

**Serious Organised Crime Agency
Statement of Accounts
2008-2009**

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

Serious Organised Crime Agency Accounts 2008-2009

(For the year ended 31 March 2009)

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Annual Report

The Serious Organised Crime Agency's (SOCA) third Annual Report, as required under Part 1, Chapter 1, Section 7 of the Serious Organised Crime and Police Act 2005 (SOCPA), was published on 14 May 2009. It reported on the exercise of SOCA's functions during 2008-09, describing:

- activity undertaken to deliver actions envisaged in SOCA's Annual Plan 2008-09;
- work to achieve each of SOCA's strategic imperatives, the overarching and linked priorities set by SOCA's Board which guided its work during the year;
- the work with partners to co-ordinate overall efforts against organised crime and to support their wider crime-fighting responsibilities; and
- the exercise of SOCA functions in Scotland and Northern Ireland.

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

Management Commentary

Statutory Background

SOCA assumed its statutory functions on 1 April 2006. It brought together staff from the National Crime Squad (NCS) and the National Criminal Intelligence Service (NCIS), staff and resources from HM Revenue and Customs (HMRC) to support the transfer to SOCA of certain work on drug trafficking and associated criminal finance, and some of those dealing with organised immigration crime in the UK Immigration Service. SOCA has added to this a number of individuals with other backgrounds to widen the skills available. The NCS and NCIS ceased to exist on 31 March 2006. On 1 April 2008 the Asset Recovery Agency (ARA) merged with SOCA and this merger resulted in new civil recovery arrangements within SOCA. ARA ceased to exist on 31 March 2008.

New powers to address organised crime provided by the Serious Crime Act 2007 have enabled SOCA staff to work with prosecutors and use Serious Crime Prevention Orders (SCPOs). These powerful orders, which may be obtained by the prosecutors after conviction or without prosecution through the High Court, have enhanced SOCA's operational capability in law enforcement. SOCA believes these Orders will come to provide a valuable tool for all who work against organised criminal conspiracies.

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

Statement of Purpose and Vision

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

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

Principal activities

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

SOCA's approach continued this year to reflect not only its founding legislation and the White Paper One Step Ahead which preceded it, but also the strategic tasking letters provided to the Agency by the Home Secretary. Key features of that tasking, which required the new agency to organise itself and, in some measure, to operate differently from the organisations it replaced, were:

- the requirement to increase effort on organised immigration crime. This could only be delivered through transferring some effort from drugs work;
- the decision to measure SOCA's effectiveness in part through its success in "the dislocation of criminal markets";
- the requirement to improve the intelligence base on organised crime and thus "to devote a higher proportion of its resources and activity to intelligence than the precursor agencies", and
- the need to focus in particular on recovering the proceeds of crime.

The main features of SOCA's approach in response to these requirements remained:

- the preparation of the United Kingdom Threat Assessment (UKTA) which drew together, from operational partners across the UK, the best judgements that could be made about the nature, scale and impact of organised crime against the UK;
- the preparation of an annually revised National Intelligence Requirement (NIR) for organised crime which set out for the benefit of all agencies involved what information was needed in relation to each of the threats to enable them to be tackled more effectively;
- the operation of the UK Organised Crime Control Strategy (the Control Strategy) which provided a framework for a coordinated and concerted response by all relevant UK agencies and departments to the problems described in the UKTA. The strategy was delivered through 16 multi-agency Programmes of Activity. Governance for this work was provided by programme leaders from appropriate agencies across the UK and a SOCA chaired Senior Assurance Group with members from 22 departments and agencies;
- internal tasking and co-ordination arrangements, based on SOCA's developing understanding of organised crime problems that affect the UK, designed to ensure that SOCA's operational work was planned both in accordance with the priorities set by the Home Secretary and to ensure that finite resources were focused where they could have most effect;
- attention to organised crime markets, focused on identifying and exploiting the vulnerabilities in the criminals' operations wherever they might be;
- as envisaged in SOCA's legislation, the sharing of intelligence reporting and assessments with those elsewhere in law enforcement and in Government who were in a position to use the information to respond effectively to criminal problems;
- support for law enforcement partners across the UK where SOCA held national capabilities or provided gateways to international networks, or had liaison officers in place to facilitate engagement with foreign law enforcement agencies, and
- the identification and use of additional tools to those provided by the criminal law to make it more difficult for organised criminals to perpetrate crimes that damage this country and to profit from their criminality.

This work was delivered through SOCA departments with staff based in 49 locations in the UK and 42 countries overseas. On 1 January 2009, a snapshot of staff deployments showed that just under 70% of SOCA staff were then deployed on criminal and civil justice casework, on covert collection capabilities such as interception,

eavesdropping, surveillance and human source intelligence that supported it, and on the assistance to others at home and overseas with their casework.

Results for the year and financial position

The results for the year show that SOCA had net annual expenditure of £477.2m detailed in its Income and Expenditure account, for which the delegated budget for 2008-09 was £421.5m for Resource (inclusive of non cash funding) and £53.2m for Capital. Cash Grant-in-Aid received during the year totalled £461.7m.

With additional Home Office approvals a net overspend of £0.5m against funding is reported below, after allowing for FRS17 actuarial expenditure of £34.9m on Police Pension schemes.

| | Total | Capital | Resource |
|--|--------------|----------------|-----------------|
| | £m | £m | £m |
| Budgets and Approvals | | | |
| Delegated Expenditure Limit (DEL) | 474.7 | 53.2 | 421.5 |
| Additional Home Office Approval for capital / non cash expenditure | 11.0 | 2.0 | 9.0 |
| Additional Home Office Approvals re FRS17 Expenditure | 34.9 | - | 34.9 |
| | 520.6 | 55.2 | 465.4 |
| Expenditure | | | |
| Net Expenditure as in Income and Expenditure Account | 477.2 | - | 477.2 |
| Notional Cost of Capital credit agreed as part of DEL | (11.6) | - | (11.6) |
| Net Capital Expenditure as in Cash Flow Statement | 55.5 | 55.5 | - |
| | 521.1 | 55.5 | 465.6 |
| Agreed overspend Against Funding Available | 0.5 | 0.3 | 0.2 |

Going Concern Statement

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

The balance sheet at 31 March 2009 shows net liabilities of £284m. This reflects the inclusion of pension liabilities falling due in future years which, to the extent that they are not to be met from SOCA's other sources of income, may only be met by future grants or grants-in-aid from the Home Office, SOCA's sponsoring department. This is because, under the normal conventions applying to parliamentary control over income and expenditure, such grants may not be issued in advance of need.

Grants and Grant-in-Aid for 2009-10, taking into account the amounts required to meet SOCA's liabilities falling due in that year, have already been included in the Home Office's Estimates for that year. These have been approved by Parliament and there is no reason to believe that the Home Office's future sponsorship and future parliamentary approval will not be forthcoming. It has, therefore, been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

Financial Instruments

Due to the largely non-trading nature of its activities and the way in which it is financed, SOCA is not exposed to the degree of financial risk faced by commercial entities. Further information in respect to risk management and strategy is clarified in Note 27.

Remuneration of the External Auditors

The remuneration for NAO is disclosed in Note 8 of the accounts totalling £142k. Included in this amount, there is a charge of £7k towards IFRS related audit work.

Compliance with Public Sector Payment Policy

SOCA policy, in line with Government requirements, is to pay all invoices within 30 days of receipt, unless a longer payment period has been agreed or the amount billed is in dispute. For 2008-09, on average, 87% of invoices were paid within 30 days of receipt (2007-08: 82%). SOCA monitors its statistics monthly with all departments, taking action as necessary.

During 2008-09, SOCA paid £42k interest to suppliers (2007-08: £22k), under the Late Payment of Commercial Debts (Interest) Act 1998.

SOCA has complied with the cost allocation and charging requirements set out in HM Treasury and Office of Public Sector Information guidance.

Social and Community Issues

SOCA's purpose is to reduce the harm caused to the UK by organised crime. The Estates Strategy has been developed and designed to support that purpose. It is subject to annual review to take account of changing priorities within the organisation and to ensure that the needs of SOCA are continually met. SOCA's strategic five year goal is to have, by 31 March 2013, an Estates infrastructure configured to sustain:

- an integrated, highly motivated workforce in operationally productive, safe and secure accommodation;
- maximum impact on its harm reduction mission, targets and priorities;
- best value for money from its capital and resource investments;
- compliance with public sector property asset management policies;
- best practice in implementing the Gershon and Lyons reviews, and
- minimum impact on the environment.

