



National Criminal Intelligence Service

Service Authority for NCIS Annual Report 2004/05

NCIS Annual Report 2004/05

Statement of Accounts 2004/05

for the year ended 31 March 2005

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(as amended by the Criminal Justice and Police Act 2001)



Service Authority for NCIS Annual Report 2004/05
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Statement of accounts for NCIS 2004/05

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NCIS Functions and Strategic Aims

The Police Act 1997 established NCIS and, subject to amendments and additions in the Criminal Justice and Police Act 2001 and the Police Reform Act 2002, sets out its functions and governance. In discharging those statutory functions, NCIS aims:

We aim to

To provide leadership and excellence in criminal intelligence to combat serious and organised crime

The UK Threat Assessment

NCIS's highest level strategic contribution to tackling serious and organised crime is the United Kingdom Threat Assessment of Serious and Organised Crime (UKTA), which is revised annually. The UKTA describes how serious and organised criminals operate and assesses the threat posed by each 'sector' of serious and organised criminal activity.

Working in partnership

The principal law enforcement agencies and departments come together, with other organisations involved, under the chairmanship of the Home Office, in order to agree the response to the threats set out in the UKTA. The partnership approach has led to the creation of inter-agency strategies for tackling Class A drugs (the Concerted Inter-agency Drugs Action group, known as CIDA), Organised Immigration Crime (the Reflex group), Criminal Finances and the Proceeds of Crime (the Concerted Inter-agency Criminal Financial Assets group, known as CICFA) and criminal use of Firearms (the Strategic Criminal Use of Firearms, known as SCUF). The development of similar strategic approaches for the 'designated threats' has been pursued in a further 7 specific areas of criminality.

Outputs

NCIS delivers outputs of three main kinds in support of the inter-agency strategies and collaborative projects:

- intelligence assessments that ensure that the extent of criminal threats and the nature of criminal business methods are properly understood and that law enforcement and policy makers learn the lessons of experience;
- operational intelligence on major criminals and their organisations;
- a range of coordination services that support the multi-agency law enforcement operations against serious and organised crime and the development of criminal intelligence.

Outcomes

NCIS does not carry out arrests, seize illicit material or mount prosecutions. NCIS works, together with partner agencies, to diminish the risk of harm to the UK from criminal activity and increase the risk to the criminal; to remove opportunities for criminal activity and improve opportunities for law enforcement intervention; to identify the proceeds of criminal activity and provide information leading to the seizure of related criminal assets. Each year NCIS is set objectives and targets by the Home Secretary and the NCIS Service Authority which are published in a Service Plan. The objectives and targets are designed to secure these outcomes.

NCIS's values

NCIS aims for the highest standards by creating and maintaining an environment which values staff; maintains high professional standards, recognises achievement; and uses resources efficiently and effectively.

Service Authority Annual Report

Introduction

This is the seventh annual report from the Service Authority for the National Criminal Intelligence Service (NCIS). The report reviews the achievements of the past year and considers the constraints and pressures under which NCIS has had to operate during this period.

During 2004/05 plans for the development of the Serious Organised Crime Agency (SOCA) moved from the drawing board to become a reality. While NCIS will continue for a further year until 31 March 2006, as from 1 April 2006 NCIS will become a component of this new organisation charged with tackling organised crime. Preparations for SOCA have had an increasing effect upon the day to day work of NCIS during 2004/05, and this impact will increase over the remaining life span of the organisation.

NCIS has worked ever closer with the National Crime Squad (NCS). The two Service Authorities, for NCIS and NCS, decided as from January 2005 to hold joint meetings, in part to encourage the progressive merger of the two organisations. The full list of NCIS Service Authority Members can be found in the Foreword to the Statement of Accounts.

The NCIS Service Authority is charged with ensuring that NCIS is efficient and effective. We are responsible for setting some of the objectives and agreeing the targets that underpin them. We submit the budget statement, publish the annual Service Plan and monitor the budget and performance over the course of the year. The NCIS Service Authority has had to both maintain its role of holding a supportive and scrutinising eye towards the performance of NCIS, while at the same time endorsing the preparatory work for SOCA that has been undertaken.

The purpose of this report is to provide a critical and balanced analysis of NCIS performance in 2004/05. In this report, we will only make reference to some of the targets for 2004/05; full details of all the objectives and targets are discussed by the Director General in his report.

Serious Organised Crime Agency

The Serious Organised Crime and Police Act was given Royal assent on 7 April 2005. The Act brings into being SOCA, which is intended to be operational from April 2006. The SOCA Programme Team is undertaking a vast amount of preparatory work, so as to ensure that SOCA will be ready for launch from day one. This is a massive task and can only be achieved with the committed participation of volunteers from the precursor agencies. While vitally important work,

inevitably this has had an impact upon NCIS resources. The challenges in the area of human resources are particularly daunting. The development of terms and conditions of employment that are

acceptable to employees in NCIS, together with employees of the NCS, HMRC and the Immigration Service, has required a considerable investment of staff time.

The opportunities that SOCA will provide, though, to improve further the UK's ability to combat serious and organised crime is an initiative embraced by both the Service Authority and NCIS.

Overview of NCIS achievements in 2004/05

Before looking at individual target areas, it is helpful to set them in context by providing some overall comments on the National Criminal Intelligence Service in 2004/05.

In 2004/05 NCIS invested heavily in improving the quality of its intelligence reports. The aim was to develop a consistently high quality product that would be of sound benefit to partner agencies. Inevitably, this resulted in a fall in the numbers of reports disseminated. Further work has been undertaken on the NCIS intelligence database, ELEMENTARY, which has been a key factor in quality enhancement. ELEMENTARY has been developed so as to be fit to meet the needs of SOCA for an intelligence database.

All performance targets, bar one, have been achieved as at March 2005. This is a commendable achievement given the additional challenges which emerged during the year. The target not achieved related to the percentage of minority ethnic staff employed by NCIS. 12% of staff were from a minority ethnic group, whereas the target had been to achieve a figure of 16%. Members of the Service Authority are keen that further analysis of this issue is undertaken, so that imaginative new initiatives may be taken in the forthcoming year to enable the target to be reached.

Intelligence reports disseminated, in comparison with 2003/04 totals were down by: 13% for Reflex (organised immigration crime); 15% for Firearms and Other Threats; 42% for CICFA (financial crime); and 52% for CIDA (class A drugs).

Questionnaires completed by partner agencies on NCIS intelligence products gave scores in the 'less useful' category



at the following levels: Reflex: 4% in less useful category range; Firearms and Other Threats: 20% in less useful category range; CICFA: 20% in less useful category range; CIDA: 19% in less useful category range. All sectors were reported as satisfactory as all met the 80% useful requirement on products (Problem Profiles) issued - it is thought that a more specific targeting of these products has led to the improvement reported in 2004/05.

As an Authority, we have welcomed the strategic shift towards higher quality output that these figures illustrate. However, there must come a point where the number of reports disseminated will stabilise. We will be monitoring this issue closely and seeking clear assurances from the Director General about it. The figures pertaining to customer satisfaction represent an honest attempt to benchmark the standards of quality we are achieving, which we applaud. Again though, this is an area that we will wish to keep a close eye on during 2005/06.

The work relating to organised immigration crime is clearly commendable. The volume of products work undertaken has been maintained against the previous year and the client agencies' views on the product received is clearly very favourable. While recognising that the target for intelligence reports to be viewed as useful by partner agencies was 80%, given the client feedback range in score and variation in volume reductions, it may be helpful for these issues to undergo further analysis and monitoring during 2005/06. It is recognised that further enhancements to ELEMENTARY, for example, should result in greater client satisfaction.

Members noted that mid year amendments were made to a key performance measure, and attendant targets. It was recognised that circumstances changed mid year, and that it may be entirely appropriate to make such changes. However, Members have asked that a log be put in place for 2005/06, providing an ongoing updated record of such changes and Member approval.

The volume of Suspicious Activity Reports (SARs) - over 154,000 in 2004 - has increased exponentially. The review of processing methods has resulted in improvements to efficiency and this should serve to reduce further the backlog during the forthcoming year. Similarly, encouragement in the greater use of electronic methods of SARs submissions will also benefit processing timescales.

NCIS has continued to lead in its strategic role of promoting and co-ordinating intelligence partnerships and operations,

frequently of an international nature, in combating Class A drugs. Seizure results by operational partners have indicated the excellent quality of work undertaken by NCIS in this role.

The Service Authority is pleased with the overall operational performance of the National Criminal Intelligence Service in 2004/05, particularly at a time of considerable organisational change. Work towards matching products with the needs of operational partners has, and will continue to develop the effectiveness of NCIS.

With regard to individual key objectives and targeted activity areas, more detailed reports and comments are provided within the Director General's report.

Financial Performance

The financial settlement within which NCIS had to plan its activities and budgets for 2004/05 meant that there was a need to support committed as well as unavoidable new development and cost pressures, including inflation costs; Interpol/Europol subscription increases; increased intercept capacity; and roll out of ELEMENTARY, the intelligence information system project. Substantial savings had to be identified in order that a balanced budget could be set.

Through the year, strict controls were imposed on staffing levels and other variable cost centres to ensure that no monies were unnecessarily committed as the year progressed. These controls included an aggressive ongoing review of training, office expense and operational expenditure budgets which were all pared back to minimum practicable levels wherever possible. Whilst these actions have now created development capacity within the 2005/06 budget, prudence dictated that it would not be appropriate to embark on new initiatives in 2004/05 until greater certainty existed about the 2005/06 funding settlement. This prudence together with the drive to maximise savings was the reason behind the substantial budget underspends noted below.

The Service Authority's principal focus in the year is to ensure that the Home Office approved Departmental Expenditure Limit (DEL) for NCIS is not overspent. Final budget statements for 2004/05 show that NCIS underspent Resource DEL by £7.3m, and Capital DEL by £6.5m. (NB These figures are greater than the retained surplus reported within the accounts because only Grant-in-aid actually drawn down is reported in the accounts. A full analysis of the differences between the budget outturn and the accounts outturn can be provided on request.)

The background to the Resource DEL underspend has been discussed above. The Capital DEL underspend was forecast early in the year as the Capital DEL allocation exceeded the actual capital funding needs for the year. Home Office were advised of this and utilised the projected underspend on Capital DEL to assist in managing other areas of their capital expenditure portfolio.

Public Sector Payment Targets

This has been a somewhat disappointing aspect of financial performance with NCIS continuing to experience difficulty achieving the Treasury target of 95% of invoices paid within 30 days of issue of the invoice. Whilst the average achievement of 83.7% represents an improvement on the 77.5% reported in 2003/04, it is still well short of the Treasury target. The Audit and Risk Management Committee is specifically monitoring this payment statistic and, providing there is no adverse impact on key personnel from reorganisation arrangements, it is expected that the 95% standard will be achieved during the second half of 2005/06.

