

The **HOUSE of**
COMMONS:
Members
Resource Accounts
2005–06

(For the year ended 31 March 2006)

Ordered by The House of Commons to be printed 20 July 2006

Published by Authority of the House of Commons

London: The Stationery Office Limited

£10.00

HC 1454

Contents

| | Page |
|---|------|
| Members Resource Accounts 2005-06: | |
| Foreword to the Accounts | 3 |
| Statement of Accounting Officer's Responsibilities | 11 |
| Statement of System of Internal Control | 12 |
| The Certificate of the Comptroller and Auditor General | 14 |
| Report by the Comptroller and Auditor General to the House of Commons | 16 |
| Statement of Parliamentary Supply | 20 |
| Operating Cost Statement | 21 |
| Statement of Recognised Gains & Losses | 21 |
| Balance Sheet | 22 |
| Cash Flow Statement | 23 |
| Net Operating Costs by Aim | 23 |
| Notes to the Accounts | 24 |
| Members Estimate Audit Committee: | |
| Annual Report | 39 |

Foreword to the Accounts

For the year ended 31 March 2006

Scope of the accounts

This Supply Estimate primarily supports Members of Parliament in discharging their parliamentary duties and responsibilities.

Purpose

The Estimate remunerates and supports Members of the House of Commons in discharging their duties and responsibilities in the constituency, in Parliament and elsewhere by funding: parliamentary salaries and associated pension contributions, reimbursing certain expenses incurred by Members (including travel, office costs, staff and equipment), payment of insurance, central provision of IT equipment, provision of training for Members and their staff, and other associated costs and non-cash items. It also provides financial assistance to Opposition parties to support them in the discharge of their parliamentary or representative functions; and it provides the Exchequer contribution to the Members' Fund.

Objectives

The objectives of the House of Commons: Members Estimate are as follows:

- a. To put elected Members of Parliament in a position to conduct their work on behalf of their constituents by meeting:
 - salary and related costs of Members and their staff;
 - expenses wholly, necessarily and exclusively incurred in the performance of their duties;
 - appropriate travel costs of Members, their staff, and their families;
 - centrally provided services including insurance, computers and other IT equipment, help for Members with disabilities, litigation, security, and training for staff.
- b. To put Opposition parties in a position to conduct their parliamentary business effectively.
- c. To provide an annual grant to the Members' Fund to assist former Members and their dependants.

Activities

All monies paid to Members of Parliament through the Estimate are governed by Resolutions of the House. These Resolutions are debated and agreed on the floor of the House of Commons. Members are individually accountable for their decisions and actions in approving and claiming their pay and allowances. The Estimate provides for the following services:

- *Members' Parliamentary Salaries* are paid to all Members who have taken the oath (Ministerial Salaries are paid by the relevant Department of State);
- *Staffing Allowance* pays for the equivalent of up to three full-time members of staff;
- *Incidental Expenses Provision (IEP)* covers a range of office and other expenditure, to the extent that it is not met by other aspects of provision;

- *Additional Costs Allowance (ACA)* reimburses Members of Parliament for expenses incurred when staying overnight away from their main home whilst performing their duties. Members with inner London constituencies are not entitled to ACA, but are paid a London supplement;
- *Travel expenses* reimburse Members and their staff for expenditure incurred when travelling in the pursuit of their official duties. There is also some provision for travel by family members. Although there are no restrictions on the number of journeys Members may undertake, families and staff are restricted according to the rules laid down in Resolutions of the House;
- *Staff pensions* are provided up to a maximum of 10% of an employee's earnings over the period of employment, but subject to an overriding limit of 10% of the Staffing Allowance for each Member;
- A *Resettlement Grant* is payable to any Member who leaves the House of Commons at a General Election. The amount of the grant varies according to salary, age and length of service at the time of the dissolution of the House;
- *Winding-up Allowance* is payable to meet the costs of any official work undertaken on behalf of a deceased, defeated or retiring Member after the date on which they cease to be a Member of Parliament. All other allowances cease on this date;
- *Financial Assistance to Opposition Parties ("Short Money")* is available to help Opposition parties to carry out their parliamentary business;
- The *central budget* provides IT equipment for use by Members, communications, training, various insurances and other incidental expenditure.

During the year Members were able to draw on a Staffing Allowance of £84,081, an Incidental Expenses Provision of £20,000 and an Additional Costs Allowance of £21,634.

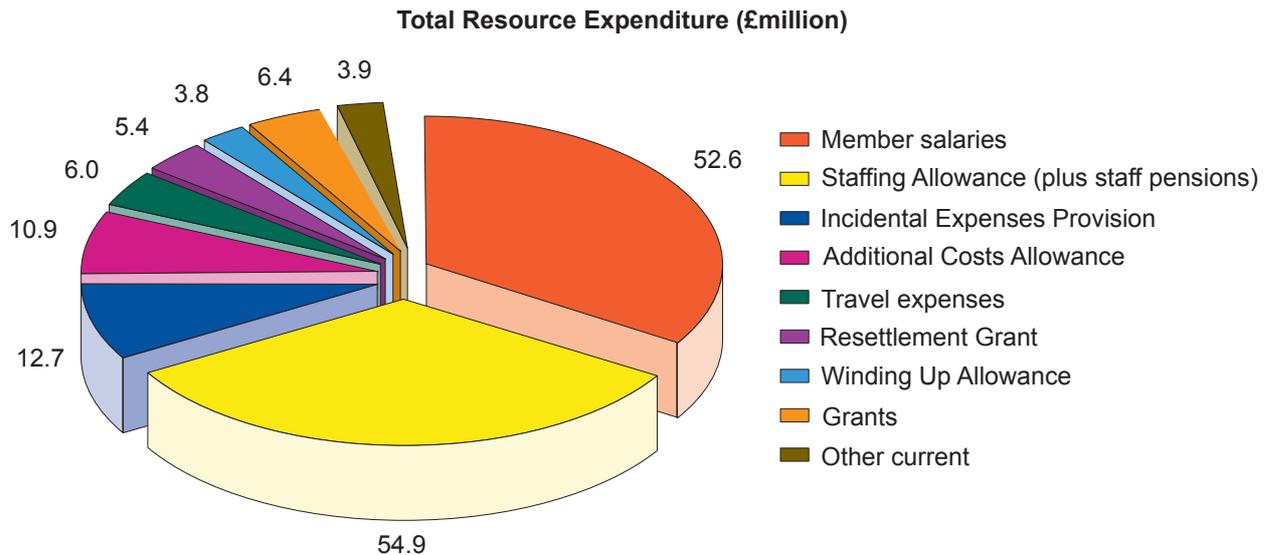
Management Commentary

A General Election was held on 5 May 2005. This gave rise to additional expenditure arising from the Resettlement Grant (£5.4million) and Winding-up Allowance (£3.8million). These additional costs were partially offset by savings that arose elsewhere. A supplementary Estimate was laid in February 2006 (HC827) to take account of these charges.

Take-up of allowances by Members exceeded what had been allowed for in the Estimate, which had been based on historical trends. This effect was most marked in the final month of the year, and in the following two months (April and May 2006) during which Members are allowed to submit claims for the year ended in March. This late take-up of allowances was significantly higher than in previous years. A further factor was that the rules covering the payment of allowances to Members contain a number of flexibilities, including the ability to transfer up to 10 per cent of their Staffing Allowance to the Incidental Expenses Provision.

Adoption of the accounting standard FRS17 has required a technical adjustment to the accounts to recognise the full, rather than partial, cost of future pension liabilities. At the year-end the actuarial calculations estimated the current service costs to be around £12 million. In May 2006 further actuarial work led to a revision of the detailed calculation routines which increased the service costs to £12.8 million, which when adjusted for other movements added £600,000 of expenditure.

A small margin for uncertainties had been allowed for but the combined effect of the change in the level of allowances claimed together with the increase in pension costs after the year-end created a net resource outturn £0.9million greater than the Estimate. This represents a 0.6 per cent overspend.



The net cash requirement was £0.5million below the Estimate representing a 0.3% underspend.

Members' pensions

All Members are entitled to join the Parliamentary Contributory Pension Fund (PCPF). The scheme is a defined benefit scheme funded by contributions from Members and the Exchequer. The scheme is administered by trustees appointed by the House of Commons. The administration of the Members' pension scheme is carried out by STC Pensions Management.

The adoption of the accounting standard on retirement benefits (FRS17) now requires the House of Commons: Members accounts to recognise any constructive liabilities or assets due arising from future pension commitments.

The accounts of the PCPF are published separately; copies can be obtained from the Department of Finance and Administration.

The Members' Fund

The Members' Fund provides for ex-Members and their dependants who find themselves in difficult circumstances. It also pays certain "as of right" benefits. It is funded jointly by a grant from the Estimate and contributions from Members. It is administered by trustees appointed by the House of Commons. The accounts of the Members' Fund are published separately; copies can be obtained from the Department of Finance and Administration.

Governance

The management arrangements for the Estimate are set out in a statement of Roles and Authorities dated June 2004.

All monies paid to Members of Parliament through the Estimate are governed by Resolutions of the House. Governance arrangements for the Estimate are overseen by the Members Estimate Committee which has the same membership as the House of Commons Commission.¹

¹ At 31 March 2006 the Members Estimate Committee comprised the Speaker (Rt Hon Michael J Martin MP) (in the chair) The Rt Hon Geoffrey Hoon MP, Sir Stuart Bell MP, Nick Harvey MP, The Rt Hon David Maclean MP, The Rt Hon Theresa May MP.

The functions of the Committee are:

- to codify and keep under review the provisions of the Resolutions of the House relating to expenditure charged to the Estimate for House of Commons: Members;
- to modify those provisions from time to time as the Committee may think necessary or desirable in the interests of clarity, consistency, accountability and effective administration, and conformity with current circumstances;
- to provide advice, when requested by the Speaker, on the application of those provisions in individual cases.