Environmental Policy

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

With regards to emissions to air, the Agency's offices would produce a normal level of greenhouse gases as befits standard air-conditioned offices. The use of videoconference equipment was also widely encouraged as a first option through which to hold meetings, which would otherwise require travel.

Inclusion, Diversity & Equality

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

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

Staff involvement and development

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

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

Staff Sickness Reporting

SOCA staff were absent on sick leave for an average of 7.88 days per employee, during the year (2007-08: 7.23 days).

High Potential Recruitment and Development scheme.

SOCA developed the "High Potential Recruitment and Development Scheme", in order to annually recruit high calibre staff for its vacancies. The scheme enables SOCA to recruit and retain the best people, drive efficiency and develop creative solutions to problems. Positions are advertised annually during the year and successful candidates appointed.

Post balance sheet events

On the 8 July 2009 it was announced that Sir Stephen Lander will retire on the 2 August 2009, and on the 3 August 2009, Sir Ian Andrews will assume the role of Chair of SOCA.

The Accounting Officer William Hughes authorised the 2008-09 Annual Accounts to be issued on the date of the Comptroller and Auditor General's audit certificate.

Virtual Global Taskforce Company

SOCA has a non-trading wholly owned subsidiary company called Virtual Global Taskforce Limited, a company limited by guarantee to the value of £10. This company had been set previously by the National Crime Squad for the Child Exploitation and On-line Protection Agency (CEOP) in order to protect the name of a registered trademark, and ownership passed to SOCA as at 1 April 2006.

Reporting of Personal Data related Incidents

Incidents, the disclosure of which would in them create an unacceptable risk of harm, may be excluded in accordance with the exemptions contained in the Freedom of Information Act 2000 or may be subject to the limitations of other UK information legislation.

SOCA has always taken security of data extremely seriously. At all times during 2008-09, the standards set with SOCA met, or significantly exceeded, those now mandated by the Cabinet Office for security and protection of data.

There were no incidents of Protected Personal Data or Other Protected Personal Data matters that occurred within SOCA in 2008-09 that required reporting. SOCA will continue to monitor and assess its information risks, in order to identify and address any weaknesses and ensure continuous improvement of its systems.

Declarations

- 1) As far as I am aware, there is no relevant audit information of which the auditors are not aware.
- 2) I have taken all steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the auditors are aware of such information.

William F Hughes. CBE QPM

Director General and Accounting Officer
Serious Organised Crime Agency

08 July 2009

Remuneration Report

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

| Name | Position |
|--------------------|---|
| Sir Stephen Lander | Chairman (Non-Executive) retiring on 2 August 2009 |
| William Hughes | Director General and Accounting Officer |
| Stephen Barrett | Director (Non-Executive) retiring on 31 August 2009 |
| Elizabeth France | Director (Non-Executive) |
| Ken Jarrold | Director (Non-Executive) retiring on 31 August 2009 |
| Janet Paraskeva | Director (Non-Executive) |
| Sir Roger Wheeler | Director (Non-Executive) retiring on 31 August 2009 |
| David Bolt | Director Intelligence |
| Malcolm Cornberg | Director Corporate Services and Deputy Accounting Officer |
| Paul Evans | Director Intervention |
| Trevor Pearce | Director Enforcement |

The Chairman and the Director General of SOCA were appointed on 1 September 2004 and the five Non-Executive Directors were appointed on 1 September 2005 by the Home Secretary. The initial "Designate" appointments became effective on 1 April 2006. All other Directors were appointed through open and fair competition; such appointments may sometimes be filled by means of fixed term secondments from other organisations.

As in previous years, in the interest of security, all of the Directors of SOCA have withheld consent to publish details of their remuneration or pension entitlement. However, full disclosure on remuneration and pensions will be made in the 2009-2010 accounts.

The salary and pension contributions paid in 2008-09 for the Director General, Chairman and Directors are set out below (this information has been audited).

| | 2008/2009 Average Salary (in £5,000 bands) £000 | 2008/2009 Average Pension (in £5,000 bands) £000 | 2007/2008 Average Salary (in £5,000 bands) £000 | 2007/2008 Average Pension (in £5,000 bands) £000 |
|-------------------------|--|---|--|---|
| Director General | 180-185 | 25-30 | 175-180 | 45-50 |
| Chairman | 85-90 | 20-25 | 80-85 | 20-25 |
| Executive Directors | 140-145 | 25-30 | 130-135 | 30-35 |
| Non-Executive Directors | 25-30 | NIL | 20-25 | Nil |

Salary includes average gross salary, performance pay or bonus inclusive of all allowances, subject to UK taxation paid by SOCA. Average pension contributions paid by SOCA in 2008-09 were subject to an earnings cap of £117,600, resulting in a reduction in payments from 2007-08.

Pay Committee

Senior Management Salary Policy

Senior Management salaries are based on recommendations of the Senior Salaries Review Body.

Related Party Transactions

During the year ended 31 March 2009 there were no Directors, or parties related to them, that entered into any transactions with SOCA.

William F Hughes. CBE QPM

Director General and Accounting Officer
Serious Organised Crime Agency

08 July 2009

Statement of the Accounting Officer's Responsibilities

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

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

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

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

William F Hughes. CBE QPM
Director General and Accounting Officer
Serious Organised Crime Agency

08 July 2009

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 Serious Organised Crime Agency's (SOCA's) policies, aims and objectives, whilst safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Managing Public Money, and general guidance documents referred to in the Financial Memorandum agreed with Home Office.

My Executive Directors, Senior Managers and I are involved in regular meetings to discuss strategic issues with stakeholders, including members of the Full Board, and at different levels in the Home Office. The Chairman of the Board and I have briefed several Committees and Parliamentary Groups in both the House of Commons and the House of Lords on the work of SOCA. We also have regular meetings with the Home Secretary, Parliamentary Under-Secretary of State on policing, security and community safety and Ministers across Government. Meetings are held between SOCA Senior Managers and the Home Office sponsor unit, at which risk management and other aspects of internal control are standing agenda items. We also meet regularly with partners to discuss and share risk issues both nationally and internationally.

The purpose of the system of internal control

The system of internal control is designed to manage risk to an acceptable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of SOCA's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The system of internal control has been in place in SOCA for the year ended 31 March 2009 and up to the date of approval of the annual report and accounts and accords with Treasury guidance.

Capacity to handle risk

Overarching Strategy

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

- performance in support of SOCA's strategic imperatives and the UK Control Strategy for serious organised crime;
- management information in relation to tasked operational activity, outputs and associated resource usage;
- progress towards achieving Directorate objectives;
- individual office and business area performance;
- regular monitoring of capital and resource spend against output;
- personnel issues, including staff numbers, movements, vacancies, recruitment, sickness, occupational health and compliance with the European Working Time Directive;
- management of strategic, operational, health and safety and other risks, crisis management and business continuity planning;
- managing risks to deliver SOCA's investment programme and individual projects;
- progress of development schemes and milestones achieved;
- compliance with self-inspection programmes and delivery against action plans agreed with external inspecting agencies and internal auditors; and
- co-ordination, drafting and publishing of policies and standard operating procedures.

Training

Risk training is an integral part of SOCA's corporate training programme, where staff are provided with relevant risk assessment and management training according to their roles and responsibilities. Examples of best practice from other agencies (including partner organisations), published guidance and other sources have been incorporated into SOCA's formal risk identification, management and reporting processes. A generic risk management e-learning package is now in the process of being developed and should be rolled out during the next financial year.

The risk and control framework

Risk Management

A dedicated Risk Manager has been appointed with the responsibility for developing and maintaining policy, procedures and guidance to support the organisation's risk management framework, co-ordinating risk management activity across the organisation, maintaining a Strategic Risk Register and reporting to the Risk Board and the Audit and Risk Committee. The Risk Manager also has regular contact with the Home Office Risk & Developing Systems Team.

