

**Serious Organised Crime Agency  
Statement of Accounts  
2006-2007**

Presented pursuant to Part 1, Chapter 1, Section 20, paragraph 4(b) of the Serious Organised Crime and Police Act 2005

# **Serious Organised Crime Agency Accounts 2006-2007**

(For the year ended 31 March 2007)

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## Annual Report

The first Annual Report for the Serious Organised Crime Agency (SOCA), as required under Part 1, Chapter 1, Section 7 of the Serious Organised Crime and Police Act 2005 (SOCAP) was published on the 18<sup>th</sup> May 2007.

This report includes SOCA's audited accounts and governance information.

## Management Commentary

### Statutory Background

SOCA assumed its statutory functions on 1 April 2006. It brought together staff from the National Crime Squad (NCS) and the National Criminal Intelligence Service (NCIS), staff and resources from HM Revenue and Customs (HMRC) to support the transfer to SOCA of certain work on drugs trafficking and associated criminal finance, and some of those dealing with organised immigration crime in the UK Immigration Service. To this, SOCA has added a number of individuals with other backgrounds to widen the skills available. The NCS and NCIS ceased to exist on 31 March 2006.

SOCA is an Executive Non-Departmental Public Body (NDPB), reporting to the Home Secretary, and financed primarily by Grant-in-aid from the Home Office together with continued funding from other government departments and bodies including the Scottish Executive and the Northern Ireland Office.

### Statement of Purpose and Vision

SOCA is an intelligence-led agency with law enforcement powers and harm reduction responsibilities. Harm in this context is the damage caused to people and communities by serious organised crime.

The Home Secretary may set SOCA strategic priorities and will judge the success of its efforts. Within that framework, SOCA plans its priorities, including how it will exercise the functions given to it by statute, and what performance measures it will adopt.

In June 2005, the then Home Secretary set out the Government's priorities for the first three years of SOCA's existence, and explained how its performance would be judged. His letter was laid before both Houses of Parliament. The main points are:

- SOCA should devote a higher proportion of its resources and activity to intelligence work than the agencies that it replaces;
- Class A drugs and organised immigration crime, in that order, should be its top priorities;
- effort should continue to be devoted also to the other organised crime threats already identified, including fraud against individuals and the private sector, hi-tech crime, counterfeiting, the use of firearms and serious robbery; and
- emphasis should be placed on recovering the proceeds of crime.

Assessment of performance will be made with reference to:

- trends in underlying harms caused by organised crime;
- evidence of dislocation of criminal markets, including evidence that criminal groups are finding the UK a less attractive market;

- growth in SOCA's own capacity to make a difference, with particular focus on the quality of our understanding of organised crime; and
- performance against asset recovery targets.

Details of progress are set out in the Annual Report.

### Principal activities

SOCA's functions are set out in SOCAP. They are to prevent and detect serious organised crime and to contribute to its reduction in other ways and the mitigation of its consequences, and to gather, store, analyse and disseminate information on crime. In addition, SOCA is tasked to provide support to law enforcement partners, notably UK police forces and HM Revenue and Customs.

### Results for the year and financial position

The results for the year show that SOCA had net annual expenditure of £432.7m detailed in its Income and Expenditure Account, for which DEL funding of £384.7m was approved, and £381.7m received in cash as Grant-in-aid from the Home Office. Included in the expenditure is £38.9m of FRS17 pension costs, which are based on year end actuarial valuations and outside SOCA's budgetary control. Additional Home Office approval for the shortfall in the FRS17 expenditure is in progress.

	<b>Total £000</b>	<b>Capital £000</b>	<b>Resource £000</b>
<b>Funding and Approvals</b>			
Delegated Expenditure Limit (DEL)	427.6	42.9	384.7
Additional Home Office Approvals for capital spend	3.6	3.6	
Additional Home Office Approvals re FRS17 Expenditure	35.9		35.9
	<b>467.1</b>	<b>46.5</b>	<b>420.6</b>
<b>Expenditure</b>			
Net Expenditure as in Income and Expenditure Account	432.7		432.7
Notional Cost of Capital credit agreed as part of DEL	(13.4)		(13.4)
Net Capital Expenditure as in Cash Flow Statement	46.5	46.5	
	<b>465.8</b>	<b>46.5</b>	<b>419.3</b>
<b>Underspend Against Funding Available</b>	<b>(1.3)</b>	<b>Nil</b>	<b>(1.3)</b>

The budget outturn reflects a very tight but controlled financial outturn for 2006-2007.

### Assurance Statement on financial results for the year

So far as the Accounting Officer is aware the SOCA auditors, the National Audit office (NAO), have been advised of all relevant audit information. The Accounting Officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the organisation's auditors are aware of that information.

### **Going Concern Statement**

The activities of SOCA are primarily financed by the Home Office.

The balance sheet at 31 March 2007 shows net liabilities of £440,458k. This reflects the inclusion of pension liabilities falling due in future years which, to the extent that they are not to be met from SOCA's other sources of income, may only be met by future grants or grants-in-aid from the Home Office, SOCA's sponsoring department. This is because, under the normal conventions applying to parliamentary control over income and expenditure, such grants may not be issued in advance of need.

Grant(s) and grant-in-aid for 2007-08, taking into account the amounts required to meet SOCA's liabilities falling due in that year, have already been included in the Home Office's Estimates for that year. These have been approved by Parliament and there is no reason to believe that the Home Office's future sponsorship and future parliamentary approval will not be forthcoming. It has therefore been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

### **Remuneration of the External Auditors**

During the year the external auditors, the NAO, were not paid for any work of a non-audit nature. The remuneration for NAO is disclosed in Note 9 of the accounts.

### **Compliance with Public Sector Payment Policy**

SOCA policy, in line with Government requirements, is to pay all invoices within 30 days of receipt, unless a longer payment period has been agreed or the amount billed is in dispute. For 2006/07, on average, 71% of invoices were paid within 30 days of receipt. SOCA monitors its statistics monthly with all departments taking action as necessary.

During 2006/07, SOCA paid £7,185 interest to suppliers, under the Late Payment of Commercial Debts (Interest) Act 1998.

### **Environmental Policy**

The SOCA is committed to reducing its impact on the environment. In line with OGC Best Practice the aim is to achieve delivery of sustainable development and active management of SOCA's carbon footprint. This is being co-ordinated through a dedicated Energy Manager, who is working with the business to deliver continuous improvements to the environmental performance of SOCA's estate. SOCA is focusing on use of its assets, cultural change and contractual improvements in order to optimise efficient use of its assets, education of staff, and environmentally responsible terms and conditions.

### **Inclusion, Diversity & Equality**

SOCA is committed to treating individuals with respect and dignity and seeks to create and maintain an environment which values all staff, respects the contribution they make and where fairness and equality of opportunity are assured. Inclusion, diversity and equality issues are embedded within all strategic planning, policy development and organisational processes, whilst underpinning our strive towards a single, unified and corporate culture for SOCA, to deliver our objective of reducing the harm caused by serious and organised crime.

SOCA aims to provide a positive environment in which everyone feels valued, and where the organisation is open to the experience, insights and skills of people of different age, disability, gender, race, ethnicity, religion, belief, sexual orientation and political opinion. SOCA aims to support a range of work styles, which support individual staff members while meeting organisational need.

## Staff involvement and development

SOCA communicates with its people through many channels and mechanisms, with responsibility placed on managers to ensure that staff have the information they need to do their jobs, and to regularly discuss issues within their teams. The channels of communication include:

- A monthly briefing meeting document supports this process by providing managers with key messages.
- Comments from team meetings are fed back to senior staff so their opinions can be harnessed.
- SOCA's intranet holds a library of policy and information relating to all areas of the agency's business.
- News, information updates and success stories are broadcast via the intranet and via a monthly online newsletter, "SOCA News".
- The Director General's weekly intranet blog encourages staff to communicate with him by posting questions and suggestions – and a flavour of this comment, and responses to questions, is published monthly. SOCA's consultative and advisory forums around specific issues engage, for instance, trade unions and staff groups.
- Project boards and working parties focus on particular issues and tailor and target messages arising from their work to the people who need to know.
- An induction programme for all new staff providing an overview of SOCA's strategic imperatives, values and activities as well as areas such as health and safety and security.

## High Potential Recruitment and Development scheme.

SOCA is developing the "High Potential Recruitment and Development Scheme", a new scheme for both internal and external candidates. The scheme will enable SOCA to recruit and retain the best people; drive efficiency and develop creative solutions to problems.

## Post balance sheet events

The 2006-2007 Annual Accounts were approved by the SOCA Board of Directors on the 19th September 2007 on the recommendation of the Accounting Officer William Hughes. The date of issue of the Accounts is the 8th October 2007. This disclosure is in accordance with FRS21.

