



AGENDA NO: 11

INDEPENDENT AUDIT COMMITTEE – 07 APRIL 2020

2019/20 STATEMENT OF ACCOUNTS

REPORT BY LUCINDA HINES

PURPOSE OF THE REPORT

To inform the Independent Audit Committee of the key updates for the 2019/20 Statement of Accounts for the Office of the Police and Crime Commissioner's and the Chief Constable's.

1. INTRODUCTION

- 1.1 This report outlines the preparation for the 2019/20 Statements of Accounts; gives an update on the recommendations made by Grant Thornton after auditing the 2018/19 Statements of Accounts; and advises on changes to the accounting code, and associated accounting policy changes.

2. SALIENT POINTS

2.1 Grant Thornton Recommendations

Seven recommendations were common to Devon and Cornwall Police and Dorset Police.

2.1.1 Posting and authorising own journals

It was recommended that “staff should not be able to authorise and post their own journals”.

The weekly retrospective approval process has just been replaced by an Agresso system based approach which requires the separation of duties between inputting and authorising journals. As well as meeting the recommendation made by Grant Thornton, this approach will also improve efficiency and requires journals to be authorised before posting.

The management response to this recommendation in the Audit Findings Report stated that this new functionality would apply to journals over a certain level. Having given this more consideration and further discussions held with Grant Thornton and SWAP, I have removed the need for a criteria to be introduced so that all lines in a journal will be subject to review.

2.1.2 Posting journals across Devon and Cornwall Police and Dorset Police Ledgers

It was recommended that manual journals should not be posted across both Forces' ledgers.

At present, as a result of the percentage allocations within the alliance recharge mechanism, rounding can result in differences in total sums; these can only be corrected for through posting of manual journals, in line with the recommendation from the Financial Integrity work. The recharge process built into Agresso has been examined by the Support Services team with the aim of removing any rounding, but it has proved difficult to date to find a practical solution. We will therefore continue to see postings across ledgers. The journals themselves are tightly controlled, with only three people having access to create cross company journals and every journal is authorised by myself.

2.1.3 Asset register review

It was recommended that a review should be carried out to ensure the asset register has been fully updated for assets no longer required.

An asset register review has been completed and a number of assets identified that will be removed from the asset registers. It should be noted that the net book value of these assets is nil and has no impact on the balance sheet. However the gross value and gross depreciation will require amending in the Property, Plant and Equipment notes in the accounts. Discussions are currently being held with Grant Thornton on the best way to present this information in the accounts.

2.1.4 Payroll posted across Devon and Cornwall Police and Dorset Police Ledgers

It was recommended that "Management need to understand the reason for the payroll posting across the two ledgers and implement controls to address this weakness as soon as possible."

The payroll posting across ledgers is a fundamental part to the Alliance working arrangements and has been in place since 2016. Management understand the reasons for the postings and have introduced monitoring reports which are produced before and after the payroll is processed. For one particular aspect of the process, the support services team has reviewed the setup with the aim of preventing the second stage of the process being completed in the subsequent period. They have confirmed that changing the set-up could give rise to further work and possible errors. Therefore this part of the process will continue to rely on manual entry. It should be noted that if posting across two periods does occur it has no financial impact and the year to date trial balance is correct.

2.1.5 Purchase order process to be reviewed

It was recommended that "controls over purchase orders should be reviewed and strengthened".

A workflow process is being investigated by the Support Service Team. In the meantime, the process remains the same with a requirement for any purchase order request to be authorised by the budget holder, and all are reviewed by the Purchasing Team.

2.1.6 Administrative access to Agresso should be reviewed

It was recommended that "Management should review all the users (internal and external) with administrative access on the application and revoke other users who do not need this

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level of access including those from BT since they are responsible for Infrastructure support only. This level of access should be commensurate to user job roles and functions.”

The ICT Applications Area Lead has stated that the team regularly reviews permissions of users with access to the management console of the application, and has removed people who no longer require access.

2.1.7 User account access and permission reviews

It was recommended that management should perform consistent periodic, formal review of the user accounts and permissions within all systems.