A risk management handbook is available to all staff via the SOCA Intranet and is subject to comprehensive review and endorsement by the Audit and Risk Committee. It sets out the role exercised by the Full Board in determining policy for the overall level of risk that can be tolerated (SOCA's risk appetite), roles and responsibilities of staff to manage risk, and guidance and templates supporting all aspects of the risk management process. Separate policies and operating procedures guide staff in the identification, assessment and management of risks associated with operational deployments, and health and safety. A Critical Incident management plan has been completed for most SOCA premises and a Business Continuity plan for most of the critical functions identified by the Executive Board. The guiding policy and operating procedures on critical incident management and business continuity planning are being consulted on with a view to publishing these early in 2009-10.

SOCA's Strategic Risk Register is underpinned by Directorate Risk Registers which are maintained and reviewed regularly by the four Directorates and CEOP. All departments, projects and programmes identify and record their risks using corporately provided templates. Protocols for escalating risks from local or project / programme level to the Strategic Risk Register are set out in the risk management handbook.

The Executive Board of SOCA receives reports from the Risk Board and Investment Delivery Group on an exception basis. The Board also receives reports on progress towards implementing the recommendations emanating from internal and external inspections and audits.

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

SOCA has reviewed its information assurance measures against the mandatory minimum requirements arising from the Review of Data Handling Procedures in Government and, where necessary, has enhanced the risk assessment processes and security related to personal and other sensitive data to ensure compliance with the standards. At the same time, opportunities for making more effective use of the information SOCA collects have continued to be sought and exploited. Both elements will continue to be taken forward together in our plans to develop further assured information sharing practice in accordance with SOCA's national and international remit.

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

Other Sources of Assurance and Information

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

- relevant internal experts, including those providing various self-inspection, compliance and assurance functions within the organisation;
- SOCA's internal audit function;
- the Surveillance Commissioners and advice from Her Majesty's Revenue and Customs (HMRC); and
- reports from Her Majesty's Inspector of Constabulary (HMIC), and the National Audit Office (NAO).

Review of effectiveness

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

This review has also been informed by interim annual assurance statements and reports on effectiveness from each Executive Director. They have confirmed that within their respective business areas they have identified, assessed and managed the risks that threaten achievement of business objectives and that there have been no material breaches of financial or procurement delegations that have not been reported and resolved. The Executive Directors and the Chief Executive of CEOP were satisfied that the internal control systems in the business areas for which they are responsible are sound and operating effectively.

During the year the Internal Audit service audited a wide range of business areas, principally focusing on developing systems and the high level control framework. Based on this work, Internal Audit concluded that the Serious Organised Crime Agency's control environment is considered adequate to manage the achievement of the organisation's objectives. They are satisfied that good progress has been made in implementing recommendations, and that outstanding recommendations are in the process of being implemented.

William F Hughes. CBE QPM
Director General and Accounting Officer
Serious Organised Crime Agency

08 July 2009

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

I certify that I have audited the financial statements of the Serious Organised Crime Agency (SOCA) for the year ended 31 March 2009 under the Serious Organised Crime and Police Act 2005. These comprise the Income and Expenditure account, the Balance Sheet, the Cash Flow Statement and Statement of Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of SOCA, the Director General and auditor

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

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

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

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

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

I read the other information contained in the Statement of Accounts and consider whether it is consistent with the audited financial statements. This other information comprises the unaudited part of the Remuneration Report and the subsection entitled "Annual Report" and I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinions

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Director General in the preparation of the financial statements, and of whether the accounting policies are most appropriate to SOCA's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions

In my opinion:

- The financial statements give a true and fair view, in accordance with Serious Organised Crime and Police Act 2005 and directions made thereunder by the Secretary of State for the Home Department with the consent of HM Treasury, of the state of SOCA's affairs as at 31 March 2009 and of its net expenditure, recognised gains and losses and cash flow for the year then ended.
- The financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Serious Organised Crime and Police Act 2005 and directions made thereunder by the Secretary of State for the Home Department with the consent of HM Treasury.
- Information, which comprises the management commentary, included within the Statement of Accounts, is consistent with the financial statements.

Opinion on Regularity

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

Report

I have no observations to make on these financial statements.

Amyas C E Morse

Comptroller and Auditor General
National Audit Office
14 July 2009

151 Buckingham Palace Road
Victoria
London SW1W 9SS

Net Expenditure Account

For the year ended 31 March 2009

| | Note | 2008/09 £'000 | 2007/08 restated £'000 |
|--|------|------------------|------------------------------|
| Income | | | |
| Funding received separate from Grant-in-Aid | 2b | 23,679 | 18,320 |
| Recovery of costs | 3 | 5 | 428 |
| Rents and service charges | | 120 | 181 |
| Donations of goods and services | 4 | 2,260 | 2,561 |
| Other operating income | 5 | 2,729 | 2,932 |
| Total operating income | | 28,793 | 24,422 |
| Expenditure | | | |
| Staff costs | 6 | (286,394) | (291,935) |
| Other operating costs | 8 | (183,535) | (176,625) |
| Depreciation and amortisation | 9,10 | (31,079) | (26,223) |
| Loss on asset revaluation and write off | 9,10 | (4,701) | (405) |
| Notional cost of capital | | 11,600 | 14,300 |
| Net expenditure after cost of capital charge and interest | | (465,316) | (456,466) |
| Notional cost of capital reversal | | (11,600) | (14,300) |
| Surplus/(Loss) on disposal of fixed assets | | (248) | 194 |
| Net transfers (to)/from reserves | | - | - |
| Net expenditure for the financial year | | (477,164) | (470,572) |

The results for the year all relate to continuing operations. There were no acquisitions or disposals of operations during the period.

The Notes 1 to 29 form part of these Accounts.

Statement of Recognised Gains and Losses

For the year ended 31 March 2009

| | | 2008/09 | 2007/08 |
|---|------|-----------------------|--------------------------|
| | Note | £'000 | restated £'000 |
| Actuarial gains/(losses) on pension reserve | 7 | 107,160 | 93,425 |
| Movement in asset revaluation reserves | 16 | (500) | (1,403) |
| Movement in Donated Asset reserves | 16 | - | 200 |
| Recognised gains or losses for the period | | <u>106,660</u> | <u>92,222</u> |

The Notes 1 to 29 form part of these Accounts.

Balance Sheet

As at 31 March 2009

| | | 2008/09 | 2008/09 | 2007/08 | 2007/08 |
|--|------|-----------|------------------|-------------------|-------------------|
| | Note | £'000 | £'000 | restated £'000 | restated £'000 |
| Fixed Assets | | | | | |
| Intangible fixed assets | 9 | | 18,830 | | 15,416 |
| Tangible fixed assets | 10 | | 139,478 | | 123,753 |
| | | | <u>158,308</u> | | <u>139,169</u> |
| Long Term Assets | | | | | |
| Debtors falling due after one year | 11 | 104 | | 111 | |
| FRS17 Pension Asset | 7/16 | 60 | 164 | 168 | 279 |
| | | | <u>158,472</u> | | <u>139,448</u> |
| Current Assets | | | | | |
| Debtors and prepayments | 11 | 26,432 | | 22,955 | |
| Cash at bank and in hand | 12 | 10,542 | | 9,436 | |
| | | | <u>36,974</u> | <u>32,391</u> | |
| Creditors falling due within one year | 13 | (42,074) | (5,100) | (41,131) | (8,740) |
| Total Assets less Current Liabilities | | | <u>153,372</u> | | <u>130,708</u> |
| Creditors falling due after one year | 13 | (1,529) | | (1,254) | |
| Provisions for liabilities and charges | 14 | (3,511) | | (3,761) | |
| Deferred income | 15 | (3,958) | | (4,122) | |
| FRS17 Pension Liability | 7/16 | (427,943) | (436,941) | (500,293) | (509,430) |
| Total Net Liabilities | | | <u>(283,569)</u> | | <u>(378,722)</u> |
| Capital and Reserves | | | | | |
| Income and Expenditure Reserve | 16 | | 9,044 | | 20,551 |
| Revaluation Reserve | 16 | | 2,128 | | 2,628 |
| Pension Reserve | 16 | | (299,863) | | (407,023) |
| Donated Asset Reserve | 16 | | 421 | | 421 |
| Other Reserves | 16 | | 4,701 | | 4,701 |
| | | | <u>(283,569)</u> | | <u>(378,722)</u> |

The Notes 1 to 29 form part of these Accounts.

