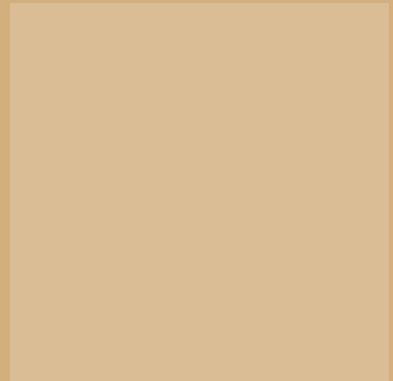
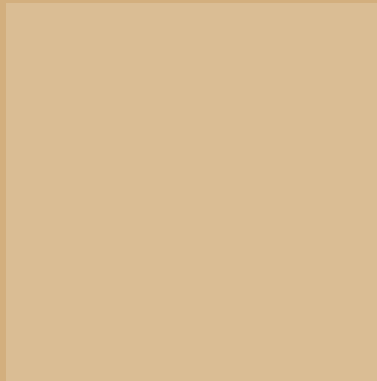


Resource Accounts 2004-05



HC 347



Resource Accounts 2004–05

(for the year ended 31 March 2005)

Office of the Parliamentary Commissioner for Administration and
Health Service Commissioner for England

Presented to Parliament pursuant to Section 10(4)
of the Parliamentary Commissioner Act 1967 and
Section 14(4) of the Health Service Commissioners Act 1993

Ordered by
The House of Commons

To be printed on
20 July 2005

HC 347
London: The Stationery Office
£10.50
Now available

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Annual Report to the Accounts for the year ended 31 March 2005

INTRODUCTION

The Parliamentary Commissioner for Administration (PCA), otherwise known as the Parliamentary Ombudsman, is an independent office-holder appointed by the Crown under the Parliamentary Commissioner Act 1967 to investigate complaints about government departments, their agencies and some other public bodies in the UK. The Parliamentary Ombudsman is wholly independent of Government.

The Parliamentary Ombudsman is also currently appointed as the Health Service Commissioner for England (HSCE), an independent office-holder appointed by the Crown under the Health Service Commissioners Act 1993. The HSCE, otherwise known as the Health Service Ombudsman, is responsible for investigating complaints against NHS services provided by hospitals, health authorities, trusts, GPs, dentists, pharmacists, opticians and other health care practitioners. The Health Service Ombudsman can also investigate complaints against private health providers if the treatment was funded by the NHS.

The Office of the Parliamentary Commissioner for Administration and Health Service Commissioner for England, now known generally as the Office of the Parliamentary and Health Service Ombudsman (PHSO), exists to support the work of the Ombudsman. These accounts cover the resources and activities of this Office. As at 31 March 2005 the Office employed an average of 258 full time equivalent staff based in London.

At the start of the financial year the Parliamentary and Health Service Ombudsman also held the post of the Welsh Administration Ombudsman, and investigated complaints against those bodies funded by the Welsh Assembly. Responsibility for the investigation of complaints against Welsh Assembly bodies transferred to the Public Service Ombudsman for Wales (designate) on 4 November 2004.

AIMS AND OBJECTIVES

The role of the Office is to provide a service to the public by undertaking independent investigations into complaints that government departments, their agencies and some other public bodies in the UK, and the National Health Service in England, have not acted properly or fairly, or have provided a poor service.

Our vision is to:

- make our service available to all who need it;
- operate open, transparent, fair, customer-focused processes;
- understand complaints and investigate them thoroughly, quickly and impartially, and secure appropriate outcomes; and
- share learning to promote improvement in public services.

During the financial year the Office had five strategic aims:

- to develop clear, published standards for our work, which are tailored to the needs of complainants;
- to develop and implement a modern and effective complaints handling process and case management system focused on the needs of our customers and stakeholders;
- to ensure that our processes provide assurance, both internally and to our customers, that our judgements are sound, impartial and consistent;
- to provide a more joined-up service which meets the needs of our current and potential customers, whose concerns can extend over a number of bodies and across jurisdictional boundaries, for example through developing joint investigations with the Commission for Local Administration in England (the Local Government Ombudsman); and
- to set new, more transparent targets for dealing with our core complaints work, and ensure that feedback from customers on our performance is embedded in our redesigned complaints handling process.

MAIN ACTIVITIES

The principal activities of the Office covered by these accounts were:

- investigation of complaints from members of the public, referred to the Parliamentary Ombudsman by Members of the House of Commons about:
 - maladministration in government departments, their agencies and some other public bodies in the UK;
 - refusal of access to information, in contravention of the Code of Practice on Access to Government Information (known as AOI cases);
- investigation of complaints against NHS services provided by hospitals, health authorities, trusts, GPs, dentists, pharmacists, opticians and other health care practitioners.

These activities flow from the statutory functions and obligations of the Parliamentary and Health Service Ombudsman. A small amount of income is derived from recharging services provided to the Scottish and Welsh Ombudsman's Offices and to the Commission for Local Administration in England.

OPERATING AND FINANCIAL REVIEW FOR 2004–05

The achievements of the past year are set out in the Parliamentary and Health Service Ombudsman's combined statutory annual report for 2004–05, which will be laid before Parliament. The report will be available from the Stationery Office or by downloading from the Office's website (www.ombudsman.org.uk).

The Office's operational activity during 2004–05 was as follows¹:

- new investigable complaints received totalled 4,189, a 30% increase on the 2003–04 total of 3,201;
- decisions were issued on 2,886 complaints, compared to the 2003–04 total of 2,895;
- 11,689 enquiries and requests for information were received, compared to the 2003–04 total of 15,515—all answered within the target response times published in the 2004–05 Business Plan;
- a consultation exercise was conducted to determine whether there should be a further investigation of the prudential regulation of Equitable Life, which included responses by 1,603 members of the public, 21 interested parties, and 211 MPs—as a result of the consultation, the Ombudsman decided to conduct a further investigation;
- responsibility for the investigation of complaints regarding organisations funded by the National Assembly was transferred to the new Welsh Administration Ombudsman (designate);
- the Code of Practice on Access to Government Information was superseded on 1 January 2005 by the new statutory regime of the Freedom of Information Act 2000, under which complaints are dealt with by the Information Commissioner—all complaints in hand at 31 December 2004 were reported on by 31 March 2005;
- reports to Parliament were published on: the need for a further investigation of the prudential regulation of Equitable Life; investigation of complaints regarding the Maxwell Communications Pension Plan; and reforming the NHS complaints procedure in England. A second report was published on NHS funding for long term care.

During 2003–04 the Office, in collaboration with the Commission for Local Administration in England, commissioned a public awareness survey. This was followed up by a more detailed Stakeholder Audit early in 2004–05. The results of those surveys have informed our activities during 2004–05. The following are the key activities we have undertaken this year in support of achieving our aim of providing a modern, accessible complaints service:

- devising and implementing a new business approach, with emphasis on improved communications with our customers and more efficient handling of complaints;
- implementation of our new workforce strategy, including: continuing our restructuring to one level of investigator; recruiting new investigators; and recruiting new 'Associate Investigators', who work on a self-employed basis and will help the Office respond flexibly to peaks and troughs in our workload;
- developing and successfully piloting a new case management information technology system, which was rolled out across the Office on 4 April 2005;

¹ The basis of calculation of operational output was revised during the year, and therefore the comparative figures shown will differ from those published in the 2003–04 Operating and Financial Review.

- piloting experimental teams, such as the Continuing Care Team, which have proved successful, and which will be carried forward into 2005–06;
- carrying out a significant upgrade of our information technology capabilities, and addressing the under-investment in the Office’s capital structure in previous years;
- developing and embedding our governance, risk management and internal control systems.

2005–06 will see our customers and stakeholders reaping the benefits of these major changes and developments in our working system.

In carrying out these activities, the Office used resources of £19.529 million. After taking account of £0.326 million income appropriated in aid, the Office’s net resource requirement in 2004–05 was £19.203 million. This represents an underspend of £0.891 million of the funds approved by Parliament in the Office’s Supply Estimates primarily due to:

- lower expenditure on the investigation of the prudential regulation of Equitable Life than was anticipated in the Winter Supplementary Estimate, due primarily to a change in the timetable for obtaining actuarial and other professional advice—these costs will now be incurred in the 2005–06 financial year; and
- savings in salary and staff costs arising from long lead times for recruitment, particularly of senior managers, and from higher than expected staff turnover.

