Metropolitan Police Authority

Statement of Accounts 2008/09

(Linked to Agenda item 6)

Working together for a safer London

Metropolitan Police Authority

Contents **Page**

Foreword to the Accounts

Background

The Metropolitan Police Authority was established in 2000 and is a functional body of the Greater London Authority.

A key duty of the Authority is to secure the maintenance of an efficient and effective police service for its area. It is responsible for managing overall expenditure within the budget. However, responsibility for day to day financial management is delegated to the Commissioner in accordance with the financial framework agreed by the Authority.

The Accounts

The Statement of Accounts sets out the overall financial position of the Metropolitan Police Authority (MPA) for the year ending 31 March 2009. The MPA is responsible for the finances of the Metropolitan Police Service (MPS) and the accounts therefore record all the income and expenditure of the MPS.

The accounts are prepared in accordance with the Code of Practice on Local Authority Accounting. To assist the reader, notes to the accounts are provided.

The Statement consists of:

- The appointed auditor's opinion;
- The Statement of Responsibilities for the accounts;
- The Annual Governance Statement;
- The accounting policies on which the accounts are based;
- The Income and Expenditure Account - summarising the resources generated and consumed in the year. The Income and Expenditure account as shown at page 25 shows a deficit of £1,159 million, however, this account should not be viewed in isolation. To gain a true understanding of the Authority's financial performance for the year it is necessary to view both the Statement of Movement on the General Fund Balance and the Statement of Total Recognised Gains and Losses. Following accounting adjustments and transfers to reserves, the deficit translates to a surplus of £0.9 million transferred to the General Reserve;
- Statement of the Movement on the General Fund Balance - showing how the balance of resources generated and consumed in the year links with the statutory requirements for raising funding through council tax;
- Statement of Total Recognised Gains and Losses - bringing together the gains and losses in the balance sheet with the outturn on the income and expenditure account to show the total movement in the Authority's net worth for the year;
- The Balance Sheet, setting out the financial position of the Authority at 31 March 2009;
- The Cash Flow Statement, summarising the inflows and outflows of cash; and
- The Police Officer Pension Fund Revenue Account and Asset Statement.

This foreword provides a brief explanation and overview of the financial performance of the Authority and highlights any significant features.

Summary of the changes for 2008/09

The UK Generally Accepted Accounting Practice (UK GAAP) forms the basis for the CIPFA Local Government Accounting Code of Practice which all police authorities should usually comply with. CIPFA produce an annual Statement of Recommended Practice (SORP) to indicate how the UK GAAP should be applied to the production of the Statement of Accounts.

The 2008 SORP as it applies to the production of the 2008/09 Statement of Accounts, has a relatively small number of changes which, unlike the changes to the 2007 SORP, are fairly minor. The key areas of change include:

- Provisions: more comprehensive explanations were required;
- Government Grants and Contributions (Revenue): explicit recognition that Area Based Grant (ABG), Private Finance Initiative (PFI) and Revenue Support Grant (RSG) are general grants and cannot be applied to individual services. The impact of this is that the net cost of services will not reflect this grant income;
- Tangible Fixed Assets: more comprehensive explanation of asset categories;
- Financial Instruments: more comprehensive explanations were required;

The MPA will be required to adopt International Financial Accounting Standards (IFRS) for their 2010/11 accounts and will be also required to restate the accounts for 2009/10 using IFRS to provide comparative information. Therefore next year will see changes to the Statement of Recommended Practice (SORP) as we move closer to the adoption of International Accounting Standards.

Financial Performance for the year

Setting the budget

The Mayor and London Assembly set the budget for 2008/09 following the submission of proposals by the MPA. The approved budget provided for net expenditure of £3,188 million which included savings of £72 million identified to ensure a balanced budget.

Final Accounts

The provisional outturn presented to the Authority represented an underspend against budget of £29.6m, after taking into account various contributions to earmarked reserves such as Service Improvement Fund, dilapidations and capital programme re-phasing. It was agreed that £22 million of the residual underspend should be transferred to an earmarked reserve to support the Capital Programme in 2009/10 and 2010/11. A further £6.7 million has been used to impair the potentially irrecoverable losses incurred following the financial collapse of the Icelandic bank, Landsbanki. The remaining balance of £0.9 million has been transferred to the General Reserve.

The table below provides a summary of the final outturn position for 2008/09, following transfers to reserves, compared to the approved budget:

Original Budget £m		Revised Budget £m	Actual £m	Variation £m
3,188.2	Net expenditure	3,105.0	3,078.5	(26.5)
(593.2)	Specific Grants	(542.0)	(539.2)	2.8
0.0	Transfer to reserves	32.0	55.7	23.7
2,595.0	Amount to be met by Local Taxation and Government Grants	2,595.0	2,595.0	0.0
	Financed by:			
665.0	Precept	665.0	665.0	0.0
1,930.0	General Government Grants	1,930.0	1,930.0	0.0

The main underspends against budget were on police officer, police staff, police community support officer and traffic warden pay (£33 million) which was due to the under-strength position across the organisation. Other underspends included employee related expenditure (£6.8 million), due to a lower than anticipated tax liability on the provision of free rail travel for police officers, capital financing costs (£5.5 million) following the re-phasing of the capital programme, and supplies and services (£8.4 million) principally within Forensic and DNA testing charges. The main areas of overspending were transport costs (£8.6 million), principally due to increased fuel costs, overseas travel, and vehicle hire, and premises costs (£4.4 million), principally due to increased utility costs partially offset by reductions in rent and rates payable.

The financial year 2008/09 presented a number of key challenges, particularly around the MPS response to knife crime (Operation Blunt 2), improving passenger safety on London transport (Operation Tyrol) and planning for the G20 summit (although this event took place after 31 March 2009). Additionally, the election of a new Mayor and appointment of new Authority members, the Stockwell inquest, significant fluctuations in fuel costs, issues within the world-banking sector and property markets, have made financial management a key issue during the year.

Capital Finance

Capital expenditure for 2008/09 was financed by specific grant, borrowing, capital receipts and revenue contributions. The capital expenditure against budget is set out below:

Original Budget £m		Revised Budget £m	Actual £m	Variation £m
54.6	Property Based Programme	39.8	29.4	(10.4)
83.0	Information Based Programme	88.7	88.9	0.2
7.9	C3i Programme – Command, Control, Communications & Information	12.0	4.0	(8.0)
0.0	MPA Information Technology	0.4	0.4	0.0
19.9	Transport Based Expenditure	23.5	18.2	(5.3)
0.3	Other Plant and Equipment	0.5	3.2	2.7
31.1	Safer Neighbourhood	33.0	15.0	(18.0)
24.9	Olympics & Paralympics	5.0	4.0	(1.0)
19.4	Counter Terrorism	12.0	5.6	(6.4)
0.0	Acquisition of New Scotland Yard	128.9	128.9	0.0
241.1	**Total**	**343.8**	**297.6**	**(46.2)**

From 2004/05 onwards, decisions about capital finance affecting the capital programme have been taken in the context of the CIPFA Prudential Framework. The Framework provides authorities with more borrowing flexibility providing rigorous controls on affordability, sustainability and prudence are met.

Capital expenditure on Authority assets in 2008/09 was financed, in accordance with the Prudential Code, from borrowing of £151.0 million, (£129.0 million relating to the purchase of New Scotland Yard), government capital grants and other third party contributions of £59.3 million, capital receipts of £83.1 million and a revenue contribution of £4.5 million less refunds on aborted projects £0.3 million.

There was £10 million new long-term borrowing undertaken during 2008/09. Settlement of maturing debt during the year totalled £5 million. As a result, as at 31 March 2009, the level of outstanding debt totalled £42.5 million. Capital receipts of £27.6 million were generated from the disposal of tangible fixed assets during the year.

The MPA is currently in the process of modernising its estate, disposing of inefficient and antiquated buildings and investing in new buildings that are fit for purpose, providing police officers and staff with improved working conditions and the public with accessible buildings in the right locations. The downturn in the economy has affected the level of receipts that can be generated through property disposals and therefore in 2008/09 the MPA only generated receipts of £19.4 million through the disposal of 3 operational properties and £8.2m for the disposal of 27 residential properties. The MPA also acquired 4 buildings, including New Scotland Yard at a cost of £129 million.

The ability of the Authority to generate receipts will continue to be significantly affected by the volatility of the property market. Therefore capital expenditure in future years has been reduced with many projects and programmes including those related to the modernisation of the estate having to be delayed and/or delivered over more years than originally anticipated.

The Balance Sheet

Final Accounts

In response to the economic downturn and decline in UK property prices, the MPA sought advice from our external surveyors for their view on market movement from April 2008 to March 2009. Using an approach agreed with the Audit Commission and based on the London market the MPA was advised that residential properties averaged a fall of 15%. In addition specialised operational properties fell by an average of 5% for buildings and 30% for land and non specialized operational properties fell by an average of 30% for both land and buildings.

The revaluation resulted in a reduction of £181.4 million. The impact of the fall was partly met by earlier gains held in the Revaluation Reserve. The remaining losses were appropriated to the Capital Adjustment Account in accordance with Statute to ensure the loss is not met by the council tax payer.

Reserves

The Authority's policy is to have a General Reserve at a minimum of 2% 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 is £47.7 million at 31 March 2009. The other uncommitted reserve is the Emergencies Contingency Reserve (£23.1 million). Together these uncommitted reserves total £70.8 million, 2.7% of the 2008/09 budget requirements.

Pensions

The Police Officer Pension Liability and Police Officer Pension Reserve reflect the full implementation of Financial Reporting Standard (FRS) 17. The pension liability shows the underlying commitments that the Authority has in the long run to pay retirement benefits. Recognition of the total liability has a substantial impact on the net worth of the Authority as recorded in the balance sheet. However statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy. This is because annual finance needed is raised by the assessed employer's pension contribution of 24.2%, with the actual pensions and commuted lump sums now being met directly by the Police Pension Fund Revenue Account, which is funded by the Home Office.

Outlook for 2009/10

The 2009/10 budget requirements were set at £2,640 million, an increase of 1.73% over the 2008/09 figure. The budget is funded by General Government Grant £1,978.0 million and council tax income of £662 million. The policing element of the Band D council tax precept for 2009/10 is £224.40.

Corporate Governance

An Annual Governance Statement is included in the accounts. The statement highlights the Authority's internal control environment, comments on its effectiveness and identifies issues for future work. The Service produces an Annual Assurance Statement detailing the governance arrangements they have in place. Reliance is placed on this in drawing up the Annual Governance Statement.

Independent auditor's report to Members of the Metropolitan Police Authority

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

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; and
- approve the Statement of Accounts.

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

Boris Johnson
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 judgments 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 2009 and its income and expenditure for the period then ended.

Ken Hunt
Treasurer

Annual Governance Statement

Position as at 31 March 2009 including plans for the financial year 2009/10.

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, properly accounted for, and used economically, efficiently and effectively. The Authority also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Authority is also responsible for putting in place proper arrangements for the governance of its affairs and facilitating the exercise of its functions, which includes ensuring a sound system of internal control is maintained through the year and that arrangements are in place for the management of risk. In exercising this responsibility, the Authority places reliance on the Commissioner to support the governance and risk management processes.

The Authority has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework: *Delivering Good Governance in Local Government*. A copy is on our website at www.mpa.gov.uk or can be obtained from the Treasury Team, Metropolitan Police Authority, 10 Dean Farrar Street London, SW1H 0NY. This statement explains how the Authority has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendments) (England) Regulations 2006 in relation to the publication of a statement on internal control.

A more detailed Statement of Assurance for the MPS signed by the Commissioner supports the Authority's overarching Governance Statement.

2. The Purpose of the Governance Framework

The governance framework comprises the systems and processes, and culture and values by which the Authority is directed and controlled and its activities through which it accounts to and engages with the community. It enables the Authority to monitor the achievement of its strategic objectives and to consider whether these objectives have led to the delivery of appropriate, cost effective services, including achieving value for money. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable and foreseeable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Authority's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them effectively, efficiently and economically.

The governance framework has been in place at the Authority for the year ended 31 March 2009 and up to the date of approval of the statement of accounts.

3. The Governance Framework

The key elements of the systems and processes that comprise the governance arrangements that have been put in place for the Authority and MPS include:

Identifying and communicating the Authority's vision of its purpose and intended outcomes for citizens and service users

Authority members are responsible for the vision, strategic direction and priorities for the Authority, and are advised by the senior management team who also advise and support members in influencing and shaping the strategic direction and priorities for the policing of

London. Environmental scanning, forms an important part of the identification of local and national expectations.

The Authority agreed a corporate strategy and priorities in 2004 and the priorities were reviewed and restated in June 2007. In addition the Authority has recently approved a new strategic framework, entitled Met Forward. This is a set of strategic priorities within which the Authority will operate over the next three years, and is intended to enable the Authority to discharge its functions effectively and ensure delivery of the policing plan and other key priorities.

Within the MPS the annual Corporate Strategic Assessment process identifies, through environmental scanning, crime intelligence, strategic capability and stakeholder analysis, the policing priorities outlined in the Policing London Business Plan. Public consultation forms an important part of the process with a number of consultation processes being used to identify public priorities. The plan covers a three-year period and provides details of the MPS's corporate objectives, outlining what the MPS intend to do to deliver these objectives. The plan also describes how the delivery of these objectives will be monitored through the use of Critical Performance Areas and targets. Full Authority agrees the plan on an annual basis.

In addition, both the Full Authority and the Strategic and Operational Policing Committee meet regularly to consider the strategic direction, plans and progress of the Authority and MPS. A range of member committees regularly review specific policy areas. These formal meetings are held in public and papers are available on the internet.

Reviewing the Authority's vision and its implications for governance arrangements

The Authority started a new four-year term of office in 2008/09 and intends in the future to be more strategic in the way business is transacted by and within the Authority. In recognition of this a review of the committee structure was undertaken and a new committee structure was put in place which enables the Authority to be:-

- Strategic in its oversight and scrutiny function;
- Directional in its policy setting
- Demanding of greater performance and effectiveness from partners and partnerships

In addition following approval of Met Forward all the committees are to reassess their work programmes for the next twelve months to ensure that actions are in place to deliver the Met Forward agenda. A recent review of the local code of corporate governance framework has not highlighted the need for any revisions following implementation of MetForward.

