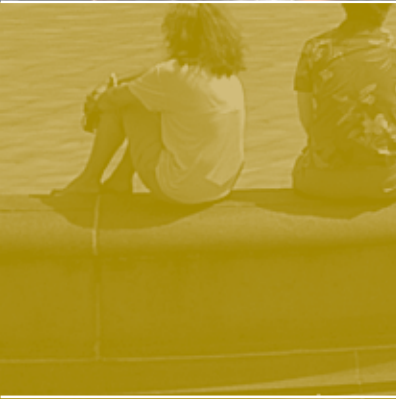




# Metropolitan Police Authority Statement of Accounts 2005 - 2006



Public satisfaction is up by 10%

Crime is down by 3%

Our detection rate is 18%

Violence against the person is down by 2.3%

*A Safer Neighbourhoods* Team is now in every ward across London

We are solving over 90% of homicides

## Metropolitan Police Authority Statement of Accounts 2005-2006

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## Foreword to the Accounts

The Metropolitan Police Authority (MPA) is responsible for the finances of the Metropolitan Police Service (MPS) and the accounts therefore record all the expenditure and income of the MPS. This statement of accounts relates to the period to 31 March 2006.

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 2006;
- A Statement of Total Movements in Reserves; and
- The Cash Flow Statement, summarising the inflows and outflows of cash.

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

### Revenue Account

The Mayor and London Assembly set the budget for 2005-06 following the submission of draft proposals by the MPA. The approved budget provided for net expenditure of £2,733.1 million, funding existing expenditure commitments and a limited list of high priority developments. Savings of over £73 million were identified to balance the budget.

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

The provisional outturn position reported to Finance Committee represented an underspending against budget of £7.5m, after taking into account of a contribution to reserves (£7m) for budget support in 2006 - 07 and £3m for the creation of a new dilapidations reserve. It was agreed at Finance Committee that the £7.5m underspend be transferred to a number of earmarked reserves.

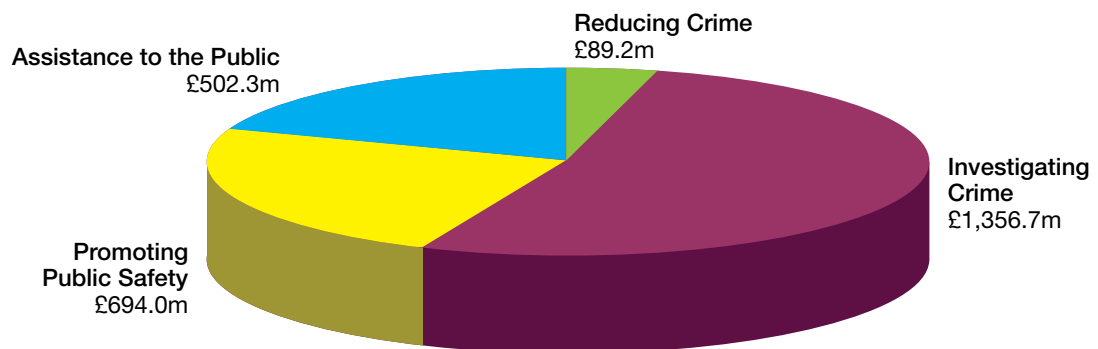
The table below provides a summary of the final outturn position for 2005-06 compared to the approved budget and incorporating transfers to reserves:

	Budget £m	Actual £m	Variation £m
Net revenue expenditure	2,758	2,798	40
Net movement of reserves	(32)	(9)	23
Amount to be met by Local Taxation and Government Grants	2,726	2,789	63
Financed by:			
Greater London Authority Grant	(1,311)	(1,306)	5
Police Revenue Grant	(1,181)	(1,187)	6
Other grants	(234)	(296)	(62)
(Surplus) for the year	0.0	0.0	0.0

The main variation against budget was police pension underspending, including additional income, amounting to £25.6 million. Other principal underspendings were Police Officer, Police Staff, PCSO and Traffic Warden Pay (£22 million) whilst income budgets were exceeded (£42.1 million). The main areas

of overspending were Police Officer overtime (£31.3 million) and Police Staff overtime (£7.4 million) and transport costs (£21 million).

The Authority's revenue account has been presented, at page 20, in accordance with the Best Value Accounting Code of Practice using Activity Based Costing (ABC) methodology. The ABC analysis has been produced based on sample evidence of actual operational staff activity.



### 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. Accordingly the general reserve was increased to a balance of £28.84 million as at 31 March 2006, representing 1% of net budgeted expenditure for 2006-07.

Underspendings during the year have allowed for transfers to earmarked reserves to finance future expenditure and a new Emergencies Contingency Fund of £20.1m has been established to support operational requirements during exceptional circumstances.

### Capital Finance

Capital expenditure for the period was £231.8 million, financed by specific grant, borrowing and capital receipts and revenue contributions. This represented investment in land and buildings (£138.0 million), vehicle, plant and equipment (£45.1 million) and information technology (£48.7 million) and deferred charges (£2.0 million).

Decisions about capital finance affecting the capital programme for 2005-06 onwards were taken in the context of the prudential framework, which provides authorities with more borrowing flexibility.

### Corporate Governance

A statement on the system of internal control 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 Statement is backed by a signed statement by the Commissioner for the first time.

The Authority is continuing work to improve its system of internal controls.

### Conclusion

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

# Independent Auditor's Report to the Metropolitan Police Authority

## Opinion on the financial statements

I have audited the financial statements of the Metropolitan Police Authority for the year ended 31 March 2006 under the Audit Commission Act 1998, which comprise the Revenue Account, the Balance Sheet, the Statement of Total Movements in Reserves, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to the 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 Chief Finance Officer and auditor

The Chief Finance Officer's responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005/06 are set out in the Statement of Responsibilities.

My responsibility is to audit the financial 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 financial statements present fairly the financial position of the Authority in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005/06.

I review whether the Statement on System of Internal Control reflects compliance with CIPFA's guidance 'The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulation 2003',

published on 2 April 2004. I report if it does not comply with proper practices specified by CIPFA 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 Statement on System of Internal Control covers all risks and controls. I am also not 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 financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

## Basis of audit opinion

I conducted the 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 financial statements. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the financial statements, 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 financial statements 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 financial statements.

**Opinion**

In my opinion, the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005/06, the financial position of the Authority as at 31 March 2006 and its income and expenditure for the year then ended.

**Michael Haworth-Maden**  
**District Auditor,**  
**Audit Commission,**  
1st Floor, Millbank Tower,  
London SW1P 4HQ

*Date: 29 September 2006*

## 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 to regularly review the adequacy and effectiveness of these arrangements.

Under the Local Government Act 1999, the Authority is required to prepare and publish a best value performance plan summarising the Authority's assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

### 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.

I am required by section 7 of the Local Government Act 1999 to carry out an audit of the Authority's best value performance plan and issue a report:

- certifying that I have done so;
- stating whether I believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory

guidance; and

- where relevant, making any recommendations under section 7 of the Local Government Act 1999.

### Conclusion

I have undertaken the audit in accordance with the Code of Audit Practice and I am satisfied that, having regard to the criteria for police authorities specified by the Audit Commission and published in August 2005, 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 ending 31 March 2006, except for putting in place arrangements to maintain a sound system of internal control.

### Best Value Policing Plan

I issued my statutory report on the audit of the Authority's best value policing plan for the financial year 2005/06 in December 2005. I did not identify any matters to be reported to the Authority and did not make any recommendations on procedures in relation to the plan.

### Certificate

I have carried out the audit of accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission. However, the audit cannot be formally concluded, and an audit certificate issued, until I have considered the results of the Authority's ongoing enquiries into estates procurement matters. I am satisfied that the amounts involved will not have a material effect on the financial statements.

**Michael Haworth-Maden**  
District Auditor,  
Audit Commission

1st Floor, Millbank Tower,  
London SW1P 4HQ

*Date: 29 September 2006*

# Statement of Responsibilities for the Accounts

## The Authority's Responsibilities

The Authority is required to:

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

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



**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.

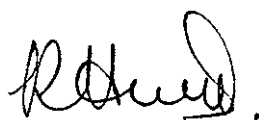
In preparing the accounts, the Treasurer has:

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

The Treasurer has also:

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

I certify that the Statement of Accounts presents fairly the financial position of the Metropolitan Police Authority at 31 March 2006 and its income and expenditure for the period then ended.



**Ken Hunt**  
**Treasurer**

29 September 2006



# Statement on System of Internal Control

Position as at 31 March 2006 including plans for the financial year 2006-07

## 1. Scope of Responsibility

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

A more detailed Statement of Internal Control for the MPS signed by the Commissioner supports this overarching Statement.

## 2. The Purpose of the System of Internal Control

The system of internal control is designed to manage risk to a reasonable and foreseeable level rather than trying to eliminate all risk of non-achievement of 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 system of internal control in place for the year ended 31 March 2006 and up to the date of approval of the annual accounts has been the subject of review.

