



Metropolitan Police Authority

Draft Statement of Accounts 2003-2004
Subject to Audit

Metropolitan Police Authority

Statement of Accounts 2003-2004

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Foreword to the Accounts

The Metropolitan Police Authority (MPA) is responsible for the finances of the Metropolitan Police Service (MPS) and the accounts therefore record all the expenditure and income of the MPS. This statement of accounts relates to the period to 31 March 2004.

The accounts consist of:

- The Revenue Account, showing details of expenditure and income;
- The Balance Sheet, setting out the financial position of the Authority at 31 March 2004;
- A Statement of Total Movements in Reserves; and
- The Cash Flow Statement, summarising the inflows and outflows of cash.

Accounting policies and explanatory notes support the accounts so that they can be more easily understood.

Revenue Account

The Mayor and London Assembly set the budget for 2003-04 following the submission of draft proposals by the MPA. The approved budget provided for net expenditure of £2,411 million, funding an additional 1,000 police officers and 500 Police Community Support Officers (PCSOs), existing expenditure commitments and a limited list of high priority developments. Savings of over £25 million were identified to balance the budget.

The Authority delegated management of the bulk of the budget to the Commissioner, with the Authority monitoring performance on a regular basis.

During the year, underspendings totalling £18.9 million were earmarked for transfer to reserves so that they could finance one-off expenditure in 2004/05.

In accordance with the Authority's policy, underspendings against police pension budgets during the year were earmarked for transfer to the pensions reserve being built up to assist in financing future exceptional lump sum costs arising from an increase in the number of officers attaining full pensionable entitlement. In the event, the pensions underspendings, including additional income, amounted to £27.7 million in the year to 31 March 2004.

Apart from pensions, the principal underspending against budget was on police officer and police staff pay, and income budgets were exceeded. The main areas of overspending were police officer and police staff overtime, forensic services and premises.

Reserves

The Authority's policy is to have a general reserve at a minimum of 1% of net budgeted expenditure, provided that there are appropriate accounting provisions and earmarked reserves, reasonable insurance arrangements, a well-funded budget and effective budgetary control. The general reserve has been increased by £1.6 million

to £25.6 million at 31 March 2004, maintaining the balance at 1% of net budgeted expenditure for 2004-05.

During 2003-04 the Home Office initiated a process which is likely to lead to the implementation of new financing arrangements for police pensions. The effect should be to introduce greater stability in police authorities' pension costs. This will clearly have implications for the need for pensions reserves, although uncertainties still remain about the timing of the change and the immediate and longer term impact on the Authority's finances.

In the opening balance sheet for 2003-04 the Authority has a reserve (formerly a provision) amounting to £35.6 million to meet lump sum pension payments to serving officers who have already reached full pension entitlement. In addition there is a reserve of £4 million to meet future lump sum pension liabilities. Against this background only a proportion of the 2003-04 pensions underspending has been transferred to the pensions reserve, with the balance offsetting overspendings elsewhere and allowing prudent transfers to other earmarked reserves.

Capital Finance

Capital expenditure for the period was £165.2 million, financed by specific grant, borrowing and capital receipts and revenue contributions. This represented investment in land and buildings (£76.7 million), vehicle, plant and equipment (£22.1 million) and information technology (£66.4 million, including £26.8 million on C3i, which is the project set up to manage the replacement of the Authority's Command, Control, Communications and Information System).

During 2003-04 decisions about capital finance affecting the capital programme for 2004-05 onwards were taken in the context of the new prudential framework, which provides local authorities with more flexibility in terms of borrowing.

Corporate Governance

A statement on the system of internal control is included in the accounts for the first time. The statement highlights the Authority's internal control environment, comments on its effectiveness and identifies issues for future work. The Authority is continuing work to strengthen its risk management arrangements.

Conclusion

This is the fourth set of accounts published since the MPA's inception in 2000 and reflects significant continuing improvement in the MPA's finances.

Statement of Responsibilities for the Accounts

The Authority's Responsibilities

The Authority is required to:

- make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. The Authority has determined the Treasurer as that officer;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the Statement of Accounts.

I certify that the Metropolitan Police Authority approved this Statement of Accounts at its meeting on 29 July 2004.

Chair of the Metropolitan Police Authority

The Treasurer's Responsibilities

The Treasurer is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practice as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

In preparing the accounts, the Treasurer has:

- selected suitable accounting policies and applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Code of Practice.

The Treasurer has also:

- kept proper records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the Statement of Accounts presents fairly the financial position of the Metropolitan Police Authority at 31 March 2004 and its income and expenditure for the period then ended.

Peter Martin
Treasurer

Statement on System of Internal Control

Position as at 31 March 2004 including plans for the financial year 2004-05

1. Scope Of Responsibility

The Metropolitan Police Authority (MPA) is responsible for ensuring its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. In discharging this overall responsibility, the Authority is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Authority's functions and which includes arrangements for the management of risk. In exercising this responsibility, the Authority places reliance on the Commissioner to support the internal control and risk management processes.

2. 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 policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of its effectiveness.

With effect from April 2004 there is a mandatory requirement to produce a statement on internal control. This statement has been prepared as an interim statement for 2003-04 to show the Authority's current position on internal control as well as outlining future actions, which the Authority will be undertaking to ensure that the prescribed controls are operating effectively.

The system of internal control should include an ongoing risk management process designed to identify the principal risks to the achievement of the Authority's objectives, to evaluate the nature and extent of those risks, and to manage them effectively, efficiently and economically. The system of internal control in place for the year ended 31 March 2004 and up to the date of approval of the annual accounts has been the subject of review. There are several aspects of a mature system of internal control that are not yet in place. Summary details of plans for improvement, principally the need for enhanced identification and management of "business risk" are shown at section 5 below.

3. The Internal Control Environment

The key elements of the internal control environment include:

- Establishing and monitoring the achievement of the Authority's objectives:
Key forward-looking performance indicators are established following full consultation. The Authority approves the policing objectives, which are incorporated in the Policing and Performance Plan. All key targets are subject to close scrutiny and monitoring by the full Authority and the Planning, Performance and Review Committee (PPRC).
- The facilitation of policy and decision making:
The full Authority and the Co-ordination and Policing Committee meet regularly to consider the strategic direction, plans and progress of the Authority. A range of member committees regularly review specific policy areas. Regular facilitated workshops for members are arranged to identify and discuss issues which may affect the Authority.
- Ensuring compliance with established policies, procedures, laws and regulations, including:
 - regular reports to the Authority of compliance with current initiatives and external requirements;
 - professionally qualified finance staff in key roles throughout the organisation;
 - regular reports by internal audit which include the Director of Internal Audit's independent opinion on the adequacy and effectiveness of the organisation's system of internal control, together with recommendations for improvement;

- a new post of Deputy Clerk and Solicitor to the Authority and delegation to him of Monitoring Officer responsibilities;
 - Treasurer's responsibility for legality of financial transactions reflected in job descriptions of senior MPS finance staff; and
 - introduction of updated HR procedures, supporting terms and conditions of employment for staff and covering all aspects of good employment.
- Identifying, assessing and managing the risks to the Authority's objectives, including:
 - development of an internal Risk Management System;
 - commissioning of the Willis report into MPS risk management;
 - improved insurance programme and improved accident claims statistics;
 - improvements in Business Continuity Planning in both MPA and MPS;
 - preparation of MPA and MPS corporate risk profiles;
 - leadership provided by new appointment of a Director of Risk Management; and support staff;
 - management of operational risks through established processes, including the National Intelligence Model;
 - establishment of the Authority's Health and Safety Sub Committee and appointment of a new MPS Head of Health and Safety and support staff and the MPS Strategic Health and Safety Committee; and
 - Endorsement by the full Authority of the new MPA/MPS Risk Management Strategy, which is firmly based on good practice as set out by the National Forum for Risk Management in the Public Sector.
 - Ensuring the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which its functions are exercised:
 - Best Value reviews and targeted specific scrutiny reviews;
 - joint MPA/MPS/Greater London Authority (GLA) programme of Efficiency and Effectiveness reviews;
 - preparation, and achievement, of efficiency targets and their scrutiny by Her Majesty's Inspectorate Of Constabulary (HMIC); and
 - targeted budget scrutiny of specific budget headings by the informal member led Budget Group.
 - The financial management of the Authority and the reporting of financial management: There is a framework of regular management information, financial regulations, administrative procedures, management supervision and a system of delegation and accountability including:
 - professional finance function;
 - comprehensive budgeting systems;
 - regular revenue and capital monitoring to Finance Committee, indicating actual expenditure against budget and full year forecasts;
 - comprehensive budgeting and year end accounts closing guidelines; and
 - regular financial awareness training.
 - The performance management of the Authority and subsequent reporting, including:
 - establishment of key performance indicators within a plan, and production of regular reporting against these indicators;
 - a specific Authority committee which scrutinises performance – PPRC; and
 - established lines of accountability for meeting objectives and assigning responsibility.

