

Presented pursuant to House of Commons Members Fund Act 1939 2 & 3 Geo. 6, c.49 s.3(6)

House of Commons Members' Fund Account 2006-2007

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House of Commons Members' Fund Account 2006-2007

ORDERED BY THE HOUSE OF COMMONS TO BE PRINTED 10 NOVEMBER 2008

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Foreword

Background

- 1 The Members' Fund was set up by the House of Commons Members' Fund Act 1939 as amended by subsequent Acts of 1948, 1957, 1962, 1981, 1984 and Ministerial and other Pensions and Salaries Act 1991. The Fund is not a pension fund but provides for discretionary grants to be made by the Trustees to ex-Members of Parliament who have attained 60 years of age and who have had 10 years service as Members, their widows/ers and orphan children under 16. Such grants are subject to certain maximum income limits.
- 2 Under the 1948 Act as amended by the 1984 Act, provision existed for the Trustees to authorise grants in cases of special hardship. The 1991 Act widened the scope of the section to allow the Managing Trustees to make discretionary payments as the Trustees think fit having regard to the circumstances of the person or persons to whom payments are to be made.
- 3 The 1981 Act extended the scope of the Fund. It enabled payments to be made by the Trustees to ex-Members (who left the House before 16 October 1964) who meet certain criteria, and to their widows/ers. The Trustees may, following advice from the Government Actuary and if they see fit to do so in special circumstances, make payments where these criteria are not strictly met.
- 4 On the 1 December 2005 a resolution was passed extending the definition of widow and widower to include the surviving civil partner.

Trustees

- 5 The Managing Trustees are Members of the House of Commons appointed by Resolution of the House in accordance with Section 2 of the 1939 Act. The Public Trustee is appointed as the Custodian Trustee under the same section of the Act. See note 17 on Future Developments on page 4.

The Managing Trustees as at 30 September 2007 were: Rt Hon Peter Lilley MP (Chairman), Eric Martlew MP, Nick Harvey MP, Dr Nick Palmer MP, Dr Howard Stoate MP and Clive Betts MP.

- 6 The following professional parties are appointed in connection with the Fund.

Responsibility	Name	Appointed by
Actuarial advice	Government Actuary	Section 3(5) of 1939 Act
External auditor of annual accounts	Comptroller and Auditor General	Section 3(6) of 1939 Act
Investment Management	Legal & General Investment Management Limited	Managing Trustees
Legal Advisors	CMS Cameron McKenna LLP	Managing Trustees

The Managing Trustees have also appointed officials from the House of Commons, Department of Resources, as their Secretariat.

From 1 April 2007 the Public Trustee delegated responsibility for the payroll and accounting function to the House of Commons, Department of Resources but retained accountability for these functions in accordance with the Fund's legislative requirements.

Preparation of annual accounts

- 7 Section 3(6) of the 1939 Act requires that annual accounts are prepared in accordance with a direction given by the Comptroller and Auditor General. Although the Fund is not a Pension Fund, and thus exempt from the requirements of the Pensions Act 1995 and 2004, the 2006-2007 accounts have been prepared in accordance with the Statement of Recommended Practice (SORP), Financial Reports of Pension Schemes (revised 2002), as far as appropriate. The accounts have been prepared on this basis 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 5.

Grants payable

- 8 As at 1 October 2006, there were 100 beneficiaries of the Fund. After taking into account a number of deaths and resultant cessation of grants or awards being passed to widows/ers during the year, as at 30 September 2007 there were 87 beneficiaries and 88 grants in payment.
- 9 The total grants paid of £181,047 represented a decrease of £2,348 compared to the prior year (this figure does not include Lump Sums paid).

Income

- 10 Income to the Fund is derived from statutory contributions from Members of Parliament under the 1939 Act. At present the rate is £24 per annum for each Member (per SI 1961 No 958). The main contribution income, however, is an Exchequer grant paid from the House of Commons Members' Resource Accounts. This commenced under the 1957 Act and was increased (by SI 1981 No 748) to a maximum of £215,000 per annum. Any unexpended balance of the grant is carried forward and invested.

