

Presented to the House of Commons pursuant to Schedule 1, paragraph 17 of the Parliamentary Pensions (Consolidation and Amendment) Regulations 1993

Parliamentary Contributory Pension Fund Account 2010-2011

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The National Audit Office scrutinises public spending on behalf of Parliament.

The Comptroller and Auditor General, Amyas Morse,
is an Officer of the House of Commons.
He is the head of the NAO, which employs some 880 staff.
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and a wide range of other public sector bodies;
and he has statutory authority to report to Parliament
on the economy, efficiency and effectiveness with which departments
and other bodies have used their resources.

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The Government Actuary's valuation report as at 1 April 2008 referred to in these Accounts is available for review on www.official-documents.gov.uk/document/hc0809/hc03/0345/0345.pdf

Foreword

Legislation relating to the Fund

The Fund is a statutory scheme, set up under the Parliamentary and Other Pensions Act 1987. The main governing Regulations are the Parliamentary Pensions (Consolidation and Amendment) Regulations 1993.

Other legislation relating to the Fund includes the Parliamentary and Other Pensions Act 1972, which restructured the Fund and established the pension scheme for the holders of certain Ministerial and other offices, and the Pension (Increase) Act 1971, under which pension increases are granted.

No changes were made to the Fund's Regulations in the Fund year.

Membership of the Fund

Categories	31 March 2010	31 March 2011
Active Members	646	651
Deferred Pensioners	164	254
Pensioners	876	977

The increase in the number of deferred pensioners from 164 to 254 and pensioner members from 876 to 977 was mainly due to the large number of MPs that stood down, or who were not re-elected at the May 2010 General Election.

Trustees of the Fund

Number

There are ten Trustees, eight of whom are serving Members of the House of Commons and two of whom are Pensioner Trustees.

Method of appointment

Trustees who are Members of the House of Commons, are appointed by Resolution of the House in accordance with Section 1 of the Parliamentary and Other Pensions Act 1972.

The Pensioner Trustees are appointed in accordance with Regulation 2 of SI 1999 No. 2100, with one being nominated by the Association of Former Members.

Trustees during the current accounting year

Sir John Butterfill FRICS MP (Chairman) (until 16 November 2010)

Brian Donohoe MP (from 16 November 2010 and Chairman from 21 December 2010)

Rt Hon Peter Lilley MP

Dr Howard Stoate MP (until 16 November 2010)

Andrew Love MP

Clive Betts MP

Nick Harvey MP (until 16 November 2010)

Rt Hon the Lord Naseby PC (Pensioner Trustee)

Sir Graham Bright (Pensioner Trustee)

Rt Hon Don Touhig MP (until 16 November 2010)

Jim Dowd MP

Richard Harrington MP (from 16 November 2010)

David Mowat MP (from 16 November 2010)

John Thurso MP (from 16 November 2010)

Sir John Butterfill, Dr Howard Stoate and The Rt Hon Don Touhig (now The Rt Hon the Lord Touhig of Islwyn and Glansychan) all stood down as MPs at the May 2010 General Election. However, they remained as Trustees until 16 November 2010 when new Trustees were appointed.

Nick Harvey MP retired as a Trustee on 16 November 2010, following his appointment on 13 May 2010 as a Minister of State.

Officers of the Fund

Head of Pensions

Jimmy Walker, Department of Finance, (formerly known as Department of Resources) House of Commons

Secretary

Terry Bird, Department of Resources (Mr Bird left employment of the House of Commons on 31 March 2010 but continued to act as Secretary until 21 April 2011).

Myfanwy Barrett, Director of Finance, House of Commons, was appointed as Interim Secretary on 23 June 2011.

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

		Appointed by
Actuarial Advice	Government Actuary's Department; Scheme Actuary – David Johnston (Mr Johnston replaced Grant Ballantine following his retirement)	Section 3 1987 Act
External Auditor of Annual Accounts	Comptroller and Auditor General	Schedule 1 1972 Act/ Regulations
Investment Advice	Hymans Robertson LLP	Trustees
Fund Management	MFS International (UK) Ltd	Trustees
	BlackRock Advisers (UK) Ltd	Trustees
	PIMCO Europe Ltd	Trustees
	BlackRock Alternative Advisers	Trustees
	Marvin & Palmer Associates Inc	Trustees
	T.T. International Funds Plc	Trustees
	Sarasin and Partners LLP (from 30 July 2010)	Trustees
	Morgan Stanley Global Property Fund	Trustees
	Standard Life UK Property Fund	Trustees
	BlackRock UK Property Fund	Trustees
	UBS Global Asset Management Triton Property Fund	Trustees
	Schroder Exempt Property Unit Trust	Trustees
	Rockspring Hanover Property Unit Trust	Trustees
Legal Advice	Sacker & Partners LLP	Trustees
Custodian	The Northern Trust Company	Trustees
Third Party Administration and Fund accounting and payroll	RPMI Ltd	Trustees
AVC providers	Equitable Life Zurich Insurance plc	Trustees