4. Review Of Effectiveness

The Authority has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The Authority's Audit Panel (from July 2004 Corporate Governance Committee) received the Treasurer's Internal Audit Annual Report on 27 May 2004 and endorsed the Director of Internal Audit's assurance on internal control. In particular, the Panel noted that for those systems reviewed by Internal Audit in 2003-04 the average assurance score was 2.9 (3.3 in 2002-03) on a scale of 1 to 5 (where a score of 2 reflects a

system with adequate controls and 3 to 4 reflects increasing degrees of the need to improve). This was a clear improvement in MPS systems and controls over the last 3 years. The improvement in MPS systems found that follow-up visits showed, for the first time, the majority of systems reviewed in the year now have control environments considered to be adequate. The Director could therefore offer an opinion that the adequacy of controls and the effectiveness of systems within the MPS have improved for the third successive year. The overall level of internal control within the MPS is, however, still short of an acceptable level, although it is getting nearer. This review was informed by the work of the internal auditors and managers within the Authority who have the responsibility for the development and maintenance of the internal control environment, and also by comments made by the external auditors and other review agencies and inspectorates. Brief comments on their roles are as follows:

- Internal Audit: The responsibility for maintaining and reviewing the system of internal control rests with the Authority. In practice however the Authority takes assurance from the work of Internal Audit. In fulfilling this responsibility:
 - Internal Audit operate to CIPFA's Code of Internal Audit Practice 2003 and the Accounting Practices Board Guidance for Internal Auditors. The Code requires the Director of Internal Audit to include in the annual internal audit report to the Authority an opinion on the overall adequacy and effectiveness of the Authority's internal control environment; providing any details of weaknesses that qualify this opinion and bringing to the attention of the Authority any issues particularly relevant to the preparation of this Statement of Internal Control. The Authority is satisfied that Internal Audit operates to the standards set out in the Code and can take assurance from their opinion;
 - Internal Audit reports to the Treasurer and the Audit Panel;
 - the Director of Internal Audit provides an independent opinion on the adequacy and effectiveness of the system of internal financial control;
 - external audit express an opinion on the adequacy of internal audit work; and
 - internal audit work is planned using a risk-based approach that aims to ensure that the Treasurer's responsibilities under s127 of the GLA Act 1999 are fulfilled and that an effective internal audit service is provided to the Authority.
- External Audit - in their annual audit letter and particularly comments on financial aspects of corporate governance and performance management and other reports.
- Other review/assurance mechanisms: for example HMIC, Health and Safety Inspectorate.
- The work of managers within the Authority/MPS. In particular, the MPS Director of Risk Management has identified the need for the Authority/MPS to enhance its business risk management capability by bringing its skills up from an immature level to good practice, over the course of three years.

5. Significant Internal Control Issues

The MPA Finance Committee on 22 April 2004 endorsed the Treasurer and Commissioner's proposals for risk management arrangements which explicitly identified the requirement under the Accounts and Audit Regulations for the MPA to have a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for the management of risk. The Finance Committee approved an action plan to address weaknesses and ensure continuous improvement and enhancement of the system of internal control is in place over a three year period. The action plan included:

- Quarterly reporting by the MPS Corporate Governance Strategic Committee (CGSC) to the MPS Management Board on the current status of internal control and risk management within the MPS;
- Proposals for a revised MPA Corporate Governance Committee. This proposal was agreed by the full Authority (implementation from July 2004). In addition to existing audit responsibilities, this new Committee would receive regular reports flowing from the MPS's internal corporate governance arrangements focussing particularly on the MPS Corporate Risk Profile;

- Approval of Phase 2 of the MPS Corporate Risk Management Programme. This builds on the MPS Corporate Risk Profile established by Willis as a further step towards enhancing the MPS business risk management capability;
- Management Board members formally exercising oversight of business risk within their remit and ensuring appropriate arrangements to monitor and manage such risks are in place;
- Borough Operational Command Unit (BOCU) commanders are to have responsibility for managing business risk at unit level, with a member of their Senior Management Team (SMT) acting as champion;
- Preparation of risk profiles by each business group and BOCU and feed into the MPS Corporate Risk Profile;
- A programme to cover the second phase of work to achieve good practice business risk management over a three year period; and
- Annually, starting in the 2004/05 financial year, provision by the Commissioner of a letter of assurance on internal control and risk assessment, particularly focussing on the operational risk management. This letter would be informed by the work of the MPS CGSC.

Financial management improvements have been the subject of a financial management strategic programme over the first four years of the MPA. A second improvement programme is being developed for submission to the Finance Committee. This will include as a key objective: To support the implementation and maintenance of sound corporate governance arrangements to secure effective business controls and management of risk. Actions to be progressed include:

- Disseminate internal financial control requirements throughout the organisation and check that they are understood;
- Develop and deliver means of providing appropriate financial training conveniently for operational management;
- Develop and implement processes to enable management to provide assurance of compliance with control requirements, including budget management;
- Put in place proactive measures to monitor and secure full implementation of agreed internal audit recommendations;
- Develop proposals for the integration of financial management within the MPS's performance management arrangements.

Signed.....
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Catherine Crawford Chair of the Metropolitan Police Authority
 Clerk to the Metropolitan Police Authority

on behalf of the members and senior officers of the Metropolitan Police Authority and Metropolitan Police Service

Accounting Policies

General

The accounts of the Authority have been compiled in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom and the Statement of Recommended Practice (SORP), issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), which is recognised by statute as representing proper accounting practice. In accordance with SORP changes in accounting policy have resulted in the comparative year's figures being restated. The primary reason is implementing the requirements of Financial Reporting Standard (FRS) 17 *Retirement Benefits*; for details of the changes see below.

Revenue Account

The Authority has produced a revenue account that presents a service expenditure analysis in accordance with the Best Value Code of Practice. For 2003-04 an activity based costing model has been adopted in order to analyse the expenditure.

Employees Costs

The full cost of employees is charged in the revenue account for the period in which the employees worked. Accruals have been made for salaries earned but unpaid at the year-end. Where retrospective adjustment or special payments have been identified these have been charged to the revenue account.

Government Grants

Government grants are accounted for on an accruals basis; income has been credited, in the case of revenue grants, to the revenue account to match with the expenditure to which they relate, or in the case of capital grants, to a balance sheet grants account.

Interest

External interest receivable is credited to revenue over the period to which it relates. Interest payable on external borrowings is fully accrued in order that the period bears the full cost of interest related to its actual borrowings.

Supplies and Services

The cost of supplies and services are included in the accounts on an accrued basis in order to account for them in the period during which they were consumed or received.

Pensions

The Authority operates two pension schemes for police officers and police staff.

Police Officers - The Police Pension Scheme (PPS) is a contributory occupational pension scheme (contracted out from the State Earnings Related Pension Scheme), governed by the Police Pension Regulations 1987

(as amended) and related regulations that are made under the Police Pensions Act 1976. Officers make contributions of 11% of pensionable pay.

It is a defined benefit scheme paid from revenue (without a managed pension fund). Accrued net pension liabilities have been assessed on an actuarial basis in accordance with FRS 17, the net asset/liability and a pensions reserve of the PPS have been recognised on the balance sheet as have entries in the revenue account for movements in the asset/liability relating to the defined benefit scheme.

Following SORP requirements, FRS 17 has been fully recognised in the accounts from 1 April 2003. This is a change to the previous accounting policy and prior year figures have been restated to reflect the inclusion of a police officer's pension reserve and pension liability. The previous policy was to recognise liabilities in relation to retirement benefits only when an employer's contributions fell due to the pensioners for which they were directly responsible. The change has the following effects on the results of the current period:

- The overall amount to be met from Government grant and local taxation has remained unchanged, but the costs disclosed for the net cost of services is marginally higher after the replacement of net cash payments to pensioners by current service costs and net operating expenditure is 22% higher.
- The requirement to recognise the net pensions liability of £9.3 billion in the balance sheet has reduced the Authority's real net worth of £1.8 billion to a reported net liability of £7.5 billion. However, statutory arrangements for funding mean that the financial position of the Authority remains healthy because finance is only required to be raised to cover police pensions when the pensions are actually paid.

