



HOUSE *of* LORDS

Resource Accounts
2006-07

(FOR THE YEAR ENDED 31st MARCH 2007)

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Foreword to the Accounts

Scope

The House of Lords Administration presents the accounts of the House of Lords for the financial year ended 31st March 2007. The Resource Accounts contain the financial statements relating to the House of Lords Members' expenses and administration etc. Request for Resources, which includes catering and works services expenditure. Information is also included, by way of notes, on the House of Lords Security Fund, the House of Lords Works of Art Collection Fund and the House of Lords Refreshment Department trading activities.

Aims and Objectives

The aim of the House of Lords Administration is to enable the House and its Members to carry out their parliamentary and judicial functions fully and effectively.

The core tasks of the House of Lords administration are:

- to meet the needs of the House and its committees
- to meet the parliamentary and judicial needs of individual Members regardless of party or office
- to make the House and its work accessible to the public
- to maintain the heritage and integrity of the House's buildings and collections

Principal Activities

The House of Lords is the second Chamber of the United Kingdom Parliament and as such is one of the busiest parliamentary chambers in the world. It plays an important part in revising legislation and scrutinising Government policy.

The House of Lords is the ultimate court of appeal in the United Kingdom for all cases except Scottish criminal cases. This work is carried out by 12 Lords of Appeal in Ordinary (Law Lords).

Management Commentary

a. Significant events during the year

Lord Speaker

In July 2005 the House approved in principle the replacement of the Lord Chancellor as Speaker of the House by an elected speaker. The Lord Speaker would be elected by the House rather than appointed by the Prime Minister and would not be a member of the Cabinet nor responsible for a government department. The Lord Speaker would not have a judicial role in the House.

Following an election conducted on 28th June 2006, Baroness Hayman was appointed Lord Speaker on 4th July 2006.

House of Lords Reform

In April a Joint Committee of both Houses was appointed to consider the practicality of codifying the key conventions on the relationship between the two Houses of Parliament which affect the consideration of legislation. The Committee analysed and in some aspects restated the relationships,

but concluded that codification of them would be unhelpful. Both Houses accepted the Joint Committee's conclusions in January 2007. The Government published a White Paper, *The House of Lords: Reform*, in February 2007, setting out seven potential options for reforming the composition of the House on which free votes could be held in Parliament. In March the House voted in favour of an all-appointed House and disagreed to each of the other options. In the House of Commons, the options of an 80% elected and a fully elected House of Lords were both agreed to, and the other options all rejected. At the end of the year further proposals from the Government were awaited.

The Parliamentary ICT Service (PICT)

A bicameral Parliamentary ICT Service (PICT) came into being at the beginning of January 2006 and 2006-07 was the first full financial year of operation. At present all staff of PICT are employed by one or other House. A bill was introduced in the House of Lords to enable PICT to be set up as a truly bicameral body, and was passed by the House of Lords in April 2007.

b. Important events which have occurred since the financial year end

On 19th March 2007 the Clerk of the Parliaments, Paul Hayter, announced his intention to retire on 3rd November 2007. Following a competition to identify his successor, the Leader of the House, who chaired the Selection Board, announced in the Chamber on 24th May 2007 that Michael Pownall would be appointed Clerk of the Parliaments in succession to Paul Hayter.

c. House of Lords Annual Report and Business Plan

Further details on the activities of the House of Lords in 2006-07 are contained in the *Annual Report 2006/07* (HL Paper 162) and in the booklet *The Work of the House of Lords*. Additionally, the *House of Lords Business Plan 2007* (HL Paper 87), sets out services to be provided by the administration for the period 2007-10. Both are published on behalf of the House of Lords by The Stationery Office and are available via bookshops and on the internet (www.parliament.uk).

d. Operating and Financial Review

The House of Lords Administration's outturn on net total resources for 2006-07 was £99.7M which was £13.9M lower than the Estimate. The main explanations for this variation against the Estimate are:

- A reclassification of certain expenditure on the Palace of Westminster from resource to capital (£6.6M)
- Due to movements in property indices the revaluation and depreciation charges associated with the valuation of the Parliamentary Estate were lower than anticipated (£5.5M)
- Fewer sitting days than budgeted resulting in reimbursements to Members being less than expected (£0.9M)
- Delays in projects on the Parliamentary Estate and other lower than budgeted operational costs (£0.9M)

e. Management

Members of the House of Lords (except ministers, certain office holders and Lords of Appeal in Ordinary) do not receive a salary. They are entitled to recover travel and certain other expenses incurred in connection with their parliamentary duties. Members other than ministers and certain office holders are entitled to recover, up to a specified maximum, the cost of overnight

accommodation, subsistence and office costs certified by them as incurred for the purpose of their parliamentary duties at sittings of the House and its committees.

Three Members – the Lord Speaker, Chairman of Committees and Principal Deputy Chairman of Committees – are eligible for a salary paid from House of Lords’ funds. As at 31st March 2007 the annual eligible salaries for 2006-07 were as follows:

Lord Speaker	£103,701
Chairman of Committees (including £1,667 London Supplement)	£82,637
Principal Deputy Chairman of Committees (including £1,667 London Supplement)	£77,417

The salaries of the three Office Holders shown above are reviewed and adjusted annually in line with Senior Civil Service pay.

Prior to the appointment of the Lord Speaker, the Lord Chancellor, for that part attributable to his duties as Speaker of the House, was eligible for a salary paid from House of Lords’ funds. As at 1st April 2006 the annual eligible salary for the Lord Chancellor in relation to his duties as Speaker of the House was £30,242.

Details of the remuneration of the Management Board of the House of Lords are contained in the Remuneration Report.

f. Pensions

Present and past employees of the House of Lords are covered by the provisions of the House of Lords Staff Pension Scheme (HOLSPS). The scheme is an unfunded defined benefit scheme which is operated ‘by analogy’ with the Principal Civil Service Pension Scheme. The balance sheet includes a provision against which future pension benefits will be charged when paid. The annual accruing cost of benefits is charged to the operating cost statement (see notes 1.12 and 14).

Public Interest and Other

Equal Opportunities, Diversity and Disability

It is House of Lords policy that its staff shall have equality of opportunity for employment and advancement on the basis of their ability, qualifications and suitability for work. There must be no discrimination on grounds of gender, marital status, age, race, colour, disability, religious affiliation or sexual orientation. This policy is in line with Civil Service policy statements, United Kingdom legislation on equality of opportunity and equal pay, and European Union law. Equal opportunities and diversity training are compulsory for all staff and the Equal Opportunities and Diversity Officer is available to advise staff and managers on equal opportunities and diversity matters.

Payments to Suppliers

The House of Lords Administration is committed to the Better Payment Practice Code. The policy is that all bills should be paid in accordance with credit terms, or where no such terms exist, within 30 days of the receipt of the goods or services, or the presentation of a valid invoice, whichever is the later. Payments with regard to Works Services are made in the first instance by the House of Commons.

The calculation of payment performance for 2006-07 has been based on continuous monitoring of payments throughout the year and 98.4% of payments made by the House of Lords met the policy criteria.

Staff Issues

The Clerk of the Parliaments attaches importance to ensuring effective consultation and involvement of staff. Certain trade union organisations, and the House of Lords (Parliament Office) Staff Association, have been recognised by the House of Lords for the purposes of negotiating terms and conditions of service, and are represented on the House of Lords Whitley Committee. Additionally, staff involvement is encouraged as part of the day to day process of line management and staff are consulted as part of the annual business planning process.

Auditor

The Comptroller and Auditor General is the external auditor for the House of Lords. The notional audit fee for 2006-07 was £107,000 (2005-06 – £106,000). No further assurance or advisory services were provided by the auditors.