Preparation of annual accounts

Paragraph 16 of Schedule 1 to the 1993 Regulations requires that annual accounts are prepared in accordance with a direction given by the Comptroller and Auditor General. The Fund is a public service pension scheme and as such is exempt from the majority of the requirements of the 1995 Pensions Act including those relating to accounts. However, the accounts have been prepared, as far as appropriate, in accordance with the Statement of Recommended Practice (SORP), Financial Reports of Pension Schemes, revised in May 2007, in order to conform to best practice reporting requirements. A statement of the Trustees' responsibilities with regard to the preparation of the accounts is on page 8.

Income

Income to the Fund is derived from three main sources:

- 1 contributions from Members of Parliament and holders of a qualifying office under the 1972 Act;
- 2 an Exchequer contribution paid from the House of Commons Members Estimate under the 1972 Act; and
- 3 investment income as detailed below.

In addition, transfers of pension benefits into the Fund amounted to £1,558,000 in 2010-11, (£499,000 in 2009-10).

During the 2010-2011 accounting period, Members and Office-holders contributed either 5.9 per cent, 7.9 per cent or 11.9 per cent of their salaries, depending on their chosen pension build up rate. The Exchequer contribution for 2010-11 was 28.7 per cent of pensionable salaries for MP's, Ministers and Office holders. This included 8.5 per cent in respect of the deficit.

Investment details and performance

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

The Statement covers such items as how investments are chosen; the balance between asset classes; the Trustees' attitude to risk, and the expected return and review procedures. It has been designed to cover the fundamental aspects of investment policy that are not expected to differ greatly from one year to the next, and has been drawn up in consultation with the relevant advisers and in consultation with the Leader's Office. The current Statement of Investment Principles was adopted by the Trustees on 13 January 2011, following consultation with the Leader.

During the 2010-11 accounting period, assets were transferred from the BlackRock Active Overseas Portfolio to an unconstrained global equity mandate with Sarasin and Partners, on 30 July 2010, as agreed by the Trustees. The Trustees also agreed to disinvest from the allocation to hedge funds with BlackRock, on 24 June 2010. In accordance with the BlackRock investment management agreement, the disinvestment is to be made in two tranches over a period of up to 12 months from the date of notification to BlackRock. The initial tranche of funds was received in early November 2010. The balance of the hedge fund assets will be disinvested by the end of September 2011.

The current target asset allocation for the Fund is:

Asset Class/Region	Total Fund Benchmark	Lower range	Upper range
	%	%	%
Total Equities	66.0	62.0	70.0
UK Equities	26.4	23.9	28.9
Europe (ex UK) Equities	9.2		
North American Equities	11.1		
Sterling Currency Hedging Fund	6.7		
Japan Equities	3.8		
Asia Pac ex Japan Equities	1.8		
Emerging Market Equities	7.0		
Total Overseas Equities	39.6	37.1	42.1
Bonds	21.5	17.5	25.5
Property	12.5	No lower range	No upper range
Fund of Hedge Funds	0.0	No lower range	No upper range
Total	100.0		

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

Manager	Mandate	Actual proportion	Target proportion
		%	%
MFS International (UK) Ltd	UK Equities	13.6	12.0
MFS International (UK) Ltd	Global Equities	14.6	13.0
Marvin & Palmer Associates Inc	Emerging Markets	4.9	4.5
Sarasin and Partners LLP	Global Equity	10.2	10.0
BlackRock Advisers (UK) Ltd	Multi-Asset – Passive	22.9	25.5
TT International Funds plc	UK Equity	10.5	10.0
PIMCO Europe Ltd	UK Bonds	12.2	12.5
UBS, Standard Life, Rockspring Hanover, Schroders, BlackRock and Morgan Stanley	Property	9.9	12.5
BlackRock Alternative Advisers	Hedge Funds	1.2	0.0
Total		100.0	100.0

Following the year end, the Rockspring property holding (£1.6m) was sold, as part of the Trustees' policy to rationalise the number of UK property holdings.