The Committee is not empowered to create a new form of charge on the Estimate, or to increase any rate of charge or payment determined by Resolution of the House.

Changes during the year approved by the House

The House passed a number of resolutions during the year affecting Members' allowances and pensions. On 8 February 2006 the House decided to restore parliamentary allowances to Sinn Fein Members who have not formally taken up their seats. The allowances had been withdrawn from 1 April 2005 following a decision in March 2005, but were restored with effect from 1 November 2005. A Resolution on 8 February 2006 also introduced a new provision to fund Opposition parties whose Members have not taken up their seats, for the work they do in a representative capacity. This provision is broadly parallel to the Short Money provision for other Opposition parties.

On pensions, the House approved a statutory instrument, Parliamentary Pensions (Amendments) Resolution 2006 (SI 2006/920) on 29 March 2006, to apply changes from 6 April 2006 to the Parliamentary Contributory Pension Fund, to keep it in line with the wider pensions changes flowing from the Finance Act 2004 and the Pensions Act 2004.

The work of the Members Estimate Committee

The Members Estimate Committee met on seven occasions in the course of the financial year.

The Committee formally agreed in February 2006 to an updated annual Concordance of Resolutions, following the first such publication in April 2005. The revised Concordance will be published in July 2006, together with an updated edition of the Green Book.

The Committee agreed to several detailed changes in the rules on allowances, which are reflected in the new Concordance and Green Book. These include greater flexibility in the standard allocation to Members of IT equipment to permit some substitution of laptops for desktops; the extension to registered civil partners under the 2004 Civil Partnership Act of travel entitlements of Members' spouses; the extension to Members' children over 18 in full time secondary education of travel entitlements hitherto limited to those under 18; and a number of alterations and clarifications of the regime on repayments of mortgage interest payable under the Additional Costs Allowance.

It was concerned with the arrangements for the second annual publication in October 2005 of details of expenditure on allowances and entitlements attributable to individual Members, in accordance with the House's scheme of publication under the Freedom of Information Act. The Committee also gave guidance to officers on handling requests for information on Members' allowances made to the House administration under the Freedom of Information Act.

The work of the Advisory Panel on Members' Allowances

The Advisory Panel on Members' Allowances was set up (as the Speaker's Advisory Panel) in 2001 to advise the Speaker on the application of the allowances and arrangements for the provision of IT and training. The Panel continues with this role, but now advises the Members Estimate Committee.

The Advisory Panel² met seven times during the year and advised on:

- the updating and interpretation of the rules relating to the main allowances including the extension of the spouses' travel allowance to civil partners;
- how Members might interact with the Senior Salaries Review Body review of Members' pay and allowances due to start in the latter half of 2006;
- The rules restricting the use of parliamentary allowances and facilities in the run-up to a General Election;
- information technology provision; and
- training for Members' staff.

Parliamentary learning and development initiative

Members' staff are given training through a contract with WWP Ltd. WWP run a number of IT and general training courses which are provided free of charge to all employees of Members who are paid from the Staffing Allowance. The total cost of providing courses in 2005-06 was some £119,000 and over 640 Members' employees attended some 66 courses during the year. Training offered included a very popular induction day, courses on dealing with difficult and violent visitors and IT applications such as Excel and desktop publishing.

As in 2004-05, WWP have continued to provide training courses both in and outside London. In order to facilitate attendance, Members' employees who attend such courses can reclaim reasonable travel costs from central funds. Just over 65 Members' staff attended regional courses in 2005-06. The General Election in May 2005 caused a hiatus in the provision of courses while new staff were appointed by Members and settled in, but a new programme was sent to all Members' staff in December 2005, and a marketing day was held on 20 January 2006 which attracted over 200 visitors. Both of these events have helped raise the profile of these courses. Another marketing event is planned for 2006-07.

During the year the House continued to sponsor the website www.w4mp.org.uk, which provides information about working for an MP, training for Members staff and job opportunities with Members.

Staff pension provision

Since November 2003, Members' employees have automatically joined the Portcullis Pension Plan, although they can opt out if they wish. When the Plan was first set up, a small group of employees who met certain criteria were allowed to stay with their existing providers. Currently the take up rate is over 99% of eligible employees.

All such employees benefit from a contribution paid by the House of 10% of their earnings and the employees decide how this is split between the two providers, Norwich Union and AXA Sun Life, and how the funds are invested. Employees can also make voluntary contributions if they wish. In addition, all the members of the Plan benefit from death in service cover of twice their salary.

Trends and developments

(i) The 2005 General Election (5 May 2005)

In contrast with many other areas of the House, where a General Election tends to see a reduction in overall activity, there was a significant increase in work during the year on Members' pay, expenses, allowances, IT provision and pensions as a result of the Election. Services were provided to 782 Members and ex-Members, as compared with the normal 646, and the Department of Finance and Administration (DFA) and the Parliamentary Communications Directorate (PCD) put significant effort into making preparations for the 136 Members who stood down or were not re-elected on 5 May 2005, and into providing induction and ongoing services to the 123 new Members.

² As at 31 March 2006 the membership of the Panel was as follows: Rt Hon John Spellar MP (in the chair); Patrick McLoughlin MP (vice-chair); Alistair Carmichael MP; Nigel Griffiths MP; Rt Hon Michael Jack MP; Thomas McAvoy MP; Kali Mountford MP.

In advance of the Election, DFA prepared a guidance booklet for Members who were leaving the House (*Pay and allowances for Members who leave the House at a General Election*), which covered issues from their own pay and pensions to tips on how to wind down their offices and deal with staffing issues. The booklet was well-received. The House also issued a comprehensive set of rules, in consultation with the Electoral Commission, setting out restrictions in the use of allowances and parliamentary facilities in the run-up to the Election. The rules reflect the principles that:

- when Parliament is dissolved, Members of Parliament become “former Members” and are no longer entitled to most parliamentary support and facilities;
- the use of parliamentary resources and facilities for party political or campaigning purposes is strictly prohibited.

DFA set up specific teams to deal with the needs of both outgoing and incoming Members, and these teams continued into the summer. A full induction programme was run, starting with the corporate induction days for new Members immediately after the Election, and followed up by individual sessions to bring them up to speed with the arrangements for allowances, pensions, employment issues and so on. DFA's General Election team received 4,160 calls, 958 winding-up allowance claims, made 345 statutory redundancy payments and 136 resettlement grant payments. In addition, 86% of retiring Members and 62% of Members who lost their seats were given exit interviews. The feedback has generally been positive, but the Administration Committee's report on post-election services³ made some recommendations for future Elections, for example to make guidance for Members who stand down or lose their seats at a General Election available well in advance.

In parallel, a PCD team managed a large logistical exercise of issuing and installing new IT equipment at hundreds of locations around the UK, and recovering old equipment which was at the end of its useful life. In preparation for this event a full EU procurement exercise had been undertaken and a new supplier and equipment selected. PCD offered each of the 123 new Members a standard issue laptop on the day of their arrival in Westminster. A small number of new Members opted to order alternative models. Unfortunately the delivery of those laptops was unacceptably delayed.

PCD's target was to equip Members' Westminster and constituency offices within two weeks of a Member placing an order for their computer equipment. The transition from the previous to new supplier, combined with delays in allocating some offices, meant that some new Members were not able to have a fully functioning Westminster office in an acceptable timeframe.

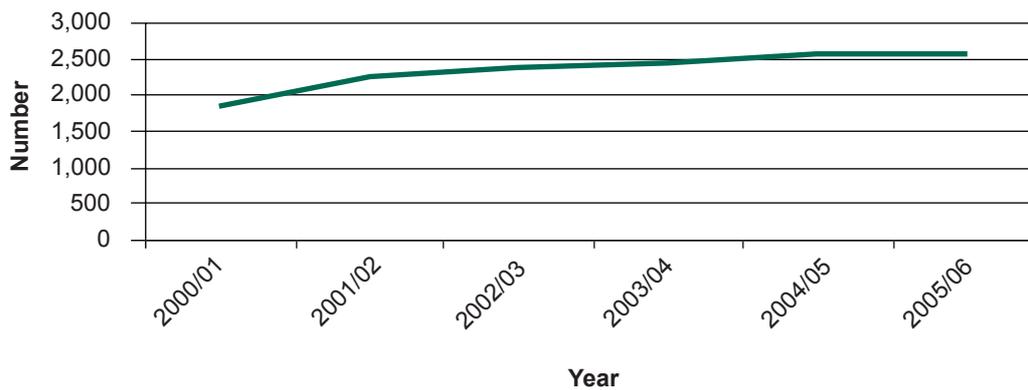
As a result of this experience, the House Service has learned lessons about the delivery and support of IT equipment to new Members. The House of Commons Commission's response to the Administration Committee's inquiry into post-election services sets out plans for improvement⁴.

The IT refresh of existing Members' IT equipment commenced in late autumn 2005. This too has been affected by problems and at the end of 2005-06 the project was running eight weeks late, but is due to be completed, where requested, for all Members by summer 2006. These problems arose due to both the change of supplier and the complex nature of the task being undertaken: supplying a large amount of equipment in small quantities and varying combinations to a large number of customers; operating from multiple locations across the UK; transferring existing data and applications from old equipment to new equipment; reinstating local networks and settings; and arranging for the secure disposal of the old equipment.

(ii) Members' staff

The number of Members' staff on the payroll has increased significantly since 2001, largely as a result of the introduction and growth in the amount of money available to Members through the Staffing Allowance. As at 31 March 2006 the number of permanent staff was 2,527.