William F Hughes. CBE QPM
 Director General and Accounting Officer
 Serious Organised Crime Agency

08 July 2009

Cash Flow Statement

for the year ended 31 March 2009

| | Note | 2008/09 £'000 | 2007/08 restated £'000 |
|---|------|------------------|------------------------------|
| Net cash inflow/(outflow) from operating activities | 17a | (408,775) | (395,846) |
| Capital expenditure and financial investment | | | |
| Purchase of fixed assets | 17b | (55,464) | (46,873) |
| Sale proceeds of fixed assets | | 442 | 827 |
| Financing | | | |
| Grant-in-Aid for capital expenditure | 16 | 53,186 | 45,168 |
| Grant-in-Aid for revenue expenditure and payment to Consolidated Fund | 16 | 411,717 | 380,832 |
| Treasury Funding for ARA in 2007-08 | | - | 18,012 |
| Increase/(Decrease) in cash | 17c | 1,106 | 2,120 |

The Notes 1 to 29 form part of these Accounts.

Notes to the Accounts

for the year ended 31 March 2009

1 Accounting policies

1 a) Basis of preparation

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

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

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

1 b) Grant-in-Aid and income recognition

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

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

1 c) Pensions Reserve

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

1 d) Fixed Assets

Expenditure incurred by SOCA on the acquisition of capital assets, or expenditure which adds to the value of existing assets is capitalised, provided that the assets give benefit to SOCA for a period of more than one year. Where appropriate, SOCA will capitalise the cost of salaries attributable in developing the fixed assets as permitted within FRS15.

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

Expenditure on the fit-out and works to buildings financed by operating leases is capitalised as a tangible fixed asset if the works add to the value of the building. Fit-out costs of all new buildings may include the costs of new furniture and equipment which individually cost less than £5,000 where the Accounting Officer considers that it is more appropriate to capitalise the initial costs. Future replacement costs of furniture and equipment will however be funded from the Resource budget subject to the costs being below the capitalisation threshold at the time of replacement.

Tangible Fixed assets are carried at valuation for existing use.

1 e) Depreciation and amortisation

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

| Asset type | Useful life |
|---------------------------------------|---|
| Land and buildings | to their estimated residual value over the remainder of the buildings' estimated economic lives |
| Improvements to leasehold buildings | duration of lease or anticipated useful life of improvements, subject to maximum period of 10 years |
| Motor vehicles | 5 - 7 years |
| Plant and equipment | 5 years |
| Furniture and fittings | 5 years |
| IT equipment and software | 4 – 5 years |
| Intangible fixed assets – IT licences | 3 – 5 years |

Depreciated historical cost is used as a proxy for current value for the above named classes of non-property assets.

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

Assets transferred to SOCA as a result of the merger with ARA on 31 March 2008 under the £5,000 threshold have been written off in the 2008-09 accounts.

1 f) Revaluation

SOCA has a policy of revaluing its fixed assets. Any gain on revaluation relating to assets funded by Government Grant is credited to the Revaluation Reserve. A loss on revaluation is debited to the Income and Expenditure account to the extent that the loss exceeds the balance on the Revaluation Reserve for that asset.

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

1 g) Recovered Assets

SOCA's merger with the Asset Recovery Agency (ARA) required the agency to take a more operational role under the Proceeds of Crime Act 2002, and gave rise to criminal confiscation, civil recovery and taxation of benefits related to criminal property. As a result, proceeds from recovered assets are received and paid over to the Home Office. SOCA participates in the Incentivisation scheme whereby SOCA and referring Law Enforcement Agencies receive a portion of the remittances as an incentive to build their asset recovery capacity (see note 1(s)).

Sale proceeds from recovered assets less allowable costs including receivers' fees deducted are paid to the Home Office.

1 h) Merger Accounting

The main activities of ARA were transferred to SOCA on 1 April 2008. This included all ARA activities except for the ARA training departments which transferred to NPIA. The comparative information for 2007-08 has been restated and disclosed in the accounts in accordance with FRS6 (Acquisitions and Mergers) and the disclosure required by HM Treasury under the "Machinery of Government Change". The figures are restated as if the relevant proportion of ARA had been merged as at 31 March 2008.

The aggregate book values of net liabilities at the date of merger were transferred to the following parties (£000s):

| | |
|--------------|----------------|
| SOCA | (2,133) |
| NPIA | (300) |
| Total | (2,433) |

The restated Income and Expenditure account for SOCA for the year ended 31 March 2008 includes £16.2m of the Asset Recovery Agency's 2007-08 net expenditure which passed to SOCA after £1.2m transferred to the NPIA's 2007-08 comparative figures.

As reflected in Note 1 (d), £115k of the Net assets transferred to SOCA were written off during 2008-09 to harmonise the accounting policies of ARA and SOCA.

1 i) Foreign currency

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

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

1 j) Operating leases

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

1 k) Rental and service charges income

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

1 l) Notional Charges

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

1 m) Liquid Resources

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

1 n) Pension Costs

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

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

1 o) Value Added Tax

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

1 p) Private Finance Initiative (PFI) Contract

SOCA has one PFI contract for the provision of IT services. This contract has been accounted for in accordance with Technical Note 1 (Revised) entitled "How to Account for PFI Transactions" as required by the FReM. Where the payment apportionment of the risks and rewards of ownership of the assets included in the PFI contract are borne by the PFI operator, the PFI payments are recorded as an operating cost. To the extent that the contract payment represents an apportionment of an asset, the apportionment payment has been capitalised under FRS5 and shown under "Assets under Construction".

1 q) Donations Received

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

1 r) Payment of Contributions to Europol and Interpol

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

1 s) Recovered Assets Incentivisation Funding

RAIF funding received during the year is spent within 12 months of receipt on projects agreed with the Home Office. Unspent RAIF monies received but not spent are shown as deferred income in the accounts.

1 t) Provision for Doubtful Debts

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

1 u) Going Concern

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

The Balance Sheet at 31 March 2009 shows net liabilities of £284m. This reflects the inclusion of pension liabilities falling due in future years which, to the extent that they are not to be met from SOCA's other sources of income, may only be met by future grants or grants-in-aid from the Home Office, SOCA's sponsoring department. This is because, under the normal conventions applying to parliamentary control over income and expenditure, such grants may not be issued in advance of need.

Grants and Grant-in-Aid for 2009-10, taking into account the amounts required to meet SOCA's liabilities falling due in that year, have already been included in the department's estimates for that year, which have been approved by Parliament, and there is no reason to believe that the department's future sponsorship and future parliamentary approval will not be forthcoming. It has, therefore, been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

SOCA are managing the risk to their business of key suppliers through various avenues including the "2010" project, which manages the key performance indicators of existing significant IT suppliers.

2. Funding

2(a) Grant-in-Aid Income

SOCA received Grant-in-Aid cash funding from the Home Office totalling £464.9m (2007-08 £423.4m); included in the funding was £3.2m paid to refund monies owed by the Asset Recovery Agency to the Consolidation Fund.

2(b) Other Funding

| | 2008/09 | 2007/08 |
|---|----------------|--------------------------|
| | £'000 | restated £'000 |
| Scottish Executive contributions | 5,661 | 5,661 |
| Northern Ireland Office contributions | 1,511 | 1,467 |
| Recovered Asset Incentivisation Fund | 2,522 | 849 |
| EU Funding | 277 | 222 |
| Civil recoveries applied to receivers' fees | 4,498 | 4,732 |
| Specific operational funding | 4,806 | 1,446 |
| Others | 4,404 | 3,943 |
| | 23,679 | 18,320 |

3 Costs Recovered From Other Law Enforcement Agencies

| | 2008/09 | 2007/08 restated |
|--|----------|---------------------|
| | £'000 | £'000 |
| Recoveries relating to costs incurred for other law enforcement agencies | 5 | 428 |
| | 5 | 428 |

4 Donations of Goods and Services

| | 2008/09 | 2007/08 restated |
|-----------------------|--------------|---------------------|
| | £'000 | £'000 |
| Donations over £250k | 1,516 | 1,692 |
| Donations under £250k | 744 | 869 |
| | 2,260 | 2,561 |

The CEOP team at SOCA receives donated assets and donations in kind, including staff time and use of assets, from various external sponsors and agencies. These donations are accounted for by following the guidance in the Charities Statement of Recommended Practice (SORP) which requires the recognition of income where donations in kind are received, matching expenditure in the Income and Expenditure Account. **(see note 1(q))**

In the year to 31 March 2009 various goods and services with an estimated value of £2.3m (2007-08: £2.6m) have been received from organisations and charities which have been used by CEOP to support its objectives. There was one contribution of £1.3m received, another contribution of £0.3m and 22 contributions totalling £0.7m received in the year. In addition to the above donations in kind, cash donations of £0.5m are included as Other Income.