As far as the Accounting Officer is aware, there is no relevant information of which the external auditors are unaware, and the Accounting Officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information to establish that the external auditors are aware of that information.

Sir Paul Hayter, KCB LVO

Clerk of the Parliaments and Accounting Officer

20th July 2007

Statement of Accounting Officer's Responsibilities

The Government Resources and Accounts Act 2000 requires government departments to prepare Resource Accounts for each financial year detailing the resources acquired, held or disposed of during the year and the use of resources during the year. The House Committee accounts for the House of Lords' Estimate and has determined to apply by analogy the financial reporting provisions of the Act, as required for central government departments. It has delegated responsibility for the preparation of the Annual Accounts to the Clerk of the Parliaments, who is appointed by Her Majesty by Letters Patent and is ex-officio Accounting Officer for the House of Lords.

The resource accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the House of Lords, the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the financial year.

The Accounting Officer is responsible for preparing the House of Lords' accounts. In discharging these responsibilities the Accounting Officer complies with the House of Lords' Financial Reporting Manual, with reference to the *Financial Reporting Manual* issued by HM Treasury, and in particular to:

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

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

Statement on 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 Lords administration, whilst safeguarding the public funds and assets for which I am personally responsible.

Purpose of the System of Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify principal risks to the corporate objectives of the House of Lords Administration; to evaluate the likelihood and impact of those risks being realised; and to manage them efficiently, effectively and economically.

Capacity to Manage Risk

It is House of Lords policy to integrate risk management into all areas of business activity and to ensure that all significant business decisions are informed by appropriate consideration of the likely risk consequences. The risk management system supports this objective. The system is owned by the Management Board and is subject to scrutiny by the Audit Committee. At my request, Risk Management arrangements were reviewed during 2006-07. As a result of this exercise, the corporate risks have been redefined and certain improvements to the risk framework will be introduced during 2007-08.

Each of the corporate risks of the House of Lords Administration has a nominated risk owner on the Management Board. These officials are responsible for ensuring that the risks allocated to them are managed effectively in accordance with the Administration's risk strategy and are reported to the Board according to an established timetable. Although this timetable sets the frequency of risk reporting under normal operational circumstances, risk owners are expected to report immediately any material increase in the perceived level of exposure.

Heads of Offices have been provided with appropriate guidance material and support to allow them to assess risk within their own areas of responsibility. Each Office has been asked to identify key risks to the achievement of its strategic objectives. These risks are referred to in the business plans of each Office and are described in detail in Office risk registers.

The Risk and Control Framework

The Management Board, the Audit Committee and the House Committee have all contributed to the development of the risk and control framework. The Management Board has primary responsibility for development of the risk management policy, for setting the Administration's risk tolerance, and for developing appropriate and effective strategies for the management of corporate risks. The Audit Committee has responsibility for reviewing the Administration's approach to risk and for evaluating the efficacy of related managerial actions and decisions. The Audit Committee provides assurances on the effectiveness of risk management to me, as Accounting Officer, and to the House Committee via its annual report. The House Committee would also be informed of any significant change of policy in this area.

All House of Lords Offices are required to maintain separate risk registers and these are the primary means by which Heads of Offices report the management of risk. Each register requires an assessment of the extent to which corporate risks are being managed at Office level. For each risk detailed there is a numerical assessment of the level of exposure and an identified Office level risk owner. Heads of Offices are expected to submit updated risk registers on a quarterly basis. These are used to prepare risk reports for all corporate risk owners on the Management Board.

The responsibilities of all involved in the administration's risk management processes, including the monitoring role exercised by Internal Audit and the review role of the Business Planning Group, are included as an annex to the House of Lords risk strategy.

I consider that an effective system of risk management is now fully embedded in all major aspects of House of Lords administration. I believe it has introduced an appropriate and proportionate level of control to all operational activities for which I am responsible.

Internal Financial Control

The system of internal financial control is based on a framework of regular management information, administrative procedures including segregation of duties, and financial delegation and accountability. The system is subject to overall supervision by the House Committee. General development and maintenance of the system is undertaken by executive managers within the House of Lords, but is also influenced by accounting arrangements for services which are shared with the House of Commons.

All payments made by the House of Lords in respect of current and capital works services take the form of reimbursement to the House of Commons of expenditure incurred on behalf of the House of Lords. Although the House of Lords Internal Auditor includes the activities of the Parliamentary Works and Estates Directorates within his annual programme of work, he does not generally have direct access to certain financial operations undertaken by the House of Commons and subject to audit by the House of Commons Internal Review Service. Accordingly, I have received a statement of assurance from the Accounting Officer of the House of Commons regarding the adequacy of accounting procedures used to determine the level of expenditure charged to the House of Lords, and of the system for periodically reviewing such procedures.

The Accounting Officer of the House of Commons has also provided an assurance on the accuracy of various items of accounting information necessary for the preparation of the House of Lords Resource Account. This information relates principally to the valuation of parliamentary assets between the two Houses, and to the division of joint costs. It is, of necessity, prepared in the first instance by the House of Commons and subsequently incorporated into the House of Lords Resource Account. I am content to rely on the assurances I have received from the House of Commons.

The Palace of Westminster Special Services Agreement is a contract for the provision of security services to Parliament. It is a tripartite agreement between the House of Lords, the House of Commons and the Metropolitan Police Service. The recharging mechanism takes account of both direct and indirect costs and includes an apportionment of Metropolitan Police overheads which are inherently difficult for Lords finance staff to validate. Accordingly, I have sought, and have obtained, written assurance from the Metropolitan Police concerning the probity of these charges. I am content to rely upon this assurance.

A scheme for providing financial assistance to opposition parties - generally referred to as Cranborne Money - was introduced in 1996. Although funding for this scheme is subsumed within the House of Lords Request for Resources for which I am responsible, I have no direct control over the expenditure involved. Under the terms of the scheme, I rely upon professional audit certificates provided annually by each of the main opposition parties and by the Convenor of Cross-Bench Peers. I am content to rely upon these assurances.

Review of Effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control and for ensuring continuous improvement. A principal source of assurance is the Internal Audit section which operates to defined Government Internal Audit Standards. Based on review work delivered during 2006-07, the Head of Internal Audit has provided a substantial assurance on the House of Lords risk management, control and governance processes. The review of effectiveness is further informed by the work of executive managers within the House of Lords who have responsibility for the development and maintenance of the internal control framework, and by comments made by the external auditors. I am also guided by the views of the Audit Committee and the Management Board.

Sir Paul Hayter, KCB LVO

Clerk of the Parliaments and Accounting Officer

20th July 2007

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 Lords for the year ended 31 March 2007. 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 the House's Aim and Core Tasks and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Accounting Officer and auditor

The Accounting Officer is responsible for preparing the Foreword and the financial statements in accordance with the House of Lords 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 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 whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the House of Lords Financial Reporting Manual. I report to you whether, in my opinion, information given in the Foreword is consistent with the financial statements. 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 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 remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the House of Lords' 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 statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the House's corporate governance procedures or its risk and control procedures.

As set out in the Statement on Internal Control, financial assistance to opposition parties is paid in accordance with resolutions of the House of Lords. These resolutions require each recipient party and the Convenor of Cross-Bench Peers to certify, through an external auditor, that expenditure has been incurred for parliamentary purposes. My audit of these amounts considers whether payments to recipients are in line with the resolutions, whether the House of Lords has 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 the unaudited part of the Remuneration Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Foreword and the unaudited part of the Remuneration Report. 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 opinions

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments 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 and the part of the Remuneration Report to be audited 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 which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions**Audit Opinion**

In my opinion:

- the financial statements give a true and fair view, in accordance with the House of Lords' Financial Reporting Manual of the state of the House's affairs as at 31 March 2007 and the net cash requirement, net resource outturn, resources applied to aim and core task, recognised gains and losses and cashflows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the House of Lords Financial Reporting Manual; and
- information given within the Foreword and the unaudited part of the Remuneration Report is consistent with the financial statements.