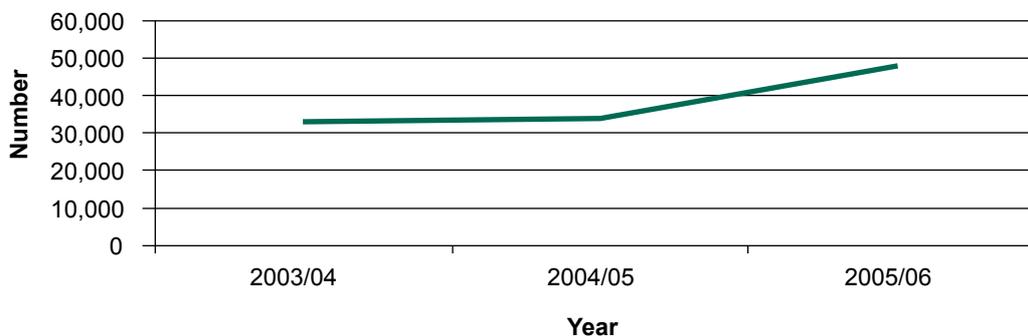
³ HC 777, published on 9 January 2006. ⁴HC1027, published on 28 April 2006.

Staff employed by Members

Members themselves are the employers of their staff, but DFA gives Members advice and provides a number of services to help them discharge their duties as employers. The Personnel Advice Service was strengthened during the year, and was particularly busy helping departing Members deal with winding up their offices.

(iii) Members' claims

During the year the Department of Finance and Administration processed a total of nearly 48,000 claims from Members for ACA and IEP. This represents an increase over the previous year of 40 per cent (34,000 in 2004-05), which is to a large extent due to the increase in the number of requests for direct payments to suppliers from the IEP.

Member Claims Received

(iv) Members' travel

A major exercise was carried out during the year to switch from the longstanding system of travel warrants to a credit card for parliamentary travel for each Member. The project to pilot and then roll out the credit cards to all Members was completed successfully by the end of the financial year, with only 10 Members deciding that they would rather claim reimbursement than take up the credit card. All travel warrants were withdrawn from the end of March 2006. As a result, the number of travel warrants issued fell dramatically to 6,671 in 2005-06 (26,529 in 2004-05). 5,089 payments were made on the corporate Travel Card during 2005-06, and the figure will rise in 2006-07 now that warrants are no longer in use.

During the roll-out of the credit card, Members were also encouraged to make greater use of the Parliamentary Travel Office in order to benefit from advantageous air fares that they have negotiated. In addition, Members have been encouraged to purchase railcards where available and to book journeys well in advance to help reduce overall travel costs. These costs will be monitored closely in 2006-07.

(v) ICT services

Members are entitled to a set amount of loaned computer equipment, funded from the Estimate. Members can also use their allowances to purchase additional equipment that is configured to ensure its compatibility with parliamentary systems. At the start of 2005-06 responsibility for providing this equipment and connecting it to the Parliamentary Network fell to the Parliamentary Communications Directorate (PCD), part of the Serjeant at Arms' Department, under a service level agreement. During the year PCD joined with other IT/IS professionals from across both Houses to form a new Parliamentary Information and Communication Technology (PICT) Service.

A key service delivery challenge during 2005-06 was the major programme to renew Members' IT equipment, as set out above. In addition, PICT has been set the challenge of providing the same quality of service to constituency offices as that offered for Members' offices in Westminster. As part of the preparatory work for this major project, an extensive survey of Members and their staff has been conducted that included visits to over 20 constituencies covering the whole of the UK. Work is now under way to focus and shape the results of this research on a number of clearly defined initiatives that, subject to financial approval, will be developed during 2006-07.

Public interest

At the beginning of 2005-06 the House of Commons consisted of 659 Members elected by their constituents. Following the General Election of 5 May 2005, the number of elected Members was reduced to 646, as a result of boundary changes. The House is self-governing and constitutionally separate from the Government. The House seeks to maintain good practice in all employment and business matters. In particular it is committed to the principles of diversity and equality of opportunity, and to the prompt payment of bills.

The House of Commons has a target of paying all Members' claims within ten working days of receipt. Third party payments to statutory bodies and external suppliers are paid by the statutory due date, or wherever possible within 30 days of invoice date whichever is sooner.

Auditors

The Comptroller and Auditor General currently audits the resource accounts of the House of Commons.

Going concern

The balance sheet at 31 March 2006 shows negative Taxpayers' Equity of £140.4million. This reflects the inclusion of liabilities falling due in future years, which are to be financed by drawings from the UK Consolidated Fund. Such drawings will be from grants of Supply approved annually by Parliament, to meet the House of Commons Members Net Cash Requirement. Under the Government Resources and Accounts Act 2000, no money may be drawn from the Fund other than required for the service of the specified year or retained in excess of that need. All unspent monies, including those derived from income, are surrendered to the Fund.

The future financing of the House of Commons: Members liabilities therefore have to be met by future grants of Supply approved annually by Parliament. Approval for those amounts required in 2006-07 has already been given and there is no reason to believe that future approvals will not be forthcoming. It is considered appropriate to adopt a going concern basis for the preparation of these financial statements.

Roger Sands
Accounting Officer

14 July 2006

Statement of Accounting Officer's Responsibilities

Although the Estimate for the House of Commons: Members accounts is laid by the Treasury as part of the main Supply Estimates, the accountability arrangements are approved by the Speaker. The Speaker has appointed the Clerk of the House as Accounting Officer for these accounts.

The resource accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs, the net resource outturn, recognised gains and losses and cash flows for the financial year. Members are responsible for the probity and propriety of claims submitted.

The Accounting Officer is responsible for the House of Commons Financial Reporting Manual. He should ensure that the resource accounts:

- observe the relevant accounting and disclosure requirements, and apply suitable applicable accounting policies on a consistent basis;
- include judgements and estimates made on a reasonable basis;
- state whether applicable accounting standards, as set out in the House of Commons Financial Reporting Manual, have been followed, and disclose and explain any material departures in the accounts; and
- have been prepared on a going concern basis.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable, for keeping proper records and for safeguarding the organisation's assets, are broadly as set out in the Accounting Officer's Memorandum, issued by the Treasury and published in Government Accounting.

Statement on the System of Internal Control

Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the policies, aims and objectives of the House of Commons, whilst safeguarding the public funds and the assets of the House for which I am personally responsible. These responsibilities are broadly in line with those set out in the Accounting Officers' Memorandum issued by the Treasury and published in Government Accounting.

Purpose of the system of internal control

The system of internal control is designed to manage rather than eliminate risk. It can therefore only provide reasonable and not absolute assurance of effectiveness.

A system of internal control has been in place in the House of Commons for the year ended 31 March 2006 and up to the date of approval of the annual report and accounts.

Control framework and management of risk

The system of internal control involves a framework of regular management information, financial regulations, administrative procedures including segregation of duties, and a system of delegation and accountability. In particular, it includes:

- appropriate budgeting systems with an annual budget;
- procedures to agree and review the budgets;
- resource accounting policies and procedures; and
- the preparation of regular financial reports which indicate actual expenditure against the forecasts.

The House of Commons has an Internal Review Service (IRS), which operates broadly to standards defined in the Government Internal Audit Manual. The work of the IRS is informed by the analysis of risk to which the House of Commons is exposed, and annual internal audit plans are based on this analysis. At least annually, the Director of the IRS provides me with an independent report on the related activity within the House of Commons service. The report includes his opinion on the adequacy and effectiveness of the House of Commons system of internal control.

The framework of rules governing the administration of Members' allowances is drawn from Resolutions of the House of Commons. The framework is based on the principle that Members are primarily responsible for identifying, claiming and certifying their own expenditure. The Department of Finance and Administration is responsible for ensuring that the stated purpose of Members' claims falls within the agreed framework. The controls on expenditure therefore ensure that payments are correctly accounted for and paid to the correct recipient; but it is primarily the responsibility of Members to ensure the regularity and propriety of expenditure for which they claim reimbursement.

The change in the structure of the Members' allowances introduced by Resolutions of the House on 5 July 2001 has improved control and ensures greater accountability and auditability. In particular, central provision of IT equipment within fixed parameters and clearer arrangements for staffing provision have all contributed to ensure greater transparency and accountability in complying with the Resolutions of the House.

On 29 January 2004 the House agreed to establish the Members Estimate Committee which has now taken responsibility for the governance of the allowance system. The Committee, whose Members are the same as those of the House of Commons Commission, has the authority to agree minor changes to the Resolutions but it may not approve increases in the rates payable or new forms of charge. The Members Estimate Committee subsequently appointed the Members Estimate Audit Committee on 14 June 2004 to advise me in my role as Accounting Officer. Its membership comprises two Members of Parliament, both of whom are also members of the House of Commons Commission, and two external non-executive members. The external members and Members of Parliament are independent.

Financial assistance to Opposition parties is paid in accordance with Resolutions of the House of 20 March 1975, 26 May 1999 and 8 February 2006. These Resolutions require each recipient party to certify, through an external auditor, that expenditure has been incurred exclusively in relation to the party's parliamentary or representative business.

Review of effectiveness

As Accounting Officer I have responsibility for reviewing the effectiveness of the system of internal control.

My review of the effectiveness of the system of internal control is informed by the work of IRS and also the administrative staff of the House of Commons, who have responsibility for the development and maintenance of the control framework, and comments made by the external auditors in their management letter and other reports. The Members Estimate Audit Committee takes a close interest in the work of internal audit, with particular emphasis on promoting economy, efficiency and effectiveness, risk assessment and internal control. The Director of Finance and Administration and I regularly attend the meetings of the Audit Committee.

In the light of the work carried out by IRS, I am satisfied as to the general adequacy of the internal control system within the ambit of the House of Commons: Members accounts during 2005-06, following the steps that have been taken on risk awareness and risk management.

I have also reviewed whether the excess Vote highlights shortcomings in the existing system of internal control. Given that the two contributory factors arose from situations after the year end that could not realistically have been forecast, I am content that the existing system remains adequate.

