



**Metropolitan Police Authority**

**Draft Statement of Accounts 2002-2003**  
Subject to Audit

# Metropolitan Police Authority

## Statement of Accounts 2002-2003

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## Foreword to the Accounts

The Metropolitan Police Authority was established on 3 July 2000. This statement of accounts relates to the period to 31 March 2003 and is the second set of the Authority's accounts to cover a full twelve-month period. The Authority is responsible for the finances of the Metropolitan Police Service (MPS) and the accounts therefore record the expenditure and income of the MPS.

The accounts consist of:

- The Revenue Account, showing details of expenditure and income;
- The Balance Sheet, setting out the financial position of the Authority at 31 March 2003;
- A Statement of Total Movements in Reserves; and
- The Cash Flow Statement, summarising the inflows and outflows of cash.

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

For the first two years the Authority's accounts have been qualified by the external auditors because of inadequate provisions for pension and third party liabilities and failure to revalue fixed assets. These issues have been addressed in preparing the statement of accounts for 2002-03.

### Revenue Account

The Mayor and London Assembly set the budget for 2002-03 following the submission of draft proposals by the Metropolitan Police Authority. The approved budget provided for net expenditure of £2,127 million, which funded a further increase of 1,000 officers, expenditure commitments and a limited list of high priority developments. Savings of £60 million were required to balance the budget.

The Home Office made significant funding decisions after the Authority's budget had been approved, including £46 million for counter-terrorism work, one-off funding of £13 million for street crime initiatives and capital funding of up to £140 million over four years for the C3i project (new 999 command and control facilities).

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

The reported budget position, before making appropriate accounting provisions and establishing necessary earmarked reserves, was net expenditure £25.6 million (1%) below budget. Underspendings occurred in both police (£28.5 million) and civil staff (£10.3 million) pay primarily as a result of recruitment occurring later than provided for in the budget and income from partnership and other sources exceeded budget by £26.9 million, partly offset by associated expenditure. Underspendings on the police pensions and compensation budgets enabled a further strengthening of the provisions for pension and third party liabilities. The main areas of overspending were police overtime (£3.8 million) and running expenses (£3.8 million).

### **Reserves**

The Authority's policy is to have a general reserve at a minimum of 1% of net budgeted expenditure, provided that there are appropriate accounting provisions and earmarked reserves, reasonable insurance arrangements, a well-funded budget and effective budgetary control. The balance of the general reserve at 1 April 2002 was £22.3 million (1%). As a result of the final outturn for 2002-03 the general reserve has been increased to £24.1 million at 31 March 2003, maintaining the balance at 1% of net budgeted expenditure for 2003-04.

In the balance sheet at 31 March 2003 the Authority has substantially increased the provisions set aside to meet liabilities in relation to police pensions and insurable risks, the inadequacy of which prompted the external auditor's qualification of the accounts for 2001-02; the provision for pension liabilities now reflects 75% of the lump sum entitlement of officers who have attained 30 years service as at 31 March 2003 and the provision for third party liabilities provides for full funding of estimated liabilities. The balance sheet also reflects an extended range of earmarked reserves.

### **Capital Finance**

Capital expenditure for the period was £111.4 million, financed by specific grant, borrowing and capital receipts and revenue contributions. This represented investment in land and buildings (£24.5 million), vehicle, plant and equipment (£16.4 million) and information technology (£70.5 million, including £26 million on C3i). The unspent balance of the capital budget provision for the C3i command and control project has been utilised to establish an earmarked capital reserve which will ensure transparency of funding for C3i and the associated Airwave project both of which are being substantially supported by Home Office grant.

### **Fixed Asset Valuations**

A specific exercise to revalue the Authority's estate was undertaken by independent valuers during the year. As a result the balance sheet reflects for the first time the full current value of the estate. The change in fixed asset values is matched by an increase in the accounting reserves.

### **Conclusion**

The Authority's balance sheet has developed substantially since the MPA's inception in 2000 and provides a sound basis for the future management of the Authority's finances.

## **Statement of Responsibilities for the Accounts**

### **The Authority's Responsibilities**

The Authority is required to:

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

### **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 2002.

In preparing the accounts, the Treasurer has:

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

The Treasurer has also:

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

I certify that the statement of accounts presents fairly the financial position of the Metropolitan Police Authority at 31st March 2003 and its income and expenditure for the period then ended.

**Peter Martin**  
**Treasurer**

## Statement on the System of Internal Financial Control

This statement is given in respect of the statement of accounts for the Metropolitan Police Authority (MPA). I acknowledge my responsibility for ensuring that an effective system of internal financial control is maintained and operated in connection with the resources concerned. The system of internal financial control can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.

The system of internal financial control is based on a framework of regular management information, financial regulations, administrative procedures (including segregation of duties), management supervision, and a system of delegation and accountability. Development and maintenance of the system is undertaken by managers within the Metropolitan Police Service to standards set by the Treasurer. In particular, the system includes:

- comprehensive budgeting systems;
- regular reviews of periodic and annual financial reports which indicate actual and forecast financial performance against the budget;
- the financial management strategic programme, providing a framework for the systematic review of internal control systems;
- setting targets to measure financial and other performance;
- clearly-defined capital expenditure guidelines; and
- as appropriate, formal project management disciplines.

The Treasurer is responsible for maintaining an adequate and effective internal audit function. In fulfilling this responsibility:

- internal audit services are provided by the internal audit department;
- internal audit operates to CIPFA's Code of Internal Audit Practice and the Accounting Practices Board Guidance for Internal Auditors;
- the internal audit work plan is risk based, with the highest current financial and business risks determining the systems that Internal Audit will review next year;
- internal audit report to the Treasurer and the Audit Panel of the Authority and present reports to the Commissioner; and
- the Director of Internal Audit provides an independent opinion on the adequacy and effectiveness of the system of internal financial control.

The review of the effectiveness of the system of internal financial control is informed by:

- the work of managers within the Authority;
- the work of the internal auditors as described above; and
- the external auditor in his annual audit letter and other reports.

Significant efforts have been made to strengthen financial controls within the MPA/MPS during 2002/03. Amongst other improvements, client management controls have been strengthened over the operation of the externalised payroll and pension provider. The Authority has approved revised Financial Regulations and Financial Instructions. There has been significant investment in additional finance staff and there has been a major programme of financial awareness training for all senior staff. The Authority has also supported a move to a more devolved structure, which will be key to further improvements in this area, and this has been supported by the publication of a Scheme of Devolved Financial Management. These improvements will continue into future years.

**Peter Martin**  
Treasurer

## Accounting Policies

### General

The accounts of the Authority have been compiled in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom, the Statement of Recommended Practice (SORP), issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), which is recognised by statute as representing proper accounting practice.

### Reserves

The SORP requires the maintenance of a fixed asset restatement reserve and a capital financing reserve within the balance sheet. These reserves do not form part of the resources available to the Authority.