Police Staff – The Authority joined the Principal Civil Service Pension Scheme (PCSPS) on 1 September 2002. The PCSPS is an unfunded multi-employer defined benefit scheme but employees may opt for a defined contribution alternative. The Scheme trustees are unable to identify its share of the underlying assets and liabilities. In accordance with FRS17 the PCSPS is deemed to be multi-employer scheme and the appropriate level of disclosure has been followed. A full actuarial valuation of the PCSPS was carried out as at 31 March 2004, however it was not possible to identify any surplus or deficit in the Scheme for the PCSPS. The effect of this is that the revenue account does not include proper provision for police staff pension costs and that balance sheet liabilities are understated in respect of police staff pension costs.

VAT

VAT is included in the accounts of the Authority, whether of a capital or revenue nature, only to the extent that it is not recoverable.

Fixed Assets

All expenditure on the acquisition, creation or enhancement of fixed assets has been capitalised on an accruals basis in accordance with FRS 15 *Tangible Fixed Assets*. Subsequent capital expenditure is capitalised where it provides an enhancement of the economic benefits of the asset in excess of those previously assessed.

The useful economic lives of tangible fixed assets are reviewed annually and adjusted where necessary. The de minimus level policy is to capitalise all capital expenditure over £5,000 (2002-03: £5,000) on an individual asset basis, and projects with a total value in excess of £5,000. The principal asset categories and their useful economic lives, depreciated on a straight-line basis in accordance with FRS 15, are:

	Category	Years
Land and Buildings	Land	Indefinite, not depreciated
	Buildings	Useful economic life
	Leaseholds	Shorter of expected life and lease period.
Vehicle, Plant and Equipment	Plant, machinery, communications equipment and computers	3 - 15
	Police Support Vehicles	2 – 15
Community Assets	Pictures and museum contents	Depreciation is not applicable as the assets are not in operational use.
Non Operational Assets	Vehicles, plant and equipment - Work In Progress	Depreciation is not applicable as the assets are not in operational use.
	Buildings – Work In Progress	

Revaluations

Land and Buildings have been revalued by external professional valuers and details of the valuation can be found in note 1 of the balance sheet.

Surpluses arising from the professional valuations of properties are taken directly to the Fixed Asset Restatement Reserve. Deficits are set off against any prior revaluation (see above) to the extent that they do not exceed the original cost of the property, any excess being charged to the revenue account. The accounting treatment adopted is in accordance with FRS 15 and SORP.

Capital Charges

The capital charges made to revenue equate to the sum of depreciation plus a notional interest charge. This interest charge is applied to all operational

assets employed by the Authority. The interest rate used is prescribed by CIPFA each year and is currently 3.5% for all fixed assets.

Leases

The Authority has a number of operating leases in respect of property leases and vehicles. Expenditure under operating leases is charged to the revenue account in the period in which it is incurred.

Disposals

Income from the sale of fixed assets is taken to the usable capital receipts reserve and is available to support the capital programme. The net book value of assets disposed of is written off against the Fixed Asset Restatement Reserve.

Impairment Review

Properties are subject to an impairment review by qualified in-house surveyors as part of the revaluation process. Any impairment arising, which represents a permanent diminution in the value of the property, is transferred to the Fixed Asset Restatement Reserve with any amount exceeding the cost of the property charged to the revenue account.

Other assets are reviewed for impairment by experienced in-house staff at the end of the year, where there is no depreciation charge made on the grounds that it would be immaterial or the estimated remaining useful life of the fixed asset exceeds 50 years. Any impairments arising are taken directly to the revenue account.

Deferred Charges

Deferred charges included in the balance sheet consist of expenditure, which does not result in a tangible asset such as software licences and other software costs. The expenditure is amortised to revenue over an appropriate period in a consistent and prudent manner.

Short Term Investments

Short term investments consist of fixed term deposits and are shown in the balance sheet at the lower of cost or net realisable value.

Stock

Stock is shown in the balance sheet at the lower of cost or net realisable value of the separate groups of stock.

Debtors and Creditors

The accounts of the Authority are maintained on an accruals basis. Sums due to or from the Authority are accounted for in the year in which they arose by the creation of debtors and creditors, including estimates where appropriate.

Provisions

Provisions for liabilities and charges have been established in accordance with FRS 12 *Provisions, Contingent Liabilities and Assets* and are based on

reliable estimates of the expenditure required to settle future legal or constructive obligations that exist at the balance sheet date.

Provisions are charged to the revenue account and are released when the transfer of economic benefit to settle the obligation has been made. There has been a change in accounting for pension costs in respect of commuted pension lump sums following on from the full implementation of FRS17. These amounts are now being shown as part of the reserve for pension costs. This change has been effected in the comparative year's figures.

Details of current provisions are set out in note 7 to the balance sheet.

Policy in relation to the principal provisions is as follows:

Third Party Liabilities – to make provision for realistic estimates of the future settlement of third party claims, the liability for which already exists at the date of the balance sheet, insofar as they will not be met by external insurance.

Tax Liability – to make provision for the reimbursement to officers of tax deducted in respect of Compensatory Grant.

Bad Debts – to make provision for general and specific debts where there is significant doubt that payment will be received. The provision for bad debts is deducted from current debtors in the balance sheet.

Pay Liability – to provide for potential additional pay costs of officers who have been identified as having been underpaid in their grade.

Reserves

The SORP requires the maintenance of a Fixed Asset Restatement Reserve and a Capital Financing Reserve within the balance sheet. These reserves do not form part of the resources available to the Authority.

The Authority maintains reserves that are either earmarked for specific purposes or held to meet unforeseen or emergency expenditure. Earmarked reserves will be established from time to time to meet specific expected revenue or capital costs as determined by the Authority. A new reserve has been created in respect of pensions cost which previously was treated as a provision. This change in policy has been reflected in the accounts in the previous year's figures in addition to the current year.

Details of current earmarked reserves are set out on pages 26-30.

The Authority also maintains a general reserve to meet unforeseen or emergency expenditure which cannot be contained within the approved budget and has agreed that this reserve be established at a minimum of 1.0% of net budgeted expenditure, provided that there are adequate accounting provisions and earmarked reserves, reasonable insurance arrangements, a well funded budget and effective budgetary control.

Private Finance Initiative Contracts (PFI)

The Authority has entered into two long-term contractual agreements under PFI whereby the Contractor is responsible for design, construction, finance and maintenance of four new police stations in Southeast London and a new Metropolitan Police Specialist Training Centre (MPSTC). The Authority contributed some land to the PFI agreements as well as a sum of monies, which it has accounted for by adopting SORP requirements. Such PFI schemes meet the conditions set out in FRS 5 *Substance of Transactions* and professional advice has been provided which indicates there is no impact on the balance sheet of the Authority (other than mentioned above). Details of the ongoing revenue commitments are described on page 19.

Redemption of Debt

The Authority is able to finance a proportion of its capital investment projects, covered by credit approvals, by raising loans. The revenue account is charged with an amount sufficient to redeem the statutory 4% of outstanding debt and to meet accrued interest costs.

Revenue Account

This summary is presented in the format prescribed by CIPFA in Best Value Accounting Code of Practice for the year ended 31 March 2004. For a subjective analysis see **note 1**.

