the triennial funding valuation.

The discount rate adopted for the 2019-20 accounts which produced the 53% current service cost quoted was 2.25%. In addition, this 53% current service cost also includes an explicit allowance for the McCloud cost allowing for all members joining the pre-reform scheme. However, GAD expect the cost of McCloud to be lower than included here. The actuarial figures outlined in this report, shown above, are for accounting purposes only and cannot be used for any other purpose.

On 11 March 2020, the World Health Organisation declared the outbreak of coronavirus (COVID-19) a global pandemic, and the 2020-21 Accounts were produced in the midst of this pandemic. It is possible that COVID-19 will impact the future liabilities and assumptions used in the accounts, specifically in relation to mortality, inflation and the discount rate used. As the full impact of COVID-19 is yet unknown, it is not possible to assess how these areas may be impacted in the future.

However, GAD considered the potential implications of how this pandemic could impact on the actuarial calculations required for the accounts. The assumptions for the discount rate and pension increase assumptions reflected market conditions at the accounting date. The long-term salary assumption is set by taking actuarial advice and is intended to be an average over the future careers of scheme members, with a recognition that increases in any particular year may be lower or higher than the assumption. The increase in the amount of Government debt being taken on to pay for its response to the COVID-19 pandemic is likely to affect salary growth. After a discussion with the Secretariat, this assumption was kept in line with the long term earnings assumption of CPI + 1.75%.

The current population mortality projections make no specific allowance for the impact of COVID-19 or any other pandemics. The starting rates of mortality improvements are based on projections of past trends in UK mortality and the effects of past pandemics will already be reflected in these trends. In general, the effects of pandemics on mortality rates are usually expected to be short term, with rates going back to what they would have been before the pandemic after a year or two, unless the pandemic remains over several years. GAD have stated that their view is that it is too early in the pandemic to determine whether COVID-19 changes the long-term view of life expectancy in the UK and the Trustees have agreed with the assessment that it is therefore not unreasonable to retain the existing mortality assumptions. A death rate from COVID-19 in excess of that already allowed for in the mortality assumptions would emerge as an experience gain over the next year's accounts.

The sensitivities to the assumptions are shown in the actuary's accounting valuation report for the position as at 31 March 2021.
The next triennial actuarial valuation is due as at 1 April 2023.

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 Fund. These are prepared in accordance with International Accounting Standards (IAS 19).

The Government Actuary's triennial actuarial valuation report as at 1 April 2020 referred to in these Accounts is available for review at: https://www.mypcpfpension.co.uk/wp-content/uploads/2021/09/2020-PCPF-valn-report_final-290721.pdf.

Membership at 31 March 2021

Active

Active members at the start of the year	675
New entrants	6
Rejoined	1
	682
Less:	
Retirements	(5)
Deferred	(14)
Leavers	(5)
Opt out	(15)
Active membership as at 31 March 2021	**643**

Deferred members

Deferreds at the start of the year	341
Adjustments	1
Actives becoming deferred	14
	356
Less:	

Retirements	(25)
Transfers out	(3)
Opt out	(1)
Rejoined active	(1)
Deferred members as 31 March 2021	**326**
Pensioners	
Pensioners at the start of the year	1,131
Retirements	30
New dependant pensioners	17
	1,178
Less:	
Death of a pensioner	(27)
Death of a dependant	(25)
Pensioners as at 31 March 2021	**1,126***

*There are 318 (2020: 326) dependants included within the figures above.

Trustees during the year to 31 March 2021

Since 24 October 2011, the governing legislation has specified that there should be ten Trustees, eight of whom should be Member Nominated Trustees (MNTs), plus one appointed by each of IPSA and the MCS. At the end of the Fund year there were eight MNTs and one MCS and one IPSA Trustee. All designations are correct as at the date of certification.

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

The Trustees' attendance at meetings is summarised below. Where a Trustee was not entitled to attend all of the meetings in the year, the maximum number of meetings is given in brackets:

Name	**Trustee status**	**Fund membership status**	**No. meetings attended during the Fund year**	
			Ordinary (4 meetings)	Investment (3 meetings)
Sir Brian Donohoe	MNT - Chair	Pensioner member	4	3
Clive Betts MP	MNT	Active member	4	3
Alastair Bridges	IPSA Trustee	Non-member	4	3
Sir Graham Bright	MNT	Pensioner member	4	3
Richard Graham MP	MNT	Active member	4	2
Meg Hillier MP*	MNT	Active member	3 (of 3)	2 (of 2)
Ranil Jayawardena MP*	MNT	Active member	N/A	0 (of 1)
Andrew Love	MNT	Pensioner member	4	3
Bridget Micklem	MCS Trustee	Non-member	4	2
Rt Hon the Lord Naseby	MNT	Pensioner member	4	3
Rt Hon the Viscount Thurso	MNT	Pensioner member	3	3

*During the Fund year, on 21 May 2020 Ranil Jayawardena MP resigned as a Trustee following his appointment as Minister for International Trade. The Secretariat carried out a Member Nominated Trustee (MNT) exercise to fill the position and Meg Hillier MP was appointed as an MNT in September 2020.

Following the year end on 21 October 2021 Sir Graham Bright resigned as a Trustee. The Trustees noted their thanks to Sir Graham for his service to the Fund over his many years of service. The Secretariat would carry out a Member Nominated Trustee (MNT) exercise to fill the position in due course.

During the Fund year the Trustees managed conflicts of interest in line with their conflict of interest policy. This sets out that all potential or actual conflicts of interest are declared at the beginning of each meeting and a record of these declarations and any mitigating action is minuted. The Trustees do not maintain a register of interests.

Method of appointment

Trustees are appointed under the provisions of the Constitutional Reform and Governance Act 2010.

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

Gurpreet Bassi, Head of Members' Hub, House of Commons.

Secretariat

The Trustees have appointed Officials from the House of Commons to provide a full secretariat and administrative service to the Trustees. The PCPF Secretariat, based in Finance, Portfolio & Performance, 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 was outsourced to Buck Ltd.

No accounting officer was held during the Fund accounting year. Other parties who held office in connection with the Fund during the current accounting year:

Service	**Officials**	**Appointed by**
Actuarial Advice	The Government Actuary	Constitutional Reform and Governance Act 2010
External Auditor of Annual Accounts	Comptroller and Auditor General, National Audit Office	Constitutional Reform and Governance Act 2010
Investment Advice	Hymans Robertson LLP	Trustees
Fund Management	MFS International (UK) Ltd BlackRock Advisers (UK) Ltd PIMCO Europe Ltd UBS Global Asset Management Schroder Investment Management Ltd M&G Investments Ltd	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	Buck	Trustees
AVC providers	Utmost Zurich Insurance plc	Trustees Trustees

Banker	Lloyds Bank PLC	Trustees (delegated to Administrator)

Annual Report

Every year, the Trustees prepare an Annual Report, which contains among other things, a Trustees' Report and Investment Report. A copy of the Report is sent to all active members, deferred members and pensioners of the Fund. The Annual Report will also be made available on the Trustees' website: https://www.mypcpfpension.co.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
Finance, Portfolio & Performance
House of Commons
London
SW1A 0AA

pensionsmp@parliament.uk

Members should direct enquiries about their own pension position to Buck:

Parliamentary Contributory Pension Fund
Buck (Bristol)
PO Box 323
Mitcheldean
Gloucestershire
GL14 9BL

Customer helpline: 0330 123 0634
Email: PCPF@buck.com

Investment details and performance

Over the year to 31 March 2021, the Fund returned 26.0% against a benchmark return of 21.9%. Performance over the 12 month period was heavily influenced by rebounds in equity markets seen from Q2 2020 to Q1 2021, as a result of improving economic outlook.

The Fund's fixed income assets also rallied over the period as investor sentiment improved.

The Fund's UK property portfolio outperformed its IPD All Balanced Funds benchmark over the year, delivering a return of 3.3% versus a benchmark return of 2.5%. The Fund's property portfolio remains well positioned, with underweight positions to the retail sector which was hit hardest by the COVID-19 pandemic and the subsequent lockdowns over the year to 31 March 2021. Industry and Warehouse holdings showed strong performance over the period as demand for warehouse holdings increased over the year.

The Trustees have reaffirmed their commitment to integrating Environmental Social and Governance (ESG) issues throughout their investment process and have published their statement of beliefs and statement of responsible investment within 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 can be viewed on the Fund's website at www.mypcpfpension.co.uk. The Trustees' Responsible Investment policy and Climate Risk policy are also available on their website.

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 Trustees have continued to reaffirm their commitment to integrating Environmental, Social and Governance (ESG) issues throughout their investment process. The Fund made its first contribution to the BlackRock Global Renewable Power Infrastructure Fund III in August 2020, with further capital calls made later in the year.

During the year, the Trustees decided to restructure their passively managed equities by converting their regional market-cap equity mandate with BlackRock to a global low carbon approach and allocated 30% of the Fund's equity structure to global (sustainable) multi-factor equity managed by Schroders. Due to market volatility caused by the Covid-19 pandemic, the equity transition was completed following the year end, in April 2021 when £226m was moved to the BlackRock low carbon fund and £140m moved to the Schroder multi-factor equity fund.

In May 2020, the Trustees agreed to allocate up to 5% of Fund assets to an impact investment fund which would generate a positive social or environmental impact, alongside a financial return. The Trustees explored impact investment options during the year and following the year end, in May 2021, the Trustees decided to invest in Foresight – Energy Infrastructure Partners ("FEIP"). FEIP targets renewable energy generation and also places a significant focus on the supporting infrastructure and technology.

The Trustees have previously incorporated their statement of beliefs and statement of responsible investment within 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 Trustees updated their SIP during the year, to reflect new regulatory requirements introduced by the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations. The latest SIP was formally adopted in September 2020, following a statutory consultation with IPSA and the MCS, and can be viewed on the Fund's website at www.mypcpfpension.co.uk. The Trustees' Responsible Investment policy and the Trustee's climate risk policy, which was agreed during the Fund year, in November 2020, are both also available on the website.

As at 31 March 2021 the following holdings were not aligned to the SIP requirements:

- Active global equity holdings varied by 7.2% against the SIP allocation variances (+/- 4%).
- Income/Diversifier holdings varied by 4.6% against the SIP allocation variances (+/- 4%).
- Gilts and cash holdings varied by 2.6% against the SIP allocation variances (+/- 2.5%).

These variances were identified at year end and had resulted from a very strong equity markets rally, rather than any active asset allocation changes. Following the year end, in May 2021, Hymans carried out a review of the Fund's rebalancing policy and recommended rectifying any rebalancing breaches on a quarterly basis. This was agreed by the Trustees and action was taken to bring the holdings back to target allocation level. By November 2021, the Fund's asset allocation was in line with the SIP. The Trustees continue to monitor their asset allocation and rebalancing requirements on a quarterly basis.

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

Manager	Mandate	Holding as at 31.3.21 %	Target Allocation %
BlackRock Advisors (UK) Ltd	Passive	46.1	43.0
MFS International (UK) Ltd	Global equities - active	19.5	16.0

BlackRock Advisers (UK) Ltd	Low carbon tracker	0.7	0.0
BlackRock Advisers (UK) Ltd	Renewable Power Infrastructure	0.5	1.0
M&G	European Loans	8.0	10.0
M&G	Illiquid credit	4.2	5.0
Multi-managers	Property	9.1	10.0
PIMCO Europe Ltd	UK bonds	7.5	7.5
BlackRock Advisers (UK) Ltd	UK Gilts	3.4	7.5
Transition cash*	Cash	1.0	-
Total		**100.0**	**100.0**

*Cash balances includes balances held by the Fund's custodian, Northern Trust and the balance of the Trustees' bank account.