Roger Sands
Accounting Officer

14 July 2006

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

I certify that I have audited the financial statements of the House of Commons: Members for the year ended 31 March 2006. These comprise the Statement of Parliamentary Supply, the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cashflow Statement and the Statement of Operating Costs by Aim and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and Auditor

The Accounting Officer is responsible for the preparing the Foreword and financial statements in accordance with the House of Commons Financial Reporting Manual and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibilities are to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report my opinion as to whether the financial statements give a true and fair view, and whether the financial statements have been prepared in accordance with the House of Commons Financial Reporting Manual. I also report whether 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. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the House has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified regarding any transactions is not disclosed.

I read the other information contained in the Foreword, and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent mis-statements or material inconsistencies with the financial statements.

I review whether the statement on pages 12 and 13 reflects the House of Commons' application of best practice guidance on corporate governance including, amongst other sources, the Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's Statement on Internal Control covers all risks and controls, or to form an opinion on the effectiveness of the Houses' corporate governance procedures or its risk and control procedures.

As set out in the Statement on Internal Control, the framework of rules governing the administration of Members' allowances is drawn from Resolutions of the House of Commons. The framework is based on the principle that Members are primarily responsible for identifying, claiming and certifying their own expenditure. The House of Commons Service (the Department of Finance and Administration) is responsible for ensuring that the stated purpose of Members' claims falls within the agreed framework. The controls on expenditure therefore ensure that payments are correctly accounted for and paid to the correct recipient; but it is primarily the responsibility of Members to ensure the regularity and propriety of expenditure for which they claim reimbursement. My audit of expenditure considers whether payments from the House of Commons: Members Estimate are supported by Members' claims, whether the purpose of the expenditure stated on the claims meet that of the relevant allowance, and whether the House of Commons Service have properly accounted for these claims.

As further set out in the Statement on Internal Control, financial assistance to Opposition parties is paid in accordance with Resolutions of the House of Commons. These Resolutions require each recipient party to certify, through an external auditor, that expenditure has been incurred for parliamentary purposes. My audit of these amounts considers whether payments to recipient parties are properly calculated, whether the House of Commons Service have properly accounted for these amounts and received certificates from external auditors, in accordance with the Resolutions, which confirm that expenditure has been incurred for parliamentary purposes.

I read the other information contained in the Foreword and consider whether it is consistent with the audited financial statements, the Foreword and the Management Commentary. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the House's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material mis-statement, whether caused by error or fraud and that, 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. In forming my opinion I have also evaluated the overall adequacy of the presentation of information in the financial statements.

Qualified opinion arising from expenditure in excess of amounts authorised

Parliament authorised a Request for Resources and a net cash requirement for the House of Commons: Members in the Appropriations Act 2006. Net resources of £155,689,000 were authorised for the Request for Resources. Against this limit, the House of Commons: Members incurred resource expenditure of £156,598,000 as shown in the Statement of Parliamentary Supply within the Resource Accounts for 2005-06, and thus exceeded the authorised limit.

In my opinion:

- The financial statements give a true and fair view, of the state of the House of Commons: Members at 31 March 2006 and the net cash requirement, net resource outturn, resources applied to aim, recognised gains and losses and cashflows for the year ended then.
- The financial statements have been properly prepared in accordance with the House of Commons Financial Reporting Manual.
- Except for net resource expenditure of £909,000 in excess of the amount authorised for the Request for Resources, in all material respects the expenditure and income have been applied for the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Details of these matters are explained more fully in my Report at pages 16 to 19.

John Bourn
Comptroller and Auditor General

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

18 July 2006

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

Introduction

The House of Commons Members Estimate supports Members of Parliament in discharging their parliamentary duties and responsibilities. Its objectives are:

- to put elected Members of Parliament in a position to conduct their work on behalf of their constituents;
- to put Opposition parties in a position to conduct their parliamentary business effectively; and
- to provide an annual grant to the Members' Fund to assist former Members and their dependants.

This report describes the background and circumstances leading to the qualification of my audit opinion on the House of Commons Members 2005-06 Resource Accounts.

Purpose of Report

In 2005-06, the House of Commons Members Estimate expended more resources than Parliament had authorised. By so doing, the House of Commons Members Estimate breached Parliament's control of expenditure and incurred what are termed "excesses" for which further parliamentary authority is required. I have qualified my opinion on the House of Commons Members 2005-06 Resource Accounts in this regard. The purpose of this report is to explain the reasons for this qualification and to provide information on the extent and nature of the breach to inform Parliament's further consideration.

My responsibilities with regard to the breach of regularity

As part of my audit of the House of Commons Members financial statements, I am required to satisfy myself that, in all material respects, the expenditure and income shown in the Resource Accounts have been applied to the purposes intended by Parliament and conform to the authorities which govern them; that is, they are "regular". In doing so, I have had regard, in particular, to parliamentary authority and the Supply limits Parliament has set on expenditure. By incurring expenditure that is unauthorised and is thus not regular, the House of Commons Members Estimate has breached Parliament's controls.

Background to Parliamentary Approval of Income and Expenditure

Parliament authorises and sets limits on expenditure on two bases – 'resources' and 'cash'. Such amounts are set out in Supply Estimates for which Parliament's approval and authority is given in annual Appropriation Acts. By this means, Parliament has authorised a Request for Resources for the House of Commons Members Estimate. The amount authorised for the Request for Resources represents a limit on the net expenditure that may be incurred under that Request for Resources.

Limits

The limits described above for the House of Commons Members were set out in the Main Supply Estimate for 2005-06 (HC 2, 2005-06) as amended by the Spring Supplementary (HC 972, 2005-06). The limit on the Request for Resources for the House of Commons Members was set at net expenditure of £155,689,000. The breach reported below is against this limit. The House of Commons Members cash limit of £156,550,000, which adjusts the resource limit for capital expenditure and accruals accounting transactions such as depreciation, was not breached.

Amount of Excesses
Breach of Limit on Request for Resources

The Statement of Parliamentary Supply in the accounts shows net expenditure on the Request for Resources of £156,598,000 which is £909,000 in excess of the amount authorised by Parliament. However, as part of this amount relates to expenditure incurred in 2005-06 but not paid for until after 31 March 2006, the cash limit was not breached.

It is proposed to ask Parliament to authorise the balance of £909,000 as additional use of resources by an Excess Vote.

Details and Causes

Supply procedures require the level of resources requested in the Estimate to be taut and realistic. In preparing their Estimate the Department of Finance and Administration of the House of Commons therefore review historical trends, together with any changes in circumstances, to estimate the level of resources required for the year. Submitting an Estimate which assumed full take-up of the allowances would lead to a Request for Resources being significantly in excess of the resources actually required (by around £9 million).

The main Estimate followed the normal practice of not anticipating the General Election. A supplementary Estimate, requesting an additional £3 million, was subsequently laid in February 2006 to reflect the additional costs incurred, especially for the Resettlement Grant and the Winding-Up Allowance, to which Members who stood down or were not re-elected are entitled. The Department of Finance and Administration reviewed all areas of expenditure to inform the figures submitted as part of the supplementary Estimate.

The Department of Finance and Administration's outturn figures in May 2006 suggested an underspend for the year of around £400,000. Since then two significant accrual adjustments have arisen which have led to the resource overspend of £909,000. These adjustments comprised¹:

- An increase in the Parliamentary Contributory Pension Fund liability due to in-year employment (the "service cost") that was £600,000 higher than anticipated;
- Claims for reimbursement of costs by Members of Parliament that were some £946,000 higher than projected (but within the entitlement of House Members).

Pension Fund Service Cost

The Parliamentary Contributory Pension Fund liability is recognised in the House of Commons Members balance sheet in accordance with United Kingdom Financial Reporting Standards. As such the liability is subject to an annual actuarial valuation which also provides an estimate of the annual service cost of the Fund to be recognised as part of operating expenditure. The final valuation, provided in May 2006 as at 31 March 2006, showed a current service cost of £12.8 million which, when adjusted for other movements, was £0.6 million higher than the initial actuarial estimate on which the request for Supply was based.

¹ Other adjustments helped to reduce the estimated outturn by a net total of £237,000.

Reimbursement of expenses to Members of Parliament

Under Resolutions of the House of Commons, Members of Parliament are entitled to reclaim, up to a maximum allowance limit, specified expenses incurred for the purpose of performing their parliamentary duties. Members collectively claim significantly less than the total allowance limits available to them. As such the 2005-06 Supply Estimate requested resources which were estimated on the basis of the trend of actual expenditure over the previous five years, rather than the maximum allowance limits. The House of Commons Department of Finance and Administration monitored allowance expenditure during 2005-06 and was satisfied that the forecast was in line with this estimate.

However, there was a significant increase, compared to prior years, in the amount of claims relating to 2005-06 that were submitted in the two month period following 31 March², resulting in total expenditure on allowances being some £946,000 more than estimated at the start of the year.

The increase in the amount of claims during 2005-06 was in part due to a change in the allowance structure. With effect from 1 April 2005, Members were allowed to transfer up to 10% of their annual Staffing Allowance to their Incidental Expenses Provision allowance.³ The Incidental Expenses Provision annual allowance is available to meet the costs incurred on Members' parliamentary duties, including office costs.