Year ending 31 March 2003 (Restated)*		Notes	Year ending 31 March 2004		Year ending 31 March 2004
			£'000	£'000	£'000
			Expenditure	Income	
	Service Divisions	2			
59,962	Call Handling		71,673	(4,409)	67,264
510,222	Crime Investigation and Reduction		962,942	(96,545)	866,397
65,994	Traffic and Road Safety		65,114	(371)	64,743
50,168	Public Order and Reassurance		9,408	(1,162)	8,246
85,928	Community Involvement		88,368	(11,074)	77,294
717,437	Patrol		570,867	(71,975)	498,892
120,207	Custody and Court Preparation		328,886	(34,395)	294,491
10,592	Licensing		8,563	(1,073)	7,490
1,620,510	Sub Total		2,105,821	(221,004)	1,884,817
200,000	Police Officer Pension	5			249,400
337,771	National Police Services	3			385,212
2,158,281	Cost of Service				2,519,429
11,183	Corporate and Democratic Core				14,209
7,376	Non Distributed Cost - Pension				2,283
2,176,840	Net Cost of Service				2,535,921
2	Levies to National Police Service: NCS				0
2,176,842	Net Expenditure	4, 5, 6, 7 & 8			2,535,921
(33,489)	Transfer Asset Management Revenue Account	9			(48,800)
540,000	Police Pensions interest cost	5			538,000
(11,913)	Interest and Investment Income				(13,408)
494,598.00					475,792
2,671,440	Net Operating Expenditure				3,011,713
	Appropriations				
68,823	Net Contributions to Earmarked Reserves				33,149
(531,777)	Contributions to/(from) pensions reserve	5			(548,152)
(62,956)	Minimum Revenue Provision Adjustment	10			(77,890)
0	Contribution to PFI unitary charge	14			(320)
14,496	Revenue Contributions to Capital				10,700
(511,414)					(582,513)
2,160,026	Amounts to be met from Government Grants and Local Taxation				2,429,200
	This was financed by:				
(1,021,805)	S102 Greater London Authority Act 1999 Grant	11			(1,125,400)
(1,174,606)	Other Grants	12			(1,305,365)
(2,196,411)					(2,430,765)
(36,385)	(Surplus) for the period transferred to General Reserve				(1,565)
12,338	Balance on General Reserve at 1 April				(24,047)
(24,047)	Balance on General Reserve at 31 March				(25,612)

Revenue Account

This summary is presented in the format prescribed by CIPFA in Best Value Accounting Code of Practice for the year ended 31 March 2004. For a subjective analysis see **note 1**.

Year ending 31 March 2003 (Restated)*
£'000

Notes

Year ending 31 March 2004	Year ending 31 March 2004
£'000	£'000

* restated to reflect the full implementation of FRS17, the restatement of the pensions provision as a pensions reserve and the inclusion of the police staff pension costs within the service divisions analysis

Notes to the Revenue Account

1. Net Expenditure

Total revenue income and expenditure for the year to 31 March 2004 is presented in subjective analysis format below:

	2003-04 £'000	2002-03 £'000
Expenditure		
Employee Costs		
Police Officer Salaries	1,222,059	1,060,529
Police Staff Wages and Salaries	318,412	262,247
Police Officer and Police Staff Allowances and Training Expenses	182,267	161,869
Net Police Officer Pensions	250,595	215,249
Net Police Staff Pensions	45,146	38,589
Premises-related	167,858	136,293
Transport-related	49,007	43,736
Supplies and Services	355,787	310,142
Capital Charges	139,999	109,950
Total Gross Expenditure	2,731,130	2,338,604
Income		
Fees and Charges	(128,690)	(94,124)
Other Income	(66,519)	(59,415)
Net Expenditure	2,535,921	2,185,065
Transfer Asset Management Revenue Account	(48,800)	(33,489)
Interest on Pension Liability	538,000	0
Interest and Investment Income	(13,408)	(11,913)
	475,792	(45,402)
Net Operating Expenditure	3,011,713	2,139,663
Appropriations		
Net Contributions to Earmarked Reserves	33,149	68,823
Pension Reserve Movement	(548,152)	0
Minimum Revenue Provision Adjustment	(77,890)	(62,956)
Contribution to PFI Unitary Charge	(320)	0
Revenue Contributions to Capital	10,700	14,496
	(582,513)	20,363
Amounts to be met from Grants and Local Taxation	2,429,200	2,160,026
This is financed by:		
S102 Greater London Authority Act 1999 Grant	(1,125,400)	(1,021,805)
Other Grants	(1,305,365)	(1,174,606)
	(2,430,765)	(2,196,411)
(Surplus) for the period transferred to General Reserve	(1,565)	(36,385)
Balance on General Reserve at 1 st April	(24,047)	12,338
Balance on General Reserve at 31st March	(25,612)	(24,047)

2. The Service Expenditure Analysis (SEA)

Costs are apportioned to each heading for 2003-04 in the revenue account based on Activity Based Costing methodology which is used to produce a return to the Home Office. In 2002-03 the basis of producing the SEA was from data supplied by Finance & Resource Managers. This disparity in the basis of production has resulted in some significant variations in net costs allocated to service expenditure headings.

The police officer pension cost has been produced in line with FRS17. Police staff pension costs have been allocated over the SEA for 2003-04 and the comparative year figure has been restated on the same basis.

The BVACOP definitions for the service headings are shown in the glossary.

3. National Police Services

The revenue account entry for National Police Services incorporates the costs of national, international and capital city functions, inclusive of an overhead allocation on a consistent basis with other headings in the statement.

The functions included are:

- Support of policing activities that cross national and international borders;
- Activities undertaken outside the Metropolitan Police District;
- Those functions undertaken nationally on behalf of other Forces;
- Support to other national government agencies;
- Royal and Diplomatic protection;
- Activities associated with London being:
 - the seat of National Government,
 - the primary residence of the Royal Family;
- Responding to London being the national focus for:
 - Celebration,
 - Demonstration,
 - National history, tourism and culture,
 - Entertainment,
 - Financial Activities.

4. Employment Costs

The Authority has disclosed below the number of employees whose taxable remuneration, excluding pension contributions, was £50,000 or more, in bands of £10,000:

Remuneration band £	Number of Employees	
	2003-04	2002-03
50,000-59,999	4,366	972
60,000-69,999	734	225
70,000-79,999	220	35
80,000-89,999	53	23
90,000-99,999	30	13
100,000-109,999	15	6
110,000-119,999	9	4
120,000-129,999	1	3
130,000-139,999	2	0
140,000-149,999	4	1
150,000-159,999	0	1
160,000-169,999	2	0
170,000-179,999	0	1
180,000-189,999	0	1
190,000-199,999	1	0

Note: banding is based on all taxable remuneration, excluding pension costs, paid in the year rather than the annual salary. Taxable remuneration includes overtime and may also include back dated pay awards, which relate to previous years but were actually paid in the years in question. The large numbers of staff shown in the lower pay bands in 2003-04 can be attributed to increased level of duties of Officers and the consequent effect on their pay.

5. Pension Costs

As part of the terms and conditions of employment the Authority offers retirement benefits. A full description of both the following schemes is at notes 13 and 14 to the balance sheet

Police Officers

In the year to 31 March 2004, the net costs of pensions and other benefits amounted to £250.6 million (£249.4 million notional pension costs and £1.2 million past services costs and other ancillary cost), representing 25.63% of pensionable pay.

The Authority recognises retirement benefits in the Net Cost of Services when they are earned by the employees, rather than when the benefits are eventually paid as pensions. However, the charge the Authority is required to make against local taxpayers is

based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the revenue account after Net Operating Expenditure. The following transactions have been made in the revenue account during the year:

	2003-04 £'000
Current service cost	249,400
Past service costs	1,700
Interest cost	538,000
Movement in pensions reserve	(548,152)
Retirement benefits paid to Officers	(240,948)

- Current and past service costs have been produced by actuaries (see note 13 to the balance sheet).
- Interest on pension liability represents the increase in the present value of the scheme liabilities that represent the future commitment to pay pensions, because the benefits are one year closer to settlement.
- Pension reserve movement represents the net increase in the pensions reserve as analysed in the Statement of Movement in Reserves.
- Retirement benefits paid to Officers is the actual amount paid during the year, removed from the revenue statement.

Note 13 to the balance sheet contains details of the assumptions made in estimating the figures included in this note. The Notes to the Statement of the Total Movements in Reserves on Page 27 details the costs that have arisen during the year.

Police Staff

In the year to 31 March 2004, the net costs of pensions and other benefits amounted to £45.1 million, representing 13.98% of pensionable pay.

Using information provided by PCSPS, the pension liabilities of the Scheme are described in detail in note 14 of the balance sheet.

6. Leases

In the year to 31 March 2004, the Authority spent £1.5 million on operating leases for vehicles and £21.9 million for property.

Outstanding commitments in respect of operating leases at 31 March 2004 are as follows:

Period	31 March 2004		31 March 2003	
	Property £'000	Vehicles £'000	Property £'000	Vehicles £'000
In year 1	23,126	525	19,060	1,370
Between 2 and 5 years	89,286	Nil	73,343	Nil
More than 5 years	264,855	Nil	268,501	Nil

7. Members' Allowances and Expenses

A total of £183,865 was paid in 2003-04 (2002-03: £174,955) in respect of Members' allowances and expenses.

8. Publicity

Under the requirements of Section 5(1) of the Local Government Act 1986, the Authority is required to identify expenditure on publicity.