## 3. The Internal Control Environment

The key elements of the internal control environment include:

### **Facilitating effective strategy policy and decision making.**

The Full Authority and Co-ordination and Policing Committee meet regularly to consider the strategic direction, plans and progress of the Authority. A range of member committees regularly reviews specific policy areas. The MPA Senior Management Team are responsible for establishing the internal vision, strategic direction and priorities for the MPA and advising and supporting members in influencing and shaping the strategic direction and priorities for the policing of London.

Within the MPS, Management Board is the strategic co-ordinating and tasking group for the organisation with responsibility for developing and delivering the corporate strategy. In addition the continuing implementation of the National Intelligence Model provides strategic direction for senior managers and the corporate strategic assessment identifies future strategic issues. The integrated planning process continues to be enhanced, with a single integrated planning document incorporating strategy and annual plan. Other boards such as Investment Board, Contracts Board and Planning Board support strategy, policy and decision making.

### **Establishing and monitoring the achievement of objectives to ensure that high quality services are delivered efficiently and effectively.**

An extensive planning and consultation process identifies policing priorities for the coming year each of which has a clear objective. The Authority approves key performance indicators and targets to support

the objectives. All the key targets are subject to close scrutiny by the full Authority and the Planning, Performance and Review Committee. The process assists management in highlighting performance problems at an early stage, facilitating appropriate interventions.

Within the MPS there is a performance management framework in place supporting the Performance Board. This focuses on delivery of the seven strategic priorities, thirteen objectives and delivery of the Met Modernisation Programme. There is also an inspection and review programme with monthly publication of progress and activity. This is currently being enhanced to include tracking, implementation and progress of Internal Audit high risk recommendations.

**Ensuring compliance with statutory obligations, laws, regulations, guidance and established policies and procedures.**

The Authority has a duty to ensure that it acts in accordance with the Law and various regulations. A number of policies and procedures have been produced to ensure officers understand their responsibilities. In addition professionally qualified staff occupy key roles throughout both the MPS and MPA. Regular reports are made to the Authority on compliance with current initiatives and external requirements, with internal audit reporting on the effectiveness of the organisation's systems of internal controls and making recommendations for improvement. The Authority has delegated Monitoring Officer responsibilities to the Deputy Chief Executive and Solicitor to the Authority.

Within the MPS the Policy Unit are responsible for overseeing all key aspects of policies and standard operating procedures, with a process in place to ensure that each national policy is assessed against an NCPE capability assessment. A new Corporate Governance Framework has been agreed within the MPS with the Director of Strategy, Modernisation and Performance having overall responsibility.



**Management of change processes**

The Met Modernisation Programme (MMP) is an MPS organisational change programme. The MPA is responsible for endorsing the programme on an annual basis, monitoring progress and endorsing recommendations made by the management board.

Within the MPS a programme delivery board manages the MMP with corporate oversight provided by Management Board. Co-ordination of MPS change via the MMP will ensure that strategic change decisions are effective, co-ordinated and focused on delivering service improvement in line with strategic outcomes.

**Identifying, assessing and managing the key risks to the Authority's services**

The Corporate Governance Committee are responsible for ensuring that risk management processes and programmes operate effectively in accordance with the risk management strategy, endorsed by the Authority in July 2004, revisions to which were approved by Corporate Governance Committee in December 2005. The strategy sets out the objectives, responsibilities, processes and support mechanisms for risk management. Risk registers are being embedded throughout the MPS, with key risks incorporated in the corporate risk register. A programme of training is underway and an engagement programme is targeting all areas of the MPS to further embed risk management.

The MPA has developed a risk profile, reviewed regularly by the Senior Management Team, actions from which are embedded in corporate and team work plans.

**Minimising disruption to the Authority's business as usual**

Business continuity boards are in place within the MPA and MPS, with continuity plans compiled for all areas of the MPA and MPS. These are reviewed on an annual basis, and within the MPS dip sampled by the business continuity team.

**Ensuring effective corporate financial management and reporting thereof.**

In accordance with S127 of the Greater London Act 1999, the MPA Treasurer is the financial adviser to the MPA and is responsible for ensuring the financial affairs of the Authority and MPS are properly administered having regard to probity, legality and appropriate standards.

The Commissioner has responsibility for the day-to-day financial management of the MPS in accordance with the approved scheme of delegation. The MPS operate within a devolved accounting framework that is supported by business accountants and regular financial awareness training.

Budget monitoring reports for both capital and revenue are presented to both MPS Investment Board and MPA Finance Committee on a regular basis. These compare actual and forecast expenditure against budget, providing explanations for major variances.

The financial planning framework is currently being revised to improve integration with strategic planning and ensuring improved financial planning and budgeting. The framework will also move away from an annual bidding round, flagging up the financial challenges much sooner and over a three year timeframe.

The Finance Committee approved a rolling programme to ensure continuous improvement over a three year period – the Financial Management Strategic Improvement Plan – and receives regular reports on achievements.

**Ensuring economical, effective, efficient and safe use of resources**

In accordance with the Local Government Act 1999 (and subsequent revised government guidance) the MPA are responsible for ensuring that arrangements are in place that ensure continuous improvement, and that economy, effectiveness and efficiency are secured both within the MPA and MPS, and service

improvement reviews (SIRs, commonly known as best value reviews) are one of the methods used in achieving this. Based on advice from the MPS the Planning, Performance and Review Committee are responsible for selecting all SIRs. The Committee approve SIRs, their final reports and implementation plans and monitor implementation of the plans.

As part of their annual Policing Plan the MPS are required to demonstrate efficiency savings equivalent to 3% of their annual budget with performance also being maintained or improved. Her Majesty's Inspectorate of Constabularies (HMIC) monitor police authorities' achievement through quarterly inspections and quarterly reports on progress are also made to the Finance Committee.

An informal, member-led group oversees scrutiny of specific budget headings.

The MPA have an Anti Fraud and Corruption Policy as part of its corporate governance arrangements to assist in safeguarding its resources, and the MPS also have an Anti Fraud and Corruption Strategy that is overseen by the Professional Standards Strategic Committee.

**Ensuring the Authority's information is trusted, accessible and usable**

The Authority has a member with specific responsibility for information systems and technology that through regular scrutiny meetings ensures that information is trusted and assessable.

Within the MPS this responsibility lies with the Directorate of Information who through the Information Management Strategic Group are driving through the information management strategy.

The MPS Information Authority are responsible for the ratification of the information policy and provide governance for the information management business programme. There are also a number of other groups within the MPS who all contribute towards effective information management.

**Working for and with the community to promote its well being, exercising leadership as necessary**

The Co-ordination and Policing Committee (previously the responsibility of the Community Engagement Committee) is responsible for promoting and monitoring the development of effective arrangements within the MPA and MPS to engage with local communities in the delivery of local policing services and in building safer neighbourhoods. Community Police Consultative Groups and Crime and Disorder Reduction Partnerships (CDRP's) facilitate consultation with local communities, with CDRP's informing local priorities that are included in the annual Policing Performance Plan.

The accelerated roll-out of Safer Neighbourhood teams will help ensure that local policing is delivered to the community and that feedback from the community is built into future policing delivery.

Citizen Focus outlines expectations of contact with the MPS, interacting and responding to the community and dealing with victims of crime.

**Defining, communicating and monitoring professional standards**

The Professional Standards and Complaints Committee are responsible for monitoring professional standards of ACPO rank police officers and the Standards Committee is responsible for



promoting and maintaining high standards of conduct by members of the Authority.

Within the MPS this is the responsibility of the Directorate of Professional Standards. There is a Professional Standards Strategy in place that is driven by the MPS Professional Standards Strategic Committee. The strategy has recently been reviewed in light of a number of reports.

#### **Defining, communicating and monitoring standards of individual performance expected of all personnel**

The Co-ordination and Policing Committee are responsible for all Human Resources issues following the recent Committee restructure.

Policies are in place to define standards of performance expected by all personnel. Performance development reviews are undertaken on an annual basis and there are procedures in place to manage unsatisfactory performance. Annual training programmes outline the training needs of individuals and the organisation as a whole.



#### **4. Review of Effectiveness**

The Authority has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. For those systems reviewed by Internal Audit in 2005-06, the average assurance score was 3.3 (3.4 in 2004-05) on a scale of 1 to 5 (where a score of 2 reflects a system with adequate controls and 3 to 4 reflects increasing degrees of the need to improve). Although follow-up audits did show a clear improvement from the assurance scores at the time of the original audits, with an average score of 2.5 (2.6 in 2004-05), the last two years do not reflect the steady improvement of earlier years.