There were no employer related investments during the year (2020: nil).

Initially the COVID-19 outbreak was expected to have a negative impact on the total value of the Fund's assets. The value of the assets fell from £744m in December 2019 to £637m in March 2020. However, there was an upward recovery following this point, and at the year end in March 2021 the value of the assets had rebounded to £776.5m. Despite the recovery, there is still uncertainty about the long term impact of Covid-19 on the Fund's assets. However, as long term investors, short term volatility in the market which affected the value of the assets as described above, has not caused the Trustees undue concern.

Preparation of annual accounts

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

The Comptroller and Auditor General (C&AG) is responsible under legislation for setting the Accounts Direction for the PCPF, see Appendix A. The notes to the Financial Statements set out the basis for preparation of accounts and accounting policies in notes 2 and 3 on pages 38 to 40.

The liability for the PCPF as at 31 March 2021 is assessed by the Government Actuary's Department (GAD) on an International Accounting Standards (IAS19) basis and is shown on pages 56 to 60 of the Accounts. Having taken advice from the Actuary the Trustees are content that the Fund has sufficient assets to meet its liabilities as they fall due over the next 12 months. The PCPF is effectively underwritten by the taxpayer with deficits financed by increased contributions agreed between the Trustees, IPSA, the MCS and the actuary. The Trustees are not aware of any plan by IPSA or MCS to wind up the MPs' or Ministers' Pension Schemes and as such, the Trustees are satisfied that the Fund will continue to operate as a going concern and the financial statements have been prepared on that basis.

In March 2020, following the outbreak of COVID-19 the Trustees received assurance from House of Commons Administration that they would continue to pay the Exchequer contribution, which acts as the Fund's employer contribution. There is no expectation by the Trustees that there will be a change in the contributions due from members of the Fund. Throughout the COVID-19 pandemic all member contributions from IPSA and the Ministerial Departments have continued to be paid. The Trustees remain satisfied that the Fund will continue to operate as a going concern.

At the outset of the COVID-19 pandemic a number of operational changes were required including transitioning to remote working; moving Trustee meetings online; and agreeing administrative priorities with Buck to ensure that retirements and deaths were prioritised over general administrative queries. The Secretariat also sought legal advice on accepting electronic copies instead of original documents in

retirement or death cases for the duration of the pandemic. The governance statement highlights other challenges or risks which arose as a result of the pandemic and how these risks were mitigated.

A Statement of the Trustees' responsibilities with regard to the preparation of the accounts is on page 14.

Disclosure of Information

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

Approved on behalf of the Trustees on 10 December 2021 by:

Sir Brian H Donohoe
Chair 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 2021 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 2021 of its assets and liabilities.

In preparing these financial statements, the Trustees are required to comply with the requirements of the Government Financial Reporting Manual, relevant and appropriate, and in particular 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;
- prepare the financial statements on the going concern basis, on the presumption that the Fund will continue in operation; and
- confirm that the financial statements as a whole are fair, balanced and understandable and take personal responsibility for the financial statements and the judgements required for determining that it is fair, balanced and understandable.

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 unaware and that they have 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.

IMPLEMENTATION STATEMENT

Statement of Compliance with the Parliamentary Contributory Pension Fund (PCPF)'s Stewardship Policy for the Fund year ending 31 March 2021.

Introduction

This is the Trustees' statement prepared in accordance with the requirements of the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019. This statement sets out how the Trustees have complied with the Fund's Stewardship Policy during the period from 1 April 2020 to 31 March 2021.

Stewardship policy

The Trustees' Stewardship (voting and engagement) Policy sets out how the Trustees will behave as an active owner of the Fund's assets which includes the Trustees' approach to:

- the exercise of voting rights attached to assets; and
- undertaking engagement activity, including how the Trustees monitor and engage with their investment managers and any other stakeholders.

The Fund's Stewardship Policy is reviewed on an ongoing basis. A stand-alone Responsible Investment Policy was published in July 2019 setting out additional details on the Trustees' voting and engagement expectations. No changes were made to the Stewardship Policy during the Fund year.

In November 2020, the Trustee Board formalised a Climate Risk Policy, which outlines their approach to addressing climate related risks within the Fund. In particular, the Trustees emphasised the importance of engagement on climate related risks through dialogue with their investment managers, and encouraged managers to support engagement with investee companies.

The Trustees' Statement of Investment Principles, last updated in June 2020, has been reviewed during the Fund year, with draft amendments to be approved later in 2021.

These policies can be reviewed at https://www.mypcpfpension.co.uk/investments.

The Trustees have delegated voting and engagement activity in respect of the underlying assets to the Fund's investment managers. The Trustees believe it is important that their investment managers take an active role in the supervision of the companies in which they invest, both by voting at shareholder meetings and engaging with the management on issues which affect a company's financial performance.

The Trustees' own engagement activity is focused on their dialogue with their investment managers which is undertaken in conjunction with their investment advisers. The Trustees meet regularly with their managers and the Trustees consider managers' exercise of their stewardship both during these meetings and through reporting provided by their investment adviser.

The Trustees also monitor their managers' compliance with the Stewardship Policy on a regular basis and are satisfied that they have complied with the Fund's Stewardship Policy over the last Fund year.

Voting activity

The Trustees seek to ensure that their managers are exercising voting rights and where appropriate, to monitor managers' voting patterns. The Trustees also monitor investment managers' voting on particular companies or issues that affect more than one company.

During the Fund year, the Trustees invested in equity assets through three different mandates, including an initial investment of £5.4 million into the BlackRock Low Carbon Equity Tracker Fund. Following the end of the year, in April 2021 the Trustees allocated an additional £226m to the BlackRock low carbon fund.
The Trustees' equity investment managers have reported on how votes were cast in each of these mandates as set out in the table below[1]:

[1] Voting statistics based on annual reporting run by investment managers. Small rounding differences may exist.

Strategy/Fund name	MFS (active)	BlackRock (passive portfolio)	BlackRock (Low Carbon)
Proportion of Scheme assets	15%	40%	less than 1%
No. of meetings eligible to vote at during the year	101	8,907	1,317
No. of resolutions eligible to vote on during the year	1,470	102,779	17,115
% of resolutions voted	100%	97%	99%
Of the resolutions voted on, % of resolutions voted with management	92.45%	93%	94%
Of the resolutions voted on, % of resolutions voted against management	7.55%	7%	5%
Of the resolutions voted on, % of resolutions abstained	1.50%[2]	1%[3]	0%
% of meetings with at least one vote against management	38.30%	21%	25%

As requested by the PCPF for segregated mandates, **MFS** votes proxies in line with ISS' benchmark voting policy.

BlackRock publishes vote bulletins to highlight key voting rationales as informed by their global voting guidelines, including when BlackRock votes against company management. Main reasons include:

- insufficient progress on climate-related disclosures (particularly with regard to TCFD/SASB-aligned reporting);
- concerns about remuneration and/or overboarding;
- concerns about board oversight; and
- risk management in high profile situations.

Significant votes

Significant votes are considered by the Trustees as votes concerning issues stated within the Responsible Investment Policy as being of particular concern to the Trustees. The Trustees have identified that climate change represents a risk which warrants more detailed scrutiny given the potentially widespread and uncertain impact on financial, economic, and demographic outcomes. The Trustees also regard executive remuneration as a material governance related risk and support the mitigation of this risk predominantly through active engagement by investment managers. The Trustees have asked their managers to provide details on votes in line with these criteria and report on a selection of the votes cast below[4]:

Walt Disney (Q1 2021)

[2] MFS: Abstain votes are counted as votes against management when management has issued a recommendation on a proposal. If management has not issued a recommendation, all votes (including abstentions) are counted as being with management. As such, the three rows (with/against/abstained) may not add up to 100%.
[3] BlackRock: Figures may not total 100% due to a variety of reasons, such as lack of management recommendation, scenarios where an agenda has been split voted, multiple ballots for the same meeting were voted differing ways, or a vote of 'Abstain' is also considered a vote against management. The same applies to Low Carbon Fund.
[4] Source of information: quarterly voting and engagement reports.

MFS (ISS Guidelines) - voted against the Walt Disney proposal to ratify executive remuneration.

> A vote AGAINST this proposal is warranted. Chief Executive Office (CEO) pay and company performance are reasonably aligned for the year in review given the significant reduction in the new CEO's total pay as compared to that of his predecessor. Nevertheless, concerns are raised regarding the compensation committee's responsiveness to several years of low say-on-pay support as well as the continued large size of the former CEO's pay in his current role as executive chairman. The company reached out to and engaged with a broad portion of shareholders and made certain changes to the program surrounding new CEO Chapek's pay. However, the proxy does not disclose shareholders' specific concerns as they relate to the previous year's low vote result. Without specific feedback disclosed in the proxy, shareholders' ability to fully evaluate the committee's responses is significantly inhibited. It is also concerning that no target pay opportunity adjustments were made to Robert Iger's pay in connection with his transition from CEO to executive chairman. As such, he will remain the most highly compensated NEO, with relatively outsized pay opportunities, that do not appropriately reflect the change in role.

BlackRock - voted for the proposal and in line with the management recommendation.

> BlackRock have engaged with the company around the vote on its proposed executive compensation arrangements. Disney's Compensation Committee considered investor feedback when making recent decisions. Bob Chapek was appointed as CEO in February 2020, while former CEO Bob Iger transitioned to Executive Chairman. As a new CEO, Bob Chapek's target compensation was set significantly lower than the prior CEO's target compensation and below the median for the company's Media and General Industry Peers. Prior to the succession the Compensation Committee discussed adjustments in his contractual compensation with Bob Iger covering three separate occasions during fical 2020 and 2019. Bob Iger agreed to these adjustments. Generally, these adjustments increased the rigor of Bob Iger's one-time performance award, reduced his annual compensation opportunity and eliminated a $5 million completion bonus to which he was contractually entitled. The Committee also ensured Bob Chapek's compensation program maintained a significant performance-based component, as was in place for Bob Iger. We therefore supported the advisory vote on executive compensation.

Visa Inc. (Q1 2021)

- Proposal: Amend Principles of Executive Compensation Program

MFS (ISS Guidelines): - voted against the proposals and against management

BlackRock: - voted against the proposals and against management

Rationale: Executive compensation matters should be left to the board's compensation committee, which can be held accountable for its decisions through the election of directors.

Oracle Corporation (Q4 2020)

- Proposal: Report on Gender Pay Gap

MFS (ISS Guidelines): - voted for the proposals and against management

Rationale: additional information would allow shareholders to measure the progress of the company's diversity and inclusion initiatives

BlackRock: - voted for the proposals and against management

Rationale: in the best interests of shareholders to have greater disclosure on this issue

- Proposal: Advisory Vote to Ratify Named Executive Officers' Compensation

MFS (ISS Guidelines): - voted against the proposals and against management

Rationale: ongoing concerns with the use of a discretionary bonus structure

BlackRock: - voted against the proposals and against management

Rationale: pay is not aligned with performance and peers

Goldman Sachs Group, Inc. (Q2 2020)

- Proposal: Advisory Vote to Ratify Named Executive Officers' Compensation

MFS (ISS Guidelines): - voted against the proposals and against management

Rationale: MFS concluded that this resulted in a significantly increased CEO bonus for a period where several key financial metrics were down.