Efficiency and Effectiveness

It is difficult for a service like NCIS to measure activity change in a quantifiable way, particularly at a time when the growth of activity is focussed on qualitative rather than quantitative aspects of performance. There are, however, two clear and measurable indicators which evidence a real improvement in efficiency and demonstrate that NCIS has bettered the 3% efficiency target required by government.

- After allowing for inflation and unavoidable increases in Interpol and Europol subscriptions, total operating costs excluding employment costs decreased by £2.7m on 2003/04 in real terms, even after absorbing the additional running costs of ELEMENTARY and other development initiatives implemented in the year.
- Considerable staff time was provided to support of the SOCA programme team, with 3 senior personnel seconded to the programme team for a substantial period of the year.

Despite the difficulties faced by NCIS in establishing a balanced budget for 2004/05, the Service Authority are pleased to report that the reductions made and the underspends recorded in-year did not reduce Level 2 activity support or compromise achievement of the organisation's performance targets. Although it is proving to be a very fluid period of transition, both NCIS and the Service Authority are committed to maintaining targets whilst continuing to further develop services and work constructively with all partners during 2005/06.

Service Authority Work

When it became clear that the Bill to bring SOCA into being would be enacted in the early part of 2005, both the NCS and NCIS Service Authorities, and the Directors General of both agencies, took the view that the Authorities' work programme required review. The outcome was universal agreement that the two Service Authorities should meet jointly, but bi-monthly rather than quarterly. It was also agreed to dispense with the Personnel Committee and the Performance Committee, and to include the work of these Committees in the more frequent meetings of the Service Authorities. Separate meetings of the Audit and Risk Management Committees were retained, however. After five months of operation, this structure has been found to be helpful in bringing the two organisations closer together, particularly in planning for SOCA.

Levels of attendance at meetings of the Service Authority had declined during 2004. As the Authority would exist only for a further year, it would have been difficult to recruit additional Members for this limited period. By holding joint meetings, levels of attendance by Members has been maintained. Mr John Christensen, an experienced Member of the NCS Service Authority, agreed to join the NCIS Service Authority; his input has been welcomed and valued.

Bentley Jennison continued as the internal auditors to the Authority, as did the National Audit Office as the external auditor. Both reported regularly to the Authority's Audit and Risk Management Committee throughout the year.

Conclusion and a look ahead

The twin aims of meeting SOCA preparatory needs, while at the same time delivering the Service Plan, will inevitably result in increased pressures during 2005/06. The Service Authority recognises that this will be a difficult period and will do all in its power to assist in balancing these pressures. The Chairman, Paul Lever, has stressed the importance of all parties having a flexible and co-operative approach. Mr Lever and his Members will continue to provide and lead with this counsel during the forthcoming year. The importance of NCIS' work, and SOCA in the future, to the fabric of society cannot be underestimated. The reduction in personal harm and misery - the very outcome of this business - could not be a greater incentive.



Paul Lever

Chairman for the
Service Authority for the National Criminal Intelligence Service
14 July 2005

Review of Operations

Introduction by Director General

As in previous years, this review of NCIS's operations is principally based upon the four key areas of operational business, supplemented by a review of progress in the corporate development plan, known as the Quality Programme.

Each of the 2004/05 performance objectives that relate to sectors of threat, as well as those that monitor organisational health and development, have seen significant progress and some creditable results have been achieved during the year. NCIS has focused on the delivery of quality intelligence products that inform the decisions of those responsible for setting strategic priorities and carrying out operations.

Throughout the year, real achievements have been made in developing NCIS intelligence assets and expertise. This will contribute to the intelligence capability that the Serious Organised Crime Agency (SOCA) will need to pursue a systematic attack on serious and organised crime when this new agency comes into being in April 2006. The national intelligence requirements have been compiled and the returns will be processed through the restructured intelligence handling capability. A quality assurance initiative has seen the implementation of training courses to meet the new challenges, which are in the course of being delivered to intelligence officers and managers. NCIS, with the support of partner agencies, has developed the intelligence doctrine for SOCA.



Corporate resources and plans - 2004/05

NCIS's operational objectives and its continuing corporate development plan, known as the NCIS Quality Programme, were published in the Service Plan for 2004/05.

In addition, a significant contribution has been made to the development of SOCA. This has ranged from input to the enabling legislation, full commitment to the development programme and increased joint working with the National Crime Squad. Internally, the focus is increasingly on ensuring that NCIS will bring the necessary intelligence assets and capabilities to SOCA.

In order to support NCIS operations and permit development in line with the Quality Programme in 2004/05, the Home Office provided funding of £82m. In addition, NCIS received funding for project work of £12m.

All NCIS activity is aligned with the Government's priorities as executed through the inter-agency strategies of CIDA, Reflex, CICFA and collaborative working against 'other threats' from serious and organised crime. NCIS's performance objectives underpin both this alignment and the major aims of the Quality Programme. A further three developmental aims that were identified as particular priorities by me were added to the established Quality Programme for 2004/05. They were: further development of financial intelligence capability; expansion of capacity in interception; and improvement in immigration crime performance. Each of these aims has been achieved and are reported on in the next section.

Performance Information

The performance regime

As indicated, NCIS has an established 'balanced scorecard' performance regime that embraces objectives and targets for both key business areas and the developmental priorities for the Quality Programme. In respect of the key operational objectives, trend data is becoming available and is being used to ensure that an appropriate balance of NCIS activity between the sectors and between national and regional law enforcement interests is maintained.

The following tables show output and trend related performance in five key areas. They are followed by a summary of the impact of NCIS activity during 2004/05.

NCIS balanced scorecard - Key performance outcomes 2004/05

General comments

The strategic and operational support to all sector partners was maintained at a high level in year; this, together with product feedback resulted in a strongest showing since inception, confirming that the NCIS contribution to the pre SOCA agenda has been one of growing significance.

NCIS balanced scorecard - Key performance outcomes 2004/05

CIDA	Objective 1(i)	Comment
Tactical Assessments <ul style="list-style-type: none"> ■ Deliver 12 monthly progress reports to time ■ Deliver 5 guidance/best practice assessments in year 	achieved achieved	8 against a CIDA revised target of 8 against a target of 5
Problem Profiles <ul style="list-style-type: none"> ■ 32 delivered in year 	achieved	against a target of 14
Target Profiles <ul style="list-style-type: none"> ■ 95 derived from Problem Profiles ■ 80% leading to target operations 	achieved	against a target of 32
Intelligence Reports <ul style="list-style-type: none"> ■ 15,680 reports disseminated (52% reductions in volume on 2003/04) ■ % related to Level 3 criminality 	achieved achieved	IMB restructuring and ELEMENTARY reports 88% against 95% proposal
Quality Monitoring <ul style="list-style-type: none"> ■ Quarterly feedback from CIDA partners 	achieved	81% 'usefulness' rating against the 80% target

NCIS balanced scorecard - Key performance outcomes 2004/05

REFLEX	Objective 1(ii)	Comment
Tactical Assessments		
<ul style="list-style-type: none"> ■ Deliver 12 monthly progress reports to time ■ Deliver 5 guidance/best practice assessments in year 	achieved achieved	against a target of 12 against a target of 5
Problem Profiles		
<ul style="list-style-type: none"> ■ 6 delivered in year 	achieved	against a target of 4
Target Profiles		
<ul style="list-style-type: none"> ■ 42 derived from Problem Profiles ■ 100% leading to target operations 	achieved	against a target of 42
Intelligence Reports		
<ul style="list-style-type: none"> ■ 6,954 reports disseminated <i>(13% reductions in volume on 2003/04)</i> ■ % related to Level 3 criminality 	achieved achieved	IMB restructuring and ELEMENTARY reports 96% against 85% proposal
Quality Monitoring		
<ul style="list-style-type: none"> ■ Quarterly feedback from REFLEX partners 	achieved	96% 'usefulness' rating against the 80% target
CICFA	Objective 2(i)	Comment
Problem Profiles		
<ul style="list-style-type: none"> ■ 14 delivered in year 	achieved	against a target of 12
Target Profiles		
<ul style="list-style-type: none"> ■ 47 delivered from Problem Profiles ■ 77% leading to target operations 	achieved	against a target of 24
Intelligence Reports		
<ul style="list-style-type: none"> ■ 2,357 reports disseminated <i>(42% reductions in volume on 2003/04)</i> ■ % related to Level 3 criminality 	achieved achieved	IMB restructuring and ELEMENTARY reports 94% against 85% proposal
Consents under POCA		
<ul style="list-style-type: none"> ■ Service Standard Compliance 	achieved	88% against an 85% proposal
Quality Monitoring		
<ul style="list-style-type: none"> ■ Quarterly feedback from CICFA partners 	achieved	80% 'usefulness' rating against the 80% target
Measures ceased during the business year		
<ul style="list-style-type: none"> ■ *CICFA - Tactical Assessments -product not required by CICFA since product commissioning was delivered through Problem Profiles ■ *CICFA - maintain trend towards PIU standard on SARs - CICFA no longer requires NCIS to be assessed against the PIU standard in 2004/05 		

NCIS balanced scorecard - Key performance outcomes 2004/05

Other Threats including Firearms	Objective 2(ii)	Comment
Strategic Assessments		
<ul style="list-style-type: none"> Deliver UKTA to time and standard 	achieved	accepted by strategic partners
Regional Assessments - 11		
<ul style="list-style-type: none"> Deliver to RT&CGs to time and standard 	achieved	22 delivered in year - 2 per ACPO Region
Problem Profiles		
<ul style="list-style-type: none"> 26 delivered to time 	achieved	against target of 26
Target Profiles		
<ul style="list-style-type: none"> 29 delivered from Problem Profiles 100% leading to target operations 	achieved	against target of 24
Intelligence Reports		
<ul style="list-style-type: none"> 8,361 reports disseminated <i>(15% reduction in volume on 2003/04)</i> % balance between Level 2/3 criminality 	achieved	IMB restructuring and ELEMENTARY reports
	achieved	39% / 61% - against target of 40% / 60%
Quality Monitoring		
<ul style="list-style-type: none"> Quarterly feedback from strategic partners 	achieved	80% 'usefulness' rating against the 80% target
Co-ordination Services		
Objective 4 - Part 1 - International		achieved
100% of Requests actioned to service standard (97%)		Mid Year Review identified revised target descriptives
Objective 4 - Part 2 - RIPA		achieved
100% of successful applications under RIPA 2000 to 97% service standard		Mid Year Review identified revised target descriptives
Objective 4 - Part 3 - NSMU		achieved
100% of registrations actioned to service standard (97%)		Mid Year Review identified revised target descriptives
Objective 4 - Part 4 - ELEMENTARY		
95% Flagging applications registered in 24 hrs	achieved	against 97% proposal - 11,400 transactions
94% Urgent Searches actioned within 2 hours	achieved	against 97% proposal - 2,901 transactions
100% Routine Searches actioned within 36 hours	achieved	against 97% proposal - 15,709 transactions
*Average Flagging & Search Performance - by volume	achieved	98% achieved against 97% proposal
* NB Intelligence Database upgraded in year		

NCIS balanced scorecard - Key performance outcomes 2004/05

ORGANISATIONAL DEVELOPMENT	Objective 4	Comment
(i) National Intelligence Doctrine in place by 1 July 2004	achieved	Significant Intelligence Product for SOCA
(ii) National Intelligence Requirements August 2004	achieved	
(iii) Regional Tasking & Coordination by end 2004/05	achieved	
(iv) ELEMENTARY Business Benefits Post Implementation Review by August 2004	partially achieved	Technical Report met revised deadline of Jan 05
(v) Advanced Professional Training by September 2004	achieved	
(vi) Efficiency Savings	achieved	
(vii) Best Value Performance indicators (BVPIs)		
■ Senior Management posts filled by women	achieved	12% against target of 12%
■ Female directly employed staff	achieved	48% against target of 48%
■ Ethnic minority directly employed staff	not achieved	12% against target of 16%

Impact in key business areas

CIDA - Class A drugs

The CIDA strategy - The interagency CIDA Class A drugs strategy, led by HM Customs and Excise (now HMRC), aims to reduce availability of those drugs which cause the most harm by making access to the market more risky and less profitable and to support international action to reduce drug production by attacking the trade and those responsible for it in production and transit regions.

