



Metropolitan Police Authority Statement of Accounts 2007-08



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Metropolitan Police Authority

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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 2008. 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 23 shows a deficit of £949 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 £7.9 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 2008;
- 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.

Changes for 2007-08

In 2006-07 CIPFA formally adopted the UK Generally Accepted Accounting Practice (UK GAAP) as the basis for the CIPFA Local Government Accounting Code of Practice (ACOP), which provides a statement of recommended practice for local authorities. All police authorities comply (unless otherwise stated) with this Code, which prescribes the concepts behind and the presentation of, police authority accounts. CIPFA has been working towards the re-alignment of local government accounting from one based in statute that has been developed over a number of years to greater compliance with UK GAAP. Changes have been adopted in relation to accounting for the revaluation of land and buildings and the capital reserve accounts. In addition further changes are anticipated to the local authority Statement of Recommended Practice (SORP) from 2008-09, with the adoption of international accounting standards. The MPA will be required to adopt International Financial Reporting Standards (IFRS) for their 2010-11 accounts and will also be required to restate 2009-10 accounts using IFRS to provide comparative information.

The main changes in the presentation of the accounts relate to those arising from the 2007 CIPFA SORP. The key impacts are:

- Replacement of the Statement of Internal Control with an Annual Governance Statement as required by the revised framework – Delivering Good Governance in Local Government;
- Financial Reporting Standard FRS 29 for Financial Instruments – a financial instrument is any contract that gives rise to a financial asset of one entity and financial liability of another, for example, borrowings, bank deposits, loans receivable and investments. The MPA does not actively use financial instruments as part of its financial risk management. It is exposed to the usual credit risk and cash flow risk associated with financial transactions and manages this through credit control procedures. The nature of its financial instruments means that they are not subject to price risk or liquidity risk. The MPA does not use hedge accounting. Its policy is to finance fixed assets through fixed rate borrowings, as and when necessary, for a term broadly expected to match the useful economic lives of the assets. The Authority does not consider any other risks attached to the use of financial instruments to be material to an assessment of its financial position;
- The amalgamation of the Fixed Asset Restatement Account and Capital Financing Account into a new account known as the Capital Adjustment Account, and the creation of the new Revaluation Reserve. The Revaluation Reserve, created with a zero opening balance, records unrealised revaluation gains arising since April 2007 from holding fixed assets. The Capital Adjustment Account consolidates past revaluation gains up to 31 March 2007 and, as a consequence, will show a large credit balance over the medium term. It also provides a balancing mechanism between the rate at which assets are consumed and the rate at which assets are financed.

Financial Performance for the year

Setting the budget

The Mayor and London Assembly set the budget for 2007-08 following the submission of draft proposals by the MPA. The approved budget provided for net expenditure of £3,043 million, funding the continued roll out of Safer Neighbourhood teams across the whole of London, a significant increase in Police Community Support Officers, Integrated Borough Operations, improved counter terrorism resilience, existing expenditure commitments and a limited list of high priority developments. Savings of almost £95 million were identified to balance the budget.

Final Accounts

The provisional outturn presented to the Authority represented an underspend against budget of £7.9 million, after taking into account various contributions to earmarked reserves such as Modernisation Programmes, property related costs, dilapidations and capital programme re-phasing. It was agreed that the residual underspend should be transferred to the general reserve.

The table below provides a summary of the final outturn position for 2007-08, following transfers to reserves, compared to the approved budget:

	Budget £m	Actual £m	Variation £m
Net Revenue Expenditure	3,043.1	3,000.6	(42.5)
Specific and Amending Grants	(506.4)	(550.3)	(43.9)
Application of Reserves	(4.0)	82.4	86.4
Amount to be met by Local Taxation and Government Grants	2,532.7	2,532.7	0.0
<i>Financed by:</i>			
Council Tax	649.0	649.0	0.0
Revenue Support Grant/Non-Domestic Rates (RSG/NDR)	857.0	857.0	0.0
Police Revenue Grant	1,026.7	1,026.7	0.0

The main variations against budget were underspending on police officer, police staff, police community support officers (PCSO) and traffic warden pay (£62.8 million), due to the under-strength position across the organisation, an underspend on capital financing costs (£5.5 million) following the rephrasing of the capital programme and income budgets were exceeded by £15.8 million relating principally to additional investment income, additional event income following the opening of Wembley Stadium, Operation Safeguard (the detention of Home Office prisoners) and other operational receipts. The main areas of overspending were police officer overtime (£6 million), principally due to Operation Seagram (the response to the vehicle-borne improvised explosive device found in Haymarket at the end of June 2007), Operation Hargood (policing of the environmental camp at Heathrow Airport) and other initiatives to tackle youth crime, police staff overtime (£4.5 million) within the Central Communications Command, transport costs (£10 million) due to overseas travel and £19.5 million on supplies and services reflecting increased Police National Computer charges, accommodation and expenses for mutual aid officers, interpreter and medical examiner fees and increased costs of providing free travel to police officers.

The financial year 2007-08 presented a number of challenges – operations that had a significant impact on the Authority's financial position include expenditure of £5.3 million on Operation Seagram and expenditure of £1.4 million on Operation Hargood.

Capital Finance

Capital expenditure for 2007-08 was £147.8 million financed by specific grant, borrowing, capital receipts and revenue contributions. The capital expenditure against budget is set out below:

	Budget £m	Actual £m	Variation £m
Property Based Programme	39.9	31.5	(8.4)
Information Based Programme	65.0	67.5	2.5
C3i Programme – Command, Control, Communications & Information	30.5	15.8	(14.7)
Vehicle Based Expenditure	26.9	21.3	(5.6)
Other Plant and Equipment	3.0	4.2	1.2
Safer Neighbourhood	14.5	7.5	(7.0)
Total	179.8	147.8	(32.0)

From 2004-05 onwards, decisions about capital finance affecting the capital programme have been taken in the context of the prudential framework. The framework provides authorities with more borrowing flexibility if rigorous controls on affordability, sustainability and prudence are met.

Capital expenditure on Authority assets in 2007-08 was financed, in accordance with the Prudential Code, from borrowing of £27.1 million, government capital grants and other third party contributions of £41.7 million, capital receipts of £54.0 million and a revenue contribution of £25.0 million. No new finance leases were entered into during the year.

There was no new long-term borrowing during 2007-08. Settlement of maturing debt during the year totalled £15 million. As a result, as at 31 March 2008, the level of outstanding debt totalled £42.3 million. Capital receipts of £64.5 million were generated from asset sales 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 excellent working conditions and the public with accessible buildings in the right locations. As part of the estate modernisation programme the MPA disposed of nine properties generating capital receipts of £19.1 million and acquired a patrol base and two other properties at a cost of £7.3 million. Additionally the MPA disposed of 123 residential properties generating £43.7 million.

The Balance Sheet

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 £46.8 million at 31 March 2008. The other uncommitted reserve is the Emergencies Contingency Reserve (£23.1 million). Together these uncommitted reserves total £69.9 million, 2.9% of the 2008-09 budget requirement.

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 24.6%, 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 2008-09

The 2008-09 budget requirement was set at £2,595 million, an increase of 2.46% over the 2007-08 figure. The budget is funded by police grant of £1,053.3 million, RSG/NDR of £876.7 million and council tax income of £665 million. The policing element of the Band D precept for 2008-09 is £227.02.

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

Opinion on the financial statements

I have audited the accounting statements, the police pension fund accounting statements and related notes of the Metropolitan Police Authority for the year ended 31 March 2008 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, Balance Sheet, Statement of Total Recognised Gains and Losses, Cash Flow Statement, and the related notes. The police pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes.

The financial statements and police pension fund accounting statements have been prepared under the accounting policies set out within them.

This report is made solely to the members of Metropolitan Police Authority in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Treasurer and auditor

The Treasurer's responsibilities for preparing the financial statements, including the police pension fund accounting statements, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, are set out in the Statement of Responsibilities.