The Authority maintains reserves that are either earmarked for specific purposes or held to meet unforeseen or emergency expenditure. Earmarked reserves will be established from time to time to meet specific expected revenue or capital costs as determined by the Authority.

Details of current earmarked reserves are set out on pages 26-27.

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

### Debtors and Creditors

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

### Provisions

The Authority sets aside provisions to meet existing liabilities where the cost and the timing cannot be determined precisely.

Details of current provisions are set out in the notes to the balance sheet on pages 20 and 21.

Policy in relation to the principal provisions is as follows:

*Pensions* – to make adequate provision for lump sums payable on retirement to officers who at the end of the financial year have completed 30 years service or are aged 55 years or above.

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

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

*Contractor Liability* – to make provision for the expected additional cost of payments made to a contractor in respect of property maintenance.

*Protective Clothing* – to make provision for the cost of research, development and supply of protective clothing for officers.

*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.

### **Short Term Investments**

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

### **Stock**

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

### **Revenue Account**

The Authority has produced a revenue account that presents a service expenditure analysis in accordance with the Best Value Code of Practice. Additionally a revenue account has been produced (reported on page 13) which allocates expenditure on a subjective basis in line with previous years revenue statements.

### **Government Grants**

Government grants are accounted for on an accruals basis and income has been credited, in the case of revenue grants, to the revenue account, or in the case of capital grants, to a balance sheet grants account. Government grants applied in financing capital expenditure are transferred to a government grant deferred account. The grants are released to the capital financing reserve in the year in which capital expenditure is incurred where this is identifiable by project. In all other cases the grants are written off in total to the capital financing reserve.

### **Interest**

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

### **Pensions**

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

*Police Officers* - The Police Pension Scheme (PPS) is a contributory occupational pension scheme (contracted out from the State Earnings Related Pension Scheme), governed by the Police Pension Regulations 1987 (as amended) and related regulations that are made under the Police Pensions Act 1976. Officers



make contributions of 11% of pensionable pay. It is a defined benefit scheme paid from revenue (without a managed pension fund).

Accordingly the statutory charge to the revenue account does not equate to the accrued cost of meeting future pension liabilities on a systematic basis over the period during which the Authority derives benefit from its employee's service. Liabilities included in the balance sheet are therefore understated in respect of uniformed officers' pension costs.

Accrued net pension liabilities have been assessed on an actuarial basis in accordance with FRS 17 and will be incorporated within the Statement of Accounts in accordance with the timetable set out in the SORP. For 2002-03 this requires information to be provided in a note to the balance sheet.

*Civil Staff* – The Authority joined the Principal Civil Service Pension Scheme (PCSPS) on 1 September 2002. The PCSPS is an unfunded multi-employer defined benefit scheme but the Authority is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation of the PCSPS was carried out as at 31 March 2003. It is primarily a defined benefit scheme but employees may opt for a defined contribution alternative. For 2002-03 employers' contributions were payable to the PCSPS at one of four rates in the range 12 to 18.5 percent of pensionable pay, based on salary bands. Employer contributions are to be reviewed every four years following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme. The rate at which employees pay contributions depends on the scheme variant they have opted for.

#### **VAT**

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

#### **Fixed Assets**

All expenditure on the acquisition, creation or enhancement of fixed assets has been capitalised on an accruals basis.

Land and buildings are included on the balance sheet at their latest valuation amount. The valuations conform with the requirements of FRS15 and the Royal Institute of Chartered Surveyors (R.I.C.S.) and have been certified in accordance with regulatory requirements. On revaluation the cost of the assets are increased to the revised amount and the fixed asset restatement reserve is increased by the difference between the net book value and the revised valuation figure. Work in Progress on buildings represents the value of work performed to date on capital alterations; it is recorded separately under Non-Operational Assets as any benefit attributable to the alterations has not yet accrued to the Authority.

Vehicles, plant, furniture and equipment are held at depreciated historic cost. Work in progress represents expenditure on assets yet to be completed.

### **Depreciation**

All fixed assets, with the exception of land, are depreciated on a straight-line basis, over their useful life in accordance with FRS 15 and the latest CIPFA Statement of Recommended Practice (SORP 2002). Freehold land is not depreciated as it has an infinite life.

Where a building has been revalued upwards, the revalued amount has been depreciated separately over the remaining life of the asset. Where a disposal has occurred, depreciation has only been charged for the part of the year when the asset was held. Because of the difficulty of making an accurate assessment of the consumption of economic benefits derived from each building in any given year, it has been assumed that these benefits are derived evenly over the life of the asset. This is reflected in the use of the straight-line method for the calculation of depreciation.

### **Capital Charges**

The capital charges made to revenue equate to the sum of depreciation plus a notional interest charge. This interest charge is applied to all operational assets employed by the Authority. The interest rate used is prescribed by CIPFA each year and is currently 6% for all fixed assets.

### **Leases**

The Authority has a number of operating leases in respect of short-term property leases and of vehicles. These lease costs are charged directly to the revenue account.

Finance leases currently taken out by the Authority are long-term property leases, which have been included in Fixed Assets under Land and Buildings.

### **De Minimis Level**

The de minimis level policy is to capitalise all capital expenditure over £5,000 (£5,000 in 2001-02) on an individual asset basis, and projects with a total value in excess of £5,000.

### **Disposals**

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

### **Impairment Review**

An impairment review of property included in the balance sheet is carried out to identify any permanent diminution in value of properties which have been revalued.

### **Deferred Charges**

Deferred charges are included in the balance sheet in 2002-03 and consist of expenditure previously incurred which has been identified as not creating tangible assets. The expenditure has been amortised to revenue this year and in future years over the remaining life of the items. As a result of the immateriality of the amounts involved no comparative figures are shown.

**Private Finance Initiative Contracts (PFI)**

The Authority has entered into two long-term contractual agreements under PFI whereby the Contractor is responsible for design, construction, finance and maintenance of 4 new police stations in Southeast London and a new Metropolitan Police Specialist Training Centre (MPSTC). Such PFI schemes are required to meet the conditions set out in Financial Reporting Standard 5; professional advice has been provided which indicates there is no impact on the balance sheet of the Authority. Details of the ongoing revenue commitments are described on page 16.