This review of effectiveness was informed by the work of the internal auditors and also managers within the Authority who have the responsibility for the development and maintenance of the internal control environment. In addition comments made by the external auditors and other review agencies and inspectorates have informed this review. Brief comments on their roles are as follows:

- Internal Audit: The responsibility for maintaining and reviewing the system of internal control rests with the Authority. In practice however the Authority takes assurance from the work of Internal Audit. In fulfilling this responsibility:
  - Internal Audit operates to CIPFA's Code of Internal Audit Practice 2003. The Code requires the Director of Internal Audit to include in the annual internal audit report an opinion on the internal control environment; providing any details of weaknesses that qualify this opinion and bringing to the attention of the Authority any issues particularly relevant to the preparation of this Statement of Internal Control. The Authority is satisfied that Internal Audit operates to the standards set out in the Code and can take assurance from their opinion.
  - Internal Audit reports to the Chief Executive and the Corporate Governance Committee;



- the Director of Internal Audit provides an independent opinion on the adequacy and effectiveness of the system of internal control;
- external audit comments on the adequacy of internal audit work;
- internal audit work is planned using a risk-based approach that aims to ensure that the Treasurer’s responsibilities under s127 of the GLA Act 1999 are fulfilled and that an effective internal audit service is provided to the Authority as required under the Accounts and Audit Regulation 2003.
- External Audit – in their annual audit letter particularly, comment on financial management and performance management and other reports.
- Other review/assurance mechanisms: for example HMIC, Health and Safety Inspectorate, Corporate Risk Management Group.

**5. Significant Internal Control Issues**

**2004-05**

There were thirteen areas where internal control issues were raised in last year’s statement. Progress in addressing these is detailed below.

	Internal control issue	Progress to date
1	To further deliver an effective police service across London	The Met Modernisation Programme (MMP) is being developed to deliver the Service Review and corporate review recommendations. The new Strategy, Modernisation and Performance Directorate are responsible for managing the corporate strategy process and MMP.

2	To ensure that effective decision-making at the right levels is embedded across the MPS	The new Management Board Operating Framework will ensure that Management Board members are better supported to make key strategic decisions. Business case management is now in place and programme of training is under development.
3	To further embed the management of risk and reduce the level of risk to an acceptable level	The recently reviewed risk management strategy continues to be implemented. The Business Risk Management Team's "engagement programme" is increasing awareness and quality of the risk registers.
4	To further enable the MPS to plan for major business disruption via business continuity planning	The MPS has brigaded resources dedicated to emergency planning, business continuity management, and London Resilience into one command within Central Operations.
5	To further implement the management of change programmes across the MPS	The MMP is a co-ordinated change programme encompassing all major areas of change within the MPS. It will also improve the internal culture of the MPS and increase performance, co-ordinating and helping support the implementation of the major changes set out in the 3-year plan (2006 – 2009).
6	To ensure the effective deployment of national policing standards	Quarterly reports to Management Board track progress on compliance with National Standards and Codes of Practice.
7	To assist in bringing closer together, resource allocation and planning	The financial planning framework is currently being revised to improve integration with strategic planning, ensure improved financial planning and budgeting, moving away from an annual bidding round, flagging up the financial challenges much sooner and over a three year time frame.
8	To ensure that intelligence led policing continues to be integrated into the MPS	An MPS Intelligence Steering Group has been established to drive intelligence development. Each Business Group ACPO Lead has an Intelligence Implementation Lead who is responsible for driving the implementation of intelligence development within each business group. Plans are in place to address National Intelligence Model (NIM) minimum standards, however due to scale of delivery the timescales cannot be met.
9	To continue with the effective management of MPS policies	The Policy Unit has been reviewed and now forms part of the Strategy Unit. The Policy Unit continues to develop and monitor the policies of the MPS. Quarterly status reports are submitted to Management Board.



10	<p><b>To ensure continuous improvement in the ways in which the MPS manage its information</b></p>	<p>The implementation of the Information Management Strategy, role of the Information Authority, Information Management Business Change programmes and METSEC Programme Board help ensure that the MPS manages its information in a trusted, accessible and usable way. Work continues on the implementation of Bichard recommendations and the development of a corporate data warehouse system.</p>
11	<p><b>To continue to manage the performance of people across the MPS</b></p>	<p>Work continues within Human Resources strategy to manage peoples' performance incorporating personal development reviews, career pathways, National Occupational Standards, qualifications and work-based assessments.</p>
12	<p><b>To continue the effective delivery of the outsourcing programme with maximised benefits</b></p>	<p>The Outsourcing Programme Team continue to manage the outsourcing programme with assistance from internal support teams. The team reports to the Outsourced Services Steering Group, chaired by the Director of Resources, who is a member of MPS Management Board. All strands are delivered against an implementation model to ensure that benefits are maximised, and risk registers are regularly reviewed.</p>
13	<p><b>To continue to respond robustly to the Diversity imperative</b></p>	<p>The MPS Diversity strategy now has Full Authority approval. The Director of Recruitment holds a monthly scrutiny panel looking at all diversity. Update papers are provided to the MPS Management Board on request. Human Resources also provide an update and attend the monthly Race Relations (Amendment) Act Meeting chaired by the Diversity &amp; Citizen Focus Directorate where progress reports are given.</p>



**2005-06**

For 2005-06 the Authority has identified six main internal control issues that require attention during 2006-07

Issue	Action
The MPS's system of Corporate Governance is new and not yet embedded throughout the organisation.	The MPS need to put in place measures to monitor the embedding of the new corporate governance framework.
All relevant contract regulations need to be followed at all times when letting contracts	The MPA/MPS need to put in measures to monitor compliance pro-actively
The average assurance score on internal control is 3.3, significantly lower than the score of 2, needed to indicate that there are adequate systems of control in place.	The MPS need to strengthen the current systems of internal control in place so that improvements in the assurance score can be achieved during 2006-07.
Resource and financial planning need to be more closely aligned.	Development and implementation of the financial planning framework will need to be closely monitored by the MPA/MPS.
There are weaknesses within the processes of accounting for fixed assets.	The MPS (through the Fixed Asset Working Group) to review this area with a view to establish improvements for the future.
Risk management is not yet fully embedded throughout the organisation.	The MPS Business Risk Management team is developing minimum standards for managing risk in a partnership context and a framework of risk management competencies. Further work to be undertaken on reviewing the MPA/MPS risk financing arrangements.

**Len Duvall**  
**Chair of the Metropolitan Police Authority**

**Catherine Crawford**  
**Chief Executive and Clerk to the Metropolitan Police Authority**

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

# Accounting Policies

## General

These accounts have been prepared in such a way as to present fairly the financial results of the Authority and have been compiled in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom and the Statement of Recommended Practice (SORP), issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), which is recognised by statute as representing proper accounting practice.

## Revenue Account

The Authority has produced a revenue account that presents a service expenditure analysis in accordance with the Best Value Code of Practice which is supplemented by a separate analysis on a subjective basis.

## Employees Costs

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

## Government Grants

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

## Interest

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

## Supplies and Services

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

## Pensions

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

**Police Officers** - The Police Pension Scheme (PPS) is a contributory occupational pension scheme (contracted out from the State Earnings Related Pension Scheme), governed by the Police Pension Regulations 1987 (as amended) and related regulations that are made under the Police Pensions Act 1976. Officers make contributions of 11% of pensionable pay.

It is a defined benefit scheme paid from revenue (without a managed pension fund). Accrued net pension liabilities have been assessed on an actuarial basis in accordance with FRS 17, the net asset/liability and a pensions reserve of the PPS have been recognised on the balance sheet as have entries in the revenue account for movements in the asset/liability relating to the defined benefit scheme. Transfers into and out of the PPS scheme representing joining and leaving police officers are recorded on a cash basis as a result of the time taken to finalise the sums involved.

Following SORP requirements, FRS 17 has been fully recognised in the 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 2006. The pension liabilities in these accounts have been calculated accordingly at a discount rate of 4.9% (5.4% in 2004-05).

The Authority maintains a reserve 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 and can retire at one month's notice.

**Police Staff** – The Authority joined the Principal Civil Service Pension Scheme (PCSPS) on 1 September 2002. The PCSPS is an unfunded multi-employer defined benefit scheme but employees may opt for a defined contribution alternative. The Scheme trustees are unable to identify its share of the underlying assets and liabilities. In accordance with FRS17 the PCSPS is deemed to be multi-employer scheme and the appropriate level of disclosure has been followed.

#### VAT

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

#### Fixed Assets

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

The useful economic lives of tangible fixed assets are reviewed annually and adjusted where necessary. The de minimis level policy is to capitalise all capital expenditure over £5,000 (2004-05: £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. The principal asset categories and their useful economic lives, depreciated on a straight-line basis in accordance with FRS 15, are:

	Category	Years
Land and Buildings	Land Buildings Leaseholds	Indefinite, not depreciated Useful economic life Shorter of expected life and lease period.
Vehicle, Plant and Equipment	Plant, machinery, communications equipment and computers including: <ul style="list-style-type: none"> <li>• Personal Computers</li> <li>• Photographic equipment</li> </ul> Policing Support Vehicles including: <ul style="list-style-type: none"> <li>• Patrol vehicles</li> <li>• Coaches</li> </ul>	3 -15 3 10  3 – 10 3 10
Intangible Assets	Software licences	3
Community Assets	Pictures and museum contents	Depreciation is not applicable as the assets are not in operational use.
Non Operational Assets	Vehicles, plant and equipment - Work In Progress Buildings – Work In Progress	Depreciation is not applicable as the assets are not in operational use.