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

I report to you my opinion as to whether the accounting statements, the police pension fund accounting statements and related notes present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007:

- the financial position of the Authority and its income and expenditure for the year; and
- the financial transactions of its police pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

I review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

I read other information published with the accounting statements, the police pension fund accounting statements and related notes and consider whether it is consistent with the audited accounting statements, the police pension fund accounting statements and related notes. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the accounting statements, the police pension fund accounting statements and related notes. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements, the police pension fund accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the accounting statements, the police pension fund accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the accounting statements, the police pension fund accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the accounting statements, the police pension fund accounting statements and related notes.

Opinion

In my opinion:

- the accounting statements and related notes present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the

financial position of the Authority as at 31 March 2008 and its income and expenditure for the year then ended; and

- the police pension fund accounting statements present fairly, in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial transactions of the police pension fund during the year ended 31 March 2008 and the amount and disposition of the fund's assets and liabilities as at 31 March 2008, other than liabilities to pay pensions and other benefits after the end of the scheme year.

L.J. Kidner District Auditor

Audit Commission
1st Floor, Millbank Tower
Millbank
London SW1P 4HQ

29 September 2008

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

Authority's Responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance and regularly to review the adequacy and effectiveness of these arrangements.

Auditor's Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for police authorities. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for police authorities specified by the Audit Commission and published in December 2006. I am satisfied that, in all significant respects, the Metropolitan Police Authority made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2008.

Certificate

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

L.J. Kidner District Auditor

Audit Commission
1st Floor, Millbank Tower
Millbank
London SW1P 4HQ

29 September 2008

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.



Len Duvall

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 2008 and its income and expenditure for the period then ended.



Ken Hunt

Treasurer

September 2008

Annual Governance Statement

Position as at 31 March 2008 including plans for the financial year 2008-09.

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 2008 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.

The Authority agreed a corporate strategy and priorities in 2004. These were reviewed and restated in June 2007. A further review is currently being undertaken to coincide with the Authority's new administration in Summer 2008.

Within the MPS the corporate strategic assessment (CSA), existing corporate strategies, corporate and territorial policing target setting processes are all used in identifying policing priorities outlined in the joint Policing London Business Plan. Public consultation forms an important part of the process. 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 Co-ordination and Policing Committee meet regularly to consider the strategic direction, plans and progress of the Authority and MPS. A range of member committees regularly reviews 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

A review of the Authority's Corporate Strategy and its vision is currently being undertaken to coincide with the Authority's new administration. Governance arrangements to support the current corporate strategy were developed in 2007-08 and implications for governance arrangements will be revisited once the review of the corporate strategy is complete. Following the review, suggested changes to the local code of corporate governance (if required) will be presented to Corporate Governance Committee for approval.

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 MPS Performance Board monitors key performance across the MPS, including recommendations from Her Majesty's Inspectorate of Constabulary (HMIC) baseline assessment and the Police Performance Assessment Framework and regularly reports to the Authority's Planning, Performance and Review Committee. This is the committee responsible for monitoring the performance of the service against the policing plan targets and other performance indicators set locally or by external organisations. 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.

Within the MPS the Crime Recording Oversight group monitors implementation of the National Standards for incident recording and the national crime recording standards action plan.

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 Committee receiving regular monitoring reports.

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 approximately. Achievement in meeting these savings is monitored by HMIC. In addition, Finance Committee monitors progress through quarterly update reports.

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

The Corporate Strategy clearly defines the complex role played by the Authority, and 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 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.

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

Members are bound by the Members' Code of Conduct that form part of Standing Orders, and Standards Committee is responsible for ensuring that members are aware of their responsibilities under the code and receive guidance on ethical standards and behaviour. A new programme of ethical training is due to take place in the autumn of 2008 following the appointment of new independent members. The Authority's Standards Committee have 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. Leadership and training programmes are currently being developed that are intended to ensure that those who lead or manage within the Authority are equipped with the necessary skills. This will include a module to reinforce the values and behaviours model.

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 Directorate undertakes a Strategic Intelligence Assessment on an annual basis (which is reviewed after 6 months). This covers professional standards issues; ranging from unethical and unprofessional behaviours, civil actions, employment tribunals and criminality by staff and serious corruption.

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 standing orders and supporting financial instructions are reviewed on an annual basis to ensure they are fit for purpose. A review of standing orders was last completed in 2007 with the Full Authority approving the revisions in June 2007 and included a thorough review of the contract regulations.

Following approval of the revised standing orders the MPS undertook a major review of the MPS scheme of delegation. The revised scheme was launched in October 2007 to coincide with the revised standing orders coming into effect. There are procedure notes and manuals in place for all key systems. These are regularly reviewed and revised where appropriate to ensure they are fit for purpose.

The Authority and MPS have aligned their approach to risk management, which is documented in the joint risk management strategy. The strategy sets out the objectives, responsibilities, processes and support mechanisms for risk management and was endorsed by the Authority in July 2004 with revisions approved by Corporate Governance Committee in December 2005. The Corporate Governance Committee is responsible for ensuring that risk management processes and programmes operate effectively in accordance with the risk management strategy.



Within the MPS the risk management policy, standard operating procedures and risk registers are all key components for managing risk. In addition, a number of other things are taking place to help maintain focus including a continual training and engagement programme, the establishment of the Corporate Risk Review Group and all papers to Management Board and Investment Board requiring business risks to be considered.

The Authority has developed a risk profile 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

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. In addition, the Committee 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 audit.

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. Significant pieces of work are underway within the Authority and the MPS to further develop Corporate Governance Frameworks and supporting controls to minimise the risk of governance failures.

In addition, professionally qualified staff occupy key roles throughout both the MPS and the Authority. 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 will delegate Monitoring Officer responsibilities to the Solicitor to the Authority, however as this post is currently vacant the responsibility has temporarily been delegated to the Head of the Corporate Secretariat.

Within the MPS, all reports to Management Board and 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 currently underway within the MPS will improve compliance with policies and procedures through the development of appropriate systems.

The Solicitor to the Authority considers legal implications where appropriate.

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 standards and complaints 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.

The Customer Services Team within the MPS provide the central point of contact for receiving complaints sent to the MPS. Complaints are investigated monitored and where applicable, escalated. Professional Standards and Complaints Committee is responsible for monitoring the MPS's complaints procedures and monitoring reports on complaints on a quarterly basis. In addition, the Authority has direct access to the MPS's Tribune complaints database.



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

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 embarked on an improvement programme in 2006, one of the aims of which was to improve the capacity of the organisation through a development programme for members and officers. The organisation is currently undergoing a training needs analysis that will be used to identify the training needs of officers, and a programme of training will begin June 2008. In addition the personal development review process identifies, manages and monitors the work related and personal development objectives of all staff both within the Authority and MPS.

Within the MPS 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.

The Authority is about to enter a new administration and in addition will have a number of new independent members join in the autumn. As previously all new members will receive a full induction together with skills based training such as dealing with the media and chairing meetings. Other training will be offered during their term of office to address any identified needs. In 2007-08 risk management training was provided to all members of Corporate Governance Committee to address such an identified need.

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 practical implementation of the community engagement is 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.

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 (CDRP) – 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 (LAA) – 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

As part of the improvement programme the Authority is strengthening current governance arrangements to ensure that the CPEGs are properly held to account for the funding they receive from the Authority. The Community Engagement and Citizen Focus oversight group have reviewed all bids for funding for 2008-09 prior to a report seeking approval being submitted to the Co-ordination and Policing Committee. In addition, the Engagement and Partnership Unit has been restructured to ensure it is better resourced to monitor and evaluate funding provided to the CPEGs.

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 CDRPs 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 communication between the CDRPs 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 Oversight Group’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. It is noted that CDRPs are not commissioning bodies in their own right but rather are constituted as strategic bodies who may make recommendations to the accountable body (the local authority through its strategic partnership) for the support of a programme of activity.