Investment details and performance

- 11 The Trustees have delegated responsibility for the investment management of the majority of the Fund's assets to Legal & General Investment Management Limited. The assets are invested on a passive basis in two of Legal & General's index tracking funds.

Custody of the investments, the receipt of income and the recovery of tax has remained the responsibility of the Public Trustee during the accounting period.

- 12 The 1962 Act empowered the Trustees of the Fund to invest in any investments 'whatsoever and wheresoever', subject to the prohibition by the Trustees of certain investments. The overall objective of the Fund is to maximise the long term returns to the Fund in terms of both income and capital appreciation. Details of the Investments held at the year-end can be found in Note 8 to the annual accounts and in the Investment Report.
- 13 Investment income increased by £56,928 to £133,220 for the year ended 30 September 2007. The portfolio, including cash, increased to £4,921,827.
- 14 The overall effect of the movements in grants payable, income and investments, was an increase of £317,711 in the net assets of the Fund during the year.

Actuarial position of the Fund

- 15 The Trustees have accepted the latest report as at 30 September 2006. The report has been laid before Parliament and published and shows the Fund is in a strong financial position with a surplus of assets. The Trustees have determined that Actuarial Reports will now be commissioned once every five years instead of once every three years.

Annual Report

- 16 In order to comply with best practice reporting requirements as set out in the SORP, the Trustees have prepared an Annual Report which incorporates a Trustees' Report, Investment Report and a statement of the compliance of the Fund with relevant laws and regulations in addition to the Financial Statements. This provides more detailed information on the Fund than is provided by this Foreword. A copy of the Report is sent to all Fund beneficiaries, upon request.

Future developments

- 17 The role of Custodian Trustee was performed by the Official Solicitor and Public Trustee (formerly the Public Trust Office) from July 1939 to October 2007.

Under the 1939 Act the Custodian Trustee is required to undertake the function of guardian of the Fund's assets as well as the related administrative functions of payroll and accounting.

From 1 April 2007 the Official Solicitor and Public Trustee (OSPT) delegated responsibility for the payroll and accounting functions to the Department of Resources, House of Commons. In accordance with legislative requirements, OSPT retained accountability for these functions.

Officials from the Department of Resources, House of Commons provide secretariat and administrative services to the Managing Trustees as well as operating the payroll and maintaining full accounting records for the preparation of the annual report and accounts.

By Parliamentary Paper laid before the House on 23 October 2007, it was resolved that Capita Trust Company Ltd be appointed as Custodian Trustee in succession to the original Custodian Trustee, OSPT. Capita Trust Company Ltd has continued the delegation of payroll and accounting to the Department of Resources, House of Commons. Capita has approved these Accounts.

An extensive review of the Fund and its governing legislation has been ongoing during 2006 and 2007. A report was sponsored by the Members' Estimate Audit Committee and the Trustees. The report was prepared by John Stoker and Lord Burnett and was finalised in April 2007. Papers by both the Members' Estimate Audit Committee and the Trustees were submitted to the Members' Estimate Committee (MEC). The Trustees are currently awaiting agreement on the final conclusions of the review and it is expected that in the forthcoming year, the Trustees along with their appointed officials, will be taking steps to implement the agreed proposals.

Disclosure of information

- 18 So far we are aware, there is no relevant audit information of which the entity's auditors are unaware, and we have taken all steps that we ought to have taken to mark ourselves aware of any relevant audit information and to establish that the entity's auditors are aware of that information.

Contact address

- 19 Further information about the House of Commons Members' Fund or a copy of the Annual Report, can be obtained from the House of Commons Members' Fund Secretariat, Pensions Unit, Department Resources, House of Commons, Westminster, SW1A 0AA.