Investment income in 2010-11 was £8.548m and the change in market value of assets was £22.565m. The total value of investments at the year end was £420.997m.

The overall effect of the movements in pensions payable, income and investments, was an increase of £15.486m in the Net Assets of the Fund during the year.

Actuarial position of the Fund

The Government Actuary's Department's valuation of the Fund as at 1 April 2008 was finalised in March 2009.

The Government Actuary recommended that the Exchequer contribution should be at the rate of 31.6 per cent of payroll from 1 April 2009 'adjusted to take account of any increase in members' contributions and/or benefit reductions which the previous Government announced as a consequence of cost-sharing or cost-capping' (as recommended by the Senior Salaries Review Body, and endorsed by the House in January 2008). The rate of 31.6 per cent comprises an ongoing rate of 32.2 per cent, plus deficit contributions at a rate of 8.5 per cent and less average member contributions of 9.1 per cent.

The previous Government's proposed options to achieve the cap on the Exchequer contribution to finance future service benefits, to circa 20 per cent, were:

- an increase in member contribution rates from 10.0 per cent to 11.9 per cent of salary (for a pension build up rate of one fortieth), and from 6 per cent to 7.9 per cent (for one fiftieth) and;
- extending the cap on MPs' pension build up, which is set at two thirds of final salary, to include MPs over age 65 who first joined the Scheme before 1 June 1989.

Both changes were agreed by the House in December 2009, and were backdated to 1 April 2009. Taken together these measures resulted in reducing the Exchequer contribution for future service of 23.1 per cent by 2.9 per cent to 20.2 per cent, which is in line with the cap recommended by the SSRB and endorsed by the House.

Future developments

Following the year end, the Government tabled a motion on 19 July 2011 which proposed to transfer the powers currently vested in the Leader of the House to the Independent Parliamentary Standards Authority, as provided for under the Constitutional Reform and Governance Act 2010. It is expected that a debate will be held in the House during the autumn, following which, the Leader will sign an Order to enact the transfer of powers.

Annual Report

In order to comply with best practice reporting requirements as set out in the SORP, the Trustees have prepared an Annual Report, which incorporates, inter alia, a Trustees' Report, Investment Report and a statement on the compliance of the Fund with relevant laws and regulations. This provides fuller information on the Fund than is provided by this Foreword. A copy of the Report is sent to all active members, deferred members and pensioners of the Fund.

Contact address

Further information about the Fund can be obtained from the Parliamentary Contributory Pension Fund Secretariat, Pensions Unit, Department of Finance, House of Commons, London SW1A 0AA.

Disclosure of information

So far as we are aware, there is no relevant audit information of which the Fund's auditor 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 Fund's auditor is aware of that information.

Approved on behalf of the Trustees on 13 October 2011 by

Brian H Donohoe MP
Chairman of Trustees

Statement of Trustees' responsibilities

The Parliamentary Pension (Consolidation and Amendment) Regulations 1993 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 2011 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 2011 of its assets and liabilities, other than liabilities to pay benefits after the end of the Fund year.

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

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

The Trustees are responsible for the keeping of proper accounting records, for ensuring that proper financial procedures are followed, and for ensuring that the accounting records are capable of producing statements which comply with the requirements of the 1993 Regulations. The Trustees are also responsible 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.

Statement on Internal Control

Scope of responsibility

This statement is given in respect of the accounts for the Fund. On behalf of all of the Trustees I acknowledge our responsibility for ensuring that an effective system of internal control is maintained and operated in connection with the Fund. The Fund is a statutory scheme and operates within a legislative framework.

Officials from the House of Commons' Department of Finance provide a full secretariat and administrative service to the Trustees. Day-to-day administration of the Fund, including operation of the pension payroll and accounting has been outsourced to RPMI Ltd. Safekeeping of the Fund's assets is undertaken by Northern Trust, in their capacity as custodian to the Fund.

The purpose of the system of internal control

The system of internal control can provide only reasonable and not absolute assurance that assets are safeguarded, transactions authorised and properly recorded and that material errors or irregularities are either prevented or would be detected within a timely period.