**Revaluations**

Land and Buildings are periodically revalued by external professional valuers and details of the valuation can be found in note 1 to the balance sheet (page 27).

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

**Capital Charges**

The capital charges made to revenue equate to the sum of depreciation plus a notional interest charge. This interest charge is applied to all operational assets employed by the Authority. The interest rate used is prescribed by CIPFA each financial year for such purpose. The rate presently stands at 3.5% for all fixed assets.

**Leases**

The Authority has a number of operating leases in respect of property and vehicles. Income received and expenditure incurred is charged to the revenue account in the year it is incurred.

**Disposals**

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

**Impairment Review**

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

Other assets are reviewed for impairment by

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

**Deferred Charges**

Deferred charges have been reviewed to identify which could be reclassified and included in intangible fixed assets in line with SORP recommendations. The remaining deferred charges have been fully written off in the current year.

**Intangible Assets**

The Authority treats software licences and other software expenditure as intangible fixed assets and amortises the costs over their useful economic lives.

**Short Term Investments**

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

**Stock**

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

**Debtors and Creditors**

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

**Provisions**

Provisions for liabilities and charges have been established in accordance with FRS 12 Provisions, Contingent Liabilities and Assets and are based on reliable estimates of the expenditure required to settle future legal or constructive obligations that exist at the balance sheet date.

Provisions are charged to the revenue account and are released when the transfer of economic benefit to settle the obligation has been made.

Policy in relation to the principal provisions is as follows:

**Third Party Liabilities** – to make provision for realistic estimates of the future settlement of third party claims, the liability for which already exists at the date of the balance sheet, insofar as they will not be met by external insurance. The figure shown on the balance sheet does not include any adjustment to discount the total liability to present day terms in line with FRS12 because the claims involved are deemed to be estimates based on present day values.

**Tax Liability** – 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.

**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.

### **Reserves**

The SORP requires the maintenance of a Fixed Asset Restatement Account and a Capital Financing Account within the balance sheet. These accounts 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 36 to 40.

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% 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.

### **Contingent Liabilities**

The MPA recognises material contingent 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 in the notes to the balance sheet. Details of the extent of the potential liabilities are described in the note.

### **Private Finance Initiative Contracts (PFI)**

The Authority has entered into two long term contractual agreements under PFI whereby the Contractor is responsible for design, construction, finance and maintenance of four new police stations in southeast London and a new 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 26.

### **Redemption of Debt**

The Authority is able to finance a proportion of its capital investment projects through borrowing. The opportunity to finance capital expenditure in this way has increased through the flexibilities provided by the Prudential Code. The revenue account is charged with an amount sufficient to ensure that the minimum statutory principal repayment in respect of outstanding debt is repaid. The revenue account also meets all accrued interest costs.

## Revenue Account

This summary is presented in Best Value Accounting Code of Practice format as prescribed by CIPFA for the year ended 31 March 2006 . For a subjective analysis see note 1.

Year ending 31 March 2005		Notes	Year ending 31 March 2006		
			£'000	£'000	£'000
			<b>Expenditure</b>	<b>Income</b>	
	<b>Service Expenditure Analysis</b>	<b>2</b>			
89,041	Reducing Crime		94,886	(5,668)	89,218
1,099,287	Investigating Crime		1,442,913	(86,198)	1,356,715
507,023	Promoting Public Safety		738,094	(44,093)	694,001
414,606	Assistance to the Public		534,266	(31,916)	502,350
<b>2,109,957</b>	<b>Sub Total</b>		<b>2,810,159</b>	<b>(167,875)</b>	<b>2,642,284</b>
396,200	Police Officer Pensions	<b>5</b>			0
387,160	National Police Services	<b>3</b>			452,212
<b>2,893,317</b>	<b>Cost of Service</b>				<b>3,094,496</b>
14,968	Corporate and Democratic Core				14,132
2,935	Non Distributed Cost - Pension				4,840
<b>2,911,220</b>	<b>Net Expenditure</b>	<b>4, 5, 6, 7 &amp; 8</b>			<b>3,113,468</b>
(50,313)	Transfer Asset Management Revenue Account	<b>9</b>			(52,921)
517,100	Police Pensions interest cost	<b>5</b>			679,000
(15,782)	Interest and Investment Income				(12,837)
(20,027)	Exceptional Income	<b>16</b>			0
<b>430,978</b>					<b>613,242</b>
<b>3,342,198</b>	<b>Net Operating Expenditure</b>				<b>3,726,710</b>
	<b>Appropriations</b>				
2,695	Net Contributions to/(from) Earmarked Reserves				(9,008)
(659,013)	Contributions to/(from) Pensions Reserve	<b>5</b>			(835,399)
(103,665)	Minimum Revenue Provision Adjustment	<b>10</b>			(107,602)
(320)	Contribution to PFI unitary charge	<b>14</b>			(320)
1,265	Revenue Contributions to Capital				14,231
<b>(759,038)</b>					<b>(938,098)</b>
<b>2,583,160</b>	<b>Amounts to be met from Government Grants and Local Taxation</b>				<b>2,788,612</b>
	<b>This was financed by:</b>				
(1,220,216)	S102 Greater London Authority Act 1999 Grant	<b>11</b>			(1,305,829)
(1,363,185)	Other Grants	<b>12</b>			(1,483,215)
<b>(2,583,401)</b>					<b>(2,789,044)</b>
<b>(241)</b>	<b>(Surplus) for the period transferred to General Reserve</b>				<b>(432)</b>
(28,167)	Balance on General Reserve at 1 April 2005				(28,408)
<b>(28,408)</b>	<b>Balance on General Reserve at 31 March 2006</b>				<b>(28,840)</b>

# Notes to the Revenue Account

## 1. Net Expenditure

Total revenue income and expenditure for the year to 31 March 2006 is presented in subjective analysis format below:

	2005-06 £'000	2004-05 £'000
<b>Expenditure</b>		
Employee Costs		
<i>Police Officer Salaries</i>	1,377,196	1,309,699
<i>Police Staff Wages and Salaries</i>	436,169	382,434
<i>Police Officer &amp; Police Staff Allowances and Training Expenses</i>	209,783	198,748
<i>Net Police Officer Pensions</i>	428,878	397,226
<i>Net Police Staff Pensions</i>	86,251	55,580
Premises-related	190,763	208,890
Transport-related	62,040	56,232
Supplies and Services	409,555	368,929
Capital Charges	173,544	167,089
<b>Total Gross Expenditure</b>	<b>3,374,179</b>	<b>3,144,827</b>
<b>Income</b>		
Fees and Charges	(158,941)	(141,563)
Other Income	(101,770)	(92,044)
<b>Net Expenditure</b>	<b>3,113,468</b>	<b>2,911,220</b>
Transfer Asset Management Revenue Account	(52,921)	(50,313)
Interest on Pension Liability	679,000	517,100
Interest and Investment Income	(12,837)	(15,782)
Exceptional Income	0	(20,027)
	<b>613,242</b>	<b>430,978</b>
<b>Net Operating Expenditure</b>	<b>3,726,710</b>	<b>3,342,198</b>
<b>Appropriations</b>		
Net Contributions to Earmarked Reserves	(9,008)	2,695
Pension Reserve Movement	(835,399)	(659,013)
Minimum Revenue Provision Adjustment	(107,602)	(103,665)
Contribution to PFI Unitary Charge	(320)	(320)
Revenue Contributions to Capital	14,231	1,265
	<b>(938,098)</b>	<b>(759,038)</b>
<b>Amounts to be met from Grants and Local Taxation</b>	<b>2,788,612</b>	<b>2,583,160</b>
<b>This is financed by:</b>		
S102 Greater London Authority Act 1999 Grant	(1,305,829)	(1,220,216)
Other Grants	(1,483,215)	(1,363,185)
	<b>(2,789,044)</b>	<b>(2,583,401)</b>
<b>(Surplus) for the period transferred to General Reserve</b>	<b>(432)</b>	<b>(241)</b>
Balance on General Reserve at 1 April 2005	(28,408)	(28,167)
<b>Balance on General Reserve at 31 March 2006</b>	<b>(28,840)</b>	<b>(28,408)</b>

The two presentations of the revenue account (page 20 and above) do not directly compare due to differing treatments of income. In the revenue account analysed according to service expenditure analysis (page 20) income of £168 million excludes National Police Services income of £92 million. By taking these amounts into account it is possible to match total income on that statement to the sum of £260 million in note 1 above.

## 2. The Service Expenditure Analysis (SEA)

The categories of service expenditure have been reduced and summarised on a basis consistent with Activity Based Costing methodology, which is used to produce a return to the Home Office. Police officer pension costs have been merged into the SEA in accordance with SORP requirements.