- 20 Approved on behalf of all the Trustees 21 July 2008 by

Capita Trust Company Ltd
Custodian Trustee

Rt Hon Peter Lilley MP
Chairman of the Managing Trustees

Statement of Trustees' responsibilities

The House of Commons Members' Fund Act 1939 requires the Trustees of the House of Commons Members' 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 30 September 2007 were prepared on an accruals basis to give a true and fair view of the financial transactions of the Fund during the year ended, and of the disposition at 30 September 2007 of its assets and liabilities, other than liabilities to pay benefits after the end of the Fund year.

In preparing those financial statements, the Custodian Trustee, on behalf of all the Trustees was 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 a going concern basis unless it is inappropriate to presume that the Fund will continue in operation.

From 1 April 2007, the Department of Resources, House of Commons, assumed responsibility for keeping 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 1939 Act. The Trustees are also responsible for the regularity and propriety of public finances provided by the Exchequer Grant; for safeguarding the assets of the Fund and for taking reasonable steps for the prevention and detection of fraud and other irregularities, including the maintenance of an appropriate system of internal control.

Statement on Internal Control

Scope of responsibility

This statement is given in respect of the accounts for the House of Commons Members' Fund. On behalf of the full body of Trustees, we 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 Department of Resources, House of Commons, provide a full secretariat and administrative service to the Managing Trustees. Officials from the Capita Trust Company Ltd have acted as the Custodian Trustee from October 2007. Prior to this, the role of Custodian Trustee was performed by OSPT.

The purpose of the system of internal control

The system of internal control can provide only reasonable and not absolute assurance that the 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 has been in place for the year ended 30 September 2007 and up to the date of approval of the accounts.

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 review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the House of Commons and the Custodian Trustee who have responsibility for the development and maintenance of the internal control framework.

The House of Commons and the Custodian Trustee are both subject to review by internal audit units, which operate to Government Internal Audit Standards. The work of the internal audit units are informed by an analysis of the risk to which the House of Commons and the Custodian Trustee are respectively exposed and annual internal audit plans are based on this analysis.

The risk and control framework

In particular, the risk and control framework includes the following

- All awards and discretionary payments are ratified by the Managing Trustees from information provided by the designated House of Commons officers appointed by the Managing Trustees, and are reflected in the minutes of the Trustees' meetings.
- The Custodian Trustee holds title to the assets of the Fund and Legal and General undertakes custody of all investment securities of the Fund.
- The Custodian Trustee during the year (OSPT) made payments of all awards until March 2007. From 1 April 2007 this responsibility was delegated to the Department of Resources, House of Commons.
- Regular reconciliations of the Trustees' bank account are undertaken by the Department of Resources, House of Commons.
- Separation of duties exists at the Department of Resources, House of Commons, whereby the officer initiating a payment cannot authorise the production of the payable instrument or despatch the instrument.
- Password controls and authorisation levels have been in operation over the systems used by the Custodian Trustee and the Department of Resources, House of Commons.
- The Managing Trustees have free access to all documents and records maintained by the Custodian Trustee and the Department of Resources, House of Commons.

Review of effectiveness

The Trustees receive an annual management letter from the external auditors and act on their recommendations.

An internal audit of the Department of Resources internal controls with regard to the Fund's payroll and payments function was conducted in May 2007 by the House of Commons Internal Review Service. The report concluded that there were no areas of concern.

Approved on behalf of the Trustees on 21 July 2008 by

Capita Trust Company Ltd
Custodian Trustee

Rt Hon Peter Lilley MP
Chairman of the Managing 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 House of Commons Members' Fund for the year ended 30 September 2007 under the House of Commons Members' Fund Act 1939 and directions made thereunder. These comprise the Fund Account and the Statement of Net Assets of the Fund and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of Trustees and Auditor

The Trustees are responsible for preparing the Foreword and the financial statements in accordance with the House of Commons Members' Fund Act 1939 and directions made thereunder and for ensuring the regularity of Financial transactions. These responsibilities are set out in the Statement of Trustees' responsibilities.

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

I report to you my opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with directions issued under the House of Commons Members' Fund Act 1939. 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.