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.

John Bourn
Comptroller and Auditor General

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

23rd July 2007

Statement of Parliamentary Supply

Summary of Resource Outturn 2006-07

Request for Resources	Note	Estimate			2006-07 £000				2005-06 £000
		Gross Expenditure	A in A	Net Total	Gross Expenditure	A in A	Net Total	Net Total outturn compared with Estimate: saving/(excess)	Outturn
Members' expenses and administration etc.	2	119,817	(6,229)	113,588	105,925	(6,229)	99,696	13,892	106,382
Total resources	3	119,817	(6,229)	113,588	105,925	(6,229)	99,696	13,892	106,382
Non-operating cost A in A				-			-	-	-

Summary of net cash requirement 2006-07

Request for Resources	Note	2006-07 £000			2005-06 £000
		Estimate	Outturn	Net Total outturn compared with Estimate: saving/(excess)	Outturn
Net cash requirement	4	82,546	77,582	4,964	66,088

Summary of income payable to the Consolidated Fund.

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

Request for Resources	Note	Forecast 2006-07 £000			Outturn 2006-07 £000
		Income	Receipts	Income	Receipts
Total	5	-	-	1,074	<i>1,074</i>

Explanations of variances between Estimate and outturn are given in the Management Commentary.

The notes on pages 18 to 34 form part of the accounts

Operating Cost Statement

for the year ended 31 March 2007

	Note	2006-07 £000	2005-06 £000
Programme Costs			
Staff costs	6	19,651	16,547
Expenditure	7	86,274	95,201
Income	8	(7,303)	(5,366)
Totals		98,622	106,382
 Net Operating Cost	 3	 98,622	 106,382

Statement of Recognised Gains and Losses

for the year ended 31 March 2007

	Note	2006-07 £000	2005-06 £000
Actuarial loss and adjustments on pension commitments	14	(13,079)	(6,660)
Net gain on revaluation of tangible fixed assets	15,16a	15,940	12,592
Recognised gains and losses for the financial year		2,861	5,932

The notes on pages 18 to 34 form part of the accounts

Balance Sheet

as at 31 March 2007

	Note	2007 £000	2006 £000
Fixed assets:			
Tangible assets	9	555,384	537,855
Intangible assets	10	913	1,072
Current assets:			
Stocks		214	185
Debtors	11	1,468	2,988
Cash at bank and in hand	12	1,310	772
		<hr/> 2,992	<hr/> 3,945
Creditors (amounts falling due within one year)	13	(4,971)	(5,214)
Net current assets		<hr/> (1,979)	<hr/> (1,269)
Total assets less current liabilities		554,318	537,658
Provisions for liabilities and charges	14	(78,535)	(59,670)
		<hr/> 475,783	<hr/> 477,988
Taxpayers' equity:			
General fund	15	249,176	275,740
Revaluation reserve	16a	226,390	202,031
Donated asset reserve	16b	217	217
		<hr/> 475,783	<hr/> 477,988

Sir Paul Hayter, KCB LVO
Clerk of the Parliaments and Accounting Officer

20th July 2007

The notes on pages 18 to 34 form part of the accounts

Cash Flow Statement**for year ended 31 March 2007**

	Note	2006-07 £000	2005-06 £000
Net cash outflow from operating activities	17a	(69,135)	(62,291)
Capital expenditure and financial investment	17b	(8,447)	(3,797)
Receipts due to the Consolidated Fund which are outside the scope of the House's activities		1,074	1,604
Payments of amounts due to the Consolidated Fund		-	(1,604)
Financing	17c	77,046	65,033
Increase/(Decrease) in cash in the period	17d	538	(1,055)

The notes on pages 18 to 34 form part of the accounts

Statement of Operating Costs by Aim and Core Tasks

for the year ended 31 March 2007

Aim: To enable the House and its Members to carry out its parliamentary and judicial functions fully and effectively.

	2006-07			2005-06		
	Gross	Income	Net	Gross	Income	Net
Core task 1	26,426	(1,375)	25,051	14,904	(873)	14,031
Core task 2	38,535	(3,667)	34,868	46,241	(2,605)	43,636
Core task 3	4,421	(538)	3,883	4,178	(413)	3,765
Core task 4	36,543	(1,723)	34,820	46,425	(1,475)	44,950
Net operating costs	105,925	(7,303)	98,622	111,748	(5,366)	106,382

The House of Lords' objectives were as follows:

- Core task 1 To meet the needs of the House and its committees.
- Core task 2 To meet the parliamentary and judicial needs of individual Members regardless of party or office.
- Core task 3 To make the House and its work accessible to the public.
- Core task 4 To maintain the heritage and integrity of the House's buildings and collections.

See Note 18

Notes to the resource accounts

1. Statement of accounting policies

The financial statements have been prepared with reference to the *Financial Reporting Manual (FRM)* issued by HM Treasury. The accounting policies contained in the *FRM* follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector, and 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, the Manual also requires the House to prepare two additional primary statements. 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 Operating Costs by Aim and Core Tasks* and supporting notes analyse the income and expenditure by the objectives of the House of Lords Administration.

The Palace of Westminster is a Royal Palace and is under the joint stewardship of the House of Lords and the House of Commons. Responsibility for maintenance of the Palace and the Parliamentary Estate is a function resting with the Parliamentary Estates Directorate and the Parliamentary Works Services Directorate within the Serjeant at Arms' Department in the House of Commons. Expenditure on the Palace and the Parliamentary Estate is apportioned in a 40:60 ratio (Lords:Commons), or solely allocated to the House of Lords or the House of Commons where appropriate. Expenditure is made on behalf of the House of Lords by the Department of Finance and Administration in the House of Commons. Expenditure is then recharged to the House of Lords over the course of the year.

The Parliamentary Archives is a shared facility with relevant costs split in a 60:40 ratio between the House of Lords and the House of Commons.

Security costs are arranged and monitored jointly but are billed separately to the two Houses by the Metropolitan Police, apportioned in 31:69 ratio (Lords:Commons). Additionally, the two Houses incur administration costs on each other's behalf. These are recharged over the course of the year, on the basis of agreed proportions.

1.1 Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of fixed assets and stocks, where material, at their value to the House of Lords by reference to their current costs.

1.2 Basis of consolidation

These accounts comprise a consolidation of the House of Lords Members' expenses and administration costs, the transactions of the House of Lords Refreshment Department, and the House of Lords Works of Art Collection Fund.

1.3 Fixed Assets

The minimum level for the capitalisation of both tangible and intangible fixed assets is £1,000.

i. Land and Buildings

Land and buildings shown in the accounts are as follows:

- a. property on the Parliamentary Estate administered by the House of Lords;
- b. property on the Parliamentary Estate administered by the House of Lords and House of Commons jointly.

The Parliamentary Estate is subject to a full revaluation every 5 years and an interim review every 3 years. The valuations are undertaken by the district valuers of the Valuation Office Agency (VOA) in accordance with Financial Reporting Standard (FRS) 15 and the Appraisal and Valuation Manual of the Royal Institute of Chartered Surveyors (RICS), and are subject to instructions issued by the House of Commons. In the intermediate years the Palace of Westminster is revalued using appropriate indices based on the RICS 'Tender Price Index'. The remainder of the Parliamentary Estate is revalued using appropriate indices from HM Treasury.