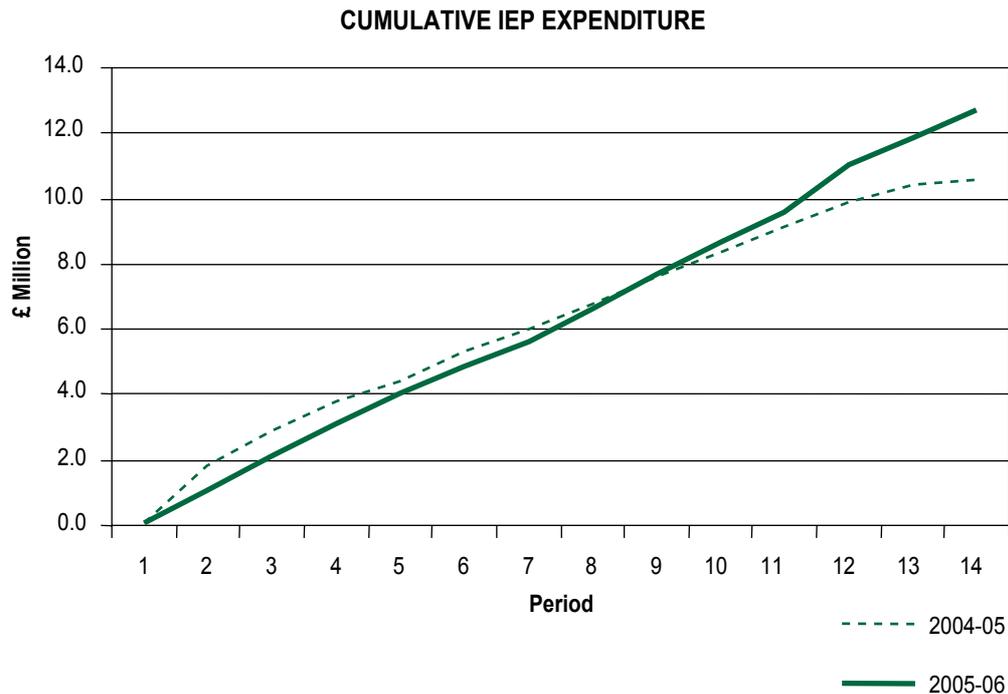
The Department of Finance and Administration did not anticipate that the increased flexibility between allowances would lead to significantly higher overall expenditure. Compared with previous years, more Members incurred expenditure up to the limits of their allowances and a number also switched funding from the Staffing Allowance to the Incidental Expenses Provision allowance. Much of this switch occurred after the year-end and therefore after the submission of the Spring Supplementary Estimate:

| Number of Members: | 2004-05 | 2005-06 |
|--|----------------|----------------|
| Claiming full Incidental Expenses Provision (IEP) allowance | 82 | 248 |
| Of the above, claiming over the standard IEP allowance as a result of transfer from Staffing Allowance | N/A | 228 |

The cumulative effect was to add £4 million (31% of total expenditure incurred) to the Incidental Expenses Provision after the spring supplementary Estimate was laid, with £1.7 million of this being claimed after the year end. The graph below illustrates the higher year-end pattern of spending as compared with the previous year.

²Members are entitled to submit claims relating to the financial year up to 31 May following the year end

³As in previous years, Members were allowed to transfer 10% of the Incidental Expenses Provision allowance to the Staffing Allowance during the allowance year. The allowance limits for 2005-06 were £20,000 for Incidental Expenses Provision and £84,000 for Staffing Allowance.



Actions taken or proposed to be taken by the House of Commons Department of Finance and Administration to help prevent a recurrence

The House of Commons Department of Finance and Administration has undertaken a detailed review to establish the factors contributing to the excess. In future years the Department will take account of the experience in 2005-06 in preparing its Supply Estimate.

Summary and Conclusions

During 2005-06 both the in year costs associated with the Parliamentary Contributory Pension Fund and expenditure on Members' allowances were higher than anticipated. The impact of these factors was not identified until after the deadline had passed for the submission of a supplementary Estimate. As a result the House of Commons Members Estimate has incurred an Excess Vote of £909,000, which will require retrospective parliamentary approval.

I am satisfied that the House of Commons Department of Finance and Administration has taken steps to ensure that in future its Supply Estimates are more soundly based to take account of potential changes in claim patterns by Members, changes in Resolutions governing Members' allowance expenditure and actuarial valuations.

John Bourn
National Audit Office
18 July 2006

Statement of Parliamentary Supply

Summary of Resource Outturn

For the year ended 31 March 2006

| Request for Resources | Estimate | | | Outturn | | | Net Total Outturn compared with Estimate: saving/ (excess) | 2004-05 Net Total |
|---|------------------------|--------|-----------|------------------------|--------|-----------|--|-------------------|
| | Salaries & other costs | Grants | Net Total | Salaries & other costs | Grants | Net Total | | |
| | £000 | £000 | £000 | £000 | £000 | £000 | | |
| Members' salaries, Allowances and Other costs | 149,414 | 6,275 | 155,689 | 150,236 | 6,362 | 156,598 | (909) | 141,501 |
| Total resources | 149,414 | 6,275 | 155,689 | 150,236 | 6,362 | 156,598 | (909) | 141,501 |
| Non-operating cost A in A | (2) | | (2) | (2) | | (2) | - | |

Summary of net cash requirement 2005-06

| | Note | Estimate | Outturn | Net Total Outturn compared with Estimate: saving/(excess) ¹ | 2004-05 Outturn |
|----------------------|------|----------|---------|--|-----------------|
| | | £000 | £000 | £000 | £000 |
| Net cash requirement | 3 | 156,550 | 156,073 | 477 | 138,768 |

Summary of income payable to the Consolidated Fund.

In addition to appropriations in aid, the following income relates to the House and is payable to the Consolidated Fund (cash receipts being shown in italics)

| | Note | Forecast 2005-06 | | Outturn 2005-06 | |
|---|------|------------------|----------|-----------------|----------|
| | | Income | Receipts | Income | Receipts |
| | | £000 | £000 | £000 | £000 |
| Total income payable to the Consolidated Fund | 4 | - | - | 30 | 30 |

¹ Explanations of variances between the Estimate and Outturn are given in the Management Commentary (Page 4).

The notes on pages 24 to 37 form part of this account

Operating Cost Statement

for the year ended 31 March 2006

| | Note | 2005-06 | | 2004-05 |
|--|------|------------------------|----------------|----------------|
| | | Salary & related costs | Other Costs | Income |
| | | £000 | £000 | £000 |
| Programme Costs | | | | |
| Members' Salaries, allowances and other costs | | | | |
| Members' salaries | 6 | 47,864 | | 42,349 |
| Members' pensions | 6 | 10,172 | | 9,961 |
| Other costs | 7 | | 92,200 | 83,681 |
| Grants to other bodies | 7 | | 6,362 | 5,510 |
| Totals | | 58,036 | 98,562 | - |
| Net Operating Cost | | | 156,598 | 141,501 |

Statement of Recognised Gains and Losses

for the year ended 31 March 2006

| | Note | 2005-06 | 2004-05 |
|---|------|------------------|----------|
| | | £000 | £000 |
| Loss on pension liabilities due to changes in actuarial assumptions | 13 | (7,000) | - |
| Recognised gains and losses for the financial year | | (7,000) | - |
| Prior year adjustment to pension liabilities | 13 | (119,000) | - |
| Total gains and losses recognised since last annual accounts | | (126,000) | - |

The notes on pages 24 to 37 form part of this account

Balance Sheet

as at 31 March 2006

| | Note | 2005-06 | | 2004-05 (restated) ¹ | |
|---|------|-----------------|------------------|------------------------------------|------------------|
| | | £000 | £000 | £000 | £000 |
| Fixed assets: | | | | | |
| Tangible assets | 8 | 778 | | 223 | |
| Intangible assets | 9 | 22 | | 237 | |
| | | | 800 | | 460 |
| Current assets: | | | | | |
| Debtors | 10 | 344 | | 256 | |
| Cash at bank and in hand | 11 | 180 | | 639 | |
| | | 524 | | 895 | |
| Creditors (amounts falling due within one year) | 12 | (11,096) | | (10,579) | |
| Net current liabilities | | | (10,572) | | (9,684) |
| Total assets less current liabilities | | | (9,772) | | (9,224) |
| Provisions for liabilities and charges | 13 | (130,628) | | (119,000) | |
| | | | (130,628) | | (119,000) |
| | | | (140,400) | | (128,224) |
| Taxpayers' equity: | | | | | |
| General Fund | 14 | | (140,400) | | (128,224) |
| | | | (140,400) | | (128,224) |

Roger Sands
Accounting Officer

14 July 2006

¹2004-05 has been restated to reflect the change in accounting policy (FRS17) on pension liabilities (see Note 13)

The notes on pages 24 to 37 form part of this account

Cash Flow Statement

for the year ended 31 March 2006

| | | 2005-06 | 2004-05 |
|---|----------|--------------|----------------|
| | Note | £000 | £000 |
| Net cash outflow from operating activities | 15a | (155,003) | (138,671) |
| Capital expenditure and financial investment | 15b, 15c | (1,070) | (97) |
| Receipts due to the Consolidated Fund which are outside the scope of House activities | | 30 | 140 |
| Payments of amounts due to the Consolidated Fund | | (16) | (163) |
| Financing ¹ | 15d | 155,600 | 137,548 |
| Increase/(decrease) in cash in the period | 15e | (459) | (1,243) |

¹The amount of grant actually issued to support the net cash requirement equalled £155,600,500.

Net Operating Costs by Aim

for the year ended 31 March 2006

| Request for Resources | Note | 2005-06 | | | 2004-05 | | |
|--|------|---------------|----------------|-------------|---------------|----------------|-------------|
| | | Gross £000 | Income £000 | Net £000 | Gross £000 | Income £000 | Net £000 |
| Members' Salaries allowances and other costs | 16 | 156,598 | - | 156,598 | 141,501 | - | 141,501 |
| Net Operating costs | | 156,598 | - | 156,598 | 141,501 | - | 141,501 |

The objectives of the House of Commons: Members Estimate are as follows:

To put elected Members of Parliament in a position to conduct their work on behalf of their constituents by meeting:

- Salary and related costs of Members and their staff;
- Expenses wholly, necessarily and exclusively incurred in the performance of their duties;
- Appropriate travel costs of Members, their staff and their families;
- Centrally provided services including insurance, computers and other IT equipment, help for Members with disabilities, litigation, security, and training for staff;
- To put Opposition parties in a position to conduct their parliamentary or representative functions effectively;
- To provide an annual grant to the Members' Fund to assist former Members and their dependants.