This amounted to £5.9 million in the period and is analysed below:

	2003-04 £'000	2002-03 £'000
Staff recruitment advertising	2,982	6,140
Other publicity	2,921	2,697
Total	5,903	8,837

9. Asset Management Revenue Account

This account allows the Authority to offset the impact of capital charges in arriving at the total level of expenditure to be financed from government grants and local taxpayers.

	2003-04 £'000	2002-03 £'000
Income		
Capital Charges	(139,999)	(109,950)
Expenditure		
External Interest	6,374	7,185
Provision for Depreciation	80,556	67,814
Amortisation	4,269	1,462
Total	(48,800)	(33,489)

10. Minimum Revenue Provision

The Local Government and Housing Act 1989 requires a Minimum Revenue Provision (MRP) to be set aside for the redemption of debt. This amount is calculated as a percentage (currently 4%) of the Authority's adjusted credit ceiling of £173,393,499.

The CIPFA SORP requires that the provision for depreciation be regarded as part of MRP, with the difference being a charge or credit to the revenue account. This ensures that the revenue account is charged with no more than the amount required for the repayment of debt.

The MRP amount required for 2003-04 was £6.9 million and the amount of depreciation and amortisation charged was £84.8 million, requiring a credit to the revenue account of £77.9 million, with a corresponding charge to the Capital Financing Reserve.

10. S102 Greater London Authority Act 1999 Grant

The Greater London Authority precepts London boroughs for Council Tax and receives Revenue Support Grant (RSG) and Non Domestic Rates (NDR) directly from central government. The GLA provides funding to the Authority in the form of instalments through a Section 102 Grant.

The central funding allocated and the police precept for 2003-04 were as follows:

	2003-04 £'000	2002-03 £'000
Revenue Support Grant	579,160	476,905
Non-Domestic Rates	102,496	183,500
Police Precept	443,744	361,400
Total	1,125,400	1,021,805

11. Other Grants

Other revenue grants received during 2003-04 were:

	2003-04 £'000	2002-03 £'000
Police Revenue Grant	1,082,397	1,015,896
London Allowance	25,054	18,581
Crime Fighting Fund	70,666	65,891
Counter-terrorism	51,548	42,457
Street Crime Initiative Fund	10,845	6,487
DNA Database Expansion Programme	6,418	5,976
Airwave Revenue	5,066	1,046
PCSO Funding	15,475	0
Loan Charges	3,423	2,936
Local Authority Partnership Receipts	21,322	11,736
Special Priority Payments	7,733	0
Other	5,418	3,600
Total	1,305,365	1,174,606

12. Related Party Transactions

FRS8 *Related Party Disclosures* requires the Authority to disclose all material related party transactions. During the year, transactions with related parties not disclosed elsewhere in these accounts amount to:

	2003-04 £'000	2002-03 £'000
Expenditure		
Forensic Science Services	37,464	34,061
Income (net)		
Immigration Services	4,092	1,231
Special Service Agreements	48,441	39,939
National Identification Bureau	7,151	7,405
Transport for London	40,335	16,694
City of London Police	239	257
National Crime Squad	13,873	14,981
National Criminal Intelligence Service	2,255	2,971
Seconded Officers	8,348	7,094
Partnership activity	23,299	13,738
Total	110,569	70,249

Toby Harris, Chair MPA (during 2003-04) has been employed as a consultant by KPMG. The Authority paid £72,946 directly to KPMG for consultancy services. Further

to an agreement made under Section 3 of the Audit Commission Act 1988, KPMG supports the Audit Commission with its audit of the Authority. This arrangement is solely between KPMG and the Audit Commission and the MPA is not party to it. The Authority reserved £534,000 in 2003-04 for payments to the Audit Commission; part of this sum will be attributed to work undertaken by KPMG.

The wife of the Director of Resources is European Chief Financial Officer of Accenture HR Services, a wholly owned subsidiary of Accenture. The Authority paid £511,180 to Accenture in 2003-04 for consultancy, but nothing directly to Accenture HR Services.

13. Private Finance Initiative (PFI)

The Authority has entered into two long-term contractual agreements under PFI whereby the contractor is responsible for design, construction, finance and maintenance of four new police stations in Southeast London and a new Metropolitan Police Specialist Training Centre (MPSTC). The agreements impose 25-year commitments on the Authority on occupation of the new facilities. The MPSTC was completed in January 2003. The annual payment or unitary charge for 2003-04 amounts to £11.4 million for the police stations and £8.8 million for MPSTC. Half of the unitary charge will be subject to annual adjustments in respect of inflation (RPI) and the remainder adjusted by a fixed percentage. The total unitary charge for the remainder of the lease agreements is £671.4 million.

An amount of £0.32 million is included in revenue appropriations, which represents the funding of an additional charge to the unitary payment made to the contractor. In accordance with FRS5 the charge represents a notional increase in the unitary charge which would have arisen had not the Authority made a lump sum payment to the contractor in advance of services provided (see note 4, balance sheet, for net written down value of payment).

14. Auditors Remuneration

The audit fee paid to the Audit Commission during the year totalled £534,000 (2002-03 £534,000).

The audit was jointly conducted by the Audit Commission and KPMG. KPMG earned an additional sum of £24,000 in respect of other audit work.

Balance Sheet

The balance sheet shows the financial position of the Metropolitan Police Authority as at 31 March 2004

31 March 2003			31 March 2004	
£'000		Notes	£'000	£'000
	Fixed Assets	1		
1,438,255	Land and Buildings		1,472,891	
93,135	Vehicles, Plant and Equipment		100,925	
139,639	Non-Operational Assets		178,751	
1,067	Community Assets		1,067	
1,672,096				1,753,634
10,996	Deferred Charges	2		22,482
13,602	Long Term Debtors	4		20,664
1,696,694	Total Long Term Assets			1,796,780
	Current Assets			
4,950	Stock	3	5,787	
80,382	Debtors	4	74,595	
322,600	Short Term Investments	5	347,000	
407,932				427,382
	Less: Current Liabilities			
(8,458)	Cash and Bank Balances		(5,298)	
(237,022)	Creditors	6	(279,366)	
(10,000)	Loans Repayable in 12 months		(18,628)	
(255,480)				(303,292)
1,849,146	Total Assets less Current Liabilities			1,920,870
	Less: Long Term Liabilities			
(8,814,650)	Police Officer Pension Liability	13		(9,375,973)
(45,377)	Provisions	7		(47,631)
(104,466)	Long Term Borrowing	8		(85,838)
(7,115,347)	Total Assets less Liabilities			(7,588,572)
	Accounting Reserves	9		
1,457,867	Fixed Asset Restatement Account		1,478,462	
30,480	Capital Financing Reserve		24,333	
15,228	Government Grant Deferred		86,902	
1,503,575				1,589,697
	Usable Reserves			
44,706	Usable Capital Receipts Reserve		37,477	
41,449	C3i/Airwave Capital Reserve		9,775	
0	Earmarked Capital Reserves		4,375	
7,261	Capital Grant Reserve		9,051	
78,265	Earmarked Revenue Reserves		111,414	
24,047	General Revenue Reserve		25,612	
195,728				197,704
	Pension Reserve			
(8,814,650)	Police Officer Pension Reserve			(9,375,973)
(7,115,347)	Total Equity			(7,588,572)

Notes to the Balance Sheet

1. Fixed Assets

	Land and Buildings £'000	Vehicles, Plant & Equipment £'000	Non Operational Assets £'000	Community Assets £'000	Total £'000
Gross book value at 01.04.03	1,476,128	233,882	139,639	1,067	1,850,716
Transfers	0	20,440	(22,599)	0	(2,159)
Additions	668	25,072	117,918	0	143,658
Disposals	(4,756)	(8,150)	(18,500)	0	(31,406)
Revaluations	86,278	0	7,950	0	94,228
Capital adjustment	(37,769)	(83,761)	(45,657)		(167,187)
Gross book value at 31.03.04	1,520,549	187,483	178,751	1,067	1,887,850
Accumulated depreciation at 01.04.03	(37,873)	(140,747)	0	0	(178,620)
Depreciation for the year	(47,496)	(33,060)	0	0	(80,556)
Depreciation on assets sold	133	6,803	0	0	6,936
Capital adjustment	37,578	80,446	0	0	118,024
Net book value at 31.03.04	1,472,891	100,925	186,751	1,067	1,761,634
Net book value at 31.03.03	1,438,255	93,135	139,639	1,067	1,672,096

Basis of valuation

At the year-end a revaluation has been performed of the entire operational property portfolio, with 20% being physically inspected and 80% being reviewed on a desktop basis. This approach is part of a rolling programme of revaluations that is conducted by G. L. Hearn Ltd (qualified surveyors) ensuring that all operational land and buildings within the Estate are subject to inspection and revaluation at least once every five years. The residential portfolio has been subject to a revaluation exercise on 20% of the total value by Drivers Jonas (qualified surveyors) ensuring that all such properties are revalued once every five years.