The Office’s capital expenditure during the year was £2.160 million, an underspend of £0.190 million against the Estimate provision of £2.35 million. This was spent mainly on IT hardware and IT systems, in particular the Office’s new Case Management System, ‘VisualFiles’, developed to support the new business approach, which went fully live on 4 April 2005.

These figures do not include the salary cost of the Commissioner of £0.151 million, which is funded directly from the Consolidated Fund.

The Office’s net cash requirement of £19.764 million was £2.238 million below the Estimate approved by Parliament. This cash underspend was due primarily to:

- c£1.3 million from the overall level of underspending;
- c£0.7 million being cash payments in transit at the year-end;
- c£0.2 million in early retirement costs being provided rather than expended in the year; and
- c£0.5 million movements in non-cash working capital not anticipated when the requirement was established.

The Office’s balance sheet (Schedule 3) has a simple capital structure. Intangible assets consist only of software licences. These, together with the tangible fixed assets (i.e. IT hardware, office furniture and equipment and fittings) are held for operating purposes only. The Office holds no investments, and does not have any loans or significant or unusual liabilities that are not shown on the balance sheet or described in the notes to the accounts.

The general fund is in a negative position, partly reflecting the increase in provisions made by the Office and the impact of the rent free period granted against a major accommodation lease, where the Office is required, under accounting rules, to recognising the benefit of reduced rental

payments over the life of the lease rather than as a one-off saving taken in 2003–04. The negative general fund also reflects the low carrying value of the Office's tangible fixed assets, many of which have come to the end of their useful economic life and which will be replaced under a new investment strategy, to be implemented over the next three years.

Following the transfer of staff to the Public Service Ombudsman for Wales (designate), the salaries of those staff transferred have continued to be paid through the Office's payroll. The costs of these staff are not included in the Office's Estimate, as they are recovered directly from the Public Service Ombudsman for Wales (designate). During the year, the Public Service Ombudsman for Wales (designate) drew down funds from the Welsh Assembly to meet the costs of their payroll, direct costs and re-charges to the Office.

All material accounting policies adopted are as shown in Note 1 to the accounts. There have been no departures from the requirements of the Resource Accounting Manual.

THE FUTURE

The Office's Supply Estimate for 2005–06 provides for a gross requirement of £21.896 million, which after taking account of £0.329 million income leaves a net resource requirement of £21.567 million. A further £1.500 million has been provided for capital expenditure, with discussions ongoing about an additional £1.500 million to fund the Office's new capital investment strategy. Discussions are currently taking place with the Treasury to review the annual basis of the Office's funding, with a view to replacing it with three-year settlements to allow for improved certainty in financial planning.

The Office's strategy and plans for 2005–08 are set out in its Three Year Strategic Plan, and will be available on the Office's website (www.ombudsman.org.uk). The Office's two key aims for this period are:

- to deliver a high quality complaints handling service to customers; and
- to contribute to improvements in public service delivery by being an influential organisation, sharing our knowledge and expertise.

The Office's key priorities are:

- improving the quality and efficiency of our complaints handling service;
- developing the availability, accessibility and use of our service, reflecting and understanding the diversity of those who need it;
- developing our capability to share our knowledge and expertise internally and externally; and
- creating a dialogue with others to influence improvements in the delivery of public services.

Key factors affecting the work of the Office and its resource requirement during 2005–06 include:

- improving quality and efficiency—2003–04 and 2004–05 saw a high level of change within the organisation; the challenge during 2005–06 will be to ensure that those changes enable the Office to deliver a high quality complaints service to customers, while handling an increasing volume of complaints;

- key change areas—there is a need for continued development in key change areas, such as knowledge and information management, communications and diversity; and
- infrastructure—there is a need for further investment in the Office’s infrastructure services, to remedy previous under-investment, and to support the Office’s four key priorities over the coming years.

THE PARLIAMENTARY COMMISSIONER FOR ADMINISTRATION AND HEALTH SERVICE COMMISSIONER FOR ENGLAND

The Parliamentary Commissioner for Administration, known as the Parliamentary Ombudsman, is an independent office-holder appointed by the Crown under the Parliamentary Commissioner Act 1967. The Health Service Commissioner for England, known as the Health Service Ombudsman is an independent office-holder appointed by the Crown under the Health Service Commissioners Act 1993. During the year both posts were held by the same person, Ann Abraham. One salary is paid for both posts direct from the Consolidated Fund at the same salary as if she were employed in the Civil Service as a Permanent Secretary. In practice this is currently a salary directly equivalent to that of a High Court Judge, and is reviewed accordingly on 1 April each year.

Appointment to the office of Ombudsman is permanent. The appointee may be relieved of office by Her Majesty at her own request, or may be removed from office by Her Majesty in consequence of addresses from both Houses of Parliament, and shall in any case vacate office on completing the year of service in which she reaches 65 years of age.

ADVISORY BOARD

The Ombudsman is supported by an Advisory Board of which she is Chair, the other members of which during 2004–05 were:

Ms P Longdon	Deputy Ombudsman
Mr W Richardson	Deputy Chief Executive
Ms S Sleet	Director of Strategy & Communications (appointed 24 May 2004)
Mr A Redmond	External Member
Ms C Wells, OBE	External Member

The Deputy Ombudsman, Deputy Chief Executive and Director of Strategy and Communications were permanently appointed under fair and open competition. Termination of their contracts may be by the postholder giving the required period of notice; or through retirement at 60 years of age or other date as agreed with the Office. Ms Wells was appointed through fair and open competition. Mr Redmond, as Chair of the Commission for Local Administration in England (the Local Government Ombudsman) was appointed to the Board by the Ombudsman.

The remuneration for executive members of the Board is performance-based and is determined by a Pay Committee comprised of the Ombudsman and the two external Board members. The remuneration of Ms Wells is decided by the Ombudsman.

Mr Redmond is not remunerated. Further details about remuneration are disclosed in Note 3 to the accounts.

Ms Sleet left the Office on 28 April 2005. Philip Aylett was appointed Director of Communications on 6 June 2005. Peter Chivers was appointed Director of Strategy on 1 May 2005. Both appointments are on a fixed term basis.

AUDIT COMMITTEE

The Audit Committee is chaired by a non-executive, Mr Andrew Puddephatt OBE, and comprises two other non-executive members (Mr Tony Redmond and Mr Jeremy Kean, Finance and IT Director of the Financial Ombudsman Service) and the Ombudsman. The Committee meets at least four times a year and is tasked with supporting the Ombudsman (as Accounting Officer) and the Office's Board in monitoring the adequacy of the Office's corporate governance and internal control systems.

PENSION LIABILITIES

Past and present employees of the Office are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). The scheme is a defined benefit scheme and liability rests with the PCSPS, and not with the Office. Benefits are paid out of the Civil Superannuation Vote to which the Office makes contributions calculated to cover accruing pension entitlement for staff employed. Statements of account for the Scheme are provided by the Cabinet Office Civil Service Superannuation Resource Account, 2004–05.

During 2003–04 the Office detected significant issues with the quality of work carried out by the previous pensions administrator and management team. An independent review by pensions specialists Deloitte (Total Rewards & Benefits) Ltd was commissioned, followed by a programme of corrective action for errors discovered. Higher value cases were addressed first, and work on those cases was completed during 2004–05. All other cases have been reviewed and work is in hand to clear all remaining cases. New control systems, and a new contract with the Office's Approved Pensions Administration Centre, have been put in place. An internal audit report on the new systems was commissioned during 2004–05, and recommendations are being acted upon.

EARLY DEPARTURE COSTS

The Office meets the additional pension costs of any employees who retire before they reach normal pensionable age. The total pension liability up to the normal retiring age of such employees is charged to the account in the year in which the early retirement decision is made to create a provision for future pension payments.

Further details about pensions are disclosed within notes 3.A and 3.C to the accounts.

ACCOUNTING OFFICER

The Ombudsman is not subject to the Government Resources and Accounts Act 2000. As a result, the Treasury has no statutory authority to appoint the Ombudsman as Accounting Officer; nor is it able to issue directions to the Ombudsman on the production or laying of accounts, or on any

other matters covered by the Act. However, in order to recognise the Ombudsman's responsibility properly to account for the resources allocated to her, the Treasury and the Ombudsman have agreed administratively that the appointment as Ombudsman brings with it the duties of Accounting Officer as laid down in *Government Accounting*. Her responsibilities as Accounting Officer and for the Office's system of internal control are set out on pages 11 to 15.