## Asset Recovery Agency

In a Written Ministerial Statement on 11 January 2007, the Parliamentary Under-Secretary of State for the Home Department announced that the Government would be bringing forward legislation to merge the Assets Recovery Agency with SOCA and the National Police Improvement Agency. Parliament still has to approve the legislation. In anticipation that the merger with the Asset Recovery Agency takes place on 1 April 2008, planning for the proposed merger is taking place.

## William Hughes

Director General and Accounting Officer  
Serious Organised Crime Agency

19 September 2007

## Remuneration Report

The Board of Directors of SOCA and Accounting Officer for the year ended 31 March 2007 were:

Name	Position
Sir Stephen Lander	Chairman (Non- Executive)
William Hughes	Director General and Accounting Officer
Stephen Barrett	Director (Non- Executive)
Elizabeth France	Director (Non- Executive)
Ken Jarrold	Director (Non- Executive)
Janet Paraskeva	Director (Non- Executive)
Sir Roger Wheeler	Director(Non- Executive)
David Bolt	Director Intelligence
Malcolm Cornberg	Director Corporate Services and Deputy Accounting Officer
Paul Evans	Director Intervention
Trevor Pearce	Director Enforcement

The Chairman, the five non - Executive Directors and the Director General of SOCA were appointed by the Home Secretary in September 2005. All other Directors are appointed through open and fair competition; such appointments may sometimes be filled by means of fixed term secondments from other organisations.

In the interest of security all the Directors of SOCA have withheld consent to publish details of their remuneration or pension entitlement.

The salary and pension contributions paid in 2006-2007 for the Director General, Chairman and Directors are set out below (this information has been audited).

	Average Salary (in £5,000 bands) £000	Average Pension (in £5,000 bands) £000
Director General	170 - 175	40-45
Chairman	50 - 55	10-15
Executive Directors	130-135	20-25
Non - Executive Directors	20 - 25	Nil

Salary includes average gross salary, performance pay or bonus inclusive of all allowances, subject to UK taxation paid by SOCA. The salary and pension contributions paid by SOCA to the Chairman are for a six month period only as the first six months were paid for by the Home Office.

### Related Party Transactions

During the year ended 31 March 2007 there were no Directors or parties related to them, that entered into any transactions with SOCA.

### William Hughes

Director General and Accounting Officer  
Serious Organised Crime Agency  
19 September 2007

## Statement of the Serious Organised Crime Agency's Accounting Officer's responsibilities

Under the Serious Organised Crime and Police Act 2005, the Secretary of State has directed the SOCA to prepare annually a statement of accounts in the form and on the basis determined by the Secretary of State, with the consent of the Treasury. The accounts are to be prepared on an accruals basis and must give a true and fair view of the state of affairs of the SOCA at the year-end and of its Income and Expenditure, Recognised Gains and Losses, and Cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- observe the Accounts Direction issued by the Secretary of State with the approval of the Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the financial statements; and
- Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the SOCA will continue in operation.

The Secretary of State for the Home Office has appointed the Director General as the Accounting Officer for SOCA. His responsibilities as Accounting Officer, including his responsibilities for the propriety and regularity of the public finances, **for which the Accounting Officer is answerable**, for the keeping of proper records and for safe guarding SOCA's assets, are set out in the Non-Departmental Public Bodies' Accounting Officer Memorandum issued by the Treasury and published in Government Accounting.

### **William Hughes**

Director General and Accounting Officer  
Serious Organised Crime Agency

19 September 2007

## Statement on Internal Control

### Scope of responsibility

1. As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the SOCA's policies, aims and objectives, whilst safeguarding the public funds and organisational assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting, and general guidance documents referred to in the Financial Memorandum agreed with Home Office.

My Executive Directors, Senior Managers and I are involved in regular meetings to discuss strategic issues with stakeholders, including members of the Full Board, and at different levels in the Home Office. The Chairman of the Board and I have made several appearances before Select Committees in both the House of Commons and the House of Lords. We have also met various All Party Parliamentary Groups on a number of occasions and have regular meetings with the Home Secretary and Ministers. Bimonthly meetings are held between SOCA Senior Managers and the Home Office sponsor unit, the Specialist Crime (Organised & Financial) Unit (SC2), at which the management of risks and other aspects of internal control are standing agenda items. We also meet regularly with partners to discuss and share risk issues both nationally and internationally.

### The purpose of the system of internal control

2. The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of SOCA'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 efficiently, effectively and economically.

SOCA was established as part of the machinery of government change, bringing together staff from the existing bodies of the National Criminal Intelligence Service (NCIS), the National Crime Squad (NCS), those from HM Revenue and Customs who dealt with drug trafficking and associated criminal finance, and some of those dealing with organised immigration crime in the UK Immigration Service. It assumed its full functions on 1st April 2006. In consequence, I am unable to make a SIC stating that all elements of the strategic risk management process and other internal controls have been in place for the whole of the first accounting period. However, I am satisfied that a system of internal control, whilst requiring improvements, has been in place in SOCA for the year ended 31 March 2007 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance. This was achieved by adopting the controls which were in place in the precursor agencies until superseded by those implemented for SOCA. Considerable progress has been made and plans are in place to improve current risk management, governance and control arrangements and I am confident that a fuller compliance statement will be made next year.

### Capacity to handle risk

## Overarching Strategy

My overall strategy is to manage risks at multiple levels with Executive and Deputy Directors providing a key link at senior management level for risk, performance, financial and operational management. Thus, a framework of reports and meetings is in place to address:

- Performance in support of SOCA's strategic imperatives and the UK Control Strategy for serious organised crime;

- Progress towards achieving Directorate objectives;
- Individual branch office and business area performance;
- Regular monitoring of capital and resource spend against output;
- Personnel issues, including staff numbers, movements, vacancies, recruitment, sickness, occupational health and compliance with the European Working Time Directive;
- Management of strategic, operational, health and safety and other risks, crisis management and business continuity planning;
- Managing risks to deliver the Corporate Investment Programme and individual projects;
- Progress of development schemes and milestones achieved;
- Compliance with self-inspection programmes and delivery against action plans agreed with external inspecting agencies and internal auditors;
- Co-ordination, drafting and publishing of policies and standard operating procedures.

This framework, which will be further developed during 2007/2008, provides the structure on which we are building a robust system of internal control and through which we are embedding risk management across the organisation.

### **The Asset Recovery Agency Merger with SOCA**

- The merger of the Asset Recovery Agency with SOCA poses risks which are peculiar to the merger of organisations. These are being addressed through the adoption of approved project management methodology. The merger will be effective from 1st April 2008, subject to the Serious Crime Bill receiving Royal Assent and the introduction of secondary legislation. Risks to achieving the launch are reported monthly to the Project Board, and those risks which are not within the gift of the Board to resolve are escalated to the Project Steering Group for resolution.

### **Training**

- Risk training is an integral part of SOCA's corporate training programme, where staff are provided with relevant risk assessment and management training according to their roles and responsibilities. Examples of best practice from precursor agencies, published guidance and other sources (including partner organisations) have been, and will continue to be, incorporated into SOCA's formal risk identification, management and reporting processes.

### **The risk and control framework**

#### **Risk Management**

A dedicated Risk & Business Continuity Manager has responsibility for developing policy, procedures and guidance to support the organisation's risk management framework, co-ordinating risk management activity across the organisation, maintaining the Strategic Risk Register and reporting to the High-level Risk Group, Executive Board, Audit Committee and Full Board.

A risk management handbook, endorsed by the Audit Committee, is available to all staff via the SOCA Intranet. It sets out the role exercised by the Full Board of SOCA in determining policy for the overall level of risk that can be tolerated (SOCA's risk appetite), roles and responsibilities of staff to manage risk, and guidance and templates supporting all aspects of the risk management process. Separate policies and operating procedures guide staff in the identification, assessment and management of risks associated with operational deployments and health and safety. A separate business continuity management handbook is also published, which sets out policy, guidance and templates to support departmental business continuity planning.

Risks for the first year of SOCA were identified by Executive Directors and Deputy Directors as part of the 2006/07 business planning process. Directorate Risk Registers are maintained and reviewed regularly and the majority of departments and Enforcement regions are using risk registers. This will extend to all business areas during 2007/08, as the risk management process is fully embedded and integrated into the business planning process. Protocols for escalating risks from local to strategic level are an integral part of the risk management handbook.

A high-level Risk Group chaired by an Executive Director, comprising representatives from across the organisation, meets on a quarterly basis to consider existing and emerging risks. The Group also oversees the work of a Contingency Planning Working Group (established February 2007) and considers how risk management can be embedded within SOCA's daily business.