BlackRock: - voted for the proposals and with management

Rationale: BlackRock did engage with the company on this issue and after engagement decided to support management.

United Parcel Service, Inc. (Q2 2020)

- Proposal: Report on Climate Change

MFS (ISS Guidelines): - voted for the proposals and against management

Rationale: MFS viewed this as warranted, as additional information on the company's efforts to reduce its carbon footprint and align its operations with Paris Agreement goals would allow investors to better understand how the company is managing ESG risks.

BlackRock: - voted against the proposals and with management

Engagement activity with investment managers

The Trustees hold meetings with their investment managers as and when questions regarding investment stewardship arise. Over the last scheme year, due to Covid restrictions the Trustees have had to postpone in-person meetings with the managers. No new stewardship issues were brought to the Trustees' attention. However, as restrictions continue to ease, manager interview days are being planned for later in 2021.

The Secretariat, supported by Hymans, the Trustees' investment adviser, hold regular review meetings with the investment managers on behalf of the Trustees. All meetings were held virtually over the course of the scheme year. The following topics were discussed:

Date	Fund manager	Subject discussed

June 2020	BlackRock	Measures of engagement activities, update from BlackRock Stewardship team. Hymans highlighted concerns around engagement activities in relation to environmental issues and executive remuneration. Hymans/Secretariat asked the manager to define how success from an approach to engage on these issues will be measured, and over what time frame, for selected issues. BlackRock shared progress made to improve transparency on engagement activities (e.g., a dedicated stewardship website, vote bulletins providing rationale on high-profile votes, and automated quarterly voting/engagement reports).
September 2020	MFS	Manager style, performance review, portfolio positioning, market overview, ESG integration. Secretariat questioned portfolio positioning in the tech sector. Manager provided rationale in line with their beliefs regarding sustainable growth and reasonable valuation. Manager stood by investment style/beliefs despite challenges posed by Covid and comfortable with current positioning.
December 2020	PIMCO	Fund overview, performance and attribution, portfolio positioning, investment themes, ESG integration. PIMCO shared specific examples of implementation of ESG considerations in the Fund. Whilst bondholders do not have voting rights, PIMCO highlighted that as a major bond investor they have influence over issuers through frequent interactions.
March 2021	BlackRock Property	Market context, portfolio strategy and positioning, fund performance, ESG integration. Secretariat examined fund positioning. BlackRock highlighted focus on income preservation through proactive tenant engagement. The manager achieved strong sustainability performance - 82/100 GRESB (Global Real Estate Sustainability Benchmark) score.
March 2021	BlackRock	Introduction to new relationship manager. Secretariat and BlackRock discussed changes to the approach to diversity and inclusion within the investment and pensions industries in recent years.

Summary of manager engagement activity

The Trustees receive quarterly reporting on their equity managers' engagement activity and annual reporting on non-equity managers' engagement activity. Below is a summary of the key engagement activity for the 12-month period ending 31 March 2021:

Equity managers:

Manager	Number/methods of engagement	Topic engaged on
MFS (active)	MFS undertakes a broad range of engagement activities with companies on behalf of its clients. These engagements can take varying forms, such as formal proxy voting-led engagements, informal investment team engagements, more formal investment team engagements and other collective forms of engagements. Additionally, MFS also participates in various industry working groups and organisations that seek to develop thought leadership on emerging proxy voting issues. Currently MFS does not have a systematic way of capturing all ESG engagements for reporting purposes to clients.	Engagement discussions cover a broad range of topics including but not limited to climate change & the environment, remuneration, diversity, gender pay gap, board composition and labour practices. The goal when engaging is to exchange views on environmental, social and governance topics that represent material risks or opportunities for companies or issuers and to effect positive change on such issues.
BlackRock (passive portfolio)	BlackRock manages a range of passive funds on our behalf. Over the Fund year BlackRock carried out a total of 7,161 engagements with 4,211 individual companies in the form of company meetings for these funds.[5]	Most engagement conversations cover multiple topics and are based on BlackRock's vote guidelines and engagement priorities found at: https://www.blackrock.com/corporate/about-us/investment-stewardship#engagement-priorities. Engagement themes cover a range of environmental, social, and governance (ESG) issues. The main topics are climate risk management (E), board composition and effectiveness (G), corporate strategy (G), and operational sustainability (E).

[5] Source of information: engagement summary reports run for passive funds held at BlackRock. The same applies to Low Carbon Fund.

BlackRock (Low Carbon)	BlackRock carried out 1,039 engagements with 565 individual companies over the scheme year for the Low Carbon Equity Tracker Fund. Majority of BlackRock's meetings – close to 99% – were direct meetings with company management.	Engagement themes were primarily built around Environmental (60%), Social (45%) and Governance (89%). The main topics were board composition & effectiveness (51%), operational sustainability (45%), remuneration (41%), and climate risk management (41%).

Non-equity managers:

Manager	Engagement activity
M&G (private debt)	M&G aims to contribute to a borrower's management of ESG-related risks through engagement – both big picture themes (e.g., raw material sustainable sourcing, single-use plastic) and specific issues. As a credit investor, M&G relies on its market size and reputation (and private-side status which permits a freer dialogue) to ensure long-term ESG objectives are heard. As a private-side lender, M&G has active, iterative relationships with its borrowers, providing a conduit for engagement and lobbying. The power of influence is derived from the frequent interaction and long-term relationships. M&G's analysts conduct engagement at the research and due diligence phase of the asset. As sector specialists, the analysts are well placed to ensure that ESG engagement is conducted on the issues most material to long-term financial performance. In order to create a robust structure to engagement practices across the firm, M&G has adopted the SASB (Sustainability Accounting Standards Board) framework for public side analysts. This allows their engagement to be more targeted. On the private side, disclosure tends to be worse and therefore this can create challenges in certain aspects of engagement. However, M&G's private analysts are looking to implement the SASB principles over the next 12 months in order to mitigate these.
Schroders (real estate)	Schroders' occupier engagements include regular tenant meetings, the use of online occupier portals, tenant satisfaction surveys, and annual newsletters. Examples of ESG matters discussed include: a new food waste system at a retail and leisure scheme, and trials for changes to the operational times of a building management system for a multi-tenanted office. Schroders has produced a Sustainability Fit Out Guide for Tenants to highlight why sustainable and healthy fit out is important, and guide them through how to implement, for example energy efficient lighting, indoor air quality, and biophilia. Schroders' community engagement is dependent upon the type of asset and how it and its users relate to the local community. With a shopping centre there may be communications to help determine local attitudes to the centre, amenity, safety and security, access, and open space as well as support opportunities for recruitment. For a fully let office building examples may include sponsorship for a street festival and a youth centre.

UBS (real estate)	UBS recognises that standing investments – offices, shopping centres, industrial estates – benefit local communities even though it may not be obvious at first sight. In order to assess the social value of investments, UBS has worked with tenants and its property and facilities management teams onsite to understand and measure things such as local employment levels, traineeships, jobs for young offenders, community events held at the property, and volunteering. UBS aims to prompt conversations with occupiers and suppliers, using these assessments to benchmark value and help connect interested parties at properties with the ultimate aim of further enhancement.
BlackRock (real estate)	BlackRock's real estate portfolios strive to actively engage with tenants to further communicate and progress sustainability performance across assets. The range of activities often include a combination of campaigns, activities and events that address sustainable best practice, such as energy and resource efficiency. BlackRock also explores opportunities to participate in tenant meetings and conduct annual tenant surveys and questionnaires that address ESG factors, such as environmental improvement, energy efficiency and occupier health and well-being, as well as a broader array of questions focused on facilities management, property maintenance, security, housekeeping, and satisfaction with property management services.
BlackRock (renewable infrastructure)	PCPF has committed 5% of assets to the Global Renewable Power Fund (GRP III). The position is being built gradually, funded from listed equity, as and when the manager calls capital. As a manager in renewable infrastructure, BlackRock takes environmental, social and governance factors seriously. GRP III has made its first two investments in onshore wind in Europe (Phoenix) and solar in APAC (Neptune). Both investments integrated ESG related matters as part of the due diligence process and are expected to deliver Sustainable Development Goals (SDGs) as well as investment outcomes.
PIMCO (fixed income)	While ESG-focused engagement is not a requirement of the Fund, the GIS Global Libor Plus Bond Fund indirectly benefits from the intensive engagement work pursued in PIMCO's ESG dedicated portfolios, given that issuers may be held in both strategies and there is often an overlap of issuers between strategies should PIMCO have a positive credit view on the specific issuer. PIMCO conducts engagement based on opportunities that they believe will have the most significant impact unique to each issuer and encourages alignment of business activities with the Sustainable Development Goals (SDGs), including via green / sustainable bond issuance and tracks progress over time. PIMCO's credit research analysts engage regularly with the issuers that they cover, for example in the corporate space discussing topics with company management teams related to corporate strategy, leverage, and balance sheet management, as well as ESG-related topics such as climate change targets and environmental plans, human capital management, and board qualifications and composition. For portfolios like the PIMCO GIS Global Libor Plus Bond Fund, this engagement is focused on material ESG issues that can have significant impacts on the credit profile of the issuer.

Use of a proxy adviser

The Trustees have adopted the voting guidelines issued by Institutional Shareholder Services (ISS) as the basis against which they will judge good voting practice.

- For segregated mandates, the Trustees have instructed their managers to adopt the ISS voting guidelines. Where a manager does not vote in line with the ISS guidelines, this will be reported to the Trustees and explanation will be required.

- For pooled mandates, the Trustees will review the policies employed by the manager against the ISS guidelines and where appropriate request that the manager take account of the ISS guidelines in the execution of voting policy.

The Trustees' investment managers have made use of the services of the following proxy voting advisers over the scheme year:

Manager	Proxy Adviser used
MFS (active)	As requested by the Trustees, MFS votes all proxies in line with the recommendations of ISS. For accounts where clients have given MFS the authority to vote proxies, MFS analyses all proxy voting issues within the context of the MFS Proxy Policies, which are developed internally and independent of third-party proxy advisory firms. MFS uses a proxy advisory firm (ISS) to perform various proxy voting–related administrative services, such as vote processing and recordkeeping. While MFS also receives research reports and vote recommendations from multiple proxy advisory firms, such reports are just one input in their comprehensive analysis, which includes other more important sources of information (e.g., proxy materials, engagement, other third-party information, etc.), to determine the votes that are in the best long-term economic interest of the clients. MFS has due diligence procedures in place to help ensure that the research received from proxy advisory firms is accurate and to reasonably address any potentially material conflicts of interest of such proxy advisory firms.
BlackRock (passive portfolio and Low Carbon)	While BlackRock subscribes to research from the proxy advisory firms Institutional Shareholder Services (ISS) and Glass Lewis, it does not follow any single proxy research firm's voting recommendations. BlackRock uses several other inputs, including a company's own disclosures, and record of past engagements, in its voting and engagement analysis.