The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the PCPF's assets, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. In particular, the system of internal control is designed to safeguard against fraud and minimise omissions and material errors in the payment of pensions and receipt of contributions from the Exchequer and PCPF members.

Capacity to handle risk

The system of internal control and risk management is based on a framework of regular management information, financial regulations, administrative procedures including segregation of duties, and a system of delegation and accountability.

The Secretariat of the PCPF oversees the financial, accounting and administrative functions of the scheme on behalf of the Trustees of the PCPF.

The risk and control framework

The Secretariat, on behalf of the Trustees, has drafted and keeps updated a Risk Register for the Fund. This document identifies and analyses potential issues that pose a risk to the PCPF's objectives in terms of impact and probability. This document, which also contains plans to mitigate potential risks has been reviewed by the Fund's legal advisers, who have confirmed that the register incorporates all the Fund's potential risks. Where necessary, risks are brought to the attention of the Trustees, by the Secretariat.

All Fund documents are stored on a secure external web-based system, which provides security in the event of a disaster at the offices of the Secretariat.

Another key element of the PCPF's control system is regular reporting on financial information. In particular, this includes quarterly administration and investment reports, which are presented to the Trustees at each meeting. The Trustees also regularly review a list of all documentation signed by the Secretariat on their behalf to minimise the risk of fraud. Also, the Trustees review at each Trustee meeting, all expenditure incurred by the Fund.

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 a firm of Investment Consultants and receive regular updates as to the investment managers' performance and movement of the Fund's assets. To reduce the investment and funding risk, the Trustees now receive regular actuarial reports that highlight the movement of the PCPF's assets against the Fund's liabilities.

The organisations that provide the PCPF Secretariat, the Custodian and the administrators are subject to review by their respective organisation's internal audit units, which operate to relevant professional Internal Audit Standards. Coverage of the work of the PCPF is considered within the overall needs of each organisation, the analysis of which is increasingly being informed by the risks. During the year no specific internal audit work was undertaken on the PCPF by these units.

Fund administration

RPMI Ltd has been appointed by the Trustees to undertake the day-to-day administration of the PCPF. The Trustees of the PCPF have delegated responsibility to RPMI for the administration, fund accounting, and the calculation and payment of all pension benefits. The Trustees also have free access to all documents and records maintained by RPMI Ltd, on their behalf.

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

The Secretariat meets regularly with RPMI Ltd (approximately six times a year), to discuss performance against the contractual service level agreements and the Internal Control Assurance Report (AAF 01/06). At each Trustee meeting, the Secretariat provides a full report on the performance of RPMI Ltd and discusses any concerns they have.

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

The Secretariat has also initiated a process whereby RPMI Ltd provide a monthly reconciliation of expected member and Exchequer contributions, against contributions paid.

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 and the PCPF Secretariat 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, Marvin and Palmer and TT International), the BlackRock hedge funds 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 Fund Managers and Custodian, respectively.

Review of effectiveness

I acknowledge that the Trustees have responsibility for reviewing the effectiveness of the system of internal control. Our review of the effectiveness of the system of internal control is informed by the work of the PCPF Secretariat, who have responsibility for the development and maintenance of the control framework.

Significant internal control issues

There are no significant control issues in relation to the management of the Fund's assets or the administration of pensions. However, a matter has been brought to my attention relating to compliance with internal procedures which is currently the subject of an internal investigation.

Approved on behalf of the Trustees on: 13 October 2011 by

Brian H Donohoe MP
Chairman of Trustees

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

I certify that I have audited the financial statements of the Parliamentary Contributory Pension Fund for the year ended 31 March 2011, under the Parliamentary Pensions (Consolidation and Amendment) Regulations 1993 and directions made thereunder. These comprise the Fund Account, Net Assets Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of Trustees and Auditor

As explained in the Statement of Trustees' responsibilities, the Trustees are responsible for the preparation of the financial statements in accordance with the Parliamentary Pensions (Consolidation and Amendment) Regulations 1993 and directions made thereunder and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Parliamentary Pensions (Consolidation and Amendment) Regulations 1993. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Parliamentary Contributory Pension Fund's circumstances and have been consistently applied and adequately disclosed; and
- the reasonableness of significant accounting estimates made by the Parliamentary Contributory Pension Fund; and
- the overall presentation of the financial statements.