Properties regarded by the House of Lords as operational are valued on the basis of Existing Use Value or, where this could not be assessed because there was no market for the subject asset, on a Depreciated Replacement Cost Value (DRC) basis.

Notes to the resource accounts - continued

ii. Antique Furniture

The antique furniture was previously valued at 31st March 1998. Each year the Furniture Manager in the Parliamentary Works Services Directorate carries out an internal review to assess if any revaluation adjustment is required. During 2006-07 the furniture was valued by H Blairman & Sons who gave an indicative valuation for purposes of insurance which is the value used at 31st March 2007. Due to the nature and length of ownership of the antique furniture, the valuation adjustment passed through the revaluation reserve and the general fund, rather than the operating cost statement. The adjustment is included in the Statement of Recognised Gains and Losses

iii. Plant and Machinery

Plant and Machinery comprises the clock mechanism in the Clock Tower, popularly known as 'Big Ben'.

iv. Other Tangible Assets

Other tangible assets have been stated at current cost using appropriate indices where appropriate. For 2006-07 other tangible assets were not subject to revaluation as the modified costs were not material.

v. Assets in the Course of Construction

Assets in the course of construction have been capitalised at cost.

vi. Intangible Fixed Assets

Intangible fixed assets relate to development costs and licences to use software developed by third parties, which are valued at cost.

1.4 Non-Operational Heritage Assets

The House of Lords has the following categories of non-operational heritage assets – the Works of Art Collection, the Parliamentary Archives, early printed books and Members' Robes. Of these, only the value of the Members' Robes is included in the balance sheet. The others are not capitalised, being defined as collections in existence at 31st March 2000 according to the FReM. Additions since 1st April 2000 are valued at cost.

i. Works of Art Collection

Parliament has collected Works of Art since 1841, depicting parliamentary institutions and statesmen and stateswomen. The collection originally consisted of works of art commissioned by the Fine Arts Commission, with the purpose of bringing the history of the nation to life on the walls of the interiors of the Houses of Parliament. Many of the works added later were acquired as donations from Members of both Houses. Until 1991 the collection was held jointly by both Houses of Parliament; at that date the works were nominally split between the two Houses on the basis of where works were situated at that date. However, this split did not necessarily reflect actual ownership at the date of acquisition, or the locations for which the works were originally commissioned or intended. The total size of the collection is disclosed in a footnote to note 9.

Details of the House of Lords Works of Art Collection Fund are contained in note 27.

ii. The Parliamentary Archives

The Parliamentary Archives comprise several million documents that have been preserved at the Palace of Westminster from 1497 in a variety of formats, from vellum and parchment to modern computer disk. Parliamentary records prior to 1497 form part of The National Archives. The records are predominantly unique and irreplaceable and have been preserved for their historical, legal and administrative value. The Record Office was established in the House of Lords in 1946, became a shared facility with the House of Commons in 1999 and was renamed the Parliamentary Archives in 2006. The Parliamentary Archives publishes an Annual Report which is available via www.parliament.uk.

iii. Early Printed Books

The House of Lords Library holds a collection of early printed books, which dates back to the fifteenth century.

Notes to the resource accounts - *continued*

iv. Members' Robes

The House of Lords holds robes which are lent to Members for ceremonial use on State occasions. These were donated or bequeathed to the House by former Members, are secured within the Palace and cleaned and repaired as necessary. The Donated Assets reserve is comprised of these robes which, due to their long life, are not depreciated.

1.5 Depreciation and Amortisation

Depreciation and amortisation is provided at rates calculated to write off the valuation of freehold buildings and other fixed assets over their estimated useful lives. Depreciation is not charged on freehold or leasehold land, nor on the Great Clock or antique furniture, where, in accordance with FRS 15, the long remaining life or high residual value of the assets makes such a charge immaterial. Lives are normally in the following ranges:

Palace of Westminster	87 years
Other buildings	remaining life (between 23-36 years)
Fixtures and fittings	10 years
Refreshment Department silverware	20 years
Broadcasting equipment	10 years
Telephone equipment	5-10 years
General office equipment	5-10 years
Computer file servers and software	3-5 years
Other IT equipment	3-4 years

Non-operational heritage assets are not depreciated as the long economic life or high residual value makes any such charge immaterial.

1.6 Stock and work in progress

Stock includes goods for resale and other stock held by the Refreshment Department. Finished goods for resale are valued at cost or, where materially different, current replacement cost and at net realisable value only when they either cannot or will not be used.

1.7 Research and Development

Any expenditure on research and development is treated as an operating cost in the year in which it is incurred.

1.8 Income

Income relates directly to the operating activities of the House of Lords. It includes receipts from fees from Judicial proceedings and taxation of costs, Private Bill proceedings, and reproduction of parliamentary archives, receipts in connection with the provision of catering facilities, rental income, staff pension contributions and other pension receipts. It includes not only income appropriated in aid of the Estimate, but may include income to the Consolidated Fund, which is treated as operating income.

1.9 Administration and programme expenditure

The House of Lords is outside HM Treasury's administration costs control regime. To enable the House of Lords to produce the resource accounts with sufficient detail to provide a true and fair view of the state of its affairs, the requirements of the *Financial Reporting Manual* have been adapted. For reporting purposes, the same level of detail has been provided in the Accounts as a whole as would be necessary for a government department.

1.10 Capital charge

A charge, reflecting the cost of capital utilised by the House of Lords, is included in operating costs. The charge is calculated at the real rate set by HM Treasury, currently 3.5%, on the average carrying amount of all assets less liabilities, except for:

- donated assets and cash balances with the Office of the Paymaster General, where the charge is nil
- additions to heritage collections where the existing collection has not been capitalised

Notes to the resource accounts - *continued*

1.11 Foreign exchange

Transactions which are denominated in a foreign currency are translated into sterling at the exchange rate ruling on the date of each transaction.

1.12 Pensions

Present and past employees of the House of Lords are covered by the provisions of the House of Lords Staff Pension Scheme (HOLSPPS) described in note 6. The pension scheme is accounted for under the terms of *FRS 17 Retirement Benefits*. The annual accruing cost of providing for future benefits is charged to the operating cost statement and is based upon rates determined by the Government Actuary and advised by HM Treasury. These rates were in the range of 17.1-25.5% of pensionable pay. A provision to meet the liability is included on the balance sheet.

The HOLSPPS contains particular arrangements in respect of employees who retire early on medical or structural grounds. These costs are identified separately in the accounts where appropriate.

1.13 Leases

Operating lease rentals are charged to the operating cost statement over the lease term.

The House of Lords holds two properties on 999 year leases, which are capitalised and depreciated over the useful life of the buildings.

1.14 Grants payable

The House of Lords makes an annual grant to the History of Parliament Trust: 2006-07 £325,000 (2005-06 £288,640).

1.15 Third-party assets

The House of Lords Security Fund Account holds monies lodged as security on civil appeals to the House of Lords. The monies in the account are always repaid to one of the parties to the appeal, the House of Lords receiving no benefit. These are categorised as Third Party Assets and the information relating to the House of Lords Security Fund Account is contained in note 25. The Fund has not been included in the list of assets and liabilities on the balance sheet.

The House of Lords Refreshment Department receives and pays gratuities on behalf of its staff; for 2006-07 the amount paid was £295,000 (2005-06 – £249,000). The balance held at the end of the financial year was £44,700.

1.16 Contingent Liabilities

Potential contingent liabilities are reviewed each year and disclosed in a note to the accounts (see note 22).