NCIS's contribution - Whilst the NCIS drugs intelligence performance remains sound, we continuously seek to improve on our performance. NCIS played a prominent role in the development work of the CIDA delivery plan. The Director UK has received acknowledgement for the NCIS contribution from the Chair of the ACPO drugs committee, particularly for work undertaken in supporting the development of the Zone 8 Threat Assessment (ZTA) and the Street Level Up project.

NCIS is the portfolio holder for Zone 6 Europe and continues to provide strategic and tactical direction while working closely with partners to ensure improved performance within the zone.

The CIDA Strategic and Tactical Tasking and Coordination Group (TTCG) published a 'CIDA Priorities and Activities' paper, and the CIDA TTCG has agreed that this paper should replace the original Control Strategy and Operating Plan. NCIS has fully played its part in this process.

NCIS is responsible for the Drugs price and purity data project and has issued the newly developed CIDA Drugs Price and Purity Database via CD-ROM to the thirty Police Forces participating in the six-month pilot.

Operations to which NCIS has delivered support, both at home and abroad, have achieved significant results: in seizures alone these amount to:

- 22,860 kilos of cocaine - approx. 90% of the 2003/04 total, which itself was an outstanding year representing three times 2002/03 results;
- 1,080 kilos of heroin - approx. 86% of the 2003/04 total;
- 4.75 million ecstasy tablets - about 80% of the 2003/04 total.

NCIS continues to provide specialist coordination services to aid law enforcement operations. These services, strongly endorsed by partner forces, benefit the organisation ensuring that NCIS continues to be in receipt of pertinent current drugs intelligence, a pre-requisite in the production of quality intelligence products

Outlook - The CIDA TTCG agreed six themes for activity for 2005/06. NCIS has the lead on two of these themes namely: Intelligence and Regional Hubs. The other themes are Assets (NCS lead); International (HMCE); Frontiers (HMCE) and Street Level Up (ACPO). It is the intention that lead agencies, working together with partner organisations, will identify the activity necessary to increase performance leading to a reduction in supply and impacting on harm.

NCIS will lead on the production of four problem profiles which were recommended in the ZTAs; a) Supply Routes for Cocaine Feeding the UK Crack Market; b) Nature and Scale of the Crack Cocaine Market (including the dual market for Crack and Heroin); c) Heroin Trafficking in the Balkans and d) Drug Trafficker Finances.

Reflex - human trafficking and people smuggling

The Reflex strategy - The interagency Reflex strategy aims to target criminal activity behind organised people smuggling and human trafficking by reducing the profits made by criminal gangs, raising the risks they must take and reducing the opportunities for them to harm and exploit their victims.

The NCIS contribution - NCIS performance in support of Reflex partners has seen further sustained effort in 2004/05. Throughout the year, intelligence flows have been further enhanced and this in turn has led to significant levels of operational success for the Reflex strategy.

Operational targets have all been met this year: 42 target profiles have been completed and passed to Reflex partners for action. This compares favourably (+100%) with the position at the end of the final quarter last year. In addition, significant assistance has been given to partner agencies in a further 15 operations.

The Reflex Control Strategy and Operating Plan commissioned the four problem profiles for 2004/05. They relate to:

- gang masters and illegal immigration for work;
- human trafficking for sexual exploitation;
- document fraud terms of reference;
- people smuggling - clandestine entry and threats to life.

NCIS has been active in support of partner agencies operationally. A recently concluded project achieved a successful result: the full dismantlement of an international organised crime group resulting in the recovery of a number of trafficked females from the Baltic States. The principals involved have been arrested both in the UK and overseas.

A further NCIS development included significant, close support from the Financial Intelligence Unit in a multi agency partnership aimed at the dismantlement and disruption of a significant criminal network. The partnership also comprises the NCS Money Laundering Enquiry Team, the Asset Recovery Agency, the Financial Services Authority, HM Revenue, HMCE and the Department for Trade and Industry. The subject was an international network of money launderers operating from the UK. The project has, in a 12 month period, identified illicit funds approaching £200m, the majority of which is believed to have been generated from illegal working and associated facilitation into the UK.

Outlook - A revised set of intelligence requirements has been developed and a baseline assessment along CIDA lines produced; these have now been set in place and will be a key feature of Reflex business dynamics in 2005/06. A new Reflex Intelligence Group has also been set up and this is to be chaired by the Assistant Director (IOI) NCIS.

A further 38 target profiles are under development: 12 relate to people smuggling, 11 to trafficking, 11 to document abuse and 4 to gangmasters. In addition, two further doctrine compliant products are in the pipeline and will produce operational targets for NCIS partner agencies in due course. The significance here is that all IOI activity is SOCA Doctrine compliant.

CICFA - proceeds of crime

The CICFA strategy - There is an increasing recognition of the importance of the SAR regime together with wider financial intelligence in supporting asset recovery within criminal and civil operations, as well as the disruption of serious organised crime.

The NCIS contribution - NCIS continues to focus support to CICFA requirements and in 2004/05 has published 14 Problem Profiles - exceeding the target by 2. The Financial Intelligence Branch (SFI) has significantly exceeded its annual target of 24 Target Profiles, 47 having been issued to date. The feedback is incomplete from law enforcement in relation to the numbers leading to operations although it is known that 8 have become the subjects of a joint NCIS/NCS/HMCE and 6 are being further developed by NCIS/NCS (Reflex).

Although not a set performance measure, the numbers of issued Current Intelligence Assessments (CIAs) have significantly increased - these have also attracted favourable comment.

Closer liaison and joint working continues between SFI and the joint NCS/HMCE Money Laundering Teams in both London and Manchester. In particular, NCIS has created a

joint intelligence cell providing continuing strategic and tactical intelligence product into money laundering networks between the UK and Spain. This project has been commented upon by the DG designate of SOCA as the prototype of intelligence-led SOCA work.

NCIS has supported the Regional Asset Recovery Teams in their initiatives and has received favourable feedback from the RART (London) in particular.

NCIS has continued its support to financial investigation teams by disseminating single and multiple Suspicious Activity Reports (SARs) in line with intelligence requirements and by providing support to operations and investigations through the search and retrieval of pertinent information contained within the SARs.

The number of SARs received continues to increase. 154,536 were received in the calendar year- this represents a 64% increase on the previous year. Improvement in performance in SFI should be viewed with the knowledge that this is against a backdrop of ever increasing demand. About 30% of SARs continue to arrive in a variety of manual, non-preferred formats. This increase continues to place inputting strain on the organisation. However, NCIS commenced a contract with a company (RWM) to provide outsourced SAR input. Additionally, NCIS has continued to encourage reporters of high volume paper-based SARs to report electronically.

NCIS continues to give a high priority to the processing of requests for 'consent to proceed' received from the financial sector. This response time has been fairly stable over the last six months. The statutory requirement is for consents to be processed within 7 working days. The NCIS target is for 85% to be processed within one working day of receipt - i.e. within a 24 hour period following receipt not including weekends. The NCIS and LEA performance was 61% within 1 working day. However, law enforcement investigation of those consents referred to partner agencies are understandably not returned to NCIS within one day, leading to an overall slippage against the NCIS target.

The Inland Revenue continues to make active use of the SAR regime and as a result of the approximately 9585 SARs disseminated by end of the year has achieved a number of notable tax recovery successes and criminal prosecutions

Additionally, NCIS has contributed significantly to FATF typologies working groups looking into the use of wire transfers and the misuse of the insurance industry that will result in FATF issued assessments.

Outlook - The support to NCIS partner agencies will be improved and extended by allowing relevant law enforcement and revenue agencies on-line access to the SAR database, in order that they may research against their own intelligence requirements. The pilot access to 8 law enforcement agencies was completed during the final quarter 2004/05 and is on schedule to 'go live' and be extended beyond the pilot participants from June 2005.

A Project has been initiated to design and develop a system to enable low volume reporters to submit SARs electronically via a public access system which will be internet-based. It is planned that this system will go live during mid 2005. The Serious Organised Crime and Police Act 2005 clarified the authority of the Home Secretary to mandate the form and manner of reporting. Discussions are already underway with the Home Office regarding the mandatory use of standard format forms and, where appropriate, electronic web based reporting. These measures will have the effect of improving the accuracy of SARs and free NCIS resources from data inputting to refocus on the production of intelligence products.

Other threats - NCIS continues to play a major role in supporting and guiding the development of national strategies across the remaining sectors of threat and some significant developments have been taken forward in the fourth quarter. A key area of activity being the criminal use of firearms.

The Firearms Strategy - ACPO has the national lead for firearms, with NCIS providing the secretariat and national intelligence coordination, which includes the development of the operating plan and the setting of national intelligence requirements. The latter will be published as an integral part of the national intelligence requirements.

Development work on the National Firearms Strategy continues to progress. The Firearms Crime Strategy is actively utilised by firearms professionals within the law enforcement community in addition to key high profile, community based projects. The NCIS developed Strategic Criminal Use of Firearms (SCUF) Delivery Plan, to support the strategy, was launched at the National Firearms Conference in April 2005.

The NCIS contribution - The NCIS Firearms Crime Intelligence Section (FCIS) has been successfully co-operating with HMCE and the DIS International Terrorism and Organised Crime Group (ITOC). This joint working is aimed at developing intelligence on firearms trafficking

routes in Europe in order that effective tasking of international resources can be achieved. This partnership working is replicated at UK operational level, with the Section leading on the establishment of a new forum of operational Firearms teams from key forces that are now able to meet to share intelligence and best practice.

The successful conclusion of a joint project involving cooperation between international partner agencies, UK police forces and the effective use of the media resulted in the arrest of 276 individuals and the seizure of significant numbers of weapons.