5 Other Operating Income

| | 2008/09 | 2007/08 restated |
|-----------|--------------|---------------------|
| | £'000 | £'000 |
| Donations | 501 | 144 |
| Others | 2,228 | 2,788 |
| | 2,729 | 2,932 |

6 Staff Costs

(a) Analysis

| | 2008/09 | 2007/08 restated |
|--|---------|---------------------|
| | £'000 | £'000 |
| Salaries and emoluments of directly recruited staff and officers | 178,490 | 178,340 |
| Salaries and allowances of seconded staff | 3,982 | 6,180 |
| Agency/temporary staff | 9,955 | 3,955 |
| Social Security costs | 14,703 | 15,554 |
| Pension costs | 32,568 | 35,331 |
| FRS17 Pension costs | 34,919 | 42,430 |

| | | |
|---|----------------|----------------|
| Indirect Employee costs | 13,640 | 13,188 |
| Employment costs before adjustments | 288,257 | 294,978 |
| Less Capitalised manpower costs | (1,863) | (3,043) |
| Employment costs after adjustments | 286,394 | 291,935 |

(b) Staff numbers

| | 2008/09 | 2007/08 restated |
|---|--------------|---------------------|
| | No. | No. |
| Directors | 11 | 11 |
| Seconded Police Officers | 60 | 69 |
| Directly recruited officers and staff | 3,863 | 4,119 |
| Contract and temporary staff | 75 | 73 |
| Average full time equivalent for the year | 4,009 | 4,272 |

In addition to the above directly employed staff, SOCA had an average of 31 attached staff (2007-08: 28) from other organisations which are excluded from the above figures as they do not form part of the SOCA establishment. SOCA is not charged for the attached staff who are considered to be working for the benefit of their employers. It is estimated that the cost of employing the attached staff to SOCA in 2008-09 would have been £1.54m (2007-08 £1.4m).

Costs totalling £1.9m for staff were capitalised during the year for work carried out on capital projects.

7 Pension benefits

(a) Principal Civil Service Pension Scheme (PCSPS)

The PCSPS is an unfunded multi-employer defined benefit scheme where SOCA is unable to identify its share of the underlying assets and liabilities. The scheme actuary revalues the scheme centrally and reassesses contributions every four years.

A full actuarial valuation was carried out as at 31 March 2007. The scheme bands were adjusted in 2007-08 and the contribution rates adjusted in 2008-09. The contributions are set to meet some of the pension cost of the members on retirement. The state of the current scheme is currently under review. From 30 July 2007 the existing scheme was closed to new entrants and scheme amendments allowed staff in *classic* or *classic plus* that leave after 1 October 2007 to give up some of their pension in exchange for a higher tax-free lump sum. Employees joining after 30 July 2007 are able to join the *nuvos* scheme, a defined benefit scheme and, in common with the existing *premium* and *classic plus* schemes, will have a member contribution rate of 3.5% of pensionable pay. Employee contributions are set at the rate of 1.5% of pensionable earnings for the *classic* scheme. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2008-09 employer contributions of £23.7m (2007-08 £23.5m) were payable to PCSPS at one of four rates in the range between 17.1% and 25.5% of pensionable pay, based on salary bands. This includes £0.1m of contributions paid to other agencies e.g. Home Office, in respect of staff seconded to SOCA (2007-08 £0.1m). 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 employees. For 2008-09 contributions of £0.005m were payable to PCSPS in respect of these benefits (2007-08 £0.006m).

(b) Partnership and Stakeholder Schemes

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions for partnership pensions are payable to one or more of a panel of four appointed stakeholder pension providers. These contributions are age related and range from 3% to 15.5% of pensionable pay. Employers also match employee contributions up to 15.5% of pensionable pay. During 2008-09 SOCA paid employers' contributions of £0.09m to stakeholder pension providers (2007-08: £0.09m).

(c) Local Government Pension Scheme (LGPS)

The LGPS is a multi-employer defined benefit scheme and eligible ex-SOCA employees participate in a fund managed by the London Pensions Fund Authority (LPFA). In order to comply with HM Treasury's Finance Reporting Manual SOCA is required to provide in these accounts for the full value of the expected future pension liabilities to the officers. The LPFA have provided a valuation of the scheme assets as at 31 March 2009 showing net pension assets of £0.06m (2007-08 scheme assets of £0.2m), this figure is reflected on the balance sheet.

| The net scheme assets at 31 March | 2008/09 | 2007/08 | 2006/07 |
|-----------------------------------|---------|---------|---------|
| | £'000 | £'000 | £'000 |
| Present value of Assets | 521 | 608 | 7,210 |
| Present value of Liabilities | (461) | (440) | (5,007) |
| Net pension asset/(liability) | 60 | 168 | 2,203 |
| Movement in Pension Asset/Reserve | 120 | (35) | (608) |
| Surplus/(Loss) in Balance Sheet | 180 | 133 | 1,595 |

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

| The net scheme assets at 31 December: | 2008/09 | 2007/08 | 2006/07 |
|---------------------------------------|---------|---------|---------|
| | % | % | % |
| Inflation assumption | 3.1 | 3.6 | 3.2 |
| Rate of salaries increase | 4.6 | 5.1 | 4.7 |
| Rate of pensions increase | 6.4 | 3.6 | 3.2 |
| Discount rate | 6.9 | 6.9 | 5.4 |

During 2008-09 employers' contributions of £0.036m (2007-08 £0.039m) were paid to the LPFA at 14.8% of pensionable pay (2007-08 14.8%). The contribution rate is determined by the Fund actuary based on a three yearly actuarial valuation. Under pension fund regulations the contribution rates must be set to meet the overall liabilities of the Fund. The latest formal valuation of the LPFA pension fund was at 31 March 2007. The fair value of assets held by the scheme at the beginning of the year and at the end of the year is disclosed below, analysed by investment class, together with expected rate of return for each class for the subsequent period:

| Fair value of assets | Assets at 31 Mar 2009 £000 | Expected rate of return at 31 Mar 2009 | Assets at 31 Mar 2008 £000 | Expected rate of return at 31 Mar 2008 | Assets at 31 Mar 2007 £000 | Expected rate of return at 31 Mar 2007 |
|----------------------|----------------------------|--|----------------------------|--|----------------------------|--|
| Equities | 297 | 7.0% | 364 | 7.5% | 4,490 | 7.7% |
| Bonds | 52 | 5.5% | 117 | 6.3% | 1,612 | 6.4% |
| Property | 130 | 6.0% | 109 | 6.7% | 914 | 6.8% |
| Cash | 42 | 4.0% | 18 | 4.8% | 194 | 4.9% |
| Total | 521 | - | 608 | - | 7,210 | - |

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

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

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

Pensions benefits are paid from SOCA resources as they fall due. In 2008-09, £6.68m was paid to pensioners (2007-08: £6.38m).

Pensions paid in the year are charged against the Pension Provision. For both ACPO and Senior Officer Schemes SOCA paid employer contributions at the rate of 24.6% of pensionable pay in the year totalling £8.6m (2007-08:£9.6m). This followed a Home Office/Treasury review in 2001 requiring the implementation of a new system of pensions. The employers' contributions, together with employee deductions, were paid to the Home Office.

In order to comply with HM Treasury's Financial Reporting Manual and Accounts Guidance, SOCA is required to provide in these accounts for the full value of the expected future pensions liabilities of the officers. SOCA commissioned the Government Actuary's Department (GAD) to value the scheme liabilities as at 31 March 2009. Full provision for this liability in 2008-09 of £427.94m (2007-08 £500.29m) is reflected in the balance sheet and is based on the assumptions and information set out below.

| Pension liabilities | 2008/09 | 2007/08 |
|--|----------------|----------------|
| | £'000 | £'000 |
| Present value of liabilities – Police Officers | 427,943 | 500,293 |
| Net pension liabilities | 427,943 | 500,293 |
| | | |
| Main assumptions | 2008/09 | 2007/08 |
| | % pa | % pa |
| Inflation assumption | 2.75 | 2.75 |
| Rate of increase in salaries | 4.3 | 4.3 |
| Rate of increase in pensions | 2.75 | 2.75 |
| Rate of discounting scheme liabilities | 6.04 | 5.3 |
| | | |
| Actuarial gains and losses for year | 2008/09 | 2007/08 |
| Direct Recruits Scheme | £'000 | £'000 |
| Experience gains/(losses) | 37,090 | 30,240 |
| Effect of changes in demographic and financial assumptions | 70,190 | 63,150 |
| Total actuarial gains/(losses) | 107,280 | 93,390 |

(e) 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 gain calculated by GAD has been reflected in the Balance Sheet (Pension Reserve).