In addition to contingent liabilities disclosed in accordance with FRS 12, the House discloses for parliamentary reporting and accountability purposes certain statutory and non-statutory contingent liabilities where the likelihood of a transfer of economic benefit is remote, but which have been reported to Parliament in accordance with the requirements of Government Accounting. Where the time value of money is material, contingent liabilities which are required to be disclosed under FRS12 are stated at discounted amounts and the amount reported to Parliament separately noted. Contingent liabilities that are not required to be disclosed by FRS 12 are stated in the amounts reported to Parliament.

1.17 Value Added Tax

Most of the activities of the House of Lords are outside the scope of VAT and, in general, 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. Where output tax is charged or input VAT is recoverable, the amounts are stated net of VAT.

Notes to the resource accounts - *continued***2. Analysis of net resource outturn by section**

						Outturn	2006-07 £000	2005-06 £000	
	Admin	Other current	Grants	Gross resource Expenditure	A in A	Net Total	Estimate	Prior- year outturn	
Request for resources 1: Members' expenses and administration, etc.							Net Total	Net Total	Estimate
Administration	-	55,780	4,937	60,717	(5,020)	55,697	61,242	(5,545)	49,292
Works Services	-	44,160	-	44,160	(1,209)	42,951	51,819	(8,868)	55,880
Administration (AME)	-	(2,241)	3,289	1,048	-	1,048	527	521	1,210
Total	-	97,699	8,226	105,925	(6,229)	99,696	113,588	(13,892)	106,382

Detailed explanations of the variances are given in the Management Commentary.

3. Reconciliation of net resource outturn to net operating cost

		2006-07 £000	Supply Estimate	Outturn compared with Estimate	2005-06 £000
Net Resource Outturn	Note 2	99,696	113,588	(13,892)	106,382
Non-supply income (CFERs)	Note 5	(1,074)	-	(1,074)	-
Net operating cost		98,622	113,588	(14,966)	106,382

4. Reconciliation of resources to cash requirement

	Note	Estimate £000	Outturn £000	Net total outturn compared with estimate: saving/(excess) £000
Resource Outturn	2	113,588	99,696	13,892
Capital				
Acquisition of fixed assets	9,10	12,865	8,447	4,418
Non operating A in A				
Proceeds of fixed asset disposals		-	-	
Accruals adjustments				
Non-cash items	7	(32,157)	(27,354)	(4,803)
Changes in working capital other than cash	17a	(1,604)	(710)	(894)
Use of provision	14	(3,508)	(2,497)	(1,011)
Adjustment to net cash requirement		(6,638)	-	(6,638)
Net cash requirement		82,546	77,582	4,964

Notes to the resource accounts - *continued***5. Reconciliation of income recorded within the Operating Cost Statement to operating income payable to the Consolidated Fund**

	Note	2006-07 £000	2005-06 £000
Operating Income	8	7,303	5,366
Income authorised to be appropriated-in-aid		(6,229)	(5,604)
Operating income payable to the Consolidated Fund		1,074	-

6. Staff numbers and related costs

Staff costs comprise:

	2006-07 £000	2005-06 £000
Wages and salaries	14,405	12,723
Social security costs	1,289	1,131
Other pension costs	4,717	3,065
Sub Total	20,411	16,919
Less recoveries in respect of outward secondments	(760)	(372)
Total net costs	19,651	16,547

The House of Lords Staff Pension Scheme (HOLSPS) is an unfunded defined benefit scheme which is operated 'by analogy' with the Principal Civil Service Pension Scheme. The House of Lords meets the costs of all benefits. A provision to meet the liability is included on the balance sheet. The HOLSPS is a 'by analogy' scheme with less than 1000 members. The Government Actuary's Department has devised a model to assist organisations with small 'by analogy' to the PCSPS schemes to value their liabilities. The amount in the financial statements has been calculated using this valuation method. The date of valuation is 31st March 2007.

For 2006-07, employers' contributions of £2,400,341 were accrued at rates in the range 17.1-25.5% of pensionable pay, based on salary bands. The rates are reviewed every four years by the Government Actuary and advised by the Treasury. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred.

Employees joining after 1st October 2002 can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £29,385 were paid to one or more of a panel of appointed stakeholder pension providers. Employer contributions are age-related and range from 3-12.5% of pensionable pay. Contributions due to the partnership pension providers at the balance sheet date were nil. Contributions prepaid at that date were nil.

The above amounts are only in respect of staff of the House of Lords. Other pension costs includes some costs of administering the House of Lords Staff Pension Scheme. By agreement between the House of Commons and the House of Lords, the whole of the pension provision for certain staff within shared services falls on the House by whom staff are formally employed, regardless of whether salary costs are shared.

Average number of persons employed

The average number of whole-time equivalent (WTE) persons (including senior management) employed during the year was as follows:

	2006-07	2005-06
House of Lords Administration	420	413

The above excludes certain shared services staff, whose salary costs are met in part by the House of Lords.

Notes to the resource accounts - *continued***7. Expenditure**

	Note	2006-07 £000	2005-06 £000
Rentals under operating leases		801	741
Non-cash items			
Depreciation	9	6,624	6,995
Amortisation	10	385	328
Loss on disposal of fixed assets		8	15
Loss on revaluation of fixed assets		-	13,474
Cost of Capital Charges		16,941	17,122
Auditors' remuneration and expenses		107	106
Interest cost on provisions	14	3,289	3,030
<i>Total non-cash items</i>		<i>27,354</i>	<i>41,070</i>
Members' Expenses		17,718	15,613
Security		9,313	9,112
Estates & Works expenditure		18,578	18,327
Other expenditure		12,510	10,338
Total		86,274	95,201

8. Income

	2006-07 £000	2005-06 £000
Refreshment Department sales	3,440	2,830
Pension contributions and transfers in	2,147	705
Judicial fees and taxation	445	570
Fees, charges and rental income	1,271	1,261
	7,303	5,366

The amount applied as appropriations in aid totalled £6,229,000. Pensions transfers in were higher than expected and the excess appropriations in aid are payable to the Consolidated Fund.

Notes to the resource accounts - *continued***9. Tangible fixed assets**

	Land & Buildings	Fixtures & Fittings	Information Technology	Plant & Machinery	Heritage Assets	Assets under Construction	Total
	£000	£000	£000	£000	£000	£000	£000
Cost or valuation							
At 1 st April 2006	905,960	1,317	6,241	1,293	19,036	557	934,404
Additions	4,780	65	707	-	34	2,635	8,221
Disposals	-	-	(358)	-	-	-	(358)
Reclassifications	-	-	-	-	-	-	-
Revaluations	50,882	-	-	-	(9,448)	-	41,434
At 31st March 2007	961,622	1,382	6,590	1,293	9,622	3,192	983,701
Depreciation							
At 1 st April 2006	391,573	597	4,379	-	-	-	396,550
Charged in year	5,735	123	766	-	-	-	6,624
Disposals	-	-	(350)	-	-	-	(350)
Reclassifications	-	-	-	-	-	-	-
Revaluations	25,495	-	-	-	-	-	25,495
At 31st March 2007	422,803	720	4,795	-	-	-	428,318
Net book value at 31st March 2007	538,819	662	1,795	1,293	9,622	3,192	555,384
Net book value at 31 st March 2006	514,387	720	1,862	1,293	19,036	557	537,855