The Executive Board of SOCA receives monthly reports from the Executive Director chairs of both the High Level Risk Group and Corporate Investment Board. Strategic risks to achieve SOCA's objectives are each owned by an Executive Director and are discussed at every meeting. The Board also receives quarterly reports on progress towards implementing the recommendations emanating from internal and external inspections and audits.

The Audit Committee monitors and periodically reviews the organisation's risk management strategy and often on a quarterly basis, considers in detail SOCA's strategic risk register, which is also shared with the Home Office Sponsor Unit. The Audit Committee ensures that internal audit and other independent assurance activity is focused on strategic risks, and reports to the Full Board on key financial and other risks.

The Full Board proactively participates in the good governance of SOCA, including oversight of the adequacy of risk management, governance and internal control arrangements. On a quarterly basis the Board receives a pack of performance and other management information covering all aspects of SOCA activity.

## **Other Sources of Assurance and Information**

Information available to the Board and senior managers on the adequacy of processes and controls is also derived from a wide range of other sources. These include:-

- The Internal Audit Service
- Reports from Her Majesty's Inspector of Constabulary (HMIC), and the National Audit Office (NAO)
- Visits from the Interception and Surveillance Commissioners and advice from Her Majesty's Revenue and Customs (HMRC)
- The work of SOCA's Professional Standards Department and Internal Governance Department
- Various self-inspection, compliance and assurance functions undertaken throughout the organisation

## **Policies and Operating Procedures**

A key element of establishing an appropriate high level control framework for SOCA is the development and promulgation of policies and procedures. Responsibility for the development and drafting of these policies falls to individual 'Owners' identified from the relevant business areas. Critical policies which ensured good governance in the precursor agencies were reviewed and extensive consultation was necessary throughout this formative year to achieve consistency and acceptability across the new organisation. This has proved challenging. However, considerable progress has been made and the majority of these documents have now been completed and published. There is still work to do in this area which is being afforded a high priority in 2007/2008.

## Review of effectiveness

5. As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed by the work of the internal auditors (see below) and the executive managers within the department who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have also been advised on the effectiveness of the system of internal control by the Board, the Audit Committee and the High Level Risk Group.

My review was also informed by an annual assurance statement and report on effectiveness from each Executive Director. They confirm that within their respective business areas they have identified, assessed and managed the risks that threaten achievement of business objectives and that there have been no material breaches of financial or procurement delegations that have not been reported and resolved. There are however areas of the business where the systems of internal control were not deemed sufficiently developed to be regarded as operating effectively.

I have received further assurance, albeit limited in some respects, from the Head of Internal Audit. During the year the Internal Audit service audited a wide range of business areas, principally focusing on the developing systems and the high level control framework. Based on this work, the Head of Internal Audit was satisfied that adequate risk management and governance arrangements were in place at a strategic level, but the operational control framework was not adequate in all areas. The weakness stemmed primarily from an absence of formal policies and procedures but also, in some cases, from a failure to comply with existing procedures. The considerable progress in terms of finalising policies and procedures in many key areas was acknowledged.

However, the absence of these documents for some or all of the 2006/07 financial year inevitably resulted in the Head of Internal Audit concluding that SOCA did not have wholly adequate and effective risk management, control and governance processes in place during the 12-month period to secure the achievement of the organisation's objectives.

An action plan to address in 2007/08 the significant control issues identified throughout the year has been drawn up and progress against this will be monitored on a regular basis. This will ensure a process is in place to achieve continuous improvement of the system.

The objective assessment provided by the Internal Audit service as to whether systems and controls are working properly has proved invaluable in compiling my action plan for 2007/08, which includes the control issues identified but not yet fully addressed.

### **William Hughes**

Director General and Accounting Officer  
Serious Organised Crime Agency

19 September 2007

## **The Certificate and Report of the Comptroller and Auditor General**

### **THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSES OF PARLIAMENT**

I certify that I have audited the financial statements of the Serious Organised Crime Agency for the year ended 31 March 2007 under the Serious Organised Crime and Police Act 2005. These comprise the Income and Expenditure Account, the Balance Sheet, the Cashflow Statement and Statement of Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

#### **Respective responsibilities of SOCA, the Director General and Auditor**

SOCA and the Director General, as Accounting Officer, are responsible for preparing the Statement of Accounts, the Remuneration Report and the financial statements in accordance with the Serious Organised Crime and Police Act 2005 and directions made thereunder by the Secretary of State, with the consent of the Treasury, and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements and the part of the Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Serious Organised Crime and Police Act 2005 and directions made thereunder by the Secretary of State, with the consent of the Treasury. I report to you whether, in my opinion, the information given in the Management Commentary is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if the Serious Organised Crime Agency has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Serious Organised Crime Agency's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or form an opinion on the effectiveness of the Serious Organised Crime Agency's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Statement of Accounts and consider whether it is consistent with the audited financial statements. 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 my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts,

disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by audited entity and Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Serious Organised Crime Agency'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 and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

## **Opinions**

### **Audit Opinion**

In my opinion:

- the financial statements give a true and fair view, in accordance with the Serious Organised Crime and Police Act 2005 and directions made there under by the Secretary of State, with the consent of the Treasury, of the state of the Serious Organised Crime Agency's affairs as at 31 March 2007 and of its net expenditure, recognised gains and losses and cashflows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Serious Organised Crime and Police Act 2005 and directions made there under by the Secretary of State, with the consent of the Treasury; and
- the information given the Management Commentary, is consistent with the financial statements.

### **Audit Opinion on Regularity**

In my opinion, in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

## **Report**

I have no observations to make on these financial statements.

John Bourn  
Comptroller and Auditor General  
National Audit Office  
Date 3 October 2007

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## Income and Expenditure Account

For the year ended 31 March 2007

	Note	2006/07 £'000	2005/06 Restated £'000
<b>Income</b>			
Funding received separate from Grant in Aid	3	16,922	19,047
Recovery of costs	4	894	333
Rents and service charges		46	1,207
Donations	5	3,176	1,600
Other operating income	6	1,131	116
Other income		0	685
<b>Total operating income</b>		<b>22,169</b>	<b>22,988</b>
<b>Expenditure</b>			
Staff costs	7	(281,597)	(200,557)
Other operating costs	9	(153,190)	(141,777)
Depreciation and amortisation		(18,691)	(21,471)
Loss on asset revaluation		(1,439)	(514)
Notional cost of capital		13,384	5,129
<b>Net expenditure</b>		<b>(419,364)</b>	<b>(336,202)</b>
Notional cost of capital reversal		(13,384)	(5,129)
Interest and investment income		0	1,043
Write off cost of software system		0	(2,194)
Surplus/(Loss) on disposal of fixed assets		69	(57)
Net transfers (to)/from reserves		0	58
<b>Net expenditure for the financial year</b>		<b>(432,679)</b>	<b>(342,481)</b>

The results for the year all relate to continuing operations.

## Statement of Recognised Gains and Losses

For the year ended 31 March 2007

		<b>2006/07</b>	2005/06
	Note	<b>£'000</b>	Restated £'000
Actuarial losses on pension	8	(107,968)	(385,864)
Movement in asset revaluation reserves	17	1,789	1,603
Movement in Donated Asset reserves	17	90	
Recognised gains or losses for the period		<u>(106,089)</u>	<u>(384,261)</u>

The Notes 1 to 28 form part of these Accounts.

**Balance Sheet**

As at 31 March 2007

	Note	2006/07 £'000	2006/07 £'000	2005/06 Restated £'000	2005/06 Restated £'000
<b>Fixed Assets</b>					
Intangible fixed assets	10		8,781		5,472
Tangible fixed assets	11		110,774		85,846
			<u>119,555</u>		<u>91,318</u>
<b>Long Term Assets</b>					
Debtors falling due after one year	12	157		205	
FRS17 Pension Asset	8/17	2,203	2,360	2,602	2,807
			<u>121,915</u>		<u>94,125</u>
<b>Current Assets</b>					
Debtors and prepayments	12	20,874		12,143	
Cash at bank and in hand	13	4,237		14,617	
			<u>25,111</u>	<u>26,760</u>	
<b>Creditors falling due within one year</b>	14	(32,022)	(6,911)	(39,920)	(13,160)
<b>Total Assets less Current Liabilities</b>			<u>115,004</u>		<u>80,965</u>
Creditors falling due after one year	14	(944)		-	
Provisions for liabilities and charges	15	(3,129)		(1,196)	
Deferred income	16	(136)		(56)	
FRS17 Pension Liability	8/17	(551,253)	(555,462)	(404,833)	(406,085)
<b>Total Net Liabilities</b>			<u><b>(440,458)</b></u>		<u><b>(325,120)</b></u>
<b>Capital and Reserves</b>					
Income and Expenditure Reserve	17		51,138		60,327
Revaluation Reserve	17		3,930		2,141
Pension Reserve	17		(500,448)		(392,480)
Donated Asset Reserve	17		221		171
Other Reserves	17		4,701		4,721
			<u><b>(440,458)</b></u>		<u><b>(325,120)</b></u>

The Notes 1 to 28 form part of these Accounts.