Within the MPS, there are accounting arrangements in place for partnerships that are specified in the finance manual. Budgets and expenditure are accounted for separately in the finance system and there are specific grant terms and conditions that need to be complied with. There is also risk management guidance available for partnerships.

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 and in 2007-08 approved a new local code of corporate governance. However as detailed in standing orders, the Authority has delegated responsibility for the review and maintenance of the governance framework to 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. In 2007-08, the Authority considered a report detailing actions being taken to enhance the management of the corporate charge card systems and identify and deal with significant issues identified.

- **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 2007-08 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 Corporate Governance Committee, with the Committee receiving regular reports on governance issues at its quarterly meetings. During 2007-08 in addition to the regular update reports on governance and risk issues that the Committee receives as a matter of course the Committee also received a number of reports on specific governance issues including the local code of governance for the Authority and a number of reports on the MPS corporate governance framework including steps being taken to strengthen existing governance arrangements within the MPS.

As with the Statement of Internal Control, the Committee will from now on review and approve the Annual Governance Statement for inclusion in the Annual Statement of Accounts and receive quarterly update reports on progress made in addressing significant governance issues included in it.

- **The Standards Committee**

Standards Committee is responsible for promoting and maintaining high standards of conduct by members of the Authority. As part of reviewing and maintaining the effectiveness of the governance framework the Committee monitors key standard indicators on a regular basis. During 2007-08 in addition to the regular reports the Committee received on standard indicators the Committee also received a report on the new model code of conduct for members, a report on the local code of corporate governance and a report considering the impact on the ethical standards regime brought about by the Local Government and Public Involvement in Health Bill.

- **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 2007-08 the Director of Internal Audit is of the opinion and, taking into account all available evidence, the adequacy and effectiveness of the control environment in the MPS still falls below an acceptable standard despite recent improvements. In reaching this opinion, he acknowledges that internal audit have generally found adequate and effective operating procedures within the MPS. However, their tests and investigations during the year showed that in high-risk systems a number of controls were not being operated effectively.

- **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 2007-08 the annual letter highlighted amongst other things the need to continue developing and strengthening risk management, maintain the drive to improve value for money, to further strengthen financial management arrangements and to continue to review and protect the Authority's financial position. The letter also made reference to the value for money conclusion issued in September 2007. This concluded that the Authority had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources, except for putting in place arrangements to maintain a sound system of internal control.

- **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 several, generally positive inspections during 2007-08. Performance management in their view was good but requires further development so that it sets out the key performance accountabilities, systems and products across the force, taking into account the ten principles outlined in 'Managing Police Performance'. They also indicated that the allocation of resources across the organisation could be improved. The inspection of public protection found a number of weaknesses, particularly in the consistency of services delivered at a local level. Neighbourhood policing was found to be excellent. Action plans aimed at addressing the identified weaknesses are in place.

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 internal control issues

Governance issue		Action
1	The adequacy and effectiveness of internal control continues to fall below acceptable standards as evidenced by the Director of Internal Audit's opinion of the adequacy and effectiveness of the MPS control environment. The main areas of concern are as follows: -	<p>Work is underway to improve the corporate governance framework and to develop resource management within the MPS through projects such as purchase to pay. Implementation of these will ensure controls are strengthened, compliant contracts are in place and examples of non-compliance reduced to a minimum.</p> <p>Progress in implementation of these will be monitored by the regular corporate framework update reports presented to corporate governance committee. A set of 60 corporate health indicators has also been developed to assist the MPS and Authority in measuring compliance.</p>

Governance issue	Action
<ul style="list-style-type: none"> • Non compliance with regulations and internal policies for example in relation to American Express and contract regulations • “Post event” and late procurement activities resulting in the need for contract extensions or single tender actions • continued weaknesses in financial and business controls in local command units 	<p>Finance Services and Territorial Policing are working with Internal Audit to ensure that those business systems that have been identified for improvement are adequately supported in 2008-09. The newly configured Quality Assurance Team in Finance Services will be taking the lead on this piece of work. The protocol being developed covering the work of internal audit and the response of the service to audit and review activity will ensure that audit recommendations are dealt with more promptly.</p>
<p>2 The Authority’s Local Code of Corporate Governance recognises the need for the Authority to have effective HR policies in place to enable staff to be effective in their role. Whilst the improvement programme has recognised this as being a key objective, progress to date has been limited</p>	<p>A consultant has been appointed to revise the Authority’s HR policies. The expectation is that these will be drafted and in place within a tight timescale. Once approved these will allow a consistent approach throughout the Authority to a wide number of HR policies.</p> <p>Drafting and approval of the policies will be monitored by SMT on a regular basis.</p>
<p>3 Governance arrangements for partnership working need to be reviewed and strengthened to recognise their increasing importance</p>	<p>To improve governance and accountability around partnership arrangements the Authority will be endorsing a new framework developed by the MPS. New improved arrangements will include a partnership strategy and implementation plan, which have recently been approved by the MPS and a toolkit for partnerships which the MPS are currently developing. This toolkit will include guidance to members of staff engaged in partnership working.</p> <p>Implementation of these will ensure that best practice is shared across the MPS and partnerships are supported by appropriate governance arrangements and comply with the Authority’s and MPS decision making processes.</p>
<p>4 Internal Audit has undertaken a systems review of the corporate risk assessment and management process that has identified a number of areas where the existing arrangements and approach could be improved. The main areas identified are as follows: -</p> <ul style="list-style-type: none"> • Although a framework is in place for the assessment and management of risk, it is not effective in supporting the integration and embedding of risk 	<p>Since the original drafting of the report, steps have been taken to address a number of the issues and an action plan has been agreed with the MPS as part of the report. Key actions include: -</p> <ul style="list-style-type: none"> • reviewing the approach to business risk management to incorporate a process based on integrating all risk activities across the organisation • clearly defining the strategy for implementing risk management based on a framework that is integrated within the planning, performance and day to day management of the MPS • setting clear accountabilities across the MPS • embedding risk management into the business planning and performance management framework • applying a generic risk management cycle based around policing plan objectives and targets • designing and implementing a structure that acknowledges the need to simplify reports and escalate significant risk through the command chain in quick time

Governance issue	Action
<p>management across the MPS.</p> <ul style="list-style-type: none"> • An up to date risk management policy is not in place and the current focus on business risk does not encourage a more integrated approach across the organisation. • The structures in place supporting the risk management process in the MPS are not fully effective and need to be reviewed to ensure that risk management is fully understood, valued and supported. • Controls are not in place to ensure that risk assessment is adequately and effectively integrated into the business planning and performance management process. 	<p>Internal Audit will report progress in implementing recommendations to Corporate Governance Committee during 2008-09.</p>

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.



Len Duvall

Chair of the Metropolitan Police Authority



Catherine Crawford

Chief Executive to the Metropolitan Police Authority



Ken Hunt

Treasurer to the Metropolitan Police Authority

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

Statement of Accounting Policies

1. General Principles

The Statement of Accounts summarises the Authority's transactions for the 2007-08 financial year and its position at the year-end of 31 March 2008. 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 2006). Officers make contributions of 11% of pensionable pay. 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 2008. The pension liabilities in these accounts have been calculated accordingly at a discount rate of 6.9% (5.4% in 2006-07).

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 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 2007 (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 depreciation and impairment losses chargeable to non-operational properties.

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 capitalised 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 they are 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	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.
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 above charges are replaced by the revenue provision in the Statement of Movement on the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account for the difference between the two.

11. Deferred Charges

Deferred charges represent expenditure that has been capitalised under statutory provisions but does not result in the creation of tangible assets. Deferred charges incurred during the year have been written off immediately and financed from capital resources.

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 ground rents are considered to be immaterial and charged in full to the Income and Expenditure Account. No obligations for these finance leases are recognised on the Balance Sheet.