Outlook - The SCUF Group has commissioned an initiative to identify gun crime trends through analysis of operational data and NFFID data around shootings. The Firearms Crime Secretariat is currently leading the efforts to this new approach to understanding firearms crime through the analysis of incident and forensic intelligence.

The EU Firearms Threat Assessment is now in the research phase with an anticipated publication date of July 2005. The work entailed in this project will be supported by considerable activity from EU partners during 2005. Work is also continuing on the development of proposals for a G8 Firearms Threat Assessment.

The 'Other threats' strategies - The UKTA sets out the major threat areas on the basis of which the Government sets its priorities for law enforcement agencies. CIDA, Reflex and CICFA partnerships have resulted from this process but effort has also been made to bring the other threat areas into a similar strategic framework.

In response to these requirements, NCIS continues to develop strategies for those areas identified and work has progressed in the final quarter of 2004/05 in supporting and guiding the development of the further 7 national strategies with principles similar to those underpinning the Firearms strategy. The sectors of threat concerned and their associated updates cover such diverse areas as: Organised Vehicle crime, Counterfeit Currency, Payment Card Crime, Serious Sex Offenders, Intellectual Property Crime, Environmental Crime and Wildlife Crime.

The NCIS contribution - Much of the criminal activity in the 'other threats' category is investigated by UK police forces and OGDs. The NCIS contribution to regional police work is important in developing the response to these threats. During the year with support from NCIS, regional

tasking and coordination groups and supporting secretariats were established. Regional strategic assessments were produced to enable the setting of regional control strategies for the management of cross-border and serious and organised crime impacting on the regions.

The NCIS National Wildlife Crime Intelligence Unit (NWCIU) has assisted DEFRA with their proposal for the formation of a dedicated DEFRA Intelligence Unit for the animal health and welfare division.

NCIS continues to provide training on the tracking of serious sex offenders with its Foundation Course being delivered at the International Law Enforcement Academy in Bangkok with over 50 delegates from 12 South East Asian countries and in Prague, to 55 delegates from the Czech National Organised Crime Police.

All relevant Service Plan product targets for 2004/05 have been met; 26 Problem Profiles, 29 Target profiles and 22 Regional Strategic Assessments have been delivered to time. The UKTA has been prepared. A total of 67 current intelligence assessments (CIA's) have been produced during the year.

Outlook - Many of these strategies are dependent on identifying an ACPO or other partner agency lead. In order to best facilitate this, NCIS has put in place a flexible support structure that will enable the 'designated threats' sectors to be monitored closely for changing requirements and intelligence assets to be directed at agreed priority projects. This is to be managed to ensure a smooth transition of leadership in those areas of 'other threats' not included in the SOCA prospectus.

The Quality Programme

Progress on key elements of the Quality Programme was significant, including some useful progress in achieving my additional priorities; urgent further development of financial intelligence capability; expansion of capacity in interception; and improvement in immigration crime performance, as reported on in the Performance Report.

The other significant elements of Quality Programme progress were:

- enhance its support for Regional Tasking and Coordination and Regional Asset Recovery Teams,
- contribute fully to the development of the intelligence doctrine for SOCA,
- run a project to analyse the benefits and risks of our relationship with law enforcement partners.
- activities to capitalise on the capability of the ELEMENTARY system;
 - development of the capabilities continues to be refined through the provision of additional functionality
 - the development of data quality teams and the restructuring of the teams inputting to the system
 - the delivery of in-house developed high quality training for users of the system.
- development of the training capability for NCIS in particular in connection with the use of ELEMENTARY;
- a complete review of the relationship with partners requiring the support of NCIS technical services;
- a review of the suite of procedures used within the organisation;
- enhancements to the estate including acquisition of additional space in London and the provision of new training facilities and a business continuity centre in Birmingham;
- maximise the benefits to be accrued through closer working with the NCS, which has, with the support of the Service Authorities, seen the merger of several support functions of potential 'seed-corn' value to SOCA.

NCIS has continued to develop its capability and partner activity in the international arena. Support has been provided to the development of policies for the UK Presidency of the EU. Initiatives have been developed with EU partners to facilitate a joined up approach to common threats. In addition, NCIS has collaborated with partners in G8 to establish common understandings of the threats posed in the international environment.

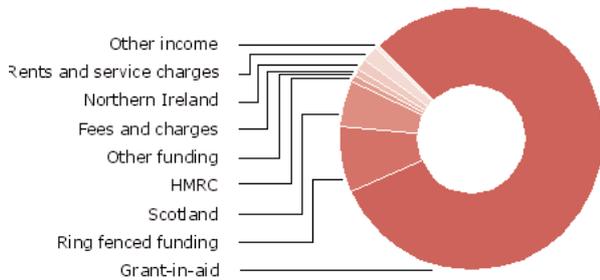
Furthermore, the year has seen NCIS make a significant contribution, with partner agencies, to the development programme for the Serious Organised Crime Agency (SOCA). This work has seen many levels of NCIS staff contribute their knowledge and skills through the work streams set up to take forward the programme. Myself and my staff are committed to ensuring the successful transition of NCIS responsibilities into this new venture, taking full advantage of the opportunity to improve on our existing processes and capabilities.

- the continued development of support for partners operating the National Intelligence Model has seen NCIS;
 - complete its work on leading the development of the national intelligence requirements for serious organised crime,

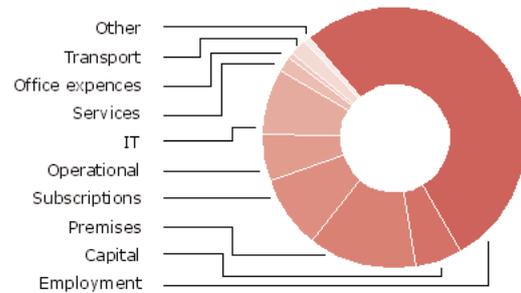
Financial Review

NCIS became a non-departmental public body on 1 April 2002. The Third year accounts as a non-departmental public body for the year ended 31 March 2005 report a small surplus for the year of £2.317m, and show decrease in net assets from £20.535m to £20.059m.

Full details are set out in the Statement of Accounts on Pages 26 to 43. A summary of income and how it has been funded together with a summary of expenditure under the different spends for 2004/05 is set out below.



NCIS Income 2004/05



NCIS Expenditure 2004/05

Peter Hampson

Peter Hampson CBE QPM LLB AKC
 Director General and Accounting Officer
 National Criminal Intelligence Service

14 July 2005

Foreword to the Statement of Accounts

Introduction

The National Criminal Intelligence Service (NCIS) was established as an independent organisation on 1 April 1998 by the Police Act 1997 (the Act). Prior to that date it operated as part of the Home Office.

The NCIS Service Authority was also created with effect from 1 April 1998, and it is the Service Authority that is the legal entity, as opposed to NCIS itself. This is the same as for a Police Force with regard to its Police Authority.

Up to 31 March 2002 NCIS was funded by a levy on the Police Authorities of England and Wales together with contributions from HM Customs and Excise (HMCE), the Scottish Home and Health Department and the Northern Ireland Office.

The Criminal Justice and Police Act 2001 amended the funding arrangements and re-designated NCIS as an Executive Non-Departmental Public Body (NDPB). Since 1 April 2002 NCIS has been financed primarily by Grant-in-aid from the Home Office, continued funding and support from HMCE, the Scottish Executive and the Police Service of Northern Ireland together with additional specific project funding from the Home Office, other government departments and similar bodies.

Section 21A of the Police Act 1997 requires the Service Authority to prepare a Statement of Accounts for each financial year in the form and on the basis directed by the Secretary of State, with the consent of the Treasury. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of NCIS at the year-end and of its income and expenditure, statement of total recognised gains and losses, and cash flows for the financial year.

Principal activities

NCIS exists to provide and develop quality criminal intelligence to combat serious and organised crime. Details of activities and operational performance during the year are set out in the body of the Annual Report. Performance against targets set by the Home Office and the Authority are set out in the Annual Report.

Results for the year and financial position

The accounts for the year ended 31 March 2005 report a surplus for the year of £2.317m (2003/04: £2.299m). Grant funding increased overall by £3.4m in 2004/05 to £95.482m (2003/04: £92.056m), as set out in Note 4 to the accounts. The additional funding from the Home office was used to fund activities that had previously received project funding. As set out in note 16 of the accounts, there has been a small decrease in Government Reserves / Net Assets in the year from £20.535m to £20.059m.

Changes in fixed assets

Details of changes in fixed assets are shown in notes 9 and 10 to the accounts. In particular:

- there was a £0.3m reduction in motor vehicles during the year as NCIS vehicle fleet was reduced;
- Assets under Construction for this year were £1.51m, this expenditure relates to the costs of a number of development projects;
- revaluation of fixed assets, resulted in a diminution in value of £3.03m, using the information provided by the Price Index Numbers for Current Cost Accounting published by the Office for National Statistics.

Service Authority Members

Service Authority Members are appointed under the Act for periods of up to 4 years. During the year ended 31 March 2005 the Authority Members were:

Member	Position	Appointed by	Date of changes
CORE MEMBERS			
Paul Lever	Chairman, Independent Member	Home Secretary	Chairman from 1 April 2004
Caroline Burton	Independent Member	Home Secretary	
Jennifer Harvey	Independent Member	Home Secretary	
Peter Storr	Director, Organised Crime, Home Office	Home Secretary	From 1 April 2004
Mike Elland	Director Law Enforcement, HM Customs and Excise	Commissioners for HM Customs & Excise	From 1 October 2004
Terry Byrne	Director Law Enforcement, HM Customs and Excise	Commissioners for HM Customs & Excise	To 30 September 2004
James Hart QPM	City of London Police	ACPO	
Councillor Bob Jones	Association of Police Authorities	Association of Police Authorities	
John Christensen	Association of Police Authorities	Association of Police Authorities	From 25 January 2005
NON-CORE MEMBERS			
■	Representative of the Security Service	Security Service	
Andrew Brown QPM	Chief Constable, Grampian Police	ACPOS	Until 30 September 2004
Ian Latimer	Chief Constable, Northern Constabulary	ACPOS	From 1 October 2004
Hugh Orde OBE	Chief Constable, Police Service of N.Ireland	Police Service of Northern Ireland.	

■ Details relating to the Representative of the Security Service have been excluded from the table for security reasons.

All members were appointed on 1 April 2002 unless otherwise specified.

Details of remuneration and expenses of members are disclosed in the Note 6d to the accounts.