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

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

Opinion on regularity

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

Opinion on the financial statements

In my opinion:

- the financial statements give a true and fair view of the financial transactions of the Parliamentary Contributory Pension Fund for the year ended 31 March 2011 and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Fund year; and
- the financial statements have been properly prepared in accordance with the Parliamentary Pensions (Consolidation and Amendment) Regulations 1993 and directions issued thereunder.

Opinion on other matters

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

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements

Amyas C E Morse
Comptroller and Auditor General

1 December 2011

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

Fund Account for the year to 31 March 2011

	Notes	2010-11 £000	2009-10 £000
Contributions and Benefits			
Contributions	3	18,816	18,820
Individual transfers in	4	1,558	499
		20,374	19,319
Benefits payable	5	30,919	16,172
Payments to and on account of leavers	6	2,581	496
Administrative expenses	7	730	839
		34,230	17,507
Net (decrease)/increase from dealings with members		(13,856)	1,812
Returns on investments			
Investment income	8	8,548	9,958
Change in market value of investments	9	22,565	103,965
Investment management expenses	10	(1,771)	(1,634)
Net returns on investments		29,342	112,289
Net increase in the Fund during the year		15,486	114,101
Net assets of the Fund as at 1 April		405,491	291,390
Net assets of the Fund as at 31 March		420,977	405,491

The notes on pages 16 to 26 form part of these accounts

Net Assets Statement as at 31 March 2011

	Notes	2010-11 £000	2009-10 £000
Investment assets	11	421,999	401,615
Investment liabilities	11	(6,053)	(376)
Additional voluntary contribution investments	12	2,650	2,842
Current assets	13	3,561	3,484
Current liabilities	14	(1,180)	(2,074)
Net assets of the Fund as at 31 March		<u>420,977</u>	<u>405,491</u>

The financial statements summarise the transactions of the Fund and deal with the net assets at the disposal of the Trustees. They do not deal with the obligations to pay pensions and benefits which fall due after the end of the year. The actuarial position of the Fund, which does take account of such obligations, is dealt with in the Government Actuary's valuation report on the position of the Fund as at 1 April 2008 and these financial statements should be read in conjunction with that report.

These financial statements were approved by the Trustees on: 13 October 2011

Signed on behalf of the Trustees:

Brian H Donohoe MP
Chairman of Trustees

The notes on pages 16 to 26 form part of these accounts

Notes to the Financial Statements

1 Basis of preparation

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

2 Accounting policies

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

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

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

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

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

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

f Investments

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

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

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

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

Transaction costs

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

Derivatives

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

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

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

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

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

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

Interest rate swaps have been priced using a Bloomberg model using the ticket information as input variables.

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

Foreign currencies

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

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

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

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

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

3 Contributions

	2010-11	2009-10
	£000	£000
Members		
Normal	5,115	4,930
Added years	196	240
Additional voluntary contributions	79	130
Employer (Exchequer)		
Normal	9,450	9,516
Deficit	3,976	4,004
	<u>18,816</u>	<u>18,820</u>

The Exchequer is required to contribute 8.5 per cent of pensionable salaries over a 15 year period from 2008 to 2023 to amortise the accumulated deficit, subject to review at future actuarial valuations.

4 Individual transfers in

	2010-11	2009-10
	£000	£000
Individual transfers in	1,558	499
	<u>1,558</u>	<u>499</u>

5 Benefits payable

	2010-11	2009-10
	£000	£000
Pensions	16,492	13,923
Lump sum retirement benefits	14,248	1,674
Lump sum death benefits	42	575
Annuities	137	0
	<u>30,919</u>	<u>16,172</u>

6 Payments to and on account of leavers

	2010-11	2009-10
	£000	£000
Transfers out	2,581	496
	<u>2,581</u>	<u>496</u>

7 Administrative expenses

	2010-11	2009-10
	£000	£000
Trustees – Secretariat	278	286
Third party administration and advisor fees	163	212
Actuarial fees	88	77
Legal fees	171	235
Audit fee	30	29
	<u>730</u>	<u>839</u>

The 2011 administrative expenses are lower than the prior year mainly due to the legal fees incurred in 2009-10 in reviewing the pensions provisions of the Constitutional Reform and Governance Bill. The third party administration fees are lower in 2011, as the 2010 figure included the balance of the costs in respect of the transfer of the pension scheme administration to RPMI, and also a Scheme Sanction charge.