Accounts produced by the Office are laid before Parliament using the Ombudsman's powers to lay reports under the Parliamentary Commissioner Act 1967 and the Health Service Commissioners Act 1993.

AUDITORS

The Comptroller and Auditor General is the auditor of the Office's accounts. As disclosed in Note 4, a notional cost of £50,000 was incurred on audit services provided by the Comptroller and Auditor General.

Internal audit services during 2004–05 were provided by Deloitte & Touche Public Sector Internal Audit Ltd.

PAYMENT OF SUPPLIERS

The Office is committed to compliance with the Late Payment of Commercial Debt Regulations 2002. The payment policy is to pay invoices in accordance with agreed contractual conditions or, where no such conditions exist, within 30 days of receipt of goods and services or the presentation of a valid invoice, whichever is the later. During 2004–05, 95% of invoices were paid in accordance with this policy (compared with 98.65% in 2003–04). This fall in performance was primarily due to significant staffing changes within the Finance function impacting on payment controls, an issue that has since been resolved with fourth quarter performance returning to 2003–04 levels.

POST BALANCE SHEET EVENTS

There have been no events since the Balance Sheet date that would impact upon the financial statements for the year ended March 2005.

EMPLOYMENT POLICY

The Office recruits on the principle of selection on merit through fair and open competition.

The Office is committed to the principle of equality of opportunity and values the diversity of its staff. The Office is committed to complying with all relevant statutory requirements, including the provisions of the Disability Discrimination Act 1995. In 2005–06, a Director of Diversity was appointed, to take forward the Office's commitment to diversity. A 'Diversity Partner' has also been appointed, to bring external scrutiny to the Office's practices and provide expert advice on improvements. Both the Diversity Director and the Diversity Partner will be looking at the Office's commitment to recognising and valuing diversity amongst the Office's stakeholders, as well as amongst its staff.

COMMUNICATIONS WITH STAFF

The Office regularly communicates and consults through Quarterly and Annual Whitley meetings, with the Office Trade Union Side (OTUS), which represents members of the Public and Commercial Services and First Division Association unions. Staff involvement is also actively encouraged as part of the day-to-day process of line management, and information about current and prospective developments is widely disseminated. Further communication takes place through the regular in-house newsletter, 'Inphomation'.

DIRECTORS' INTERESTS

None of the Board members held any company directorships or had any other interests during the year that may have conflicted with their management responsibilities.

Ann Abraham
Accounting Officer

24 June 2005

Statement of Accounting Officer's Responsibilities

1. The Office of the Parliamentary Commissioner for Administration and Health Service Commissioner for England (the Office) prepares resource accounts for each financial year. These are in compliance with the Resource Accounting Manual (as developed and maintained by the Treasury), detailing the resources acquired, held, or disposed of during the year and the use of resources by the Office during the year.
2. The resource accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Office, the net resource outturn, resources applied to objectives, recognised gains and losses, and cash flows for the financial year.
3. The appointment as the Parliamentary Commissioner for Administration and Health Service Commissioner for England carries with it the duties of Accounting Officer for the Office, with responsibility for preparing the Office's accounts and for transmitting them to the Comptroller and Auditor General.
4. In preparing the accounts, the Accounting Officer has complied with the *Resource Accounting Manual*, and in particular:
 - a observes the relevant accounting and disclosure requirements, and applies suitable accounting policies on a consistent basis;
 - b makes judgements and estimates on a reasonable basis;
 - c states whether applicable accounting standards, as set out in the *Resource Accounting Manual*, have been followed, and discloses and explains any material departures in the accounts; and
 - d prepares the accounts on a going-concern basis.
5. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable, for keeping proper records and for safeguarding the Office's 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 Office's purpose as defined in statute and its strategic plan, aims and objectives, whilst safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

THE 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 plans, 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 the principal risks to the achievement of the Office's plans, aims and objectives; to evaluate the nature and extent of those risks; the likelihood of them being realised; their impact should they be realised; and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Office for the year ended 31 March 2005 and up to the date of approval of the annual reports and accounts, and accords with Treasury guidance.

CAPACITY TO HANDLE RISK

The Office has a risk management framework in place, the aim of which is to ensure that:

- We have identified the key threats to achievement of our plans, aims and objectives; and
- Appropriate action is taken to manage and mitigate their impact.

I have personal statutory responsibility for investigations carried out by the Office, and as its Accounting Officer have ultimate responsibility for managing risk, and responsibility for approving major decisions, taking into account the Office's risk profile or exposure.

Senior members of the Office are personally responsible for the management of key risks. The Office has run workshops for senior managers and other staff on identifying and managing risks. Additional guidance is provided, as appropriate, on implementing risk management processes and in response to new risks.

The Office wishes to be innovative in a number of areas and is consequently prepared to accept higher levels of risk than in the past. However, by continually reviewing and monitoring the status of its risks, the Office will proactively manage them.

THE RISK AND CONTROL FRAMEWORK

To support me in ensuring the effective governance of PHSO, I have appointed a non-statutory Board of which I am Chair and Chief Executive in line with my statutory accountability. During 2004–05 it also comprised three executive officials (the Deputy Ombudsman, Deputy Chief Executive and Director of Strategy and Communications); and two external members who bring an external perspective to the Office’s work. All Board members are appointed through a process of fair and open competition.

The Board provides specific advice and support to me on:

- Purpose, vision and values;
- Strategic direction, planning, and risk management;
- Accountability to stakeholders, including stewardship of public funds;
- Internal control.

In addition, I have also set up an Executive Board, the members of which during 2004–05 were myself as Chair and Chief Executive, the Deputy Ombudsman, the Deputy Chief Executive and the Director of Strategy and Communications. It meets regularly and has responsibility for the delivery of the Office’s strategic vision, plans and services to the public and other stakeholders. It also provides a forum for discussion of the development and co-ordination of major work programmes and provides leadership to all staff working for the Office.

Executive Board members and I also meet formally with other senior managers to steer and lead on strategically important areas of work (e.g. as the Change Programme Board and Information Strategy Steering Group).

The risk management framework, approved by the Audit Committee and the Board in January 2004, sets out our risk policy, risk appetite and management approach. The framework is based around simple, non-bureaucratic processes reflecting best practice. The key aim is to encourage staff at all levels in a positive way, which supports effective delivery, innovation and improvement—within a systematic framework of analysis, evaluation and review. The framework is available to all staff on the PHSO intranet.

During 2004–05 the key strategic risks have been monitored by senior management, along with an assessment of impact and likelihood for each; and owners for each risk were assigned and actions agreed. Risk management is a standing item on the Board agenda, to review the status of the strategic risks, the assessment of the current controls and action to be taken and to consider what further action should be taken.

In addition to progress at the strategic level, work has also been done to:

- fully embed the risk management and review process within the business planning process, service delivery and project plans (including the establishment of subsidiary risk registers);
- build risk assessment into management reports, business cases and decision making processes; and

- construct, at an operational level, a Risk Register of the most sensitive/important cases to ensure that these can be monitored effectively at senior levels and are handled appropriately.

Risk owners have responsibility for:

- sponsoring good risk management practices within their areas of responsibility;
- keeping the controls, actions and deadlines to manage risks allocated to them up to date; and
- exception reporting to the Board when risks arising require immediate attention.

At an operational level, investigators assess the risk category of each case, and follow the corresponding governance arrangements for the selected category. A risk management strategy is developed for cases which are assessed as high risk. All risk assessments are documented on the Case Management System (VisualFiles). Risks are monitored by the Operations Management Team, chaired by the Deputy Ombudsman.