Operating Leases

Leases that do not meet the definition of finance leases are accounted for as operating leases. The MPA has a very large number of operating leases, mainly in respect of property, but also include 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. Annual credits to the Income and Expenditure Account for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. 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 assets available for sale.

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 new police stations in South-East London and a new 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 31.

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 2008. For a subjective analysis see **Note 1**.

Year ending 31 March 2007		Notes	Year ending 31 March 2008		
			£'000	£'000	£'000
	Service Expenditure Analysis		Expenditure	Income	
3,185,053	Policing Services	1, 2, 3	3,601,877	(319,162)	3,282,715
14,884	Corporate and Democratic Core				14,524
3,218	Non Distributed Cost – Pension	5			3,171
3,203,155	Net Expenditure	4, 5, 6, 7 & 8			3,300,410
3,452	Interest payable and similar charges	9			2,420
727,200	Police Pensions interest cost	5			791,900
(14,617)	Interest and Investment Income				(17,063)
(3,536)	Net gains on disposal of fixed assets	10			(1,616)
712,499					775,641
3,915,654	Net Operating Expenditure				4,076,051
	This was financed by:				
(1,424,427)	S102 Greater London Authority Act 1999 Grant	11			(1,505,988)
(1,499,820)	Other Grants	12			(1,621,173)
(2,924,247)					(3,127,161)
991,407	Deficit Transferred to General Fund				948,890

(See Statement of Movement on the General Fund Balance on page 24)

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 2008.

Year ending 31 March 2007			Year ending 31 March 2008
£'000		Notes	£'000
991,407	Deficit/(Surplus) for the year on the Income and Expenditure Account		948,890
(991,663)	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	(1,031,274)
(256)	Decrease/(Increase) in movement to the General Fund		(82,384)
(9,804)	Net transfers to/(from) earmarked reserves	N	74,502
(28,840)	General Fund Balance brought forward		(38,900)
(38,900)	General Fund Balance carried forward		(46,782)

Statement of Total Recognised Gains and Losses

The Statement of Total Recognised Gains and Losses shows the total movement in the Authority's net worth for the year ended 31 March 2008.

Year ending 31 March 2007			Year ending 31 March 2008
£'000		Notes	£'000
991,407	Deficit/(Surplus) on the Income and Expenditure for the year		948,890
(23,853)	Surplus on revaluation of fixed assets	A	(66,191)
(1,095,714)	Actuarial gain on Police Officer Pension Scheme liabilities	Q	(3,106,927)
(28,014)	Other gains and losses		(5,020)
(156,174)	Total recognised gains and losses since last year		(2,229,248)

Balance Sheet

The Balance Sheet shows the financial position of the Metropolitan Police Authority as at 31 March 2008.

31 March 2007		Notes	31 March 2008	
£'000			£'000	£'000
	Fixed Assets			
6,973	Intangible Fixed Assets	A,B	8,245	
	Tangible Fixed Assets	A		
1,586,234	Land and Buildings (L&B)		1,591,611	
192,512	Vehicles, Plant and Equipment (VPE)		228,204	
1,121	Community Assets	A	1,121	
	Non Operational Assets			
75,609	Assets under Construction		73,308	
14,563	Surplus Assets held for Disposal		2,005	
1,877,012	Total Fixed Assets			1,904,494
17,949	Long Term Debtors	D		17,011
1,894,961	Total Long Term Assets			1,921,505
	Current Assets			
6,605	Stock	C	6,580	
153,980	Debtors	D	173,759	
139,000	Short Term Investments	E	233,000	
1,571	Cash and Bank Balances		0	
301,156				413,339
2,196,117	Total Assets			2,334,844
	Current Liabilities			
(337,609)	Creditors	F	(357,767)	
(15,000)	Loans Repayable in 12 months	H	(5,000)	
0	Cash and Bank Balances		(4,847)	
(352,609)				(367,614)
1,843,508	Total Assets less Current Liabilities			1,967,230
	Long Term Liabilities			
(36,431)	Provisions	G		(41,437)
(42,337)	Long Term Borrowing	H		(37,337)
(92,459)	Government Grant Deferred	P		(115,711)
0	Unapplied Capital Grants	P		(11,316)
(14,574,400)	Police Officer Pension Liability	L		(12,434,300)
(12,902,119)	Total Assets less Liabilities			(10,672,871)
	Financed by:			
	Accounting Reserves			
0	Revaluation Reserve	P	53,910	
1,443,667	Capital Adjustment Account	P	1,380,212	
1,443,667				1,434,122
	Pension Reserve			
(14,574,400)	Police Officer Pension Reserve	Q		(12,434,300)
	Usable Reserves			
71,256	Usable Capital Receipts Reserve	O	81,707	
4,533	C3i/Airwave Capital Reserve	O	0	
372	Earmarked Capital Reserves	O	5,000	
18,256	Capital Grant Reserve	O	24,019	
38,900	General Revenue Reserve	N	46,782	
95,297	Earmarked Revenue Reserves	N	169,799	
228,614				327,307
(12,902,119)	Total net worth			(10,672,871)

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 2008.

Year ending 31 March 2007			Year ending 31 March 2008
£'000		Notes	£'000
	Outflow		
2,100,088	Pay to officers and staff		2,199,211
1,097,939	Other operating expenditure		1,089,127
	Inflows		
(15,693)	Rent		(19,751)
(153,879)	Sale of goods and services		(156,888)
(2,917,876)	Revenue grants (see below)		(3,080,105)
(127,804)	Other receipts		(144,703)
(17,225)	Cash flow from Revenue Activities	S	(113,109)
	Returns on Investments and Servicing of Finance		
3,452	Interest paid		2,420
(14,617)	Interest received		(15,039)
(11,165)	Net cash inflow from Investment Activity		(12,619)
	Capital Activities		
158,472	Purchase of fixed assets		146,486
(37,994)	Sale of fixed assets		(64,466)
(74,463)	Capital grants received		(58,874)
46,015	Net cash outflow from capital activities		23,146
	Management of Liquid Resources		
(33,500)	Purchases/(sales) of short term investments		94,000
	Financing Activities		
13,500	Repayment of loans		15,000
(2,375)	(Increase)/Decrease in cash	T	6,418

An analysis of grants can be found in the notes 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 2007-08 as presented in the preceding pages 23 – 26.

Notes to the Income and Expenditure Account

1. Net Expenditure

Operating revenue income and expenditure for the year to 31 March 2008 is presented in subjective analysis format below:

	2007-08	2006-07
	£'000	£'000
Expenditure		
Employee Costs		
Police Officer Salaries	1,458,335	1,412,453
Police Staff Wages and Salaries	523,805	469,674
Police Officer & Police Staff Allowances and Training Expenses	216,521	217,511
Net Police Officer Pensions	500,075	520,084
Net Police Staff Pensions	107,603	98,616
Premises-related	205,822	194,418
Transport-related	64,473	63,148
Supplies and Services	438,524	437,797
Capital Charges	104,388	96,846
Total Gross Expenditure	3,619,546	3,510,547
Income		
Fees and Charges	(155,005)	(150,512)
Other Income	(164,131)	(156,880)
Net Expenditure	3,300,410	3,203,155

2. The Service Expenditure Analysis (SEA)

The category of service expenditure has been produced on a basis consistent with Activity Based Costing methodology, which is used to produce a return to the Home Office.

3. National Police Services

The Policing Services includes an amount for National Police Services of £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 received from central government for these activities amounted to £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	
	2007-08	2006-07
50,000-59,999	6,375	5,889
60,000-69,999	1,866	1,591
70,000-79,999	394	424
80,000-89,999	126	111
90,000-99,999	40	38
100,000-109,999	21	14
110,000-119,999	14	11
120,000-129,999	5	1
130,000-139,999	5	8
140,000-149,999	3	1
150,000-159,999	2	1
160,000-169,999	2	3
170,000-179,999	2	4
180,000-189,999	1	1
190,000-199,999	1	0
200,000-209,999	1	1
210,000-219,999	1	0
220,000-229,999	0	0
230,000-239,999	0	0
240,000-249,999	0	1
250,000-259,999	1	0

Note: banding is based on all taxable remuneration, excluding pension costs, paid in the year rather than the annual salary. Taxable remuneration includes overtime and may also include back dated pay awards, which relate to previous years but were actually paid in the years in question.