**William Hughes**

Director General and Accounting Officer  
 Serious Organised Crime Agency  
 19 September 2007

## Cash Flow Statement

for the year ended 31 March 2007

	Note	2006/07 £'000	2005/06 Restated £'000
<b>Net cash inflow / (outflow) from operating activities</b>	18a	(387,277)	(323,015)
<b>Return on investments and servicing of finance</b>			
Interest and Investment income received		0	1,043
<b>Capital expenditure and financial investment</b>			
Purchase of fixed assets	10&11	(47,055)	(28,457)
Sale proceeds of fixed assets	10&11	552	561
<b>Financing</b>			
Grant-in-aid for capital expenditure	17	41,686	28,619
Grant-in-aid for revenue expenditure	17	381,714	339,020
<b>Increase / (Decrease) in cash</b>	18b	<b>(10,380)</b>	<b>17,771</b>

The Notes 1 to 28 form part of these Accounts.

## Notes to the Accounts

### for the year ended 31 March 2007

#### 1 Accounting policies

##### 1 a) Basis of preparation

The statement of accounts has been prepared on an accruals basis in accordance with the Accounts' Direction given by the Secretary of State for the Home Office with the consent of the Treasury, under the Serious Organised Crime and Police Act 2005.

The accounts have been prepared using the historical cost convention, as modified for revaluation of fixed assets, and have been prepared in accordance with:

- the accounting and disclosure requirements of the Companies Act 1985 to the extent that such requirements are appropriate to SOCA and are in line with the requirements of the Accounts' Direction;
- applicable accounting standards issued by the Accounting Standards Board;
- disclosure and accounting requirements of HM Treasury.

##### 1 b) Grant-in-aid and income recognition

Grants-in-aid received is treated as financing because the funds received are regarded as contributions from the Home Office and credited to its reserves.

Funding received solely for use in specific projects is transferred to deferred income and released to the Income and Expenditure Account over the project period to match the related costs incurred.

##### 1 c) Pensions Reserve

In accordance with government accounting advice, actuarial gains/losses on pension scheme liabilities are recognised in the Statement of Recognised Gains and Losses. The net gain/loss is shown in the Pensions Reserve.

##### 1 d) Fixed Assets

Expenditure incurred by SOCA on the acquisition of capital assets, or expenditure which adds to the value of existing assets is capitalised as fixed assets, provided that the fixed assets give benefit to SOCA for a period of more than one year. Where appropriate, SOCA will capitalise the cost of salaries attributable in developing the fixed assets.

Capital assets, both tangible and intangible, are assets normally costing or valued at or above a capitalisation threshold set by the SOCA Board (currently £5,000) and with an expected working life of more than one year. However, technical equipment assets, the individual components of which cost less than £5,000 but which are non consumable in nature, will also be treated as capital assets. Non consumable is defined as a multiple use item, of long duration (beyond one year), reconfigurable and can be a component part of an item that can be assembled.

Expenditure on the fit out and works to buildings financed by operating leases will be capitalised as a tangible fixed asset if the works add to the value of the building. Fit-out costs of all new buildings may

include the costs of new furniture and equipment which individually cost less than £5,000 where the Accounting Officer considers that it is more appropriate to capitalise the initial costs. Future replacement costs of furniture and equipment will however be funded from the Resource budget subject to the costs being below the capitalisation threshold at the time of replacement.

#### 1 e) Depreciation and amortisation

Depreciation or amortisation is provided on all fixed assets in use on a straight-line basis to write off the cost or valuation evenly over the asset's anticipated useful life as follows:

Asset type	Useful life
Land and Buildings	to their estimated residual value over the remainder of their estimated economic lives
Improvements to leasehold buildings	duration of lease or anticipated useful life of improvements, subject to maximum period of 10 years
Motor vehicles	5 years
Plant and equipment	5 years
Furniture and fittings	5 years
IT equipment and software	4 – 5 years
Intangible fixed assets – IT licences	3 – 5 years

A full month's depreciation or amortisation is provided in the month following acquisition or first use and apportioned to the date of disposal. No depreciation is provided on Assets under Construction until they are brought into use.

#### 1 f) Revaluation

SOCA have a policy of revaluing fixed assets at current replacement cost by using the appropriate index. Any gain on revaluation relating to assets funded by Government Grant is credited to the Revaluation Reserve Account. A loss on revaluation is debited to the Income and Expenditure Account if the loss exceeds the balance on the Revaluation Reserve Account for that asset.

No revaluation on payments on account and intangible assets, being software and some consultancy costs, is undertaken because of the nature of the expenditure.

#### 1 g) Foreign currency

Transactions which are denominated in a foreign currency are translated into sterling at the rate of exchange ruling on the date of each transaction, except where rates do not fluctuate significantly, when an average rate for the month is used.

Monetary assets and liabilities denominated in foreign currency at the balance sheet date are translated at the rates ruling at that date. Any translation differences arising are taken to the Income and Expenditure Account.

**1 h) Operating leases**

Payments made under operating leases on land and buildings and equipment are charged to expenditure as incurred.

**1 i) Rental and service charges income**

SOCA sub-lets a small percentage of its rented accommodation to other organisations on a commercial basis, ensuring that full occupancy is maintained on rented property in use. Rents and other property income received are credited to the Income and Expenditure Account.

**1 j) Notional charges**

As required by the Treasury, a charge is made to the Income and Expenditure Account for the notional cost of capital. The notional capital charge, which reflects the cost of financing capital employed, is calculated, at 3.5% of average net assets employed during the year excluding cash balances held by HM Paymaster General liabilities due to the consolidated fund and donated assets. In accordance with Treasury guidance the notional charge is credited back to the Income and Expenditure Account before determining the surplus or deficit for the year.

**1 k) Liquid Resources**

Comprise solely of cash balances held at bank accounts and as cash in hand. SOCA receives bank interest on its cumulative bank balance held but is required to pay over to the Home Office any interest received.

**1 l) Pension costs**

Employer contributions to the Principal Civil Service Pension Scheme and the Local Government Pension Scheme are charged to the Income and Expenditure Account as incurred at the relevant percentage of employees' pensionable pay as specified by the pension scheme administrators. The annual charge is designed to reflect the cost of pension benefits over the employee's service life.

The cost of providing unfunded pension benefits for Police Officers is charged to the Income and Expenditure Account over the qualifying service life of the officer. The qualifying service for these pension benefits includes prior service with a police force in addition to service with SOCA, although no funding is received from the officer's previous employer in relation to this past service. The annual charge to the Income and Expenditure Account is calculated so that the balance sheet provision reflects the proportion of the future pension liability relevant to accumulated qualifying service at the balance sheet date.

**1 m) Value Added Tax**

SOCA is registered for VAT but can only recover a very small proportion of VAT on purchases calculated by reference to certain taxable supplies, such as training and mobile phone recoveries. Income is shown as net of vat, where vat is due and expenditure is charged as gross. Any input tax recoverable is credited to the Income and Expenditure account.

**1 n) Private Finance Initiative (PFI) Contract.**

SOCA has one PFI contract for the provision of IT services. This contract has been accounted for in accordance with Technical Note 1 (Revised) entitled "How to Account for PFI Transactions" as required by the FReM. Where the payment apportionment of the risks and rewards of ownership of the PFI contract are borne by the PFI operator, the PFI payments are recorded as an operating cost. To the

extent that the contract payment represents an apportionment of an asset, the apportionment payment has been capitalised under FRS5 and shown under "Assets under Construction".

**1 o) Donations received.**

The Child Exploitation and Online Protection (CEOP) team at SOCA receives cash donations, donated assets and donations in kind, including staff time and use of assets, from various external sponsors and agencies. These donations are accounted for by following the guidance in the Charities Statements of Recommended Practice (SORP) which requires recognising income where donations in kind are received, and then recording matching expenditure in the Income and Expenditure Account. This treatment departs from the Financial Reporting Manual (FRM as set out under section 5.2.12 for assets received and section 4.5.1 for notional costs). However, SOCA has determined that the treatment under SORP follows a clearer path for the reader of the accounts than the proposed FREM treatment and would serve the longer term aspirations of SOCA should CEOP become a registered charity sometime in the future.

**1 p) Payment of Contributions to Europol and Interpol**

SOCA makes annual payments to Europol and Interpol, at a contribution rate agreed by the Europol and Interpol Boards. SOCA accounts for these payments in its accounts on an accruals basis.