Directors

During the year ended 31 March 2005 the Directors were:

Name	Current Position	Date of Appointments/Retirements in year
Peter Hampson	Director General	Director General from 22 March 2003
David Bolt	Deputy Director General and Director - Corporate Governance Division	Director from 1 April 2002
Neil Bailey	Director - Intelligence Services Division	Director from 1 Feb 2004
Keith Bristow	Director - UK Division and Human Resources	Appointed as Director of Human Resources from 19 July 2004, resigned on 3 April 2005
Ian Cruxton	Acting Director - UK Division	Acting Director from 19 July 2004
Nicholas Beard	Director - Resources Division	Director from 1 April 2002
Margaret Ashworth	Director - Finance and Administration Division	Director from 17 June 2003 to 31 March 2005
Robert Wainwright	Director - International Division	Director from 23 May 2003

Following on from Margaret Ashworth's departure, the current Director of Finance for the National Crime Squad and Director of Corporate Services Designate for Serious Organised Crime Agency, Malcolm Cornberg, was appointed as the Director of Finance for NCIS on the 27 April 2005.

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

Compliance with Public Sector Payment Policy

NCIS 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 2004/05, on average, 83.7% (2003/04: 77.5%) of invoices were paid within 30 days of receipt. NCIS monitors its statistics monthly with all departments, taking action as necessary.

During 2004/05, NCIS paid £2,971 (2003/04 £nil) interest to suppliers, under the Late Payment of Commercial Debts (Interest) Act 1998.

Environmental policy

NCIS is committed to reducing its impact on the environment by improving the environmental performance of its operations and its properties and endeavours to ensure that such improvement is continuous. NCIS also aims to educate, train and motivate staff to work in an environmentally responsible manner and to play a full part in developing new ideas and initiatives.

NCIS continues to improve its environmental performance as well as raising staff awareness of environmental issues.

Equality and diversity policy

NCIS is committed to providing a working environment in which people feel valued, respected and able to contribute fully to the success of the organisation. NCIS acknowledges and respects individual differences, enhancing success within NCIS by encouraging the creativity, innovation and productivity of all its employees.

NCIS will ensure that there is no unfair discrimination on the grounds of gender, marital status, race or ethnic origin, sexual orientation, gender reassignment, age, religious belief, physical or mental disability or any other unjustifiable criterion against any eligible person whether in recruitment, training, appraisal, promotion, career development, and allocation of duties or in any other way which affects the working relationships.

Staff involvement and development

NCIS has a range of formal and informal methods of communicating and consulting with staff. Knowledge

seminars provide for staff to be informed about developments in particular aspects of NCIS activities; the staff internal newspaper 'Sword' contains regular features on NCIS, and staff are involved in a variety of project boards and working parties. The intranet informs on a daily basis news items, policy documents, bulletin boards and social pages. It also provides a research basis for knowledge items.

Health, safety and security issues are communicated as part of the comprehensive staff induction programme and via publications on the intranet. The Health and Safety Committee meets on a quarterly basis to discuss health and safety issues and ensure that adequate health and safety arrangements are in place and implemented.

Post Balance Sheet events

Following on from the announcement by the Prime Minister in July 2003 to set up a new national crime agency "which could share intelligence, expertise and investigative talents", a White Paper, One Step Ahead: A 21st Century Strategy to Defeat Organised Crime, was published on 29 March 2004. The White Paper identified the Government's programme for the delivery of a Serious and Organised Crime Agency, (SOCA).

On 7 April 2005, the Serious Organised crime and Police Act 2005 received Royal Assent. The bill establishes SOCA from 1 April 2006 and also abolishes the National Criminal Intelligence Service Authority and National Crime Squad Service Authority with effect from a date to be agreed by the Secretary of State. The two agency structures and roles will be absorbed into the new agency, together with the part of HM Revenue and Customs which tackle drug trafficking and money laundering and the part of the UK Immigration Service which deals with organised immigration crime. SOCA will comprise approximately 4,500 staff, be intelligence led, and have as its core objective the reduction of harm caused to the UK by organised crime.

Looking ahead

NCIS has come a long way this year, both in terms of its own development and its impact on serious and organised crime. The benefits of ELEMENTARY, the recently developed national intelligence database system, will be fully realised in the coming year. Intelligence products of a consistently high quality have been passed to NCIS partners and clients in order to enhance their operational effectiveness. While NCIS continues to second police officers and staff from over 20 different agencies, there continues to be a steady increase in the proportion of directly employed staff.

The focus for the year ahead is to work towards the development of SOCA and ensure that NCIS is able to deliver outstanding performance supporting partners in the execution of the national strategies for tackling serious and organised crime. Further information about plans and objectives is set out in the Corporate Plan 2003 to 2006, incorporating the Service Plan for 2005/06 which is available from the NCIS website www.ncis.gov.uk.



Peter Hampson CBE QPM LLB AKC
Director General and Accounting Officer
National Criminal Intelligence Service

14 July 2005

Statement of the NCIS Service Authority's and Accounting Officer's Responsibilities

NCIS Service Authority's responsibilities

Under the Cabinet Office's guidance on Codes of Best Practice for Board Members of Public Bodies, the Service Authority is responsible for ensuring propriety in its use of public funds and for the proper accounting for their use. Under Section 21A of the Police Act 1997, the Service Authority is required 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 NCIS at the year end and of its income and expenditure, statement of total recognised gains and losses and cash flows for the financial year.

In preparing the accounts the Service Authority is required 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 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 NCIS will continue in operation.

The Accounting Officer's responsibilities

The Accounting Officer for the Home Office has appointed the Director General as the Accounting Officer for the NCIS Service Authority. His relevant responsibilities as Accounting Officer, including his responsibilities for the propriety and regularity of the public finances and for the keeping of proper records, are set out in the Non-Departmental Public Bodies' Accounting Officer Memorandum issued by the Treasury and published in Government Accounting.



Peter Hampson CBE QPM LLB AKC
Director General and Accounting Officer
National Criminal Intelligence Service

14 July 2005

Statement on Internal Control

Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the policies, aims and objectives for the National Criminal Intelligence Service (NCIS), including those set by the Home Office and the NCIS Service Authority, whilst safeguarding the public funds and the organisation's assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

My senior managers and I are involved in regular meetings to discuss strategic issues with stakeholders such as members of the NCIS Service Authority and at different levels in the Home Office which includes the Parliamentary Under-Secretary of State responsible for Tackling Drugs and Reducing Organised and International Crime and the Director General of Security, International and Organised Crime at the Home Office. We also meet regularly with partners to discuss and share risk issues both nationally and internationally and have made significant progress with other pre-cursor agencies and the Serious Organised Crime Agency (SOCA) Programme Team in the creation of the new Agency.

The purpose of the system of internal control

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 NCIS' 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. The system of internal control has been in place in NCIS for the year ended 31 March 2005 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Capacity to handle risk

My overall strategy for managing risks is set out in Section 3 of the NCIS Service Plan 2004/05. Some plans for development during this year were described in my previous statement on internal control and achieved in-year. The introduction of the Assistant Director level across the business has proved to be very successful and provides a key link at senior management level for risk, performance and financial management. We have

embedded a framework of reports and meetings at Director and Assistant Director levels which address:

- performance in support of strategic business objectives;
- impact assessments of outputs delivered, performance against budget;
- staffing issues e.g. changes to the Establishment List, compliance to Working Time Directive, vacancies, sickness;
- management of risk, compliance with the Self Inspection Programme and delivery against action plans agreed with external inspectors or internal auditors;
- progress of development schemes and milestones achieved;
- significant feedback/partnership issues; and
- risk assessment and opportunities for the future

My aim was to embed risk management in NCIS so that it becomes 'business as usual' on a day to day basis. The responses of my senior management team in our business discussions and reporting, suitably demonstrate this.

Risk Training remains an integral part of the corporate training programme and has been included regularly at key events scheduled for senior management such as the Assistant Directors' Forum. I have attended the joint NAO/Treasury conference on 'Managing Risks to Improve Public Services' and personally promulgated key messages to my senior management team at our monthly performance meetings. Best practice from the Home Office and other recommended sources have been built into the formal assessment, review and reporting processes.

The risk and control framework

Last year, my Directorate and I chose to carry out a Self Assessment using the Treasury tool (Risk Management Assessment Framework) for evaluating risk management processes. This is designed using the principles of the EFQM model and proved to be useful for NCIS as its key processes are mapped on the same basis. The outcome indicated that the processes were established and embedded. Some areas were highlighted for improvement and during the 2004/05 financial year, we continued to build on what was previously established. Significant improvements were made in the Human Resources area with the introduction of a comprehensive Personnel Manual and in Intelligence Management activities with the implementation of new Manuals of Guidance.

The embedded nature of risk management allows for risk appetite to be judged at key levels by the appropriate responsible managers within the control framework. These

occur, for example, at the strategic level by Directors (ongoing review of Corporate Risks); within business areas by Assistant Directors and within programmes and projects by respective managers. This is further supported by decisions taken by the Programme Management Board in light of the overall programme. In practice, key judgements are based on knowledge of the business and the resources that are in place to manage controls for each risk.

Risk identification and evaluation is designed into strategic and business planning and performance reporting. I review key risks collectively and individually with my Directorate. In response, some management actions are delegated to senior managers and for others, I take personal responsibility. I have recently introduced some changes in the organisation to allow for robust risk and change management which will be required in the next year leading up to SOCA.

During the Mid Year Review, I commissioned the 'Key Stakeholder Project' in order to understand the complexities around the relationships between NCIS and its numerous partners. The scope of the review was very extensive and it was agreed to initially 'dip sample' two police services. The report is now complete and has been circulated for consultation. The outcome of this will provide an action plan that will allow us to manage our partner relationships better and seek efficiencies in future from new arrangements under SOCA.

The Inspection Unit continues to feature as a significant provider of assurance within the NCIS Risk Management Framework and is responsible for monitoring and reporting against the Self Inspection Programme. At the beginning of the year, a change was implemented on the basis of significant improvements made over the last two years. Responsibility was transferred to Assistant Directors for monitoring and completion of the Self Inspection process and reporting on compliance in their monthly and quarterly reports.

Risk management is embedded within the business planning, performance reporting and decision-making processes with ownership established at both strategic and sector risk levels. The overall portfolio of risks is led by the Deputy Director General and Chair of the NCIS Executive Audit & Risk Committee with assistance from the Assistant Director Corporate Governance and Quality Management (Assurance) Unit.

The embedded nature of risk management or risk appetites allows for business exposure and tolerance levels to be judged at key levels by the appropriate management within the control framework. These occur, for example, at the strategic level by Directors (ongoing review of Corporate Risks); within business areas by Assistant Directors and within programmes and projects by respective managers. In practice, key judgements are based on knowledge of the business and the resources that are in place to manage controls for each risk.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers of NCIS, who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors and qualified consultants in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board and the NCIS Executive Audit & Risk Committee and plan to address weaknesses and ensure continuous improvement of the system is in place.

The outcome of my review provides the necessary input for me to submit an annual statement of assurance and report on NCIS to the Home Office each year. Additional stakeholder assurance is attained through quarterly reviews of the organisation's risks and risk management processes by the NCIS Service Authority Audit and Risk Management Committee.

My review this year is supported by an annual assurance statement and report on effectiveness from each Director. This also provides a position on residual risks and plans for addressing them.