Current key risks are in the areas of:

- Reputation—We must maintain and protect our reputation for: independence; good judgement; competence; integrity; and fairness;
- Governance and leadership—We must ensure the effective operation of internal governance and internal controls; ensure clarity of vision and strategy; and encourage and develop dynamic leadership;
- Staffing—We must ensure that our staff have the competence and skills to deliver a high quality service, and that our staff view the Office as a high quality employer;
- Stakeholder awareness—We must ensure that our role and purpose is clear to our stakeholders, and public awareness of our activities supports that role;
- Stewardship of resources—We must ensure that arrangements are in place to allow me to meet my responsibilities as Accounting Officer;
- Infrastructure—We must ensure that the infrastructure supports our new business process, and enables us to respond quickly to changing stakeholder needs;
- Disaster—We must plan appropriately for any disasters, and have contingency arrangements in place;
- Overload—We must ensure that we have the capacity to investigate the increasing number of complaints we are receiving, and the flexibility to respond to increases in our workload arising from emerging issues, as for example with Continuing Care and Tax Credits;
- Customer and user satisfaction and the impact of our work—We must identify and manage customer and user expectations, and ensure that we communicate effectively and convince those we seek to influence;
- Impact and influence—We must communicate effectively with those we seek to influence, and maximise the impact of our work; and
- On-going change programme—We must monitor the impact of our on-going change programme on all the risks outlined above.

REVIEW OF EFFECTIVENESS

As Accounting Officer, I have the duty of reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and of the executive managers within the Office who have responsibility for the development and maintenance of the internal control framework, and by comments made by the external auditors in their management letter and other reports.

The Board has a sub-committee, the Audit Committee, comprising: an external Chair, two further external members and myself. The Audit Committee is responsible for providing advice and assurance on the adequacy and effectiveness of internal control and risk management. It also oversees internal and external audit arrangements, which cover all areas of the Office's work, including both financial and non-financial systems. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board and the Audit Committee, and plans to address weaknesses and ensure continuous improvement of the system are in place.

In order to enable continuous improvement, a review of internal control systems, focusing on financial management was undertaken by the Director of Finance during 2004–05. While the review noted significant improvements in financial management systems, a number of recommendations were made to further strengthen controls. For example, Stewardship Reports are being developed to enable managers to confirm to me that, to the best of their knowledge, risks for which they are the owner have been appropriately managed during the year. These will also identify, where a key risk has crystallised, details of how the risk was managed or what other actions were taken.

During the year, Internal Audit completed a full programme of audit work and appropriate action has been or is being taken on its recommendations. In their annual report, Internal Audit said that PHSO has ‘. . . an adequate and effective system of risk management, control and governance which provides reasonable assurance regarding the effective and efficient achievement of the organisation's objectives.’

Internal Audit's report on the Office's risk management arrangements completed in April 2005 gave a “substantial” level of assurance on the adequacy and effectiveness of the system of internal controls applied to Risk Management. There were two Priority One recommendations, both of which are being actioned, as part of a wider review in 2005–06 aimed at further improving our risk management arrangements. Further action on risk management and other governance issues will be supported in year by our Head of Secretariat and Governance.

Previous deficiencies, identified during 2003–04, in the procedures for pensions administration, have been addressed during 2004–05. However, during 2005–06 further weaknesses were identified in this area and in payroll processes. Immediate action has been taken to address the key issues involved and to put in place controls which will ensure that systems are operated effectively in the future.

There have been no other material internal control issues.

Ann Abraham
Accounting Officer

24 June 2005

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

I certify that I have audited the financial statements on pages 18 to 36. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 24 to 25.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 10, the Accounting Officer is responsible for the preparation of the financial statements and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the other contents of the Accounts. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with Treasury guidance, and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Annual Report is not consistent with the financial statements, if the Office of the Parliamentary Commissioner for Administration and the Health Service Commissioner for England has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I read the other information contained in the Accounts, 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.

I review whether the statement on pages 11 to 15 reflects the Office of the Parliamentary Commissioner for Administration and the Health Service Commissioner for England's compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Office of the Parliamentary Commissioner for Administration and the Health Service Commissioner for England's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards 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 Office of the Parliamentary Commissioner for Administration and the Health Service Commissioner for England in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Office of the Parliamentary Commissioner for Administration and the Health Service Commissioner for England'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 error, or by fraud or other irregularity and that, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I have also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Office of the Parliamentary Commissioner for Administration and the Health Service Commissioner for England at 31 March 2005 and of the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the year then ended, and have been properly prepared in accordance with Treasury guidance; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

4 July 2005

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

SCHEDULE 1

Summary of Resource Outturn
for the year ended 31 March 2005

	2004–05						2003–04	
	Estimate			Outturn			Net Total Outturn compared Estimate saving/ (excess)	Prior year outturn
	Gross expenditure 1	A-in-A 2	Net Total 3	Gross expenditure 4	A-in-A 5	Net Total 6		
	£000	£000	£000	£000	£000	£000	£000	
Request for resources	20,710	616	20,094	19,529	326	19,203	891	15,981
Total Resources	20,710	616	20,094	19,529	326	19,203	891	15,981
Non-operating cost A in A (Note 6)	—	—	—	—	—	—	—	—
Net Cash Requirement	—	—	22,002	—	—	19,764	2,238	14,474

Summary of income payable to the Consolidated Fund

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

	Note	2004–05 Forecast		2004–05 Outturn	
		Income	Receipts	Income	Receipts
		£000	£000	£000	£000
Total	5	—	—	43	40

Explanation of the variation between Estimate and outturn (net total resources):

- (i) Resource expenditure was lower than expected because:
 - (a) salary and staff costs were lower than expected, due to long lead times for recruitments, particularly of senior managers and higher than expected staff turnover;
 - (b) the investigation of the prudential regulation of Equitable Life used less resource than was anticipated in the Winter Supplementary Estimate; and
 - (c) contingency funds in respect of legal cases were unused.
- (ii) New provisions for early retirements, and the use of those provisions, were greater than Estimate, due to the higher than expected costs for individuals, although the total early retirement provision carried at the balance sheet date has decreased against the opening provision.
- (iii) Capital investment, although lower than Estimate, was significantly higher than in prior years, due to the replacement of written down fixed assets, and substantial investment in IT systems, particularly the Office's new Case Management System, 'VisualFiles'.

Explanation of the variation between Estimate net cash requirement and Outturn (net cash requirement):

- (i) Cash expenditure was lower than expected due to the lower than expected resource expenditure, as detailed above.
- (ii) There was a significant increase in net current liabilities in year.
- (iii) Some early retirement costs were provided for rather than expensed in year, due to later than expected finalisation of early retirement agreements.

Reconciliation of resources to cash requirement

	Note	Estimate £000	Outturn £000	Net total outturn compared to Estimate saving/ (excess) £000
Net total resources		20,094	19,203	891
Capital:				
Acquisition of fixed assets: Investments	8 & 9	2,350 —	2,163 —	187 —
Non-operating A in A				
Proceeds of fixed asset disposals		—	(3)	3
Accruals adjustments:				
Non-cash items	4	(948)	(1,630)	682
Changes in working capital other than cash	10	(20)	(947)	927
Changes in creditors falling due after more than one year	10	—	82	(82)
Use of provision	14	526	896	(370)
Net cash requirement (Schedule 4)		22,002	19,764	2,238

The notes on pages 24 to 36 form part of these financial statements

SCHEDULE 2

Operating Cost Statement
for the year ended 31 March 2005

		2004-05	2003-04
	Note	£000	£000
Administration costs:			
Staff costs	3	11,052	9,800
Non staff administration costs	4	8,628	7,431
Gross administration costs		19,680	17,231
Operating income	6	(366)	(1,117)
Net administration costs		19,314	16,114
Net operating cost	7	19,314	16,114
Net resource outturn	7	19,203	15,981

All income and expenditure are derived from continuing operations.