In addition, I report to you if the Fund 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 by the accounts direction regarding transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Department's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or to form an opinion on the effectiveness of the Fund's corporate governance procedures or its risk and control procedures.

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 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 Trustees in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Fund'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 misstatement, whether caused by fraud or error, 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 that govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinions

Audit opinion

In my opinion

- the financial statements give a true and fair view, in accordance with the House of Commons Members' Fund Act 1939 and directions made thereunder, of the state of the Fund's affairs as at 30 September 2007, other than the liabilities to pay pensions and benefits after the end of the the Fund year, and of the financial transaction for the year then ended; and
- the financial statements have been properly prepared in accordance with the House of Commons Members' Fund Act 1939.

Audit 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.

Report

I have no observations to make on these financial statements.

T J Burr
Comptroller and Auditor General

6 November 2008

National Audit Office
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Victoria
London SW1W 9SS

Fund Account for the year to 30 September 2007

	Notes	2006-2007 £	2005-2006 £
Contributions and benefits			
<i>Contributions receivable</i>			
Grant in Aid (from House of Commons: Members' Resource Account)		215,000	215,000
From Members of Parliament		15,375	15,371
		230,375	230,371
Benefits payable	3	(222,574)	(227,478)
Administrative expenses	4	(103,764)	(65,765)
		(326,338)	(293,243)
Net (withdrawals) from dealings with members		(95,963)	(62,872)
Returns on investments			
Investment income	5	133,220	76,292
Change in market value of investments	6	280,454	395,406
Net returns on investments		413,674	471,698
Net Increase in the Fund during the year		317,711	408,826
Net Assets of the Fund			
At 1 October 2006		4,604,116	4,195,290
At 30 September 2007		4,921,827	4,604,116

The notes on pages 12 to 14 form part of these accounts.

Net Assets Statement as at 30 September 2007

	Notes	2007 £	2006 £
Investments at market value			
Legal & General Index-Tracker Units	8	4,776,651	4,496,197
		4,776,651	4,496,197
Other investment balances	9	0	4,477
		4,776,651	4,500,674
Net current assets	10	145,176	103,442
Net assets of the Fund as at 30 September 2007		4,921,827	4,604,116

The notes on pages 12 to 14 form part of these accounts.

These financial statements were approved and authorised for issue by the Trustees on 21 July 2008 and signed on their behalf by

Capita Trust Company Ltd
Custodian Trustee

Rt Hon Peter Lilley MP
Chairman of the Managing Trustees

Notes to the Financial Statements

1 Basis of preparation

Whilst the Fund is not an occupational pension scheme, the accounts meet the accounting and disclosure requirements of the Statement of Recommended Practice (SORP), Financial Reports of Pension Schemes (revised 2002) as far as appropriate.

The financial statements summarise the transactions of the Fund and deal with the net assets at the disposal of the Trustees. They do not take account of obligations to pay grants 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 (HC 985) on the position of the fund as at 30 September 2006 and these financial statements should be read in conjunction with that report.

2 Accounting policies

The principal accounting policies are

- a Contributions (including grant in aid) and benefits are accounted for in the period in which they fall due.
- b Investment income from fixed interest securities and other interest on cash balances is accounted for on an accruals basis. Investment income from quoted securities is accrued from when the securities are declared ex-dividend. Investment income retained and automatically reinvested by accumulation funds is not accounted for as income. Changes in value, whether attributable to the reinvested income or growth in the value of the underlying securities, are included in the 'Change in market value of investments' figure in the Fund Account. Recoverable tax from fixed interest accumulation funds is accrued from when the funds are declared ex-distribution.
- c The Index Tracker units have been valued at the closing single price.

The change in the investment market values during the year includes profits and losses on investments sold as well as unrealised gains and losses in the value of investments held at the year end.
- d Acquisition costs are capitalised within investment holdings in the Net Assets Statement. Rebates received on the holdings of Legal & General Index Tracker Units have been treated as part of investment income. It is not considered cost-effective to credit these amounts to the relevant holdings as amounts are not considered material.