The notes on pages 24 to 37 form part of this account

Notes to the Resource Accounts

1. Statement of accounting policies

The financial statements have been prepared in accordance with the House of Commons Financial Reporting Manual. Accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

In addition to the primary statements prepared under UK GAAP, two further primary statements are prepared. *The Statement of Parliamentary Supply* and supporting notes show outturn against Estimate in terms of the net resource requirement and the net cash requirement. *The Statement of Resources by Aim* and supporting notes analyse the House's expenditure by its aim.

1.1 Accounting convention

These financial statements are prepared on an accruals basis under historical cost method modified to include the revaluation of certain assets.

1.2 Tangible fixed assets

IT equipment has been stated at current cost and has been valued using appropriate indices from the historical tables 1 and 4 of the Office of National Statistics publication MM17 "Price index numbers for current cost accounting". Other equipment is stated at historic cost. The minimum level for capitalisation of a tangible fixed asset is £1,000. Smaller items may be grouped depending on whether such groups constitute a significant value above the capitalisation threshold.

1.3 Depreciation

Depreciation is charged to expenditure on the re-valued amount of assets. That element of the depreciation which relates to the increase in valuation is charged to the Revaluation Reserve.

Depreciation is charged on a straight line basis and is calculated at rates sufficient to write off the value of tangible fixed assets by equal instalments over their estimated useful lives.

For accounting purposes the useful economic life is deemed to be 4 years.

1.4 Intangible fixed assets

Intangible fixed assets comprise extended warranty covers and software licences purchased through the Members' Central IT provision (CIT). These assets are amortised over the life of the warranty or the life of the hardware on which it is installed.

1.5 Investments

There are no short term current investments.

1.6 Stocks and work in progress

No stocks are held and there is no work in progress.

1.7 Research and development

There is no research and development activity.

1.8 Operating income

No operating income is anticipated or collected under the Estimate. However, if a Member was found to have been overpaid on an allowance then the debt would be recovered either directly by cash payment, by delaying costs to be claimed until a later allowance period, or through reducing the subsequent year's allowance. Any cash receipts over and above those identified as debts at the year end are surrendered to the Consolidated Fund. Receipts of insurance payments for lost or damaged IT equipment are surrendered to the Consolidated Fund.

1.9 Capital charge

A charge, reflecting the cost of capital utilised, is calculated at the Treasury standard rate of 3.5% on all assets (except cash balances with the Paymaster General) less liabilities. There is negative capital charge to the accounts in 2005-06 since liabilities in respect of unclaimed allowances exceed assets.

1.10 Foreign exchange

Those transactions which are denominated in a foreign currency are translated into sterling at the exchange rate ruling on the date of each transaction. There were no foreign exchange transactions during 2005-06.

1.11 Pensions

Members of Parliament receive a pension from the Parliamentary Contributory Pension Fund (PCPF). The scheme is a defined benefit scheme based on final salary and is funded by contributions from Members and the Exchequer. As at 1 April 2002 this was based on an accrual rate of 1/50th for every year of service subject to a maximum of 33 1/3 years. The Parliamentary Pension (Amendment) Act 2002 gave Members the option, on an individual basis, to increase the accrual rate from 15 July 2002 to 1/40th of final pensionable pay for each year of service if they increased their personal contribution from 6% to 9% of pay.

The Government Actuary determines the amount the Exchequer pays after each triennial valuation of the fund. The rate of contribution in 2005-06 was 24% of salary per member of the PCPF.

The maximum pension available at 65 is 2/3 of final salary. There is an option to commute part of the pension for a tax-free lump sum dependent on age and length of service. The introduction of a 1/40th scheme resulted in a number of longer serving Members reaching their maximum period of service and therefore ceasing to contribute.

The supplementary pension contributions associated with the Ministerial element of a Member's salary are funded by the Estimate and are included in the pensions figure in Note 6. The Ministerial salary supplement itself is funded by the relevant Government Department direct.

The Managing Trustees are current Members of the House of Commons plus one retired former Member. The scheme's investments are managed by the Bank of New York. The scheme is administered by Superannuation of the University of London. The cost of administering the scheme is included as an administration cost within the House of Commons: Administration accounts.

The accounts of the PCPF are published separately. Further information about the Parliamentary Contributory Pension Fund or a copy of the Annual Report can be obtained from The Parliamentary Contributory Pension Fund Secretariat, Pensions Unit, Department of Finance and Administration, House of Commons, London, SW1A 0AA.

1.12 Early departure costs

Under the PCPF scheme rules, normal retiring age is 65, but a Member with at least 20 years' service can retire at 60 with an immediate pension. It is also possible for Members over the age of 50 to retire with an immediate pension that will be subject to an actuarial reduction dependent on age and length of service. In addition, if the Trustees of the PCPF are satisfied that a Member's ill health permanently prevents them from carrying out their duties, they can retire early with an immediate pension. All early retirement costs are met from the Fund and are not identified separately.

1.13 Staff pension provision

Since November 2003, Members' employees have automatically joined the Portcullis Pension Plan, although they can opt out if they wish. When the Plan was first set up, a small group of employees, who met certain criteria, were allowed to stay with their existing providers.

All employees within the Plan benefit from a contribution paid by the House of 10% of their earnings. They can decide how this is split between the two providers, Norwich Union and AXA Sun Life, and how the funds are invested. Employees can also make voluntary contributions if they wish. In addition, all the members of the Plan benefit from death in service cover of twice their salary.

1.14 Grants to other bodies

Financial assistance is provided to Opposition parties and the Members' Fund.

1.15 Leases

No operating or finance leases are held.

1.16 Private Finance Initiative (PFI) transactions

There were no PFI transactions.

1.17 VAT

This account is outside the scope of VAT. Output tax does not apply and input tax on purchases is not recoverable. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets.

1.18 Programme expenditure

The Operating Cost Statement shows details of programme costs, which include Members' salaries, allowances and pension costs. Details of how these may be claimed are outlined in the Green Book, issued by the Department of Finance and Administration at the House of Commons.

The allowance expenditure disclosed in these resource accounts relates to Members' claims arising from the accounting period covered by the accounts. It includes claims received after the year-end to pay for activity arising within the accounting period. The Green book allows claims against each year's allowance budget to be submitted up to two months after the financial year (i.e. by 31 May); however, in exceptional circumstances claims received more than two months after the accounting year-end may be paid.

Members who have specific spending plans are able to apply to carry forward up to 10% of their Incidental Expenses Provision and Staffing Allowance. In certain circumstances they can also ask for an advance. Apart from exceptional circumstances, approved by the Speaker, any request must be submitted within two months of the end of the financial year. Movements between years will be managed within the overall resources and net cash requirement for those years.

The year-end accrual balance is determined by an estimation of the likely payments made during the two months after the year-end, which relate to the accounting period covered by the resource accounts. This balance is supplemented by an estimate for subsequent exceptional claims that may be authorized for payment after the two months cut-off period has expired.

Prepayments are disclosed for Parliamentary Contributory Pension Fund, Childcare and the purchases of season tickets where the services will be delivered in the next accounting period.

1.19 Going concern

Although the closing balance on the General Fund is negative and is likely to remain so in future years, the Members Estimate will continue to receive annual funds voted by Parliament to cover Members' salaries and allowances.

1.20 Costs of administering Members' salaries and allowances

The cost of administering Members' allowances and salaries is included as an administration cost within the House of Commons: Administration accounts.

1.21 Third party assets

There are no third party assets held.

2. Reconciliation of Estimates, accounts and budgets

Reconciliation of accounts to capital budget

| | Note | 2005-06 | | 2004-05 |
|-------------------------------|------|-----------------|------------|-----------|
| | | Final provision | Outturn | Outturn |
| | | £000 | £000 | £000 |
| Additions to assets | 8, 9 | | 1,072 | 83 |
| (Disposals) at net book value | 8, 9 | | (158) | (2) |
| Capital Budget | | 1,950 | 914 | 81 |

3. Reconciliation of resources to cash requirement

| | Note | Estimate | Outturn | Net total outturn compared with Estimate: saving/(excess) |
|---|-------|----------------|----------------|---|
| | | £000 | £000 | £000 |
| Resource Outturn | | 155,689 | 156,598 | (909) |
| Capital | | | | |
| Acquisition of fixed assets | 8, 9 | 1,950 | 1,072 | 878 |
| Non operating A in A | | | | |
| Proceeds of fixed asset disposals | 5 | (2) | (2) | - |
| Accruals adjustments | | | | |
| Non-cash items | 7 | (1,087) | (707) | (380) |
| Changes in working capital other than cash | 10,12 | - | (888) | 888 |
| Changes in creditors falling due after more than one year | 12 | - | - | - |
| Net Cash Requirement | | 156,550 | 156,073 | 477 |

4. Analysis of income payable to the Consolidated Fund

In addition to appropriations in aid, the following income relates to the House and is payable to the Consolidated Fund (cash receipts being shown in italics)

| | Forecast 2005-06 | | Outturn 2005-06 | |
|--|------------------|----------|-----------------|-----------|
| | Income | Receipts | Income | Receipts |
| | £000 | £000 | £000 | £000 |
| Other amounts collectable on behalf of the Consolidated Fund | - | - | | |
| Non-operating income and receipts – excess A in A | | | 1 | 1 |
| Excess cash surrenderable to the Consolidated Fund | - | - | 29 | 29 |
| Total income payable to the Consolidated Fund | - | - | 30 | 30 |

5. Non-Operating income

| | 2005-06 | 2004-05 |
|--------------------------|---------|---------|
| | £000 | £000 |
| Disposal of fixed assets | 2 | - |

6. Members numbers and costs

6.1 Members costs comprise:

| | 2005-06 | 2004-05 |
|------------------------|---------------|---------------|
| | £000 | £000 |
| Members' salaries | 38,404 | 38,063 |
| Resettlement Grant | 5,375 | - |
| London Supplement | 109 | 194 |
| Social security costs | 3,976 | 4,092 |
| Other pension costs | 10,172 | 9,961 |
| Total net costs | 58,036 | 52,310 |

After the 2005 General Election there were 646 seats in the House of Commons. A total of 641 Members took up their seats with 5 abstaining from taking the oath. The annual salary of each Member was £59,095. Members representing Inner London constituencies received London Supplement up to 31 March 2006. Included in the Members' salary costs are the additional salaries for the Chairman of Ways and Means (£38,854), two Deputy Chairmen of Ways and Means (£34,148 each), thirty one Chairmen of the Select Committees (£13,107 each) and the thirty one Chairmen of the Standing Committees (£2,615 - £13,107 each).