Statement of Recognised Gains and Losses
for the year ended 31 March 2005

	2004-05	2003-04
	£000	£000
Net (loss) gain on revaluation of tangible fixed assets	25	3
Total recognised gains and losses for the financial year	25	3

SCHEDULE 3

Balance Sheet
as at 31 March 2005

		2004-05		2003-04	
	Note	£000	£000	£000	£000
Fixed assets:					
Tangible assets	8		2,315		1,462
Intangible assets	9		659		8
			2,974		1,470
Current assets:					
Debtors	11	1,376		721	
Cash at bank and in hand	12	512		158	
		1,888		879	
Creditors (amounts falling due within one year)	13	(2,789)		(832)	
Net current assets			(901)		47
Total assets less current liabilities			2,073		1,517
Creditors (amounts falling due in more than one year)	13	(1,090)		(1,172)	
Provisions for liabilities and charges	14	(1,576)		(1,557)	
			(2,666)	(2,729)	
			(593)	(1,212)	
Taxpayers' equity					
General fund	15		(958)		(1,551)
Revaluation reserve	16		365		339
			(593)	(1,212)	

Ann Abraham
Accounting Officer

24 June 2005

SCHEDULE 4

Cash Flow Statement

for the year ended 31 March 2005

		2004-05	2003-04
	Note	£000	£000
Net cash outflow from operating activities (note i)		(17,715)	(14,238)
Capital expenditure and financial investment (note ii)		(2,160)	(306)
Payments of amounts due to the Consolidated Fund		(77)	(72)
Financing (note iii)		20,306	14,054
(Decrease)/Increase in cash		354	(562)
Note i: Reconciliation of operating cost to operating cash flows			
Net operating cost (Schedule 2)		19,314	16,114
Adjustments for non-cash transactions	4	(1,630)	(2,054)
Adjustments for movements in working capital other than cash	10	(947)	(402)
Adjustment for write-back of balance due to Consolidated Fund	11 & 13	—	18
Adjustments for creditors falling due after more than one year	10	82	(266)
Use of provisions	14	896	828
Net cash outflow from operating activities		17,715	14,238
Note ii: Analysis of capital expenditure and financial investment			
Tangible fixed asset additions	8	1,478	302
Intangible fixed asset additions	9	685	4
Proceeds on disposal of fixed assets		(3)	—
Net cash outflow from investing activities		2,160	306
Note iii: Analysis of financing and reconciliation to the net cash requirement			
From the Consolidated Fund (Supply) ¹		20,210	13,852
Cash drawn down on behalf of WAO and HSCW		(55)	55
Consolidated Fund Standing Services		151	147
Net Financing		20,306	14,054
(Increase)/Decrease in cash		(354)	562
Net cash flows other than financing		19,952	14,616
Adjustment for payments and receipts not related to Supply and transitional arrangements			
Consolidated Fund Extra Receipts received in the prior year paid over		(77)	(72)
Consolidated Fund Extra Receipts received in current year and not paid over		40	77
Consolidated Fund Standing Services		(151)	(147)
Net cash requirement (Schedule 1)		19,764	14,474

¹Amount of grant actually issued to support the net cash requirement = £22,002,000.00

²Amount of grant actually issued to support the prior year net cash requirement = £16,285,000.00

SCHEDULE 5

Resources by Departmental Aims and Objectives
for the year ended 31 March 2005

Aim:

To deal with all complaints referred to the Office impartially, objectively, effectively and expeditiously.

	2004–05			2003–04		
	Gross	Income	Net	Gross	Income	Net
	£000	£000	£000	£000	£000	£000
Objective 1: PCA To deal with all complaints referred to the Parliamentary Commissioner for Administration impartially, objectively, effectively and expeditiously.	8,240	(155)	8,085	7,508	(512)	6,996
Objective 2: HSCE To deal with all complaints referred to the Health Service Commissioner for England impartially, objectively, effectively and expeditiously.	11,440	(211)	11,229	9,723	(605)	9,118
Net operating costs	19,680	(366)	19,314	17,231	(1,117)	16,114

The Office's primary aim is to deal with all complaints referred to it impartially, objectively, effectively and expeditiously. For this reason the administration cost of the Office has been assigned to this aim. Costs relating specifically to PCA or HSCE are attributed directly to those areas. Administration and central services costs are apportioned to PCA and HSCE in accordance with the Office's management accounting procedures. The primary cost driver used for apportioning these indirect costs is personnel numbers.

Full descriptions of the PCA/HSCE's Strategic Aims are included in the Operating and Financial Review to these accounts.

NOTES TO THE ACCOUNTS—for the year ended 31 March 2005**1 Statement of Accounting Policies**

The financial statements have been prepared in accordance with the 2004–05 *Resource Accounting Manual (RAM)* issued by HM Treasury. The accounting policies contained in *RAM* follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. Where the *RAM* permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of the Office for the purpose of giving a true and fair view has been selected. The Office's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of fixed assets at their value to the business by reference to their current costs.

1.2 Tangible fixed assets

Tangible fixed assets have been stated at current cost using appropriate indices. Expenditure on tangible fixed assets of over £1,000 is capitalised. Assets costing less than £1,000 may be capitalised providing they are capital in nature and there are enough to be worth more than £1,000 in total. On initial recognition fixed assets are measured at cost including any costs, such as installation costs, that are directly attributable to bringing them into working condition for their intended use.

1.3 Depreciation

Tangible fixed assets are depreciated at rates calculated to write them down to estimated residual value on a straight-line basis over their estimated useful lives. Assets in the course of construction are depreciated from the point at which the asset is brought into use. Except where otherwise noted, asset lives are assumed to be the following:

Furniture and Fittings	10 years
IT Software and Equipment	3 to 5 years
Office Machinery	5 years
Refurbishment Costs	The lesser of 10 years or lease term
Search Engine	2 years

The useful economic life of office refurbishment is nominally the same as that for furniture and fittings. However, if refurbishment relates to a leased property its life will be the lesser of 10 years or the term remaining until the expiry of the lease.

1.4 Intangible fixed assets

Purchased computer software licences are capitalised as intangible fixed assets where expenditure of £1,000 or more is incurred. Except where reliable evidence of current value cannot be readily ascertained, these are restated to current value each year. Software licenses are amortised over the shorter of the term of the licence and the useful economic life.

1.5 Operating income

Operating income is income which relates directly to the operating activities of the Office. It principally comprises charges for services provided to the Scottish and Welsh Ombudsmen. It also includes miscellaneous monies received during the year. The Office has Parliamentary approval to treat only income from the Local Government, Scottish and Welsh Ombudsmen as Appropriations in Aid; all other income is recorded as Consolidated Fund Extra Receipts (CFERs) and paid to the Consolidated Fund in the succeeding year in accordance with normal practice.

1.6 Administration expenditure

The operating cost statement (Schedule 2) reflects only administration costs, as the Office does not incur programme expenditure. Administration costs reflect the costs of running the Office. These include both administrative costs and associated operating income. Income is analysed in the notes between that which, under the administrative cost-control regime, is allowed to be offset against gross administrative costs in determining the outturn against the administration cost limit, and that operating income which is not.

1.7 Capital charge

A charge, reflecting the cost of capital utilised by the Office, 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 cash balances held with the Paymaster General and CFER creditors, where the charge is nil.

1.8 Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) which is a defined benefit scheme and is unfunded and largely non-contributory. These provisions are described in note 3. The Office recognises the expected cost of providing pensions on a systematic and rational basis over the period during which it benefits from the employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS.

The Parliamentary Commissioner for Administration and Health Service Commissioner for England is a member of the PCSPS.

1.9 Provisions

The Office provides for legal or constructive obligations which are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the Treasury discount rate of 3.5% in real terms.

1.10 Contingent Liabilities

In addition to contingent liabilities disclosed in accordance with FRS 12, the Office discloses for parliamentary reporting and accountability purposes certain contingent liabilities where the likelihood of a transfer of economic benefit is remote. These comprise all items (which arise in the normal course of business) over £100,000 (or lower, where required by specific statute or where material in the context of resource accounts) which are required by the Resource Accounting Manual to be noted in the resource accounts.

1.11 Value Added Tax (VAT)

The Office prepares its accounts on a VAT-inclusive basis.

1.12 Early departure costs

The Office is required to meet the additional cost of benefits beyond the normal PCSPS benefits in respect of employees who retire early. The Office provides in full for the cost when the early retirement programme has been announced and is binding on the Office. The Office may, in certain circumstances, settle some or all of its liability in advance by making a payment to the Paymaster General's account at the Bank of England for the credit of the Civil Superannuation Vote. The amount provided is shown net of any such payments.

1.13 Operating leases

Lease rentals paid under operating leases are charged to the operating cost statement as the related benefit is incurred. In accordance with UITF Abstract 28—*Operating Lease Incentives*, all incentives for the agreement of a new or renewed operating lease are recognised as an integral part of the net payment agreed for the use of the leased asset, irrespective of the incentive's nature or form or timing of payments. There were no finance leases.

1.14 Financial instruments

Cash is the Office's only financial instrument.

2 Changes to estimation technique

2.1 Valuation of tangible and intangible fixed assets.

Balance sheet values for tangible and intangible fixed assets are based on a review of values as at the balance sheet date.