Measuring the quality of services for users, ensuring they are delivered in accordance with the Authority's objectives and that they represent the best use of resources

The Strategic and Operational Policing Committee is responsible for monitoring performance and ensuring that MPS policy, planning and business change results in improved operational performance and productivity in respect of key priorities and targets. In addition, the Full Authority receives performance information on a monthly basis with members of the Authority using the information provided to hold the Commissioner to account. The approval of the Policing Pledge by the Authority in early 2009 will enable the Authority to monitor the quality of the service delivered more effectively.

Within the MPS Performance Board is responsible for monitoring key performance.

The Authority regularly scrutinises budgets throughout the financial year to ensure they represent best use of resources, both as part of the business planning process, with all business group's budgets being subject to members' scrutiny of their savings and growth proposals and as part of budget monitoring with the Authority's Finance and Resources Committee receiving regular monitoring reports. The creation of two new sub committees, Resources Sub Committee and Performance and Productivity Sub Committee in October 2008 has strengthened capacity to scrutinise in this area.

As part of the Policing London Business Plan the MPS is required to demonstrate cashable efficiency savings of 9.3% over 3 years from 2008/09. Achievement in meeting these savings is monitored by HMIC. In addition, the Finance and Resources Committee monitors progress through quarterly update reports.

Defining and documenting the roles and responsibilities of the Authority, MPS, the members and senior officers within each, setting out clear delegation arrangements and protocols for effective communication, and arrangements for challenging and scrutinizing the Services' activity

The roles and responsibilities of each of the Authority's Committees are clearly defined in their individual terms of reference. These include arrangements for challenging and scrutinising the MPS's activity.

The Authority's Standing Orders, which are reviewed on an annual basis, provide for the delegation of Authority functions and decision making to committees, sub committees, panels and senior officers and includes a scheme of delegation that sets out those decisions that the Authority has delegated to its officers and the Commissioner.

Whilst there is a broad understanding amongst members of their statutory roles and responsibilities, awareness will be strengthened further by the new statement on member role and responsibilities due to be issued shortly.

Developing, communicating and embedding codes of conduct, defining the standards of behaviour for members, officers and staff

Members are bound by the statutory Code of Conduct that forms part of Standing Orders, and the Standards Committee is responsible for ensuring that members are aware of their responsibilities under the code and receive guidance on ethical standards and behaviour. All new members were offered training on standards and the Code of Conduct as part of the induction process and a new programme of ethical training is due to take place in 2009/10 as part of a package of training currently being developed for members. The Authority's Standards Committee has developed key standard indicators that are used to monitor ethical and good practice standards in the Authority.

As part of the Authority's improvement programme, values and behaviours supporting the corporate strategy have been put in place, and during 2008/09 all staff were provided with training on these to raise awareness and understanding. In addition a programme of leadership training was delivered to those who lead or manage within the Authority to ensure they are equipped with the necessary skills.

The Good Conduct and Anti Fraud Policy forms part of Standing Orders and is applicable to both Members and employees of the Authority and the MPS and also all external persons that the Authority does business with.

Within the MPS the Professional Standards Directorate are the lead for this area, with the MPS Professional Standards Strategic Committee overseeing strategy and policy. The Committee is supported by a professional standards support programme. The Strategic Intelligence Assessment which assesses risks relating to corruption and wrongdoing of MPS staff and implementation of the Taylor Reforms for policing misconduct procedures provide additional controls in this area.

Reviewing and updating Standing Orders and supporting documentation, which clearly define how decisions are taken and the processes and controls required to manage risks

The Authority's decision making process is clearly defined in Standing Orders and supporting financial instructions and these are reviewed on an annual basis to ensure they continue to be fit for purpose. A review of Standing Orders was last completed in 2008 with the Full Authority approving the revisions in July 2008 and this year's annual review of standing orders is currently underway.

The MPS have undertaken a major review of their scheme of delegation and an interim scheme is now in place with procedure notes and manuals in place for all key systems.

The Corporate Governance Committee is responsible for risk management activity within the Authority and MPS, ensuring that risk management processes and programmes operate effectively in accordance with the risk management statement and supporting strategies. In December 2008 the Committee approved a joint risk management statement between the Authority and MPS which sets out the vision and objectives for risk management and the differing roles of the Authority and MPS and is supported by separate MPA and MPS risk strategies and implementation plans. Which set out in further detail the risk management vision and responsibilities to be delivered in order to achieve the desired objectives.

Within the MPS there is a risk management strategy, risk management policy and corporate risk register in place with the Service Improvement Board, Business Group Risk Co-ordinators forum and quarterly reporting to Management Board and Corporate Governance Committee all key components for managing risk.

The Authority has developed a risk register that is reviewed regularly by the Senior Management Team, actions from which are embedded in corporate and teamwork plans.

Undertaking the core functions of an Audit Committee
The Corporate Governance Committee provides the core functions of an Audit Committee and in line with CIPFA guidance considers issues relating to internal control, risk management and financial reporting, including the annual scrutiny of the statement of accounts. The Committee also provides a forum to discuss areas of concern raised either by internal or external audit as well as Health and Safety scrutiny.

In addition to the Authority members that sit on Corporate Governance Committee there are also two co-optees. These members bring additional expertise in their areas of competence i.e. health and safety and risk management.

Ensuring compliance with relevant laws and regulations, internal policies and procedures and that expenditure is lawful
The Authority has a duty to ensure that it acts in accordance with the law and various regulations. Standing orders and supporting policies and procedures have been produced to ensure officers, within the Authority and MPS, understand their responsibilities. These, and compliance with them, are reviewed regularly both internally and by the appropriate committees, and all Committee reports must consider the legal implications of their proposals.

Professionally qualified staff occupy key roles throughout the MPS and the Authority with external advice sought as and when needed. Regular reports are made to the Authority on compliance with current initiatives and external requirements, with Internal Audit reporting on the effectiveness of the organisation's systems of internal controls and making recommendations for improvement. The Authority has delegated Monitoring Officer responsibilities to the Head of the Corporate Secretariat.

Within the MPS, all reports to the Management Board and the Investment Board must consider legal implications and the scheme of delegation requires legal advice to be sought from the Directorate of Legal Services before the MPS enters into any form of commitment. The Policy Co-Ordination Unit is responsible for overseeing all key aspects of policy, quality assuring all policies and overseeing the monitoring of corporate policies. The "purchase to pay" programme has reviewed and rationalised purchasing processes, developing systems to ensure compliance with policies and procedures.

Whistleblowing, receiving complaints from the public and handling citizen and other redress
Within the Authority the Corporate Secretariat provide the central point for receiving complaints sent to the Authority. The Professional Standards Cases sub-committee considers complaints made about police officers. The Committee will consider whether or not there is a matter to be investigated, arranging for an investigation if a need is identified.

Complaints made about the Authority or a member of staff are initially dealt with by the relevant line manager, being referred on to the corporate complaints officer and the Local Government Ombudsman if need be. Whilst complaints made against members are investigated by the Standards Committee.

The Customer Service Team, within the MPS, provides a central point for the receipt of complaints and regularly monitor quality and timeliness indicators. Complaints are investigated, monitored and where applicable, critical cases are escalated. The Authority has access to the MPS's complaints database and regular reports are provided to the MPA Professional Standards and Complaints Committee. A process is also in place for receiving, monitoring and resolving quality of service complaints, which is managed by the Citizen Focus Policing Programme.

Arrangements are in place for members of the public to report internal fraud in the MPS or the Authority via its website.

The Authority has recently introduced a whistleblowing policy for its own staff and the MPS have a "Reporting Wrongdoing Policy" which sets out the whistleblowing arrangements for the MPS, including compliance with the 1998 Public Interest Disclosure Act. Internal Audit is one of the contact points for reporting wrongdoing.

Identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training

The Authority's appraisal process has recently been revised and will ensure that work related and personal development objectives of all staff within the Authority are properly identified, managed and monitored.

Within the MPS the Personal Development Review process identifies, manages and monitors the work related and personal development opportunities for all staff. The Leadership Academy trains and develops new and existing managers through values based leadership development programmes and interventions. There are also structured induction/probation programmes and mandatory training for new supervisors and line managers. The human resources scorecard reports are discussed at monthly Human Resources Board meetings, and training issues at Training Management Board.

A significant number of new members joined the Authority in 2008/09, partially due to a new administration coming into power and partially due to a new term of office for independent members commencing in the Autumn. All new members were offered a full induction together with skills based training such as dealing with the media and chairing meetings. Further training is to be offered to members in 2009/10 as part of the new member development programme currently being developed.

Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation

The Authority undertakes community consultation in the development of its work through general and specialist activities. The second of the Authority's corporate priorities is 'to transform community engagement to help Londoners 'secure more responsive policing' and to achieve this the Authority has developed its *Community Engagement Strategy* "…to increase and enhance Londoners say in how their city is policed". In addition, Safer Neighbourhood Panels and the associated communication strategy are seen as key in engaging with the community.

The establishment of the Community, Equalities and People Committee has strengthened the Authority's oversight of community engagement, with the practical implementation of community engagement continuing to be supported by the work of a broad section of the Authority, through monitoring and scrutiny work and by the specialist support of its Engagement and Partnerships Unit - using a specialist funding programme to support the systematic development and programmes of work of Community and Police Engagement Groups (CPEGs) in the 32 London Boroughs - and by the work of the MPS and their partners.

Joint Engagement Meetings are a new initiative introduced in 2008/09, whereby key borough stakeholders are brought together with the Authority's Vice Chair to facilitate joint problem solving on issues related to crime and public safety.

There are key consultation duties that require the Authority and the MPS to undertake community consultation and include:

- Understanding Community Views on Policing - making arrangements, in consultation with the Commissioner, for obtaining the views of people in the area about matters concerning their policing.
- Consultation on Police Objectives – ensuring that in the development of annual policing objectives, the Authority has regard to issues raised in local consultative arrangements; that separate consultative arrangements are put in place by the Authority for each London Borough in consultation with its respective local authority.
- Crime and Disorder Partnerships – to ensure that local people's views on crime and disorder reduction priorities are included in the development of local crime and disorder Strategic Assessment and in the planning and implementing the crime and disorder partnership plan.
- Local Strategic Partnerships, and Local Area Agreements – Police Authorities have a legal duty to co-operate in determining LAA targets and have regard to those targets linking LAA targets, Policing Plan targets and CDRPs.

The Authority and MPS work in partnership to consult on all relevant plans, policies and proposals such as the Policing London Business Plan and Budget and take the results of the consultation into account prior to making decisions.

Incorporating good governance arrangements in respect of partnerships
The Authority has strengthened governance arrangements for Community Policing Engagement Groups (CPEGs) to ensure they are properly held to account for the funding they receive. Bids for funding for 2009/10 have been reviewed and approved by members of the Community Engagement and Citizen Focus Sub Committee.

As a responsible authority of each borough's crime and disorder reduction partnership (CDRP), the Authority undertakes its duty through the attachment of a link officer to each of the 32 CPEGs for the purposes of ensuring the Authority's views are represented in the general development of their work and in the development of borough based community safety priorities and their incorporation into the work of local strategic partnerships and their Local Area Agreement developments. The link officers also ensure there is two way communications between the CPEGs and the Authority. These officers, work with Authority members, supporting them when they are attached to Boroughs as link members. The Community Engagement and Citizen Focus Sub Committee's terms of reference require oversight and guidance of the CDRP work and additionally the officers also report back through the internal management structure of the Authority.

Within the MPS there are accounting arrangements in place for partnerships and these are specified in the finance manual. Budgets and actual expenditure are separately accounted for in the finance system and monthly reviews and a year-end review of financial and operational performance of partnerships are carried out by Finance Services. With regard to EU partnerships there is guidance and specific grant terms and conditions that have to be complied with. The Service has agreed a Partnerships Strategy and work on developing a partnership toolkit to assist Business Groups is nearly complete, with a launch scheduled for May 2009.

4. Review of effectiveness

The Authority has responsibility for conducting, at least annually, a review of the effectiveness of the governance framework, including;

- The system of internal audit
- The system of internal control

A group of senior officers within the Authority have undertaken a review of effectiveness of the governance framework using as its basis the Authority's self assessment framework and taking into account the work of internal auditors and also managers within the Authority who have responsibility for the development and maintenance of the governance environment. In addition, comments made by the external auditors and other review agencies and inspectorates have informed this review. The roles and processes applied in maintaining and reviewing the effectiveness of the governance framework are outlined below: -

- **The Authority**
  The Authority has overall responsibility for the discharge of all the powers and duties placed on it and has a statutory duty to 'maintain an efficient and effective police force'. The Authority will from time to time receive reports on governance issues. However as detailed in standing orders, the Authority has delegated responsibility for the review and maintenance of the governance framework to the Corporate Governance Committee and therefore that Committee discusses the majority of governance issues, with reports being referred to the Authority as and when felt appropriate.

- **The Metropolitan Police Service**
  The Commissioner has responsibility for conducting a review of the effectiveness of the governance framework within the MPS at least annually. This review is informed by the work of the Director of Resources, Director of Internal Audit and managers within the MPS who have responsibility for the development and maintenance of the governance environment. In preparing the Annual Governance Statement for 2008/09 the officers of the Authority have placed reliance on this review and the MPS's resulting Annual Assurance Statement.

- **Corporate Governance Committee**
  The Authority has delegated responsibility for reviewing and maintaining the effectiveness of the governance framework to the Corporate Governance Committee, with the Committee receiving regular reports on governance issues at its quarterly meetings. During 2008/09 in addition to the regular update reports on governance and risk issues the Committee also received a number of reports on risk management including the new joint risk management statement and arrangements to enable Corporate Governance to monitor risk management in the Service.

  The Committee reviews and approves the Annual Governance Statement for inclusion in the Annual Statement of Accounts and receives quarterly update reports on progress made in addressing significant governance issues included in it.