Changes in Pension Assets and Liabilities for the Year by Scheme

| | Police Officers £'000 | LGPS £'000 | 2008/09 Total £'000 | 2007/08 ACPO/ LGPS £'000 |
|---|-----------------------------|---------------|---------------------------|-----------------------------------|
| Operating cost: | | | | |
| Current service cost | 18,300 | 29 | 18,329 | 23,195 |
| Impact of curtailments and settlements Active member contributions | - | - | - | 2,073 |
| Pensions and benefits paid | (10,200) | | (10,200) | (6,442) |
| Finance cost: | | | | |
| Interest on pension liabilities | 26,830 | 32 | 26,862 | 25,766 |
| Expected return of employer assets | - | (44) | (44) | (44) |
| Net Return | 34,930 | 17 | 34,947 | 44,548 |
| Actuarial gain/(loss) | | | | |
| Experience gain/loss on pension liabilities | 37,090 | - | 37,090 | 30,243 |
| Actuarial return less expected return on scheme assets | - | (179) | (179) | (57) |
| Changes in demographic & financial assumptions | 70,190 | 59 | 70,249 | 63,239 |
| Total Actuarial Gain/(Loss) charged to Pension Reserve | 107,280 | (120) | 107,160 | 93,425 |

Movement in the provision during the year

| | Police Officers £'000 | LGPS £'000 | 2008/09 Total £'000 | 2007/08 ACPO/ LGPS £'000 |
|--|-----------------------------|---------------|---------------------------|-----------------------------------|
| Net liabilities at start of year | 500,293 | (168) | 500,125 | 549,050 |
| Current & past service cost | 18,300 | 37 | 18,337 | 23,195 |
| Pensions paid in the year | (10,200) | - | (10,200) | (6,460) |
| Employer's contribution | - | (37) | (37) | (30) |
| Impacts of settlement and curtailments | - | - | - | 2,073 |
| Net finance charge | 26,830 | (12) | 26,818 | 25,722 |
| Actuarial (gain)/loss | (107,280) | 120 | (107,160) | (93,425) |
| Net liabilities at end of year | 427,943 | (60) | 427,883 | 500,125 |

8 Other Operating Costs

| | 2008/09 | 2007/08 |
|---|----------------|-------------------|
| | £'000 | restated £'000 |
| Premises costs | 38,813 | 36,893 |
| Transport costs | 7,904 | 8,518 |
| Office and general expenses | 2,807 | 5,578 |
| Operational and communication costs | 21,759 | 14,223 |
| IT expenses | 30,200 | 28,987 |
| PFI Charges | 25,718 | 23,486 |
| Europol subscription | 7,812 | 6,161 |
| Interpol subscription | 2,487 | 1,980 |
| Other operating subscriptions | 1,296 | 1,643 |
| Internal audit fee | 213 | 389 |
| External audit fee | 142 | 211 |
| Bank interest | 49 | 33 |
| Professional services and fees | 6,684 | 11,669 |
| Foreign exchange (gain)/loss | (134) | 14 |
| Notional expenditure covered by donations | 2,260 | 2,561 |
| Interim Receivers' Fees | 4,498 | 4,732 |
| Conference set up and running costs | 1,428 | 1,047 |
| Grants to forces and other public sector bodies | 5,365 | 6,407 |
| Forensic fees | 5,063 | 4,092 |
| Office equipment and repairs | 593 | 1,057 |
| Accommodation, subsistence and general expenses | 18,578 | 16,944 |
| | 183,535 | 176,625 |

9 Intangible Fixed Assets

| | Purchased software | Payments on account & assets under construction | Total |
|-----------------------------|--------------------|---|---------------|
| Cost | £'000 | £'000 | £'000 |
| At 1 April 2008 (restated) | 24,690 | 5,304 | 29,994 |
| Additions | 5,408 | 2,068 | 7,476 |
| Transfers | 5,058 | (5,058) | 0 |
| Disposals | (6) | - | (6) |
| at 31 March 2009 | 35,150 | 2,314 | 37,464 |
| Amortisation | | | |
| At 1 April 2008 (restated) | 14,578 | - | 14,578 |
| Charge for year | 4,056 | - | 4,056 |
| Disposals | | | |
| Transfers | | | |
| at 31 March 2009 | 18,634 | | 18,634 |
| Net Book Value | | | |
| at 31 March 2009 | 16,516 | 2,314 | 18,830 |
| At 31 March 2008 (restated) | 10,112 | 5,304 | 15,416 |

10 Tangible Fixed Assets

| | Land and Buildings | Improvements to leasehold buildings | Motor vehicles | Plant & Machinery | IT Assets/IT Consul & Interim Mgt | Furniture | Payments on account & assets under construction | Total |
|------------------------------------|--------------------|-------------------------------------|----------------|-------------------|-----------------------------------|--------------|---|----------------|
| Cost | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| At 01 April 2008 (restated) | 23,929 | 56,220 | 34,334 | 57,121 | 31,626 | 3,329 | 8,850 | 215,409 |
| Additions | 6,988 | 7,444 | 4,203 | 9,013 | 6,644 | 699 | 13,751 | 48,742 |
| Transfers | - | 1,504 | 1,110 | 52 | 3,026 | 100 | (5,792) | (0) |
| Disposals | - | (264) | (4,233) | - | - | - | (1) | (4,498) |
| Write offs | - | (175) | - | (150) | (4) | (3) | - | (332) |
| Revaluation Loss | (5,254) | - | - | - | - | - | - | (5,254) |
| At 31 March 2009 | 25,663 | 64,729 | 35,414 | 66,036 | 41,292 | 4,125 | 16,808 | 254,067 |
| Less Depreciation | | | | | | | | |
| At 01 April 2008 (restated) | 2,089 | 19,813 | 20,514 | 34,453 | 14,121 | 666 | - | 91,656 |
| Charge for year | 855 | 6,178 | 4,094 | 8,221 | 7,006 | 669 | - | 27,023 |
| Disposals | - | (112) | (3,587) | - | - | - | - | (3,699) |
| Write offs | - | (175) | - | (42) | (3) | (3) | - | (223) |
| Revaluation | (168) | - | - | - | - | - | - | (168) |
| At 31 March 2009 | 2,776 | 25,704 | 21,021 | 42,632 | 21,124 | 1,332 | - | 114,589 |
| Net book value | | | | | | | | |
| At 31 March 2009 | 22,887 | 39,025 | 14,393 | 23,404 | 20,168 | 2,793 | 16,808 | 139,478 |
| At 01 April 2008 (restated) | 21,840 | 36,407 | 13,820 | 22,668 | 17,505 | 2,663 | 8,850 | 123,753 |

Freehold properties were valued professionally by Knight Frank, chartered surveyors, in March 2009.

The net Revaluation loss on freehold properties of £4.6m has been charged to the Income and Expenditure account after transfer of £0.5m losses to the Revaluation Reserve account. To achieve consistency in accounting policies, £0.1m of assets were written off to the Income and Expenditure account that had previously been capitalised by the former Asset Recovery Agency which was below the SOCA threshold of £5k. The net loss on revaluation and write off is therefore £4.7m.

Other fixed assets were reviewed using Price Index Numbers of Current Cost Accounting (MM17), published by the National Statistics Office and Public Expenditure System Offices Index and it was decided that it was not appropriate to revalue these assets.

In March 2009 SOCA purchased a long leasehold property and the cost of £7m is included in Land and Buildings of £22.887m. Other properties are held on a freehold basis.