Review of manager policies

The Secretariat conduct annual review of the managers' investment stewardship on behalf of the Trustees. The review assesses managers' broader approach to responsible investment issues as well as any change in approach by the managers over the Fund year. The managers also update the Secretariat when key changes are made to their voting and engagement policies.
The Trustees and their advisers remain satisfied that the responsible investment policies of the managers and, where appropriate, the voting policies remain suitable for the Fund.

GOVERNANCE STATEMENT

This statement covers the operation of the Fund for the year ended 31 March 2021. 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 House of Commons provide a full secretariat service to the Trustees which includes administrative advice and support. The Secretariat, who are part of Members' Hub, in the House of Commons' Finance, Portfolio & Performance department, is led by Gurpreet Bassi, who is Secretary to the Trustees. Staff are therefore employees of House of Commons. The House of Commons recharges staffing costs for the Secretariat team, in relation to their PCPF duties, to the PCPF. The PCPF therefore, funds the remuneration in relation to the PCPF Secretariat, but is not an employer. The PCPF has no employees of its own, so no remuneration and staff report is required.

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' three year Business Plan (2020-21 to 2022-23), which was approved in March 2020, sets out key expected projects over the three Fund years. The focus of the new Business Plan is on improving services received by members, undertaking a governance review of Trustee procedures and strengthening focus on investment stewardship and responsible investment. 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. Following the Fund year end, the Trustees reviewed an annual report against the business plan to increase transparency over the work of the Secretariat and ensures that the Trustees maintain oversight of the activities for which they remain ultimately responsible.

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. While the PCPF is not regulated by the Pensions Regulator, the Trustees meet these requirements voluntarily in order to improve the governance of the PCPF. In 2020-21 no material conflicts of interest were declared by the Trustees.

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 both at and in between Trustee meetings. During the Fund year the Trustees received training on a number of areas including the differences between tactical and strategic asset allocation and the updated UK Stewardship Code. Following the Fund year end, the Trustees received training on impact investment in May 2021.

The day to day administration of the Fund, including the operation of the pension payroll and accounting functions has been outsourced by the Trustees to Buck Ltd. 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, four ordinary and three investment focussed meetings. At their meeting in December 2020, the Trustees agreed from 2021/22 to hold an additional investment focussed meeting each year to ensure sufficient time was allowed for investment related matters including responsible investment.

The Trustees are not bound by the Treasury and Cabinet Office's Code of Good Practice, 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 2020-21 the Trustees have once again continued to spend a considerable amount of time considering responsible investment, including environmental, social and governance (ESG) matters at their meetings. Some key ESG related decisions which Trustees made during the year included agreeing to remain signatories to the UK Stewardship Code by preparing and submitting a draft stewardship compliance report and finalising and publishing a new climate risk policy on their website. Trustees also reviewed and agreed new changes to the Fund objectives and beliefs and have continued to review the Fund's investment manager's ESG policies.

In May 2020, the Trustees discussed the impact of COVID-19 on the Fund's investments and continued to monitor the situation throughout 2020-21 and beyond. A workshop was held on 14 October 2020 to analyse decisions made by the Fund over past years and to review 'lessons learnt' following the COVID-19 crisis. Following the workshop, Trustees agreed that overall the decisions made over the last three years had added value to the Fund. The Trustees also updated their SIP in July 2020 to ensure that it complied with the changes to investment regulations introduced by the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations. The Trustees continue to review their managers' activities in relation to ESG issues on an ongoing basis through regular reporting and dialogue, as detailed in their updated SIP, Engagement policy and Implementation Statement.
These documents are available on the PCPF website https://www.mypcpfpension.co.uk/

Each quarter the Trustees monitor the performance of the Fund's administrator, Buck against contractual service level agreements. The Secretariat, on behalf of the Trustees, have held regular meetings with Buck to monitor Buck's performance against the service level agreements in place and update the Trustees at meetings. Representatives from Buck attended virtual Trustee meetings in July, October and December 2020 and March 2021. Going forward, it is expected that Buck will attend at least one face to face meeting each year. The Fund's actuarial adviser, The Government Actuary's Department (GAD), also attend Trustee meetings when necessary.

The Secretariat follow House guidance in relation to information assurance issues such as General Data Protection Regulations and cyber security. There were no data issues identified or reported to the Information Commissioner in the year.

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. During the Fund year the full Risk Register was reviewed by the Trustees once, but they also received a report at each ordinary meeting highlighting any significant risks along with actions planned to reduce the impact or likelihood of these potential risks.

The risks considered by the Trustees during the Fund year to 31 March 2021 included:

Risk	Mitigation and response to this risk
Failure of assets to provide expected returns	• Trustees recognise that climate related risks may impact negatively on returns. A climate risk policy was published in 2021 which sets out the Trustees aim for PCPF investments to be compatible with net zero emissions by 2050 or earlier. • Trustees recognise this risk in their Statement of Investment principles, Voting and Engagement policy and statement of investment beliefs.

	• Trustees commission a carbon foot printing exercise on regular basis and consider implications • Trustees advisers provide expert advice in response to market events. • Trustees regularly monitor their Fund managers engagement with these polices.
Operational disaster	• Business continuity procedures in place for administrator and advisors. • PCPF Trustee Records are held on Parliamentary Network which is Cloud based. • The Secretariat has a business continuity plan in place.
Member data incomplete or inaccurate	• New member portal means members can check their data more regularly and inform the administrator of any corrections. • Regular data quality reporting from Administrator.
Transition risk (new Administrator is unable to manage administration of the scheme)	• Secretariat monitor the administrator's action plan and hold regular meetings with administrator. • When administrators configure rules into their system, PCPF advisers review calculations.
Failure of management of contracts / relationship with third parties	• Formal agreement in place with all third parties with performance indicators. • Secretariat hold annual independent performance review meetings with third parties. • Review independent audit and internal control reports of third parties. • Quarterly performance reporting in place for Fund managers and Administrator.
Inadequate management of issues relating to the McCloud remedy	• Legal advisers will review the drafted rules. • Trustees are statutory consultees and can help influence outcomes. In advance of the consultation, the Secretariat and Buck are discussing/planning high level considerations of the remedy. • Secretariat planning Member communication strategy.
Failure of assets to provide enough income to supplement contributions income to pay monthly benefits	• Investment strategy is focussed on moving assets into investment vehicles that meet this requirement. • Hymans look closely at cashflow requirements and generating income from scheme investments. . Cash flow is also closely monitored by the Administrator and the Secretariat. The Administrator highlight any concerns about liquidity to the secretariat.
Failure to maintain funding level of 100%	• Triennial full valuations and annual funding level reports provided by GAD. Latest 2020 valuation report gives a funding level of 104%. • Maintaining 100% funding level is one of the Fund's current objectives and this is a key focus for the Investment advisors. • Trustees hold three investment focussed meetings each year to review investment strategy and performance.
Uncertainty around Brexit outcomes impacts on asset returns	• Trustees employ specialist advisors and monitor investment strategy and markets on a regular basis.
Failure to comply with legislative requirements surrounding responsible investment and climate change	• As well as specialist third party advisers who proved detailed technical knowledge about changes to investment and pension legislation, Trustees have also appointed an investment and governance specialist within the Secretariat who provides additional focussed support, specifically in the responsible investment area.
Failure to interpret PCPF rules correctly	• Pension Scheme Lawyers are appointed to provide detailed technical scheme and legislative knowledge.

	• Administrator refer technical cases to Secretariat for additional oversight. Secretariat take advice from or refer cases to actuaries & pension lawyers where required.
Failure to govern according to TPR best practice and wider legislation	• Trustees and Secretariat are regularly trained, and all Trustees complete the TPR Trustee Toolkit. • Trustees appoint specialist third party advisers who apprise Trustees and Secretariat of relevant changes to legislation.
Fraud/Fraudulent behaviour	• The Fund participates in the National Fraud Initiative to assist in the prevention and detection of fraud. • Fund membership includes high profile members whose deaths are often publicly reported.

The Trustees assessed the impact of the COVID-19 outbreak as having caused additional risks to the Fund. The risks and mitigations are shown in the table below:

Risk	Mitigation and response to this risk
Dramatic fall in value of assets and reduced liquidity impact payment of benefits	• The Trustees are long term investors and are not unduly concerned about temporary volatility in the market. • The Trustees are advised by investment consultants who are managing the market situation and reviewing specific investment portfolio risk. Trustees will be advised to take action if appropriate. Cashflow requirements are also being monitored. • The Trustees have structured their investment strategy to ensure sufficient liquidity and have received assurance that contributions will continue to be paid.
Administrator is unable to pay pensioner payroll, process new retirements or payments following death of members due to reduced staffing	• The Trustees have informed their administrators that the business critical areas to prioritise are to continue to pay the pensioner payroll, process new retirements and progress any death payments. • The administrators have confirmed they have appropriate processes in place to ensure that the key services continue.
Assumptions used in accounts and valuation are no longer accurate	• The Fund's actuary has confirmed that in the medium to long term they expect their assumptions to remain broadly accurate. Until data is available it is difficult to make alternative assessments. • The Trustees use the sensitivity analysis provided to understand how changes in assumptions would affect results.

Financial management

In order to increase governance around Fund spending and improve decision making, the Trustees monitor expenditure against their budget at each ordinary meeting.

Procurement

Following the Fund year end, in May 2021, after undertaking a tender exercise using the Local Government Pension Scheme Framework, the Trustees re-appointed Hymans Robertson as the investment consultant of the PCPF.

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

Fund Administration

During the Fund year, Buck undertook the administration, Fund accounting, and the calculation and payment of all pension benefits. Buck are delegated to approve pension awards for routine retirement (including normal or actuarially reduced early retirement). The Trustees only approve pension awards in other circumstances, for example on ground of ill health. The Trustees have free access to all documents and records maintained by their administrators, on their behalf.

The Fund administrators refer complex or unusual cases to the Secretariat to review. In some technical cases further review is undertaken by the Fund's actuarial and/or legal advisers to ensure that the benefits have been calculated in accordance with the Fund's rules and legislative requirements. The Secretariat meet regularly with Buck to discuss performance against the contractual service level agreements. The Trustees reviewed the administration reports provided by Buck at their ordinary Trustee meetings in July 2020, October 2020, December 2020 and March 2021.

A separation of duties exists at Buck 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 Buck.

The Trustees require the Fund administrator to undertake a monthly reconciliation of expected member and Exchequer contributions. This ensures that incorrect contributions are uncovered and enable the administrator to liaise with the relevant payroll department to rectify the position. The administrator is also expected to monitor the timing of payments received from departments to ensure they are received within required timescales.

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.

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. On behalf of the Trustees, the Secretariat are responsible for the management of all of the Trustees third party contracts and ensuring they meet their contractual requirements. This includes engagement with and monitoring of the Fund administrator and Custodian reports.

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's Department (GAD) and reported to the Trustees via the Actuarial Valuation every three years. The Trustees undertook a Valuation as at 1 April 2020 which was published following the end of the Fund year.

In addition, the value of liabilities on an IAS19 basis has been calculated as at 31 March 2021 for the purposes of these financial statements only. It has been determined by calculating the liabilities as at 1 April 2020, based on the data for the 2020 actuarial valuation, and rolling forward that liability to 31 March 2021. 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 2021 is included in these accounts on pages 56 to 60.

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's Department (GAD) 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 Trustees considered the valuation and are satisfied about the assumptions used.