- **The Standards Committee**
  The Standards Committee is responsible for promoting and maintaining high standards of conduct by members of the Authority and as part of the review and maintenance of an effective governance framework the Committee monitors key standard indicators on a regular basis. During 2008/09 in addition to the regular reports the Committee received on standard indicators the Committee also investigated a complaint made against the Chair of the Authority.

- **Internal Audit**
  In maintaining and reviewing the governance framework, the Treasurer places reliance on the work undertaken by Internal Audit and in particular Internal Audit reports to the Chief Executive and the Corporate Governance Committee and the Director of Internal Audit's independent opinion on the adequacy and effectiveness of the system of internal control. For 2008/09 the Director of Internal Audit is of the opinion, taking into account all available evidence, the adequacy and effectiveness of the control environment in the Metropolitan Police Service continues to fall below an acceptable standard. Key controls have either not been applied, applied inappropriately or not applied in time to provide an adequate and effective control environment.

- **External Audit**
External Audit are an essential element in ensuring public accountability and stewardship of public resources and the corporate governance of the Authority's services, with their annual letter particularly providing comment on financial aspects of corporate governance, performance management and other reports. In 2008/09 the annual letter highlighted amongst other things the need to keep the Authority's financial position and the strength of reserves under review; improve the system of internal control and compliance with financial regulations; integrate business and financial planning; further integrate cost and performance data and continue to improve arrangements for securing value for money. The letter also made reference to the value for money conclusion issued in September 2008. This concluded that the Authority had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. This represents an improvement on 2006/07 when value for money conclusion was qualified due to weakness in the Authority's arrangements for maintaining internal control. .

- **Her Majesty's Inspectorate of Constabulary**
Her Majesty's Inspectorate of Constabulary (HMIC) are charged with promoting the effectiveness and efficiency of policing, improving performance and sharing good practice nationally. HMIC delivered inspections in several areas during 2008/09, these included inspections of the London-wide delivery of key aspects of policing. Neighbourhood policing and citizen focused policing were both found to be meeting the standards required, and major crime was found to be exceeding the standards required. There were three local borough inspections to follow up progress on recommendations previously made (Camden, Greenwich and Havering). There were also several joint inspections of custody all of which found much good practice, but also significant areas for improvement.

- In addition to the above other review/assurance mechanisms such as the Health and Safety Inspectorate are also relied upon.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by Corporate Governance Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

5. Significant Governance Issues

	Governance Issues	Action
1	Although the MPS have made improvements in ensuring risks are appropriately analysed and dealt with at command unit level, the following concerns remain:- a disconnection between operational level risk management and risk management by the top of the MPS. Highest-level risks are inadequately identified and not linked to the key strategic drivers. Top management have been developing a high-level Risk Register but at the time of writing the Register is incomplete and still 'work-in-progress'	• Further develop the Authority's oversight of risk management in the MPS • To embed further risk management in OCUs and the MPA • Roll out throughout the MPS programme of risk management currently being developed • To develop further risk registers within the MPS • Development of an effective risk management escalation process
2	Whilst there have been improvements in control around procurement, through for example the implementation of a	• Develop a detailed implementation plan to ensure effective delivery of the new procurement strategy

	contracts database, and the revised procurement strategy there remains areas of significant concern. Such as:- Use of contracts either not let competitively or extended on a single tender basis. Continued difficulties in recruiting sufficient procurement professionals which has had an adverse impact on the ability of the MPS to keep on top of the tendering and contract management processes.	• Increase member oversight of procurement issues including delivery of the procurement strategy and compliance issues
3	The control environment is still not at an acceptable level as highlighted by a) the Director of Internal Audit's independent opinion on the adequacy and effectiveness of the system of internal control b) the external audit annual letter that highlighted amongst other things the need to improve the system of internal control and compliance with financial regulations	• Increase oversight on issues raised in audit and inspection reports both at Corporate Governance Committee and the MPS performance board • Continue the roll out of risk control and fraud awareness training
4.	A standardised approach to engaging with communities needs to be developed to enhance opportunities for London's communities to express their views and to work in partnership with others to ensure policing is delivered appropriately.	Undertake a review of the MPA/MPS community engagement strategy

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed

……………………………
Boris Johnson

Chair of the Metropolitan Police Authority Authority

……………………………
Catherine Crawford

Chief Executive to the Metropolitan Police Authority

……………………………
Ken Hunt
Treasurer to the Metropolitan Police Authority

Statement of Accounting Policies

1. General Principles

The Statement of Accounts summarises the Authority's transactions for the 2008/09 financial year and its position at the year-end of 31 March 2009. It has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom - A Statement of Recommended Practice (SORP), issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), and recognised by statute as representing proper accounting practice. The accounting convention adopted is historic cost, modified by the revaluation of certain categories of tangible fixed assets.

2. Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Fees, charges and rents due are accounted for as income at the date the Authority provides the relevant goods or services.
- Where income and expenditure has been recognised (using estimates when appropriate) but cash has not been received or paid, a debtor or creditor for the relevant year is recorded in the Balance Sheet.
- Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

3. Provisions

Provisions are made where an event has taken place that gives the Authority an obligation that probably requires settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain. Provisions are charged to the appropriate service revenue account in the year the Authority becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are eventually made, they are charged to the provision set up in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes more likely than not that a transfer of economic benefits will not now be required, the provision is reversed and credited back to the service account.

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. The figure shown on the balance sheet does not include any adjustment to discount the total liability to present day terms in line with FRS 12 because the claims involved are deemed to be estimates based on present day values.

General Provision including tax liabilities –

- To make provision for the reimbursement to officers of tax deducted in respect of Compensatory Grant. The grant to which this tax relates is paid to all officers who are in receipt of rent allowance and joined before 1994.
- To make provision for a repayment of tax and National Insurance.
- Rent on properties
- Other

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.

4. Reserves

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.

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 2% of net budgeted expenditure, as and when conditions permit, provided that there are adequate accounting provisions and earmarked reserves, reasonable insurance arrangements, a well funded budget and effective budgetary control.

Reserves are created by appropriating amounts in the Statement of Movement on the General Fund Balance. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in that year against the Net Cost of Services in the Income and Expenditure Account. The reserve is then appropriated back into the General Fund Balance statement so that there is no net charge for the expenditure. Certain reserves are kept to manage the accounting processes for tangible fixed assets and retirement benefits that do not represent usable resources for the Authority.

The SORP requires the maintenance of a Revaluation Reserve and a Capital Adjustment Account within the Balance Sheet. These accounts do not form part of the cash resources available to the Authority.

5. Government Grants and Contributions (Revenue)

Whether paid on account, by instalments or in arrears, Government Grants and third party contributions and donations are recognised as income at the date that the Authority satisfies the conditions of entitlement to the grant/contribution, there is reasonable assurance that the monies will be received, and the expenditure for which the grant is given has been incurred. Revenue grants are matched in service revenue accounts with the service expenditure to which they relate. Grants to cover general expenditure (e.g. Revenue Support Grant) are credited to the Income and Expenditure Account after Net Operating Expenditure

6. Retirement Benefits

The Authority operates two pension schemes for police officers and a single scheme for 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. The 2006 Police Pension Scheme (NPPS), which started on 1 April 2006, is a contributory occupational pension scheme (contracted out from the State Earnings Related Pension Scheme), governed by the Police Pensions Act 1976 (as amended by the Police Pensions Regulations 2007). Officers make contributions of 11% of pensionable pay. The employees contribution is set nationally by the Home Office and is subject to triennial revaluation. A Pension Fund was set up on 1 April 2006 to administer both schemes.

The NPPS and PPS are defined benefit schemes paid from revenue (without managed pension assets). Accrued net pension liabilities have been assessed on an actuarial basis in accordance with FRS 17 (Accounting for Pension Scheme Liabilities), the net liability and a pensions reserve of both Pension Schemes have been recognised on the Balance Sheet, as have entries in the Income and Expenditure account for movements in the asset/liability relating to the defined benefit scheme. Transfers into and out of the Scheme representing joining and leaving police officers, are recorded on a cash basis in the Pension Fund, as a result of the time taken to finalise the sums involved.

Following SORP requirements, FRS 17 has been fully recognised in the MPA accounts. Scheme liabilities as shown on the balance sheet are calculated by determining future liabilities for pension payments and applying a discount rate to reduce them to present day values. SORP specifies the use of a discount rate equal to the yield on an index of long-dated AA-rated corporate bonds as at 31 March 2009. The pension liabilities in these accounts have been calculated accordingly at a discount rate of 6.9% (6.9% in 2007/08).

Police Staff – The Authority joined the Principal Civil Service Pension Scheme (PCSPS) in 2002-03. 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 FRS 17 the PCSPS is deemed to be a multi-employer scheme and the appropriate level of disclosure has been followed.

7. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Best Value Code of Practice 2008 (BVACOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Authority's status as a multi-functional democratic organisation.
- Non-Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and any impairment losses relating to assets under construction and surplus assets held for disposal and any depreciation on surplus assets held for disposal. Also any revenue expenditure involved in holding surplus assets.

These two cost categories are defined in BVACOP and accounted for as separate headings in the Income and Expenditure Account, as part of the Net Cost of Services.

8. Intangible Fixed Assets

Expenditure on assets that do not have physical substance but are identifiable and controlled by the Authority (e.g. software licences) are capitalised when it will bring benefits to the MPA for more than one financial year. The balance is amortised to the relevant service revenue account over the economic life of the investment to reflect the pattern of consumption of benefits. The de-minimus level policy is to capitalize all expenditure over £5,000 on an individual asset basis, and projects (or grouped assets) with a total value in excess of £5,000: expenditure on partnership assets is capitalized over £1,000.

9. Tangible Fixed Assets

Tangible fixed assets are assets that have physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis. The de-minimus level policy is to capitalize all expenditure over £5,000 on an individual asset basis, and projects (or grouped assets) with a total value in excess of £5,000: expenditure on partnership assets is capitalised over £1,000.

Recognition: Expenditure on the acquisition, creation or enhancement of fixed assets is capitalised on an accruals basis, provided that it yields benefits to the Authority and the services it provides is for more than one financial year. Expenditure that secures, but does not extend the previously assessed standards of performance of an asset (e.g. repairs and maintenance) is charged to revenue as it is incurred.

Measurement: Assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use. Assets are carried in the Balance Sheet using the following measurement bases:

- Specialised operational properties – depreciated replacement cost
- Non-specialised operational properties – existing use value
- Dwellings and Surplus assets – market value
- Vehicles, plant and equipment – lower of net current replacement cost or net realisable value in existing use

Assets included in the Balance Sheet at current value are revalued where there have been material changes in the value, as a minimum revaluations are carried out every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains.

Impairment: The values of each category of assets and material individual assets that are not being depreciated are reviewed at the end of each financial year for evidence of reductions in value. Where impairment is identified as part of this review, or as a result of a valuation exercise, are accounted for by:

- Where attributable to the clear consumption of economic benefits – the loss is charged to the relevant service account.
- Otherwise – written off against any revaluation gains attributable to the relevant asset in the Revaluation Reserve, with any excess charged to the relevant service revenue account.

Where an impairment loss is charged to the Income and Expenditure Account but there were accumulated revaluation gains in the Revaluation Reserve for that asset, an amount up to the value of the loss is transferred from the Revaluation Reserve to the Capital Adjustment Account

Disposals: When an asset is disposed of or decommissioned, the value of the asset in the Balance Sheet is written off to the Income and Expenditure Account (the receipts are credited) as part of the gain or loss on disposal. Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account. Proceeds in excess of £10,000 are categorised as capital receipts, which are credited to the Usable Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the MPA's underlying need to borrow. Receipts are appropriated to the Reserve from the Statement of Movement on the General Fund Balance.

Grants and contributions: Where grants and contributions are received that are identifiable to fixed assets with a finite useful life, the amounts are credited to the Government Grants Deferred Account. The balance is then written down to revenue to offset depreciation charges made for the related assets in the relevant service account, in line with the depreciation policy applied to them.

Depreciation: This is provided for all assets with a determinable finite life, by allocating the value of the asset in the Balance Sheet over the periods expected to benefit from their use, on a straight-line basis. The principal asset categories and their useful economic lives are:

	Category	Years
Land and Buildings	Land Buildings - Operational - Residential Improvements to leasehold properties Non Operational Investment Properties	Indefinite, not depreciated. Useful economic life as assessed by valuers on an individual property basis (10 – 50 years). 50 years. Shorter of expected life and lease period. Not Depreciated
Vehicles, Plant and Equipment	Information Technology and communications equipment Software Development Policing Support Vehicles including Patrol vehicles Air Support Unit – Helicopters	3 - 7 3 - 5 3 - 5 10
Intangible Assets	Software licences.	3
Community Assets	Pictures, museum contents and vintage vehicles.	Depreciation is only applicable when appropriate.
Non Operational Assets	Assets Under Construction Surplus Assets Awaiting Disposal	Not depreciated until completed. Depreciation is charged not to Services but to Non Distributed Costs

10. Charges to Revenue for Fixed Assets

Service revenue accounts are debited with the following amounts, to record the real cost of holding fixed assets during the year.

- Depreciation attributable to the assets used by the relevant service;
- Impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the service and other losses where there are no accumulated gains in the Revaluation Reserve against which they can be written off;
- Amortisation of intangible fixed assets attributable to the service.

The MPA is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement. The amount is determined on a prudent basis determined by the MPA in accordance with statutory guidance. The above charges are replaced by the minimum revenue provision in the Statement of Movement on the General Fund Balance.

11. Revenue Expenditure Funded from Capital Under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of a fixed asset, has been charged as expenditure to the relevant service revenue account in the year. Where the authority has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer to the Capital Adjustment Account then reverses out the amounts charged in the Statement of Movement on the General Fund Balance so there is no impact on the final outturn position.

12. Leases

Finance Leases
The MPA accounts for leases as finance leases when substantially all the risks and rewards relating to the leased property transfer to the Authority.

All rentals payable are for low value ground rents which are considered to be immaterial and are charged in full to the Income and Expenditure Account.