Employee Numbers

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

	Number of Employees	
	2007-08	2006-07
Police Officers	31,398	31,074
Police Staff	14,070	13,980
PCSO	4,226	3,682
Traffic Wardens	294	310

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 at notes L and M to the Balance Sheet.

Non distributed costs represents 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 cost.

Police Officers

In the year to 31 March 2008, the net costs of pensions and other benefits amounted to £500.1 million (£499.4 million notional pension costs and £0.7 million other ancillary costs), representing 45.9% 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 47 and 48.

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 24.6% 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:

	2007-08 £'000
Current service cost	499,400
Past service costs	700
Interest cost	791,900
Movement in pensions reserve	(966,827)
Contributions to pension fund	325,173

- 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 24 shows the reasons for the increase in the pension reserve.

Police Staff

In the year to 31 March 2008, the net costs of pensions (£104.7 million) and other benefits (£2.9million) amounted to £107.6 million, representing 20.0% of pensionable pay.

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

Following a review of two property leases with original lease terms of 99 years, the MPA now recognises that both property leases are finance, not operating leases. The properties are Charing Cross Police Station and Chalk Farm Estate and lease expiry dates are April 2077 and March 2034 respectively. In previous years, the ground rents payable for these properties were incorrectly classified as operating leases, but are now disclosed as finance leases on page 30. Both properties have always been capitalised in previous years based on the valuations provided by the external surveyor for property held on long leases. The ground rents are considered immaterial, and as a result, the MPA has never recognised a long-term liability on the Balance Sheet for the obligation to pay ground rents. As a result of this change, no further accounting entries have been made; it is only a change in disclosure.

The MPA recently 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 in exchange for incurring refurbishment costs of £0.549 million to bring the property up to a proper standard of accommodation. 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 2007	57,389
Revaluations	1,000
Impairment	(250)
Depreciation	(900)
Value as at 31 March 2008	57,239

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 2008, the Authority spent £43.6 million on operating leases for property (£26.7 million in 2006-07) and £1.6 million on operating leases for vehicles (£0.3 million in 2006-07). In the same year the Authority received £17.3 million in respect of operating leases where it is the lessor (£12.4 million in 2006-07).

The Authority spent £0.02 million on finance leases for land and buildings (£0.02 million in 2006-07). 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 2008 are due to expire as follows:

Future Periods	31 March 2008		31 March 2007	
	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	2,000	312	2,080	0
Between 2 and 5 years	5,284	1,579	3,234	1,053
More than 5 years	36,978	0	36,343	0

7. Members' Allowances and Expenses

A total of £281,214 was paid in 2007-08 (2006-07 £265,122) in respect of Members' allowances and expenses.

8. Publicity

Under the requirements of Section 5(1) of the Local Government Act 1986, the Authority is required to identify expenditure on publicity. This amounted to £5.5 million in the period and is analysed below:

	2007-08 £'000	2006-07 £'000
Staff recruitment advertising	3,237	5,583
Other publicity	2,259	3,051
Total	5,496	8,634

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

This represents the interest cost of loans taken out with the Public Works Loans Board. In 2007-08 this amounted to £2.4 million (2006-07 £3.5 million).

10. Gains and Losses on disposal

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

	2007-08			2006-07		
	Property £'000	VPE £'000	Total £'000	Property £'000	VPE £'000	Total £'000
Gains	0	1,618	1,618	3,776	16	3,792
Losses	0	(2)	(2)	(251)	(5)	(256)
Net	0	1,616	1,616	3,525	11	3,536

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.

There has been a change in the formula grant system that significantly changes the balance between RSG and NNDR.

The central funding allocated and the police precept for 2007-08 were as follows:

	2007-08 £'000	2006-07 £'000
Revenue Support Grant	123,100	684,827
Non-Domestic Rates	733,888	132,200
Police Precept	649,000	607,400
Total	1,505,988	1,424,427

12. Other Grants

Other revenue grants received during 2007-08 were:

	2007-08 £'000	2006-07 £'000
Police Revenue Grant (including amendment grants)	1,026,712	1,005,194
Crime Fighting Fund	72,980	72,981
Counter-Terrorism/ Special Operations	372,657	328,000
Airwave Revenue	1,920	0
PCSO & Neighborhood Policing Funding	97,608	54,117
Loan Charges	2,125	1,216
Local Authority Partnership Receipts	38,102	32,930
Olympic and Paralympic Games 2012 Funding	4,012	0
London Safety Camera Partnership	5,057	4,989
Other	0	393
Total	1,621,173	1,499,820

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 new police stations in south-east London and a new 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 2007-08 is £15.7 million (£15.3 million in 2006-07) for the police stations and £8.4 million (£8.2 million in 2006-07) 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 £684.8 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:

	2007-08 £'000	2006-07 £'000
Expenditure		
Forensic Science Services	35,383	40,584
Income (net)		
Immigration Services	4,039	2,908
Special Service Agreements	58,442	59,141
National Identification Service	5,019	6,106
Transport for London	68,173	66,031
City of London Police	325	213
National Crime Squad	743	1,362
National Criminal Intelligence Service	23	178
SOCA	303	980
ACPO TAM	18,113	16,148
Seconded Officers	10,774	11,821

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 2008, 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 who 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.

Lord Toby Harris, MPA member and Paul Stephenson, the Deputy Commissioner, are both trustees of the Safer London Foundation. The Authority donated £400,000 to the Foundation in 2007-08.

15. Auditors Remuneration

The audit fee payable to the Audit Commission during the year totalled £509,850 (2006-07 £537,800).

16. Local Area Agreements

There are 32 Local Area Agreements (LAA's) representing all the London Boroughs. The amounts relating to the LAA's are included within the Local Authority Partnership Receipts on page 31. 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 of £82.384 million (2006-07 surplus of £0.256 million) was added to the general fund after allocating part to earmarked reserves. A schedule of these items is shown below:-

	Notes	2007-08 £'000	2006-07 £'000
Amounts to be excluded from the General Fund			
Depreciation and Impairment adjustment	A	(104,388)	(96,846)
Gains on disposals of assets	10	1,616	3,536
Contributions to/(from) Pensions Reserve	5	(966,827)	(926,127)
Contribution to PFI unitary charge	13	(320)	(320)
Amounts previously not included in Income and Expenditure			
Minimum revenue provision adjustment	18	13,635	12,129
Revenue Contributions to Capital	A	25,010	15,965
Total		(1,031,274)	(991,663)

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. Options are provided on how this prudent provision could be calculated. For 2007-08 the Authority has exercised

the choice to apply the regulatory method for both Government supported borrowing and self-financed borrowing. The minimum revenue provision therefore continues to be calculated as a percentage (presently 4%) of the Authority's capital financing requirement (CFR).

The MRP amount for 2007-08 was £13.6 million (2006-07 £12.1 million) with a corresponding charge to the Capital Adjustment Account.