**Redemption of Debt**

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

## Revenue Account

This summary is presented in the format prescribed by CIPFA in Best Value Accounting Code of Practice for the year ended 31 March 2003

2001/02 Outturn		Notes	2002/03 Out-turn		2002/03 Out-turn
			£'000	£'000	£'000
			<b>Expenditure</b>		
			<b>Income</b>		
	<b>Service Divisions</b>	<b>1</b>			
22,516	Call handling		62,609	2,516	60,093
340,367	Crime Investigation and Reduction		532,455	21,248	511,207
38,468	Traffic and Road Safety		71,557	5,486	66,071
179	Public Order and Reassurance		55,714	5,449	50,265
149,208	Community Involvement		88,021	1,874	86,147
853,785	Patrol		752,993	33,141	719,852
87,171	Custody and Court Preparation		124,151	3,646	120,505
0	Licensing		11,004	393	10,611
<b>1,491,694</b>	<b>Sub Total</b>		<b>1,698,504</b>	<b>73,753</b>	<b>1,624,751</b>
262,701	Pension Cost - Police				250,843
40,940	Pension Cost - Civil				38,589
324,683	National Police Services	<b>2</b>			330,070
<b>628,324</b>					<b>619,502</b>
<b>2,120,018</b>	<b>Sub Total</b>				<b>2,244,253</b>
10,192	Corporate and Democratic Core				11,183
0	Unapportionable Overheads				350
<b>2,130,210</b>	<b>Net Cost of Service</b>				<b>2,255,786</b>
	Levies to National Police Services:				
24,495	National Criminal Service (NCS)	<b>3</b>			2
10,632	National Criminal Intelligence Service (NCIS)	<b>3</b>			0
<b>35,127</b>					<b>2</b>
<b>2,165,337</b>	<b>Net Expenditure</b>				<b>2,255,788</b>
(27,488)	Transfer from Asset Management Revenue Account				(34,011)
(9,463)	Interest and Investment Income				(11,913)
<b>(36,951)</b>					<b>(45,924)</b>
<b>2,128,386</b>	<b>Net Operating Expenditure</b>				<b>2,209,864</b>
	<b>Appropriations</b>				
(3,830)	Contributions to / (from) Earmarked Reserves				33,229
(62,511)	Minimum Revenue Provision Adjustment				(62,956)
10,257	Revenue Contributions to Capital				14,496
<b>(56,084)</b>					<b>(15,231)</b>
<b>2,072,302</b>	<b>Amounts to be met from Government Grants and Local Taxation</b>				<b>2,194,633</b>
	<b>This was financed by:</b>				
(972,551)	S102 Greater London Authority Act 1999 Grant				(1,021,805)
(1,108,561)	Other Government Grants				(1,174,606)
<b>(2,081,112)</b>					<b>(2,196,411)</b>
<b>(8,810)</b>	<b>Surplus for the period transferred to General Reserve</b>				<b>(1,778)</b>
(13,459)	Balance on General Reserve at beginning of period				(22,269)
<b>(22,269)</b>	<b>Balance on General Reserve at end of period</b>				<b>(24,047)</b>

## Revenue Account

This summary of total revenue expenditure and income is presented in subjective analysis format.

Year ending 31 March 2002		Notes	Year ending 31 March 2003
£'000			£'000
	<b><u>Expenditure</u></b>		
	<b>Employee Costs</b>		
986,312	Police Salaries	4	1,060,529
237,166	Civil Staff Wages and Salaries	4	262,247
172,594	Police and Civil Staff Allowances and Training Expenditure		169,764
262,701	Net Police Pensions Expenditure	5	250,843
40,940	Net Civil Staff Pensions Expenditure	5	38,589
<b>1,699,713</b>			<b>1,781,972</b>
	<b>Other Running Costs</b>		
130,134	Premises	6	136,293
50,757	Transport	6	51,347
111,770	Supplies and Other	7 & 8	131,026
101,287	Communications		128,815
106,952	Services		69,402
103,952	Capital Charges		110,472
<b>604,852</b>			<b>627,356</b>
<b>2,304,565</b>	<b>Total Gross Expenditure</b>		<b>2,409,327</b>
	<b><u>Income</u></b>		
(1,075)	Sales		(1,218)
(81,099)	Fees and Charges	9	(94,124)
(57,054)	Other Income	10	(58,197)
<b>(139,228)</b>	<b>Total Income</b>		<b>(153,539)</b>
<b>2,165,337</b>	<b>Net Expenditure</b>		<b>2,255,788</b>
(27,488)	Transfer from Asset Management Revenue Account	11	(34,011)
(9,463)	Interest and Investment Income		(11,913)
<b>(36,951)</b>			<b>(45,924)</b>
<b>2,128,386</b>	<b>Net Operating Expenditure</b>		<b>2,209,864</b>
	<b>Appropriations</b>		
(3,830)	Contributions to / (from) Earmarked Reserves		33,229
(62,511)	Minimum Revenue Provision Adjustment	12	(62,956)
10,257	Revenue Contributions to Capital		14,496
<b>(56,084)</b>			<b>(15,231)</b>
<b>2,072,302</b>	<b>Amounts to be met from Government Grants and Local Taxation</b>		<b>2,194,633</b>
	<b>This was financed by:</b>		
(972,551)	S102 Greater London Authority Act 1999 Grant	13	(1,021,805)
(1,108,561)	Other Government Grants	14	(1,174,606)
<b>(2,081,112)</b>			<b>(2,196,411)</b>
<b>(8,810)</b>	<b>Surplus for the period transferred to General Reserve</b>		<b>(1,778)</b>
(13,459)	Balance on General Reserve at beginning of period		(22,269)
<b>(22,269)</b>	<b>Balance on General Reserve at end of period</b>		<b>(24,047)</b>

## Notes to the Revenue Account

### 1. The Service Expenditure Analysis (SEA)

Costs are apportioned to each heading in the revenue account based on returns received from Borough Operational Command Units and other units providing front line services. These returns identified the staff required to maintain operational functions within the individual units and allocated the costs of such staff to the most appropriate service expenditure category. In 2001/02 the basis of producing the SEA was from data recorded in the main accounting system. This disparity in basis of production has resulted in some significant variations in net costs allocated to service expenditure headings.

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

### 2. National Police Services

The Revenue Account entry for "National Police Services" incorporates the costs associated with the following functions, inclusive of an overhead allocation on a consistent basis with other headings in the statement.

The functions included are:

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

The cost of national and international functions, in accordance with the definition in the GLA Act 1999, for 2002-03 is £196.8m (£155.6m 2001-02). The balance of the figure contained in the accounts of £133.3m (£169m 2001-02) represents capital city functions.

### 3. Levies to National Police Services

From April 2002 the national bodies, National Crime Squad (NCS) and National Criminal Intelligence Service (NCIS) began being funded by direct grant from the Home Office rather than levies paid by police authorities

### 4. Employment Costs

In accordance with the CIPFA SORP, 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	
	2002-03	2001-02
50,000-59,999	972	655
60,000-69,999	225	154
70,000-79,999	35	25
80,000-89,999	23	14
90,000-99,999	13	12
100,000-109,999	6	3
110,000-119,999	4	2
120,000-129,999	3	1
130,000-139,999	0	2
140,000-149,999	1	0
150,000-159,999	1	0
160,000-169,999	0	0
170,000-179,999	1	1
180,000-189,999	1	0

Note: banding is based on all taxable remuneration, excluding pension costs, paid in the year rather than the annual salary. Taxable remuneration may include elements, such as back dated pay awards, which relate to previous years but were actually paid in the years in question. Some employees appear in the higher bands as a result of having received back pay following re-instatement to their previous ranks.