Operating Leases

Leases that do not meet the definition of finance leases are accounted for as operating leases. The MPA has a large number of operating leases, mainly in respect of property, but also vehicles. Rentals payable are charged to the relevant service revenue account on a straight-line basis over the term of the lease.

13. VAT

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue & Customs and all VAT paid is recovered from it.

14. Financial Liabilities

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Income and Expenditure Account for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For most of the borrowings that the MPA has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable, interest is charged to the Income and Expenditure Account which is the amount payable for the year contained within the loan agreement.

15. Financial Assets

Financial assets are classified into two types:

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
- Available for sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments

Loans and receivables are initially measured at fair value and carried at their amortised cost. Interest and other income received are based on the capital value of the investment multiplied by the rate of interest. For most of the loans that the MPA has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable, interest is credited to the Income and Expenditure Account with the amount receivable for the year contained within the loan agreement.

The loans made by the MPA are short-term investments consisting of fixed term deposits. The MPA has no Available for Sale Assets.

16. Contingent Assets and Liabilities

The MPA recognises material contingent assets and liabilities, which arise from past events, whose existence can only be confirmed by the occurrence of one or more uncertain future events, which are not wholly within the MPA's control. Details of the extent of the potential liabilities are described in the notes to the balance sheet

17. Stock and Assets Under Construction

Stock is shown in the balance sheet at the lower of cost or net realisable value of the separate groups of stock. Assets under construction are recorded in the Balance Sheet at cost.

18. Private Finance Initiative

PFI contracts are agreements to receive services, where the responsibility for making available the fixed assets needed to provide the service passes to the PFI contractor. Payments made by the MPA under contract are charged to revenue to reflect the value of services received in each financial year. The MPA has entered into two long term contractual agreements under PFI whereby the contractor is responsible for the design, construction, finance and maintenance of four police stations in south-east London and a public order and firearms training centre. 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 34.

Income and Expenditure Account

This summary is presented in Best Value Accounting Code of Practice format as prescribed by CIPFA for the year ended 31 March 2009. For a subjective analysis see Note 1.

Year ending 31 March 2008			Year ending 31 March 2009		
£000		Notes	£000	£000	£000
	Service Expenditure Analysis		**Expenditure**	**Income**	
3,282,715	**Policing Services**	**1, 2, 3**	3,887,626	(387,685)	3,499,941
14,524	Corporate and Democratic Core				17,211
3,171	Non Distributed Cost – Pension	**5**			2,705
3,300,410	**Net Expenditure**	**4, 5, 6, 7 & 8**			**3,519,857**
2,420	Interest payable and similar charges	**9**			7,938
791,900	Police Pensions interest cost	**5**			859,000
(17,063)	Interest and Investment Income				(12,761)
(1,616)	Net gains on disposal of fixed assets	**10**			(12,593)
775,641					**841,584**
4,076,051	**Net Operating Expenditure**				**4,361,441**
	This was financed by:				
(1,505,988)	S102 Greater London Authority Act 1999 Grant	**11**			(1,541,715)
(1,621,173)	Other Grants	**12**			(1,661,047)
(3,127,161)					**(3,202,762)**
948,890	**Deficit Transferred to General Fund**				**1,158,679**

(See Statement of Movement on the General Fund Balance on page 26**)**

Statement of Movement on the General Fund Balance

The Statement of Movements on the General Fund Balances shows how the balance of resources are generated and consumed for the year ended 31 March 2009.

Year ending 31 March 2008			Year ending 31 March 2009
£000		Notes	£000
948,890	**Deficit/(Surplus) for the year on the Income and Expenditure Account**		**1,158,679**
(1,031,274)	Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year	**17**	**(1,214,415)**
(82,384)	**Decrease/(Increase) in movement to the General Fund**		**(55,736)**
74,502	Net transfers to/(from) earmarked reserves	**N**	54,829
(38,900)	General Fund Balance brought forward		(46,782)
(46,782)	**General Fund Balance carried forward**		**(47,689)**

Statement of Total Recognised Gains and Losses

The Statement of Total Recognised Gains and Losses show the total movement in the Authority's net worth for the year ended 31 March 2009.

Year ending 31 March 2008			Year ending 31 March 2009
£000		Notes	£000
948,890	**Deficit/(Surplus) on the Income and Expenditure for the year**		**1,158,679**
(66,191)	Deficit/(Surplus) on revaluation of fixed assets	**A & P**	7,152
(3,106,927)	Actuarial gain on Police Officer Pension Scheme liabilities	**Q**	(1,004,391)
(5,020)	Other gains and losses		5,817
(2,229,248)	**Total recognised gains and losses since last year**		**167,257**

Balance Sheet

The balance sheet shows the financial position of the Metropolitan Police Authority as at 31 March 2009.

31 March 2008		Notes	31 March 2009	
£000			£000	£000
	Fixed Assets			
8,245	**Intangible Fixed Assets**	**A,B**	12,480	
	Tangible Fixed Assets	**A**		
1,591,611	Land and Buildings (L&B)		1,410,162	
228,204	Vehicles, Plant and Equipment (VPE)		232,683	
1,121	Community Assets		1,121	
	Non Operational Assets	**A**		
73,308	Assets under Construction		103,208	
0	Investment Properties		35,565	
2,005	Surplus Assets held for Disposal		2,370	
1,904,494	**Total Fixed Assets**			**1,797,589**
17,011	Long Term Debtors	**D**		15,973
1,921,505	**Total Long Term Assets**			**1,813,562**
	Current Assets			
6,580	Stock	**C**	6,722	
173,759	Debtors	**D**	226,361	
233,000	Short Term Investments	**E**	61,040	
413,339				294,123
2,334,844	**Total Assets**			**2,107,685**
	Current Liabilities			
(357,767)	Creditors	**F**	(366,535)	
(5,000)	Loans Repayable in 12 months		(4,838)	
(4,847)	Cash and Bank Balances		(9,860)	
(367,614)				**(381,233)**
1,967,230	**Total Assets less Current Liabilities**			**1,726,452**
	Long Term Liabilities			
(41,437)	Provisions	**G**		(38,974)
(37,337)	Long Term Borrowing	**H**		(42,500)
(115,711)	Government Grant Deferred	**P**		(148,978)
(11,316)	Unapplied Capital Grants	**P**		(18,228)
(12,434,300)	Police Officer Pension Liability	**L**		(12,317,900)
(10,672,871)	**Total Assets less Liabilities**			**(10,840,128)**
	Financed by: **Accounting Reserves**			
53,910	Revaluation Reserve	**P**	36,496	
1,380,212	Capital Adjustment Account	**P**	1,120,301	
1,434,122				**1,156,797**
	Pension Reserve			
(12,434,300)	Police Officer Pension Reserve	**Q**		(12,317,900)
	Usable Reserves			
81,707	Usable Capital Receipts Reserve	**O**	26,539	
5,000	Earmarked Capital Reserves	**O**	5,000	
24,019	Capital Grant Reserve	**O**	17,119	
46,782	General Revenue Reserve	**N**	47,689	
169,799	Earmarked Revenue Reserves	**N**	224,628	
327,307				**320,975**
(10,672,871)	**Total net worth**			**(10,840,128)**

Cash Flow

The consolidated statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes for the year ended 31 March 2009.

Year ending 31 March 2008 £000		Note	Year ending 31 March 2009 £000
	Outflow		
2,199,211	Pay to officers and staff		2,272,283
1,089,127	Other operating expenditure		1,236,734
	Inflows		
(19,751)	Rent		(19,200)
(156,888)	Sale of goods and services		(163,076)
(3,080,105)	Revenue grants (see below)		(3,163,571)
(144,703)	Other receipts		(166,886)
(113,109)	**Cash flow from Revenue Activities**	**S**	**(3,716)**
	Returns on Investments and Servicing of Finance		
2,420	Interest paid		1,857
(15,039)	Interest received		(10,062)
(12,619)	**Net cash inflow from Investment activity**		**(8,205)**
	Capital Activities		
146,486	Purchase of fixed assets		280,806
(64,466)	Sale of fixed assets		(27,629)
(58,874)	Capital grants received		(59,283)
23,146	**Net cash outflow from capital activities**		**193,894**
	Management of Liquid Resources		
94,000	Purchases/(sales) of short term investments		(171,960)
	Financing Activities		
15,000	Repayment of loans		5,000
	Loans raised		(10,000)
6,418	**(Increase)/Decrease in cash**	**T**	**5,013**

An analysis of grants can be found in the notes 11 and 12 to the revenue account.

Notes to the Financial Statements of the Metropolitan Police Authority

This set of notes represents the consolidated notes for the statement of accounts for 2008/09 as presented in the preceding pages 25 to 28.

Notes to the Income and Expenditure Account

1. Net Expenditure

Operating revenue income and expenditure for the year to 31 March 2009 is presented in subjective analysis format below:

	2008/09 £000	2007/08 £000
Expenditure		
Employee Costs		
Police Officer Salaries	1,506,391	1,458,335
Police Staff Wages and Salaries	545,951	523,805
Police Officer & Police Staff Allowances and Training Expenses	219,942	216,521
Net Police Officer Pensions	431,176	500,075
Net Police Staff Pensions	114,659	107,603
Premises-related	231,854	205,822
Transport-related	68,768	64,473
Supplies and Services	431,454	438,524
Capital Charges	357,347	104,388
Total Gross Expenditure	**3,907,542**	**3,619,546**
Income		
Fees and Charges	(161,441)	(155,005)
Other Income	(226,244)	(164,131)
Net Expenditure	**3,519,857**	**3,300,410**

2. The Service Expenditure Analysis (SEA)

The Income and Expenditure Account is presented in accordance with the CIPFA Best Value Accounting Code of Practice (BVACOP), which sets out the service category under which expenditure should be analyzed. The definition of the Service types is under revision by the Best Value Code of Practice, and for this year the analysis is combined into one, for Police Services.

3. National Police Services

The Policing Services includes an amount for National Police Services of £583 million, (2007/08 £590.3 million) which 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 relevant grant from central government for these activities amounted to £501.2 million (2007/08 £397.5 million)

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 and the primary residence of the Royal Family;
- Responding to London being the national focus for celebration, demonstration, national history, tourism and culture, entertainment and 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	
	2008/09	2007/08
50,000-59,999	6,808	6,375
60,000-69,999	2,395	1,866
70,000-79,999	395	394
80,000-89,999	152	126
90,000-99,999	50	40
100,000-109,999	24	21
110,000-119,999	8	14
120,000-129,999	6	5
130,000-139,999	2	5
140,000-149,999	6	3
150,000-159,999	1	2
160,000-169,999	3	2
170,000-179,999	3	2
180,000-189,999	1	1
190,000-199,999	1	1
200,000-209,999	0	1
210,000-219,999	1	1
220,000-229,999	0	0
230,000-239,999	0	0
240,000-249,999	1	0
250,000-259,999	0	1
260,000-269,999 to 300,000-309,999	0	0
310,000-319,999	1	0
320,000-329,999 to 570,000-579,999	0	0
580,000-589,999	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, compensation for the loss of office and may also include back dated pay awards, which relate to previous years but were actually paid in the years in question.

Employee Numbers

Actual full-time equivalent employee numbers are categorised as follows:

	Number of Employees	
	2008/09	2007/08
Police Officers	32,543	31,398
Police Staff	14,217	14,070
PCSO	4,566	4,226
Traffic Wardens	273	294

5. Pension Costs

As part of the terms and conditions of employment the Authority offers retirement benefits for Police Officers and Police Staff. A full description of both schemes is set out in notes L and M to the Balance Sheet.

Non distributed costs includes the additional expenditure borne by the Authority in respect of police officers' past service costs (as required by FRS 17) and police staff early retirement costs.

Police Officers

In the year to 31 March 2009, the net costs of pensions and other benefits amounted to £431.2 million, representing 36.9% of pensionable pay.

A separate pension scheme, the 2006 Police Officer Pension Scheme (NPPS) has been created for police officers. This operates in parallel to the present Police Pensions Scheme (PPS). The accounts for both NPPS and PPS can be viewed on pages 57 to 59.

In accordance with FRS 17 requirements, a reserve showing the total liability of the Police Officer Pension Fund is included in the MPA Balance Sheet. The MPA pays employer contributions at a rate of 24.2% of pensionable salary into the Fund. The charge in the Income and Expenditure account that the Authority is required to make is based on the actuarially calculated cost.

The following transactions have been made in the Income and Expenditure account during the year:

	2008/09 £000
Current service cost	423,000
Past service costs	0
Interest cost	859,000
Movement in pensions reserve	(887,991)
Contributions to pension fund	394,009

- Current and past service costs have been produced by actuaries (see note L to the Balance Sheet).
- Interest on pension liability represents the expected increase during the year in the present value of the scheme liabilities because the benefits are one year closer to settlement.
- Pension Reserve movement represents a net increase in the Pensions Reserve as analysed in the Statement of Total Recognised Gains and Losses.
- Contributions to pension fund is the actual amount paid by the Authority on behalf of Officers during the year to the Pension Fund.

Note L to the Balance Sheet contains details of the assumptions made in estimating the figures included in this note. The notes to the Statement of Total Recognised Gains and Losses on page 26 shows the reasons for the increase in the pension reserve.

Police Staff

In the year to 31 March 2009, the net costs of pensions amounted to £114.7 million (£107.6 million 2007/08), representing 20.4% of pensionable pay (20.0 % 2007/08).

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

6. Leases

Land and Buildings

The MPA recognises two property leases with original lease terms of 99 years as finance leases. Charing Cross Police Station and Chalk Farm Estate, which have lease expiry dates of April 2077 and March 2034 respectively, are recognized as finance leases on page 32.

The MPA entered into a lease agreement for a third property in June 2005 for a period of 125 years. This agreement enabled the MPA to establish a police office at the community centre at Loughborough Junction. Only a peppercorn ground rent is payable.

The following values for land and buildings of the above three assets held under finance leases by the MPA, are accounted for as part of Tangible Fixed Assets.