Analysis of Land and Buildings

	Land		Buildings		Dwellings	Total
	Freehold	Long Leasehold	Freehold	Long Leasehold		
	£000	£000	£000	£000		
Cost or valuation						
At 1 st April 2006	71,268	22,120	774,857	36,234	1,481	905,960
Additions	-	-	4,220	560	-	4,780
Disposals	-	-	-	-	-	-
Reclassifications	-	-	-	-	-	-
Revaluations	6,347	209	43,911	334	82	50,882
At 31st March 2007	77,615	22,329	822,988	37,128	1,562	961,622
Depreciation						
At 1 st April 2006	-	-	389,402	2,133	38	391,573
Charged in year	-	-	4,741	956	38	5,735
Disposals	-	-	-	-	-	-
Reclassifications	-	-	-	-	-	-
Revaluations	-	-	25,494	-	1	25,495
At 31st March 2007	-	-	419,637	3,089	77	422,803
Net book value at 31st March 2007	77,615	22,329	403,351	34,039	1,485	538,819
Net book value at 31 st March 2006	71,268	22,120	385,455	34,101	1,443	514,387

Notes to the resource accounts - continued*Land and buildings*

The Parliamentary Estate was re-valued during 2005-06 by the Valuation Office Agency on the basis of Depreciated Replacement Cost. The valuation date was 31st March 2006 and has been revalued in 2006-07 using appropriate indices. The total value of the Palace as at 31st March 2007 was £1,194,571,000 (House of Lords share £477,828,400). The remainder of the Parliamentary Estate was re-valued using Existing Life Use.

Fixtures and Fittings

Fixtures & Fittings comprises all office and light equipment, including that of the Refreshment Department.

Plant and Machinery

The clock mechanism, popularly known as 'Big Ben', was last valued as at 31st March 2006. The total value was £3,234,000 (House of Lords share £1,293,000).

Works of Art

Works of Art acquired prior to 1st April 2000 are not included on the balance sheet. The collection held by Parliament, either solely or jointly with the House of Commons, prior to 1st April 2000 can be classified as;

<i>Purchased Works of Art numbering:</i>		<i>And Donated works of art numbering:</i>	
Paintings and Prints	4,796	Paintings and Prints	1,534
Busts	170	Busts and Statues	49
Medieval Statuary	6	Murals and mosaics	17
Murals and mosaics	122	Tapestries	1
Tapestries	9		

Additions purchased since 1st April 2000 are capitalised and included in Heritage Assets. The value of Works of Art as at 31st March 2007 was £354,000. Details of the Works of Art Collection Fund are in note 27.

10. Intangible fixed assets

The House's intangible fixed assets comprise purchased software licences and other software.

	2006-07	2005-06
	£000	£000
Cost or valuation		
At 1 st April	1,925	761
Additions	226	590
Reclassifications	-	592
Disposals	-	(18)
Revaluation	-	-
At 31st March	2,151	1,925
Amortisation		
At 1 st April	853	532
Charged in year	385	328
Disposals	-	(7)
Revaluation	-	-
At 31st March	1,238	853
Net book value at 31st March	913	1,072

Notes to the resource accounts - *continued***11. Debtors**

	2006-07	2005-06
	£000	£000
Amounts falling due within one year:		
Trade debtors	538	328
Deposits and advances	639	1,382
Prepayments and accrued income	291	1,278
	1,468	2,988

12. Cash at bank and in hand

	2006-07	2005-06
	£000	£000
Balance at 1 April	772	1,827
Net change in cash balances	538	(1,055)
Balance at 31 March	1,310	772

The following balances at 31 March were held at:

Office of HM Paymaster General	878	425
Commercial banks and cash in hand	432	347
Balance at 31 March	1,310	772

13. Creditors

	2006-07	2005-06
	£000	£000
Amounts falling due within one year		
Trade creditors	872	552
Other creditors	1,870	2,130
VAT	68	37
Accruals and deferred income	851	1,723
Amounts issued from the Consolidated Fund for supply but not spent at year end	236	772
Consolidated Fund extra receipts due to be paid to the Consolidated Fund	1,074	-
	4,971	5,214

Notes to the resource accounts - *continued***14. Provisions for liabilities and charges: pension liability**

The House of Lords Staff Pension Scheme is an unfunded defined benefit scheme 'by analogy' to the Principal Civil Service Pension Scheme. A full valuation was carried out by the Government Actuary's Department in accordance with the Financial Reporting Manual (FRM). The major assumptions used by the Actuary were:

Financial assumptions	31st March 2007	31st March 2006
	%	%
The inflation assumption	2.75	2.50
The rate of increase in salaries	4.30	4.00
The rate of increase for pensions in payment and deferred pensions	2.75	2.50
The rate used to discount scheme liabilities	4.60	5.40

Analysis of movement in scheme liability

	2006-07	2005-06
	£000	£000
Value of liabilities at 1 st April	59,670	55,780
Current service cost	2,906	2,724
Past service cost	-	-
Interest on scheme liability	3,289	3,030
Enhancements	-	-
Pension transfers in	1,747	281
Benefits payable	(2,087)	(2,236)
Pension payments to and on account of leavers	(69)	(139)
Actuarial (gain)/loss	13,079	230
Balance at 31st March	78,535	59,670

Analysis of benefits paid

	2006-07	2005-06
	£000	£000
Pensions to retired employees and dependants	1,889	1,831
Commutations and lump sum benefits on retirement	198	405
	2,087	2,236

Analysis of payments to and on account of leavers

	2006-07	2005-06
	£000	£000
Refunds to members leaving service	-	-
Group transfers to other schemes	-	-
Individual transfers to other schemes	69	139
	69	139

Analysis of actuarial gain/(loss)

	2006-07	2005-06
	£000	£000
Experience (gains)/losses arising on scheme liabilities	104	(69)
Changes in assumptions underlying the present value of the scheme liabilities	12,975	299
	13,079	230

History of experience gains and losses

	2006-07	2005-06
	£000	£000
Experience (gains)/losses on liabilities		
Amount	104	(69)
Percentage of the present value of the scheme liabilities	0.1%	0.1%
Total amount recognised		
Amount	13,079	230
Percentage of the present value of the scheme liabilities	16.7%	0.4%

Notes to the resource accounts - *continued***15. General Fund**

The General Fund represents the total assets less liabilities of the House, to the extent that the total is not represented by other reserves and financing items.

	2006-07	2005-06
	£000	£000
Balance at 1 April	275,740	305,439
Net Parliamentary Funding		
Drawn Down	77,046	65,033
Deemed	772	1,827
Year end adjustment		
Supply Creditor – current year	(236)	(772)
Net Transfer from Operating Activities		
Net Operating Cost (Schedule 2)	(98,622)	(106,382)
CFERS repayable to Consolidated Fund	(1,074)	-
Non Cash Charges		
Cost of Capital	16,941	17,122
Auditors' remuneration	107	106
Transfer from Revaluation Reserve	19	27
Pension scheme adjustments	(13,079)	(6,660)
Adjustment for antique furniture	(8,438)	-
Balance at 31 March	249,176	275,740

16. Reserves**16(a) Revaluation Reserve**

The revaluation reserve reflects the unrealised element of the cumulative balance of indexation and revaluation adjustments (excluding donated assets).