3 Staff numbers and costs

(A) Staff costs consist of:

	2004–05	2003–04
	£000	£000
Wages and salaries	9,152	8,027
Social security costs	571	530
Other pension costs	931	994
Sub Total	10,654	9,551
Inward Secondments	247	102
Total	10,901	9,653
Less recoveries in respect of outward secondments	—	—
Total Net Costs	10,901	9,653
Consolidated Fund Standing Services (See Note C below)	151	147
Total Payroll Costs	11,052	9,800

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme, but the Office is unable to identify its share of underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2004. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2004–05, employers' contributions of £943,575 were payable to the PCSPS (2003–04 £993,699) at rates in the range of 12 to 18.5% of pensionable pay, based on salary bands. Rates will remain the same next year, subject to revalorisation of the salary bands. Employer contribution rates are to be reviewed every four years following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and they reflect past experience of the scheme.

Employees joining after 1 October 2002 could opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer's contributions of £21,745 were paid to one or more of a panel of four appointed stakeholder pension providers. Employer contributions are age-related and range from 3 to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £3,199, 0.8% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

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

	2004–05				2003–04	
	No.				No.	
	Senior Management	Officials	Staff on Inward Secondment	Agency, temporary and contract staff	Total	Total
Parliamentary Commissioner for Administration	1	74	2	4	81	90
Health Service Commissioner for England	1	100	4	6	111	89
Corporate Resources Group	2	41	2	21	66	49
Total OPHSO staff	4	215	8	31	258	228

(C) The Offices of the Parliamentary Commissioner for Administration and Health Service Commissioner for England are held by the same person (the Commissioner). The Commissioner is appointed by HM The Queen, and is completely independent of the Government. The Commissioner's remuneration is met from the Consolidated Fund and is equivalent to that of a Group 4 High Court Judge. For the year ended 31 March 2005 the total amount paid for Commissioner's remuneration was £150,878 (£147,198 in 2003–04).

The salary and pension entitlements of the senior managers of the Office for the year ended 31 March 2005 were as follows:

Name and title	Age	Salary (as defined below)	Real increase in pension at 60	Total accrued pension 60 at 31 March 2005	CETV of pension at 31 March 2004	CETV of pension at 31 March 2005	Real increase in CETV as funded by employer
				£000	£000	£000	£000
Ann ABRAHAM <i>Ombudsman—met from Consolidated Fund</i>	52	150–155	0–2.5	35–40	555–560	610–615	15–20
Patricia LONGDON <i>Deputy Ombudsman</i>	53	95–100	40–45	40–45	10–15	635–640	(10–15)
William RICHARDSON <i>Deputy Chief Executive</i>	52	95–100	2.5–5	40–45	600–605	690–695	50–55
Sarah SLEET (from 24 May 2004) <i>Director of Strategy & Communications</i>	41	55–60	0–2.5	0–5	25–30	45–50	15–20

Celia Wells was a non-executive member of the Advisory Board. During 2004–05, she was paid a salary of £15,846, received no benefits in kind, and no pension entitlement.

Anthony Redmond was a non-executive member of the Advisory Board and the Audit Committee. During 2004–05, he received no remuneration.

Andrew Puddephatt was the non-executive chairman of the Audit Committee. During 2004–05, he was paid a salary of £10,672, received no benefits in kind, and no pension entitlement.

Jeremy Kean was a non-executive member of the Audit Committee. During 2004–05, he received no remuneration.

2003–04

Name and title	Age	Salary (as defined below)	Real increase in pension at 60	Total accrued pension 60 at 31 March 2004	CETV of pension at 31 March 2003	CETV of pension at 31 March 2004	Real increase in CETV as funded by employer
				£000	£000	£000	£000
Ann ABRAHAM* <i>Ombudsman—met from Consolidated Fund</i>	51	145–150	2.5–5.0	45–50	705–710	785–790	35–40
Patricia LONGDON (from 4 August 2003) <i>Deputy Ombudsman</i>	52	55–60	0.0–2.5	0–5	—	13	11
William RICHARDSON (from 21 July 2003) <i>Deputy Chief Executive</i>	51	60–65	0.0–2.5	30–35	484	520	16
John STEVENS (to 19 August 2003) <i>Principal Establishment & Finance Officer</i>	51	30–35	0.0–2.5	30–35	468	494	7
Alan WATSON (to 31 July 2003) <i>Deputy Commissioner PCA</i>	61	10–15	0.0–2.5	40–45	722	732	5

* uncapped salary used for calculation of pension entitlement

Salary

(i) "Salary" includes gross salary; performance pay or bonuses; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation. Benefits kind.

(ii) The monetary value of benefits in kind covers any benefits provided by the employer and treated by the Inland Revenue as a taxable emolument. None of the individuals above received benefits in kind.

Pension

(iii) Pension benefits are provided through the Civil Service pension arrangements. From 1 October 2002, civil servants may be in one of three statutory based final defined benefit schemes (classic, premium, and classic plus). The schemes are unfunded with the cost 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 1 October 2002 may choose between membership of premium or joining a good quality "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 1 October 2002 calculated broadly as classic. The partnership pension account is a stakeholder 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. 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).

Further details about the CSP arrangements can be found at the website www.civilservice-pensions.gov.uk

Cash Equivalent Transfer Values

(iv) 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 valued 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 to 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 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 CSP arrangement and for which the Civil Superannuation Vote 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.

Opening and closing CETV amounts are recalculated annually as part of the actuarial process, therefore 31 March closing balance in one year will vary from the opening 31 March balance in the following year.

4 Non-staff administration costs

	2004–05		2003–04
	£000	£000	£000
Rentals under operating leases:			
accommodation	2,617		2,744
other operating leases	38		45
		2,655	
Non-cash Items:			
depreciation and amortisation of fixed assets			
tangible fixed assets	575		573
intangible fixed assets	22		9
revaluation losses	61		28
loss on disposal of fixed assets	10		53
cost of capital charge	(20)		16
provisions			
provided in year	982		
unused provision reversed	(67)		(4)
future impairment of F&F (Note 8)	—		267
write-off of Case Management System (Notes 8 & 14)	—		126
auditor's remuneration and expenses	50		48
		1,613	
Other expenditure		4,360	3,526
		8,628	7,431

(i) Auditors have received no remuneration for non-audit work.

(ii) Accommodation cost, disclosed under rentals under operating leases, includes service charges which are integral to the lease and the cost of the building rates. The amounts disclosed at Note 19—Commitments under leases—against land and buildings however, only includes the cost of long-term rental contracts.

(iii) The total of non-cash transactions included in the Reconciliation of Resources to Net Cash Requirement in Schedule 1 and in the Reconciliation of Operating Costs to Operating Cashflows in Schedule 4 comprises:

	2004–05	2003–04
	£000	£000
Other administration costs—non-cash items (as above)	1,613	1,116
Non-Cash Use of Provision	17	—
Total non-cash transactions	1,630	1,116
(iv) Other expenditure comprises:		
Legal Services	414	323
Telephones	128	120
Accommodation Costs	586	132
Recruitment	633	358
Training	200	207
IT Maintenance	539	687
Publicity	123	130
External Professional Advisors	392	320
Associate Investigators	129	—
Consultancy	725	324
Travel & subsistence	167	127
Hospitality	36	23
Other	288	775
Total	4,360	3,526

5 Analysis of income payable to the Consolidated Fund

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

	Note	2004–05 Forecast		2004–05 Outturn	
		Income	Receipts	Income	Receipts
		£000	£000	£000	£000
Operating income and receipts—excess A in A	6	—	—	—	—
Non-operating income and receipts—excess A in A	6	—	—	—	—
Subtotal		—	—	—	—
Other operating income and receipts not classified as A in A	6	—	—	40	40
Other non-operating income and receipts not classified as A in A	6	—	—	3	—
Excess cash surrenderable to the Consolidated Fund	6	—	—	—	—
Total		—	—	43	40

6 Income and appropriations in aid

Operating income

Operating income not appropriated-in-aid (i.e. surrenderable to the Consolidated Fund) is analysed for resource budget purposes between that which is included in public expenditure and that which is not (see note 7). In 2004–05, all operating income not classified as A in A was within public expenditure.