Notes to the Balance Sheet

A. Fixed Assets

	Intangible Fixed Assets £'000	Tangible Fixed Assets			Non Operational Assets		Comm-unity Assets £'000	Total £'000
		Land and Buildings – Operational £'000	Land and Buildings – Residential £'000	Vehicles Plant and Equipment £'000	Assets under Construction £'000	Surplus Assets £'000		
Gross book value as at 1 April 2007	21,514	1,387,965	235,750	403,272	75,609	14,563	1,121	2,139,794
Transfers – (Reclassification)	596	14,366	0	40,590	(55,552)	0	0	0
Surplus Assets	0	(2,100)	287	0	0	1,813	0	0
Additions	3,608	23,191	361	67,379	53,251	0	0	147,790
Additions (Financed by DGGGA)	0	0	0	488	0	0	0	488
Exp not increasing value	0	0	0	(110)	0	0	0	(110)
Disposals	0	(1,180)	(43,735)	(16,190)	0	(17,519)	0	(78,624)
Deferred Charges	0	(2,548)	0	0	0	0	0	(2,548)
Impairment	0	(8,508)	(369)	(1,295)	0	(65)	0	(10,237)
Redundant depreciation	0	(28,141)	(3,415)	0	0	0	0	(31,556)
Revaluations	0	55,160	7,773	0	0	3,258	0	66,191
Capital adjustment	0	92	0	125	0	0	0	217
Gross book value at 31 March 2008	25,718	1,438,297	196,652	494,259	73,308	2,050	1,121	2,231,405

Accumulated depreciation as at 1 April 2007	(14,541)	(34,066)	(3,415)	(210,760)	0	0	0	(262,782)
Depreciation for the year	(2,932)	(35,427)	(1,986)	(71,110)	0	(45)	0	(111,500)
Redundant depreciation	0	28,141	3,415	0	0	0	0	31,556
Depreciation on assets sold	0	0	0	14,820	0	0	0	14,820
Depreciation on impaired assets	0	0	0	995	0	0	0	995
Total Depreciation	(17,473)	(41,352)	(1,986)	(266,055)	0	(45)	0	(326,911)
Net book value at 31 March 2008	8,245	1,396,945	194,666	228,204	73,308	2,005	1,121	1,904,494
Net book value at 31 March 2007	6,973	1,353,899	232,335	192,512	75,609	14,563	1,121	1,877,012

The Authority's property portfolio which is located throughout London's 32 boroughs includes 139 police stations (2006-07 - 140), 715 residential properties (2006-07 - 931) and 373 other operational buildings (2006-07 - 395) including Safer Neighbourhood bases, patrol bases, headquarter buildings and offices.

The Authority also operates 4,764 patrol cars, motorbikes and other vehicles (2006-07 4,909), 25 boats including inflatables and dinghies (2006-07 – 28), a radio network with 30,351 radios (2006-07 30,352), 51,343 airwave terminals (2006-07- 41,000) and 3 helicopters (2006-07 - 3).

Basis of Valuation

A revaluation has been performed on the entire operational property portfolio as at 1 April 2007, with 20% being physically inspected and 80% being reviewed on a desktop basis. This approach is part of a rolling programme of revaluations that is conducted by G. L. Hearn Ltd 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 2008 in line with accounting policies. In addition the asset lives of residential properties have been extended to 50 years (from 40 years) on the advice of the external valuer. This has had the effect of reducing the depreciation charge by £0.4 million for 2007-08.

Buildings under construction are valued on the basis of the associated land value plus the cumulative construction costs incurred at 31 March 2008.

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 £55.6 million were made for those assets under construction, which were completed and became operating assets.

Revaluation Reserve

The Balance Sheet figures for 31 March 2007 have been adjusted from those included in the Statement of Accounts for 2006-07 to accommodate the implementation of the Revaluation Reserve (see accounting policies, page 18). The Revaluation Reserve and Capital Adjustment Account replace the Fixed Asset Restatement Account (FARA) and Capital

Financing Account (CFA). The credit balances of £1,381 million and £63 million on the FARA and CFA respectively at 31 March 2007 have been written off to the Capital Adjustment Account with a resulting credit balance of £1,444 million. The Revaluation Reserve has been included in the Balance Sheet with a zero opening balance. The closing balance on the Revaluation Reserve of £53.9 million at 31 March 2008 only shows revaluation gains accumulated since as at 1 April 2007.

Redundant Depreciation

The redundant depreciation figure totalling £31.6 million in the above analysis of movements are equal and opposite 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 out.

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:

	2007-08 £'000	2006-07 £'000
Intangible Assets	3,608	6,229
Tangible Assets		
Land and Buildings	23,213	44,734
Plant and Equipment	184	245
Information Technology	51,962	53,214
Vehicles	15,233	19,566
Assets under construction	53,251	28,282
Sub total	147,451	152,270
Deferred Charge	339	2,209
Total	147,790	154,479

Sources of Capital Finance

	2007-08 £'000	2006-07 £'000
Capital payments to be financed	147,790	154,479
Supported Borrowing	19,635	19,635
Unsupported Borrowing	7,464	29,858
Other contributions	4,540	9,953
Capital grants	37,126	66,236
Capital receipts	54,015	12,832
Revenue contribution	25,010	15,965
Total financing	147,790	154,479

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:

	2008-09 and later years £'000	2007-08 and later years £'000
IT various projects	25,874	8,345
Building works	18,177	22,149
Vehicles, Plant & Equipment	10,494	8,000

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 2007-08 was £159.3 million. The Operational Boundary was £138.5 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 2007-08 £3.61 million was incurred on software licences.

C. Stocks

	At 31 March 2008 £'000	At 31 March 2007 £'000
Uniforms	4,098	3,899
Transport & Air Support Unit	1,312	1,151
Heating Oil	779	1,222
Catering goods	391	333
Balance	6,580	6,605

D. Amounts owed to the Authority

	At 31 March 2008 £'000	At 31 March 2007 £'000
Long Term Debtors:		
HMCS/NPS repayment of MPS debt	10,511	11,129
PFI Contribution	6,400	6,720
Trade Debtor	100	100
Balance	17,011	17,949
Other Debtors:		
Staff Advances	2,475	2,273
Government Departments	62,409	36,694
General Debtors	4,100	6,482
Other Local Authorities	18,514	17,381
HMCS/NPS	2,740	6,127
Payments in Advance and Accrued income	72,667	70,400
Customs and Excise	11,754	15,629
	174,659	154,986
Less Bad Debt Provision	900	1,006
Balance	173,759	153,980

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. It includes £40 million of 'cash on call', which is not defined as an investment for FRS 1 (Cash Flow Statements) purposes.

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

	At 31 March 2008 £'000	At 31 March 2007 £'000
Receipts in advance	(22,599)	(31,234)
Government Departments	(72,058)	(63,085)
General Creditors	(258,621)	(234,253)
HMCS/NPS	(4,489)	(9,037)
Balance	(357,767)	(337,609)

G. Provisions

	At 31 March 2008 £'000	At 31 March 2007 £'000
Third party liabilities	34,444	33,606
General Provisions including tax liabilities	6,718	2,550
Building Dilapidations	275	275
Balance	41,437	36,431

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 2008 for £34.4 million (2006-07 £33.6 million). Over the course of the year agreed claims have been paid from this account amounting to £13.5 million.

General Provision including tax liabilities –

- Provision for the reimbursement to officers of tax deducted in respect of Compensatory Grant - £2.0 million
- Provision for a repayment of tax and National Insurance - £2.0 million
- Rent on properties - £0.2 million
- Other - £2.5 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 2008 £'000	At 31 March 2007 £'000
PWLB loans	37,337	42,337
Analysis of loans by maturity:		
Between 1 and 2 years	4,337	5,000
Between 2 and 5 years	0	4,337
Between 5 and 10 years	4,000	2,000
Over 10 years	29,000	31,000

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 40-43.

J. Contingent Liabilities

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 2008 and values at their financial year-end dates are given below. Not all of the figures have been audited:

Fund Name	Income	Expenditure	Assets	Liabilities
	£'000	£'000	£'000	£'000
M.P.A.P.P.A.F.	1,458	1,422	1,631	0
M.P.A.D.M.A.	1,398	646	6,904	0
M.P.C.B.F.	1,645	1,374	1,264	111
M.C.P.R.F.	285	225	1,235	882
M.P.W.W.F.	58	325	1,014	0
M.P.C.H.F.	996	1,047	468	87
M.P.C.F.	46	71	466	1
M.P.S.F.	896	967	519	62
M.P.C.S.W.F.	38	20	241	1
M.P.A.A.	584	511	2,620	25
M.P.S.C	5,032	4,960	4,566	807
COMETS	45	36	99	3
Other Funds	3,898	3,845	1,517	711
TOTAL	16,379	15,449	22,544	2,690

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. Staff in Finance Services are currently undertaking an exercise to identify how much money paid into the MPAPPAF over the years represents MPAPPAF money and how much is detained money. Until that exercise is complete and a transfer has been made from one account to the other a proportion of the money in the MPADMA will represent MPAPPAF money.