	2006-07	2005-06
	£000	£000
Balance at 1 April	202,031	189,466
Arising on revaluation during the year (net)	24,378	12,592
Transferred to general fund in respect of realised element of revaluation reserve	(19)	(27)
Balance at 31 March	226,390	202,031

16(b) Donated Asset Reserve

The donated asset reserve reflects the net book value of assets donated to the House of Lords

	2006-07	2005-06
	£000	£000
Balance at 1 April	217	217
Additions during the year	-	-
Balance at 31 March	217	217

Notes to the resource accounts - *continued***17. Notes to the Cash Flow Statement****17(a) Reconciliation of operating cost to operating cash flows**

	2006-07	2005-06
Note	£000	£000
Net operating cost	(98,622)	(106,382)
Adjustments for non-cash transactions	7	27,354
(Increase)/Decrease in Stock	(29)	14
Decrease/(Increase) in Debtors	11	1,520
Increase/(Decrease) in Creditors	13	(781)
<i>less movements in creditors relating to items not passing through the OCS</i>	(1,074)	-
Use of provisions	14	2,497
Net cash outflow from operating activities	(69,135)	(62,291)

17(b) Analysis of capital expenditure and financial investment

	2006-07	2005-06
Note	£000	£000
Tangible fixed asset additions	9	(8,221)
Intangible fixed asset additions	10	(226)
Proceeds of disposal of fixed assets	-	-
Net cash outflow from investing activities	(8,447)	(3,797)

17(c) Analysis of financing

	2006-07	2005-06
	£000	£000
From the Consolidated Fund (Supply) – current year	77,046	65,033
From the Consolidated Fund (Supply) – prior year	-	-
Net financing	77,046	65,033

17(d) Reconciliation of Net Cash Requirement to increase/(decrease) in cash

	2006-07	2005-06
	£000	£000
Net cash requirement	(77,582)	(66,088)
From the Consolidated Fund (Supply) – current year	77,046	65,033
From the Consolidated Fund Supply – prior year	-	-
Amounts due to the Consolidated Fund received and not paid	1,074	-
Increase/(Decrease) in cash	538	(1,055)

Notes to the resource accounts - continued**18. Note to the Statement of Operating Costs by Aim and Core Tasks**

The House of Lords capital is employed exclusively for House of Lords Administration purposes.

19. Capital commitments

	2006-07	2005-06
	£000	£000
Contracted capital commitments at 31 March 2007 for which no provision has been made:	1,581	1,053

The final payment regarding the purchase of the No1 Millbank site, amounting to £22,181,250 (plus VAT), is payable in September 2007.

20. Commitments under leases*Operating leases*

Commitments under operating leases to pay rentals during the year following the year of these accounts are given in the table below, analysed according to the period in which the lease expires.

	2006-07	2005-06
	£000	£000
Obligations under operating leases comprise:		
Land and buildings:		
Expiry within 1 year	-	-
Expiry after 1 year but not more than 5 years	112	112
Expiry thereafter	581	580
	693	692
Other:		
Expiry within one year	4	14
Expiry after 1 year but not more than 5 years	41	49
Expiry thereafter	-	-
	45	63

Finance Leases

The House of Lords holds properties on finance leases for which the annual commitment is £1.

21. Financial Instruments

FRS 13, *Derivatives and Other Financial Instruments*, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the largely non-trading nature of its activities and the way in which Parliament is financed, the House of Lords is not exposed to the degree of financial risk faced by other business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies. Financial assets and liabilities are generated by day to day operational activities and are not held to change the risks facing the House of Lords in undertaking its activities.

Notes to the resource accounts - continued*Liquidity Risk*

The House of Lords is financed by supply voted annually by Parliament for the House of Lords Members' expenses and administration etc. expenditure. As such it is not exposed to significant liquidity risks.

Interest rate risk

All of the House of Lords' financial assets and liabilities carry nil or fixed rates of interest. The House of Lords is not therefore exposed to significant interest rate risk.

Foreign currency risk

Foreign currency would not normally form part of the House of Lords' assets and liabilities, and as such it is not exposed to any significant foreign currency risks.

Fair Value

Fair value is not significantly different from book value since, in the calculation of the book value, the appropriate discount rate has been applied.

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

The House has entered into quantifiable contingent liabilities, relating to Works of Art on loan to the House of Lords, by offering guarantees, indemnities or by giving letters of comfort. These totalled £1,600,000 as at 31st March 2007 (31st March 2006 – £1,600,000). None of these is a contingent liability within the meaning of FRS 12 since the likelihood of a transfer of economic benefit in settlement is too remote.

23. Losses and Special Payments

No exceptional kinds of expenditure such as losses and special payments, that require separate disclosure because of their nature or amount, have been incurred (2005-06 – nil).

24. Related-party transactions

The House of Lords and the House of Commons share some buildings and services. These include the Palace of Westminster, the Parliamentary Estates Directorate, the Parliamentary Works Services Directorate, the Parliamentary Archives and the Parliamentary ICT Service.

These joint arrangements are charged between the two Houses on an agreed percentage basis of underlying costs for each service (certain accommodation and overhead costs are excluded). Each House includes their share of the relevant asset base and/or service cost in their Resource Accounts. The percentage for each House for the key areas is as follows:

Service	House of Lords	House of Commons
Accommodation and Works services	40%	60%
Communications services	20%	80%
Parliamentary archives	60%	40%
Visitor Tours	30%	70%
Broadcasting services	40%	60%

The House of Commons incurred expenditure of £32,393,000 on behalf of the House of Lords during 2006-07. The balance relating to accommodation, works and other shared services owed to the House of Lords by the House of Commons was £143,000.

The House of Lords incurred expenditure of £402,000 on behalf of the House of Commons during 2006-07. The balance owed to the House of Lords by the House of Commons was £36,000.

Notes to the resource accounts - continued**25. The House of Lords Security Fund Account**

In all civil cases where an Appeal lies to the House of Lords under the provisions of the Appellate Jurisdiction Act 1876, Appellants must provide security for the costs of such Appeals. The House of Lords Security Fund Account records the receipt, payment and disposition of the lodgements for each financial year. The sum to be lodged by the Appellants is authorised from time to time by the House Committee. The most recent revision was in October 2000 when it was increased from £18,000 to £25,000. No other receipts and payments are entered on the account; no interest is paid on the lodgements, nor are any fees deducted. Security Fund monies are payable to the relevant party, usually on issue of the Final Judgement or Taxation of the Bill of Costs.

	2006-07	2005-06
	£000	£000
Opening balance of Fund at 1 st April	1,713	1,753
Add: receipts – Lodgements by Appellants	450	775
Less: repayments to Appellants/Respondents	(443)	(815)
Closing balance of Fund at 31st March	1,720	1,713

The closing balance of £1,720,000 was made up of 1 Deposit of £12,000, 6 Deposits of £18,000 and 64 Deposits of £25,000.

26. House of Lords Refreshment Department Trading Activities

The House of Lords Refreshment Department provides a wide range of catering facilities to Members and House of Lords' staff. Members may sponsor private functions, and this type of service accounted for 54.45% of sales in 2006-07.

The Refreshment Department operates under a policy first agreed between the House of Lords and HM Treasury in 1981. In accordance with this policy, the department is required to trade on the basis of 50% gross profit on all turnover. Sales of tobacco, confectionery and goods to be consumed or used outside the department, together with the cost of services at functions, are excluded from the turnover figure against which gross profit is measured for the purpose of this target.

Total trading sales for 2006-07 amounted to £3,439,831. Gross profit on sales calculated according to the formula above was 67.6% and gross profit on all sales was £1,818,425.

Further performance targets for trading in individual outlets of the department have been agreed, and are reviewed annually, by the Refreshment Committee.

Notes to the resource accounts - *continued***27. The House of Lords Works of Art Collection Fund**

The Works of Art Collection Fund was established for the purpose of acquiring works of art for the House of Lords. Prior to 1st April 1992, it was funded by grant from the Department of the Environment. For the financial years 1992-93 and 1993-94, provision was made to meet expenditure from the House of Lords Works Services Vote. With effect from 1994-95 an annual grant is made to the Works of Art Collection Fund and unspent balances of up to a maximum of £80,000 may be carried forward. The annual grant was increased to £50,000 in April 2004. The Fund is regulated by a scheme of delegation agreed by the Works of Art Committee in October 2003.