Buildings under construction are valued on the basis of the associated land value plus the cumulative construction costs incurred at 31 March 2004.

Short life assets such as vehicles, plant, furniture and equipment are included at depreciated historic cost.

Community assets have been included in the balance sheet following valuations placed on them by internal and external valuers. These consist of pictures and museum contents, which have been gifted over many years.

Impairment Review

Impairment reviews were performed at the year-end on Land and Buildings as part of the revaluation process and on Vehicles, Plant and Equipment. There were no impairments identified as a result of the exercise in the year to 31 March 2004.

Capital Expenditure

Items of capital expenditure for the year were:

	2003-04 £'000	2002-03 £'000
Plant and Equipment	8,713	6,554
Land and Buildings	59,501	45,329
Vehicles and IT	74,717	52,112
Partnership	727	0
Sub total	143,658	108,707
Deferred charge	13,595	2,718
PFI Contribution	8,000	0
Total	165,253	111,425

Sources of Capital Finance

	2003-04		2002-03
	£'000		£'000
Total capital expenditure		165,253	111,425
Less:			
Accruals and final accounts		(4,675)	(12,630)
Capital payments to be financed		160,578	98,795
Financing:			
Credit approvals		16,842	21,708
Capital grants		98,872	41,648
Capital receipts	32,185		18,374
Capital receipts (prior years)	504	32,689	2,569
Revenue contribution	5,450		
Revenue contribution (prior year)	5,250	10,700	14,496
Earmarked capital reserves		1,475	0
Total financing		160,578	98,795

Future Capital Expenditure Commitments

Capital expenditure to be incurred in later years includes the following:

	2004 and later years	2003 and later years
	£'000	£'000
IT various projects	136,289	143,598
Building works	64,331	64,522
Vehicles, Plant & Equipment	2,071	1,750

Application of the Prudential Code

Following the passing of the Local Government Act 2003 the prudential framework for capital finance took effect in local authorities from 1 April 2004. The Prudential Code which is applied by the Authority, was developed by CIPFA as a professional code of practice to support local authorities in taking decisions on capital management. The key objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable

2. Deferred Charges

The amount capitalised in the period to 31 March 2004 represents expenditure incurred in respect of software licences and software projects.

	£'000
Opening balance at 01.04.2003	14,553
Transfers in the year	2,159
Additions in the year	13,595
Capital adjustment	(321)
Gross Book Value at 31.03.2004	29,986
Amortisation at 01.04.2003	(3,557)
Capital adjustment	314
Amortisation charge for the year	(4,261)
Amortisation at 31.03.2004	(7,504)
Net Book Value at 31.3.2004	22,482
Net Book Value at 31.3.2003	10,996

3. Stocks

	At 31 March 2004 £'000	At 31 March 2003 £'000
Uniforms	4,040	3,038
Transport	850	844
Heating Oil	582	792
Catering goods	315	276
Balance	5,787	4,950

4. Amounts owed to the Authority

	At 31 March 2004 £'000	At 31 March 2003 £'000
Long Term Debtors:		
GLMCA/NPS repayment of MPS debt	12,984	13,602
PFI Contribution	7,680	0
Balance	20,664	13,602
Other Debtors:		
Staff Advances	1,908	1,353
Government Departments	14,937	10,654
General Debtors	16,075	26,667
Other Local Authorities	2,273	4,346
GLMCA/NPS	8,010	8,064
Payments in Advance	21,426	20,520
Customs and Excise	11,660	10,261
	76,289	81,865
Less Bad Debt provision	1,694	1,483
Balance	74,595	80,382

5. Short Term Investments

This amount represents short term and overnight deposits with banks and building societies.

6. Amounts owed by the Authority falling due within one year

	At 31 March 2004 £'000	At 31 March 2003 £'000
Receipts in advance	(27,490)	(12,035)
Government Departments	(44,509)	(40,604)
General Creditors	(200,051)	(177,066)
GLMCA/NPS	(7,316)	(7,317)
Balance	(279,366)	(237,022)

7. Provisions

	At 31 March 2004 £'000	At 31 March 2003 £'000
Third party liabilities	40,000	40,000
Tax liability	3,800	3,600
Contractor liability	0	1,477
Protective clothing	0	300
Pay Arrears	3,213	0
Tax Audit	211	0
Equipment	407	0
Balance	47,631	45,377

The Authority seeks to make provision for realistic estimates of the future settlement of known liabilities in respect of legal compensation and accident claims that are not covered by insurance. Accordingly a provision has been made at 31 March 2004 for £40 million, the same as at 31 March 2003, pending decisions on further funding arrangements.

The following provisions are expected to be released in 2004-05 to match expected expenditure of the same value:

- A provision of £3.8 million liability has been created to provide for tax refunds due to Police Officers arising from the payment of a compensatory grant allowance in 2003-04.
- A pay arrears provision has been set up to provide for an expected additional payment to a category of staff arising from past changes to their salary levels.
- Following an audit by the Inland Revenue, a provision has been set up to cover expected additional tax liabilities.
- Finally, a provision has been set up to cover the cost of a substantial order for telecommunication equipment.

8. Long Term Borrowing

These are loans from the Public Works Loans Board (PWLB), raised to support capital expenditure on MPA assets, and are analysed below:

	At 31 March 2004 £'000	At 31 March 2003 £'000
PWLB loans	85,838	104,466
Analysis of loans by maturity:		
Between 1 and 2 years	15,000	18,628
Between 2 and 5 years	33,500	43,500
Between 5 and 10 years	4,338	9,338
Over 10 years	33,000	33,000

9. Reserves

The reserves of the Authority have been presented to show a clear distinction between accounting reserves that cannot be used to support expenditure and Usable Reserves.

Details of movements on these reserves are shown in the Statement of Total Movement in Reserves and Notes on pages 27-30.

10. Provision for Credit Liabilities (memorandum account only)

The Provision for Credit Liabilities which was established under Part Four of the Local Government Act 1989 is a memorandum account which includes the amounts set aside from revenue for the repayment of external debt. With the repeal of Part Four of the 1989 Act this situation will change. The provision to meet credit liabilities will be based on the capital financing requirement (CFR) introduced and defined in the CIPFA Prudential Code. The balance on this account is made up as follows:

	2003-04 £'000	2002-03 £'000
Balance at 01.04.2003	0	0
Provision for debt repayment made in year	(6,936)	(6,320)
Provision used in year for repayment of debt	6,936	6,320
Balance at 31.03.2004	0	0

11. Contingent Liabilities

There is a contingent liability in respect of a claim from the liquidator of Whitrad Ltd (trading as Bells of Richmond Ltd) for £2.9 million. Counter claims totalling over £7 million have been submitted by the MPA together with evidence to extinguish the liquidator's claim. The matter remains under dispute at the time of publishing the accounts.

12. Third Parties' Monies

The Authority administers funds on behalf of third parties. Money held by the funds is not owned by the Authority and is not included on the Balance Sheet. Authority staff administer the Metropolitan Police Authority Police Property Act Fund on behalf of the Authority and the remaining funds on behalf of their respective governing bodies. Details of the unaudited figures in respect of the principal funds for the year ended 31 March 2004 are detailed below:

Fund Name	Income £'000	Expenditure £'000	Fund Value 31.03.04 £'000
P.P.A.F.	1,746	1,525	6,521
M.P.C.B.F.	1,600	1,643	425
M.C.P.R.F.	244	94	529
M.P.W.W.F.	56	50	1,699
M.P.C.H.F.	1,061	1,081	510
M.P.C.F.	16	14	442
M.P.A.A.	533	391	1,494
M.P.S.S.C	3,313	3,135	3,224
M.P.S.F	918	917	613
M.P.C.S.W.F	38	34	200
COMETS	45	41	84
Other Funds	2,477	2,461	1,007

P.P.A.F. - Police Property Act Fund – Under section 43 of the Powers of the Criminal Courts Act 1973, the Authority is empowered to seize monies or property used, or intended for use, for the purpose of a crime. The monies seized are held within the Fund and are either returned to defendants or released to the Authority as a result of court proceedings. It is current policy to donate monies released to local charitable organisations.