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 review independent reports on internal operational controls for the custodian and the administrator where appropriate. While no relevant internal audit work was undertaken during the Fund year, the Secretariat reviewed Buck's internal controls for the year ending 31 July 2020.

Conclusion

I am satisfied that during 2020-21 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. The Fund has also complied with Corporate governance in central government departments: code of good practice, where applicable, specifically in relation to board effectiveness and risk management.

Approved on behalf of the Trustees on 10 December 2021 by:

Sir Brian H Donohoe
Chair of Trustees

THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSE OF COMMONS

Opinion on financial statements

I certify that I have audited the financial statements of the Parliamentary Contributory Pension Fund (the Fund) for the year ended 31 March 2021 under Schedule 6 of the Constitutional Reform and Governance Act. The financial statements comprise: Statements of Comprehensive Net Expenditure, 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. The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards as interpreted by HM Treasury's Government Financial Reporting Manual.

In my opinion, the financial statements:

- give a true and fair view of the state of the state of the Fund's affairs as at 31 March 2021 and of the Fund's net expenditure for the year then ended;
- have been properly prepared in accordance with the Constitutional Reform and Governance Act 2010 directions issued thereunder.

Opinion on regularity

In my opinion, in all material respects, the income and expenditure 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 for opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK), applicable law and Practice Note 10 'Audit of Financial Statements of Public Sector Entities 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 2019. I have also elected to apply the ethical standards relevant to listed entities. I am independent of the Parliamentary Contributory Pension Plan in accordance with the ethical requirements that are relevant to my audit of 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.

Conclusions relating to going concern

In auditing the financial statements, I have concluded that Parliamentary Contributory Pension Fund's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Fund's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

My responsibilities and the responsibilities of the Trustees with respect to going concern are described in the relevant sections of this certificate.

The going concern basis of accounting for the Fund is adopted in consideration of the requirements set out in HM Treasury's Government Financial Reporting Manual, which require entities to adopt the going

concern basis of accounting in the preparation of the financial statements where it anticipated that the services which they provide will continue into the future.

Other Information

The other information comprises information included in the annual report, but does not include the financial statements and my auditor's certificate thereon. The Trustees are responsible for the other information. My opinion on the financial statements does not cover the other information and except to the extent otherwise explicitly stated in my certificate, 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 I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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, based on the work undertaken in the course of the audit, 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 on which I report by exception

In the light of the knowledge and understanding of the Fund and its environment obtained in the course of the audit, I have not identified material misstatements in the Accountability Report. 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
- certain disclosures of remuneration specified by HM Treasury's Government Financial Reporting Manual are not made; 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.

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 in accordance with the applicable financial reporting framework and for being satisfied that they give a true and fair view;
- internal controls as the Trustees determine is necessary to enable the preparation of financial statement to be free from material misstatement, whether due to fraud or error.
- assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trustees anticipate that the services provided by the Fund will not continue to be provided in the future.

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.

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a certificate that includes my opinion. 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.

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulation, including fraud.

My procedures included the following:

- Inquiring of management and those charged with governance, including obtaining and reviewing supporting documentation relating to the Fund's policies and procedures relating to:
    - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
    - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
    - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including the Fund's controls relating to the Constitutional Reform and Governance Act 2010;
- discussing among the engagement team and involving relevant internal and external specialists, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, I identified potential for fraud in the following areas: revenue recognition, posting of unusual journals and selection of inappropriate assumptions or methodology underpinning the pensions liability and related estimates;
- obtaining an understanding of the Fund's framework of authority as well as other legal and regulatory frameworks that the Fund operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Fund. The key laws and regulations I considered in this context included the Constitutional Reform and Governance Act 2010 and, where appropriate, the regulations set by the Pensions Regulator; and
- obtaining an understanding of the control environment in place at the Fund, the administrator and the Fund actuary in respect of membership data, the pension liability, contributions due and benefits payable.

In addition to the above, my procedures to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the Trustees and in-house legal counsel concerning actual and potential litigation and claims;
- reading minutes of meetings of those charged with governance and the Board;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business; and

- performing substantive testing of contributions received and benefits paid in the year to ensure compliance with laws and regulations and regularity; and
- engaging an auditor's expert to review the actuarial methods and assumptions used by the Fund actuary, reviewing the expert's report, and undertaking any further procedures as necessary.

I also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

A further description of my responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of my certificate.

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

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.

Report

I have no observations to make on these financial statements.

Gareth Davies
Comptroller and Auditor General

Date 14 December 2021

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

Statement of Comprehensive Net Income / (Expenditure) for the Year Ended 31 March 2021

	Note	2020-21 £000	2019-20 £000
Income			
Contributions	6	**13,490**	13,004
Individual transfers in		**557**	113
Other income		**5**	-
		14,052	13,117
Expenditure			
Service cost	7	**(24,000)**	(19,600)
Enhancements	8	**(6,300)**	(6,100)
Benefits paid during the year	9	**29,600**	31,000
Net transfers-in		**2,000**	-
Other interest payable		**(20,400)**	(23,500)
		(19,100)	(18,200)
Net (expenditure)		**(5,048)**	(5,083)
Benefits payable	10	**(29,607)**	(30,821)
Individual transfers out		**(2,563)**	(265)
Management expenses	11	**(2,156)**	(2,445)
		(34,326)	(33,531)
Finance income			
Investment income	12	**7,302**	9,883
Change in market value of investments	13	**151,461**	(53,571)
		158,763	(43,688)
Combined net income / (expenditure)		**119,389**	(82,302)
Other comprehensive net (expenditure)			
Pension re-measurements			
- Actuarial (loss)/gain	23	**(119,700)**	62,400
- Other re-measurements	23	**30,900**	4,500
Total comprehensive net Income/(expenditure)		**30,589**	(15,402)

The notes on pages 38 to 62 form part of these accounts.

Statement of Financial Position as at 31 March 2021

	Note	2020-21 £000	2019-20 £000
Non-current assets			
Financial assets	14	**763,139**	613,593
Cash and cash equivalents	15	**3,258**	4,970
Additional voluntary contribution assets	18	**2,284**	2,055
Total non-current assets		**768,681**	620,618
Current assets			
Receivables	19	**1,089**	1,127
Cash	19	**6,375**	17,252
Total current assets		**7,464**	18,379
Total assets		**776,145**	638,997
Current liabilities			
Payables (within 12 months)	20	**(1,182)**	(2,613)
Total current liabilities		**(1,182)**	(2,613)
Non-current assets plus net current assets		**774,963**	636,384
Non-current liabilities			
Financial liabilities	14	**(106)**	(16)
Provision for pension liability	23	**(1,016,200)**	(908,300)
Total non-current liabilities		**(1,016,306)**	(908,316)
Assets less liabilities		**(241,343)**	(271,932)
Taxpayers deficit			
General Fund		**(241,343)**	(271,932)

The financial statements on pages 34 to 62 were approved by the Trustees on:

Signed on behalf of the Trustees:
By:

Sir Brian H Donohoe
Chair of Trustees **10 December 2021**

Statement of Cash Flows for the Year Ended 31 March 2021

Cash flows from operating activities	**2020-21 £000**	**2019-20 £000**
Net income / (expenditure) for the year	**119,389**	(82,302)
Adjustments for non-cash transactions		
Change in market value of investments and gains	**(151,461)**	53,571
Less: market value of movements on cash equivalents	**(109)**	(1,913)
(Increase)/decrease in receivables		
Decrease/(increase) in accrued investment income receivable	**327**	(734)
Decrease in trade and other receivables	**38**	40
Increase/(decrease) in payables		
(Decrease)/increase in trade and other payables	**(1,431)**	1,758
Increase in pension provision	**19,100**	18,200
Net cash outflow from operating activities	**(14,147)**	**(11,380)**
Cash flows from financing activities		
Purchase of investment assets	**(22,415)**	(152,172)
Proceeds of disposal of investment assets	**23,973**	178,512
Net cash inflow from investing activities	**1,558**	**26,340**
Net (decrease)/increase in cash and cash equivalents	**(12,589)**	**14,960**
Cash and cash equivalents at the beginning of the year	**22,222**	**7,262**
Cash and cash equivalents at the end of the year *	**9,633**	**22,222**

* Totals are made up of cash at bank note 19 2021: £6,375k (2020: £17,252k) and cash and cash equivalents note 15 2021: £3,258k (2020: £4,970k) totalling 2021: £9,633k (2020: £22,222k).

The notes on pages 38 to 62 form part of these accounts.

Statement of Changes in Taxpayers' Equity for the Year Ended 31 March 2021

	2020-21 £000	2019-20 £000
Balance as at 1 April	**(271,932)**	**(256,530)**
Comprehensive net income / (expenditure) for the year	**150,289**	(77,802)
Actuarial (gain)/loss	**(119,700)**	62,400
Net change in taxpayers' equity	**30,589**	(15,402)
Balance as at 31 March	**(241,343)**	**(271,932)**

Notes to the Financial Statements

1. Description of the Fund

The PCPF is a trust based 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 established as a trust under English Law. It is made up of the MPs Pension Scheme and the Ministers Pension Scheme providing benefits for Members of the House of Commons, Ministers and Office Holders. The Fund is managed by Trustees in line with scheme rules and any relevant legislation, including English Trust law. The Constitutional Reform and Governance Act 2010 passed responsibility for the MPs' scheme to the Independent Parliamentary Standards Authority (IPSA) and for the Ministers' scheme to the Minister for the Civil Service (MCS).

Previously, the main legislative provisions containing the rules of the Fund 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.

The Fund is established as a Trust under English Law. The address for enquiries to the fund is included on page 10.

A further description of the Fund and relevant legislation can be found in the Report of the Trustees on pages 2-13 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 2020-21 financial year and its position at year-end as at 31 March 2021.

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.

Notes to the Financial Statements (continued)

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 11 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 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.

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.

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.

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.

Notes to the Financial Statements (continued)

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 23.

4. Critical Judgements In Applying Accounting Policies

In applying the accounting policies laid out in note 3, the Trustees have had to make certain critical judgements about complex transactions or those involving uncertainty about future events. In the accounts, these are as follows:

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 23. This estimate is subject to significant variances based on changes to the underlying assumptions.

McCloud/Sargeant Case

When IPSA reformed the PCPF benefit structure in 2015, a form of transitional protection was offered to those members closest to retirement. In December 2018 the Court of Appeal upheld a ruling (McCloud/Sargeant) that similar transitional protections in the Judges' and Firefighters' Pension Schemes were unlawful on the grounds of age discrimination. The UK Government requested leave to appeal to the Supreme Court but this was denied at the end of June 2019. The Government have since confirmed their intention to correct the discrimination across all affected Public Service Pension Schemes. The PCPF was not initially directly affected by the judgement as it would be for IPSA, not the Government, to make a decision about whether to compensate those affected by transitional protection in the PCPF. However, in September 2019, IPSA confirmed their intention to ensure that future changes to the PCPF would be in line with the Government's approach to other public service schemes. In light of this, the actuaries have revised the IAS19 report and the amended figures are included in note 23.