	<u>2006-07</u>	<u>2005-06</u>
	£000	£000
Opening balance of Fund at 1 st April	38	12
Add receipts:		
Grant from RfR	50	50
Net interest received	1	1
	<u>89</u>	<u>63</u>
Less: Purchases during the year (see below)	30	25
		<u>25</u>
Closing Balance of Fund as at 31 st March	<u>59</u>	<u>38</u>

Purchases during the year (which are included within additions in fixed assets note 9):

Description	£
Portrait commission of Lord Falconer of Thoroton <i>Oil on canvas by Michael Taylor</i>	10,000
Portrait of Sir John Scott, 1 st Earl of Eldon <i>Oil on canvas by the studio of William Owen</i>	1,976
The Lord Chancellor's purse belonging to 1 st Earl of Eldon	10,497
Portrait of Charles Christopher Pepys, 1 st Earl of Cottenham <i>Oil on canvas by Henry Inman</i>	7,050
Total	29,523

28. Post Balance Sheet Event

The House of Lords' Resource Accounts were ordered to be printed on 23rd July 2007.

Remuneration Report 2006-07

The Clerk of the Parliaments, Sir Paul Hayter KCB LVO, is head of the permanent staff of the House of Lords. He is the Accounting Officer and, under the Parliamentary Corporate Bodies Act 1992, he is also the Corporate Officer of the House of Lords.

The Clerk of the Parliaments is supported by a Management Board, which he chairs. The membership of the Management Board is designed to reflect the wide range of services provided to the House and its Members. In 2006-07 its members were as follows:

- Michael Pownall - Clerk Assistant and Clerk of Legislation
- David Beamish - Reading Clerk
- Lieutenant-General Sir Michael Willcocks, KCB - Gentleman Usher of the Black Rod and Serjeant-at-Arms
- Rhodri Walters - Clerk of Committees
- Edward Ollard - Finance Director
- Philippa Tudor - Head of Human Resources
- Elizabeth Hallam Smith - Director of Information Services and Librarian

The Clerk of the Parliaments is appointed by the Crown and can be removed from office only by the Sovereign upon an address of the House of Lords for that purpose. The Clerk Assistant and the Reading Clerk are appointed by the Lord Speaker, subject to the approval of the House, and can be removed from office only by order of the House. The Gentleman Usher of the Black Rod is appointed formally by the Crown following a recruitment exercise conducted by the Clerk of the Parliaments. Black Rod also holds the office of Serjeant-at-Arms. All other staff are appointed and removable by the Clerk of the Parliaments as Corporate Officer of the House of Lords.

Remuneration policy

The salary of the Clerk of the Parliaments is linked to Judicial Salary Group 4. Pay for the Management Board members is in line with the pay bands used in the Senior Civil Service, and pay awards are performance-related. Pay awards are determined annually by reference to the Senior Salaries Review Body recommendations for the Senior Civil Service.

Salary and pension entitlements

The salary and benefits in kind of the Management Board were as follows:

	2006-07		2005-06	
	Salary £000	Benefits in kind (to nearest £100)	Salary £000	Benefits in kind (to nearest £100)
Sir Paul Hayter, KCB LVO <i>Clerk of the Parliaments</i>	155-160	-	155-160	-
Michael Pownall <i>Clerk Assistant</i>	115-120	-	110-115	-
David Beamish <i>Reading Clerk</i>	100-105	-	95-100	1,400
Lieutenant-General Sir Michael Willcocks, KCB <i>Gentleman Usher of the Black Rod</i>	85-90	see below	80-85	see below
Rhodri Walters <i>Clerk of Committees</i>	100-105	-	100-105	-
Edward Ollard <i>Finance Director</i>	80-85	-	75-80	-
Philippa Tudor <i>Head of Human Resources</i>	85-90	-	80-85	-
Elizabeth Hallam Smith <i>Director of Information Services and Librarian</i>	85-90	-	10-15 (85-90 full year equivalent)	-

Remuneration Report 2006-07 - continued*a. Salary*

'Salary' includes gross salary; performance pay or bonuses; overtime; reserved rights; recruitment and retention allowances and any other allowance to the extent that it is subject to UK taxation. The report is based on payments made by the House and thus recorded in these accounts.

b. Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by the Inland Revenue as taxable emolument. Black Rod occupies a Parliamentary Residence and for 2006-07 the taxable benefit for the residence was £4,737 (2005-06 - £4,284). In 2005-06 David Beamish received childcare vouchers.

Pensions

The pension benefits of the Management Board were as follows:

	Accrued pension and related lump sum at 31/3/07 £000	Real increase in pension and related lump sum at 31/3/07 £000	CETV at 31/3/07 £000	CETV at 31/3/06 £000	Real increase in CETV £000
Sir Paul Hayter, KCB LVO <i>Clerk of the Parliaments</i>	85-90 <i>Plus lump sum of 255-260</i>	(0-2.5) <i>Plus lump sum of (0-2.5)</i>	1,836 ¹	1,870 ¹	(18) ¹
Michael Pownall <i>Clerk Assistant</i>	50-55 <i>Plus lump sum of 150-155</i>	(0-2.5) <i>Plus lump sum of (0-2.5)</i>	1,143	1,108	(5)
David Beamish <i>Reading Clerk</i>	35-40 <i>Plus lump sum of 115-120</i>	(0-2.5) <i>Plus lump sum of (0-2.5)</i>	777	752	(2)
Lieutenant-General Sir Michael Willcocks, KCB <i>Gentleman Usher of the Black Rod</i>	5-10 <i>Plus lump sum of 15-20</i>	0-2.5 <i>Plus lump sum of 2.5-5</i>	137 ¹	118 ¹	18 ¹
Rhodri Walters <i>Clerk of Committees</i>	40-45 <i>Plus lump sum of 130-135</i>	0-2.5 <i>Plus lump sum of 2.5-5</i>	973	913	16
Edward Ollard <i>Finance Director</i>	20-25 <i>Plus lump sum of 65-70</i>	0-2.5 <i>Plus lump sum of 0-2.5</i>	362	353	2
Philippa Tudor <i>Head of Human Resources</i>	20-25 <i>Plus lump sum of 70-75</i>	0-2.5 <i>Plus lump sum of 0-2.5</i>	429	414	3
Elizabeth Hallam Smith <i>Director of Information Service and Librarian</i>	35-40 <i>Plus lump sum of N/A²</i>	(0-2.5) <i>Plus lump sum of N/A²</i>	736	4	(1)

¹ Notional figure used from CSP spreadsheet- member is over 60

² no automatic lump sum, member is in Premium Scheme

Pension benefits are provided through the House of Lords Staff Pension Scheme (HOLSPS). From 1st October 2002, staff may be in one of three statutory "final salary" defined benefit schemes (classic, premium or classic plus). The schemes are unfunded with the costs of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium and classic plus are increased annually in line with changes in the Retail Prices Index. New entrants after 1st October 2002 may choose between membership of premium or joining a "money purchase" stakeholder based arrangement with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium and classic plus. Benefits in classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). Classic plus is essentially a variation of premium, but with benefits in respect of service before 1st October 2002 calculated broadly as per classic.

Remuneration Report 2006-07 - continued

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a selection of approved products. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

Cash Equivalent Transfer Values

A cash equivalent transfer value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which the disclosure applies. The CETV figures, and from 2003-04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the HOLSPPS arrangements and for which the House of Lords has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Real increase in CETV

This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Sir Paul Hayter, KCB LVO

Clerk of the Parliaments and Accounting Officer

20th July 2007