6.2 The House of Commons Members Fund (HCMF)

The HCMF was set up by the House of Commons Members' Fund Act 1939 as amended by subsequent Acts between 1948 to 1991. The Fund is not a pension scheme as defined by the House Financial Reporting Manual but functions primarily as a benevolent fund and operates to provide for former Members and their dependants who find themselves in difficult circumstances. These accounts only show the contribution paid into HCMF each year on behalf of all Members. Separate accounts for the HCMF are published. The last full valuation of the HCMF was as at 30 September 2003. At 30 September 2003, the Government Actuary assessed the value of the assets at £3.307million. The total liability of the fund was £2.030 million, giving a surplus of £1.277 million. The next full valuation is due as at 30 September 2006.

7. Net programme costs

| Note | 2005-06 | | 2004-05 | |
|---|---------|---------------|---------|---------------|
| | £000 | £000 | £000 | £000 |
| Other Costs – Members' Staff Salaries, Staff Pensions and other expenses | | | | |
| Cash Items | | | | |
| Staffing Allowance | 50,695 | | 46,150 | |
| Incidental Expenses Provision | 12,748 | | 10,947 | |
| Additional Costs Allowance | 10,866 | | 10,874 | |
| Travel expenses | 5,994 | | 8,346 | |
| Contributions to Members' staff pensions | 4,196 | | 4,148 | |
| Winding Up Allowance | 3,775 | | 79 | |
| Central service provision | 1,825 | | 1,353 | |
| Staff redundancy | 780 | | 21 | |
| Insurance | 284 | | 282 | |
| Temporary secretarial assistance | 320 | | 454 | |
| Write off of bad debt | 10 | | 28 | |
| Grants to other bodies | | | | |
| Financial assistance to Opposition parties | 6,147 | | 5,295 | |
| Members' Fund | 215 | | 215 | |
| Subtotal | | 97,855 | | 88,192 |
| Non-cash items | | | | |
| Depreciation and amortisation of fixed assets: | | | | |
| Tangible fixed assets | 8 | 181 | 962 | |
| Intangible fixed assets | 9 | 215 | 225 | |
| Loss on revaluation of tangible fixed assets | 8 | 178 | - | |
| Loss on disposal of fixed assets | 8 | 156 | 2 | |
| Pension provision | 13 | 4,628 | - | |
| Audit fee | 14 | 50 | 82 | |
| Capital charge | 14 | (4,701) | (272) | |
| Subtotal | | 707 | | 999 |
| Grand Total | | 98,562 | | 89,191 |

8. Tangible fixed assets

The tangible fixed assets consists of IT equipment

| | 2005-06 |
|--|----------------|
| | £000 |
| Cost | |
| At 1 April 2005 | 3,847 |
| Additions | 1,072 |
| Disposals | (3,181) |
| Loss on revaluation | (193) |
| Gain on revaluation | - |
| At 31 March 2006 | 1,545 |
| Depreciation | |
| At 1 April 2005 | 3,624 |
| Charge in year | 181 |
| Disposals | (3,023) |
| Revaluation | (15) |
| At 31 March 2006 | 767 |
| Net book value at 31 March 2006 | 778 |
| Net book value at 31 March 2005 | 223 |

9. Intangible fixed assets

The House's intangible fixed assets comprise software licences.

| | 2005-06 |
|--|----------------|
| | £000 |
| Cost or valuation | |
| At 1 April 2005 | 890 |
| Additions | - |
| Disposals | (35) |
| At 31 March 2006 | 855 |
| Amortisation | |
| At 1 April 2005 | 653 |
| Charged in year | 215 |
| Disposals | (35) |
| At 31 March 2006 | 833 |
| Net book value at 31 March 2006 | 22 |
| Net book value at 31 March 2005 | 237 |

10. Debtors

| | As at 31 March 2006 | As at 31 March 2005 |
|---|--------------------------------|--------------------------------|
| | £000 | £000 |
| Amounts falling due within one year: | | |
| Members | 55 | 91 |
| Deposits and advances | 21 | 11 |
| Other debtors | 155 | 54 |
| Prepayments and accrued income | 113 | 100 |
| | 344 | 256 |

There are no outstanding debtors due to the Consolidated Fund.

11. Cash at bank and in hand

| | As at 31 March 2006 | As at 31 March 2005 |
|---|------------------------|------------------------|
| | £000 | £000 |
| Balance at 1 April | 639 | 1,882 |
| Net change in cash balances | (459) | (1,243) |
| Balance at 31 March | 180 | 639 |
| The following balances at 31 March were held at: | | |
| Office of HM Paymaster General | 180 | 639 |
| Commercial banks and cash in hand | - | - |
| Balance at 31 March | 180 | 639 |
| Amounts issued from the Consolidated Fund but not spent at year end | 156 | 629 |
| Consolidated Fund extra receipts received and due to be paid to the Consolidated Fund | 24 | 10 |
| | 180 | 639 |

12. Creditors

| | As at 31 March 2006 | As at 31 March 2005 |
|--|------------------------|------------------------|
| | £000 | £000 |
| Amounts falling due within one year | | |
| Other taxation and social security | 2,503 | 2,432 |
| Members | 262 | 297 |
| Other creditors – current | 1,909 | 2,037 |
| Other creditors - capital | - | - |
| Accruals and deferred income | 6,242 | 5,174 |
| | 10,916 | 9,940 |
| Amounts issued from the Consolidated Fund for supply but not spent at year end | 156 | 629 |
| Consolidated Fund extra receipts due to be paid to the Consolidated Fund | | |
| received | 24 | 10 |
| receivable | - | - |
| | 11,096 | 10,579 |

13. Provisions and liabilities

From 2005-06 the liability for any potential future shortfall in the funding of the Parliamentary Contributory Pension Fund (PCPF) is recognised in the resource accounts, in accordance with accounting standard FRS17.

The PCPF is a defined benefit scheme. The Government Actuary's Department (GAD) provided an estimate of the financial position as at 31 March 2006. A full actuarial valuation was carried out at 31 March 2005. The major assumptions used by GAD were:

| | As at 31 March 2006 | As at 31 March 2005 |
|---|--------------------------------|--------------------------------|
| Rate of increase in salaries | 4.7% | 4.4% |
| Rate of increase in pensions in payment | 4.7% | 4.4% |
| Discount rate | 4.9% | 5.4% |
| Inflation assumption | 3.2% | 2.9% |

| | 2005-06 |
|---|------------------|
| | £000 |
| Movement in deficit during the year | |
| Deficit in scheme at beginning of year | (119,000) |
| Current service cost (net of member contributions) ¹ | (12,800) |
| Employer contributions | 10,172 |
| Past service costs | - |
| Other finance income ² | (2,000) |
| Actuarial loss ³ | (7,000) |
| Deficit in scheme at end of year | (130,628) |

¹Analysis of amounts charged to operating profit

| | |
|--|---------------|
| Current service cost (net of member contributions) | 12,800 |
| Past service cost | - |
| | <u>12,800</u> |

²Analysis of amount credited to the finance income

| | |
|--|----------------|
| Expected return on pension scheme assets | 20,000 |
| Interest on pension scheme liabilities | (22,000) |
| Net return | <u>(2,000)</u> |

³Analysis of amount recognised in Statement of Recognised Gains and Losses (SRGL)

| | |
|---|----------------|
| Actual return less expected return on pension scheme assets | 48,000 |
| Experienced gains arising on the scheme liabilities | 4,000 |
| Changes in assumptions underlying the present value of the scheme liabilities | (59,000) |
| Actuarial loss recognised in SRGL | <u>(7,000)</u> |
| Benefits paid | 16,000 |
| Member contributions | (4,000) |

| Analysis of Assets and Liabilities | Long term rate of return 2005-06 | Value at 31 March 2006 | Value at 31 March 2005 |
|------------------------------------|---|------------------------------|------------------------------|
| | | £million | £million |
| Equities | 6.70% | 255 | 214 |
| Bonds | 4.70% | 78 | 57 |
| Others | 4.75% | 16 | 12 |
| Total value of assets | | 349 | 283 |
| Present value of Fund liabilities | | (480) | (402) |
| Net pension liability | | (131) | (119) |

14. General Fund

| | Note | As at 31 March 2006 | As at 31 March 2005 (restated) ¹ |
|--|-------|------------------------|---|
| | | £000 | £000 |
| Balance at 1 April | | (9,224) | (6,301) |
| Prior Year Adjustment | | (119,000) | |
| | | (128,224) | (6,301) |
| Net Parliamentary Funding | | | |
| Drawn down | | 155,600 | 137,548 |
| Deemed | 11 | 629 | 1,849 |
| Year end adjustment | | | |
| Supply creditor – current year | | (156) | (629) |
| Net Transfer from Operating Activities | | | |
| Net Operating Cost | 6 & 7 | (156,598) | (141,501) |
| Non Cash Charges | | | |
| Cost of capital | | (4,701) | (272) |
| Auditors' remuneration | | 50 | 82 |
| Actuarial gain recognised in SRGL | 13 | (7,000) | - |
| Balance at 31 March | | (140,400) | (9,224) |
| Adjustment for pension liability | | | (119,000) |
| Revised Balance at 31 March | | (140,400) | (128,224) |

¹ The General Fund at 31 March 2005 has been restated to reflect the change of accounting policy (FRS17) on pension liabilities (see Note 13).