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 who were previously The Board of Management prior to 25 October 2006) 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. Whilst the MPAA is primarily for police officers, the COMETS is mainly for the benefit of police staff.

Other Funds

A further 86 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 53 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	22,010
Drug Trafficking Offences Act monies	2,222
Prisoners' property and lost cash	733
Other	6,423
Total	31,388

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 2008 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 2007-08 this amounted to £117.0 million. In 2007-08, employer pension contributions have been charged to the revenue account on the basis of pensions payable in the year and totalled to £296.5 million. Both schemes are accounted for in the statement of accounts of the Police Pensions Fund on page 47.

The Authority had the following overall liabilities for pensions at 31 March 2008 that have been included in the Balance Sheet:

	31 March 2008	31 March 2007
Estimated liabilities in the scheme	£ million	£ million
Officer members	6,038	8,235
Deferred Pensioners	323	339
Pensioners	6,073	6,000
Total value of scheme liabilities	12,434	14,574

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 2008.

The main assumptions used in their calculations are:

	2007-08	2006-07
Rate of inflation	3.6%	3.2%
Rate of increase of salary (<i>note i</i>)	5.1%	4.7%
Rate of increase in pensions	3.6%	3.2%
Rate for discounting scheme liabilities (<i>note ii</i>)	6.9%	5.4%

- Future salary increases are assumed to be within an acceptable range.
- 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 2008 can be analysed as follows:

	2007-08 £ million	2006-07 £ million
Deficit in scheme at beginning of the year	(14,574)	(14,744)
<i>Movement in year:</i>		
Current service cost including Home Office contribution.	(499)	(518)
Employer contributions	325	321
Transfers from / to other authorities	0	(1)
Past service cost (injury benefits)	(1)	(1)
Interest cost on pension liabilities.	(791)	(727)
Actuarial gain / (loss)	3,106	1,096
Scheme liabilities at 31 March	(12,434)	(14,574)

The actuarial gain can be further analysed as follows:

	2007-08 £ million	2006-07 £ million
Other experience gains/(losses) on liabilities	204	106
Actuarial gain / (loss)	3,106	1,096
Present value of liabilities	12,434	14,574

M. Police Staff Pensions Liabilities

The PCSPS is an unfunded multi-employer defined benefit scheme (see Statement of Accounting Policies on page 29 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 2008. Details can be found in the resource accounts of the Cabinet Office, who administer the fund.

For 2007-08, employers' contributions of £104.7 million 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 2007	Transfer To	Transfer from	Balance as at 31 March 2008
	£'000	£'000	£'000	£'000
Earmarked Revenue Reserves				
Accommodation strategy/Property related costs				
Dilapidations	(6,000)	(3,000)	23	(8,977)
Property Related Costs	(15,228)	(9,389)	0	(24,617)
PFI Contract	(486)	0	30	(456)
Total of Accommodation strategy/Property related costs	(21,714)	(12,389)	53	(34,050)
Operational costs				
Airwave	(1,100)	0	1,100	0
Communications Project	(20,027)	0	11,371	(8,656)
Insurance Indemnity Fund	(340)	0	0	(340)
ICT contract issues	0	(1,895)	0	(1,895)
Kickz	(1,500)	(1,500)	0	(3,000)
Laming Enquiry	(49)	0	34	(15)
Legal Costs	(1,491)	0	36	(1,455)
Motor Insurance	(365)	(937)	0	(1,302)
Operational Costs	(10,925)	(37,295)	990	(47,230)
POCA	(8,877)	(3,794)	5,952	(6,719)
Protective Clothing	(354)	(354)	354	(354)
Publicity	(200)	0	0	(200)
Pump Priming Fund	(2,000)	0	0	(2,000)
Systems	(392)	0	200	(192)
Vehicle Recovery Services	(3,200)	0	0	(3,200)
Total of Operational costs	(50,820)	(45,775)	20,037	(76,558)
Revenue support to capital rephasing				
Capital Programme Rephasing	0	(9,700)	0	(9,700)
Total of Revenue support to capital rephasing	0	(9,700)	0	(9,700)
Budget Pressures				
Budget Pressures	(2,233)	(7,500)	188	(9,545)
Cost Recovery Fund	(10)	0	10	0
Total of Budget Pressures	(2,243)	(7,500)	198	(9,545)
Major change programmes				
Modernisation Programmes	0	(16,097)	0	(16,097)
Total of Major change programmes	0	(16,097)	0	(16,097)
MPA initiatives				
MPA	(386)	(396)	26	(756)
Total of MPA initiatives	(386)	(396)	26	(756)
Total Earmarked Revenue Reserves excl. Emergencies Contingency Fund	(75,163)	(91,857)	20,314	(146,706)
Emergencies Contingency Fund				
Emergencies Contingency Fund	(20,134)	(2,959)	0	(23,093)
Total Emergencies Contingency Fund	(20,134)	(2,959)	0	(23,093)
Total Earmarked Revenue Reserves inc. Emergencies Contingency Fund	(95,297)	(94,816)	20,314	(169,799)
Net Movement in Earmarked Revenue Reserves		(74,502)		
General Revenue Reserve	(38,900)	(7,882)	0	(46,782)
Net Movement in Revenue Reserves		(82,384)		

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 reserve part of the costs of a PFI property development.

Operational costs

Airwave

Reserve for connection fee for the provision of Airwave at Heathrow Terminal 5. Now completed.

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 Climbié 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 2007-08. The expectation is that the majority of the reserve will be used in 2008-09.

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 encouraging 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.

Systems

The reserve contributes to the cost of developing financial systems.

Vehicle Recovery Services

Reserve allocated to fund operations targeting clamping of uninsured vehicles.

Revenue support to capital rephasing

Capital Programme Rephasing

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.

Cost Recovery Fund

This is a reserve to provide for external assistance to support cost recovery.

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 2008-09.

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 Receipts/Reserves				
	Usable Capital Receipts	C3i/Airwave Capital Reserves	Earmarked Capital Reserve	Capital Grant Reserve	Total
	£'000	£'000	£'000	£'000	£'000
Balance as at 1 April 2007	(71,256)	(4,533)	(372)	(18,256)	(94,417)
Grants applied in year	0	0	(14,081)	(44,759)	(58,840)
Proceeds of disposals	(64,466)	0	0	0	(64,466)
Unapplied Capital Grant	0	0	4,913	6,403	11,316
Financing of Fixed Assets	54,015	4,533	4,540	32,593	95,681
Balance as at 31 March 2008	(81,707)	0	(5,000)	(24,019)	(110,726)
Net movement for year					(16,309)

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.

C3i/Airwave Capital Reserve

This reserve has now been fully utilised.

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 2007	0	(1,443,667)	(92,459)	0	(1,536,126)
Minimum Revenue Provision	0	(13,635)	0	0	(13,635)
Transfers during year	11,361	(30,263)	18,902	0	0
Transfer from Capital Reserves	0	0	0	(11,316)	(11,316)
Revaluation of Fixed Assets	(66,191)	0	0	0	(66,191)
Financing of Fixed Assets	0	(54,015)	(41,666)	0	(95,681)
Depreciation	0	120,742	0	0	120,742
Revenue Contributions to Capital	0	(25,010)	0	0	(25,010)
Capital expenditure adjustment	920	1,832	(488)	0	2,264
Cost of assets disposed	0	63,804	0	0	63,804
Balance as at 31 March 2008	(53,910)	(1,380,212)	(115,711)	(11,316)	(1,561,149)

Accounting Reserves

Revaluation Reserve

The Revaluation Reserve is a new reserve that was created on 1 April 2007 with a zero opening balance. The reserve records as credit entries the unrealised revaluation gains on land and buildings arising in

2007-08. Debit adjustments are required to remove accumulated gains when revalued assets are sold and also to amortise the gains over the lives of the assets held at 31 March 2008.