### 5. Pension Costs Police Officers

In the 12 month period to 31 March 2003, the net costs of pensions and other benefits amounted to £250.843 million, representing 29.03% of pensionable pay.

Using information provided by external actuaries and adhering to the requirements of FRS 17 (Accounting for Retirement Benefits), the pension liabilities of the Scheme are described in detail in note 13 of the balance sheet.

### Civil Staff

The civil staff pension scheme was transferred to the Principal Civil Service Pension Scheme (PCSPS) on 1 September 2002. For the first five months of 2002-03 the MPA was the only police authority with an unfunded civil staff pension scheme. In the 5 month period to 31 August 2002, the net costs of pensions and other benefits amounted to £16.341 million, representing 15.72% of pensionable pay. In the 7 months to 31 March 2003, the authority made contributions totalling £22.327 million to the PCSPS, which represented 14.30% of pensionable pay.

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

### 6. Leases

In the 12 month period to 31 March 2003, the Authority spent £1.4 million on operating leases for vehicles and £19.0 million for property.

Outstanding commitments in respect of operating leases at 31 March 2003 are as follows:

Period	2002-03		2001-02	
	Property £'000	Vehicles £'000	Property £'000	Vehicles £'000
In year 1	19,231	1,370	18,647	396
Between 2 and 5 years	73,726	Nil	61,641	Nil
More than 5 years	264,165	Nil	283,657	Nil

### 7. Members' Allowances and Expenses

A total of £174,955 was paid in 2002-03 (£137,608 in 2001-02) in respect of Members' allowances and expenses.

### 8. Publicity

Under the requirements of Section 45(1) of the Local Government Act 1986, the Authority is required to identify expenditure on publicity.

This amounted to £8.837 million in the period and is analysed below:

	2002-03 £'000	2001-02 £'000
Staff recruitment advertising	6,140	4,662
Other publicity	2,697	2,328
<b>Total</b>	<b>8,837</b>	<b>6,990</b>

### 9. Income from Fees and Charges

In the 12 month period to 31 March 2003, income received from Fees and Charges is analysed in the following table:

	2002-03 £'000	2001-02 £'000
NCS & NCIS	17,952	20,515
Charges to other Police Forces	7,351	11,998
Special Service Agreements	44,214	41,723
Transport OCU	16,955	0
Other	7,652	6,863
<b>Total</b>	<b>94,124</b>	<b>81,099</b>

### 10. Other Income

In the 12 month period to 31 March 2003, other income received by the Authority was as follows:

	2002-03 £'000	2001-02 £'000
National Services	14,438	16,001
Catering Services	9,198	8,681
Premises related	12,545	15,385
DSS Benefits	1,420	1,443
Operational Receipts	7,278	2,530
Sponsorship	127	505
Other	13,191	12,509
<b>Total</b>	<b>58,197</b>	<b>57,054</b>

### 11. Asset Management Revenue Account

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

	2002-03 £'000	2001-02 £'000
<b>Income</b>		
Capital Charges	(110,472)	(103,952)
<b>Expenditure</b>		
External Interest	7,186	7,908
Provision for Depreciation	67,814	68,556
Amortisation	1,461	0
<b>Total</b>	<b>(34,011)</b>	<b>(27,488)</b>

### 12. Minimum Revenue Provision

The Local Government and Housing Act 1989 requires a Minimum Revenue Provision (MRP) to be set aside for the redemption of debt. This amount is calculated as a percentage (currently 4%) of the Authority's adjusted credit ceiling of £158,005,728.

The CIPFA SORP requires that the provision for depreciation be regarded as part of MRP, with the difference being a charge or credit to the Revenue Account. This ensures that the Revenue Account is charged with no more

than the amount required for the repayment of debt.

The amount required for 2002-03 was £6.319 million and the amount of depreciation charged was £69.275 million, requiring a credit to the Revenue Account of £62.956 million, with a corresponding charge to the Capital Financing Reserve.

### 13. S102 Greater London Authority Act 1999 Grant

The Greater London Authority precepts London Boroughs for Council Tax and receives RSG and NDR directly from central government. The GLA provides funding to the Authority in the form of instalments through a Section 102 Grant.

The central funding allocated and the Police Precept for 2002-03 were as follows:

	<b>2002-03 £'000</b>
Revenue Support Grant (RSG)	476,905
Non-Domestic Rates (NDR)	183,500
Police Precept	361,400
<b>Total</b>	<b>1,021,805</b>

### 14. Other Government Grants

Other revenue grants received during 2002-03 were:

	<b>2002-03 £'000</b>	<b>2001-02 £'000</b>
Police Revenue Grant	1,018,832	1,011,936
London Allowance	18,581	15,635
Crime Fighting Fund	65,891	43,780
Action for Drugs	877	1,578
Counter-terrorism	42,457	19,173
Street Crime Initiative Fund	6,487	1,676
DNA Database Expansion Programme	5,976	5,902
Other	15,505	8,881
<b>Total</b>	<b>1,174,606</b>	<b>1,108,561</b>

Grant income of £46 million for counter-terrorism has been received from the Home Office. The application of the amount has been discussed with the Home Office and the funds are fully committed. The balance of grant £6.298 million will be brought into the accounts for 2003-04 to match expenditure in the year.

### 15. Related Party Transactions

FRS8 requires the Authority to disclose all material related party transactions. During the accounting period, transactions with related parties not disclosed elsewhere in these accounts amount to:

	<b>Expenditure</b>	
	<b>2002-03 £'000</b>	<b>2001-02 £'000</b>
Partnership Activity with London Boroughs	597	942
<b>Total</b>	<b>597</b>	<b>942</b>

	<b>Income</b>	
	<b>2002-03 £'000</b>	<b>2001-02 £'000</b>
City of London Police	257	317
Transport for London	16,694	28
National Crime Squad	14,981	16,660
National Criminal Intelligence Service	2,971	3,856
Seconded Officers	7,094	11,681
Partnership Activity	14,339	8,901
<b>Total</b>	<b>56,336</b>	<b>41,443</b>

Toby Harris, Chair MPA has been employed as a consultant by KPMG. The Authority paid £242,243 in 2002-03 (£86,095 in 2001-02) directly to ATOS KPMG Consulting for consultancy services. Further to an agreement made under Section 3 of the Audit Commission Act 1988, KPMG supports Audit Commission with its audit of the Authority. This arrangement is solely between KPMG and the Audit Commission and the MPA is not party to it. The Authority accrued £534,000 in 2002-03 for payments to Audit Commission; part of this sum will be attributed to work undertaken by KPMG.

The wife of the Director of Resources is Global Financial Controller of Accenture HR Services, a wholly owned subsidiary of Accenture. The Authority paid £1,524,926 to Accenture in 2002-03 (£914,839 in 2001-02) for consultancy, but nothing directly to Accenture HR Services.