M.P.C.B.F. - Metropolitan Police Combined Benevolent Fund – This is the main charitable fund into which police officers make monthly contributions and where donations from the public are received. The income received is distributed on a proportionate basis between four registered charities: Metropolitan and City Police Relief Fund, Metropolitan Police Widows' and Widowers' Fund, Metropolitan Police Convalescent Home Fund and the Metropolitan and City Police Orphans Fund (this fund is not administered by Authority staff).

M.C.P.R.F – Metropolitan and City Police Relief Fund – The fund provides financial support to serving police officers considered to be deserving of assistance on account of sickness (whether of themselves or their families), injuries received in the discharge of their duties or for other reasons.

M.P.W.W.F. - Metropolitan Police Widows' and Widowers' Fund – The fund gives financial assistance by means of grants to deserving cases

among widows and widowers of former police officers.

M.P.C.H.F. - Metropolitan Police Convalescent Home Fund – Monies received into the fund are directed to The Police Rehabilitation Centre. The centre provides residential care to police officers in order to facilitate their recovery from illness or injury.

M.P.C.F. - Metropolitan Police Commissioner's Fund – The fund was established to provide financial assistance to police officers and civil staff.

M.P.A.A. - Metropolitan Police Athletic Association – The fund is the umbrella organisation for 44 sporting sections of the Metropolitan Police Service. The fund provides Metropolitan Police staff with financial assistance in obtaining new sporting facilities and managing sporting activities.

M.P.S.S.C – Metropolitan Police Sports and Social Clubs – There are four principal recreational sports and social clubs included collectively under this heading. The clubs are Bushey Sports Club, Chigwell Sports Club, Imber Court Sports Club and Hayes Sports Club.

M.P.S.F - Metropolitan Police Sports Fund- The fund receives monthly contributions from police officers for sporting activities. The majority of the income is distributed to the four principal sports clubs (referred to above).

M.P.C.S.W.F – Metropolitan Police Civil Staff Welfare Fund – The fund provides financial assistance to members and past members of police staff, their families and dependants who are in need.

COMETS – The aim of the COMETS is to promote sports and social activities and is primarily for the benefit of police staff.

Other Funds - There are 54 other funds managed by the Metropolitan Police Authority's staff and officers. Monies received into the funds are utilised for a number of welfare and sports and social activities.

Operational Responsibilities - The Authority also holds monies on behalf of third parties arising from its operational responsibilities. The amounts, not included in the balance sheet, are as follows:

	£'000
Drug trafficking Offences Act monies	7,909
Prisoners property and lost cash	941
Other	109
Total	8,959

The prisoners property and lost cash relates to the total amount held in property stores at 31 March 2004 and has therefore been stated separately from the Police Property Act Fund value.

13. Police Pensions Liabilities

As part of the terms and conditions of employment of its Police Officers, the Authority offers retirement benefits. Although these will not actually be payable until employees retire, the Authority has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement.

The Police Pension Scheme for police officers is an unfunded defined benefit scheme, meaning that there are no investment assets built up to meet the pensions liabilities, and cash has to be generated from revenue to meet the actual pensions payments as they fall due. Police officers make contributions to the scheme; in 2003-04 this amounted to £98.2 million.

In 2003-04, pensions costs have been charged to the revenue account on the basis of pensions payable in the year to retired officers. The Authority had the following overall liabilities for pensions at 31 March 2004 that have been included in the balance sheet:

	31 March 2004	31 March 2003
Estimated liabilities in the scheme	£ million	£ million
Officer members	4,815	4,239
Deferred Pensioners	359	341
Pensioners	4,202	4,235
Total value of scheme liabilities	9,376	8,815

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Hymans Robertson, an independent firm of actuaries, has assessed the scheme liabilities as at 31 March 2004. The main assumptions used in their calculations are:

	2003-04	2002-03
Rate of inflation	2.9%	2.5%
Rate of increase of salary (note a)	4.4%	4.0%
Rate of increase in pensions	2.9%	2.5%
Rate for discounting scheme liabilities (note b)	6.5%	6.1%

a. Salary increases are assumed to be 1.5% more than price increases.

b. The current real discount rate is determined by the Government Actuary's Department and the real rate is 3.5%.

The movement in the scheme liabilities for the year to 31 March 2004 can be analysed as follows:

	2003-04 £ million	2002-03 £ million
Deficit in scheme at beginning of the year	(8,815)	(8,450)
<i>Movement in year:</i>		
Current service cost	(249)	(200)
Employer contributions	246	0
Pensions and lump sum expenditure	0	275
Transfers in from / to other authorities	(5)	
Past service cost (injury benefits)	(2)	(7)
Interest cost on pension liabilities	(538)	(540)
Actuarial gain	(13)	107
Scheme liabilities at 31 March 2004	(9,376)	(8,815)

The actuarial gain can be further analysed as follows:

	2003-04 £ million	2002-03 £ million
Experience gains / (losses) arising from pension and salary increases	(13)	103
Other experience gains on liabilities	-	4
Actuarial gain / (loss)	(13)	107
Present value of liabilities	9,376	8,815
Percentage of the present value of liabilities	(0.1%)	1.2%

14. Police Staff Pensions Liabilities

The PCSPS is an unfunded multi-employer defined benefit scheme but the Metropolitan Police Service is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2004. Details can be found in the resource accounts of the Cabinet Office.

For 2003-04, employers' contributions of £44.4 million were payable to the PCSPS at one of four rates in the range 12 to 18.5 per cent of pensionable pay, based on salary bands. Rates will remain the same next year, subject to revaluation of the salary bands, but will increase from 2005-06. Employer contributions 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 reflect past experience of the Scheme.

Statement of Total Movements in Reserves

See page 28 for details of movements

	2003-04	
	£'000	£'000
Surplus for the year	1,565	
Add back movements in earmarked reserves	33,149	
Total increase in revenue reserves		34,714
Increase/(decrease) in usable capital receipts	(7,229)	
Increase in unapplied capital grants	1,790	
Decrease in earmarked capital reserves	(27,299)	
Total increase in realised capital resources		(32,738)
Gains on revaluation of fixed assets	94,228	
Reduction in value of Fixed assets	(73,633)	
Total increase in unrealised value of fixed assets		20,595
Value of assets sold, disposed of		(24,470)
Capital receipts set aside	32,470	
Revenue resources set aside	(14,147)	
Movement on Government Grants Deferred	71,674	
Total increase in amounts set aside to finance capital investments		89,997
Total recognised gains and losses		88,098

Notes to the Statement of Total Movements in Reserves

Details of movements in revenue and other reserves

Notes	Accounting Reserves			
	Fixed Asset Restatement Account	Capital Financing Reserve	Government Grant Deferred Account	Total
	£'000 1	£'000 2	£'000 3	£'000
Balance as at 1.04.2003	(1,457,867)	(30,480)	(15,228)	(1,503,575)
Minimum Revenue Provision Adjustment	0	77,890	0	77,890
Transfers during year	0	(20,783)	27,198	6,415
Revaluation of fixed assets	(94,228)	0	0	(94,228)
Cost of value of assets disposed	24,470	0	0	24,470
Capital expenditure adjustment	49,163	(10,700)	0	38,463
Financing of Fixed Assets	0	(40,260)	(98,872)	(139,132)
Balance as at 31.03.2004	(1,478,462)	(24,333)	(86,902)	(1,589,697)

Notes	Usable Capital Reserves				
	Usable Capital Receipts	C3i/Airwave Capital Reserve	Earmarked Capital Reserve	Capital Grant Reserve	Total
	£'000 1	£'000 2	£'000 3	£'000 4	£'000
Balance as at 1.04.2003	(44,706)	(41,449)	0	(7,261)	(93,416)
Transfers during year	(846)	0	(5,850)	(72,763)	(79,459)
Proceeds of disposals	(32,185)	0	0	0	(32,185)
Financing of Fixed Assets	40,260	31,674	1,475	70,973	144,382
Balance as at 31.03.2004	(37,477)	(9,775)	(4,375)	(9,051)	(60,678)

Note	Police Officer Pension Reserve £'000 1
Balance as at 1.04.2003	8,814,650
Actuarial gain	13,171
Revenue Reserve movement	548,152
Balance as at 31.03.2004	9,375,973

Notes to the Statement of Total Movements in Reserves (Continued)

Accounting Reserves

1. Fixed Asset Restatement Reserve

The Fixed Asset Restatement Reserve is debited or credited with the deficits or surpluses that arise on the revaluation of fixed assets as well as being written down by the net book value of assets when they are disposed of. In 2003-04 entries have been posted to the reserve, which resulted from technical adjustments to certain properties. The account cannot be used to support spending.