	Land and Building £000
Value as at 1 April 2008	57,239
Revaluations	1,399
Impairment	(9,901)
Depreciation	(554)
Value as at 31 March 2009	48,183

There are also a number of long-term ground leases for land, on which the MPA has constructed police stations or blocks of residential flats. No long-term liability for the obligation relating to these ground leases is recognised on the Balance Sheet as the amount is not material, and the lease payments are not split between capital and interest elements. The land (and building) values are accounted for as Tangible Fixed Assets at current value.

In the year to 31 March 2009, the Authority spent £44.6 million on operating leases for property (£43.6 million in 2007/08) and £1.5 million on operating leases for vehicles (£0.3 million in 2007/08). In the same year the Authority received £17.6 million in respect of operating leases where it is the lessor (£17.3 million in 2007/08).

The Authority spent £0.02 million on finance leases for land and buildings (£0.02 million in 2007/08). In practice this expenditure is for ground leases only. Rental income was received for residential flats, which were constructed by the MPA on the leased land, and are considered to be not material.

Outstanding commitments in respect of all leases at 31 March 2009 are due to expire as follows:

	31 March 2009		31 March 2008	
Future Periods	**Property £000**	**Vehicles £000**	**Property £000**	**Vehicles £000**
Finance Leases				
In year 1	0	0	0	0
Between 2 and 5 years	0	0	0	0
More than 5 years	20	0	20	0
Operating Leases				
In year 1	3,007	408	2,000	312
Between 2 and 5 years	8,086	1,101	5,284	1,579
More than 5 years	31,026	0	36,978	0

7. Members' Allowances and Expenses

A total of £392,046 was paid in 2008/09 (2007/08 £281,214) in respect of allowances and expenditure payable to Members.

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 £4.8 million in the period and is analysed below:

	2008/09 £000	2007/08 £000
Staff recruitment advertising	2,706	3,237
Other publicity	2,093	2,259
Total	**4,799**	**5,496**

Other publicity costs relate to publications advertising the MPA and the MPS in local press, attending community events and monitoring press reports of the MPA and MPS.

9. Interest payable and Similar Charges

This represents the interest cost of loans taken out with the Public Works Loans Board which in 2008/09 amounted to £1.86m (2007/08 £2.4 million) and also an amount of £6.08m has been charged as a result of the impairment of Icelandic Bank investment (see page 53). The impairment sum is made up of impairment of the capital sum invested in Landsbanki of £1.5 million representing 5% of the debt (in accordance with CIPFA guidance) and £4.58 million discounting the recoverable amount (£30 million less £1.5 million) to present day terms.

10. Gains and Losses on disposal

The following gains and losses were made on disposal of fixed assets during the year: -

	2008/09			2007/08		
	Property £000	VPE £000	Total £000	Property £000	VPE £000	Total £000
Gains	13,144	36	13,180	0	1,618	1,618
Losses	(583)	(4)	(587)	0	(2)	(2)
Net	12,561	32	12,593	0	1,616	1,616

The gains and losses on disposal of assets, as disclosed above, excludes all minor proceeds below £10,000 from the sale of vehicles that have reached the end of their useful economic life.

11. 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 2008/09 were as follows:

	2008/09 £000	2007/08 £000
Revenue Support Grant	107,136	123,100
Non-Domestic Rates	769,609	733,888
Police Precept	664,970	649,000
Total	**1,541,715**	**1,505,988**

12. Other Grants

Other revenue grants received during 2008/09 were:

	2008/09 £000	2007/08 £000
Police Revenue Grant (including amendment grants)	1,053,285	1,026,712
Crime Fighting Fund	72,980	72,980
Counter-Terrorism/ Special Operations	377,784	372,657
Airwave Revenue	2,227	1,920
PCSO & Neighbourhood Policing Funding	96,305	97,608
Loan Charges	(830)	2,125
Local Authority Partnership Receipts	45,092	38,102
Olympic and Paralympic Games 2012 Funding	8,207	4,012
London Safety Camera Partnership	5,997	5,057
Total	**1,661,047**	**1,621,173**

13. Private Finance Initiative (PFI)

The Authority has entered into two long-term contractual agreements under the PFI whereby the contractor is responsible for design, construction, finance and maintenance of four police stations in south-east London and a public order and firearms training centre. The agreements impose 25-year commitments on the Authority from occupation/use of the new facilities. The unitary charge for 2008/09 is £16.8 million (£15.7 million in 2007/08) for the police stations and £8.6 million (£8.4 million in 2007/08) for the training centre. 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 £622.1 million. There are no assets included in the Balance Sheet related to these two agreements.

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 FRS 5 the charge represents a notional increase in the unitary charge, which would have arisen, had the Authority not made a lump sum payment to the contractor in advance of services provided (see note D to the Balance Sheet, for net written down value of payment).

14. Related Party Transactions

FRS 8 (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:

	2008/09 £000	2007/08 £000
Expenditure		
Forensic Science Services	33,136	35,383
Income (net)		
Immigration Services	2,201	4,039
Special Service Agreements	61,787	58,442
National Identification Service	2,585	5,019
Transport for London	65,589	68,173
City of London Police	221	325
National Crime Squad	194	743
National Criminal Intelligence Service	0	23
SOCA	303	303
ACPO TAM	18,505	18,113
Seconded Officers	13,748	10,774

The Authority is required to disclose any material transactions with related parties - bodies or individuals that have the potential to control or influence the Authority or to be controlled or influenced by the Authority. Disclosure of these transactions allows readers to assess the extent to which the Authority might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Authority. This disclosure note has been prepared on the basis of specific declarations obtained in April 2009, in respect of related party transactions.

The Authority is one of the functional bodies of the Greater London Authority (GLA) group – the other bodies being London Fire Brigade, Transport for London and the London Development Agency. The Authority is made up of 23 members, twelve of whom are appointed by the Mayor from the Greater London Assembly. In addition to appointing members to the Authority, the Mayor sets the budget of the MPA, subject to the Home Secretary's reserve power to set a minimum budget for the MPA. The London Assembly approves the Mayor's budget for the police and is able to summon members of the MPA to answer questions at Assembly meetings. Monies received from the GLA in the form of grants and precepts are disclosed in note 11.

Cindy Butts MPA member and Sir Paul Stephenson Commissioner are both trustees of the Safer London Foundation. Cindy Butts took over the role from Lord Toby Harris MPS, during the year. The Authority provided £534,000 to the Foundation in 2008/09.

15. Auditors Remuneration

The audit fee payable to the Audit Commission during the year totalled £510,000 (2007/08 £509,850).

During 2008/09 the Audit Commission ran a workshop on Fraud Awareness for the Authority at a cost of £50,000

16. Local Area Agreements

There are a number of Local Area Agreements (LAA's) representing the 32 London Boroughs. The amounts relating to the LAA's are included within the Local Authority Partnership Receipts on page 33. Not all of the amounts receipted can be attributed to LAA's as other amounts are provided from sources not related to LAA's.

Notes to the Statement of Movement on the General Fund Balance

17. General Fund Balance

The general fund shows the level of resources available to the Authority after setting aside earmarked reserves, to fund future unknown costs. The statement includes all the items that are required by statute and non-statutory proper practices to be adjusted against the deficit brought forward from the income and expenditure account. After making these accounting adjustments the surplus for the year was £55.736 million (2007/08 surplus of £82.384 million). This was added to the General Fund after allocating part to earmarked reserves. A schedule of these items is shown below:-

	Notes	2008/09 £000	2007/08 £000
Amounts to be excluded from the General Fund			
Depreciation and Impairment adjustment	**A**	(357,347)	(104,388)
Gains on disposals of assets	**10**	12,593	1,616
Contributions to/(from) Pensions Reserve	**5**	(887,991)	(966,827)
Contribution to PFI unitary charge	**13**	(320)	(320)
Revenue expenditure financed from capital under statute		(6)	0
Amounts previously not included in Income and Expenditure			
Minimum revenue provision adjustment	**18**	14,186	13,635
Revenue Contributions to Capital	**A**	4,470	25,010
Total		**(1,214,415)**	**(1,031,274)**

The accounting adjustments comprise amounts included in the income and expenditure account but required by statute to be excluded when determining the movement on the general fund balance for the year and amounts not included in the Income and Expenditure account but required to be included by statute when determining the movement on the General Fund balance for the year.

18. Minimum Revenue Provision

The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, as amended by the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008, require the Authority to charge to the statement of movement in general fund balance a prudent level of minimum revenue provision (MRP) for the redemption of debt. For 2008/09 the Authority has made an MRP charge based on:

- the capital financing requirement method for borrowing undertaken prior to 2008/09, and any borrowing undertaken during the year supported through the revenue grant settlement; and
- the depreciation method for unsupported borrowing undertaken in 2008/09 as permitted by the flexibilities provided under the Prudential Code.

An Annual Statement detailing how MRP should be calculated forms part of the formal setting and review of the Prudential Indicators, which are included in the annual Treasury Management Strategy. The MRP amount for 2008/09 was £14.2 million (2007/08 £13.6 million) with a corresponding charge to the Capital Adjustment Account.

19. Capital Charges

Capital Charges include impairments of buildings, land and investments.

Notes to the Balance Sheet

A. Fixed Assets

	Intangible Fixed Assets	Tangible Fixed Assets			Non Operational Assets			Comm-unity Assets	Total
		Land and Buildings – Operational	Land and Buildings - Residential	Vehicles Plant and Equipment	Assets under Constru-ction	Investment Properties	Surplus Assets		
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Gross book value as at 1 April 2008	**25,718**	**1,438,297**	**196,652**	**494,259**	**73,308**	**0**	**2,050**	**1,121**	**2,231,405**
Transfers – (Reclassification)	5,981	14,196	(51,851)	31,161	(54,273)	52,048	2,428	0	(310)
Additions	2,381	152,371	1,948	57,002	84,174	0	0	0	297,876
Other Additions	0	0	0	18	0	0	0	0	18
Exp not increasing value	0	(2,980)	0	0	0	0	0	0	(2,980)
Disposals	0	(4,640)	(8,474)	(12,657)	0	0	(2,050)	0	(27,821)
Impairment consumption of economic life	(24)	(62,294)	0	(3,697)	0	0	0	0	(66,015)
Impairment fall in prices	0	(229,227)	(36,805)	0	0	(17,567)	0	0	(283,599)
Redundant depreciation	(14,587)	0	0	0	0	0	0	0	(14,587)
Revaluations	0	45,788	10,345	0	0	1,560	0	0	57,693
Capital adjustment	0	(18)	0	21	0	0	0	0	3
Gross book value at 31 March 2009	**19,469**	**1,351,493**	**111,815**	**566,107**	**103,209**	**36,041**	**2,428**	**1,121**	**2,191,683**

Accumulated depreciation as at 1 April 2008	**(17,473)**	**(41,352)**	**(1,986)**	**(266,055)**	**0**	**0**	**(45)**	**0**	**(326,911)**
Depreciation for the year	(4,217)	(38,895)	(1,678)	(81,512)	0	0	0	0	(126,302)
Redundant depreciation	14,587	25,526	1,986	0	0	0	0	0	42,099
Depreciation on assets sold	0	73	124	11,347	0	0	45	0	11,589
Depreciation on transferred assets	105	254	279	(97)	(1)	(476)	(58)	0	6
Depreciation on impaired assets	9	2,523	0	2,893	0	0	0	0	5,425
Total Depreciation	**(6,989)**	**(51,871)**	**(1,275)**	**(333,424)**	**(1)**	**(476)**	**(58)**	**0**	**(394,094)**
Net book value at 31 March 2009	**12,480**	**1,299,622**	**110,540**	**232,683**	**103,208**	**35,565**	**2,370**	**1,121**	**1,797,589**
Net book value at 31 March 2008	**8,245**	**1,396,945**	**194,666**	**228,204**	**73,308**	**0**	**2,005**	**1,121**	**1,904,494**

The Authority's property portfolio which is located throughout London's 32 boroughs includes 137 police stations (2007/08 - 139), 692 residential properties (2007/08 - 715) and 374 other operational buildings (2007/08 - 373) including Safer Neighbourhood bases, patrol bases, headquarter buildings and offices.

The Authority also operates 5,276 patrol cars motorbikes and other vehicles (2007/08 4,764), 34 boats including inflatables and dinghies (2007/08 – 25), the radio network was de-commissioned (2007/08 30,351), 48,498 airwave terminals (2007/08- 51,343) and 3 helicopters (2007/08 - 3).

Basis of valuation

The operational property portfolio was revalued as at 1 April 2008 as part of the revaluation programme. For the revaluation programme 20% of the assets are physically inspected whilst 80% are revalued on a desktop basis. This approach is part of a rolling programme of revaluations that is conducted by G. L. Hearn Ltd and Drivers Jonas (both members of the Royal Institute of Chartered 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 and a value shown in the accounts as at 31 March 2009 in line with accounting policies.

Following the deteriorating market conditions throughout 2008/09 the Authority requested an impairment review of our operational and residential portfolio, as at 31 March 2009. For the residential portfolio, the external surveyor (Drivers Jonas) stated that the property indices show a fall on average of 15% in London. For specialised properties, the external surveyor (Hearn's) stated that a fall of 5% for buildings and 30% for land, and for non-specialised properties a fall of 30% for both land and buildings was indicated.

The impact of the fall in value is partly met by any earlier gains held in the Revaluation Reserve. Any losses in excess of these earlier gains is charged to the Capital Adjustment Account

Buildings under construction are valued on the basis of the associated land value plus the cumulative construction costs incurred at 31 March 2009.

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, vehicles, furniture and museum pieces, which are at present in long-term storage, which have been gifted over many years.

During the year, transfers of £54.3 million were made for those assets under construction, which were completed and became operating assets.

Revaluation Reserve

The closing balance on the Revaluation Reserve of £36.5 million at 31 March 2009 (2007/08 £53.9m). This reduction is due to the large fall in property prices during 2008/09.

Redundant Depreciation

The redundant depreciation figure totalling £ 27.5 million in the above table is an offset to amounts arising from the new valuation for property, which gives a more accurate figure for the value of land and buildings. The balances for accumulated depreciation for these buildings become redundant and should not be carried forward in the Balance Sheet, but are written off.