A monthly report has been developed listing permissions per user for review by Departmental Heads in Finance. We are looking at other ways to capture changes in access as and when they happen rather than a retrospective review. Whilst Support Services look into this we will continue reviewing the report.

2.1.8 Other audit findings

Grant Thornton identified 8 adjustments that were required for the Dorset PCC Group and CC Accounts and 2 adjustments for Devon and Cornwall PCC accounts. These adjustments were made in the 2018/19 accounts, and the working papers for 2019/20 have been corrected to ensure that these particular adjustments don't reoccur.

2.2 **Accounting Code changes**

2.2.1 There are a few changes to the 2019/20 Code, mainly to clarify the requirements of specific areas within the Code or to provide additional guidance, but they do not change the requirements of the Code.

2.2.2 The accounting standards not yet adopted note will include a reference to the new accounting standards that will be introduced in the 2020/21 Code. The most significant change is the IFRS 16 Leases.

2.2.3 IFRS 16 Leases

IFRS 16 will be adopted from 1 April 2020. This accounting standard eliminates the current distinction between operating and finance leases, as is required by IAS 17 Leases, and instead introduces a single lessee accounting model. When applying the new model, the Group will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term for all leases with a lease term of more than 12 months if there is no option to extend the lease. CIPFA has also issued guidance that an authority can introduce a low value threshold, which will be set at £10k for each Force, which is in line with the capitalisation threshold.

We are working with colleagues in other Departments across both Forces to ensure that there is an understanding of the accounting standard and the requirements to ensure that we capture the information not just for the 2020/21 accounts, but also for future years.

2.3 **Accounting Policies**

A detailed review of accounting policies has been undertaken. This review included a cross reference between 2018/19 and 2019/20 accounting policies in the CIPFA code which were then cross checked against the accounting policies detailed in the accounts. Changes have been largely cosmetic. IFRS 9 Financial Instrument has been expanded to provide more

clarity on the accounting treatment. The 2019/20 draft accounting policies are detailed in Appendix A with changes highlighted in yellow.

2.4 Preparation of the 2019/20 Statement of Accounts

2.4.1 Immediately following the production of 2018/19 final accounts, the technical accounting team started considering and preparing for the 2019/20 accounts. The starting point of this work stems from the feedback given during the close down period. From this feedback, two key areas were identified as requiring review and improvement

2.4.2 Firstly, additional resources were required for: supporting the closedown of the accounts; production of the booklets; and to provide responses to queries from Grant Thornton. For the production of the 2019/20 accounts, the Heads of Business Accounting will be taking a lead role supported by two Management Accountants. I will continue to oversee the whole process.

2.4.3 The accounts template has successfully been rolled forward and enhanced with more automatic links and additional checks introduced. A review of this template has been undertaken by SMT and all agree that it is a good working document with clear workings between the notes and the source data.

2.4.4 The finance department has been issued with the detailed timetable and supporting standard operating procedures. A preparatory exercise has been completed and discussions held at team meetings and at the recent development day to ensure that everyone is clear about their responsibilities and contribution to the accounts.

2.4.5 The interim audit commenced on the 9th March. At the time of writing this report, the table below shows the position of the information supplied:-

Total Requests	Team preparing information to meet request	Information Submitted	Requests that have been queried*	Year End Related Request**
178	14	110	14	40

*These are requests which require us to provide data relating to last financial year. Clarification has been sought on whether it is the 2020 data that is required. If this is the case they will all fall into the year end related request box.

**Information for these requests can only be supplied after the 31st March.

3. CONCLUSION

3.1 Steps have been taken to address the recommendations made by Grant Thornton, and the 2019/20 Statement of Accounts incorporate the feedback from the 2018/19 accounts.

4. RECOMMENDATIONS

4.1 It is recommended that this report is noted.

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Appendix A

Note 1 Accounting Policies

1. General Principles

The statement of accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20; and the Accounts and Audit Regulations 2015 supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the statement of accounts is principally historical cost modified by the revaluation for certain categories of non-current assets and financial instruments. The financial statements have been prepared with due regard to the pervasive accounting concepts of accruals, going concern and primacy of legislative requirements.

2. Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the balance sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

3. Accounting Policy Developments and Changes

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Group's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

4. Prior Period Adjustments, Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment. Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

5. Events after the Balance Sheet Date

Events after the balance sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the statement of accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the statement of accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period – the statement of accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the statement of accounts.

6. Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Group a possible obligation whose existence can only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Group.

Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the balance sheet but disclosed in a note to the accounts.

7. Council Tax

The council tax income included in the comprehensive income and expenditure statement is the accrued income for the year. The difference between the income included in the comprehensive income and expenditure statement and the amount required by regulation to be credited to the general fund is taken to the collection fund adjustment account and included as a reconciling item in the movement in reserves statement.

The Group recognises its share of the council tax debtor and creditor balances and impairment allowances in its balance sheet. The Group also recognises:

- a creditor in its balance sheet for cash received from the billing authority in advance of the Police and Crime Commissioner receiving the cash from council tax debtors or;
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- a debtor in its balance sheet for its attributable share of net cash collected from council tax debtors by the billing authority but not paid over to it at the balance sheet date.

8. Revenue Expenditure Funded from Capital under Statute

Local Authority accounting regulations allow some items of expenditure, which do not result in the creation of a non-current asset for the PCC Group, to be funded as capital expenditure. Such expenditure is charged to the relevant service in the comprehensive income and expenditure statement in the year. Where the Group has determined to meet the cost of this expenditure from capital resources, a matching transfer is made in the movement in reserves statement from the capital adjustment account to the general fund balance so that there is no impact in the level of council tax.

9. Foreign Currency Translation

Where the Group has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective.

10. Government Grants and Contributions

Whether paid on account, by instalments or in arrears, Government grants and third party contributions are recognised as due to the Group when there is reasonable assurance that:

- the Group will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Group are not credited to the comprehensive income and expenditure statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the balance sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the comprehensive income and expenditure statement.

Where capital grants are credited to the comprehensive income and expenditure statement, they are reversed out of the general fund balance in the movement of reserves statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the capital grants unapplied reserve. Where it has been applied, it is posted to the capital adjustment account. Amounts in the capital grants unapplied reserve are transferred to the capital adjustments account once they have been applied to fund capital expenditure.

11. Financial Instruments

11.1 Financial Liabilities

Financial liabilities are recognised on the balance sheet when the Group becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the financing and investment income and expenditure line in the comprehensive income and expenditure statement (CIES) for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For the borrowings that the Group has, this means that the amount presented in the balance sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the CIES is the amount payable for the year according to the loan agreement.

11.2 Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. The Group holds financial assets measured at:

- amortised cost, and
- fair value through profit or loss (FVPL), and

- fair value through other comprehensive income (FVOCI)

The Group's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

11.3 Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the balance sheet when the Group becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the financing and investment income and expenditure line in the CIES for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the Group, this means that the amount presented in the balance sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable in the year.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the financing and investment income and expenditure line in the CIES.

11.4 Expected Credit Loss Model

The Group recognises expected credit losses on all of its financial assets held at amortised cost (or where relevant FVOCI), either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets, however where appropriate the simplified approach model is used to recognise expected credit losses for lease receivables and contract as assets. Only lifetime losses are recognised for trade receivables (debtors) held by the Group.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

11.5 Financial Assets Measured at Fair Value through Other Comprehensive Income

Financial assets that are measured at FVOCI are recognised on the balance sheet when the Group becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arise in other comprehensive income.

11.6 Financial Assets Measured at Fair Value through Profit or Loss

Financial assets that are measured at FVPL are recognised on the balance sheet when the Group becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the surplus or deficit on the provision of services.

11.7 Fair Value Measurements of Financial Assets

Fair value of an asset is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

The fair value measurements of the financial assets are provided by the Group Treasury advisors.

Any gains and losses that arise on the derecognition of the asset are credited or debited to the financing and investment income and expenditure line in the CIES.

12. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are short term investments that are readily convertible to known amounts of cash without penalty and with insignificant risk of change in value.

In the cash flow statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Group's cash management.

13. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and building elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

13.1 The Group as Lessee

13.1.1 Finance Leases

Property, plant and equipment held under finance leases are recognised on the balance sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Group are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- a finance charge debited to the CIES.