### 16. Private Finance Initiative (PFI)

The Authority has entered into two long-term contractual agreements under PFI whereby the contractor is responsible for design, construction, finance and maintenance of four new police stations in Southeast London and a new Metropolitan Police Specialist Training Centre (MPSTC). The agreements impose 25-year commitments on the Authority on occupation of the new facilities. Occupation of the police stations started in November 2002 and is expected to finish in January 2004. The MPSTC was completed in January 2003. The



estimated capital cost of construction of both projects is £121 million with a first complete year annual payment or unitary charge amounting to approximately £13.2 million for the police stations and £6.6 million for MPSTC. Half of the unitary charge will be subject to annual adjustments in respect of inflation (RPI) and the remainder adjusted by a fixed percentage.

**17. Auditors Remuneration**

The audit fee paid to the Audit Commission during the year totalled £534,000 (2001-02 £520,000).

The audit was jointly conducted by the Audit Commission and KPMG. KPMG earned an additional sum of £12,075 in respect of other audit work.

## Balance Sheet

The Balance Sheet shows the financial position of the Metropolitan Police Authority as at 31st March 2003

31 March 2002 £'000		Notes	31 March 2003	
			£'000	£'000
	<b>Fixed Assets</b>	<b>1</b>		
568,958	Land and Buildings		1,455,035	
74,520	Vehicles, Plant and Equipment (VPE)		88,388	
33,025	Non-Operational Assets		101,740	
39,121	VPE - Work in Progress		40,552	
1,067	Community Assets		1,067	
<b>716,691</b>				1,686,782
0	Deferred Charges	<b>2</b>		13,092
14,221	Long-term Debtors	<b>3</b>		13,602
<b>730,912</b>	<b>Total Long-Term Assets</b>			<b>1,713,476</b>
	<b>Current Assets</b>			
3,591	Stock		4,950	
68,834	Debtors	<b>3</b>	80,382	
190,600	Short-term investments	<b>4</b>	322,600	
263,025				407,932
	<b>Less: Current Liabilities</b>			
(12,423)	Cash and Bank balances		(8,458)	
(152,458)	Creditors	<b>5</b>	(237,022)	
(11,500)	Loans repayable in 12 months		(10,000)	
(176,381)				(255,480)
<b>817,556</b>	<b>Total Assets less Current Liabilities</b>			<b>1,865,928</b>
(27,699)	Police Pensions Provision	<b>6</b>		(35,594)
(21,829)	Other Provisions	<b>7</b>		(45,377)
	<b>Less: Long-Term Liabilities</b>			
(114,466)	Long term borrowing	<b>8</b>		(104,466)
<b>653,562</b>	<b>Total Assets less Liabilities</b>			<b>1,680,491</b>
	<b>Accounting Reserves</b>	<b>9</b>		
533,083	Fixed Asset Restatement Account		1,474,649	
31,678	Capital Financing Reserve		30,480	
0	Government Grant Deferred		15,228	
<b>564,761</b>				<b>1,520,357</b>
	<b>Usable Reserves</b>			
40,741	Usable Capital Receipts Reserve		44,706	
9,847	C3i/Airwave Capital Reserve		41,449	
3,933	Capital Grant Reserve		7,261	
2,569	Earmarked Capital Reserve		0	
9,442	Earmarked Revenue Reserves		42,671	
22,269	General Revenue Reserve		24,047	
<b>88,801</b>				<b>160,134</b>
<b>653,562</b>	<b>Total Equity</b>			<b>1,680,491</b>

## Notes to the Balance Sheet

### 1. Fixed Assets

	Land and Buildings £'000	Vehicles, Plant & Equipment £'000	VPE – Work in Progress £'000	Non Operational Assets £'000	Community Assets £'000	Total £'000
Gross book value at 01.04.02	683,561	195,482	39,121	33,025	1,067	952,256
Transfers	(10,680)	18,259	(30,088)	10,673		(11,836)
Additions	508	31,704	31,672	44,821		108,705
Disposals	(6,311)	(11,563)	0	0		(17,874)
Revaluations	928,653			17,723		946,376
Capital adjustment	(12,105)		(153)	(1,458)		(13,716)
Gross book value at 31.03.03	1,583,626	233,882	40,552	104,784	1,067	1,963,911
Accumulated depreciation	(114,603)	(120,962)				(235,565)
Transfers	2,653	(2,653)				0
Depreciation for period	(36,387)	(31,427)				(67,814)
Depreciation on assets sold	385	9,548				9,933
Capital adjustment	19,361			(3,044)		16,317
<b>Net book value at 31.03.03</b>	<b>1,455,035</b>	<b>88,388</b>	<b>40,552</b>	<b>101,740</b>	<b>1,067</b>	<b>1,686,782</b>
<b>Net book value at 31.03.02</b>	<b>568,958</b>	<b>74,520</b>	<b>39,121</b>	<b>33,025</b>	<b>1,067</b>	<b>716,691</b>

#### Basis of valuation

A comprehensive inspection of the MPA Estate has recently been performed giving revised valuations for all sites as at 31 March 2003. This exercise has been performed in accordance with the Statement of Valuation Practice and Guidance Notes of the Royal Institute of Chartered Surveyors. A rolling programme of revaluations will now be conducted by qualified surveyors ensuring that all land & buildings within the Estate are subject to inspection at least once every five years.

Buildings under construction are included at cost as at 31 March 2003 other than those amounts for alterations that are not deemed to increase capital value.

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

Community assets have been included in the balance sheet following valuations placed on them

by internal and external valuers. These consist of pictures and museum contents, which have been gifted over many years.

#### Impairment Review

An impairment review was conducted by the Divisional Director Of Estate Management. The assessment confirmed that there were no impairments in the year to 31 March 2003.

#### Capital Expenditure

Items of capital expenditure during the period were:

	2002-2003 £'000
Vehicles, Equipment and IT	52,112
Land and Buildings	45,329
Communications	4,711
Plant and Equipment	6,553
<b>Sub total</b>	<b>108,705</b>
Deferred charge addition	2,718
<b>Total</b>	<b>111,423</b>

**Sources of Capital Finance**

	<b>2002-2003 £'000</b>
Total capital expenditure	111,423
Less:	
Accruals and final adjustments	(6,492)
VPE assets funded in previous yr	(6,136)
<b>Capital payments to be financed</b>	<b>98,795</b>
Financing:	
Credit approvals	21,708
Capital grants	41,648
Capital receipts (current year)	18,374
Capital receipts (prior years)	2,569
Revenue contribution	14,496
<b>Total financing</b>	<b>98,795</b>

**Future Capital Expenditure Commitments**

Capital expenditure to be incurred in 2002-03 and later years includes the following:

	<b>£'000</b>
IT various projects	143,598
Building works	64,522
Other VPE equipment	1,750

**2. Deferred Charges**

The amount capitalised in the year to 31 March 2003 represents expenditure incurred in respect to software licences and software projects.