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

## 3. National Police Services

The revenue account entry for National Police Services of £452.2 million 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 £217 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	
	2005-06	2004-05
50,000-59,999	6,049	4,960
60,000-69,999	1,508	1,288
70,000-79,999	381	279
80,000-89,999	111	79
90,000-99,999	30	24
100,000-109,999	22	21
110,000-119,999	2	4
120,000-129,999	4	7
130,000-139,999	9	11
140,000-149,999	2	1
150,000-159,999	0	2
160,000-169,999	3	1
170,000-179,999	3	0
180,000-189,999	1	2
190,000-199,999	1	0
200,000-209,999	1	2

Note: banding is based on all taxable remuneration, excluding pension costs, paid in the year rather than the annual salary. Taxable remuneration includes overtime and may also include back dated



pay awards, which relate to previous years but were actually paid in the years in question. The numbers of staff shown for 2004-05 have been re-stated onto the same basis as for 2005-06 following a change in the payroll service provider and the method for extracting the information from the payroll system.

## 5. Pension Costs

As part of the terms and conditions of employment the Authority offers retirement benefits. A full description of both the following schemes is at notes 12 and 13 to the balance sheet.

### Police Officers

In the year to 31 March 2006, the net costs of pensions and other benefits amounted to £428.9 million (£427.3 million notional pension costs and £1.6 million other ancillary costs), representing 39.20% of pensionable pay.

The Authority recognises retirement benefits in the Net Cost of Services when they are earned by the employees, rather than when the benefits are eventually paid as pensions. However, the charge the Authority is required to make is based on the actuarially calculated cost, so the real cost of retirement benefits is reversed out of the revenue account after Net Operating Expenditure. The following transactions have been made in the revenue account during the year:

	2005-06 £'000
Current service cost	427,300
Past service costs	1,900
Interest cost	679,000
Movement in pensions reserve	(835,399)
Retirement benefits paid to Officers	283,144

- Current and past service costs have been produced by actuaries (see note 12 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 Movement in Reserves.
- Retirement benefits paid to Officers is the actual amount paid during the year, removed from the revenue statement.

Note 12 to the balance sheet contains details of the assumptions made in estimating the figures included in this note. The Notes to the Statement of the Total Movements in Reserves on page 35 shows the reasons for the increase in the pension reserve.

### Police Staff

In the year to 31 March 2006, the net costs of pensions (£83.0 million) and other benefits (£3.3 million) amounted to £86.3 million, representing 19.61% of pensionable pay.

Using information provided by PCSPS, the pension liabilities of the Scheme are described in detail in note 13 to the balance sheet.

## 6. Leases

In the year to 31 March 2006, the Authority spent £25.3 million on operating leases for property (£23.6 million in 2004 - 05). In the same year the Authority received £12.2 million in respect of operating leases where it is the lessor (£9.3 million in 2004 - 05).

Outstanding commitments in respect of operating leases at 31 March 2006 are as follows:

Period	31 March 2006		31 March 2005	
	Property £'000	Vehicles £'000	Property £'000	Vehicles £'000
In year 1	27,043	Nil	24,171	6
Between 2 and 5 years	141,137	Nil	110,545	Nil
More than 5 years	536,061	Nil	279,931	Nil

Included above are future year commitments for Empress State Building. The Authority entered into this lease in October 2004. The term of the lease is 14 years and 9 months. Following a rent-free period to July 2007, rent is £10.9 million per annum.

## 7. Members' Allowances and Expenses

A total of £236,941 was paid in 2005-06 (2004-05: £183,639) 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 £6.1 million in the period and is analysed below:

	2005-06 £'000	2004-05 £'000
Staff recruitment advertising	2,810	3,080
Other publicity	3,258	3,429
<b>Total</b>	<b>6,068</b>	<b>6,509</b>

Other publicity costs relate to publications advertising the Metropolitan Police Authority (MPA) and the Metropolitan Police Service (MPS) in local press, attending community events and monitoring press reports of the MPA and MPS.

## 9. Asset Management Revenue Account

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

	2005-06 £'000	2004-05 £'000
<b>Income</b>		
Capital Charges	(173,544)	(167,089)
<b>Expenditure</b>		
External Interest	4,430	5,654
Provision for Depreciation	114,193	107,122
Amortisation	2,000	4,000
<b>Total</b>	<b>(52,921)</b>	<b>(50,313)</b>

## 10. Minimum Revenue Provision

The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 requires the Authority to charge to the revenue account a minimum revenue provision (MRP) for the redemption of debt. This amount is calculated as a percentage (presently 4%) of the Authority's capital financing requirement (CFR). To achieve a revenue effect similar to that operating under previous rules the CFR is adjusted to reflect the difference between it and the Authority's adjusted credit ceiling.

The CIPFA SORP requires that the provision for depreciation be regarded as part of MRP, with the difference being a charge or credit to the revenue

account. This ensures that the revenue account is charged with no more than the amount required for the repayment of debt.

The MRP amount required for 2005-06 was £8.6 million (2004-05 £7.4 million) and the amount of depreciation and amortisation charged was £116.2 million (2004-05 £111.1 million), requiring a credit to the revenue account of £107.6 million (2004-05 £103.7 million), with a corresponding charge to the Capital Financing Reserve.

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

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

The central funding allocated and the police precept for 2005-06 were as follows:

	2005-06 £'000	2004-05 £'000
Revenue Support Grant	625,429	598,829
Non-Domestic Rates	119,900	100,069
Police Precept	560,500	521,318
<b>Total</b>	<b>1,305,829</b>	<b>1,220,216</b>

### 12. Other Grants

Other revenue grants received during 2005-06 were:

	2005-06 £'000	2004-05 £'000
Police Revenue Grant	1,186,716	1,123,084
London Allowance	32,799	29,292
Crime Fighting Fund	72,981	72,981
Counter-terrorism	59,133	47,668
Street Crime Initiative Fund	3,400	12,177
DNA Database Expansion Programme	6,601	7,829
Airwave Revenue	8,545	1,259
Special Operation Funding	32,864	0
PCSO Funding	21,022	17,221
Loan Charges	3,988	2,672
Local Authority Partnership Receipts	34,909	32,024
Special Priority Payments	15,106	10,865
London Safety Camera Partnership	4,264	4,024
Other	889	2,089
<b>Total</b>	<b>1,483,215</b>	<b>1,363,185</b>

### 13. Related Party Transactions

FRS8 *Related Party Disclosures* requires the Authority to disclose all material related party transactions. During the year, transactions

with related parties not disclosed elsewhere in these accounts amount to:

	2005-06 £'000	2004-05 £'000
<b>Expenditure</b>		
Forensic Science Services	42,152	33,307
Safer London Foundation	0	99
<b>Income</b>		
Immigration Services	3,428	4,735
Special Service Agreements	51,951	46,764
National Identification Service	5,877	5,886
Transport for London	63,045	50,400
City of London Police	238	204
National Crime Squad	11,048	12,279
National Criminal Intelligence Service	1,012	1,360
Seconded Officers	7,053	8,921

Lord Toby Harris, MPA Member, has been employed as a consultant by KPMG. The Authority paid £35,847 directly to KPMG for services. In addition Lord Harris is a member of the Public Sector Advisory Council - Anite Group, (2005 - 06 the Authority paid £3.3m directly to this group) and is a special adviser to Transport for London.

The wife of the Director of Resources is the Service Delivery Director (EMEA) of Accenture HR Services, a wholly owned subsidiary of Accenture. The Authority paid £175,206 to Accenture in 2005-06 for consultancy services, but nothing directly to Accenture HR Services.

#### 14. 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 twenty-five year commitments on the Authority for occupation/use of the new facilities. The unitary charge for 2005-06 is £13.3 million for the police stations and £5.9 million 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 £677.8 million.

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

#### 15. Auditors Remuneration

The audit fee payable to the Audit Commission during the year totalled £516,000 (2004-05 £509,000).

#### 16. Exceptional Income

This sum shown in 2004-05 represents a one off payment from a contractor in compensation for withdrawing from a major project undertaken by the MPA.

## Balance Sheet

The balance sheet shows the financial position of the Metropolitan Police Authority as at 31 March 2006.