This is further assured by the Head of Internal Audit (HIA), who, in his annual report and opinion, drew positive conclusions in relation to NCIS' risk management and corporate governance processes whilst drawing attention to some areas where improvements or changes had been required to control systems and processes during the course of the year. The HIA concluded, however, that none of the latter were of sufficient magnitude to warrant disclosure in this statement on internal control.

Transition to the Serious Organised Crime Agency

The Government gained Parliamentary approval in the Serious Organised Crime and Police Act 2005 for the creation of SOCA which will come into existence on the 1 April 2006. This will bring together NCIS, the NCS, HMRC's investigation and intelligence work on serious drug trafficking and recovering related criminal assets and the Immigration Service's work on organised immigration crime.

This process has commenced and one of the aims is to set up a shadow SOCA in 2005/06. This will pose a significant challenge with related risks to NCIS and other precursor agencies that will need to be managed. We have a joint work programme with the NCS and senior members of my staff and I are already engaged in a range of activities that are necessary to bring this merger about within the set timescale.

One of these activities is the joint procurement function which was recently subject to review by the Home Office Audit and Assurance Unit (AAU). They recognised that we continue to develop and strengthen our procurement controls and made several recommendations for improvement. These are largely implemented and will be reviewed again by the AAU in their follow up audit next year.



Peter Hampson CBE QPM LLB AKC
Director General and Accounting Officer
National Criminal Intelligence Service

14 July 2005

The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements on pages 26 to 43, under Section 21A of the Police Act 1997 (as amended by the Criminal Justice and Police Act 2001). These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets, and the accounting policies set out on pages 29 to 30.

Respective responsibilities of the NCIS Service Authority, the Accounting Officer and Auditor

As described on page 21, the Service Authority of the National Criminal Intelligence Service and Accounting Officer are responsible for the preparation of the financial statements in accordance with Section 21A of the Police Act 1997 (as amended by the Criminal Justice and Police Act 2001) and directions made thereunder and for ensuring the regularity of financial transactions. The Service Authority, the National Criminal Intelligence Service and the Accounting Officer are also responsible for the preparation of the other contents of the Annual Report. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with Section 21A of the Police Act 1997 (as amended by the Criminal Justice and Police Act 2001) and directions made thereunder, and 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. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Service has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I read the other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

I review whether the statement on pages 22 to 24 reflects the Service's compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also

includes an assessment of the significant estimates and judgements made by the Service Authority of the National Criminal Intelligence Service and the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Service'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 error, or by fraud or other irregularity 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 have also evaluated the overall adequacy of the presentation of information in the financial statements.

The maintenance and integrity of the NCIS's website is the responsibility of the Accounting Officer; the work carried out by the auditors does not involve consideration of these matters and accordingly the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

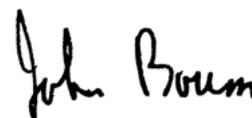
Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the National Criminal Intelligence Service at 31 March 2005 and of the surplus, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with Section 21A of the Police Act 1997 (as amended by the Criminal Justice and Police Act 2001) and directions made thereunder by the Secretary of State, with the consent of the Treasury; and
- 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.

I have no observations on these financial statements.

John Bourn



Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP
19 July 2005

Income and Expenditure Account

for the year ended 31 March 2005

		2004/05	2003/04
Income	Note	£'000	£'000
Grant-in-aid and other funding	4	95,482	92,056
Fees and charges		712	1,203
Rents and service charges		1,880	2,591
Other operating income	5	59	197
Total operating income		98,133	96,047
Expenditure			
Employment costs	6	(48,876)	(44,706)
Other operating costs	8	(38,524)	(39,109)
Depreciation and amortisation	9,10	(5,404)	(9,202)
Loss on asset revaluation	10,16	(3,713)	(815)
Notional cost of capital		(699)	(618)
Total expenditure		(97,216)	(94,450)
Operating surplus for the year		917	1,597
Notional cost of capital reversal		699	618
Interest and investment income		324	158
Tax on interest		177	(177)
Profit on sale of fixed assets		200	103
Retained surplus for the year	16	2,317	2,299

The results for the year all relate to continuing operations.

Statement of Total Recognised Gains and Losses

for the year ended 31 March 2005

		2004/05	2003/04
	Note	£'000	£'000
Retained surplus for the financial year		2,317	2,299
Actuarial losses on pension	7,16	(417)	(418)
Gain on asset revaluation		680	-
Realisation of asset revaluation		(102)	-
Total recognised gains for the financial year		2,478	1,881
Prior Year Adjustment	2	-	(220)
Statement of Accounts		2,478	1,661

The Notes on pages 29 to 43 form part of these Accounts.

Balance Sheet

at 31 March 2005

	Note	2004/05 £'000	2003/04 £'000
Fixed Assets			
Intangible fixed assets	9	2,285	3,096
Tangible fixed assets	10	17,255	19,952
		19,540	23,048
Current Assets			
Debtors and prepayments	11	11,596	11,178
Cash at bank and in hand	12	1,749	4,947
		13,345	16,125
Creditors: amounts falling due within one year	13	(8,828)	(14,375)
		4,517	1,750
Total Assets less Current Liabilities		24,057	24,798
Provisions for liabilities and charges	14	(500)	(447)
FRS17 Pension Liability	7	(3,498)	(3,816)
		20,059	20,535
Capital and Reserves			
Income and Expenditure Reserve	16	868	(1,849)
Pension Reserve	16	(247)	(664)
Government Grant Reserve	16	19,438	23,048
		20,059	20,535

The Notes on pages 29 to 43 form part of these Accounts.



Peter Hampson CBE QPM LLB AKC
Director General and Accounting Officer
National Criminal Intelligence Service

14 July 2005

Cash Flow Statement

for the year ended 31 March 2005

		2004/05	2003/04
Net cash (outflow)/inflow from operating activities	Note 17a	£'000 (1,289)	£'000 1,275
Returns on investments and servicing of finance			
Interest and investment income received		324	158
Capital expenditure and financial investment	17b	(7,445)	(14,436)
Net cash outflow before use of liquid resources and financing		(8,410)	(13,003)
Financing			
Grant-in-aid and other funding for capital expenditure	4	5,212	12,942
Decrease in cash	17c	(3,198)	(61)

The Notes on pages 29 to 43 form part of these Accounts.

Notes to the Accounts

for the year ended 31 March 2005

1 Accounting policies

1 a) Basis of preparation

The statement of accounts set out on pages 26 to 28, together with the notes on pages 29 to 43, have 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 Section 21A of the Act.

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 NCIS 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; and
- the requirements of the Accounts' Direction and the Financial Memorandum issued to NCIS by the Secretary of State for the Home Office.

1 b) Grant-in-aid and income recognition

Grant-in-aid and other contributions received for revenue expenditure on core activities are credited to income in the year to which they relate. Grant-in-aid is recognised only to the extent that it is within the limit set for the year by the Home Office and on the basis of payments made in the year that qualify for grant support rather than on accrued expenditure.

Grant-in-aid for capital expenditure is credited to a Government Grant Reserve. Each year an amount equal to the depreciation and amortisation charge on fixed assets

acquired through Grant-in-aid and any deficit on their revaluation in excess of the balance on any Revaluation Reserve, will be released from the Government Grant Reserve to the Income and Expenditure Reserve.

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 a new reserve - the Pensions Reserve.

1 d) Fixed Assets

Expenditure 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 the organisation for a period of more than one year.

Intangible and tangible assets are capitalised when the purchase price per item exceeds £6,000. In addition, expenditure on IT assets and leasehold improvements is capitalised if the cost of similar items grouped by invoice or project exceeds £10,000.

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
Improvements to leasehold buildings	duration of lease or anticipated useful life of improvements, subject to maximum period of 10 years
Motor vehicles	3 - 5 years
Plant and equipment	5 years
Furniture and fittings	5 years
IT equipment and software	3 - 5 years
Intangible fixed assets - IT licences	3 - 5 years

A full year's depreciation or amortisation is provided in the year of acquisition or first use. No depreciation or amortisation is provided in the year of disposal. No depreciation is provided on Assets under Construction until the first financial year they are brought into use.

1 f) Revaluation

Where any revaluation is considered to be material to the accounts, fixed assets are revalued at current replacement cost by using the Price Index Numbers for Current Cost Accounting published by the Office for National Statistics. Any surplus on revaluation relating to assets funded by Government Grant is credited to the Government Grant Reserve. A deficit on revaluation is debited to the Income and Expenditure Account if the deficit exceeds the balance on the Government Grant Reserve.

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, where an average rate for the period is used.

Monetary assets and liabilities denominated in foreign currency at the balance sheet date are translated at the rates ruling at that date, or if appropriate, at the contracted rate. Any translation differences arising are dealt with in 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

NCIS 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 identified as income.

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. In accordance with Treasury guidance the notional charge should be credited back to the Income and Expenditure Account before determining the surplus or deficit for the year.

1 k) 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 senior ACPO 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 NCIS, 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 l) Value Added Tax

NCIS is registered for VAT but can only recover a small proportion of VAT on purchases calculated by reference to certain taxable supplies such as training. Income is shown net of any VAT and expenditure and fixed asset additions are shown inclusive of any irrecoverable input tax.

2 Prior year adjustments

There are no prior year adjustments for 2004/05.

3 Financial targets

NCIS had a 3% efficiency target for the year ended 31 March 2005 which NCIS met.

4 Grant-in-aid and other funding

	2004/05	2003/04
	£'000	£'000
Home Office Grant-in-aid	76,571	72,137
Scottish Executive contribution	5,496	5,496
Northern Ireland contribution	1,316	1,207
HM Customs and Excise contribution	730	793
Other Home Office funding	15	238
Grants and funding receivable for Externally Funded Projects (Note 15)	7,603	14,622
	91,731	94,493
Transfer to deferred income (Note 15)	(7,603)	(14,622)
Released from deferred income (Note 15)	7,649	15,213
Transfer to Government Grant Reserve for fixed asset additions (Note 16)	(5,212)	(12,942)
Transfer from Government Grant Reserve for depreciation and disposals (Note 16)	5,204	9,099
Transfer from Government Grant Reserve for asset devaluation (Note 16)	3,713	815
Total	95,482	92,056

5 Other operating income

	2004/05	2003/04
	£'000	£'000
Other income	59	197
Total	59	197

6 Employment costs

(a) Analysis

	2004/05	2003/04
	£'000	£'000
Salaries and emoluments	36,906	34,288
Social security costs	2,885	2,663
Other pension costs	5,167	2,765
Indirect employee expenses	3,918	4,990
Total	48,876	44,706

(b) Staff numbers

Staff numbers including staff seconded in:

	2004/05	2003/04
	No.	No.
Service Authority	4	4
Corporate Governance Division	70	94
Intelligence Services Division	230	250
International Division	221	201
Resources Division	24	52
United Kingdom Division	445	466
Finance and Administration Division	20	36
Total	1,014	1,103

During the year NCIS restructured internally and the information including last year's comparatives have been shown using the revised divisional structure. The figures for both years are shown as at 31 March, a close approximation to the yearly average, agreed to NCIS records, with the comparatives for the previous year reinstated using a weighted average approach.