	<b>At 31 March 2003 £'000</b>
Opening balance	0
Transfers in	11,836
Additions in the year	2,718
Gross Book Value at 31.03.2003	14,554
Amortisation transferred	
Amortisation charge for the year to 31.03.2003	(1,462)
<b>Balance</b>	<b>13,092</b>

Amount previously included in fixed assets but re- categorised as deferred charges: £11,836,424

**3. Amounts owed to the Authority**

	<b>At 31 March 2003 £'000</b>	<b>At 31 March 2002 £'000</b>
<b>Long Term Debtors:</b>		
GLMCA/NPS repayment of MPS debt	<b>13,602</b>	<b>14,221</b>
<b>Other Debtors:</b>		
Staff Advances	1,353	1,355
Government		
Departments	10,654	18,214
General Debtors	26,667	18,469
Other Local Authorities	4,346	8,356
GLMCA/NPS	8,064	9,818
Payments in Advance	20,520	14,285
Customs and Excise	10,261	4,703
	<b>81,865</b>	<b>75,200</b>
<b>Less Bad Debt provision</b>	1,483	6,366
<b>Balance</b>	<b>80,382</b>	<b>68,834</b>

**4. Short Term Investments**

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

**5. Amounts owed by the Authority falling due within one year**

	<b>At 31 March 2003 £'000</b>	<b>At 31 March 2002 £'000</b>
Receipts in advance	(12,035)	(7,334)
Government	(40,604)	(33,592)
Departments		
General Creditors	(177,066)	(101,287)
GLMCA/NPS	(7,317)	(10,245)
<b>Balance</b>	<b>(237,022)</b>	<b>(152,458)</b>

**6. Police Pensions Provision**

The Authority seeks to make provision for lump sums payable on retirement to officers who at the end of the financial year have completed 30 years service or are aged 55 years or above. These officers are able to retire at one month's notice. The full provision that would be required for this purpose at 31 March 2003 was £47 million. The opening provision at 1 April 2002 was £27.7 million. A further £7.9 million has been charged to the revenue account and the balance carried forward is therefore £35.6 million, which represents 75% of the total potential liability. Subject to discussions with the Audit Commission, this provision may be re-classified as a reserve in the next financial year.

## 7. Other Provisions

Other provisions are as follows:

	At 31 March 2003 £'000	At 31 March 2002 £'000
Third party liabilities	40,000	13,288
Pay review	0	2,800
Tax liability	3,600	4,000
Contractor liability	1,477	1,741
Protective clothing	300	0
<b>Balance</b>	<b>45,377</b>	<b>21,829</b>

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. The full provision that would be required for this purpose at 31 March 2003 was £40 million (2001-02: £45 million), based on estimates regularly updated and provided by our lawyers. In the year 2002-03, it has been possible to make a full provision of £40 million. In 2001-02 the Authority was only able to set aside £13,288 million, which represented 30% of the total provision required.

## 8. Long Term Borrowing

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

	At 31 March 2003 £'000	At 31 March 2002 £'000
<b>PWLB loans</b>	<b>104,466</b>	<b>114,466</b>
Analysis of loans by maturity:		
Between 1 and 2 years	18,628	10,000
Between 2 and 5 years	43,500	47,128
Between 5 and 10 years	9,338	24,338
Over 10 years	33,000	33,000

## 9. Reserves

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

Details of movements on these reserves are shown in the Statement of Total Movement in Reserves and Notes on pages 24-27.

## 10. Provision for Credit Liabilities (memorandum account only)

The Provision for Credit Liabilities which was established under the Local Government Act 1989 is a memorandum account which includes the amounts set aside from revenue for the repayment

of external debt. The balance on this account is made up as follows:

	2002-03 £'000	2001-02 £'000
<b>Balance at 1 April</b>	<b>0</b>	<b>0</b>
Provision for debt repayment made in year	(6,320)	(6,045)
Provision used in year for repayment of debt	6,320	6,045
<b>Balance</b>	<b>0</b>	<b>0</b>

## 11. Contingent Liabilities

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

## 12. Third Parties' Monies

The Authority administers funds on behalf of third parties. These funds are not assets of the Authority and are not included in the balance sheet. The Authority acts as sole trustee for the Police Property Act Fund (P.P.A.F). The remaining funds belong to the officers who appoint their own trustees. Details of the principal funds are detailed below: -

Fund Name	Expenditure £'000	Income £'000	Fund Value 31.3.2003 £'000
P.P.A.F.	1,412	2,817	6,301
M.P.C.B.F.	1,537	1,664	420
M.C.P.R.F.	175	250	199
M.P.W.W.F.	75	70	1,619
M.P.C.H.F.	987	937	623
M.P.C.F.	16	16	404
M.P.A.A.	492	470	1,310
M.P.S.S.C	1,263	1,080	1,896

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

**M.P.C.B.F. - Metropolitan Police Combined Benevolent Fund** – This is the main charitable fund into which police officers make monthly contributions and where donations from the public are received.

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

**M.P.W.W.F. - Metropolitan Police Widows' And Widowers' Fund** – The fund gives financial assistance by means of grants to deserving cases among widows and widowers of former police officers.

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

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

**M.P.A.A. - Metropolitan Police Athletic Association** – The fund provides Metropolitan Police staff with financial assistance in obtaining new sporting facilities and managing sporting activities.

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

**Other Funds** - There are 45 other funds managed by the Metropolitan Police Authority's staff and officers. Monies received into the funds are utilised for a number of welfare and sports and social issues. The total amount of income received was £3,041,731 while expenditure amounted to £1,134,327. The overall value of the funds as at 31 March 2003 was £1,293,119.

All the figures detailed above are for the year to 31 March 2003 and have not all been audited.

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

	<b>£'000</b>
Drug trafficking Offences Act monies	538
Prisoners property and lost cash	441
Other	973
<b>Total</b>	<b><u>£1,952</u></b>

The prisoners property and lost cash relates to the total amount held in property stores at 31 March 2003 and has therefore been stated separately from the Police Property Act Fund value as at 31 March 2003.

### 13. Police Pensions Liabilities.

As part of the terms and conditions of employment of its 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 needs to be disclosed at the time that employees earn their future entitlement.

The Police Pension Scheme for police officers (the scheme) is an unfunded scheme, meaning that there are no investment assets built up to meet the pensions liabilities, and cash has to be generated from revenue to meet the actual pensions payments as they fall due. Police officers can make contributions to the scheme, in 2002-03 this amounted to £87.6 million.