8 Investment income

	2010-11	2009-10
	£000	£000
Fixed interest securities	2,090	2,530
Index-linked securities	0	(36)
Equities	3,913	3,218
Pooled investment vehicles	1,423	1,930
	<u>7,426</u>	<u>7,642</u>
Interest on cash held on deposit	9	(202)
	<u>7,435</u>	<u>7,440</u>
Currency exchange gain	1,113	2,518
	<u>8,548</u>	<u>9,958</u>

9 Change in market value of investments

	Note	2010-11	2009-10
		£000	£000
Defined benefit assets	11	22,409	103,602
Additional voluntary contribution assets	12	156	363
		<u>22,565</u>	<u>103,965</u>

10 Investment management expenses

	2010-11	2009-10
	£000	£000
Investment management basic fees	620	602
Investment management performance fees	970	808
Custody fees	86	76
Investment accounting fees	0	22
Investment consultancy	95	126
	<u>1,771</u>	<u>1,634</u>

11 Investments

	Market value 1 April 2010	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in Market value	Market value at 31 March 2011 £000
	£000	£000	£000	£000	
Fixed interest	44,925	66,170	(58,146)	436	53,385
Derivatives	439	679,330	(679,410)	(987)	(628)
Equities	109,947	121,773	(90,243)	15,803	157,280
Pooled Investment vehicles	242,122	42,326	(87,730)	7,190	203,908
	<u>397,433</u>	<u>909,599</u>	<u>(915,529)</u>	<u>22,442</u>	<u>413,945</u>
Cash and cash equivalents	2,434			(33)	315
Accrued income	1,372				1,686
	<u>401,239</u>			<u>22,409</u>	<u>415,946</u>

Included within the above purchases and sales figures are transaction costs of £199,477 (2010: £221,284). Costs are also borne by the Fund in relation to transactions in pooled investment vehicles. However, such costs are taken into account in calculating the bid/offer spread of these investments and are not separately identifiable.

	2010-11 £000	2009-10 £000
Investment assets		
Fixed interest securities		
UK public sector quoted	6,989	5,077
UK quoted	24,412	17,576
Overseas public sector quoted	2,028	4,124
Overseas quoted	19,956	18,148
	<u>53,385</u>	<u>44,925</u>
Derivative contracts		
Swaps – OTC	313	100
Futures – exchange traded	0	252
FX contracts – OTC	114	217
	<u>427</u>	<u>569</u>
Equities		
UK quoted	61,125	52,687
Overseas quoted	96,155	57,260
	<u>157,280</u>	<u>109,947</u>

Pooled investment vehicles

UK – equity	52,569	107,828
UK – bond	32,833	29,856
UK – property	30,822	26,606
Overseas – equity	49,305	41,191
Overseas – other	38,379	36,641
	<u>203,908</u>	<u>242,122</u>

Other investment assets

Cash deposits	5,313	2,424
Cash due from broker	0	256
Accrued income	1,686	1,372
	<u>6,999</u>	<u>4,052</u>
	<u>421,999</u>	<u>401,615</u>

Investment liabilities**Derivative contracts**

Swaps – OTC	(152)	(3)
Options – OTC	(66)	(20)
Options – exchange traded	0	(39)
FX contracts – OTC	(725)	(68)
Futures – exchange traded	(68)	0
Forward contracts	(44)	0
	<u>(1,055)</u>	<u>(130)</u>

Other investment liabilities

Cash due to brokers	(4,832)	0
Cash margin	(166)	(246)
	<u>(4,998)</u>	<u>(246)</u>
	<u>(6,053)</u>	<u>(376)</u>

Derivative contracts*Objectives and policies*

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

Swaps

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

Type of swap	Duration years	Nominal amount £000	Asset value at year end £000	Liability value at year end £000
Credit default	Up to 1	6,920	53	0
Credit default	1 to 3	1,400	50	(2)
Credit default	3 to 5	17,100	100	(146)
Credit default	5 to 10	5,200	0	(4)
Credit Default	Over 10	3,000	110	0
			<u>313</u>	<u>(152)</u>

Collateral deposited by counterparties in respect of swap contracts at the year end date amounted to £574,000. Collateral received in this way is not reported within the fund's net assets.

Futures

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

Type of future	Expiration	Economic exposure at year end £000	Asset value at year end £000
Currency rate future	9 months	6,000	(68)
			<u>(68)</u>

Included within cash balances is negative £4,998,000 in respect of initial and variation margins arising on open futures contracts at the year end.