2004–05			
Resource Outturn	Reconciliation to Operating Cost Statement		Operating Cost Statement
Appropriated in Aid	Netted off gross expenditure in sub-head	Payable to Consolidated Fund	Income
£000	£000	£000	£000
Operating income analysed by classification and activity is as follows:			
Recovery of direct and overhead costs from the Welsh Assembly for the Welsh Administration Ombudsman	55	—	55
Recovery of direct and overhead costs from the Welsh Assembly for the Health Service Commissioner for Water	194	—	194
Recovery of direct and overhead costs from the Scottish Public Services Ombudsman	17	—	17
Recovery of direct and overhead costs from the Commission for Local Administration in England	60	—	60
Other miscellaneous operating receipts	—	40	40
326	—	40	366

2003–04			
Resource Outturn	Reconciliation to Operating Cost Statement		Operating Cost Statement
Appropriated in Aid	Netted off gross expenditure in sub-head	Payable to Consolidated Fund	Income
£000	£000	£000	£000
Operating income analysed by classification and activity is as follows:			
Recovery of direct and overhead costs from the Welsh Assembly for the Welsh Administration Ombudsman	121	—	121
Recovery of direct and overhead costs from the Welsh Assembly for the Health Service Commissioner for Wales	455	—	455
Recovery of direct and overhead costs from the Scottish Public Services Ombudsman	469	—	469
Recovery of direct and overhead costs from the Commission for Local Administration in England	58	—	58
Other miscellaneous operating receipts	—	14	14
1,103	—	14	1,117

From 4 November 2004, responsibility as the Welsh Administration Ombudsman (WAO) transferred to a new, separate Welsh Commissioner, together with the staff and facilities based in Cardiff. Funding for the Welsh Administration Ombudsman was administered through this Office, with a segregation of balances as appropriate. Services provided by this Office in relation to the Welsh Administration Ombudsman were recharged at direct cost, and are classified as Appropriations-in-Aid within the Estimates and within these financial statements.

7 Reconciliation of net operating cost and net resource outturn

	2004–05	2003–04
	£000	£000
Net operating cost (Note a):	19,314	16,114
Remove non-supply expenditure (-) and income (+), including income scored as Consolidated Fund extra receipts (CFERs):		
Consolidated Fund standing services	(151)	(147)
Operating income not classified as A in A	40	14
Net resource outturn (Note a)	19,203	15,981

Note,

(a) Net operating cost is the total of expenditure and income appearing in the Operating Cost Statement (Schedule 2). Net resource outturn is the total of those elements of expenditure and income that are subject to parliamentary approval and included in the Office's Supply Estimate. The outturn against the Estimate is shown in the Summary of Resource Outturn (Schedule 1).

8 Tangible fixed assets

	Furniture and fittings	IT Equipment	Office machinery	Refurbishment	Assets Under Construction	Total
	£000	£000	£000	£000	£000	£000
Cost or valuation						
At 1 April 2004	1,734	851	65	2100	45	4,795
Additions	191	1,016	31	196	44	1,478
Disposals	(88)	(272)	(1)	—	—	(361)
Reclassifications	—	—	—	45	(45)	—
Revaluations	85	(80)	1	—	—	6
At 31 March 2005	1,922	1,515	96	2,341	44	5,918
Depreciation						
At 1 April 2004	1,132	642	53	1,506	—	3,333
Charged in the year	174	197	7	196	—	574
Disposals	(65)	(268)	(1)	—	—	(334)
Revaluations	60	(31)	1	—	—	30
Impairments	—	—	—	—	—	—
At 31 March 2005	1,301	540	60	1,702	—	3,603
NBV at 31 March 2005	621	975	36	639	44	2,315
NBV at 31 March 2004	602	209	12	594	45	1,462

Refurbishment

As part of joint working with the Commission for Local Administration in England (CLAE—see note 22), the Office has made a significant contribution towards the provision of catering and conference facilities on part of the 20th floor of Millbank Tower. While the primary refurbishment asset involved and responsibility for the accommodation lease for this part floor is held by CLAE, the parties have entered into an agreement to share costs on a 33% : 67% basis (CLAE : Office). The Office has therefore included an amount reflecting its share of the costs in fitting out this 20th floor occupation, within Refurbishment asset; this is being written off across 10 years in accordance with the Office's accounting policy for this class of asset. Should future circumstances require the CLAE to rescind the agreement and utilise the 20th floor for alternative purposes, the parties have agreed that the Office should be reimbursed for the balance of the net value of this refurbishment asset which remains at that effective date.

During the year, the Office continued to provide fixed assets for the Welsh Administration Ombudsman and the Health Service Commissioner for Wales, for which a charge—based on depreciation costs—has been levied. This continued to 31 December 2004 when the assets were fully depreciated.

Furniture and fittings, IT equipment and office machinery are recorded at their initial purchase price and revalued once a year at 31 March, using current cost indices.

Disposals

Disposals of a net book value of £24,000 were made during 2004–05, with income of £3,000 being received. The resource cost of these disposals is £10,000, as disclosed in Note 4. The loss of £11,000 on the remainder of the assets disposed of was provided for in 2003–04.

9 Intangible fixed assets

The Office's intangible fixed assets comprise purchased software licences.

	Purchased software licences
	£000
Cost or valuation	
At 1 April 2004	37
Additions	685
Disposals	—
Revaluations	(14)
At 31 March 2005	708
Amortisation	
At 1 April 2004	29
Charged in the year	22
Disposals	—
Revaluations	(2)
At 31 March 2005	49
NBV at 31 March 2005	659
NBV at 31 March 2004	8

10 Movements in working capital other than cash

	2004–05	2003–04
	£000	£000
Increase/(decrease) in debtors	655	47
Fixed Assets accrual	—	85
Assets under construction write-off	—	(519)
(Increase)/decrease in creditors falling due within one year (excluding sums due to Consolidated Fund)	(1,602)	(15)
Net movement in working capital other than cash—used in Cash Flow Statement (Schedule 4)	(947)	(402)
Adjustments: movement not related to net operating costs:		
Amount receivable that will be due to the Consolidated Fund when received (note 11)	—	81
Net movement in working capital other than cash—used in reconciliation of resources to cash requirement (Schedule 1)	(947)	(321)
(Increase)/decrease in creditors falling due in more than one year	82	(266)
Net movement in working capital other than cash	(865)	(587)

11 Debtors

	2004–05	2003–04
	£000	£000
Amounts falling due within one year:		
Deposits and advances	56	67
Trade debtors	238	12
Prepayments	1,082	642
	1,376	721

12 Cash at bank and in hand

	2004–05	2003–04
	£000	£000
Balance at 1 April 2004	158	720
Net change in cash balances:	354	(562)
Balance at 31 March 2005	512	158
The following balances at 31 March are held at:		
Office of HM Paymaster General	509	151
Cash in hand	3	7
Balance at 31 March 2005	512	158
The balance at 31 March comprises:		
Amounts issued from the Consolidated Fund for supply but not spent at year end	469	26
Extra receipts from the Welsh Assembly and due to be paid the Office of the Welsh Administration Ombudsman	—	17
Extra receipts from the Welsh Assembly and due to be paid the Office of the Health Service Commissioner for Wales	—	38
Consolidated Fund extra receipts received and due to be paid to the Consolidated Fund	43	77
	512	158

13 Creditors

	2004–05	2003–04
	£000	£000
Amounts falling due within one year:		
Sundry creditors	1,094	194
Taxation and Social Security Creditor	375	—
Rent Accrual	83	87
Accruals	725	394
Extra receipts from the Welsh Assembly and due to be paid to the Office of the Welsh Administration Ombudsman	—	17
Extra receipts from the Welsh Assembly and due to be paid to the Office of the Health Service Commissioner for Wales	—	38
Amounts issued from the Consolidated Fund for supply but not spent at year end	469	25
Consolidated Fund extra receipts received and due to be paid to the Consolidated Fund	43	77
Consolidated Fund extra receipts receivable and due to be paid to the Consolidated Fund	—	—
	2,789	832
Amounts falling due after more than one year:		
Rent Accrual	1,090	1,172
Total	3,879	2,004

Accrued rent: In September 2002, the Office completed negotiation of a fifteen-year lease extension to its lease of floors in Millbank Tower, London SW1. As part of this agreement the Office was granted a nine-month rent free period, commencing 16 September 2002. In accordance with UK GAAP and UITF Abstract 28—*Operating Lease Incentives*, the Office has spread the cost of the lease on an effective straight line basis from the start of the rent free period to the end of the extended lease on 24 December 2018. As a result, during the rent free period notional rent charges have been posted to the Operating Cost Statement, building up an accrued rent balance which will be released against future payments across the life of the lease.