**1 q) Merger Accounting**

The activities of NCS, NCIS, and parts of UKIS and HMRC were transferred to SOCA on 1st April 2006. The comparative information for 2005-2006 has been restated and disclosed in the first year of SOCA accounts in accordance with FRS6 (Acquisitions and Mergers) and the disclosure required by HM Treasury under the "Machinery of Government Change". The figures are restated as if SOCA had been in existence in 2005-2006.

The precursor organisations had various differing accounting estimating techniques, particularly for calculating fixed asset values; these techniques have been reviewed under SOCA and incorporated in its accounting policies.

**1 r) Provision for Doubtful debts.**

All outstanding debts are assessed as to the potential risk of the debt not being recovered and a provision made where deemed necessary. Debtors are shown in the accounts net of the bad debt provision.

**1 s) Going Concern**

The activities of SOCA are primarily financed by the Home Office.

The Balance sheet at 31 March 2007 shows net liabilities of £440,458k. This reflects the inclusion of pension liabilities falling due in future years which, to the extent that they are not to be met from SOCA's other sources of income, may only be met by future grants or grants-in-aid from the Home Office, SOCA's sponsoring department. This is because, under the normal conventions applying to parliamentary control over income and expenditure, such grants may not be issued in advance of need.

Grant(s) and grant-in-aid for 2007-08, taking into account the amounts required to meet SOCA's liabilities falling due in that year, have already been included in the department's Estimates for that year, which have been approved by Parliament, and there is no reason to believe that the department's future

sponsorship and future parliamentary approval will not be forthcoming. It has, therefore, been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

### 1 t) Change of accounting policy

With effect from the 2006-07 reporting period the FReM requires Non-departmental public bodies to account for grants and grant-in-aid received for revenue purposes as financing, because they are regarded as contributions from a controlling party which gives rise to a financial interest in the residual interest of NDPBs. This is a change in accounting policy from earlier periods when such items were recorded as income. The effect of this change on the certified 2005-06 accounts (as restated for SOCA) and the impact of the change on the results of the current year is shown below. There is no impact on the net liability position.

	As at 31 <sup>st</sup> March 2006 (Without applying the new policy)	Impact of adopting the new policy	As at 31 <sup>st</sup> March 2006
	£'000	£'000	£'000
Net Expenditure for 2005-2006	(3,461)	(339,020)	(342,481)
Income and Expenditure Account	(28,283)	88,610	60,327
Government Grant Reserve	88,610	(88,610)	0
	As at 31 <sup>st</sup> March 2007 (Without applying the new policy)	Impact of adopting the new policy	As at 31 <sup>st</sup> March 2007 (Applying the new policy)
	£'000	£'000	£'000
Net Expenditure for 2006-2007	(50,875)	(381,714)	(432,589)
Income and Expenditure Account	(79,158)	130,296	51,138
Government Grant Reserve	130,296	(130,296)	0

### 2 Grant in aid Income

SOCA receives Grant-in-aid funding from the Home office totalling £423.4m (2005/2006 £367.6m).

**3 Other Funding**

	<b>2006/07</b>	2005/06 Restated
	<b>£'000</b>	£'000
Scottish Executive contributions	5,496	5,496
Northern Ireland Office contributions	1,424	1,356
Recovered Asset Incentivisation Fund	5,904	2,263
Specific Project Funding		8,453
Others	4,098	1,479
	<u>16,922</u>	<u>19,047</u>

**4 Costs recovered from other law enforcement agencies**

	<b>2006/07</b>	2005/06 Restated
	<b>£'000</b>	£'000
Recoveries relating to costs incurred for other law enforcement agencies	894	333
	<u>894</u>	<u>333</u>

**5 Donations**

	<b>2006/07</b>	2005/06 Restated
	<b>£'000</b>	£'000
Donations over £250k	1,677	
Donations under £250k	1,499	1,600
	<u><b>3,176</b></u>	<u><b>1,600</b></u>

The Child Exploitation and Online Protection (CEOP) team at SOCA receives donated assets and donations in kind, including staff time and use of assets, from various external sponsors and agencies. These donations are accounted for by following the guidance in the Charities Statements of Recommended Practice (SORP) which requires recognising income where donations in kind are received, and then recording matching expenditure in the Income and Expenditure. **(see note 1(o))**

In the year to 31st March 2007 various goods and services with an estimated value of £3.2m (2005-2006: £1.6m) have been received from organisations and charities which have been used by CEOP to support its objectives. There was one contribution of £1.7m received and 26 contributions totalling £1.5m received in the year. In addition to the above donations in kind, cash donations of £215k are included as other Income.

**6 Other Income**

	<b>2006/07</b>	2005/06 Restated
	<b>£'000</b>	£'000
Donations	215	
Miscellaneous Income	916	116
	<b>1,131</b>	<b>116</b>

**7 Staff costs****(a) Analysis**

	2006/07	2005/06 Restated
	£'000	£'000
Salaries and emoluments of directly recruited staff and officers	173,934	114,130
Salaries and allowances of seconded staff	6,136	44,672
Agency /temporary staff	4,589	1,277
Social Security costs	16,131	13,594
Pension costs	31,985	13,821
FRS17 Pension costs	38,893	3,589
Indirect Employee costs	13,457	9,474
<b>Employment costs before adjustments</b>	<b>285,125</b>	<b>200,557</b>
Less Capitalised manpower costs	(3,528)	
<b>Employment costs after adjustments</b>	<b>281,597</b>	<b>200,557</b>

**(b) Staff numbers**

	2006/07	2005/06 Restated
	No.	No.
Directors	11	12
Seconded Police Officers	110	659
Directly recruited officers and staff	4,043	3,392
Contract and temporary staff	121	93
Average full time equivalent for the year	<b>4,285</b>	<b>4,156</b>

In addition to the above directly employed staff, SOCA had an average of 25 attached staff (2005/06: 81) from other organisations which are excluded from the above figures as they do not form part of SOCA establishment. SOCA is not charged for the attached staff that are considered to be working for the benefit of their employers. It is estimated that the cost of employing the attached staff to SOCA in 2006/07 would have been £1.2m 2005-2006 (£3.5m).

Costs totalling £3.5m for 68 staff were capitalised during the year for work carried out on capital projects.

## **8 Pension benefits**

### **(a) Principal Civil Service Pension Scheme (PCSPS)**

The PCSPS is an unfunded multi-employer defined benefit scheme where SOCA is unable to identify its share of the underlying asset and liabilities. A full actuarial valuation was carried out as at 31 March 2003. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation ([www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)).

For 2006/07 employer contributions of £20.77m (2005/06 £17.1m) were payable to PCSPS at one of four rates in the range between 17.1% and 25.5% (2005/06: 16.2% and 24.6%) of pensionable pay, based on salary bands. This includes £0.2m of contributions paid to other agencies e.g. Home Office in respect of staff seconded to SOCA (2005 – 06 £nil).

The Government Actuary reviews employer contributions every four years following a full scheme valuation. Rates will remain unchanged for 2007/08. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

In addition, employer contributions of 0.8% of pensionable pay, are payable to PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees. For 2006/07 contributions of £0.005m were payable to PCSPS in respect of these benefits. (2005 – 06 £nil)

### **(b) Partnership and stakeholder schemes**

Employees joining after 1 October 2002 could opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers contributions for partnership pensions are payable to one or more of a panel of four appointed stakeholder pension providers. These contributions are age related and range from 3% to 15.5% of pensionable pay. Employers also match employee contributions up to 15.5% of pensionable pay. During 2006 -07 the SOCA paid employer contributions of £0.07m to stakeholder pension providers. (2005 -06 £0.034m)

### **(c) Local Government Pension Scheme (LGPS)**

The majority of members of the LGPS transferred to the PCSPS on 1 August 2002. Thirteen directly employed staff did not exercise the option to transfer to the PCSPS and remained with the LGPS. The LGPS is a multi-employer defined benefit scheme and these eligible SOCA employees participate in a fund managed by the London Pensions Fund Authority (LPFA).

In order to comply with HM Treasury's Finance Reporting Manual Net pension SOCA is required to provide in these accounts for the full value of the expected future pension liabilities to the officers. The LPFA have provided a valuation of the scheme assets as at 31 March 2007 showing net pension assets of £2.2m (2005/06 scheme assets of £2.6m), this figure is reflected on the balance sheet.