11 Debtors and Prepayments

| (a) Amounts falling due within one year | 2008/09 | 2007/08 restated |
|--|----------------|----------------------------|
| | £'000 | £'000 |
| Trade debtors | 9,096 | 8,852 |
| VAT | 0 | 521 |
| Prepayments and accrued income | 14,096 | 11,886 |
| Other debtors | 3,240 | 1,696 |
| | 26,432 | 22,955 |
| | | |
| (b) Intra-government balances | 2008/09 | 2007/08 restated |
| | £'000 | £'000 |
| Balances with central government bodies | 9,205 | 9,289 |
| Balances with local authorities and police authorities | 412 | 510 |
| Subtotal: intra-government balances | 9,617 | 9,799 |
| Balances with bodies external to government | 16,815 | 13,156 |
| | 26,432 | 22,955 |
| | | |
| (c) Amounts falling due after one year | 2008/09 | 2007/08 restated |
| | £'000 | £'000 |
| Other debtors | 104 | 111 |
| | 104 | 111 |
| | | |
| (d) Intra-government balances | 2008/09 | 2007/08 restated |
| | £'000 | £'000 |
| Balances with bodies external to government | 104 | 111 |
| | 104 | 111 |

12 Cash at Bank in Hand

SOCA operates a number of bank accounts and cash imprest accounts. The UK accounts operate under a pooling arrangement which allows some accounts to be overdrawn, as long as the main SOCA account is in credit to cover the overdrawn balances. At the 31 March 2009 the cash and balances totalled £10.5m (2007-08 £9.4m).

| | 2008/09 | 2007/08 restated |
|--|----------------|----------------------------|
| | £'000 | £'000 |
| Bank balances held with Commercial Banks | 10,073 | 4,258 |
| Bank balances held with HM Paymaster General | 469 | 5,178 |
| | 10,542 | 9,436 |

13 Creditors

| | 2008/09 | 2007/08 restated |
|---|----------------|----------------------------|
| | £'000 | £'000 |
| (a) Amounts falling due within one year | | |
| Trade creditors | 17,147 | 14,567 |
| Consolidated Fund extra receipts due to be paid to the Consolidated Fund – received | - | 6,353 |
| Other creditors and accruals | 24,927 | 19,822 |
| Interest payable to Home office | - | 389 |
| | 42,074 | 41,131 |

(b) Intra-government balances

| | 2008/09 | 2007/08 restated |
|--|----------------|----------------------------|
| | £'000 | £'000 |
| Balances with central government bodies | 3,299 | 12,769 |
| Balances with local authorities and police authorities | 702 | 1,358 |
| Subtotal: intra-government balances | 4,001 | 14,127 |
| Balances with bodies external to government | 38,073 | 27,004 |
| | 42,074 | 41,131 |

| | 2008/09 | 2007/08 restated |
|---|----------------|----------------------------|
| | £'000 | £'000 |
| (c) Amounts falling due after one year | | |
| Other creditors and accruals | 1,529 | 1,254 |
| | 1,529 | 1,254 |

(d) Intra-government balances

| | 2008/09 | 2007/08 restated |
|---|----------------|----------------------------|
| | £'000 | £'000 |
| Balances with bodies external to government | 1,529 | 1,254 |
| | 1,529 | 1,254 |

14 Provisions for Liabilities and Charges

| | Balance at 31 March 2008 (restated) | Provided for in year | Provisions used in year | Unused Provisions reversed in year | Balance at 31 March 2009 |
|---------------------------|--|-------------------------|-------------------------------|---|--------------------------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| a) Tax provision | (1,199) | (1,297) | 2,302 | 97 | (97) |
| b) Legal provision | (1,566) | (1,173) | 858 | 771 | (1,110) |
| c) General provisions | (36) | - | - | - | (36) |
| c) Retirement provision | (505) | (367) | 166 | - | (706) |
| c) Employment related | (379) | (1,458) | 54 | 297 | (1,486) |
| d) Dilapidation provision | (76) | - | - | - | (76) |
| | (3,761) | (4,295) | 3,380 | 1,165 | (3,511) |

The provisions held at 31 March 2009 and charged to the relevant expenditure categories in the Income and Expenditure account include the following:

- a) Tax provision of £1.3m was made during the year for the tax liability due on benefits in kind paid to employees. This liability has been reduced by making a payment on account of £1.2m in March 2009.
- b) Legal provision of £1.1m relates to cases in progress to cover estimates on litigation costs for employees undertaking action because of injury, loss of employment and changes in conditions of service.
- c) Various employment related provisions including early retirement and precursor contract changes totalling £2.2m. It is expected that payments will take place within the next five years.
- d) The vacation of one office has given rise to a dilapidation provision to cover the cost of repair works necessary in accordance with the leases. It is anticipated that settlement will be reached soon.

15 Deferred Income

| | 2008/09 | 2007/08 restated |
|--|--------------|---------------------|
| | £'000 | £'000 |
| Deferred income relating to donations , RAIF monies and other income received in advance | 3,958 | 4,122 |

16 Reserves

| | Income & Expenditure Reserve | Pension Reserve | Revaluation Reserve | Donated Asset Reserve | Other Reserves | Total 2008/09 | Total 2007/08 (restated) |
|---|------------------------------|------------------|---------------------|-----------------------|----------------|------------------|--------------------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| At 1 April 2008 (restated) | 20,551 | (407,023) | 2,628 | 421 | 4,701 | (378,722) | (440,999) |
| Additions from HMRC transfer | 754 | - | - | - | - | 754 | - |
| Net expenditure/income | (477,164) | - | - | - | - | (477,164) | (470,572) |
| Grant-in-Aid received towards resource expenditure and ARA payment of £3.2m | 411,717 | - | - | - | - | 411,717 | 380,832 |
| Grant-in-Aid received towards purchase of fixed assets | 53,186 | - | - | - | - | 53,186 | 45,168 |
| Net Parliamentary Funding for ARA | - | - | - | - | - | - | 18,012 |
| ARA non-cash | - | - | - | - | - | - | (88) |
| Consolidated Fund creditor for ARA cash unspent | - | - | - | - | - | - | (5,129) |
| Previous year Consolidated Fund creditor for cash spent (deemed supply for ARA) | - | - | - | - | - | - | 1,857 |
| Movements during the year | - | 107,160 | (500) | - | - | 106,660 | 92,197 |
| At 31 March 2009 | 9,044 | (299,863) | 2,128 | 421 | 4,701 | (283,569) | (378,722) |

16a) Income and Expenditure Reserve

The Income and Expenditure reserve shows the balance of accumulated surpluses or deficits in grants and other income over operating expenditure. This reserve has been adjusted to take account of the merger of SOCA and ARA on 1 April 2008. The Grant-in-Aid figure of £411.7m includes £3.2m received by SOCA to discharge net liabilities relating to balances transferred from the Asset Recovery Agency.

16b) Pensions Reserve

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

16c) Revaluation Reserve

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

16d) Other Reserves

Other Reserves include the Airwave Reserve and the Forfeiture Fund.

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

The Forfeiture Fund has cash from the sale of assets seized from convicted criminals and forfeited to SOCA by the courts. The fund is applied for operational purposes only, as specified by the courts.

17 Notes to Cash Flow Statement

| | | |
|---|------------------|------------------|
| a) Net outflow from operating activities | 2008/09 | 2007/08 |
| | | restated |
| | £'000 | £'000 |
| Operating activities | (477,164) | (470,572) |
| Donated asset | - | 200 |
| Depreciation and Amortisation | 31,079 | 25,885 |
| Loss on asset revaluation | 4,701 | 1,194 |
| (Surplus)/Loss on disposal of fixed assets | 248 | (194) |
| FRS 17 Pension costs | 34,919 | 44,500 |
| (Increase)/Decrease in long term debtors | 115 | 46 |
| (Increase)/Decrease in debtors and prepayments | (3,477) | 1,220 |
| Increase/(Decrease) in creditors | 943 | (2,679) |
| Increase/(Decrease) in long term creditors, deferred income and provisions | (139) | 4,554 |
| | (408,775) | (395,846) |
| b) Analysis of capital expenditure and financial investment | 2008/09 | 2007/08 |
| | | restated |
| | £'000 | £'000 |
| Tangible fixed asset additions | 48,742 | 38,192 |
| Intangible fixed asset additions | 7,476 | 8,681 |
| Non cash movement in fixed assets from merger | (754) | - |
| Net cash outflow from purchase of fixed costs activities | 55,464 | 46,873 |
| c) Reconciliation of net cash (outflow)/inflow to movement in net debt | 2008/09 | 2007/08 |
| | | restated |
| | £'000 | £'000 |
| Cash (outflow)/inflow in the year | 1,106 | 2,120 |
| Movement in net debt | 1,106 | 2,120 |
| Opening net funds | 9,436 | 7,316 |
| Closing net funds | 10,542 | 9,436 |

Interest received during the year and paid to the Home Office of £1.0m has been included as part of the movement of working capital. SOCA does not recognise this interest as part of its income as it is due to the Home Office.