Notes to the Financial Statements (continued)

Following the Fund year end the Government consulted on the suggested remedies used to rectify McCloud within the majority of public service schemes. Their consultation report was issued in February 2021. Following a review of the Government consultation response, IPSA issued their own consultation about a potential McCloud remedy within the MPs' Pension Scheme on 11 March 2021. The IPSA consultation closed on 13 May 2021 and they issued a report summarising responses in July 2021. Later in 2021, IPSA are expected to launch a second consultation on the specific McCloud remedies for the PCPF. Once IPSA's review is final, the Trustees will work with IPSA to make any required amendments to the PCPF.

The gross pension liabilities calculated as at 31 March 2019 included an allowance for the additional liability potentially arising from the McCloud/Sargeant judgment, this was reflected as a past service cost and amounted to £30m. The 2019-20 service cost was adjusted down following on from the HM Treasury consultation document issued in July 2020.

As at the 31 March 2021 GAD calculated that the Current Service Cost of a potential McCloud remedy to be £24.0m on the 2019-20 accounting basis, which included an allowance for a McCloud uplift during 2020-21. Once the final remedy is confirmed by IPSA, GAD will update their estimate of the costs.

The Ministers' Pension Scheme is not affected as it does not contain any transitional provisions.

Goodwin

Following the Walker v Innospec Supreme Court ruling in 2017, the Government decided that, in public service pension schemes, surviving male same-sex and female same-sex spouses and civil partners of public service pension scheme members should generally receive benefits equivalent to those received by widows of opposite sex marriages. The exception to this was in certain schemes where, in the past, improvements in female members' survivor benefits had involved female members making employee contributions or increasing them. A case brought in the Employment Tribunal against the Secretary of State for Education in Spring 2020 highlighted that these changes may lead to direct sexual orientation discrimination with the Teacher' Pension Scheme (England & Wales), where male survivors of female scheme members remained entitled to a lower survivor benefit than a comparable same-sex survivor.

The Government announced on 20 July 2020 that it had concluded that changes are required to address this discrimination, and that the government believes that this difference in treatment will also need to be remedied in other public service pension schemes across the UK, where the husband or male civil partner of a female scheme member is in similar circumstances. Following on from the legal advice taken by PCPF and our letter on 'Consideration of equal treatment for spouse pensions' dated 31 July 2020, PCPF instructed GAD that no past service cost should be included in the 2019-20 accounting disclosures in respect of Goodwin as this will have an immaterial impact. No allowance for past service costs in respect of Goodwin costs has been made in the 2020-21 disclosures on grounds of immateriality.

Unquoted investments

It is important to recognise the highly subjective nature of determining the fair value of unquoted investments. There is a lack of trading prices for underlying investments for these funds. Assets are valued by each fund's respective fund administrator, which in turn is used to determine the fund NAV. This is subject to internal scrutiny in accordance with each managers' processes, which may include the use of independent valuations. The Fund invests in unquoted assets through M&G European Loan Fund, M&G Illiquid Credit Opportunity Fund, PIMCO Global Libor Plus Fund, BlackRock UK Gilts Fund, BlackRock Renewable Infrastructure Fund, BlackRock Low Carbon Fund and through the UK property investments with BlackRock, Schroders and UBS. For all of these investments, the managers provide valuations to the custodian, Northern Trust, and this information feeds into regular reporting to the Trustees. The Trustees' investment consultants,

Notes to the Financial Statements (continued)

Hymans Robertson, carry out high level checks to test the reasonableness of these valuations on a quarterly basis and flag any valuations which don't seem sensible. The total value of the Fund's unquoted assets at 31 March 2021 was £256.4m (£236.7m as at 31 March 2020).

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 2021 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 £79m; • A 0.5% increase in assumed earnings inflation would increase the value of liabilities by approximately £9.5m; and • A two year increase in assumed life expectancy would increase the liability by approximately £79m.
McCloud transitional protection	It should be noted that there is considerable uncertainty around the potential additional costs as a result of the McCloud judgment, as the form of remedy is uncertain.	Following on from the HM Treasury consultation issued in July 2020, there is somewhat less uncertainty surrounding these figures, but we cannot rely on the consultation as it does not strictly apply to the PCPF. The figures are still highly sensitive to assumptions around short term earnings growth. No allowance has been included in our calculation of the past service cost to reflect this potential variation, however it is noted that the cost could be significantly higher / lower than the calculated provision.

Notes to the Financial Statements (continued)

6. Contributions receivable

	2020-21 £000	2019-20 £000
Members		
Normal	**6,183**	5,900
Added years	**103**	134
Additional voluntary contributions	**8**	17
Employer (Exchequer)		
Normal	**6,551**	6,308
Deficit	**645**	645
	13,490	13,004

Following the 2017 valuation, the standard contribution and deficit contribution rates required from the Exchequer from 1 April 2018 were maintained at 12.9%. Member contribution rates vary and are set out on pages 2 and 3.

The Exchequer contribution rates will be reassessed following the 2020 valuation. Following the Fund year end the Exchequer contributions have been increased to £610k per month.

7. Service Cost (see also note 23 Table E)

	2020-21 £000	2019-20 £000
Current service cost	**(24,000)**	(28,600)
Past service cost	**-**	9,000
	(24,000)	(19,600)

8. Enhancements (see also note 23 Table E)

	2020-21 £000	2019-20 £000
Employees:		
Member regular contributions	**(6,200)**	(5,900)
Employers:		
Enhancements (i.e. added pension contributions)	**(100)**	(200)
	(6,300)	(6,100)

9. Benefits paid (see also note 23 Table E)

	2020-21 £000	2019-20 £000
Benefits paid	**29,600**	31,000
	29,600	31,000

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Notes to the Financial Statements (continued)

10. Benefits Payable

	2020-21 £000	2019-20 £000
Pensions	**(25,478)**	(23,804)
Lump sum retirement benefits	**(4,129)**	(7,014)
Lump sum death benefits	**-**	(3)
	(29,607)	(30,821)

11. Management Expenses

	2020-21 £000	2019-20 £000
Trustees – Secretariat	**(244)**	(174)
Third party administration and advisor fees	**(215)**	(295)
Actuarial fees	**(318)**	(110)
Legal fees	**(134)**	(211)
External Audit fee	**(73)**	(67)
Investment management basic fees	**(708)**	(1,044)
Investment management performance fees	**(217)**	(298)
Custody fees	**(100)**	(112)
Investment consultancy	**(147)**	(134)
	(2,156)	(2,445)

The auditors did not carry out/undertake any non-audit work.

12. Investment income

	2020-21 £000	2019-20 £000
Fixed interest securities	**-**	297
Index-linked securities	**-**	7
Equities	**1,985**	2,541
Derivatives	**-**	27
Pooled investment vehicles	**5,322**	6,893
	7,307	9,765
Interest on cash held on deposit	**(5)**	118
	7,302	9,883

13. Change in market value of investments

	Note	**2020-21 £000**	2019-20 £000
Defined benefit assets	14	**151,038**	(53,527)
Additional voluntary contribution assets	18	**423**	(44)
		151,461	(53,571)

Notes to the Financial Statements (continued)

14. Investment movements

	Market value at 1 April 2020 £000	Purchases at cost and derivative payments £000	Sales proceeds and derivative receipts £000	Change in Market Value £000	**Market value at 31 March 2021 £000**
Equities	111,639	13,366	(14,788)	39,942	**150,159**
Pooled investment vehicles	500,073	9,038	(8,980)	111,205	**611,336**
	611,712	22,404	(23,768)	151,147	**761,495**
Cash and cash equivalents	4,970			(109)	**3,258**
Accrued income	1,865				**1,538**
	618,547			151,038	**766,291**

*the change in market value in cash and cash equivalents is the gains and losses on currency and foreign exchange.

Transaction costs

Transaction costs are included in the cost of purchases and deducted from sale proceeds. Direct transaction costs include commission charges as follows:

	2021 £	**2020 £**
Equities	5,609	4,836

In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles and charges made within those vehicles. These are not separately provided to the Fund. 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

Fund Manager	**Market value 2021 £000**	**% of investments**	**Market value 2020 £000**	**% of investments**
Pimco Europe Ltd	**17**	**0.0**	190	0.0
MFS International (UK) Ltd	**152,292**	**19.9**	112,676	18.2
BlackRock Advisors (UK) Ltd	**356,622**	**46.5**	266,311	43.1
UBS Global Asset Management	**27,282**	**3.6**	27,271	4.4
BlackRock UK Property Fund	**26,090**	**3.4**	26,089	4.2
Standard Life IK Property Fund	**-**	**-**	338	0.1
Schroder Exempt Property Unit Trust Fund	**15,859**	**2.1**	15,586	2.5
Northern Trust Cash	**7**	**0.0**	2,620	0.4
M & G European Loans Fund	**62,723**	**8.2**	55,780	9.0
M & G ICOF	**33,305**	**4.4**	30,434	4.9
Pimco Global Libor Plus Fund	**57,811**	**7.5**	53,608	8.7
BlackRock UK Gilts Fund	**26,109**	**3.4**	27,644	4.5
BlackRock Global Renewable Power Fund	**2,565**	**0.3**	-	-
BlackRock Low Carbon Fund	**5,609**	**0.7**	-	-
	766,291	**100.0**	618,547	100.0

Notes to the Financial Statements (continued)

Investments

Investment assets	2020-21 £000	2019-20 £000
Equities	**150,159**	111,639
Pooled investment vehicles	**611,336**	500,073
Other investment assets		
Cash and cash equivalents	**2,834**	4,936
Pending sales	**530**	50
Accrued income	**1,538**	1,865
Total investment assets	**766,397**	618,563
Other investment liabilities		
Pending purchases	**(103)**	-
Cash margin	**(3)**	(16)
Total investment liabilities	**(106)**	(16)
Net investment assets	**766,291**	618,547

Analysis of investments

Investment assets	2020-21 £000	2019-20 £000
Equities		
UK quoted	**10,479**	10,124
Overseas quoted	**139,666**	101,515
Rights / warrants	**14**	-
	150,159	111,639
Pooled investment vehicles		
UK – equity	**80,633**	59,000
UK – bond	**26,109**	27,644
UK – property	**67,878**	67,397
Overseas – Hedge funds	**35,400**	29,859
Overseas – equity	**281,237**	207,269
Overseas – bond	**120,079**	108,904
	611,336	500,073
Other investment assets		
Cash and cash equivalents	**2,834**	4,936
Pending sales	**530**	50
Accrued income	**1,538**	1,865
	4,902	6,851
Total investment assets	**766,397**	618,563
Other investment liabilities		
Pending purchases	**(103)**	-
Cash margin	**(3)**	(16)
	(106)	(16)
Total investment liabilities	**(106)**	(16)
Net investment assets	**766,291**	618,547

Notes to the Financial Statements (continued)

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 by category and Statement of Financial Position heading. No financial assets were reclassified during the accounting year.

	Fair value though profit and loss	Amortised Cost	Financial liabilities at amortised cost	Fair value though profit and loss	Amortised Cost	Financial liabilities at amortised cost
	31	March 2021		31	March 2020	
	£000	£000	£000	£000	£000	£000
Financial assets						
Equities	150,159	-	-	111,639	-	-
Pooled investment vehicles	611,336	-	-	500,073	-	-
Additional voluntary contributions	2,284	-	-	2,055	-	-
Cash and cash equivalents	-	9,209	-	-	22,188	-
Other investment balances	2,068	-	-	1,915	-	-
Trade and other receivables	-	1,087	-	-	1,127	-
	765,847	**10,296**	**-**	**615,682**	**23,315**	**-**
Financial liabilities						
Other investment balances	(106)	-	-	(16)	-	-
Trade and other payables	-	-	(1,427)	-	-	(2,613)
	(106)	**-**	**(1,427)**	**(16)**	**-**	**(2,613)**
Total	**765,741**	**10,296**	**(1,427)**	**615,666**	**23,315**	**(2,613)**

Notes to the Financial Statements (continued)

Valuation of financial instruments carried at fair value through profit or loss (FVPL).