The net scheme assets at 31 March:	2006/07	2005/06	2004/05
	£'000	£'000	£'000
Present value of Assets	7,210	6,845	6,423
Present value of Liabilities	(5,007)	(4,243)	(5,006)
Net pension asset/(liability)	2,203	2,602	1,417
Balance Sheet Pension Asset / Reserve	(608)	(521)	881
Surplus/(Loss) in Balance Sheet	1,595	2,081	2,298

The main assumptions used by the actuaries Hyman Robertson employed by LPFA were as follows:

The net scheme assets at 31 March:	2006/07	2005/06	2004/05
	%	%	%
Inflation assumption	3.2	3.1	2.9
Rate of salaries increase	4.7	4.6	4.4
Rate of pensions increase	3.2	3.1	2.9
Discount rate	5.4	6.0	5.4

During 2006/07 employer contributions of £0.042m (2005/06 £0.039m) were paid to the LPFA at 14.8% of pensionable pay (2005/06 14.8%) The contribution rate is determined by the Fund actuary based on a three yearly actuarial valuation. Under pension fund regulations the contribution rates must be set to meet the overall liabilities of the Fund. The latest formal valuation of the LPFA pension fund was at 31 March 2007. Fair value of assets held by the scheme at the beginning of the year and at the end of the year disclosed, analysed into the following classes, together with expected rate of return for each class for the subsequent period:

Fair value of assets	Assets at 31 March 2007 £000	Expected rate of return at 31 Mar 2007	Assets at 31 March 2006 £000	Expected rate of return at 31 March 2006	Assets at 31 March 2005 £000	Expected rate of return at 31 March 2005
Equities	4,490	7.7%	4,314	7.3%	5,058	7.7%
Bonds	1,612	6.4%	1,304	6.0%	690	4.8%
Property	914	6.8%	807	6.5%	453	5.7%
Cash	194	4.9%	420	4.6%	222	4.8%
Total	7,210	7.2%	6,845	6.8%	6,423	7.1%

**History of experience gains and losses**

	2006/07	2005/06	2004/05	2003/04
	£'000	£'000	£'000	£'000
<b>Difference between the expected and actual return on assets</b>				
Amount	65	1,036	179	606
Percentage of assets	0.9%	15.1%	2.8%	12.9%
<b>Experience Gains/(Losses) on Liabilities</b>				
Amount	41	222	719	(36)
Percentage of the total value of liabilities	0.8%	5.2%	14.4%	(1.1%)
<b>Total amount recognised in statement of recognised gains and losses</b>				
Amount	(608)	1,630	(139)	570
Percentage of the total value of liabilities	(12.1%)	38.2%	(2.8%)	15.4%

**(d) Association of Chief Police Officers (ACPO) Scheme and Other Directly Recruited Officers Scheme**

The Agency operates, by analogy, a defined benefit Police Pension Scheme for both direct recruits and ACPO officers. The Senior Officers Pension Scheme is identical to the Police Pension Scheme 1987, except that it allows benefits in respect of earnings above the earnings cap.

As part of the scheme, the SOCA accepts liability for payment of the pension benefits in respect of the officers past service with a police force, although no transfer values are payable from a former employer in respect of this liability, as well as their pensionable service whilst employed by the Agency.

Pensions benefits are paid as they fall due from the SOCA resources. In 2006 – 07 £2.29m was paid to pensioners.(2005 – 06 £2.6m).

Pensions paid in the year are charged against the Pension Provision (see below). For both ACPO and Senior Officer Schemes SOCA paid from 1 April 2006 employer contributions at the rate of 24.6% of pensionable pay totalling in the year £10.2m. This followed a Home Office/Treasury review in 2001 requiring the implementation of a new system of pensions. The employer contributions together with employee deductions were paid to the Home Office .

In order to comply with HM Treasury's Financial Reporting Manual and Accounts Guidance , the SOCA is required to provide in these accounts for the full value of the expected future pensions liabilities of the officers. The SOCA commissioned the Government Actuaries Department (GAD) to value the scheme liabilities as at 31 March 2007. Full provision for this liability 2006 – 07 of £551.25m (2005 – 06 £404.83m) is reflected in the balance sheet and is based on the assumptions and information set out below.

<b>Pension liabilities</b>	<b>2006/07</b>	2005/06
	<b>£'000</b>	<b>£'000</b>
Present value of liabilities – ACPO scheme	13,306	11,486
Present value of liabilities – Other Directly Recruited Officers	537,947	393,347
<b>Net pension liabilities</b>	<b>551,253</b>	<b>404,833</b>

  

<b>Main assumptions</b>	<b>2006/07</b>	2005/06
	<b>% pa</b>	<b>% pa</b>
Inflation assumption	2.75	2.5
Rate of increase in salaries	4.3	4.0
Rate of increase in pensions	2.75	2.5
Rate of discounting scheme liabilities	4.6	5.4

  

<b>Actuarial gains and losses for year</b>	<b>2006/07</b>	2005/06
<b>ACPO Scheme</b>	<b>£'000</b>	<b>£'000</b>
Experience gains/(losses)	240	1,180
Effect of changes in demographic and financial assumptions	(1,890)	(10)
<b>Total actuarial gains/(losses)</b>	<b>(1,650)</b>	<b>1,170</b>

  

<b>Actuarial gains and losses for year</b>	<b>2006/07</b>	2005/06
<b>Direct Recruits Scheme</b>	<b>£'000</b>	<b>£'000</b>
Experience gains/(losses)	6,610	(384,070)
Effect of changes in demographic and financial assumptions	(112,320)	(2,430)
<b>Total actuarial gains/(losses)</b>	<b>(105,710)</b>	<b>(386,500)</b>

**(e) Other police officers**

All other police officers are currently seconded to SOCA and their seconding forces remain responsible for their pension benefits. The SOCA paid £0.6m in employer contributions to the relevant home force. The employer contribution being set at either 24.6% or 25.9% depending on the home force.

**(f) Changes in Pension Assets and Liabilities for the Year By Scheme**

In compliance with advice from the Home Office, the change in the pension liabilities resulting from operating and finance costs have been charged to the Income and Expenditure Account. This charge is reduced by the contributions receivable in the year from the active members. The actuarial loss calculated by GAD has been reflected in the Balance Sheet (Pension Reserve).

### Changes in Pension Assets and Liabilities for the Year by Scheme

	<b>ACPO</b> £'000	<b>Other Officers</b> £'000	<b>LGPS</b> £'000	<b>2006/07</b> <b>Total</b> £'000	2005/06 ACPO/ LGPS £'000
<b>Operating cost:</b>					
Current service cost	60	18,990	41	19,091	2,880
Impact of curtailments and Settlements				0	618
Active member contributions					(737)
Pensions and benefits paid	(500)	(1800)		(2300)	
<b>Finance cost:</b>					
Interest on pension liabilities	610	21,700	250	22,560	1,283
Expected return of Employer Assets	0	0	(458)	(458)	(455)
<b>Net Return</b>	<b>170</b>	<b>38,890</b>	<b>(167)</b>	<b>38,893</b>	<b>3,589</b>
<b>Actuarial gain/(loss)</b>					
Experience gain/loss on pension liabilities	240	6,610	41	6,891	(382,669)
Actuarial Return Less Expected Return on Scheme Assets			65	65	1036
Changes in demographic & financial assumptions	(1,890)	(112,320)	(714)	(114,924)	(2,068)
<b>Total Actuarial Gain/(Loss) charged to Pension Reserve</b>	<b>(1,650)</b>	<b>(105,710)</b>	<b>(608)</b>	<b>(107,968)</b>	<b>(383,701)</b>

### Movement in the provision during the year

	<b>ACPO</b> £'000	<b>Other Officers</b> £'000	<b>LGPS</b> £'000	<b>2006/07</b> <b>Total</b> £'000	2005/06 ACPO/ LGPS £'000
Net liabilities at start of year	11,486	393,347	(2,602)	402,231	14,892
Current service cost	60	18,990	41	19,091	2,880
Pensions paid in the year	(500)	(1,800)		(2,300)	(2,811)
Overnight increases in liabilities (change in real return)					2,163
Employers contribution			(42)	(42)	(40)
Impacts of settlement and curtailments					618
Net finance charge	610	21,700	(208)	22,102	828
Actuarial loss	1,650	105,710	608	107,968	383,701
<b>Net liabilities at end of year</b>	<b>13,306</b>	<b>537,947</b>	<b>(2,203)</b>	<b>549,050</b>	<b>402,231</b>