18. Capital Commitments

| | 2008/09 | 2007/08 restated |
|---|----------------|----------------------------|
| | £'000 | £'000 |
| Capital expenditure contracted but not provided for in these accounts | 189 | 225 |
| Capital expenditure authorised but not contracted for | 20,935 | 21,400 |
| Total | 21,124 | 21,625 |

19. Other Financial Commitments

Other commitments include two IT contracts for the provision of information technology and communications services until 31 August 2010. Payments made under the contract in 2008-09 were £28.0m (2007-08 £26.3m).

| Others | 2008/09 | 2007/08 restated |
|-----------------------|----------------|----------------------------|
| | £'000 | £'000 |
| On leases expiring: | | |
| Within 1 year | 29,424 | 28,818 |
| Between 2 and 5 years | 12,001 | 43,350 |
| Total | 41,425 | 72,168 |

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

20 Operating Lease Obligations

(a) Charge for year for operating leases

Operating expenditure includes £19.1m (2007-08 £19.3m) in respect of rental of land and buildings and £0.8m for office equipment.

(b) Annual commitment for operating leases

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

| Leases expiring: | 2008/09 | 2007/08 restated |
|-----------------------|----------------|----------------------------|
| | £'000 | £'000 |
| Within 1 year | 1,476 | 2,266 |
| Between 2 and 5 years | 3,132 | 2,998 |
| Over 5 years | 14,031 | 13,934 |
| Total | 18,639 | 19,198 |

21 Related Party Transactions

The Home Office is the sponsoring department of SOCA. The Home Office, HM Revenue and Customs, the Scottish Executive, the Northern Ireland Administration and the Foreign and Commonwealth Office are considered to be related parties to SOCA. During the year ended 31 March 2009, these bodies provided SOCA with Grant-in-Aid and other funding.

22 Third Party Assets

Seized property is that which is appropriated by SOCA and other law enforcement bodies but which may still be liable to be returned. Seized property held by SOCA at 31 March 2009 of £18.4m (2007-08 £10.4m) in cash, motor vehicles and other valuables suspected of being derived from criminal activity.

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

23 Contingent Liabilities

23 a) Lease Dilapidations

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

The costs to SOCA on vacation of leased premises have been estimated as £18.6m (2007-08: £22.1m). This estimate is based on a charge per sq. ft of leased space and allows for the reversal of any changes to the building made by SOCA and the costs of redecoration. However, it is unlikely that this liability will fall due in the future because of rolling contracts. This potential liability is currently estimated to fall due as follows:

| Year ended 31 March: | 2008/09 | 2007/08 |
|----------------------|----------------|----------------|
| | | restated |
| | £'000 | £'000 |
| 2010 | 1,218 | 1,246 |
| 2011 to 2015 | 4,209 | 3,846 |
| 2016 to 2027 | 13,190 | 17,028 |
| | 18,617 | 22,120 |

23 b) Litigation Costs

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

24 Indemnities

A Departmental Minute was laid before Parliament to enable SOCA to indemnify bodies against any losses incurred when using their facilities for firearm training purposes with the maximum value of indemnities live at any given time up to £50m. SOCA entered into 8 indemnities during the year with values up to £1m, such that the maximum live indemnities totalled below £50m. No liabilities crystallised in year and there were no obligations outstanding at 31 March 2009.

The Home Office has given SOCA approval to enter into indemnities for operational need up to £1m. During the year SOCA entered into one indemnity with a bank relating to the recovery of criminal assets for an estimated value of £550k. No liabilities crystallised in year but the obligation remains outstanding at 31 March 2009.

25 Post Balance Sheet Events

On the 8 July 2009 it was announced that Sir Stephen Lander will retire on the 2 August 2009, and on the 3 August 2009, Sir Ian Andrews will assume the role of Chair of SOCA.

The Accounting Officer William Hughes authorised the 2008-09 Annual Accounts to be issued on the date of the Comptroller and Auditor General's audit certificate.

26 Losses and Special Payments

SOCA incurred losses during the year totalling £4.8m in respect of assets written down by £4.6m and compensation and severance payments totalling £0.2m, for which approval from Home Office was obtained.

27 Financial Instruments

Accounting Standard "FRS29 Financial Instruments: Disclosures" requires disclosure of the significance of financial instruments to the entity's financial position and performance, the nature and risks to which the entity is exposed and how those are managed. Because of the largely non-trading nature of its activities and the way in which it is financed, SOCA is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS29 mainly applies. Financial assets and liabilities are generated by day to day operational activities and are not held to change the risks facing SOCA in undertaking its activities.

Debtors and creditors which mature or become payable within 12 months from the balance sheet date have been omitted from the currency profile.

Liquidity Risk

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

Interest Rate Risk

SOCA does not have any borrowings which may be exposed to interest rate risk. Cash at bank and in hand at 31 March 2009 is primarily held within current accounts at UK commercial banks.

Currency Rate Risk

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

28. Recovered Assets

SOCA currently manages two bank accounts where recovered assets are deposited. Each year-end, the excess of civil recoveries over receivers' fees applied net of any direct disposal costs is paid over to the Home Office. For Criminal and Tax the amounts are paid over quarterly. The figures presented below are net of direct costs.

| | 2008/09 | 2008/09 | 2007/08 | 2007/08 |
|---|----------------|----------------|----------------|----------------|
| | £000s | £000s | restated | restated |
| | | | £000s | £000s |
| Recovered assets receipts during 08-09 | | | | |
| -Civil | 14,482 | | 7,006 | |
| -Criminal | 3,331 | | 1,545 | |
| -Tax | 2,362 | 20,175 | 674 | 9,225 |
| | | 20,175 | | 9,225 |
| Recovered assets receipts relating to 2006-07 | | | | (835) |
| Asset recoveries applied against receivers fees (see below) | | (4,498) | | (4,732) |
| Net recovered receipts | | 15,677 | | 3,658 |
| Receipts paid to the Home Office during 08-09 | | (2,810) | | (1,490) |
| Recovered asset proceeds held at 31 March 2009 | | 12,867 | | 2,168 |

On 2 June SOCA paid to the Home Office net receipts totalling £12.491m representing net asset proceeds due for the March quarter, and held back £0.376m in respect of cases with costs awaiting agreement.

As a result of its merger with ARA, SOCA took on not only ARA's civil and tax recovery powers but also the power and responsibility to enforce certain criminal confiscation orders previously obtained by ARA. The figures for civil receipts and tax receipts have both already been quoted in SOCA's annual report for 2008/09 as a single amount of £16.7m under "civil recovery" (as per the advisory in the annual report, this figure was unaudited). The criminal receipts figure of £3.331m resulting from the additional power to enforce "legacy" confiscation orders has not previously been reported by SOCA as it cannot be counted towards civil and tax performance. It can however be counted as part of the overall receipts against which receivers' fees are netted off, as was done by ARA. Existing confiscation orders obtained by SOCA and new confiscation orders obtained since the merger continue to be enforced by the courts.

29. Recovered Assets Allowable Against Receivers' Fees

Section 280, Subsection 3 of the amended Proceeds of Crime Act (POCA) enables the Director General to meet the costs of an appointed Interim Receiver from sums received from Civil Recovery proceedings in a way which directly mirrors the provisions in criminal confiscation cases in Parts 2 and 4 of POCA. Receivers' fees totalling £4.498m were incurred on civil recovery during 2008-09. The commencement date of the provision was 1 July 2005 and, thereafter, the costs of Interim Receivers and Trustees were permitted to be offset against eventual case proceeds.

| | 2008/09 | 2007/08 |
|------------------------------------|----------------|-------------------|
| | £000s | restated £000s |
| Total receivers' fees in year | 4,498 | 4,732 |
| Assets in enforcement applied | (4,498) | (4,732) |
| Net receivers' fees in year | 0 | 0 |



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