31 March 2005		Notes	31 March 2006	
£'000			£'000	£'000
	<b>Tangible Fixed Assets</b>	<b>1</b>		
1,434,004	Land and Buildings (L&B)		1,528,600	
78,998	Vehicles, Plant and Equipment (VPE)		164,805	
1,513,002				<b>1,693,405</b>
14,389	<b>Intangible Fixed Assets</b>	<b>1, 2</b>		10,487
202,412	Non-Operational Assets	<b>1</b>	139,117	
1,063	Community Assets	<b>1</b>	1,063	
<b>203,475</b>				<b>140,180</b>
21,841	Long Term Debtors	<b>4</b>		20,591
<b>1,752,707</b>	<b>Total Long Term Assets</b>			<b>1,864,663</b>
	<b>Current Assets</b>			
6,792	Stock	<b>3</b>	6,351	
134,721	Debtors	<b>4</b>	137,981	
268,500	Short Term Investments	<b>5</b>	172,500	
410,013				316,832
	<b>Less: Current Liabilities</b>			
(5,516)	Cash and Bank Balances		(804)	
(310,661)	Creditors	<b>6</b>	(331,094)	
(15,000)	Loans Repayable in 12 months		(13,500)	
(331,177)				(345,398)
<b>1,831,543</b>	<b>Total Assets less Current Liabilities</b>			<b>1,836,097</b>
	<b>Less: Long Term Liabilities</b>			
(12,496,488)	Police Officer Pension Liability	<b>12</b>		(14,743,987)
(33,202)	Provisions	<b>7</b>		(32,977)
(70,837)	Long Term Borrowing	<b>8</b>		(57,337)
<b>(10,768,984)</b>	<b>Total Assets less Liabilities</b>			<b>(12,998,204)</b>
	<b>Accounting Reserves</b>	<b>9</b>		
1,407,872	Fixed Asset Restatement Account		1,405,491	
53,191	Capital Financing Account		75,280	
55,064	Government Grant Deferred		60,089	
1,516,127			1,540,860	
	<b>Usable Reserves</b>			
36,759	Usable Capital Receipts Reserve		46,094	
21,539	C3i/Airwave Capital Reserve		7,629	
2,201	Earmarked Capital Reserves		1,031	
8,361	Capital Grant Reserve		16,228	
114,109	Earmarked Revenue Reserves		105,101	
28,408	General Revenue Reserve		28,840	
<b>211,377</b>				<b>204,923</b>
	<b>Pension Reserve</b>			
(12,496,488)	Police Officer Pension Reserve	<b>12</b>		(14,743,987)
<b>(10,768,984)</b>	<b>Total Equity</b>			<b>(12,998,204)</b>

# Notes to the Balance Sheet

## 1. Fixed Assets

	Intangible Fixed Assets	Tangible Fixed Assets		Non Operational Assets	Community Assets	Total
		Land and Buildings	Vehicles, Plant & Equipment			
	£'000	£'000	£'000	£'000	£'000	£'000
Gross book value at 01.04.05	26,688	1,493,512	193,786	202,412	1,063	1,917,461
Transfers	0	60,820	104,248	(165,068)	0	0
Surplus Assets	0	(9,601)	0	9,601	0	0
Expenditure not increasing value	0	(7,949)	(41,076)	0	0	(49,025)
Additions	4,962	56,723	75,923	92,172	0	229,780
Disposals	0	(33,648)	(16,321)	0	0	(49,969)
Revaluations	0	83,005	0	0	0	83,005
Capital adjustment	0	(57,500)	16	0	0	(57,484)
Gross book value at 31.03.06	31,650	1,585,362	316,576	139,117	1,063	2,073,768
Accumulated depreciation at 01.04.05	(12,299)	(59,508)	(114,789)	0	0	(186,596)
Depreciation for the year	(8,864)	(54,425)	(50,904)	0	0	(114,193)
Depreciation on assets sold	0	415	13,922	0	0	14,337
Capital adjustment	0	56,756	0	0	0	56,756
<b>Total Depreciation</b>	<b>(21,163)</b>	<b>(56,762)</b>	<b>(151,771)</b>	<b>0</b>	<b>0</b>	<b>(229,696)</b>
<b>Net book value at 31.03.06</b>	<b>10,487</b>	<b>1,528,600</b>	<b>164,805</b>	<b>139,117</b>	<b>1,063</b>	<b>1,844,072</b>
<b>Net book value at 31.03.05</b>	<b>14,389</b>	<b>1,434,004</b>	<b>78,998</b>	<b>202,412</b>	<b>1,063</b>	<b>1,730,866</b>

The Authority's property portfolio which is located throughout London's 32 boroughs includes 142 police stations, 1,012 residential properties and 288 operational buildings including Safer Neighbourhood bases, patrol bases, headquarter buildings and offices.

The Authority also operates 4,901 patrol and other vehicles, 22 boats including inflatables and dinghies, a radio network with 29,000 radios and 3 helicopters.

### Basis of valuation

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

The residential portfolio has been subject to a revaluation exercise on 20% of the total value by Drivers Jonas (qualified surveyors) ensuring that all such properties are revalued once every five years. Buildings under construction are valued on the basis of the associated land value plus the cumulative construction costs incurred at 31 March 2006.

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

The two capital adjustment figures in the above schedule include equal and opposite amounts arising from the write out of redundant depreciation.

#### Impairment Review

Impairment reviews were performed at the year-end on Land and Buildings as part of the revaluation process and on Vehicles, Plant and Equipment. There were no impairments identified as a result of the exercise in the year to 31 March 2006.

#### Capital Expenditure

Items of capital expenditure for the year were:

	2005-06 £'000	2004-05 £'000
Plant and Equipment	1,723	10,027
Information Technology	48,635	51,840
Vehicles	26,366	16,800
Land and Buildings	138,019	43,431
Communication equipment	15,037	10,361
<b>Sub total</b>	<b>229,780</b>	<b>132,459</b>
Deferred Charge	2,000	4,000
<b>Total</b>	<b>231,780</b>	<b>136,459</b>

#### Sources of Capital Finance

	2005-06 £'000	2004-05 £'000
Total capital expenditure		231,780
Add/(Less):		
Accruals and adjustments		0
<b>Capital payments to be financed</b>	<b>231,780</b>	<b>152,827</b>
Financing:		
Supported Borrowing		19,635
Unsupported Borrowing		77,109
Other contributions		2,164
Capital grants		84,914
Capital receipts	9,000	14,191
Transfer from useable Capital Receipts Reserve	24,727	33,727
Revenue contribution	14,231	1,265
Transfer from Earmarked Capital Reserve	0	14,231
<b>Total financing</b>	<b>231,780</b>	<b>152,827</b>

The financing of capital expenditure for 2005-06 has been completed on an accruals basis as required by the Prudential Code.

### Future Capital Expenditure Commitments

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

	2006-07 and later years £'000	2005-06 and later years £'000
IT various projects	100,355	134,424
Building works	141,967	131,922
Vehicles, Plant & Equipment	5,244	52,012

### 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.

### 2. Intangible Fixed Assets

In accordance with SORP requirements assets which had in prior years been shown as deferred charges on the balance sheet are restated as intangible fixed assets.

### 3. Stocks

	At 31 March 2006 £'000	At 31 March 2005 £'000
Uniforms	3,758	4,657
Transport & Air Support Unit	1,057	867
Heating Oil	1,222	944
Catering goods	314	324
<b>Balance</b>	<b>6,351</b>	<b>6,792</b>

### 4. Amounts owed to the Authority

	At 31 March 2006 £'000	At 31 March 2005 £'000
<b>Long Term Debtors:</b>		
GLMCA / NPS repayment of MPS debt	11,748	12,366
PFI Contribution	7,040	7,360
Trade Debtor	1,803	2,115
<b>Balance</b>	<b>20,591</b>	<b>21,841</b>
<b>Other Debtors:</b>		
Staff Advances	1,695	1,564
Government Departments	63,478	68,852
General Debtors	6,066	3,842
Other Local Authorities	14,368	13,618
GLMCA/NPS	4,938	8,504
Payments in Advance	37,184	27,979
Customs and Excise	13,010	11,333
	<b>140,739</b>	<b>135,692</b>
<b>Less Bad Debt provision</b>	<b>2,758</b>	<b>971</b>
<b>Balance</b>	<b>137,981</b>	<b>134,721</b>

### 5. Short Term Investments

This amount represents short term and overnight deposits with banks and building societies. It includes £44 million of 'cash on call' which is not defined as an investment for FRS 1 purposes.



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

	At 31 March 2006 £'000	At 31 March 2005 £'000
Receipts in advance	(30,668)	(21,202)
Government Departments	(59,488)	(36,584)
General Creditors	(231,902)	(246,177)
GLMCA/NPS	(9,036)	(6,698)
<b>Balance</b>	<b>(331,094)</b>	<b>(310,661)</b>

## 7. Provisions

	At 31 March 2006 £'000	At 31 March 2005 £'000
Third party liabilities	29,702	29,702
Tax liability	3,000	3,500
Building Dilapidations	275	0
<b>Balance</b>	<b>32,977</b>	<b>33,202</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. Accordingly a provision has been made at 31 March 2006 for £29.7 million.

A provision of £3.0 million liability has been created to provide for tax refunds due to Police Officers arising from the payment of a compensatory grant allowance in 2005-06.

A new provision has been set up to provide for dilapidation costs for a property.

## 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 2006 £'000	At 31 March 2005 £'000
PWLB loans	57,337	70,837
<b>Analysis of loans by maturity:</b>		
Between 1 & 2 years	15,000	13,500
Between 2 & 5 years	9,337	24,337
Between 5 & 10 years	0	0
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 35-39.

## 10. 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.

There is a claim against the MPA by DialMedia Group in respect of the Keyholder database, and counterclaim by the MPA. The claim against the MPA is for £1.5 million and the counterclaim is for £0.6 million.