In 2002-03, pensions costs have been charged to the revenue account on the basis of pensions payable in the year to retired officers. The Authority had the following overall liabilities for pensions at 31 March 2003 and 2002 that have not been included in the balance sheet:-

	<b>31 March 2003</b>	<b>31 March 2002</b>
<b>Estimated liabilities in the scheme</b>	<b>£ million</b>	<b>£ million</b>
Officer members	4,239.2	3,800.0
Deferred Pensioners	340.3	350.0
Pensioners	4,235.2	4,300.0
<b>Total value of scheme liabilities</b>	<b>8,814.7</b>	<b>8,450.0*</b>

\* The original 2002/03 opening balance has been reduced by £300 million to £8.45 billion following advice that injury pensions had been over assessed.

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 2003 and 2002. The main assumptions used in their calculations are:

	<b>2002-03</b>	<b>2001-02</b>
Rate of inflation	2.5%	2.8%
Rate of increase of salary (note a)	4.0%	4.3%
Rate of increase in pensions	2.5%	2.8%
Rate for discounting scheme liabilities (note b)	6.1%	6.4%

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

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

The movement in the scheme liabilities for the year to 31 March 2003 can be analysed as follows:

	£ million
Scheme liabilities at 1 April 2002	(8,450)
<i>Movement in year:</i>	
Current service cost	(200)
Employer's Contributions	0
Pensions and lump sum expenditure	275
Past service cost (injury benefits)	(7)
Interest cost on pension liabilities	(540)
Actuarial gain	107
Scheme liabilities at 31 March 2003	(8,815)

The actuarial gain can be further analysed as follows:

	£ million	% of scheme liabilities at 31 March 2003
Experience gains arising from pension and salary increases	103	1.2%
Other experience gains on liabilities	4	0.05%
Changes in demographic assumptions underlying the present value of the scheme liabilities	-	
<b>Actuarial gain</b>	<b>107</b>	

#### 14. Civil Pensions Liabilities

The PCSPS is an unfunded multi-employer defined benefit scheme but the Metropolitan Police Service is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2003. Details can be found in the resource accounts of the Cabinet Office.

For 2002-03, employers' contributions of £22,603,349 were payable to the PCSPS at one of four rates in the range 12 to 18.5 per cent of pensionable pay, based on salary bands. Rates will remain the same next year, subject to revalorisation of the salary bands. Employer contributions are to be reviewed every four years following a full scheme valuation by the

Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Employees joining after 1 September 2002 could opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £1,238 were paid to one or more of a panel of four appointed stakeholder pension providers. Employer contributions are age-related and range from 3 to 12.5 per cent of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, employer contributions of £538, 0.8% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

## Statement of Total Movement in Reserves

Notes	Accounting Reserves			Total £'000
	Government Grant Deferred Account £'000 1	Fixed Asset Restatement Account £'000 2	Capital Financing Reserve £'000 3	
Balance as at 1.4.2002	0	(533,083)	(31,678)	(564,761)
Minimum Revenue Provision Adjustment	0	0	62,956	62,956
Transfers during year	26,420	0	(26,420)	0
Revaluation of fixed assets	0	(946,376)	0	(946,376)
Cost of value of assets disposed	0	7,864	0	7,864
Capital expenditure adjustment	0	(3,054)	(14,496)	(17,550)
Capital accrual adjustment	0	0	101	101
Financing of Fixed Assets	(41,648)	0	(20,943)	(62,591)
<b>Balance as at 31.03.03</b>	<b>(15,228)</b>	<b>(1,474,649)</b>	<b>(30,480)</b>	<b>(1,520,357)</b>

Notes	Usable Capital Reserves				Total £'000
	Usable Capital Receipts £'000 1	C3i/Airwave Capital Reserve £'000 2	Capital Grant Reserve £'000 3	Earmarked Capital Reserve £'000 4	
Balance as at 1.4.2002	(40,741)	(9,847)	(3,933)	(2,569)	(57,090)
Transfers during year	0	(55,689)	(30,736)	0	(86,425)
Proceeds of disposals	(12,492)	0	0	0	(12,492)
Financing of Fixed Assets	8,527	24,087	27,408	2,569	62,591
<b>Balance as at 31.03.03</b>	<b>(44,706)</b>	<b>(41,449)</b>	<b>(7,261)</b>	<b>0</b>	<b>(93,416)</b>

Notes	Usable Revenue Reserves		Total £'000
	Earmarked Revenue Reserves £'000 1	General Revenue Reserve £'000 2	
Balance as at 1.4.2002	(9,442)	(22,269)	(31,711)
Transfers during year	(33,229)	(1,778)	(35,007)
<b>Balance as at 31.03.03</b>	<b>(42,671)</b>	<b>(24,047)</b>	<b>(66,718)</b>



## Notes to the Statement of Total Movements in Reserves

### Accounting Reserves

#### 1. Government Grant Deferred Account

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

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

#### 2. Fixed Asset Restatement Reserve

The Fixed Asset Restatement Reserve is debited or credited with the deficits or surpluses that arise on the revaluation of fixed assets as well as being written down by the net book value of assets when they are disposed of. The account cannot be used to support spending.

#### 3. Capital Financing Reserve

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

### Usable Capital Reserves

#### 1. Usable Capital Receipts

The use of capital receipts is regulated by the Local Government and Housing Act 1989, and they can only be used to finance capital expenditure.

#### 2. C3i/Airwave Capital Reserve

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

#### 3. Capital Grant Reserve

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

#### 4. Earmarked Capital Reserve

This reserve deals with receipts taken in prior to abolition of the set-aside rules for non-housing capital receipts (SI 1998/1937). By use of powers under Section 59 of Part IV of the 89 Act it is possible for capital receipts to be fully utilised to meet certain specified expenditure. Such receipts are commonly known as "in and out" receipts. (The 89 Act refers to the Local Government and Housing Act 1989.)

## Usable Revenue Reserves

### 1. Earmarked Revenue Reserves

	Balance at 1 April 2002 £'000	Income £'000	Expenditure £'000	Balance at 31 March 2003 £'000
Affordable Housing	(800)	0	129	(671)
Capital programme	0	(4,000)	0	(4,000)
Consultancy costs	(33)	(42)	0	(75)
Contingency	0	(6,000)	0	(6,000)
Contract Review	(2,000)	0	336	(1,664)
Criminal Justice Reform	0	(1,853)	0	(1,853)
Laming Enquiry	(500)	0	0	(500)
Legal Costs	(2,600)	0	2	(2,598)
MPA	(589)	0	185	(404)
OCU carryover	0	(3,000)	0	(3,000)
Operational costs	0	(3,586)	0	(3,586)
Overt Covers	(750)	(4,650)	750	(4,650)
PFI contracts	(1,600)	0	1,000	(600)
Police Pensions	0	(4,000)	0	(4,000)
Property related costs	0	(7,350)	0	(7,350)
Refurbishments	(250)	(130)	0	(380)
Resources systems	0	(1,250)	0	(1,250)
Territorial Policing	(320)	0	320	0
Training	0	(90)	0	(90)
<b>Total as per balance sheet</b>	<b>(9,442)</b>	<b>(35,951)</b>	<b>2,722</b>	<b>(42,671)</b>

#### Affordable Housing

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

#### Capital Programme

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

#### Consultancy Costs

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

#### Contingency

This reserve is set up to provide for unavoidable budget pressures in the coming year.