15. Notes to the Cash Flow Statement**15(a) Reconciliation of operating cost to operating cash flows**

| | Note | 2005-06 | 2004-05 |
|---|-------------|------------------|------------------|
| | | £000 | £000 |
| Net operating cost | 6 & 7 | (156,598) | (141,501) |
| Adjustments for non-cash transactions | 7 | 707 | 999 |
| (Increase)/decrease in debtors | 10 | (88) | 54 |
| Increase in creditors | 12 | 976 | 1,763 |
| <i>less increase in capital creditors</i> | | - | 14 |
| Net cash outflow from operating activities | | (155,003) | (138,671) |

15(b) Analysis of capital expenditure and financial investment

| | Note | 2005-06 | 2004-05 |
|---|-------------|----------------|----------------|
| | | £000 | £000 |
| Tangible fixed asset additions | 8 | (1,072) | (68) |
| Intangible fixed asset additions | 9 | - | (29) |
| Proceeds on disposal of fixed assets | 5 | 2 | - |
| Net cash outflow from investing activities | | (1,070) | (97) |

15(c) Analysis of capital expenditure and financial investment by Request for Resources

| | Capital expenditure | Loans etc | A in A | Net total |
|-----------------------------------|----------------------------|------------------|---------------|------------------|
| | £000 | £000 | £000 | £000 |
| Request for Resources | 1,072 | - | (2) | 1,070 |
| Net movement in debtors/creditors | | - | - | - |
| Total 2005-06 | 1,072 | - | (2) | 1,070 |
| Total 2004-05 | 97 | - | - | 97 |

15(d) Analysis of financing

| | Note | 2005-06 | 2004-05 |
|--|-------------|----------------|----------------|
| | | £000 | £000 |
| From the Consolidated Fund (Supply) – current year | 14 | 155,600 | 137,548 |
| From the Consolidated Fund (Supply) – prior year | 14 | - | - |
| Net financing | | 155,600 | 137,548 |

15(e) Reconciliation of Net Cash Requirement to increase/(decrease) in cash

| | Note | 2005-06 £000 | 2004-05 £000 |
|---|------|-----------------|-----------------|
| Net cash requirement | 3 | (156,073) | (138,768) |
| From the Consolidated Fund (Supply) – current year | 14 | 155,600 | 137,548 |
| From the Consolidated Fund Supply – prior year | 14 | - | - |
| Amounts due to the Consolidated Fund received in prior year and paid over | | (10) | (33) |
| Amounts due to the Consolidated Fund received and not paid | | 24 | 10 |
| (Decrease)/increase in cash | | (459) | (1,243) |

16. Notes to the Statement of Resources by Aim

Capital is employed exclusively for programme purpose.

Programme expenditure has been allocated as follows:

| | 2005-06 £000 | 2004-05 £000 |
|---|-----------------|-----------------|
| Request for Resources : Members' salaries, allowances and other costs | 156,598 | 141,501 |

Capital Employed by Aim at 31 March 2006

| | 2005-06 £000 | 2004-05 (restated) £000 |
|---|------------------|-------------------------------|
| Request for Resources : Members' salaries, allowances and other costs | (140,400) | (128,224) |

17. Capital commitments

There were no capital commitments as at 31 March 2006.

18. Contingent liabilities disclosed under FRS 12

There are currently no contingent liabilities falling within the requirement of FRS 12 that need to be disclosed.

19. Contingent liabilities not required to be disclosed under FRS 12 but included for parliamentary reporting and accountability purposes

There are currently no contingent liabilities not required to be disclosed under FRS 12, but need to be included for parliamentary reporting and accountability purposes.

20. Losses and special payments

There were no losses or special payments made in 2005-06.

21. Related-party transactions

The House of Commons: Administration Estimate is regarded as a related party. The House of Commons Commission provide resources for the following services to Members and their staff: accommodation, utilities, catering, security, communications and administration. From 1 January 2006, IT equipment provided to both Houses is being managed by the Parliamentary Information and Communications Technology (PICT) service. In addition, the remuneration package for Members of Parliament is approved by Resolution of the House of Commons. Members also act as Managing Trustees for the Parliamentary Contributory Pension Fund and the House of Commons Members' Fund.

The Register of Members' Interests provides information of any pecuniary interest or other material benefit which a Member receives which might reasonably be thought by others to influence his or her actions, speeches, or votes in Parliament, or actions taken in his or her capacity as a Member of Parliament. The Register is published soon after the beginning of a new Parliament under the authority of the Select Committee on Standards and Privileges, and annually thereafter. Between publications the Register is regularly updated in a loose leaf form and this is available for public inspection in the Committee Office of the House of Commons. Employment agreements deposited with the Registrar are available for personal inspection only.

The Estimate provides financial assistance to Opposition parties to carry out their parliamentary or representative functions. The total payable to each party is linked to a formula based on the number of seats won and the votes cast at the previous General Election.

22. Post balance sheet events

There are no post balance sheet events to report.

The **HOUSE of
COMMONS:
Members**

**Audit Committee
Annual Report**

2005-06

Members Estimate Audit Committee Annual Report for 2005-06

Introduction

This is the second annual report of the House of Commons Members Estimate Audit Committee, which was established by the House of Commons Members Estimate Committee on 14 June 2004, following changes to the governance structure for the Members Estimate agreed by the House in January 2004.

Membership

The General Election was held on 5 May 2005. At the Members Estimate Committee's first meeting after the Election, on 20 June, it appointed Chris Grayling MP to serve as Chairman of the Committee, and Nick Harvey MP as a member of the Committee. They joined the two existing external members, Sir Thomas Legg KCB QC and Mr David Taylor FCA.

The Clerk of the House, the Director of Finance and Administration, the Director of the Internal Review Service and the Director of Operations, Department of Finance and Administration attend meetings, although they may withdraw for specific items at the Committee's, or their own, request.

Theresa May replaced Chris Grayling as Chairman of the Audit Committee following her nomination as a member of the Commission by the Leader of the Opposition, and her appointment as Chairman of the Audit Committee by the Commission at its meeting on 23 January 2006.

Mr David Taylor was reappointed to the Committee by the Members Estimate Committee for a further three years in July 2005. Sir Thomas Legg's appointment was extended by a further three years in January 2006.

The Committee's secretary is the Private Secretary to the Clerk of the House. At the beginning of the year this was Mark Egan; in October 2005 he was replaced by Tracey Garratty.

Terms of Reference

The Committee's terms of reference are annexed to this report.

Meetings

The Committee met four times in the financial year 2005-06.

Information about the Committee

The Committee has a page on the Parliament website on which are published its membership, terms of reference and annual reports. Formal minutes of meetings are also now published on-line.

Administration Estimate Audit Committee

The Committee has the same membership as the Administration Estimate Audit Committee (AEAC) and usually meets immediately after meetings of the AEAC. Areas of overlap between the Audit Committees, for example in relation to the regular report on the work of the Internal Review Service (IRS), are usually discussed in AEAC meetings but minuted separately.

The Committee has agreed to adopt the same arrangements and procedures as the AEAC, as far as is practicable. Consequently:

- representatives from the National Audit Office and PricewaterhouseCoopers, who work with the House's Internal Review Service, usually attend meetings of the Committee;

- internal audit reports are considered first by the external members of the Committee, who may refer matters for discussion by the full Committee; and
- notwithstanding the difference in the roles of the Commission and the Members Estimate Committee in respect of the two House Estimates, the same procedure is used for advising the Accounting Officer on the Members Accounts as is used in relation to the Administration Accounts.

Internal audit reports

A report relating to the modular audit of the House's new core financial system was considered by the Committee in July and October 2005. The Committee discussed the IRS audit of Members' allowance debtor control systems at its March 2006 meeting. A report concerning the monitoring of allowance expenditure was considered by the external members of the Committee during 2005-06, and the Committee agreed to commission a process review of Members' allowances that would concentrate on ensuring that the Green Book could be clearly interpreted by Members and staff of the House. The Committee will consider the results of the process review in 2006-07.

House of Commons: Members Accounts

The external members of the Committee met with NAO and Department of Finance and Administration staff on 15 September 2005 to discuss the draft House of Commons: Members Accounts for 2004-05, following which the accounts were discussed by the full Committee prior to being signed off by the Clerk of the House, as Accounting Officer.

The Committee agreed that the House should seek to bring forward the date by which the 2005-06 accounts are signed off to July 2006, to fulfil the Treasury's aim to have all public sector resource accounts completed by July.

Other areas of work

The Committee received a briefing in October on the other costs payroll and agreed that it should be closed to new entrants other than those funded from the Administration and Members Estimates.

The Committee agreed to the Leader of the House's invitation that it should undertake a review of the governance of the Members' Fund jointly with the Trustees of the Fund. At its January meeting the Committee appointed John Stoker to undertake the review on its behalf. John Burnett has been appointed on behalf of the Trustees. The Committee will be kept updated with the progress of the joint review in the coming year.

Annex

The Committee's current terms of reference are shown below:

On behalf of the Members Estimate Committee, to:

- have general oversight of the work of internal audit and review relating to the Members Estimate, with particular emphasis on promoting economic, efficient and effective administration, and on risk assessment and control assurance;
- receive and consider reports from the Internal Review Service (IRS), together with management letters and external audit material relating to the Members Estimate;

- monitor and review the external auditor's independence, objectivity and effectiveness, and to make recommendations to the Members Estimate Committee about the external auditor's appointment;
- advise the Accounting Officer in the exercise of his responsibilities;
- consider and recommend to the Accounting Officer the internal review programme for the Members Estimate;
- encourage best financial practice, use of resources and governance in relation to the Members Estimate;
- report annually, the report to be published with the Members Estimate annual accounts.