### 11. Third Parties' Monies

The Authority administers funds on behalf of third parties. Money held by the funds is not owned by the Authority and is not included on the balance sheet. Authority staff administer the Metropolitan Police Authority Police Property Act Fund 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 2006, and values at their financial year end dates are given below. Not all of the figures have been audited:

<b>Fund Name</b>	<b>Income £'000</b>	<b>Expenditure £'000</b>	<b>Net Monetary Assets £'000</b>	<b>Liabilities £'000</b>
M.P.A.P.P.A.F.	558	665	262	0
M.P.A.D.M.A.	1,156	811	6,405	6,405
M.P.C.B.F.	1,545	1,558	651	0
M.C.P.R.F.	210	131	1,039	0
M.P.W.W.F.	76	239	1,443	0
M.P.C.H.F.	1,313	1,272	650	0
M.P.C.F.	26	18	513	0
M.P.S.F.	839	911	518	56
M.P.A.A.	622	495	2,433	35
M.P.S.C	4,321	3,927	3,621	807
M.P.C.S.W.F	37	20	223	1
COMETS	44	38	95	9
Other Funds	4,164	4,188	500	0
<b>TOTAL</b>	<b>14,911</b>	<b>14,273</b>	<b>18,353</b>	<b>7,313</b>

**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 come 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 substantial 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 Board of Management) 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.A.A. - Metropolitan Police Athletic Association** – The fund is the umbrella organisation for 44 sporting sections of the Metropolitan Police Service. 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.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 above). Financial assistance is also given to five area sports and social clubs.

**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.

**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 111 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 63 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 amounts, not included in the balance sheet, are as follows:

	<b>£'000</b>
Drug Trafficking Offences Act monies	15,555
Prisoners property and lost cash	1,546
Other	2,120
<b>Total</b>	<b><u>19,221</u></b>

The prisoners property and lost cash relates to the total amount held in property stores at 31 March 2006 and has therefore been stated separately from the Police Property Act Fund value.

## 12. Police Pensions Liabilities

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

The Police Pension Scheme for police officers is an unfunded defined benefit scheme, meaning that there are no investment assets built up to meet the pensions liabilities, and cash has to be generated from revenue to meet the actual pensions payments as they fall due. Police officers make contributions to the scheme; in 2005-06 this amounted to £111.0 million.

In 2005-06, 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 2006 that have been included in the balance sheet:

	<b>31 March 2006</b>	<b>31 March 2005</b>
<b>Estimated liabilities in the scheme</b>	<b>£ million</b>	<b>£ million</b>
Officer members	8,083	6,333
Deferred Pensioners	345	296
Pensioners	6,316	5,867
<b>Total value of scheme liabilities</b>	<b>14,744</b>	<b>12,496</b>

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. Hyman Robertson, an independent firm of actuaries, has assessed the scheme liabilities as at 31 March 2006.

The main assumptions used in their calculations are:

	<b>2005-06</b>	<b>2004-05</b>
Rate of inflation	3.1%	2.9%
Rate of increase of salary (note a)	4.6%	4.4%
Rate of increase in pensions	3.1%	2.9%
Rate for discounting scheme liabilities (note b)	4.9%	5.4%

- a. Future salary increases are assumed to be 1.5% more than price increases.
- b. 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 2006 can be analysed as follows:

	2005-06 £ million	2004-05 £ million
Deficit in scheme at beginning of the year	(12,496)	(9,376)
<i>Movement in year:</i>		
Current service cost	(428)	(396)
Employer contributions	283	262
Transfers in from / to other authorities	(10)	(6)
Past service cost (injury benefits)	(2)	(2)
Interest cost on pension liabilities	(679)	(517)
Actuarial gain / (loss)	(1,412)	(2,461)
<b>Scheme liabilities at 31 March 2006</b>	<b>(14,744)</b>	<b>(12,496)</b>

The actuarial gain can be further analysed as follows:

	2005-06 £ million	2004-05 £ million
Other experience gains/(losses) on liabilities	108	43
Actuarial gain / (loss)	(1,412)	(2,461)
Present value of liabilities	14,744	12,496
Percentage of the present value of liabilities	0.7%	0.3%

From 1 April 2006 a New Police Pension Scheme has been set up for police officers. This scheme will be operated from a separate set of accounts

the results of which will be incorporated in future years' MPA accounts in accordance with FRS17 disclosure requirements.

### 13. Police Staff Pensions Liabilities

The PCSPS is an unfunded multi-employer defined benefit scheme but the Metropolitan Police Service is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2006. Details can be found in the resource accounts of the Cabinet Office.

For 2005-06, employers' contributions of £83.0 million were payable to the PCSPS at one of four rates in the range 16.2 to 25.6 percent of pensionable pay, based on salary bands. This represented an increase over the previous year's rates of 12 to 18.5 percent. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the Scheme.

## Statement of Total Movements in Reserves

See pages 37-40 for details of movements

	2005-06	
	£'000	£'000
Surplus for the year	432	
Less decrease in earmarked reserves (note 1)	(9,008)	
<b>Total decrease in revenue reserve</b>		<b>(8,576)</b>
Increase in usable capital receipts	9,335	
Increase in unapplied capital grants	7,867	
Decrease in earmarked capital reserves (C3i and Airwave)	(15,080)	
<b>Total increase in realised capital resources (note 2)</b>		<b>2,122</b>
Gains on revaluation of fixed assets (note 3)	83,005	
Reduction in value of fixed assets (note 4)	(49,754)	
<b>Total increase in unrealised value of fixed assets</b>		<b>33,251</b>
<b>Value of assets sold (note 5)</b>		<b>(35,632)</b>
Capital receipts set aside (note 6)	70,329	
Revenue resources set aside (note 7)	(107,603)	
Revenue resources set aside (note 4)	59,363	
Movement on Government Grants Deferred (note 6)	5,025	
<b>Total increase in amounts set aside to finance capital investments</b>		<b>27,114</b>
Actuarial gains and losses relating to pensions	(1,412,100)	
Contribution pensions reserves	(835,399)	
<b>Total increase in the pensions reserve</b>		<b>(2,247,499)</b>
<b>Total recognised gains and losses</b>		<b>(2,229,220)</b>

## Note 1: Usable Revenue Reserves

	Balance at 1 April 2005	Income	Expenditure	Balance at 31 March 2006
	£'000	£'000	£'000	£'000
<b>Earmarked Revenue Reserves (Note A)</b>				
Budget Pressures	(2,864)	0	512	(2,352)
Budget Resilience	(22,002)	0	22,002	0
Budget Smoothing	0	(24,000)	0	(24,000)
Central Operations Tasking	(4,000)	0	4,000	0
Communications Project	(20,027)	0	0	(20,027)
Cost Recovery Fund	0	(100)	0	(100)
Efficiency & Effectiveness / Service Review	(507)	0	507	0
Insurance Indemnity Fund	0	(170)	0	(170)
Laming Enquiry	(144)	0	43	(101)
Legal Costs	(39)	(1,500)	1	(1,538)
MPA	(114)	(326)	114	(326)
Operational Command Unit (OCU) Carryover	(1,128)	0	1,128	0
Operational Costs	(4,999)	(5,661)	1,454	(9,206)
Pandemic Response	(456)	0	0	(456)
PFI Contract	(511)	0	0	(511)
Police Pensions	(45,494)	0	40,494	(5,000)
Priming Fund	0	(2,000)	0	(2,000)
Property related costs	(4,743)	(3,100)	109	(7,734)
Protective Clothing	(489)	0	135	(354)
Rent Smoothing	(3,000)	(1,500)	0	(4,500)
Systems	(392)	0	0	(392)
Vehicle Recovery Services	(3,200)	0	0	(3,200)
Emergencies Contingency Fund	0	(20,134)	0	(20,134)
Dilapidations	0	(3,000)	0	(3,000)
<b>Total Earmarked Revenue Reserves</b>	<b>(114,109)</b>	<b>(61,491)</b>	<b>70,499</b>	<b>(105,101)</b>
<b>Net Movement in Revenue Reserves</b>			<b>9,008</b>	
<b>General Revenue Reserve (Note B)</b>	<b>(28,408)</b>	<b>(432)</b>	<b>0</b>	<b>(28,840)</b>

### Note A Earmarked Revenue Reserves

#### Budget Pressures

This reserve is to meet specific unbudgeted pressures in 2006-07.

#### Budget Resilience

This reserve was set aside to provide assurance to mitigate any possible difficulties in achieving

compliance with 2006-07 budget. The position has been reviewed and the balance transferred to the General Reserve.

#### Budget Smoothing Reserve

This reserve is created to provide the £24 million required to balance the budget in 2006-07.

**Central Operations Tasking**

This reserve was to provide for funding of central tasking in the Central Operations groups following removal of a grant for this purpose. It has been fully utilised.

**Communications Project**

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

**Cost Recovery Reserve**

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

**Efficiency and Effectiveness / Service Review (2004-05)**

The reserve was in respect of consultancy costs to fund the continuing Efficiency and Effectiveness Review Programme.

**Insurance Indemnity Reserve**

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

**Laming Enquiry**

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

**Legal Costs**

To provide for the cost of potential law suits.