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. A credit balance on the account shows that capital finance has been set aside at a faster rate than fixed assets have been consumed. However, this new account also consolidates all previous revaluation gains up to 31st March 2007, and as a consequence, shows a large credit opening balance on 1 April 2007. This will remain over the medium term, but gradually reduce over time as the assets held at 31st March 2007 are sold or decommissioned.

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.

SORP 2007 requires the Government Grant Deferred Account to be shown as a Long Term Liability.

Unapplied Capital Grant

Specific capital grants held at year-end to finance ongoing capital investment schemes.

Q. Police Officer Pension Reserve

	Police Officer Pension Reserve			
	2007-08	2006-07	2005-06	2004-05
	£'000	£'000	£'000	£'000
Balance as at 1 April <i>percentage changeover previous year</i>	14,574,400 (1.15)%	14,743,987 17.99%	12,496,488 33.28%	9,375,973 6.37%
Actuarial gain <i>percentage changeover previous year</i>	(3,106,927) 183.55%	(1,095,714) (177.59)%	1,412,100 (42.63)%	2,461,502 18,588.80%
Revenue Reserve movement <i>percentage changeover previous year</i>	966,827 4.39%	926,127 10.86%	835,399 26.77%	659,013 20.22%
Balance as at 31 March <i>percentage change over previous year</i>	12,434,300 (14.68)%	14,574,400 (1.15)%	14,743,987 17.99%	12,496,488

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 soft loans or 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 2008	31 March 2007	31 March 2008	31 March 2007
	£'000	£'000	£'000	£'000
Financial liabilities at amortised cost	37,337	42,337	354,573	352,609
Financial liabilities at fair value through Income & Expenditure	0	0	0	0
Total Borrowings & Payables	37,337	42,337	354,573	352,609
Loans and receivables	6,500	6,820	396,725	287,859
Available-for-sale financial assets	0	0	0	0
Financial assets at fair value through Income & Expenditure	0	0	0	0
Total Investments & Receivables	6,500	6,820	396,725	287,859

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		Total
	Liabilities measured at amortised cost	Loans and receivables	Available for Sale assets	
	£'000	£'000	£'000	
Interest expense	(2,420)	0	0	(2,420)
Losses on derecognition	0	0	0	0
Interest payable and similar charges	(2,420)	0	0	(2,420)
Interest income	0	17,063	0	17,063
Gains on derecognition	0	0	0	0
Interest and investment income	0	17,063	0	17,063
Net gain/(loss) for the year	(2,420)	17,063	0	14,643

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 2008 is calculated as 5.686% 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 2008	31 March 2008	31 March 2007	31 March 2007
	Carrying Amount £000's	Fair Value £000's	Carrying Amount £000's	Fair Value £000's
Financial Liabilities	42,337	48,427	57,337	61,736

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.

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 and have a minimum score of A (long term) and F1 (short term). Additionally deposits are made with the top twenty (by asset size) UK Building Societies. The Authority has a policy of lending its surplus funds for no longer than one year and, in addition, no more than £40m to any one institution.

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.

	Amount at 31 March 2008	Historical experience of default	Historical experience adjusted for market conditions at 31 March 2008	Estimated Maximum exposure to default and uncollectability
	£000	%	%	£000
	A	B	C	(A X C)
Deposits with banks and Financial institutions	233,000	0	0	0
Customers (General Debtors)	163,725	0.65	0.55	900
				900

No credit limits were exceeded during the reporting period, and the Authority does not expect any losses from non-performance by any of its counter parties in relation to deposits.

The Authority does not generally allow credit for general debtors beyond 30 days, such that £2.051 m is past its due date for payment, and can be analysed by age as follows.

	£000's
Less than three months	1,668
Three to six months	185
Six months to one year	98
More than one year	100
Total	2,051

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 36).

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.

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

Market riskInterest rate risk

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%.

Price risk

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

2006-07 £'000's		Note	2007-08 £'000's
(10,060)	(Surplus)	N	(7,882)
	Non-cash Transactions		
(18,290)	net transfer from reserves		(113,146)
(1,701)	net transfer from provisions		(4,899)
	Items on an Accruals Basis		
(11,717)	(increase) / decrease in revenue creditors		(21,824)
252	increase / (decrease) in stocks		(23)
13,126	increase / (decrease) in debtors		22,046
	Items shown later in the cash flow statement		
14,617	investment income		15,039
(3,452)	interest paid		(2,420)
(17,225)	Net cash flow from revenue activities		(113,109)

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 2007 £'000's	Balance 31 March 2008 £'000's	Movement in year £'000's
Cash and bank	1,571	(4,847)	(6,418)

U. Analysis of Net Debt (liquid resources)

	Balance 31 March 2007	Cash Flow	Balance 31 March 2008
	£'000	£'000	£'000
Cash at bank and in hand	1,571	(6,418)	(4,847)
Debt due within 1 year	(15,000)	10,000	(5,000)
Debt due after 1 year	(42,337)	5,000	(37,337)
Short Term Investments	139,000	94,000	233,000
Total	83,234	102,582	185,816

Police Officer Pension Fund Revenue Account

(for the year to 31 March 2008)

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 2007 £'000		Notes	31 March 2008 £'000
	Contributions receivable		
(254,974)	Employer contributions	1	(263,062)
(113,892)	Officer contributions	2	(117,018)
(4,922)	Additional income	3	(5,543)
(38,410)	Employer additional funding	4	(33,482)
(412,198)	Net income		(419,105)
	Transfers	5	
(6,031)	Transfers in from other schemes		(15,983)
1,790	Transfers out to other schemes		4,899
(416,439)	Net movement		(430,189)
	Benefits payable		
322,755	Pensions paid		348,499
93,493	Lump sum payments		81,520
191	Other payments	6	170
416,439	Net Expenditure		430,189
0	Surplus on Fund		0

Police Officer Pension Fund Asset Statement

(for the year to 31 March 2008)

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 2007 £'000		Notes	31 March 2008 £'000
0	Net Current Assets	a	8,194
0	Net Current Liabilities	a	(8,194)
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 2006.

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 2008-09 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 18 to 22. The MPA administers the Fund through its accounting and banking systems. Details of the two Schemes' actuarial report can be seen on page 43 in the notes to the balance sheet. The cost of pensions can be seen on page 28 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 8.

Revenue Account Notes

1. Employer contributions

Employer contributions are calculated at 24.6% of police officer pensionable pay.

2. Officer contributions

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

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. Employer additional funding

This sum represents additional funding required to provide for payment to pensioners. It represents additional funding of £17.7 million received by the MPS in 2007-08 and a statutory transfer from the police fund in respect of a further sum of £15.7 million to be received in 2008-09. Both sums being paid by the Home Office.

5. Transfers

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

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 £50,901. (2006-07 £60,755).

9. Members of the Scheme

The Pension Fund also administers pensions on behalf of members of Her Majesty's Inspectorate of Constabulary. There are 4 HMIC staff who are working members of the scheme and 20 HMIC pensioners and 6 dependants pensioners.

10. Asset Statement notes

The new Home Office circular issued in June 2008 requires additional lump sums payable under the PPS to officers who retired after 30 September 2007 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 amount that the Authority is statutorily required to set aside from revenue each year as a provision to meet credit liabilities. For the Authority this relates to a principal sum calculated by reference to the capital financing requirement, which is used for the redemption of external debt.

Non Distributed Costs

This consists of charges for police officers and police staff early retirements.

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.

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