#### Contract Review

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

#### Criminal Justice Reform

To set aside a sum to implement improvements to criminal justice procedures as recommended by the Glidewell Report.

#### Laming Enquiry

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

#### Legal Costs

To provide for the potential cost of two cases.

#### MPA

The reserve supports the costs of the Metropolitan Police Authority.

#### OCU Carryover

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

#### Operational Costs

The reserve provides for a number of operational activities which have been planned in 2003-04.

#### Overt Covers

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

#### PFI Contracts

To reserve part of the costs of two PFI property developments, which were contracted in 2001-02.

**Police Pensions**

A reserve to mitigate the expected rise in police pension costs.

**Property Related Costs**

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

**Refurbishments**

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

**Resources Systems**

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

**Training**

This reserve provides for additional training for civil staff.

**2. General Revenue Reserve**

This reserve was established to provide cover for emergencies. The 2002-03 underspend of £1.78m has increased this to £24.05m to reflect the policy of keeping the general reserve at 1% of the revenue budget.

## Cash Flow Statement

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

2001/02		Notes	2002/03	
£'000			£'000	£'000
	<b><u>Revenue Activities</u></b>			
	<b>Cash Outflows</b>			
1,695,042	Employee costs		1,763,159	
452,777	Other operating costs		448,554	
	<b>Cash Inflows</b>			
(972,551)	S102 Greater London Authority Act 1999 Grant		(1,021,804)	
(1,011,936)	Police Act 1996 Grant		(1,018,832)	
(86,963)	Other government grants		(156,091)	
(98,267)	Cash received for goods and services		(92,277)	
(39,042)	Other revenue income		(62,902)	
(60,940)	<b>Net cash inflow from revenue activities</b>	1		<b>(140,192)</b>
	<b><u>Servicing of Finance</u></b>			
	<b>Cash Outflow</b>			
7,906	Interest paid		7,225	
	<b>Cash Inflow</b>			
(8,934)	Interest received		(11,254)	
(1,028)	<b>Net cash inflow from servicing of finance</b>			<b>(4,028)</b>
	<b><u>Capital Activities</u></b>			
	<b>Cash Outflows</b>			
78,391	Purchase of fixed assets		95,650	
	<b>Cash Inflows</b>			
(31,026)	Sale of fixed assets		(12,493)	
(24,255)	Capital grants received		(86,402)	
23,110	<b>Net cash outflow from capital activities</b>			<b>(3,245)</b>
	<b><u>Management of Liquid Resources</u></b>			
35,200	<b>Net increase/(decrease) in short-term investment</b>			<b>132,000</b>
	<b><u>Financing Activities</u></b>			
	<b>Cash Outflow</b>			
10,000	Repayment of loans		11,500	
10,000	<b>Net cash outflow from financing activities</b>			<b>11,500</b>
6,342	<b>Decrease/(increase) in cash</b>	2		<b>(3,965)</b>

## Notes to the Cash Flow Statement

## 1. Reconciliation of Deficit to revenue cashflow

2001/02		2002/03
£'000		£'000
(8,810)	<b>Surplus</b>	(1,778)
	<b><u>Non-cash Transactions</u></b>	
(19,924)	net transfer from reserves	(54,071)
(33,591)	net transfer from provisions	(27,225)
	<b><u>Items on an accruals basis</u></b>	
(41,542)	(increase)/decrease in revenue creditors	(79,852)
(324)	increase/(decrease) in stocks	1,475
42,223	increase/(decrease) in debtors	17,232
	<b><u>Items shown later in the cashflow statement</u></b>	
8,934	investment income	11,254
(7,906)	interest paid	(7,225)
<b>(60,940)</b>	<b>Net cashflow from revenue activities</b>	<b>(140,192)</b>

## 2. Analysis of cash balances

	Balance 31.3.2002	Balance 31.3.2003	Movement in the year
	£'000	£'000	£'000
Cash and bank	(12,423)	(8,458)	3,965

## 3. Analysis of Net Debt

	Balance 31.03.2002	Cash Flow	Balance 31.03.2003
	£'000	£'000	£'000
Cash at bank and in hand	(12,423)	3,965	(8,458)
Debt due within 1 year	(11,500)	1,500	(10,000)
Debt due after 1 year	(114,466)	10,000	(104,466)
Short Term Investments	190,600	132,000	322,600
<b>Total</b>	<b>52,211</b>	<b>147,465</b>	<b>199,676</b>

## Glossary of Terms

### Budget

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

### Call Handling

Dealing with telephone or other enquiries via the communication centres.

### Capital Charges

A charge made to the revenue account for capital assets used in the delivery of service. The capital charge comprises two elements; a financing charge that is based on the value that the asset is held at, in the balance sheet, and a depreciation charge for short life assets

### 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.

### Community Involvement

This heading provides for the cost of involving the community in police activity through various initiatives and in dealing with offenders in the community.

### 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 whom the Authority owes money at the end of the financial period.

### Crime Investigation and Reduction

Investigation, information gathering, analysis of crimes and criminal activity by detectives, other specialist staff and specialist units.

### Custody and Court Preparation

Pre-trial work including submissions to the CPS, magistrates and other courts. Dealing with motor offences and suspects in custody are the main activities performed under this heading.

### Debtors

Individuals or organisations who owe the Authority money at the end of the financial period.

### Employee Costs

The salaries and wages of employees together with national insurance, superannuation 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.

### Licensing

This is a new category as specified by the Best Value Code of Accounting Practice for for 2002. This category consists of costs and income related to inspection, checking equipment and premises in order to provide or renew licences for firearms, liquor and explosives.

### Long-term debtors

Amount 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 required to set aside from revenue as a provision for credit liabilities. There are two main types of Minimum Revenue Provision (MRP). The main type, MRP in respect to the principal, is calculated by reference to net credit liabilities and ensures that a reasonable

level of provision is made for meeting such liabilities. The other type of MRP is in respect of notional interest on credit arrangements.

**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.

**Patrol**

This covers motorised units, police patrols, special constables and dog units.

**Pension Costs Police and Civil**

These headings show the net of pensions expenditure and income.

**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

**Public Order and Reassurance**

The provision of operational support units to cover activities involving groups of people such as sporting events and liaisons with the relevant authorities but not where this relates to the National Police Services.

**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 to be earmarked for specific liabilities (e.g. pensions, set up costs for the Metropolitan Police Authority) or generally held to meet unforeseen or emergency expenditure (e.g. General Reserve).

**Traffic and Road Safety**

This consists of the management of traffic including vehicle recovery, and road safety, which covers accident investigation.

**Unapportionable Overheads**

This consists of charges for civil staff early retirements.