Impairment Review

Final Impairment reviews were performed at the year-end on Land and Buildings and on Vehicles, Plant and Equipment. No further impairment of capital expenditure was identified beyond that which was identified during the year either as a result of the property revaluation process or as a result of accident damage and obsolescence.

Capital Expenditure

Items of capital expenditure for the year were:

	2008/09 £000	2007/08 £000
Intangible Assets	2,381	3,608
Tangible Assets		
Land and Buildings	154,030	23,213
Plant and Equipment	554	184
Information Technology	39,624	51,962
Vehicles	16,802	15,233
Assets under construction	84,174	53,251
Sub total	**297,565**	**147,451**
Deferred Charge	0	339
Total	**297,565**	**147,790**

Sources of Capital Finance

	2008/09 £000	2007/08 £000
Capital payments to be financed	**297,565**	**147,790**
Supported Borrowing	19,635	19,635
Unsupported Borrowing	131,392	7,464
Other contributions	873	4,540
Capital grants	58,398	37,126
Capital receipts	83,108	54,015
Revenue contribution	4,470	25,010
Aborted Projects	(311)	0
Total financing	**297,565**	**147,790**

All Prudential Code indicators are approved by the full Authority prior to the start of the financial year as required by statute and are monitored on a monthly basis throughout the financial year.

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

	Error! Reference source not found.**2009/10 and later years £000**	**2008/09 and later years £000**
IT various projects	33,314	25,874
Building works	290	18,177
Vehicles, Plant & Equipment	8,522	10,494

Application of the Prudential Code

In carrying out its duties under Part 1 of the Local Government Act 2003 the Authority is required to have regard to the Prudential Code. The Code was developed by CIPFA as a professional code of practice to support local authorities in taking decisions for capital investment in fixed assets. 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. The Authorised Limit for 2008/09 was £234.4 million. The Operational Boundary was £220.8 million.

B. Intangible Fixed Assets

Intangible Assets consist of software licences and agreements, which have, on average, a useful economic life of three years. During 2008/09 £2.38 million was incurred on software licences.

C. Stocks

	At 31 March 2009 £000	**At 31 March 2008 £000**
Uniforms	4,250	4,098
Transport & Air Support Unit	1,278	1,312
Heating Oil	775	779
Catering goods	419	391
Balance	**6,722**	**6,580**

D. Amounts owed to the Authority

	At 31 March 2009 £000	**At 31 March 2008 £000**
Long Term Debtors:		
HMCS/NPS repayment of MPS debt	9,893	10,511
PFI Contribution	6,080	6,400
Trade Debtor	0	100
Balance	**15,973**	**17,011**
Other Debtors:		
Staff Advances	2,595	2,475
Government Departments	115,610	62,409
General Debtors	5,313	4,100
Other Local Authorities	22,057	18,514
HMCS/NPS	3,869	2,740
Payments in Advance and Accrued income	64,873	72,667
Customs and Excise	12,757	11,754
	227,074	174,659
Less Bad Debt Provision	713	900
Balance	**226,361**	**173,759**

HMCS – Her Majesty's Court Services, NPS - National Probation Service

E. Short Term Investments

This amount represents short term and overnight deposits with banks and building societies. Investments in Short Term Investments figure include two investments in Landsbanki Island HF (totalling £25 million) that have been impaired because of financial difficulties being experienced by Icelandic banks. The investments were made in 2008. The carrying amounts of the investments included in the balance sheet have been calculated using the present value of the expected repayments, discounted using the investment's original interest rates (approximately 6% for both). Interest credited to the income and expenditure account in respect of the investments of £1.116 million has yet to be received.

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

	At 31 March 2009 £000	At 31 March 2008 £000
Receipts in advance	(11,226)	(22,599)
Government Departments	(80,829)	(72,058)
General Creditors	(269,991)	(258,621)
HMCS/NPS	(4,489)	(4,489)
Balance	**(366,535)**	**(357,767)**

G. Provisions

	At 31 March 2009 £000	At 31 March 2008 £000
Third party liabilities	32,014	34,444
General Provisions	6,960	6,718
Building Dilapidations	0	275
Balance	**38,974**	**41,437**

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 2009 for £32.0 million (2007/08 £34.4 million). Over the course of the year agreed claims have been paid from this account amounting to £12.0 million.

General Provision including tax liabilities –

- Provision for the reimbursement to officers of tax deducted in respect of Compensatory Grant - £1.7 million
- Provision for a repayment of tax and National Insurance - £1.5 million
- Rent on properties - £0.2 million
- Other - £3.5 million

H. 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 2009 £000	At 31 March 2008 £000
PWLB loans	**42,500**	**37,337**
Analysis of loans by maturity:		
Between 1 and 2 years	500	4,337
Between 2 and 5 years	1,500	0
Between 5 and 10 years	8,500	4,000
Over 10 years	32,000	29,000

I. 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 notes on pages 46-51.

J. Contingent Liabilities and Assets

The Authority will complete a lease on a property on the Freshwharf Estate once it has been constructed, pursuant to a development agreement that has been entered into. The term of the lease is 20 years, at an annual rent in the region of £0.45 million.

K. 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 in the Balance Sheet. The principal funds are described below. Authority staff administer the Metropolitan Police Authority Police Property Act Fund and the Metropolitan Police Detained Monies Account on behalf of the Authority and the remaining funds on behalf of their respective governing bodies. Details of the principal funds, together with their income and expenditure for their respective financial years which ended during the twelve months to 31 March 2009 and values at their financial year-end dates are given below. Not all of the figures have been audited:

Fund Name	Income £000	Expendi-ture £000	Assets £000	Liabil-ities £000
M.P.A.P.P.A.F.	934	757	2,207	51
M.P.A.D.M.A.	1,247	651	7,520	15
M.P.C.B.F.	1,598	1,331	1,454	81
M.C.P.R.F.	321	365	1,188	106
M.P.W.W.F.	45	403	522	72
M.P.C.H.F.	970	1,167	293	90
M.P.C.F.	26	46	372	9
M.P.S.F.	904	949	461	49
M.P.C.S.W.F	40	17	263	1
M.P.A.A.	593	626	2,655	68
M.P.S.C	904	949	461	49
COMETS	45	45	96	0
Other Funds	7,511	7,488	5,508	1,532
TOTAL	**15,138**	**14,794**	**23,000**	**2,123**

M.P.A.P.P.A.F. - Metropolitan Police Authority Police Property Act Fund

Regulations under the Police (Property) Act 1897 and its subsequent amending legislation permit police to retain the proceeds from the disposal of property that comes into police possession in connection with a criminal charge (or suspicion of a criminal offence being committed) where the owner has not been ascertained or no court order has been made. The legislation stipulates that the income is to be used to meet the cost of the storage and sale of the property with any residual funds being used for charitable purposes in accordance with directions of the force's police authority. The MPAPPAF is used for this purpose. Until 31 March 2004 it was also used to hold for the time being money that had been detained from persons suspected of criminal activity. Since 1 April 2004 such money has been paid into the Metropolitan Police Detained Monies Account (see below).

M.P.A.D.M.A. - Metropolitan Police Authority Detained Monies Account

As stated above, until 31 March 2004 the MPAPPAF was used to hold for the time being money that had been detained from persons suspected of criminal activity, such money being retained pending a decision as to its disposal. Since 1 April 2004 detained money has been paid into the MPADMA.

M.P.C.B.F. - Metropolitan Police Combined Benevolent Fund

This registered charity receives monthly contributions from police officers and donations and bequests from members of the public. This income is distributed on a proportionate basis (decided annually by the fund's Trustees) between the following four registered charities:-

- Metropolitan and City Police Relief Fund
- Metropolitan Police Widows' and Widowers' Fund
- Metropolitan Police Convalescent Home Fund
- Metropolitan and City Police Orphans Fund

The first three mentioned charities are administered by Authority staff and are described below. The Orphans Fund is a joint charity with the City of London Police and is not administered by Authority staff.

M.C.P.R.F. – Metropolitan and City Police Relief Fund

This registered charity may give financial assistance by way of grant or interest-free loan to serving police officers considered to be deserving of assistance on account of sickness (whether of themselves or their families) or of injuries received in the discharge of their duties or for other reasons. Former police officers are also eligible for assistance (by grant only). (Despite the implication in the title, City of London Police officers do not contribute to the fund and do not benefit from it.)

M.P.W.W.F. - Metropolitan Police Widows' and Widowers' Fund

This registered charity gives financial assistance by way of grants to deserving cases among widows and widowers of former police officers. Grant towards the cost of a widow's or widower's funeral may also be made if the deceased's relatives are unable to afford it. The fund may also make grants and loans to serving officers and grants to former officers.

M.P.C.H.F. - Metropolitan Police Convalescent Home Fund

This registered charity channels police officers' contributions to The Police Rehabilitation Centre at Goring-on-Thames which provides residential convalescence facilities to Metropolitan Police officers and to officers from other police forces to help promote a speedy recovery from illness or injury.

M.P.C.F. - Metropolitan Police Commissioner's Fund

This registered charity was established to help promote the efficiency and well-being of Metropolitan Police officers and staff. Although this may be achieved in a variety of ways as defined in the governing document, assistance is invariably in the form of a monetary grant or loan to members of the Metropolitan Police or to Metropolitan Police organisations.

M.P.S.F. - Metropolitan Police Sports Fund

This registered charity receives monthly contributions from police officers for sporting, athletic and other recreational activities. The major part of the income is distributed to the four principal sports clubs (see below). Financial assistance is also given to five area sports and social clubs.

M.P.A.A. - Metropolitan Police Athletic Association

The MPAA is the umbrella organisation for 50 sporting sections of the Metropolitan Police. Each section is individually run but can receive assistance from the Association for its activities.

M.P.S.C. – Metropolitan Police Sports Clubs –

There are the four principal Metropolitan Police sports clubs located at Bushey, Chigwell, Hayes and Imber Court.

M.P.C.S.W.F. – Metropolitan Police Civil Staff Welfare Fund –

This registered charity provides financial assistance to members and past members of police staff, their families and dependants who are in need.

Metropolitan Police Sports and Social Association COMETS –

The aim of the COMETS is the promotion of sports, social and recreational activities for MPA staff, serving or retired.

Other Funds –

A further 99 other funds administered by Authority staff have submitted returns containing financial details relating to their activities. These funds are mainly local sports and social clubs or savings clubs and service-wide organisations or associations. The figures are only in respect of 69 of these clubs etc. whose income or expenditure in their last financial year exceeded £10,000 or whose funds at their respective year-end dates exceeded £10,000.

Operational Responsibilities

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

	£000
Proceeds of Crime Act monies	36,371
Drug Trafficking Offences Act monies	1,245
Prisoners' property and lost cash	560
Other	9,896
Total	**48,072**

In addition, the Authority also holds non cash assets which are not valued in the above table.

The prisoners' property and lost cash relates to the total amount held in property stores at 31 March 2009 and has therefore been stated separately from the Police Property Act Fund value.

L. 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.

There are two pension schemes, the Police Pension Scheme and the New Police Pension Scheme for police officers. These are both unfunded defined benefit schemes, 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 both schemes; in 2008/09 this amounted to £122.5 million. In 2008/09, employer pension contributions have been charged to the revenue account on the basis of pensions payable in the year and totalled £263.9 million. Both schemes are accounted for in the statement of accounts of the Police Pensions Fund on pages 57 to 59.

The Authority had the following overall liabilities for pensions at 31 March 2009 that have been included in the balance sheet:

	31 March 2009	31 March 2008
Estimated liabilities in the scheme	**£ million**	**£ million**
Officer members	5,595	6,038
Deferred Pensioners	343	323
Pensioners	6,380	6,073
Total value of scheme liabilities	**12,318**	**12,434**

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 2009.

The main assumptions used in their calculations are:

	2008/09	2007/08
Rate of inflation	3.1%	3.6%
Rate of increase of salary (*note i*)	4.6%	5.1%
Rate of increase in pensions	3.1%	3.6%
Rate for discounting scheme liabilities (*note ii*)	6.9%	6.9%

i. Future salary increases are assumed to be within an acceptable range.
ii. The current discount rate is determined by reference to the market yield on high quality corporate bonds.

The movement in the scheme liabilities for the year to 31 March 2009 can be analysed as follows:

	2008/09	2007/08
	£ million	**£ million**
Deficit in scheme at beginning of the year	**(12,434)**	**(14,574)**
Movement in year:		
Current service cost including Home Office contribution.	(423)	(499)
Employer contributions	394	325
Transfers from / to other authorities	0	0
Past service cost (injury benefits)	0	(1)
Interest cost on pension liabilities.	(859)	(791)
Actuarial gain / (loss)	1,004	3,106
Scheme liabilities at 31 March	**(12,318)**	**(12,434)**

The actuarial gain can be further analysed as follows:

	2008/09 £ million	2007/08 £ million
Other experience gains/(losses) on liabilities	420	204
Actuarial gain / (loss)	1,004	3,106
Present value of liabilities	12,318	12,434

M. Police Staff Pensions Liabilities

The PCSPS is an unfunded multi-employer defined benefit scheme (see Statement of Accounting Policies on page 20 for details of membership) but the Metropolitan Police Service is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation as carried out as at 31 March 2009. Details can be found in the resource accounts of the Cabinet Office, who administer the fund.

For 2008/09, employers' contributions of £114.7million were payable to the PCSPS at one of four rates in the range 17.1 to 26.5 percent of pensionable pay, based on salary bands. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the Scheme.