**9 Other operating costs**

	<b>2006/07</b>	2005/06
	<b>£'000</b>	Restated £'000
Premises costs	<b>34,825</b>	28,916
Transport costs	<b>7,469</b>	8,576
Office and general expenses	<b>3,225</b>	5,032
Operational and communication costs	<b>11,146</b>	26,873
IT expenses	<b>24,750</b>	12,361
PFI Charges	<b>21,996</b>	23,451
Europol subscription	<b>5,328</b>	5,864
Interpol subscription	<b>1,710</b>	1,585
Other operating subscriptions	<b>1,953</b>	302
Internal audit fee	<b>332</b>	195
External audit fee	<b>140</b>	126
Bank interest	<b>4</b>	-
Other Interest	<b>17</b>	-
Professional services and fees	<b>5,386</b>	5,822
Foreign exchange (gain) / loss	<b>(5)</b>	4
Notional expenditure covered by donations	<b>3,176</b>	1,600
Conference set up and running costs	<b>1,655</b>	218
Grants to forces and other organisations	<b>7,564</b>	4,916
Forensic fees	<b>3,322</b>	3,308
Office equipment and repairs	<b>1,072</b>	493
Accommodation, subsistence and general expenses	<b>18,125</b>	12,135
	<b>153,190</b>	141,777

**10 Intangible fixed assets**

	Purchased software	Payments on account & assets under construction	Total
	£'000	£'000	£'000
<b>Cost</b>			
at 31 March 2006	20,085	457	20,542
Additions	483	4,807	5,290
Transfers	211	(211)	
Disposals	(5,260)		(5,260)
<b>at 31 March 2007</b>	<b>15,519</b>	<b>5,053</b>	<b>20,572</b>
<b>Amortisation</b>			
at 31 March 2006	15,070		15,070
Charge for year	1,981		1,981
Disposals	(5,260)		(5,260)
Transfers			
<b>at 31 March 2007</b>	<b>11,791</b>		<b>11,791</b>
<b>Net Book Value</b>			
<b>at 31 March 2007</b>	<b>3,728</b>	<b>5,053</b>	<b>8,781</b>
at 31 March 2006	5,015	457	5,472

**11 Tangible fixed assets**

	Improvements to leasehold buildings	Motor vehicles	Plant & equipment	IT Assets	Payments on account & assets under construction	Furniture	Freehold Property	<b>Total</b>
<b>Cost</b>	£'000	£'000	£'000	£'000	£'000	£'000	£'000	<b>£'000</b>
At 01 April 2006	32,594	30,322	41,308	16,125	14,908	308	11,962	<b>147,527</b>
Additions	17,775	6,370	2,285	1,423	12,522	1,390		<b>41,765</b>
Transfers	2,014	12	192	840	(3,058)			
Disposals	(950)	(1,849)	(3,016)	(718)			(172)	<b>(6,705)</b>
Revaluation Gain	1,151	355			38	32	727	<b>2,303</b>
Revaluation Loss			(101)	(1,350)	(731)			<b>(2,182)</b>
At 31 March 2007	52,584	35,210	40,668	16,320	23,679	1,730	12,517	<b>182,708</b>
<b>Depreciation</b>								
At 01 April 2006	9,997	19,647	21,370	9,506	-		1,161	<b>61,681</b>
Charge for year	4,784	1,903	6,816	2,612		195	435	<b>16,745</b>
Disposals	(950)	(1,533)	(3,016)	(718)			(12)	<b>(6,229)</b>
Revaluation	103	42	(15)	(204)		3	37	<b>(34)</b>
Revaluation backlog	219	185	(55)	(688)			110	<b>(229)</b>
At 31 March 2007	14,153	20,244	25,100	10,508		198	1,731	<b>71,934</b>
<b>Net book value</b>								
At 31 March 2007	<b>38,431</b>	<b>14,966</b>	<b>15,568</b>	<b>5,812</b>	<b>23,679</b>	<b>1,532</b>	<b>10,786</b>	<b>110,774</b>
At 01 April 2006	22,597	10,675	19,938	6,619	14,908	308	10,801	<b>85,846</b>

Payments on account have not been indexed as at 31 March 2007.

All other assets have been indexed as per the applicable Price Index Numbers for Current Cost Accounting (MM17) published by the National Statistics Office, with the exception of leasehold buildings improvements and work in progress, which have been indexed using the output for new construction work produced by the Department of Trade and Industry, and freehold property which has been indexed using the Public Expenditure System Offices Index.

**12 Debtors and prepayments**

<b>(a) Amounts falling due within one year</b>	<b>2006/07</b>	2005/06 Restated
	<b>£'000</b>	£'000
Trade debtors	<b>3,725</b>	1,181
Interest receivable and owed to Home office	<b>584</b>	0
Prepayments	<b>10,536</b>	7,608
Other debtors and accrued income	<b>6,029</b>	3,354
	<b>20,874</b>	12,143
<b>(b) Intra-government balances</b>	<b>2006/07</b>	2005/06 Restated
	<b>£'000</b>	£'000
Balances with central government bodies	<b>6,914</b>	1,444
Balances with local authorities and police authorities	<b>393</b>	561
Subtotal: intra-government balances	<b>7,307</b>	2,005
Balances with bodies external to government	<b>13,567</b>	10,138
	<b>20,874</b>	12,143
<b>(c) Amounts falling due after one year</b>	<b>2006/07</b>	2005/06 Restated
	<b>£'000</b>	£'000
Other debtors and accrued income	<b>157</b>	205
	<b>157</b>	205
<b>(d) Intra-government balances</b>	<b>2006/07</b>	2005/06 Restated
	<b>£'000</b>	£'000
Balances with bodies external to government	<b>157</b>	205
	<b>157</b>	205

**13 Cash at bank and in hand**

SOCA operates a number of bank accounts and cash imprest accounts. The UK accounts operate under a pooling arrangement which allows some accounts to be overdrawn, as long as the main SOCA account is in credit to cover the overdrawn balances. At the 31 March 2007 the cash and balances totalled £4.2m (2005/6 £14.6m).

	<b>2006/07</b>	2005/06 Restated
	<b>£'000</b>	£'000
Bank balances held with Commercial Banks	<b>4,179</b>	14,501
Bank balances held with HM Paymaster General	<b>58</b>	116
	<b>4,237</b>	14,617
<b>14 Creditors</b>		
	<b>2006/07</b>	2005/06 Restated
	<b>£'000</b>	£'000
<b>(a) Amounts falling due within one year</b>		
Trade creditors	<b>7,055</b>	15,756
Taxation and social security	<b>225</b>	2,978
Vat payment due	<b>0</b>	120
Other creditors and accruals	<b>23,236</b>	21,066
Interest payable to Home office	<b>1,506</b>	0
	<b>32,022</b>	39,920
<b>(b) Intra-government Balances</b>	<b>2006/07</b>	2005/06 Restated
	<b>£'000</b>	£'000
Balances with central government bodies	<b>5,904</b>	6,361
Balances with local authorities and police authorities	<b>3,855</b>	3,970
<b>Subtotal: intra-government balance</b>	<b>9,759</b>	10,331
Balances with bodies external to government	<b>22,263</b>	29,589
	<b>32,022</b>	39,920
	<b>2006/07</b>	2005/06 Restated
	<b>£'000</b>	£'000
<b>(c) Amounts falling due after one year</b>		
Other creditors, accruals and deferred income	<b>944</b>	0
	<b>944</b>	0
<b>(d) Intra-government Balances</b>	<b>2006/07</b>	2005/06 Restated
	<b>£'000</b>	£'000
Balances with bodies external to government	<b>944</b>	0
	<b>944</b>	0

**15 Provisions for Liabilities and Charges**

	Balance at 31 March 2006	Provided for in year	Provisions used in year	Balance at 31 March 2007
	£'000	£'000	£'000	£'000
a)Tax Provision	0	(980)		<b>(980)</b>
b) Legal provision	(500)	(529)	90	<b>(939)</b>
c)Other provisions:	(80)	1	43	<b>(36)</b>
c)Retirement Provision	(471)	0	113	<b>(358)</b>
c)Employment related	(50)	(702)	50	<b>(702)</b>
d)Dilapidation Provision	(95)	(19)	0	<b>(114)</b>
	<b>(1,196)</b>	<b>(2,229)</b>	<b>296</b>	<b>(3,129)</b>

The provisions held at 31 March 2007 and charged to the relevant expenditure categories include the following:

- Tax Provision of £1.0m for the tax liability due on benefits in kind paid to employees. The liability is payable in August 2007. As this is the first year of SOCA, agreement needs to be reached with HMRC on the areas in which SOCA is liable and hence the exact amount to pay.
- Legal Provision of £0.9m relates to costs to cover estimates on litigation costs for employees undertaking action because of injury, loss of employment and changes in conditions of service.
- Various Employment related provisions including early retirement and pay review awards total £1.1m. It is expected that payments will take place within the next two years.
- The vacation of two offices has given rise to a dilapidation provision to cover the cost of repair works necessary in accordance with the leases. It is anticipated that settlement will be reached within the next 12 months.