2. Capital Financing Reserve

The Capital Financing Reserve contains the amount of capital expenditure that has been financed from revenue and capital receipts. It also contains the difference between the Minimum Revenue Provision and depreciation and also the release of government grant from the Government Grant Deferred Account. The account cannot be used to support spending.

3. Government Grant Deferred Account

Government grants have been applied to finance capital expenditure on fixed assets. Such grants are not specific to particular capital schemes and therefore cannot be written off through the Asset Management Revenue Account to match depreciation. Instead, they are written off to the Capital Financing Reserve in the year of application.

Where grants are specific the grant is released to the Capital Financing Reserve when the expenditure is incurred.

Usable Capital Reserves

1. Usable Capital Receipts

The use of the capital receipts is regulated by the Part 1 of the Local Government Act 2003 and The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003. They can only be used to finance capital expenditure or repay debt.

2. C3i/Airwave Capital Reserve

This reserve comprises monies assigned to the replacement of the Authority's Command, Control, Communications and Information System (C3i Project) and the Airwave Project that remain unspent and are required to be carried forward to support future capital expenditure.

3. Earmarked Capital Reserve

This reserve deals with funds assigned for specific areas of expenditure that remain unspent at the year-end. The monies are required to be carried forward through the reserve to be reassigned to named projects in future financial years. The Earmarked Capital Reserve presently operates for MPA Estate improvements, MPA Finance and Human Resources computer systems enhancements, and third party contributions to property refurbishment.

4. Capital Grant Reserve

All available capital grant is credited to this account and used as appropriate to fund capital expenditure.

Police Officer Pension Reserve

1. This reserve reflects the actuarially calculated future cost of providing pensions for both serving and non serving Police Officers as well as those already in retirement as stipulated by FRS17.

Statement of Total Movements in Reserves (Continued)

Usable Revenue Reserves

	Balance at 1 April 2003 £'000	Income £'000	Expenditure £'000	Balance at 31 March 2004 £'000
Earmarked Revenue Reserves (Note 1)				
Affordable Housing	(671)		671	0
Capital programme	(4,000)		4,000	0
Efficiency and Effectiveness	(75)	(456)		(531)
Budget Pressures Contingency	(6,000)	(5,600)		(11,600)
Contract Review	(1,664)	(1,500)	1,664	(1,500)
Criminal Justice Reform	(1,853)		1,853	0
Laming Enquiry	(500)		101	(399)
Legal Costs	(2,598)	(1,000)	2,002	(1,596)
MPA	(404)	(1,171)	404	(1,171)
Operational Command Unit (OCU) carryover	(3,000)	(1,000)	453	(3,547)
Operational costs	(3,586)	(2,266)	1,344	(4,508)
Overt Covers	(4,650)		1,000	(3,650)
PFI contract	(600)			(600)
Police Pensions	(39,594)	(5,900)		(45,494)
Property related costs	(7,350)	(1,000)	2,842	(5,508)
Refurbishments	(380)		78	(302)
Resources systems	(1,250)		1,250	0
Training	(90)			(90)
Free Rail Travel	0	(5,000)		(5,000)
Airwave	0	(8,582)		(8,582)
Expenditure Support 2004-05	0	(17,336)		(17,336)
Total Earmarked Revenue Reserves	(78,265)	(50,811)	17,662	(111,414)
General Revenue Reserve (Note 2)	(24,047)	(1,565)	0	(25,612)
Total of Revenue Reserve movements	(102,312)	(52,376)	17,662	(137,026)

Note 1

Earmarked Revenue Reserves

Affordable Housing

To reserve for the administrative costs of the scheme to provide key workers with affordable housing.

Capital Programme

To facilitate the implementation of additional projects that otherwise would have been delayed due to a shortfall in funding.

Efficiency and Effectiveness

The reserve is in respect of consultancy costs to fund the continuing efficiency and effectiveness review programme.

Budget Pressures Contingency

This reserve is to meet specific unbudgeted pressures, including unavoidable pay costs resulting from additional public holidays in the coming year.

Contract Review

The reserve provides for the cost of reviewing various significant contracts of the MPA.

Criminal Justice Reform

To implement improvements to criminal justice procedures as recommended by the Glidewell Report.

Laming Enquiry

To cover the likely cost of the impact of the Laming report into the murder of Victoria Climbié and its recommendations.

Legal Costs

To provide for the cost of potential law suits.

MPA

The reserve will be used to support the additional costs that the Metropolitan Police Authority expect to incur in the current year.

OCU Carryover

This amount represents underspend on devolved budgets as per the MPA's Scheme of Devolved Financial Management.

Operational Costs

The reserve provides for a number of operational activities that have been planned in 2004-05.

Overt Covers

To provide for the cost of protective clothing for officers including research and development costs.

PFI Contracts

To reserve part of the costs of a PFI property development.

Police Pensions

A reserve to mitigate the expected rise in police pension costs, which includes the redesignation of the pension provision, referred to in accounting policies.

Property Related Costs

This account reflects the requirement to provide for the cost of various building related projects.

Refurbishments

The reserve is set up to cover the cost of office changes for Finance Directorate.

Resources Systems

To set aside a sum to fund the further enhancement of the MPA's primary accounting system.

Training

This reserve provides for additional training for Police Staff.

Free Rail Travel

This account sets aside a sum to contribute towards the additional cost of providing Police Officers with free public transport in support of their duties.

Airwave

This account sets aside monies for the expected costs of delivering this communications project, which are incurred either direct by the MPA or by PITO.

Expenditure Support 2004-05

Created from the managed underspend in 2003-04 to support one-off expenditure in the 2004-05 budget.

Note 2

General Revenue Reserve

This reserve was established to provide cover for emergencies. The 2003-04 surplus of £1.6m has increased this to £25.6m to reflect the policy of keeping the general reserve at 1% of the revenue budget.

Cash Flow Statement

The consolidated statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.

2002-03 £'000		Note	2003-04 £'000
(140,192)	<u>Cashflow from Revenue Activities</u>	1	(87,649)
	<u>Returns on Investments and Servicing of Finance</u>		
7,225	Interest paid		6,757
(11,254)	Interest received		(12,341)
(4,029)	Net cash inflow from Investment activity		(5,584)
	<u>Capital Activities</u>		
95,650	Purchase of fixed assets		160,621
(12,491)	Sale of fixed assets		(32,185)
(86,403)	Capital grants received		(72,763)
(3,244)	Net cash outflow from capital activities		55,673
	<u>Management of Liquid Resources</u>		
132,000	Purchases of short term investments		24,400
	<u>Financing Activities</u>		
11,500	Repayment of loans		10,000
(3,965)	(Increase) in cash	2	(3,160)

Notes to the Cash Flow Statement

1. Reconciliation of Deficit to revenue cashflow

2002-03 £'000		2003-04 £'000
(36,385)	Surplus/(Deficit)	(1,565)
	<u>Non-cash Transactions</u>	
(19,464)	net transfer from reserves	(86,380)
(27,225)	net transfer from provisions	33,129
	<u>Items on an accruals basis</u>	
(79,854)	(increase)/decrease in revenue creditors	(53,148)
1,475	increase/(decrease) in stocks	838
17,232	increase/(decrease) in debtors	13,893
	<u>Items shown later in the cashflow statement</u>	
11,254	investment income	12,341
(7,225)	interest paid	(6,757)
(140,192)	Net cashflow from revenue activities	(87,649)

2. Analysis of cash balances

	Balance 31.3.2003 £'000	Balance 31.3.2004 £'000	Movement in the year £'000
Cash and bank	(8,458)	(5,298)	3,160

3. Analysis of Net Debt

	Balance 31.03.2003 £'000	Cash Flow £'000	Balance 31.03.2004 £'000
Cash at bank and in hand	(8,458)	3,160	(5,298)
Debt due within 1 year	(10,000)	(8,628)	(18,628)
Debt due after 1 year	(104,466)	18,628	(85,838)
Short Term Investments	322,600	24,400	347,000
Total	199,676	37,560	237,236