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 2021	**Level 1 £000**	**Level 2 £000**	**Level 3 £000**	**Total £000**
Financial assets				
Equities				
UK quoted	10,478	-	-	10,478
Overseas quoted	139,666	-	-	139,666
Rights / warrants	14	-	-	14
Pooled investment vehicles				
Equity	-	361,871	-	361,871
Bonds	-	146,188	-	146,188
Property	-	-	67,878	67,878
Hedge funds	-	-	35,400	35,400
Other investment balances	4,360	542	-	4,902
Total financial assets	**154,518**	**508,601**	**103,278**	**766,397**
Financial liabilities				
Other investment balances	-	(106)	-	(106)
Total financial liabilities	**-**	**(106)**	**-**	**(106)**
Net financial assets	**154,518**	**508,495**	**103,278**	**766,291**

Notes to the Financial Statements (continued)

Values at 31 March 2020	**Level 1 £000**	**Level 2 £000**	**Level 3 £000**	**Total £000**
Financial assets				
Equities				
UK quoted	10,124	-	-	10,124
Overseas quoted	101,515	-	-	101,515
Pooled investment vehicles				
Equity	-	266,269	-	266,269
Bonds	-	136,548	-	136,548
Property	-	-	67,397	67,397
Hedge funds	-	-	29,859	29,859
Other investment balances	6,781	70	-	6,851
Total financial assets	**118,420**	**402,887**	**97,256**	**618,563**
Financial liabilities				
Other investment balances	-	(3)	(13)	(16)
Total financial liabilities	**-**	**(3)**	**(13)**	**(16)**
Net financial assets	**118,420**	**402,884**	**97,243**	**618,547**

The following table presents the changes in level 3 items for the periods ended 31 March 2021 and 31 March 2020:

	Property £000	**Hedge £000**	**Other £000**	**total £000**
Opening 2020	**69,791**	**32,920**	**345**	**103,056**
CIMV	(2,394)	(3,061)	-	**(5,455)**
Additions	-	-	2,283	**2,283**
Disposals	-	-	(2,641)	**(2,641)**
Closing 2020	**67,397**	**29,859**	**(13)**	**97,243**
CIMV	481	2,187	13	**2,681**
Additions	-	3,354	-	**3,354**
Disposals	-	-	-	**-**
Closing 2021	**67,878**	**35,400**	**-**	**103,278**

15. Cash and cash equivalents

	2020-21 £000	2019-20 £000
Balance at 1 April	**4,970**	4,368
Net change in cash balances	**(1,712)**	602
Balance at 31 March	**3,258**	4,970

The following balances at 31 March were held at:

Commercial banks and cash in hand	**35**	39
Short term investments	**2,784**	4,875
Other cash balances	**439**	56
	3,258	4,970

Notes to the Financial Statements (continued)

16. 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 (£422.4m as at 31 March 2021).

The 1 year expected standard deviation for an individual currency as at 31 March 2021 is 9.8%. This assumes no diversification with other assets and, in particular, that interest rates remain constant. This is a slight decrease of the measure of currency risk as at 31 March 2020 of 10.0%.

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.

Notes to the Financial Statements (continued)

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 2021 (£m)
UK equities	16.7	11.7	90.5
Global equities (ex UK)	17.4	49.1	380.0
Emerging Market equities	22.1	5.5	42.4
Infrastructure	21.0	0.5	3.8
Property	14.2	9.1	70.2
Corporate bonds / Non-Gilts (medium term)	8.0	4.9	37.8
Fixed gilts (medium term)	7.3	2.8	21.7
Senior Loans	4.6	10.0	77.9
High Yield Debt	5.9	4.3	33.0
Cash / short duration derivative instruments	0.3	2.1	16.7
Total Fund volatility	**117.5**	**100.0**	**774.0**

Note: Asset values are as at 31 March 2021. Asset values are sourced from Northern Trust and also includes the balance of the Trustees' bank account totalling £6.4m as at 31 March 2021.

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 indirect investment in bonds through some of the PIVs 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.

Notes to the Financial Statements (continued)

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 2021 (£m)
Corporate bonds / Non-Gilts (medium term)	2.6	37.8
Fixed Gilts (medium term)	13.0	21.7
Senior Loans	3.1	77.9
High Yield Debt	0.3	33.0
Cash / short duration derivative instruments	1.1	6.3
Total bond investments	**20.1**	**176.7**

Note: Underlying data sourced from investment managers (PIMCO, M&G and BlackRock) as at 31 March 2021.

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 2021 was £13.0m, as shown in the table below.

Table 3: Parliamentary Contributory Pension Fund – cash holdings

Summary	Rating (S&P)	Asset values as at 31 March 2021 (£m)
Money market funds: Northern Trust	A1+	1.7
Bank current accounts: Lloyds Bank	A2	6.4
Net cash equivalents: Investment managers	n/a	4.9
Total		**13.0**

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

Notes to the Financial Statements (continued)

Table 4: A summary of pooled investment vehicles by type of arrangement is as follows:

Fund type	2021 (£m)	2020 (£m)
Unit Trust	515.1	416.6
Common contractual funds	38.4	29.9
Qualifying investor alternative investment funds	57.8	53.6
Total	**611.3**	**500.1**

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, the European Loans and Illiquid credit mandates managed by M&G and the UK Gilts managed by BlackRock. 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 5: Parliamentary Contributory Pension Fund – Indirect Credit Risk

Credit rating of bond investments	Asset values as at 31 March 2021 (£m)	% of Bond investments
A1	5.4	3.0%
AAA	31.2	17.4%
AA	32.9	18.4%
A	5.8	3.3%
BAA	7.9	4.4%
BBB	3.2	1.8%
BBB-	0.2	0.1%
BB+	2.0	1.1%
BB	15.3	8.5%
BB-	7.4	4.1%
B+	7.9	4.4%
B	34.2	19.1%
B-	9.6	5.4%
CCC+ and below	7.5	4.2%
Cash or cash equivalents	4.9	2.8%
Not rated	3.6	2.0%
Total	**179.0**	**100.0%**

Notes to the Financial Statements (continued)

Note: Asset values are as at 31 March 2021. Asset values are sourced from Northern Trust. Credit ratings are sourced from PIMCO, M&G and BlackRock.

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, distribute income supporting the Fund's cashflow obligations. The Fund's allocation to illiquid credit is currently 5% of assets.

In addition, 5% of Fund assets has been committed to the BlackRock Renewable Energy Infrastructure fund. After an initial 5 year investment period, the BlackRock fund will begin returning capital back to the Fund, with the total repayment period expected to last 7 years after the initial 5 year investment period.

The Fund has no further holdings in illiquid assets such as private equity or directly held property yet. However, an additional commitment of 5% of Fund assets has been made to Foresight Energy Infrastructure Partners. An initial capital call was made post Fund year end in August 2021. 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 advisers, 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.

17. 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 2021.

Pooled Investment Vehicles	Market Value 2020-21 £000	% of Net Assets 2020-21	Market Value 2019-20 £000	% of Net Assets 2019-20
BlackRock Pensions Management Aquila Life Global	108,017	14.1	76,035	12.3
Aquila Life UK Equity Index	75,024	9.8	59,000	9.6
Aquila Life US Equity Index	63,452	8.3	44,485	7.2
M & G European Loan C	62,268	8.1	55,780	9.0
Pimco Global Libor Plus	57,811	7.5	53,608	8.7
Aquila Life European Equity Index	44,041	5.7	34,989	5.7
BlackRock Emerging Markets	42,390	5.5	32,932	5.3

Notes to the Financial Statements (continued)

18. 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 (Utmost (formerly 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 retained their funds with them, and these are now held with Utmost. Fund members who have AVCs invested with Utmost 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:

	2020-21	2019-20
	£000	£000
AVC investments as at 1 April	**2,055**	2,180
AVC contributions purchases	**11**	9
AVC sales	**(205)**	(90)
Change in market value	**423**	(44)
AVC investments as at 31 March	**2,284**	2,055
Market value of AVC investments by provider		
Utmost (formerly Equitable Life)	**1,136**	1,035
Zurich	**1,148**	1,020
	2,284	2,055

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

19. Receivables

	2021	2020
	£000	£000
Contributions due to Fund:		
Member normal contributions	**517**	536
Employer normal contributions	**558**	579
Member added years	**8**	9
	1,083	1,124
Returned pension	**3**	-
Provision for overpaid Guaranteed Minimum Pension (GMP) owed by members to the Fund	**3**	3
Balance at bank	**6,375**	17,252
	7,464	18,379

20. Payables

(amounts due within one year)	**2021**	2020
	£000	£000
Lump sums and taxation	**(610)**	(1,876)
Administrative expenses	**(286)**	(212)
Investment management expenses	**(274)**	(513)
Provision for GMP owed to members	**(12)**	(12)
	(1,182)	(2,613)

Notes to the Financial Statements (continued)

21. Capital commitments

The Fund has outstanding investment capital commitments in relation to a renewable power infrastructure fund managed by BlackRock. Commitments contracted for the year end but not recognised as liabilities amount to £28.4m ($39.2m) as at 31 March 2021 (£34.7m ($43.0m) as at 31 March 2020).

The Trustees confirm that there were no other outstanding capital commitments or contingent liabilities at 31 March 2021.

22. Events after the Reporting Period

The Trustees explored impact investment options during the year and following the year end, in May 2021, the Trustees decided to invest in Foresight – Energy Infrastructure Partners ("FEIP"). FEIP targets renewable energy generation and also places a significant focus on the supporting infrastructure and technology.

23. Actuarial Liability - IAS 19 Basis

The Parliamentary Contributory Pension Fund is an unfunded defined benefit scheme. The Government Actuary's Department (GAD) carried out an assessment of the Scheme liabilities as at 31 March 2021.

The statement is based on an assessment of the liabilities as at 1 April 2020, with an approximate uprating to 31 March 2021 to reflect known changes.

The key assumptions used by the actuary were:

	31-Mar-21	31-Mar-20	31-Mar-19	31-Mar-18	31-Mar-17
Rate of increase in salaries	4.15%	3.75%	4.35%	4.30%	4.35%
Rate of increase in pensions in payment and deferred pensions	2.40%	2.00%	2.35%	2.30%	2.35%
Inflation assumption	2.40%	2.00%	2.35%	2.30%	2.35%
Nominal discount rate	1.95%	2.25%	2.45%	2.55%	2.65%
Discount rate net of price inflation	-0.45%	0.25%	0.10%	0.25%	0.30%

Life expectancy of normal health pensioners at age 60 (years)	31-Mar-21	31-Mar-20	31-Mar-19	31-Mar-18	31-Mar-17
Current retirements					
Females	30.2	30.1	30.9	30.8	31.9
Males	28.7	28.6	29.5	29.4	30.4
Retirements in 15 years' time					
Females	31.4	31.3	32.4	32.3	33.5
Males	30.0	29.9	31.1	31.0	32.0

Notes to the Financial Statements (continued)

Membership Data

Tables A and B summarise the principal membership data as at 1 April 2020 and 31 March 2021 used to prepare this statement.