**MPA**

The reserve will be used to support projects that the Metropolitan Police Authority expects to undertake in 2006-07.

**OCU Carryover**

This amount represents underspend on devolved budgets as per the MPA's Scheme of Devolved Financial Management and has now been fully utilised.

**Operational Costs**

The reserve provides for a number of operational activities that have been planned in 2006-07.

**Pandemic Response**

The reserve is to be used to provide for the cost of anti viral drugs in order to maintain essential services.

**PFI Contracts**

To reserve part of the costs of a PFI property development

**Police Pensions**

A reserve originally to deal with any risks from any volatile discretionary pension payments. The new Home Office funded pensions operating account will take over the responsibility for all costs "excepting discretionary payments" from April 2006. The reserve has therefore been reviewed to reflect the possible need for liabilities.

**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.

**Property Related Costs**

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

**Protective Clothing**

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

**Rent Smoothing**

A reserve set up to fund future years' increase in rent payable on a newly occupied building.

**Systems**

The reserve contributes to the cost of developing financial systems.

**Vehicle Recovery Services**

To fund the fitting out costs of an additional car pound.

**Emergencies Contingency Fund**

An earmarked reserve available to assist in exceptional circumstances to support operational requirements, which will normally not have been budgeted for. To be released only with the agreement of MPA Finance Committee.

**Dilapidations**

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

**Note B: General Revenue Reserve**

This reserve was established to provide cover for emergencies and contingencies. The reserve has been increased to maintain its balance at 1% of the net revenue budget for the following year.



## Notes 2 to 7: Details of movements in capital &amp; other reserves

	Usable Capital Reserves				Total £'000
	Usable Capital Receipts £'000	C3i/Airwave Capital Reserve £'000	Earmarked Capital Reserve £'000	Capital Grant Reserve £'000	
Notes	A	B	C	D	
<b>Balance as at 01.04.2005</b>	<b>(36,759)</b>	<b>(21,539)</b>	<b>(2,201)</b>	<b>(8,361)</b>	<b>(68,860)</b>
Transfers during year	(1,500)	(23,250)	(985)	(55,630)	<b>(81,365)</b>
Proceeds of disposals	(41,562)	0	0	0	<b>(41,562)</b>
Financing of Fixed Assets	33,727	37,160	2,155	47,763	<b>120,805</b>
<b>Balance as at 31.03.2006</b>	<b>(46,094)</b>	<b>(7,629)</b>	<b>(1,031)</b>	<b>(16,228)</b>	<b>(70,982)</b>
<b>Net movement for year (note 2)</b>					<b>(2,122)</b>

	Accounting Reserves				Total £'000
	Fixed Asset Restatement Account £'000	Capital Financing Account £'000	Government Grant Deferred Account £'000		
Notes	i	ii	iii		
<b>Balance as at 01.04.2005</b>	<b>(1,407,872)</b>	<b>(53,191)</b>	<b>(55,064)</b>		<b>(1,516,127)</b>
Minimum Revenue Provision Adjustment	0	107,603	0		<b>107,603</b>
Transfers during year (notes 4 & 6)	0	(45,453)	45,453		<b>0</b>
Revaluation of Fixed Assets (note 3)	(83,005)	0	0		<b>(83,005)</b>
Financing of Fixed Assets (note 5)	0	(70,329)	(50,478)		<b>(120,806)</b>
Capital expenditure adjustment (note 4)	49,754	(13,910)	0		<b>35,844</b>
Cost of assets disposed (note 6)	35,632	0	0		<b>35,632</b>
<b>Balance as at 31.03.2006</b>	<b>(1,405,491)</b>	<b>(75,280)</b>	<b>(60,089)</b>		<b>(1,540,860)</b>

	Police Officer Pension Reserve		
	2005-06 £'000	2004-05 £'000	2003-04 £'000
Notes	A		
<b>Balance as at 01.04.2005</b> <i>percentage changeover previous year</i>	<b>12,496,488</b> 33.28%	<b>9,375,973</b> 6.37%	<b>8,814,650</b>
Actuarial gain <i>percentage changeover previous year</i>	1,412,100 (43)%	2,461,502 18588.80%	13,171
Revenue Reserve movement <i>percentage changeover previous year</i>	835,399 26.77%	659,013 20.22%	548,152
<b>Balance as at 31.03.2006</b> <i>percentage changeover previous year</i>	<b>14,743,987</b> 17.99%	<b>12,496,488</b> 33.28%	<b>9,375,973</b>

## Usable Capital Reserves      Accounting Reserves

### A. 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.

### B. C3i / Airwave Capital Reserve

This reserve comprises monies assigned to the replacement of the Authority's Command, Control, Communications and Information System (C3i Programme) that remain unspent at the end of the financial year and are required to be carried forward to support capital expenditure on this programme of works in future years.

### C. 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.

### D. Capital Grant Reserve

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

### i. Fixed Asset Restatement Account

The Fixed Asset Restatement Account 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.

### ii. Capital Financing Account

The Capital Finance Account contains the amount of capital expenditure that has been financed from revenue and capital receipts excluding sums received in respect of loans negotiated to finance capital investment. The account also contains the difference between the minimum revenue provision and depreciation. Additionally, it handles the release of government grants from the Government Grants Deferred Account as funds are applied for financing purposes. The account cannot be used to support spending.

### iii. Government Grant Deferred Account

Government grants are received and applied to finance capital expenditure on fixed assets. Such grants are usually non-specific to particular capital schemes and cannot be written off through the Asset Management Revenue Account to match depreciation. Instead, they are written off to the Capital Financing Account in the year of application. Where grants are specific the grant is released to the Capital Financing Account as the book value of purchased fixed assets is depleted.

## Police Officer Pension Reserve

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

## Cash Flow Statement

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

2004-05 £'000		Note	2005-06 £'000
	<b>Outflows</b>		
1,872,415	Pay to officers and staff		2,036,869
931,757	Other operating expenditure		1,007,355
	<b>Inflows</b>		
(14,190)	Rent		(18,265)
(136,475)	Sale of goods and services		(147,772)
(2,596,622)	Revenue grants (see note below)		(2,800,244)
(21,462)	Other receipts		(79,973)
35,423	Cash flow from Revenue Activities	1	(2,030)
	<b>Returns on Investments and Servicing of Finance</b>		
5,654	Interest paid		4,430
(17,010)	Interest received		(12,838)
(11,356)	Net cash inflow from Investment activity		(8,408)
	<b>Capital Activities</b>		
143,946	Purchase of fixed assets		213,314
(25,100)	Sale of fixed assets		(47,619)
(82,823)	Capital grants received		(78,969)
36,023	Net cash outflow from capital activities		86,726
	<b>Management of Liquid Resources</b>		
(78,500)	Purchases / (sales) of short term investments		(96,000)
	<b>Financing Activities</b>		
18,628	Repayment of loans		15,000
218	(Increase)/decrease in cash	2	(4,712)

Note: An analysis of grants can be found in the notes to the revenue account.

## Notes to the Cash Flow Statement

### 1. Reconciliation of Surplus to revenue cashflow

2004-05 £'000		2005-06 £'000
(241)	(Surplus)	(432)
	<b>Non-cash Transactions</b>	
8,565	net transfer from reserves	(10,813)
11,320	net transfer from provisions	(1,288)
	<b>Items on an accruals basis</b>	
(46,312)	(increase) in revenue creditors	(4,704)
1,004	increase in stocks	(441)
49,731	increase in debtors	7,240
	<b>Items shown later in the cashflow statement</b>	
17,010	investment income	12,838
(5,654)	interest paid	(4,430)
35,423	<b>Net cashflow from revenue activities</b>	(2,030)

### 2. Analysis of cash balances

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

	Balance 31.03.2005 £'000	Balance 31.03.2006 £'000	Movement in the year £'000
Cash and bank	(5,516)	(804)	4,712

### 3. Analysis of Net Debt (Liquid Resources)

	Balance 31.03.2005 £'000	Cash Flow £'000	Balance 31.03.2006 £'000
Cash at bank and in hand	(5,516)	4,712	(804)
Debt due within 1 year	(15,000)	1,500	(13,500)
Debt due after 1 year	(70,837)	13,500	(57,337)
Short Term Investments	268,500	(96,000)	172,500
<b>Total</b>	<b>177,147</b>	<b>(76,288)</b>	<b>100,859</b>

# Glossary of Terms

## **Assistance to the Public**

This heading covers activities such as involving the community in police activity through various initiatives, operating Police Community Support Officers and in dealing with press and public relations.

## **Budget**

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

## **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 assets with a finite life.

## **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, 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.

## **Investigating Crime**

This heading includes activities such as investigation, information gathering, analysis of crimes and criminal activity by detectives, specialist staff and specialist units such as marine, air and dog units.

## **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.

**Promoting Public Safety**

This heading covers activities such as the provision of operational support units to cover traffic incidents, use of firearms, sporting events and other public activities.

**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.

**Reducing Crime**

This heading covers activities to reduce crime, for example through liaison with local communities and the management of specialist intelligence gathering units.

**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).



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