In addition to the above directly employed, NCIS had an average of 124 attached staff during 2004/05 (2003/04: 102) from other organisations which are excluded from the above figures as they do not form part of NCIS establishment. NCIS is not charged for the attached staffs that are considered to be working for the benefit of their employers. It is estimated that the cost of employing the attached staff to NCIS in 2004/05 would have been £4.0m.

(c) Directors' remuneration and service contracts

Directors are appointed through open and fair competition; such appointments are sometimes filled by means of fixed term secondments from other organisations.

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

(d) Service Authority

The annual allowances received by Service Authority members during the year were as follows:

	2004/05 £'000	2003/04 £'000
Core Members		
Paul Lever - Chairman	29	12
Caroline Burton	5	5
Jennifer Harvey	5	5
Councillor Bob Jones	5	5
John Christensen	1	0
Peter Storr	0	0
Mike Elland	0	0
James Hart QPM	0	0
Terry Byrne	0	0
Non-Core Members		
■ Representative of the Security Service	0	0
Andrew Brown QPM	0	0
Hugh Orde OBE	0	0
Ian Latimer	0	0

■ Details relating to the Representative of the Security Service has been excluded from the table for security reasons.

The above core members are also members of the National Crime Squad Service Authority and the allowances disclosed above cover duties for the NCIS Service Authority. In addition to the above annual allowances, members are reimbursed business expenses relating to Service Authority matters.

No pension or other benefits are provided for members.

7 Pension benefits

(a) Principal Civil Service Pension Scheme (PCSPS)

Prior to 1 April 2002 a number of NCIS staff who had transferred from the Home Office on 1 April 1998, or who were on secondment from the Home Office, had the option of remaining with the PCSPS. During 2002-2003 financial year because of the change to NDPB status the majority of directly employed staff in the Local Government Pension Scheme (LGPS) chose to transfer to the PCSPS. The transfer of members was finalised on 1 August 2002.

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

For 2004/05 employer contributions of £3.372m (2003/04 £2.529m) were payable to PCSPS at one of four rates in the range between 12% and 18.5% of pensionable pay, based on salary bands. The Government Actuary reviews employer contributions every four years following a full scheme valuation. Rates have remained at 2003/04 levels, subject to revalorisation of the salary bands, but will increase in 2005/06. 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

2004/05 no contributions were payable to PCSPS in respect of these benefits.

Employees joining after 1 October 2002 could opt to open a partnership pension account, a stakeholder pension with an employer contribution (as below).

(b) Partnership and stakeholder schemes

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 3% of pensionable pay. During 2004/05 NCIS paid employer contributions of £0.034m (2003/04 £0.016m) to stakeholder pension providers.

(c) Local Government Pension Scheme (LGPS)

As highlighted above the majority of members of the LGPS transferred to the PCSPS on 1 August 2002. Eight 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 NCIS employees participate in a fund managed by the London Pensions Fund Authority (LPFA).

In order to comply with the Executive Non-Departmental Public Bodies: Annual Report and Accounts Guidance, NCIS 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 2005 showing assets of £0.4m (2003/04 scheme liabilities of £0.1m), this figure is reflected on the balance sheet.

The net scheme assets at 31 March:	2004/05	2003/04
	£'000	£'000
Present value of Liabilities	(1,200)	(1,000)
Present value of Assets	1,600	900
Net pension asset/(liability)	400	(100)
Balance Sheet Pension Reserve	247	664
Surplus/(Loss) in Balance Sheet	647	554

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

The net scheme assets at 31 March:	2004/05	2003/04
	%	%
Inflation assumption	2.9	2.9
Rate of salaries increase	4.4	4.4
Rate of pensions increase	2.9	2.9
Discount rate	5.4	6.5

During 2004/05 employer contributions of £0.024m (2003/04 £0.036m) were paid to the LPFA at 12.1% of pensionable pay (2003/04 12.1%). 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 2005.

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	31 March 2005 £000	Expected rate of return at 31 March 2005	31 March 2004 £000	Expected rate of return at 31 March 2004
Equities	1,260	7.7%	740	7.7%
Bonds	170	4.8%	110	5.1%
Property	110	5.7%	30	6.5%
Cash	60	4.8%	20	4.0%
Total	1,600	7.1%	900	7.3%

History of experience gains and losses

	2004/05	2003/04
	£'000	£'000
Difference between the expected and actual return on assets		
Amount	44	114
Percentage of assets	2.8%	12.7%
Experience Gains/(Losses) on Liabilities		
Amount	685	(10)
Percentage of the total value of liabilities	58.6%	1.0%
Total amount recognised in statement of total recognised gains and losses		
Amount	495	104
Percentage of the total value of liabilities	42.4%	10.5%

(d) ACPO Members

The Authority maintains a defined benefit pension scheme for Directors or former Directors of ACPO rank. The benefits provided are identical to those they would have received had they remained with a police force. During the officers’ period of employment with NCIS they have continued to accrue pensionable service as if they were still serving police officers. NCIS has also assumed liability for payment of pension benefits in respect of past service with a police force, although under ACPO pension scheme arrangements no funds are transferred from the former employer in respect of this assumed liability. The scheme is unfunded and cash requirements will be met from future Home Office funding as lump sum and pension payments fall due.

7 Pension benefits

The Government Actuaries Department has calculated the present value of the scheme liabilities as at 31 March 2005 as £3.898m (2003/04 £3.716m). The liabilities are valued on an actuarial basis using the Projected Unit method. The scheme is an unfunded scheme with no assets and no payment of employers contribution is made. In accordance with the requirements of Executive Non-Departmental Public Bodies: Annual Report and Accounts Guidance published by HM Treasury, full provision for this liability is reflected in the balance sheet based on the assumptions and information set out below.

Main assumptions		2004/05	2003/04
		% pa	% pa
Inflation assumption		2.5	2.5
Rate of increase in salaries		4.0	4.0
Rate of increase in pensions		2.5	2.5
Rate of discounting scheme liabilities		6.1	6.1

Actuarial gains and losses for year	% of liability	2004/05	2003/04
		£’000	£’000
Experience gains/(losses)	1.4	55	(3)
Effect of changes in demographic and financial assumptions	(3.4)	(133)	(519)
Total actuarial (losses)	(2.0)	(78)	(522)

(e) Other police officers

All other police officers are currently seconded to NCIS and their seconding forces remain responsible for their pensions. No charge or provision is included in these accounts in respect of these officers as it is considered unlikely that NCIS would be liable to fund any retirement benefits.

(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

	2004/05			2003/04 Total
	ACPO	LGPS	Total	ACPO/LGPS
	£'000	£'000	£'000	£'000
Operating cost:				
Current service cost (For ACPO, net of employee contribution)	28	29	57	36
Finance cost:				
Interest on pension liabilities	223	55	278	275
Expected return of Employer Assets	-	(65)	(65)	(53)
Net Return	251	19	270	258
Actuarial gain/(loss)				
Experience loss on pension liabilities	55	685	740	532
Actuarial Return Less Expected Return on Scheme Assets	-	44	44	(114)
Changes in demographic & financial assumptions	(133)	(234)	(367)	-
Total Actuarial Gain/(Loss) charged to Pension Reserve (78)		495	417	418

Movement in the provision during the year

	2004/05			2003/04 Total
	ACPO	LGPS	Total	ACPO/LGPS
	£'000	£'000	£'000	£'000
Net liabilities at start of year	3,716	100	3816	3,502
Current service cost	38	29	67	36
Pensions paid in the year	(157)	-	(157)	(335)
Employers contribution	-	(24)	(24)	(27)
Impacts of settlement and curtailments	-	-	-	-
Net finance charge	223	(10)	213	222
Actuarial loss	78	(495)	(417)	418
Net liabilities at end of year	3,898	(400)	3,498	3,816

The LGPS to PCSPS transfer provision is based upon an actuarial assessment of the shortfall in assets in the LGPS scheme compared to the transfer value needed to match the accrued retirement benefits of staff in the LGPS transferring to the PCSPS. The transfer of assets, and the shortfall payment, is expected to take place during 2005/06.

to the PCSPS. The transfer of employees was completed in 1 August 2002 with 95.7% of LGPS members transferring to the PCSPS. To March 2005 NCIS has paid £2.5m to the PCSPS and provided a provision of £0.5m on account of the funding shortfall upon transfer, anticipating that the exact cost of the transfer will be finalised in 2005/06.

As a result of the change to NDPB status on 1 April 2002, staff who were members of the LGPS were invited to transfer

8 Other operating costs

	2004/05	2003/04
	£'000	£'000
Premises costs	12,271	11,435
Transport costs	1,795	2,259
Office expenses	669	1,188
Operational and communication costs	5,321	7,074
IT expenses	7,473	5,668
Europol subscription	6,193	6,132
Interpol subscription	1,536	1,127
Other operating subscriptions	505	663
Internal audit fee	100	88
External audit fee	90	51
Other agency and contracted services	1,607	2,082
Foreign exchange (gain) / loss	(4)	(9)
Conference set up and running costs	157	600
General expenses	811	751
	38,524	39,109

9 Intangible fixed assets

	Purchased software
	£'000
Cost	
at 31 March 2004	4,669
Additions	317
Disposals	-
Transfers	72
at 31 March 2005	5,058
Amortisation	
at 31 March 2004	1,573
Charge for year	1,200
Disposals	-
Transfers	-
at 31 March 2005	2,773
Net Book Value	
at 31 March 2005	2,285
at 31 March 2004	3,096

10 Tangible fixed assets

	Improvements to leasehold buildings	Motor vehicles	Plant & equipment	IT Assets	Payments on account & assets under construction	Total
Cost	£'000	£'000	£'000	£'000	£'000	£'000
at 31 March 2004	6,587	2,952	949	27,148	1,055	38,691
Additions	437	112	121	2,711	1,514	4,895
Disposals	(118)	(915)	-	(497)	-	(1,530)
Revaluation	572	92	6	(3,703)	-	(3,033)
Transfers	773	28	-	181	(1,055)	(73)
at 31 March 2005	8,251	2,269	1,076	25,840	1,514	38,950
Depreciation						
at 31 March 2004	1,719	1,843	439	14,738	-	18,739
Charge for year	1,139	428	199	2,438	-	4,204
Disposals	(118)	(819)	-	(497)	-	(1,434)
Revaluation	134	48	4	-	-	186
Transfers	-	-	-	-	-	-
at 31 March 2005	2,874	1,500	642	16,679	-	21,695
Net book value at 31 March 2005	5,377	769	434	9,161	1,514	17,255
at 31 March 2004	4,868	1,109	510	12,410	1,055	19,952

11 Debtors and prepayments

(a) Amounts falling due within one year

	2004/05 £'000	2003/04 £'000
Trade debtors	1,908	2,080
Deposits and advances	228	240
VAT repayment due	51	76
Prepayments	8,498	7,624
Accrued income	911	1,158
	11,596	11,178

(b) Intra-government Balances

	2004/05 £'000	2003/04 £'000
Balances with central government bodies	2,406	3,164
Balances with police authorities	57	117
Balances with local authorities	4	-
Subtotal: intra-government balances	2,467	3,281
Balances with bodies external to government	9,129	7,897
Total Debtors at 31 March 2005	11,596	11,178

12 Cash at bank and in hand

Cash at bank includes £nil (2003/04:£3.950m) monies held on overnight money market deposits with NCIS bankers.