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

1 April 2020			2020-21
Number	**Total salaries in membership data (pa) (£ million)**	**Total accrued pensions (£ million)**	**Total salaries (£ million)**
819	58.3	11.0	55.8

Table B – Deferred members and pensions in payment

1 April 2020		
Category	**Number**	**Total pension (pa) (£ million)**
Deferreds	530	8.0
Pensioners	1,125	25.1

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 2020-21 accounts. The contribution rate for accruing costs in the year ended 31 March 2021 was determined using the Projected Unit Credit Method and the principal financial assumptions applying to the 2019-20 accounts.

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

Principal financial assumptions

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

Table C – Principal financial assumptions

	31 March 2021 (% p.a.)	**31 March 2020 (% p.a.)**
Gross discount rate	1.95	2.25
Price inflation (CPI)	2.40	2.00
Earnings increases (excluding promotional increases)	4.15	3.75
Real discount rate (net of CPI)	(0.45)	0.25

Demographic assumptions

The demographic assumptions adopted for the assessment of the liabilities as at 31 March 2021 are based on those adopted for the 2020 funding valuation of the PCPF.

Notes to the Financial Statements (continued)

The standard mortality tables known as S3NxA are used. Mortality improvements are in accordance with those incorporated in the 2018-based principal population projections for the United Kingdom.

The contribution rate used to determine the accruing cost in 2020-21 was based on the demographic and financial assumptions applicable at the start of the year: that is, those adopted for the 2019-20 accounts.

The table below shows the life expectancy of normal health pensioners at age 65 (years):

	As at 31 March 2021			As at 31 March 2020		
	Men	**Female member**	**Widows**	**Men**	**Female members**	**Widows**
Current pensioners	23.8	25.2	24.0	23.7	25.1	23.9
Future pensioners *	25.4	26.7	25.6	25.3	26.7	25.5

* The life expectancy from age 65 of active and deferred members will depend on their current age. This table shows the life expectancy from age 65 for active members currently aged 45.

Liabilities

Table D summarises the assessed value as at 31 March 2021 of benefits accrued under the fund prior to 31 March 2021 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 2021 £ million	**31 March 2020 £ million**
Total market value of assets (excl AVC'S)	772.6	633.3
Value of liabilities	(1,016.2)	(908.3)
Deficit	(243.6)	(275.0)
Funding Level	76%	70%

Table E – Movement in actuarial liability

	2020-21 £ million	**2019-20 £ million**
Actuarial liability at start of year	908.3	957.0
Movement in the year due to		
Current service cost (net of member contributions)	24.0	28.6
Member regular contributions	6.2	5.9
Past service cost	-	(9.0)
Benefits paid	(29.6)	(31.0)
Net transfers-in	(2.0)	-
Enhancements (i.e. added pension contributions)	0.1	0.2
Interest on fund liability	20.4	23.5
Changes in assumptions	119.7	(62.4)
Experience gains or losses	(30.9)	(4.5)
Actuarial liability at end of year	**1,016.2**	**908.3**

Notes to the Financial Statements (continued)

Pension Cost

The cost of benefits accruing in the year ended 31 March 2021 (the Current Service Cost) is based on a standard contribution rate of 53.6% (including member contributions but excluding expenses) (2020: 63.6%), as determined at the start of the year. Table F shows the standard contribution rate used to determine the Current Service Cost for 2020-21 and 2019-20.

Table F – Contribution Rate	**Percentage of Pensionable Pay**	
	2020-21	**2019-20**
Standard contribution rate (excluding expenses)	53.6%	63.6%
Members' contribution rate (average)	(10.6%)	(10.6%)
Employer's share of standard contribution rate (excluding expenses)	43.0%	53.0%

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 0.25% pa for the 2020-21 Current Service Cost (0.25% pa for 2019-20) compared with 2.75% 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 2020-21 was £55.8 million (2019-20: £53.9 million). Based on this information, the accruing cost of pensions in 2020-21 (at 53.6% (2019-20: 63.6%) of pay) is assessed to be £29.9 million (2019-20: £34.5 million).

For the purpose of the 2020-21 Resource Accounts, the McCloud cost was included in the start of the year liabilities and in the 20-21 Current Service Cost. This follows the principles of the HM Treasury consultation document issued in July 2020. Although the consultation document does not strictly apply to PCPF, it is expected that a similar approach to that proposed in the consultation will be followed.

Notes to the Financial Statements (continued)

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 2021 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 G shows the indicative effects on the total liability as at 31 March 2021 of changes in these assumptions (rounded to the nearest ½%).

Table G – 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	+8.0%	£82 million
Pensioner mortality				
(iii)	two additional years increase to life expectancy at retirement:		+8.5%	£87 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.

24. 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 eleven PCPF Trustees, five were pensioners within the Fund (2020: five), four were active members of the Fund (2020: three) and the remaining two were not members of the Fund (2020: 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 8.

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 (2020: nil). There were fees paid to the Secretariat of £244k plus VAT (2020: £174k). The Secretariat fees increased following the appointment of a new Investment and Governance Specialist to the Secretariat team.

25. Employer Related Investments

There were no employer related investments during the year (2020: nil).

Notes to the Financial Statements (continued)

26. Standards issued and not yet effective

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

IFRS 17 Insurance Contracts

IFRS 17 replaces IFRS 4 and sets out principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of IFRS 17.

IFRS 17 will become effective for annual reporting periods beginning on or after 1 January 2023, with early application permitted.

The Fund does not hold any insurance contracts and as such the Trustees do not consider IFRS 17 relevant to it.

27. 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 provided by the Government Actuary's Department (GAD) was the IAS 19 accounting valuation related to the position as at 31 March 2021.

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 £1,015.9 million. The market value of the assets on the same date was £772.3 million. The IAS 19 deficit at 1 April 2021 was accordingly £243.6 million. This corresponds to a funding level of 76%.

Following the 2020 triennial valuation, the Government Actuary's Department (GAD) recommended that, taking account of the Exchequer share of future service costs (13.1% of pay) and of the reduction to contributions to remove just under half of the surplus (0.2% of pay), that the rate of Exchequer contribution to be paid from 1 April 2021 until 31 March 2024 should continue to be 12.9% of pensionable salaries in respect of MPs' and officeholders' benefits.

Notes to the Financial Statements (continued)

The IAS 19 accounting valuation was carried out using the projected unit method, the principal assumptions used are the same as used in the 2020 triennial valuation and were as follows;

Principal Financial Assumptions

Gross rate of return	1.95%
Real rate of return, net of earnings increases	-2.20%
Real rate of return, net of pension increases	-0.45%

Although a major significant difference between the accounting valuation (IAS 19) and for the triennial funding valuation (used for scheme funding purposes) is the discount rate net of pension increases which is used. This was 0.25% pa for the 2020-21 Current Service Cost (0.10% pa for 2019-20) within the IAS 19 report, compared with 2.75% pa used for the funding valuation. 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 fund and the expected returns on those assets whereas the discount rate for accounts is set each year in accordance with IAS19 regulations.

Principal demographic assumptions

Mortality	**1 April 2020**
Males (retirements in normal health and dependants)	85% 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)	85% of SAPS (ill-health males amounts) U=2014
Females (ill-health pensioners)	100% of SAPS (ill-health females amounts) U=2014

Further information can be found in the Government Actuary's report on the PCPF actuarial valuation at 1 April 2020, which is published as a House of Commons paper and can be found on the Fund's website www.mypcpfpension.co.uk.

28. GMP Indexation and Equalisation

As the result of a legal ruling UK defined benefit Pension Schemes (such as the PCPF) must compensate members for differences attributable to guaranteed minimum pensions (the minimum pension an occupational Pension Scheme must provide a scheme member as an alternative to the State Earnings Related Pension Scheme). The impact of this is still uncertain as further consultation on the methodology for ensuring equalisation and the legislation required to implement the preferred option has yet to happen. However, initial high-level estimates by GAD indicate the increase in liabilities to be approximately 0.1%.

In November 2020, a further judgment in the Lloyds case was delivered which confirmed scheme trustees are required to revisit past Cash Equivalent Transfer Values (CETVs) to ensure GMP equalisation . This may result in additional top-ups where GMP equalisation means that members did not receive their full entitlement. This may require revisiting past CETV cases for members with State Pension age after 5 April 2016 and who took a CETV from the scheme before CETV were equalised. The scope of any costs are yet to be determined but GAD expect it will be a relatively small uplift for a relatively small subset of members (ie those who took a CETV and are in scope for a top up). As such we would expect to continue to use GAD's previous estimate for the impact of GMP equalisation.

Appendix A

ACCOUNTS DIRECTION

GIVEN BY THE COMPTROLLER & AUDITOR GENERAL UNDER THE PARLIAMENTARY PENSIONS (CONSOLIDATION AND AMENDMENT) REGULATIONS 1993 (SCHEDULE 1, PARAGRAPH 16)

1. In accordance with Schedule 1 of the Parliamentary Pensions (Consolidation) Regulations 1993, the trustees of the Parliamentary Contributory Pension Fund ('the fund') shall prepare annual accounts for the fund in accordance with this accounts direction.

2. This direction supersedes that dated 15 April 2016 and is effective for the fund's accounts as prepared by the trustees for the year ended 31 March 2021. This direction will remain in force until such time as it is replaced or superseded by a new direction and will be subject to review in no more than five years following the date of issuance.

3. The trustees shall prepare financial statements so as to give a true and fair view as at the 31 March each year. There is a strong presumption that compliance with International Financial Reporting Standards ('IFRS') will give a true and fair view. Additional notes and disclosures are to be included as required where these exceed, but do not conflict with, the requirement to give a true and fair view.

4. The trustees shall:
   - prepare accounts that recognise the assets of the fund and the liabilities arising from past and present service by Members of Parliament in accordance with IFRS as interpreted by the Government Financial Reporting Manual (the 'FReM') issued by Her Majesty's Treasury to the extent that 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.

5. The trustees shall prepare an annual report that includes information and other such disclosures as the trustees see fit as to provide transparency over the operations of the fund to the extent this information and these disclosures exceed, but do not conflict with, the FReM.

6. In exceptional cases, to ensure that the accounts present a true and fair view, the Accounting Officer and trustees may decide that it is appropriate to apply a material departure from IFRS requirements. If such an instance arises, the Accounting Officer and Trustees will need to discuss and agree the circumstances with the Comptroller and Auditor General, and they will need to disclose in the accounts the circumstances and implications of the departure.

7. The accounts shall be made available for audit no later than nine months following the end of the financial year. This accounts direction shall be included as an annex to the accounts as produced.

GARETH DAVIES

Comptroller and Auditor General

ISBN 978-1-5286-2246-2

The National Audit Office (NAO) scrutinises public spending for Parliament and is independent of government and the civil service. We help Parliament hold government to account and we use our insights to help people who manage and govern public bodies improve public services.

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ISBN: 978-1-5286-2246-2

Printed on paper containing 75% recycled fibre content minimum

Printed in the UK on behalf of the Controller of Her Majesty's Stationery Office