During 2003–04 the Office drew down funding from the Welsh Assembly on behalf of the Welsh Administration Ombudsman (WAO) and The Health Service Commissioner for Wales (HSCW) in order to meet the cost of services provided for those offices. The prior year creditors shown above represent the surplus funds drawn down and cash owed to the offices of the WAO and HSCW at that time. The Office holds no funds for the WAO and HSCW as at 31 March 2005.

14 Provisions for liabilities and charges

	2004-05			2003-04	
	Early retirement and pension commitments	Legal claims	Other	Total	Total
	£000	£000	£000	£000	£000
Balance at 1 April 2004	1,224	—	333	1,557	1,059
Provided in the year	753	229	—	982	1,330
Provisions not required written back	(67)	—	—	(67)	(4)
Provisions utilised in the year	(852)	—	(44)	(896)	(828)
Unwinding of discount	—	—	—	—	—
Balance at 31 March 2005	1,058	229	289	1,576	1,557

Early retirement and pension commitments

The Office meets the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early by paying the required amounts annually to the PCSPS over the period between early departure and normal retirement date. The Office provides for this in full when the early retirement programme becomes binding on the Office by establishing a provision for the estimated payments discounted by the Treasury discount rate of 3.5% in real terms. In past years the Office paid in advance some of its liability for early retirement by making a payment to the Paymaster General's Account at the Bank of England for the credit of the CMI Service Superannuation Vote. The remaining balance is treated as a prepayment.

Legal Claims

The above liability is based on management's best estimate of amounts likely to be paid with respect to legal costs awarded against PHSO.

Other

I) As part of the significant change process being undertaken by the Office, it is planned to introduce new office layouts to support more effective ways of working and make better use of the accommodation available. Some changes took place during 2004-05, and further changes will take place during 2005-06. As a consequence a provision of £266,666.87 was made, in accordance with FRS12, for the future impairment of a significant number of the assets classified as fixtures and fittings. Of this, £18,000 was utilised in year.

II) As reported in the Operating and Financial Review, during 2003-04 OPHSO detected significant issues with the quality of work carried out by the previous pensions administrator and management team. An independent review of all current employees and leavers in 2003-04 (296 cases) discovered shortcomings in the previous pension administration work, identifying 115 cases requiring some corrective action, of which 65 could have possible financial implications. A provision of £65,000 was made in 2003-04 in relation to 21 cases recognised as having potential higher values. The final provision at 31 March 2005 includes liabilities in respect of these 21 cases, which will be met during 2005-06.

15 Reconciliation of net operating cost to changes in general fund

	2004-05		2003-04	
	£000	£000	£000	£000
Net operating cost for the year (Schedule 2)	(19,314)		(16,114)	
Income not appropriated in aid payable to Consolidated	(40)		(14)	
		(19,354)		(16,128)
Parliamentary funding				
Drawn down	20,210		13,852	
Deemed supply	25		648	
		20,235		14,500
Transferred from Consolidated Fund for Standing Services		151		147
Consolidated Fund creditor for cash unspent		(469)		(25)
Transferred to general fund of realised element of revaluation		1		—
Accounts Payable write-offs in respect of prior year		—		1
Non-cash charges:				
Cost of Capital	(21)		16	
Auditor's Remuneration	50		48	
		29		64
Net increase/(decrease) in general fund		593		(1,441)
General fund at 1 April 2004		(1,551)		(110)
General fund at 31 March 2005 (Schedule 3)		(958)		(1,551)

Going Concern

The balance sheet at 31 March 2005 shows negative Taxpayers Equity of £593,000 (£1,212,000 at 31 March 2004). This reflects the inclusion of liabilities falling due in future years which are to be financed by drawings from the UK Consolidated Fund. Such drawings will be from grants of Supply approved annually by Parliament, to meet the Office's Net Cash Requirement. Under the Government Resources and Accounts Act 2000, no money may be drawn from the Fund other than required for the service of the specified year or retained in excess of that need. All unspent moneys including those derived from the Office's income, are surrenderable to the Fund.

In common with government departments, the future financing of the Office's liabilities is accordingly to be met by future grants of Supply and the application of future income, both to be approved annually by Parliament. Such approval for amounts required for 2005–06 has already been given and there is no reason to believe that future approvals will not be forthcoming. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

16 Revaluation Reserve

	2004–05	2003–04
	£000	£000
Balance at 1 April 2004	339	340
Arising on revaluation during the year (net)	27	3
Realised element of revaluation reserve in respect of asset	(1)	(4)
Balance at 31 March 2005	365	339

The revaluation reserve reflects the unrealised element of the cumulative balance of indexation and revaluation adjustments.

17 Notes to Schedule 5

The Office's capital is employed exclusively for administration purposes. Its distribution amongst objectives is therefore not markedly different from the proportion of the related gross administration cost.

Administration costs and income have been attributed to objectives in accordance with the Office's management accounting practices.

18 Capital commitments

	2004–05	2003–04
	£000	£000
Contracted capital commitments at 31 March 2005 for which no provision has been made	—	97

19 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.

	2004–05	2003–04
	£000	£000
Obligations under operating leases comprise:		
Land and buildings		
Expiry within 1 year	372	9
Expiry within 2 to 5 years	111	143
Expiry thereafter	1,883	1,883
	2,366	2,035
Other:		
Expiry within 1 year	12	1
Expiry within 2 to 5 years	27	40
Expiry thereafter	—	—
	39	41

Lease payments on land and buildings expiring after 5 years represents the annualised rental payments on Millbank Tower after accounting for the rent free period disclosed at Note 13.

Finance leases

There were no finance leases as at 31 March 2005.

20 Other financial commitments

The Office has entered into non-cancellable contracts (which are not leases or PFI contracts) for the provision of service and maintenance of IT equipment. The payments to which the Office is committed during 2005–06, analysed by the period during which the commitment expires, are as follows:

	2004–05	2003–04
	£000	£000
Expiry within 1 year	164	174
Expiry within 2 to 5 years	553	496
Expiry thereafter	—	—
	717	670

21 Contingent liabilities disclosed under FRS12

There is one judicial review case currently in progress regarding a decision taken by the Ombudsman in response to complaints received. The Office does not consider it probable that this case will be successful, and therefore no provision has been made in these accounts.

22 Related-party transactions

The Parliamentary Commissioner for Administration and Health Service Commissioner for England was also the Welsh Administration Ombudsman until 3 November 2004. As such these bodies are regarded as related parties with which there have been various material transactions during the year.

In addition, the Office has had a small number of transactions with government departments, other central government bodies, and other regulatory authorities, including the Scottish Public Sector Ombudsman, Health Service Authorities and the Commission for Local Administration in England (CLAE), which in February 2003 co-located within Millbank Tower.

Part of the rationale for CLAE co-locating with the Office of the Parliamentary Commissioner for Administration and Health Service Commissioner for England was to further government intentions to set up a combined public sector ombudsman service for England. This will require primary legislation by Parliament, which is unlikely to be allocated sufficient time in the foreseeable future. Nonetheless the two bodies have been undertaking joint working and collaboration across a wide number of areas and initiatives.

As part of these arrangements the two bodies have exchanged areas of accommodation within Millbank Tower to develop closer working relationships, particularly between their corporate service functions, together with the sharing of certain other facilities based within Millbank Tower. Apart from the cost sharing arrangements for the 20th floor (note 8), the income identified at Note 6 reflects the net cost of the Office sharing accommodation and library facilities with CLAE, after netting off the exchange of accommodation between the two bodies, equivalent to £146,671 in 2004–05 (£143,467 in 2003–04).

The Office entered into a contract with CEDIM Consulting Limited for the provision of the services of Director of Finance and Planning (until 30 October 2004) and another member of the Finance team. The total expenditure on this contract during the year was £173,138.

With the exception noted above, neither the Parliamentary Commissioner nor any members of the management group or key managerial staff have undertaken any material transactions with the Office during the reporting period.

23 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 government bodies are financed, the Office is not exposed to the degree of financial risk faced by some 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. Cash is the Office's only financial instrument.

Please note

The telephone numbers of the Parliamentary and Health Service Ombudsman changed on 15 March 2009.

The new contact details are:

Helpline: 0345 015 4033

Fax: 0300 061 4000

Millbank Tower
Millbank
London SW1P 4QP

Switchboard: 020 7217 3000
Fax: 020 7217 4000

Email: phso.enquiries@ombudsman.org.uk
www.ombudsman.org.uk

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