3 Benefits payable

	2006-2007	2005-2006
	£	£
<i>Periodic grants directed to be paid by the Trustees under</i>		
House of Commons Members' Fund Act 1939	9,483	9,212
House of Commons Members' Fund and Parliamentary Pensions Act 1981	69,495	56,840
<i>Discretionary grants directed to be paid by the Trustees under</i>		
Section 4, House of Commons Members' Fund Act 1948 as amended	103,069	118,343
	182,047	184,395
Lump sum gratuities	40,527	43,083
	222,574	227,478

4 Administrative expenses

	2006-2007	2005-2006
	£	£
Incurred on behalf of the Managing Trustees	62,026	18,672
Public Trustee's fee	18,478	23,756
Actuarial fees	10,860	6,456
Audit fee	12,400	12,400
Adjustment previous years	0	4,000
Bank charges	0	481
	<u>103,764</u>	<u>65,765</u>

5 Investment income (gross)

	2006-2007	2005-2006
	£	£
Legal & General Index-Tracker Units	104,320	49,515
Legal & General Linked Gilt Index-Tracker Units	16,963	16,295
Interest on cash held on deposit	6,047	4,658
Dividend Equalisation	0	717
	<u>127,330</u>	<u>71,185</u>
Legal & General rebates (Note 2d)	1,457	630
	<u>128,787</u>	<u>71,815</u>
Recoverable tax on fixed interest unit funds	4,273	4,477
Other income	160	0
	<u>133,220</u>	<u>76,292</u>

* Due to timing differences arising from the dividend declaration dates on the Legal & General Index Tracker Units, the 2006-2007 figure is higher than that of the previous year.

6 Changes in market value of investments

	2006-2007	2005-2006
	£	£
Net unrealised appreciation for the year	280,454	395,406
Gains on investments during the year	280,454	395,406

7 Investment management expenses

Management expenses for Legal & General are included within the unit trust price.

8 Details of investments

	Investment held on 30 September 2006		Change in Market value	Investments held on 30 September 2007	
	Cost	Market value		Cost	Market value
	£	£	£	£	£
Legal & General Index-Tracker Units	3,766,146	4,496,197	280,454	3,766,146	4,776,651*

* Legal and General Investments are comprised

1,731,113.681	L&G All Stocks Index-Linked Gilt Units (value £999,026)
2,814,921.642	L&G UK Index Trust Units (value £3,777,625)

9 Other investment balances

	2007	2006
	£	£
Tax to be recovered	0	4,477
	<u>0</u>	<u>4,477</u>

10 Net current assets/liabilities

	2007	2006
	£	£
Current assets		
<i>Contributions and benefits</i>		
Grant in Aid	0	53,750
Contributions	1,280	1,282
Other debtors and prepayments	12,135	25,617
Balance at bank – RBS	83,604	81,652
Balance at bank – Lloyds	85,286	0
	<u>182,305</u>	<u>162,301</u>
Current liabilities		
(Creditors due within one year)		
<i>Contributions and benefits</i>		
Grants to be paid	(1154)	(376)
<i>Administrative expenses</i>		
PAYE	(2,285)	0
Incurred on behalf of the Managing Trustees	(21,290)	(3,871)
Public Trustee's fee	0	(23,756)
Actuarial fees	0	(6,456)
Audit fee	(12,400)	(24,400)
	<u>(37,129)</u>	<u>(58,859)</u>
Net current assets	<u>145,176</u>	<u>103,442</u>

11 Related party transactions

The Secretary to the Managing Trustees also works for the Department of Resources who operate the House of Commons Members' Resource Account and he is therefore regarded as a related party. The House of Commons Members' Resource Account provides a grant in aid to the Fund under the authority provided by the House of Commons Members' Fund Act 1957, at up to the maximum amount of £215,000 allowable under Statutory Instrument.

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

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DG Ref: 8801

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ISBN 978-0-10-328806-2



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