**16 Deferred Income**

	<b>2006/07</b>	2005/06 Restated
	£'000	£'000
Deferred income relating to donations received in advance	<b>136</b>	56

**17 Reserves**

	Income & Expenditure Reserve	Pension Reserve	Revaluati on Reserve	Airwave Reserve	Forfeiture Reserve	Donated Asset Reserve	Total 2006/07	Total 2005/06 Restated
	£'000	£'000	£'000				£'000	£'000
<b>At 1 April 2006 (as restated)</b>	60,327	(392,480)	2,141	4,581	140	171	(325,120)	(22,590)
Net Expenditure/Income	(432,679)					140	(432,539)	(342,481)
Grant –in-Aid received towards resource expenditure	381,714						381,714	339,020
Grant –in-Aid received towards purchase of fixed assets	41,686						41,686	28,619
Movements During the year		(107,968)	1,789		(20)		(106,199)	(327,688)
Transfers between reserves	90					(90)		
<b>At 31 March 2007</b>	<b>51,138</b>	<b>(500,448)</b>	<b>3,930</b>	<b>4,581</b>	<b>120</b>	<b>221</b>	<b>(440,458)</b>	<b>(325,120)</b>

Note 8/17

**17a) Donated Asset Reserve**

The Reserve is written down each year to the I & E Account to offset the annual depreciation charge.

**17b) Pensions Reserve**

In accordance with government accounting advice, actuarial gains/losses on pension scheme liabilities are recognised in the Statement of Recognised Gains and Losses. The net gain/loss is shown in the Pensions Reserve.

**17c) Airwave / Radio Replacement Reserve**

The SOCA is required to replace as necessary and maintain all its police radios to meet a change in wavelengths and to upgrade its communications technology. This is part of the National Airwave Project.

**17d) Forfeiture Fund**

Cash, including the proceeds from the sale of assets, seized from convicted criminals and forfeited to SOCA by the courts. The fund is applied for operational purposes only, as specified by the courts.

**17e) Revaluation Reserve**

The SOCA revalues its assets on an annual basis and any revaluations other than impairments are credited to the revaluation reserve. Prior year depreciation adjustments other than for impairments are debited to the reserve.

**17f) Income and Expenditure Reserve**

The Income and Expenditure reserve shows the balance of accumulated surpluses or deficits in grants and other income over operating expenditure.

**18 Notes to cash flow statement**

<b>a) Net outflow from operating activities</b>	<b>2006/07</b>	2005/06 Restated
	<b>£'000</b>	£'000
Operating activities	(432,679)	(342,481)
Donated asset	140	58
Forfeiture item	(20)	138
Depreciation and Amortisation	18,691	21,471
Loss of asset revaluation	1,439	514
Software write off	0	2,194
(Surplus)/Loss on disposal of fixed assets	(69)	57
Non cash FRS 17	38,847	(45)
(Increase)/Decrease in long term debtors	48	(670)
(Increase)/Decrease in debtors and prepayments	(8,731)	1,252
Increase/(Decrease) in creditors	(7,898)	7,984
Increase/(Decrease) in long term creditors, deferred Income and provisions	2,955	(13,487)
	<b>(387,277)</b>	<b>(323,015)</b>
<b>b) Reconciliation of Net Cash (Outflow)/Inflow to Movement in Net Debt</b>	<b>2006/07</b>	2005/06 Restated
	<b>£'000</b>	£'000
Cash (outflow)/inflow in the year	(10,380)	16,728
Investments	0	1043
Movement in net debt	<b>(10,380)</b>	17,771
Opening net funds 1 April 2006	14,617	(3154)
Closing net funds at 31 March 2007	<b>4,237</b>	<b>14,617</b>

Interest received during the year and payable to the Home Office has been included as part of the movement of working capital.

**19. Capital commitments**

	<b>2006/07</b>	2005/06 Restated
	<b>£'000</b>	£'000
Capital expenditure contracted but not provided for in these accounts	3,984	6,282
Capital expenditure authorised but not contracted for	4,966	176
Total	<u>8,950</u>	<u>6,458</u>

**20. Other financial commitments**

Other commitments include two IT contracts for the provision of information technology and communications services until 31 August 2010. Payments made under the contract in 2006-07 were £24.5 m (2005-06 £17m).

<b>Others</b>	<b>2006/07</b>	2005/06 Restated
	<b>£'000</b>	£'000
On leases expiring:		
Within 1 year	26,434	19,850
Between 2 and 5 years	66,152	62,048
Over 5 years	-	1,336
Total	<u>92,586</u>	<u>83,234</u>

All payments on account relating to IT assets to be acquired at a future date are included in Note 11, fixed assets.

**21 Operating lease obligations****(a) Charge for year for operating leases**

Operating expenditure includes £17m in respect of rental of land and buildings and £0.3m for office equipment.

**(b) Annual commitment for operating leases**

SOCA is committed to pay the following operating lease rentals in future financial years:

Leases expiring:	<b>2006/07</b>	2005/06 Restated
	<b>£'000</b>	£'000
Within 1 year	2,444	5,432
Between 2 and 5 years	2,316	1,841
Over 5 years	13,246	8,670
Total	<u>18,006</u>	<u>15,943</u>

**22 Related party transactions**

The Home office is the sponsoring department of SOCA. The Home Office and its related bodies, HM Revenue and Customs, the Scottish Executive, the Northern Ireland administration and the Foreign and Commonwealth Office are considered to be related parties to SOCA. During the year ended 31 March 2007, these bodies provided SOCA with Grant-in-aid and other funding.

During the year ended 31 March 2007 none of the Directors or parties related to them, entered into any transactions with SOCA.

**23 Third Party Assets**

Seized property is that which is appropriated by SOCA and other law enforcement bodies but which may still be liable to be returned. Seized property held by SOCA at 31 March 2007 included £6.9m (2005-06 £9.5m) in cash, motor vehicles and other valuables suspected of being derived from criminal activity. Other third party assets include £0.1m held in the Police Property Account for future distribution to agreed causes.

The value of third party assets is not included in these accounts.

**24 Contingent liabilities****25 a) Lease dilapidations**

SOCA occupies leasehold premises, many of which have been modified to meet specific operational or administration requirements. Common to the leases is the requirement to hand back the premises at the end of the lease period in a good condition. In substance this often obligates SOCA to incur further expenditure on returning these premises to their pre-occupation condition.

The costs to SOCA on vacation of leased premises have been estimated as £21,288m (2005/06 £13,754m). This estimate is based on a charge per sq. ft of leased space and allows for the reversal of any changes to the building made by SOCA and the costs of redecoration. This potential liability is currently estimated to fall due as follows:

Year ended 31 March :	£'000
2008	1,261
2009 to 2013	3,748
2013 to 2027	16,279
	<hr/>
	21,288
	<hr/>

**25 b) Litigation costs**

SOCA has a small number of claims from employees and suppliers that may result in compensation payments to be made on settlement. These claims are considered to be contingent liabilities because the probability of a settlement on these cases is less than 50% and they are at an early stage of action making the determination of costs impossible.

## 26 Post balance sheet events

The 2006-2007 Annual Accounts were approved by the SOCA Board of Directors on the 19 September 2007 on the recommendation of the Accounting Officer William Hughes. The date of issue of the Accounts is the 8 October 2007. This disclosure is in accordance with FRS21.

## 27 Losses and special payments

SOCA made special payments to 11 overseas employees during the year that totalled £0.094m (2005/2006: £0.5m) for compensation payments. The payments were for the early termination of employment contracts.

## 28 Financial instruments

Accounting Standard FRS13, Derivatives and other Financial Instruments, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the largely non-trading nature of its activities and the way in which it is financed, SOCA is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS13 mainly applies. Financial assets and liabilities are generated by day to day operational activities and are not held to change the risks facing SOCA in undertaking its activities.

As permitted by FRS 13, debtors and creditors which mature or become payable within 12 months from the balance sheet date have been omitted from the currency profile.

### Liquidity risk

The net revenue resource requirement of SOCA is financed by Grant-in-aid from the Home Office, as is its capital expenditure. This Grant-in-aid is a fixed yearly cash allocation which SOCA manages on a monthly basis. SOCA is therefore exposed to a liquidity risk which is managed through projected cash flow forecasts and monthly meetings with Home Office.

### Interest rate risk

SOCA does not have any borrowings which may be exposed to interest rate risk. Cash at bank and in hand at 31 March 2007 is primarily held within current accounts at UK commercial banks.

### Currency rate risk

All financial assets and liabilities held by SOCA are based in sterling avoiding any currency rate risk. Foreign currency for operating costs is purchased at a spot exchange rate. Such purchases are a relatively small part of SOCA operations and risk hedging activities are therefore not considered to be worthwhile.



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