Options

Options are contracts which confer the right, but not the obligation, to buy ('call' options) or sell ('put' options) a security, currency, commodity or derivative contract on a specified future date at the price specified in the contract. Options may be either over the counter or exchange traded and may be 'bought', which means they carry the *right* to buy or sell if exercised by the holder or 'sold', meaning they carry the *obligation* to buy or sell if exercised by the counterparty. The details of option contracts in place at the year end date are as follows:

Type of options	Expiration	Call or put	Notional amount of outstanding contracts £000	Asset value at year end £000	Liability value at year end £000
OTC options					
Interest rate swap	April 11	Call	2,000	0	1
Interest rate swap	April 11	Put	2,000	0	0
Interest rate swap	Jun 11	Call	6,100	0	4
Interest rate swap	Sep 11	Put	1,600	0	5
Interest rate swap	Sep 12	Put	6,000	0	56
					66

Forward Foreign Exchange (FX)

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

Buy/Sell currency	Amount bought Currency £000	Amount sold Currency £000	Value at year end £000
Assets			
Brazilian Real/US Dollar	1,466	1,416	50
Swiss Franc/Sterling	24	23	1
Chinese Yuan/US Dollar	130	125	5
Euro/Sterling	310	294	16
Sterling/US Dollar	2,021	2,020	1
South Korea won/US Dollar	469	457	12
Mexican Peso/US Dollar	132	128	4
Malaysian Ringgit/US Dollar	242	240	2
Philippine Peso/US Dollar	495	492	3
Singapore Dollar/US dollar	324	312	12
US dollar/Sterling	841	833	8
Euro/US Dollar	2	2	0
			<u>114</u>
Liability			
Sterling/Swiss Franc	432	446	(14)
Sterling/Euro	15,252	15,928	(676)
Sterling/US Dollar	1,526	1,535	(9)
US Dollar/Brazilian Real	718	738	(20)
US Dollar/Chinese Yuan	127	130	(3)
US dollar/Sterling	1,141	1,142	(1)
US dollar/South Korea won	244	246	(2)
Swiss Franc/Euro	3	3	(-)
			<u>(725)</u>
Total			<u>(611)</u>

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

12 Additional Voluntary Contributions (AVCs)

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

	2010-11 £000	2009-10 £000
AVC investments as at 1 April	2,842	2,447
AVC contributions purchases	104	105
AVC sales	(452)	(73)
Change in market value	156	363
AVC investments as at 31 March	<u>2,650</u>	<u>2,842</u>
Market value of AVC investments by provider		
Equitable Life	1,421	1,637
Zurich	1,229	1,205
	<u>2,650</u>	<u>2,842</u>

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

13 Current assets

	2010-11 £000	2009-10 £000
Contributions due to Fund		
Member normal contributions	422	575
Employer normal contributions	943	1,608
Employer deficit contributions	194	331
Member added years	15	26
	<u>1,574</u>	<u>2,540</u>
Balance at bank	1,956	865
Cash in transit	0	25
Provision for overpaid Guaranteed Minimum Pension (GMP) owed by members to the Fund	31	54
	<u>3,561</u>	<u>3,484</u>

14 Current liabilities

(amounts due within one year)	2010-11 £000	2009-10 £000
Lumps sums and taxation	(401)	(504)
Administrative expenses	(191)	(360)
Investment management expenses	(458)	(1,156)
Unpresented cheques	(118)	(34)
Provision for GMP owed to members	(12)	(20)
	<u>(1,180)</u>	<u>(2,074)</u>

15 Related party transactions

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

Two Trustees are pensioners within the Fund and the remainder are active members. The Trustees receive benefits on the same basis as other members of the Fund.

Other than the related party transactions disclosed above, none of the Trustees, key management staff nor any related party has undertaken any material transactions with the Fund during the year.

16 Employer related investments

There were no employer related investments during the period.

17 Concentration of investment

The Fund held the following investments, which had a value exceeding 5 per cent of the total value of net assets as at 31 March 2011.

	Market Value	% of net assets
	2010-11	2010-11
	£000	
Pooled investment vehicles		
TT UK Equity Fund	43,433	10.3
BlackRock Pensions Management Aquila Life	28,559	6.8
BlackRock active selection currency hedging	23,627	5.6

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