N. Usable Revenue Reserves

	Balance as at 1 April 2008 £000	Transfer To £000	Transfer from £000	Balance as at 31 March 2009 £000
Earmarked Revenue Reserves				
Accommodation strategy/Property related costs				
Dilapidations	(8,977)	(3,750)	0	(12,727)
Property Related Costs	(24,617)	0	50	(24,567)
PFI Contract	(456)	0	253	(203)
Total of Accommodation strategy/Property related costs	**(34,050)**	**(3,750)**	**303**	**(37,497)**
Operational costs				
Communications Project	(8,656)	0	0	(8,656)
Insurance Indemnity Fund	(340)	(340)	0	(680)
ICT contract issues	(1,895)	0	1,162	(733)
Kickz	(3,000)	0	1,100	(1,900)
Laming Enquiry	(15)	0	15	0
Legal Costs	(1,455)	0	0	(1,455)
Motor Insurance	(1,302)	(822)	0	(2,124)
Operational Costs	(47,230)	(8,781)	4,668	(51,343)
POCA	(6,719)	(937)	6,175	(1,481)
Protective Clothing	(354)	0	0	(354)
Publicity	(200)	0	150	(50)
Pump Priming Fund	(2,000)	0	0	(2,000)
Support for the Capital Programme	0	(22,000)	0	(22,000)
Systems	(192)	0	0	(192)
TP Youth Violent Crime	0	(4,016)	915	(3,101)
Vehicle Recovery Services	(3,200)	0	0	(3,200)
Total of Operational costs	**(76,558)**	**(36,896)**	**14,185**	**(99,269)**
Revenue support to capital re-phasing				
Capital Programme Re-phasing	(9,700)	(4,845)	0	(14,545)
Total of Revenue support to capital re-phasing	**(9,700)**	**(4,845)**	**0**	**(14,545)**
Budget Pressures				
Budget Pressures	(9,545)	(12,084)	2,058	(19,571)
Cost Recovery Fund	0	0	0	0
Total of Budget Pressures	**(9,545)**	**(12,084)**	**2,058**	**(19,571)**
Major change programmes				
Modernisation Programmes	(16,097)	(13,626)	1,350	(28,373)
Total of Major change programmes	**(16,097)**	**(13,626)**	**1,350**	**(28,373)**
MPA initiatives				
MPA	(756)	(684)	276	(1,164)
Total of MPA initiatives	**(756)**	**(684)**	**276**	**(1,164)**
Total Earmarked Revenue Reserves excl. Emergencies Contingency Fund	**(146,706)**	**(71,885)**	**18,172**	**(200,419)**
Emergencies Contingency Fund				
Emergencies Contingency Fund	(23,093)	0	0	(23,093)
Total Emergencies Contingency Fund	**(23,093)**	**0**	**0**	**(23,093)**
Financial Instrument Adjustment A/C	**0**	**(1,116)**	**0**	**(1,116)**
Total Earmarked Revenue Reserves inc. Emergencies Contingency Fund	**(169,799)**	**(73,001)**	**18,172**	**(224,628)**
Net Movement in Earmarked Revenue Reserves		**(54,829)**		
General Revenue Reserve	**(46,782)**	**(907)**	**0**	**(47,689)**
Net Movement in Revenue Reserves		**(55,736)**		

Accommodation strategy/Property related costs

Dilapidations
The reserve will be used to fund future expenditure on properties the leases for which have been terminated and result in additional costs.

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

PFI Contracts
To fund part of the costs of a PFI property development.

Operational costs

Communications Project
Monies set aside to provide for the development of an integrated communications system for the MPS.

Insurance Indemnity Reserve.
To provide for the cost of a Personal Insurance Indemnity Reserve for police officers and staff.

ICT Contract issues
This represents a reserve to cover delays in the delivery of a standard operating environment as part of the ICT contract

Kickz
A reserve to provide for crime reduction projects, jointly funded with the Football Association, to be rolled out over all London Boroughs.

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

Legal Costs
To provide for the cost of potential law suits.

Motor Insurance
To provide for MPA approved insurance strategy, which allows for savings on motor insurance premiums.

Operational Costs
The reserve provides for a number of operational activities that have been planned in 2008/09. The expectation is that the majority of the reserve will be used in 2009/10.

POCA
Proceeds Of Crime Act - A reserve funded from proceeds of crime to provide for certain categories of operational activities.

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

Publicity
Reserve to cover the implementation of the MPA Scrutiny report regarding media handling.

Pump Priming Fund
This reserve has been set up to encourage new, more efficient and/or effective ways of doing business where there is a need for ‘priming’ monies. Any proposals would need a clear business case and member approval for any allocations from the reserve.

Support for the Capital Programme
Monies set aside to support capital spend in 2009/10 £13m and 2010/11 £9m

Systems
The reserve contributes to the cost of developing financial systems.

TP Youth Violent Crime
This reserve relates to funds set aside to deliver the prevention and reassurance strategy to address serious youth violence.

Vehicle Recovery Services
Reserve allocated to fund operations targeting clamping of uninsured vehicles.

Revenue support to capital re-phasing

Capital Programme Re-phasing
Monies set aside as Revenue Support to agreed Capital Programme Re-phasing in the future years.

Budget Pressures

Budget Pressures
This reserve was to meet specific unbudgeted pressures.

Emergencies Contingency Fund
An earmarked reserve available to assist in exceptional circumstances to support operational requirements, which will normally not have been budgeted for.

Major change programmes

Modernisation Programme
This reserve is set aside to fund various modernisation programmes, including Transforming Human Resources

MPA initiatives

MPA
The reserve will be used to support projects that the Metropolitan Police Authority expects to undertake in 2009/10.

Financial Instruments Adjustment Account
(FIAA)

Regulations issued in March 2009 allow the Authority not to charge amounts relating to impaired investments to the General Fund. Such amounts are instead transferred to the Financial Instruments Adjustment Account, an account which records the timing differences charging these amounts to the General Fund in accordance with proper practice and in accordance with the regulations. The Authority has taken advantage of the regulations and has transferred the following amounts to the Financial Instruments Adjustment Account.

Short Term Investment in Landsbanki Island HF	**Amount transferred to FIAA** **£**
Interest not received on £10 million invested	49 7,452
Interest not received on £20 million invested	61 9,298
Total	**1,11** **6,750**

Under the regulations the Authority must transfer the balance on the FIAA to the General Reserve no later than 31 March 2011. and must credit the FIAA with interest earned until such time as the balance has been transferred to the General Fund.

General Revenue Reserve

This reserve was established to provide cover for emergencies and contingencies. The reserve, together with the emergencies/contingencies fund is to be maintained at 2% of the net revenue budget.

O. Usable Capital Receipts/Reserves

	Usable Capital Reserves			
	Usable Capital Receipts £000	Earmarked Capital Reserve £000	Capital Grant Reserve £000	Total £000
Balance as at 1 April 2008	**(81,707)**	**(5,000)**	**(24,019)**	**(110,726)**
Grants applied in year	0	0	(38,442)	(38,442)
Proceeds of disposals	(27,635)	0	0	(27,635)
Unapplied Capital Grant	0	0		0
Financing of Fixed Assets	82,797	0	45,342	128,139
Financing of Revenue Expenditure	6			6
Balance as at 31 March 2009	**(26,539)**	**(5,000)**	**(17,119)**	**(48,658)**
Net movement for year				**62,068**

Usable Capital Receipts

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

Earmarked Capital Reserve

This reserve deals with funds assigned for specific areas of expenditure that remain unspent at the end of the financial year. 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, and third party contributions to property refurbishment.

Capital Grant Reserve

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

P. Accounting Reserves and Long Term Liability

	Accounting Reserves		Long Term Liability		Total
	Revaluation Reserve	Capital Adjustment Account	Government Grant Deferred Account	Unapplied Capital Grants	
	£000	£000	£000	£000	£000
Balance as at 1 April 2008	**(53,910)**	**(1,380,212)**	**(115,711)**	**(11,316)**	**(1,561,149)**
Minimum Revenue Provision	0	(14,186)	0	0	(14,186)
Transfers during year	27,087	(53,109)	26,022	0	0
Transfers from Capital Reserves	0	0	0	(20,841)	(20,841)
Revaluation of Fixed Assets	10,393	221,921	0	0	232,314
Revaluation of Fixed Assets not recognised in the I&E Account	7,152	0	0	0	7,152
Financing of Fixed Assets	0	(82,797)	(59,271)	13,929	(128,139)
Depreciation & Impairment	(27,512)	126,302	0	0	98,790
Accelerated Depreciation	0	51,088	0	0	51,088
Revenue Contributions to Capital	0	(4,470)	0	0	(4,470)
Capital expenditure adjustment	294	(1,069)	(18)	0	(793)
Cost of assets disposed	0	16,231	0	0	16,231
Balance as at 31 March 2009	**(36,496)**	**(1,120,301)**	**(148,978)**	**(18,228)**	**(1,324,003)**

Accounting Reserves

Revaluation Reserve

The Revaluation Reserve was created on 1 April 2007 and records the unrealised revaluation gains on land and buildings arising in 2008/09. Accumulated gains are removed from this account when re-valued assets are sold and also to amortise the gains over the lives of the assets held at 31 March 2009.

The £7.2million in the STRGL reflects impairment losses (due to falling market prices of residential and operational property) which can be offset against previously accumulated revaluation gains and as such, not recognized in the I& E account.

Capital Adjustment Account

The Capital Adjustment Account provides a balancing mechanism between the different rates at which assets are depreciated under the SORP and are financed through the capital controls system. The year-end balance shows that capital finance has been set aside at a faster rate than fixed assets have been consumed. This account shows a large reduction in value due to the downward valuation of the property portfolio during 2008/09.

Long Term Liability

Government Grant Deferred Account

Government grants and third party contributions are received and applied to finance capital expenditure on fixed assets. The grants and contributions are written off through the Capital Adjustment Account to match the depreciation levied against relevant fixed assets.

Unapplied Capital Grant

The unapplied capital grant account holds specific capital grants held at year-end to finance ongoing capital investment schemes.

Q. Police Officer Pension Reserve

	Police Officer Pension Reserve			
	2008/09	2007/08	2006/07	2005/06
	£000	£000	£000	£000
Balance as at 1 April *percentage changeover previous year*	**12,434,300** **(14.68)%**	**14,574,400** **(1.15)%**	**14,743,987** **17.99%**	**12,496,488** **33.28%**
Actuarial gain *percentage changeover previous year*	(1,004,391) (67.67)%	(3,106,927) 183.55%	(1,095,714) (177.59)%	1,412,100 (42.63)%
Revenue Reserve movement *percentage changeover previous year*	887,991 (8.15)%	966,827 4.39%	926,127 10.86%	835,399 26.77%
Balance as at 31 March *percentage change over previous year*	**12,317,900** (.94)%	**12,434,300** (14.68)%	**14,574,400** (1.15)%	**14,743,987**

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 FRS 17.

R. Financial Instruments

The financial instruments recognised by the MPA include creditors and general debtors, borrowings, bank deposits and loans and investments. The MPA has not given any financial guarantees nor does it hold financial instruments, which are either 'held for trading' or any derivatives. The financial instrument balances disclosed in the Balance Sheet are made up of the following classes of financial instruments:

	Long Term		Current (within 12 months)	
	31 March 2009	31 March 2008	31 March 2009	31 March 2008
	£000	£000	£000	£000
Financial liabilities at amortised cost	42,500	37,337	360,763	354,573
Financial liabilities at fair value through Income & Expenditure	0	0	0	0
Total Borrowings & Payables	**42,500**	**37,337**	**360,763**	**354,573**
Loans and receivables	6,080	6,500	263,333	396,725
Available-for-sale financial assets	0	0	0	0
Financial assets at fair value through Income & Expenditure	0	0	0	0
Total Investments & Receivables	**6,080**	**6,500**	**263,333**	**396,725**

The gains and losses recognised in the Income and Expenditure Account and Statement of Total Recognised Gains and Losses in relation to financial instruments are made up as follows:

	Financial Liabilities	Financial Assets		
	Liabilities measured at amortised cost	Loans and receivables	Available for Sale assets	Total
	£000	£000	£000	£000
Interest expense	(1,857)	0	0	(1,857)
Losses on derecognition	0	0	0	0
Interest payable and similar charges	**(1,857)**	**0**	**0**	**(1,857)**
Interest income	0	12,761	0	12,761
Gains on derecognition	0	0	0	0
Interest and investment income	**0**	**12,761**	**0**	**12,761**
Net gain/(loss) for the year	**(1,857)**	**12,761**	**0**	**10,904**

Financial liabilities (fixed rate borrowings) and financial assets (represented by loans and receivables) are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following:

- The weighted average interest rate, which at 31 March 2009 is calculated as 5.367% for fixed rate borrowings, all of which are from the Public Works Loan Board (PWLB).

- No early repayment or impairment is recognised
- Where an instrument will mature in the next 12 months, the carrying amount is assumed to approximate to fair value. The short term loans made by the MPA fall into this category.

- The fair value of trade and other receivables is taken to be the invoiced or billed amount as stated in the table above for current receivables.

The fair values calculated for long-term liabilities are as follows:

	31 March 2009 Carrying Amount	31 March 2009 Fair Value	31 March 2008 Carrying Amount	31 March 2008 Fair Value
	£000's	£000's	£000's	£000's
Financial Liabilities	**47,338**	**57,264**	**42,337**	**48,427**

The fair value is more than the carrying amount because the Authority's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans at the Balance Sheet date. This commitment to pay interest above current market rates increases the amount that the authority would have to pay if either the lender (PWLB) requested or agreed to early repayment of the loans.

Nature and extent of risks arising from financial instruments

The Authority's activities expose it to a variety of financial risks:

Credit risk – the possibility that other parties might fail to pay amounts due to the Authority

Liquidity risk – the possibility that the authority might not have funds available to meet its commitments to make payments

Market risk – the possibility that financial loss might arise for the Authority as a result of changes in such measures as interest rates.

Risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by a central treasury team, under policy approved by the MPA and set out in the annual treasury management strategy.

The Authority does not generally allow credit for general debtors beyond 30 days, such that £3.511 m is past its due date for payment, and can be analysed by age as follows.

	£000's
Less than three months	2,372
Three to six months	1,195
Six months to one year	(627)
More than one year	571
Total	**3,511**

Following the economic downturn and events in the financial markets, the requirement for Governments to guarantee support for their banks and the performance of rating agencies particularly concerning Icelandic Banks, the Treasury Management Strategy was revised in November 2008.