13 Creditors

	2004/05	2003/04
(a) Amounts falling due within one year	£'000	£'000
Taxation and social security	852	663
Trade creditors	2,021	5,148
Home office	-	1,495
Other creditors	11	25
Accruals and deferred income	5,944	7,044
Total	8,828	14,375
	2004/05	2003/04
	£'000	£'000
(b) Intra-government Balances		
Balances with central government bodies	2,273	4,668
Balances with police authorities	768	874
Balances with local authorities	29	70
Subtotal: intra-government balance	3,070	5,612
Balances with bodies external to government	5,758	8,763
Total	8,828	14,375

14 Provisions

(a) Provision for liabilities and charges

	Balance at 31 March 2004	Actuarial losses	Net charges for the year	Balance at 31 March 2005
	£'000	£'000	£'000	£'000
Other provisions	447	-	53	500
	447	-	53	500

As explained further in note 7(f), the provision for liability and charges of £0.5m represents the funding shortfall upon the 2002/03 Bulk Pension transfer, the exact cost of the transfer will be finalised in 2005/06. The provisions figure of £0.447m brought forward from 2003/04, relates to tax on interest and special payments. These provisions have been fully utilised this year.

15 Deferred income

External Project Funding	Balance at 31 March 2004	Receivable in year	Release to I&E Account	Balance at 31 March 2005 *
	£'000	£'000	£'000	£'000
Home Office External Project Funding				
CIDA Contingency	-	110	(110)	-
ECU Secure Unit	-	463	(463)	-
Firearms Crime Intelligence	-	166	(166)	-
Firearms Crime Secretariat	-	135	(135)	-
Football Banning Authority	-	169	(169)	-
INDIS	-	804	(804)	-
Organised Immigration Crime - INDIS	-	18	(18)	-
Organised Immigration Crime - SR2002	-	1,270	(1,270)	-
Organised Vehicle Crime	-	479	(479)	-
Schengen	-	-	-	-
Sirene	-	2,283	(2,283)	-
	-	5,897	(5,897)	-
Other external project funding				
CENTREX - National Intelligence Model	-	477	(465)	12
DEFRA	84	120	(152)	52
DFID	8	101	(109)	-
EU	71	7	(36)	42
F&CO	-	312	(301)	11
NCS	-	527	(527)	-
RART - Individual Police Forces	-	162	(162)	-
	163	7,603	(7,649)	117

* The balance of £0.117m on Externally Funded Projects is included in the deferred income for DEFRA (£0.052m) and the balance (£0.065m) in accruals detailed in Creditors (note 13).

16 Reserves

	Income & Expenditure Reserve £'000	Pension Reserve £'000	Government Grant Reserve £'000	Total £'000
At 1 April 2004	(1,849)	(664)	23,048	20,535
Retained surplus for the year	2,317	-	-	2,317
Actuarial losses on pension (ACPO)	-	(78)	-	(78)
Actuarial gains on pension (LGPS)	-	495	-	495
Purchase of fixed assets	-	-	5,212	5,212
Release for depreciation	-	-	(5,404)	(5,404)
Release for backlog depreciation	-	-	(185)	(185)
Release for asset revaluation	-	-	(3,713)	(3,713)
Gain on asset revaluation	-	-	680	680
Realisation of asset revaluation	102	-	(102)	-
Gain on asset disposals	-	-	200	200
Proceeds of asset disposals	298	-	(298)	-
At 31 March 2005	868	(247)	19,438	20,059

The Pension Reserve balance of £0.247m arises from actuarial gains and losses on ACPO and LGPS pension schemes calculated on implementation of FRS17 (see note 7).

17 Notes to cash flow statement

(a) Reconciliation of operating deficit for year to net cash inflow from operating activities

	2004/05	2003/04
	£'000	£'000
Operating surplus for year	917	1,597
Depreciation	5,404	9,202
Loss on asset revaluation	3,713	815
Transfer from Government Grant Reserve for depreciation and disposals	(8,917)	(9,914)
Notional cost of capital	699	618
Actuarial (gains) and losses on pension	417	(418)
Tax payable	177	(177)
(Increase)/Decrease in debtors and prepayments	(418)	296
(Decrease)/Increase in creditors (excl. fixed asset creditors)	(3,016)	1,189
(Decrease) in deferred income	-	(2,694)
(Decrease)/Increase in provisions for liabilities and charges	(265)	761
Cash (outflow)/inflow from operating activities	(1,289)	1,275

(b) Capital expenditure and financial investment

	2004/05	2003/04
	£'000	£'000
Purchase of fixed assets	(5,212)	(12,942)
(Decrease) in fixed asset creditors	(2,531)	(1,742)
Sale proceeds of fixed assets	298	248
Net cash outflow	(7,445)	(14,436)

(c) Analysis of movement in cash

	2004/05	2003/04
	£'000	£'000
Opening balance - cash at bank and in hand	4,947	5,008
Movement for the year	(3,198)	(61)
Closing balance - cash at bank and in hand	1,749	4,947

18 Capital commitments

	2004/05	2003/04
	£'000	£'000
Capital expenditure contracted but not provided for in these accounts	500	608
Capital expenditure authorised but not contracted for	735	-
Total	1,235	608

19 Operating leases

(a) Charge for year

Operating expenditure includes £8.066m (2003/04 £8.312m) in respect of rental of land and buildings.

(b) Annual commitment

NCIS is committed to pay the following operating lease rentals during the next financial year:

Land and buildings	2004/05	2003/04
On leases expiring:		
	£'000	£'000
Within 1 year	-	-
Between 2 and 5 years	2,548	2,674
Over 5 years	7,396	7,655
Total	9,944	10,329

20 Related party transactions

The Home Office and related bodies, HMCE, the Scottish Executive and the Northern Ireland administration are related parties to NCIS. During the year ended 31 March 2004, these bodies provided NCIS with Grant-in-aid and other funding (see Note 4) including External Project Funding (see Note 15).

During the year ended 31 March 2005 none of the Directors or Authority Members, or parties related to them, entered into any transactions with NCIS.

21 Contingent liabilities

21 a) Lease dilapidations

NCIS 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 obligate NCIS to incur further expenditure on returning these premises to their pre-occupation condition.

The costs to NCIS on vacation of leased premises have been estimated as £2.735m (2003/04 £2.474m). 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 NCIS and the costs of redecoration. This potential liability is currently estimated to fall due as follows:

Year ended 31 March:	£'000
2006	-
2007	38
2010	897
2011	31
2015	383
2016	328
2017	78
2019	54
2025	926
	2,735

21 b) Outstanding pension transfer payment

As highlighted in Note 7 (f), a payment of £1.4m was made to the PCSPS in March 2003 and a further payment of £1.1m was made in March 2005 on account of the deficit arising upon transfer of employees from the LGPS in 2002/03. Following on from the payments of £2.5m made, the LPFA communicated to NCIS in May 2005 that a further sum of £0.5m is due. Although the bulk transfer is still awaiting agreement of the final figures, on advice from the Government Actuary Department (GAD), NCIS has made a provision in this years accounts for the anticipated shortfall of £0.5m. It is expected that the transfer value will now be finalised during 2005/06.

21 c) Litigation costs

NCIS has a small number of claims from employees and suppliers that may result in compensation payments to be made on settlement. It is unlikely that the cost to NCIS of these actions will exceed £0.075m.

22 Post balance sheet events - Serious Organised Crime Agency

Following on from the announcement by the Prime Minister in July 2003 to set up a new national crime agency "which could share intelligence, expertise and investigative talents", a White Paper, One Step Ahead: A 21st Century Strategy to Defeat Organised Crime, was published on 29 March 2004. The White Paper identified the Government's programme for the delivery of a Serious and Organised Crime Agency, (SOCA).

On 7 April 2005 the Serious Organised crime and Police Act 2005 received Royal Assent. The bill establishes SOCA from 1 April 2006 and also abolishes the National Criminal Intelligence Service and National Crime Squad with effect from a date to be agreed by the Secretary of State. The two agencies structures and roles will be absorbed into the new agency, together with the part of HM Revenue and Customs which tackle drug trafficking and money laundering and the part of the UK Immigration Service which deals with organised immigration crime. SOCA will comprise approximately 4,500 staff, be intelligence led, and have as its core objective the reduction of harm caused to the UK by organised crime.

23 Losses and special payments

NCIS made four special payments during the year that totalled under £0.116m.

24 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, NCIS 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 NCIS 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 NCIS 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 NCIS manages on a monthly basis. NCIS is therefore exposed to a liquidity risk which is managed through projected cash flow forecasts and monthly meetings with Home Office.

Interest rate risk

NCIS does not have any borrowings which may be exposed to interest rate risk. Cash at bank and in hand at 31 March 2005 is primarily held within current accounts at UK commercial banks.

Currency rate risk

All financial assets and liabilities held by NCIS 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 NCIS operations and risk hedging activities are therefore not considered to be worthwhile.

Glossary of abbreviations

ACPO	Association of Chief Police Officers
CIA	Current Intelligence Assessments
CIDA	Concerted Inter-agency Drugs Action Group
CICFA	Concerted Inter-agency Criminal Financial Assets Group
DEFRA	Department for Environment, Food and Rural Affairs
FATF	Financial Action Task Force
FRS	Financial Reporting Standard
FCIS	Firearms Crime Intelligence Section
HMRC	Her Majesty's Revenue and Customs (formerly HM Customs and Excise)
IOI	International Organised Immigration (Division)
ITOC	International Terrorism and Organised Crime Group
LGPS	Local Government Pension Scheme
LPFA	London Pension Funds Authority
NAO	National Audit Office
NCIS	National Criminal Intelligence Service
NFFID	National Firearms Forensic Intelligence Database
NIM	National Intelligence Model
NWCIU	National Wildlife Crime Intelligence Unit
PCSPS	Principle Civil Service Pension Scheme
POCA	Proceeds of Crime Act
RART	Regional Asset Recovery Team
RIPA	Regulation of Investigatory Powers Act
SAR	Suspicious Activity Report
SCUF	Strategic Criminal Use of Firearms
SFI	Financial Intelligence
SOCA	Serious Organised Crime Agency
UKTA	United Kingdom Threat Assessment
TTCG	Tactical Tasking and Coordination Group
ZTA	Zonal Threat Assessment

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