Credit risk
Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Authority's customers. Deposits are made with banks and financial institutions that have been rated by Fitch Ratings Ltd and Moody's credit ratings and have a minimum score of AA- (long term) and F1+ (short term) by Fitch and Aa3 (long term) and P-1 (short term) by Moody's, and in assessing minimum

risk use the lowest common denominator from the two agencies. The rating agencies also advise when an institution's ratings are under review. Additionally in view of guaranteed support from their Central Governments, only UK, Eurozone and Australasian banks will be considered as suitable counterparties. Also only building societies that provide credit ratings are included on the lending list. The Authority's policy of lending its surplus funds is £30m with foreign banks and £60m for UK banks and building societies and is for no longer than three months. In addition the Authority will maintain about 25% of its funds with the Debt Management Office, which is an Executive Agency of HM Treasury, that carries the government's sovereign AAA credit rating.

The following analysis summarises the Authority's potential maximum exposure to credit risk, based on experience of default and un-collectability over previous financial years, adjusted to reflect current market conditions. No credit limits were exceeded during the reporting period other than for Icelandic investments and the Authority does not expect any other losses from its counter parties in relation to deposits.

	Amount at 31 March 2009	Historical experience of default	Historical experience adjusted for market conditions at 31 March 2009	Estimated Maximum exposure to default and uncollectability
	£000	%	%	£000
	A	B	C	(A X C)
Deposits with banks and Financial institutions	61,040	15.15	45.461	27,750
Customers (General Debtors)	207,293	0.65	0.344	713

The Authority has two deposits with Landsbanki Island HF which is an Icelandic entity. Following steps taken by the Icelandic Government in early October 2008 its domestic assets and liabilities were transferred to a new bank with management of the Old Landsbanki being placed in the hands of a resolution committee and administered under Icelandic law. Old Landsbanki's latest public presentation of its affairs was made to creditors on 20 February 2009 and can be viewed on its website. This and other relevant information indicates that recovery of between 90-100% could be achieved and the Authority has taken a mid point position and assumed recovery at 95% by 2012. The Authority has therefore decided to recognise an impairment based on it recovering 95p in the £.

Recovery is subject to the following uncertainties and risks:-

- Confirmation that the deposits enjoy preferential creditor status which is likely to have to be tested through Icelandic courts.
- The impact of exchange rate fluctuations on the value of the assets recovered by the resolution committee and on the settlement of the Authority's claim, which may be denominated wholly or partly in currencies other than sterling
- Settlement of the terms of a Bond which will allow creditors of the Old Landsbanki to enjoy rights in the New Landsbanki.
- The impact (if any) of the freezing order made by the UK Government over the Landsbanki's London branch assets.

Failure to secure preferential creditor status would an impact upon the amount of the deposit that is recoverable. The total assets of the bank only equate to one third of its liabilities, assuming that the Bond remains at its current value. Therefore, if preferential creditor status is not achieved the recoverable amount may only be 33p in the £.

No information has been provided by the resolution committee about the timing of any payments to depositors. Because it is anticipated that all the assets of Landsbanki Islands will need to be realised to repay priority creditors settlement in a single sum is unlikely. Therefore in calculating the impairment the authority has used the estimated repayment timetables for Heritable bank as a basis for its assumptions about timing of recoveries. It is therefore assumed that the repayment will be split roughly evenly between March 2010, December 2010, December 2011 and December 2012. recoveries are expressed as a percentage of the Authority's claim in the administration which it is expected may validly include interest accrued up to 14 November 2008 (maturity date for earlier settlement applying to one investment of £20 million).

Following work by the Local Government Association and the Icelandic banks steering committee, alongside CIPFA and the relevant audit bodies in England, Scotland and Wales, CIPFA have issued guidance on how local authorities should account for their Icelandic deposits in the 2008/09 accounts. The guidance is based on the details that are publicly available in relation to each bank.

Liquidity risk

As the MPA has ready access to borrowings from the PWLB, there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the Authority will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. However, the Authority has not undertaken any borrowings in recent years and in cash flow terms the remaining debt has a manageable maturity profile. Future loans taken out will be planned to complement the existing profile. The maturity analysis of all the PWLB borrowings are as per Note H (Page 41).

Additionally, to cover short-term commitments, the Authority maintains two instant access accounts, reducing the requirement to realise an investment before it reaches final maturity. The shortfall of funds from Icelandic Bank investments has not impacted on the Authority's liquidity requirements.

All trade creditors and other payables are due to be paid by the Authority in less than one year.

Market risk

<u>Interest rate risk</u>

The Authority is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex effect on the Authority. For instance, a rise in interest rates would have the following effects:

- borrowings at fixed rates – the fair value of the liabilities will fall
- investments at variable rates - the interest income credited to the Income and Expenditure Account will rise
- investments at fixed rates - the fair value of the assets will fall

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Income and Expenditure Account or STRGL. However, changes in interest receivable on variable rate investments will be posted to the Income and Expenditure Account and affect the General Fund Balance pound for pound.
If the MPA had made fixed rate investments for more than 12 months, movements in their fair value would be reflected in the STRGL.

The Authority has set, for the net position of borrowings and investments, upper limits on fixed interest rate and variable interest rate exposures giving ranges that will limit exposure to interest rate movement. Fixed interest rate exposure is managed within a 70% to 95% range and variable interest rate exposures within a 5% to 30% range. Furthermore upper limits for variable rate exposure are set for gross borrowings at 15% and for investments at 40%.

<u>Price risk</u>

The Authority does not invest in equity shares or other similar financial instruments, and therefore has no exposure to losses arising from movements in the price of shares.

Foreign exchange risk

The Authority has no financial assets or liabilities denominated in foreign currencies and therefore has no exposure to loss arising from movements in exchange rates.

Notes to the Cash Flow Statement

S. Reconciliation of Surplus to revenue cash flow

2007/08 £000's		Note	2008/09 £000's
(7,882)	**(Surplus)**	**N**	(907)
	Non-cash Transactions		
(113,146)	net transfer from reserves		(73,486)
(4,899)	net transfer from provisions		2,649
	Items on an Accruals Basis		
(21,824)	(increase) / decrease in revenue creditors		8,711
(23)	increase / (decrease) in stocks		142
22,046	increase / (decrease) in debtors		50,970
	Items shown later in the cash flow statement		
15,039	investment income		10,062
(2,420)	interest paid		(1,857)
(113,109)	**Net cash flow from revenue activities**		**(3,716)**

T. Analysis of cash balances

Cash balances include not only corporate and local bank balances but also imprest balances held across the organisation.

	Balance 31 March 2008 £000's	Balance 31 March 2009 £000's	Movement in year £000's
Cash and bank	(4,847)	(9,860)	(5,013)

U. Analysis of Net Debt (liquid resources)

	Balance 31 March 2008 £000	Cash Flow £000	Balance 31 March 2009 £000
Cash at bank and in hand	(4,847)	(5,013)	(9,860)
Debt due within 1 year	(5,000)	162	(4,838)
Debt due after 1 year	(37,337)	(5,163)	(42,500)
Short Term Investments	233,000	(171,960)	61,040
Total	185,816	(181,974)	3,842

Police Officer Pension Fund Revenue Account

(for the year to 31 March 2009)

This statement shows income and expenditure for the Police Pension Scheme and the New Police Pension Scheme which do not form part of the MPA Statement of Accounts.

31 March 2008 £000		Notes	31 March 2009 £000
	Contributions receivable		
	Police Authority		
(263,062)	• Employer contributions	**1**	(263,867)
(5,543)	• Additional income	**3**	(5,485)
(15,983)	Transfers in from other schemes	**2**	(4,076)
(117,018)	Officers' Contributions	**4**	(122,536)
(401,606)	**Net income**		**(395,964)**
	Benefits Payable		
348,499	Pensions paid		368,228
80,641	Lump sum payments		119,061
879	Lump sum death payments		1,283
125	Refund of Contributions		133
45	Other payments	**6**	86
4,899	Transfers out to other schemes	**2**	5,903
435,088	**Net Expenditure**		**494,694**
33,482	**Net Amount Payable for the year**		**98,730**
(33,482)	**Employer additional funding**	**5**	**(98,730)**
0	**Surplus on Fund**		**0**

Police Officer Pension Fund Asset Statement

This statement shows the assets and liabilities of the Police Pension Scheme and the New Police Pension Scheme which does not form part of the MPA Statement of Accounts.

31 March 2008	For the year to 31 March 2009		31 March 2009
£000		Notes	£000
	Current Assets		
8,194	Funding to meet deficit due from police authority		15,199
8,194	Net Current Assets	A	15,199
	Current Liabilities		
(8,194)	Unpaid pensions benefits		(15,199)
(8,194)	Net Current Liabilities	A	(15,199)
0	**Total**		**0**

Notes to the Police Officer Pension Fund Account

The Police Officer Pension Fund combines the accounting transactions of two pensions schemes for Metropolitan Police Officers. These are the Police Pension Scheme, which was set up in 1987 and the New Police Pension Scheme, which was created by the Home Office under the Police Pensions Regulations 2007

The Police Officer Pension Fund which is managed by the Metropolitan Police Authority has been set up for the specific purpose of administering the collection of contributions, the payment of pensions and payment or refund to central government for the balance outstanding for each year. The Fund does not hold any investment assets nor does it reflect the liabilities of both Schemes to pay present and future pensioners. The fund will be paid sufficient monies from the Home Office in 2009/10 to cover the deficit in year.

These accounts have been prepared using CIPFA's Pension SORP and the SORP principles adopted for the statements of the MPA. These financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The principles contained in the Police Pension Fund Regulations 2007 have been adopted prior to their commencement.

Details of the accounting policies of the MPA can be seen on page 19 to 24. The MPA administers the Fund through its accounting and banking systems. Details of the two Schemes' actuarial report can be seen on page 44 in the notes to the balance sheet. The cost of pensions can be seen on page 30 in note 5 to the income and expenditure account.

These accounts are audited by the Audit Commission and their opinion is included in that of the MPA on page 7.

Revenue Account Notes

1. Employer contributions

Employer contributions are calculated at 24.2% of police officer pensionable pay. Employer contribution is set nationally by the Home Office and is subject to triennial revaluation.

2. Transfers

These represent lumps sums transferred to and from other pensions schemes depending on whether the police officer was joining or leave the MPS.

3. Additional income

These consist of MPA income for ill health retirements, 30 plus scheme contributions and refund of former commissioners and widows pensions.

4. Officers' Contributions

Contributions by officers are deducted from officer wages at a rate of 11% of pensionable pay.

5. Employer additional funding

This sum represents additional funding required to provide for payment to pensioners. It represents additional funding of £31.9 million received by the MPS in 2008/09 and a statutory transfer from the police fund in respect of a further sum of £66.8 million to be received in 2009/10. Both sums being paid by the Home Office.

6. Other payments

These consist of contribution equivalent payments, superannuation refunds and lump sum death benefits.

7. Related party transactions

As previously stated the Fund is administered solely by the MPS and as such this organisation is the only related party to the Fund, thus all the transactions shown on the revenue statement having been processed through the MPS.

8. Additional Voluntary Pension Contributions

Additional pension contributions (e.g. added years) made by Police Officers amounted to £56,692. (2007/08 £50,901)

9. Members of the Scheme

The Pension Fund also administers pensions on behalf of members of Her Majesty's Inspectorate of Constabulary. There are 3 HMIC staff who are working members of the scheme and 20 HMIC pensioners and 6 dependants pensioners.

Asset Statement notes

The new Home Office circular issued in April 2009 requires additional lump sums payable under the PPS to officers who retired after 31 December 2006 and chose to take a lump sum. The additional lump sum is shown as a current liability in the police pension fund asset statement, with a corresponding amount shown as a current asset.

Glossary of Terms

Budget
A statement defining the Authority's policy over a specified period and expressed in financial or other terms.

Capital Expenditure
Expenditure on the acquisition, creation or enhancement of fixed assets.

Capital Receipts
Money obtained on the sale of a capital asset. They can only be used for capital purposes, e.g. funding capital expenditure or repaying debt.

Corporate Democratic Core Costs
This covers bank charges, auditors' fees and the cost of the Authority as well as the corporate activities of Head Office departments.

Credit Arrangements
An arrangement other than borrowing where the use of a capital asset is acquired and paid for over a period of more than one year. The main types of credit arrangements are leases of buildings, land and equipment.

Creditors
Individuals or organisations to which the Authority owes money at the end of the financial year.

Debtors
Individuals or organisations that owe the Authority money at the end of the financial year.

Employee Costs
The salaries and wages of employees together with national insurance, pension and all other pay-related allowances. Training expenses and professional fees are also included.

Finance Lease
A finance lease normally involves payment by a lessee to a lessor of the full cost of the asset, together with a return on the finance provided by the lessor. The lessee has substantially all the risks and rewards associated with ownership of an asset, other than legal title.

Government Grants
Part of the cost of the service is paid for by central government from its own tax income. Grant income is partly received through the s.102 payments made by the GLA. In addition, the Home Office pays specific grants direct to the Authority towards both revenue and capital expenditure.

Long Term Debtors
Amounts due to the Authority where payment is to be made by instalments over a pre-determined period of time in excess of one year.

Minimum Revenue Provision
The prudent amount that the Authority is statutorily required to set aside from revenue funds to meet the repayment of borrowing undertaken to support capital investment.

Non Distributed Costs
This consists of charges for police officers and police staff early retirements and any depreciation and impairment losses chargeable to non-operational properties.

Operating Lease
An operating lease involves the lessee paying a rental for the hire of an asset for a period of time that is substantially less than its useful economic life. The lessor retains most of the risks and rewards of ownership.

PCSPS
The Principal Civil Service Pension Scheme is the scheme used to provide pension benefits to police staff.

Provision
An amount set aside to provide for a liability which is likely to be incurred but the exact amount and the date on which it will arise is uncertain.

Revenue Expenditure
Expenditure to meet the continuing cost of services including wages and salaries, purchase of materials and capital financing charges.

Revenue Reserves
Accumulated sums that are maintained either earmarked for specific future costs (e.g. pensions) or generally held to meet unforeseen or emergency expenditure (e.g. General Reserve).

Special Service Agreements
Policing the Airports, House of Lords/Commons, Palace of Westminster are the main items included under this heading.

For larger print, Braille and other formats as well as other language versions of this document, please contact us at Publicity, New Scotland Yard, The Broadway, London SW1H OBG. Tel 020 7230 3509