Property, plant and equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life.

The Group is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the general fund balance, by way of an adjusting transaction with the capital adjustment account in the movement in reserves statement for the difference between the two.

13.1.2 Operating Leases

Rentals paid under operating leases are charged to the CIES as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-

line basis over the life of the lease, even if this does not match the pattern of payment (e.g. there is a rent-free period at the commencement of the lease).

13.2 The Group as Lessor

13.2.1 Operating Leases

Where the Group grants an operating lease over a property or an item of plant or equipment, the asset is retained in the balance sheet. Rental income is credited to the other operating expenditure line in the comprehensive income and expenditure statement. Credits are made on a straight line basis over the life of the lease, even if this does not match the pattern of payments.

14. Joint Operations

The Group participates in a number of partnership activities. These arrangements involve the Group carrying out activities relevant to its own functions jointly with others. The Group accounts only for its share of the jointly controlled assets and the liabilities and expenses that it incurs on its own behalf or jointly with others in respect to its interest in the partnerships and income that it receives in relation to the partnership activities.

15. Overheads

The cost of overheads and support services are charged to service segments in accordance with the Group's arrangements for accountability and financial performance.

16. Employee Benefits

16.1 Benefits Payable during Employment

Short term employee benefits are those due to be settled wholly within 12 months of the year end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Group. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year end that employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to the surplus or deficit on the provision of services, but then reversed out through the movement in reserves statement so that holiday entitlements are charged to revenue in the financial year in which the holiday absence occurs.

16.2 Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Police and Crime Commissioner or Chief Constable to terminate an employee's employment before the normal retirement date. The amount is charged on an accruals basis to the comprehensive income and expenditure statement when the Police and Crime Commissioner or Chief Constable is demonstrably committed to the termination of the employment of an employee. Where termination benefits involve the enhancement of pensions, statutory provisions require the general fund balance to be charged with the amount payable by the Group to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards (this only applies to compulsory redundancies). In the

Movement in reserves statement, appropriations are required to and from the pensions reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end.

16.3 Post-Employment Benefits

Employees of the Chief Constable are members of four separate pension schemes:

- The Police Officer 1987 Scheme (PPS)
- The Police Officer 2006 Scheme (NPPS)
- The Police Officer 2015 Scheme (CARE)
- The Local Government Pensions Scheme (CARE)

All schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Group.

16.3.1 Police Officers' Pension Schemes

All Police Officers' Pension Schemes are accounted for as defined benefits schemes:

The liabilities of the Police Officers' Pension Schemes are included in the balance sheet on an actuarial basis using the projected unit method, i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc., and projections of projected earnings for current employees.

An estimate of the Employer's future cashflows is made using notional cashflows based on the estimated duration of all Police Schemes. These estimated cashflows are then used to derive a Single Equivalent Discount Rate (SEDR). The discount rate derived is such that the net present value of the notional cashflows, discounted at this single rate, equates to the net present value of the cashflows, discounted using the annualised Merrill Lynch AA rated corporate bond yield curve (where the spot curve is assumed to be flat beyond the 30 year point). This is consistent with the approach used at the previous accounting date which has been chosen to meet the requirements of IAS19.

16.3.2 The Local Government Pension Scheme

The Local Government Pension Scheme is accounted for as a defined benefits scheme:

The liabilities of the Peninsula Pension Scheme attributable to the Group are included in the balance sheet on an actuarial basis using the projected unit method – as described for the Police Officer Pension Schemes above.

An estimate of the Employer's future cashflows is made using notional cashflows based on the estimated duration of the past service liability. These estimated cashflows are then used to derive a Single Equivalent Discount Rate (SEDR). The discount rate derived is such that the net present value of the notional cashflows, discounted at this single rate, equates to the net present value of the cashflows, discounted using the annualised Merrill Lynch AA rated corporate bond yield curve (where the spot curve is assumed to be flat beyond the 30 year point). This is consistent with the approach used at the previous accounting date which has been chosen to meet the requirements of IAS19.

The assets of the Peninsula pension fund attributable to the Group are included in the balance sheet at their fair value:

- | | | | |
|---|---------------------|---|-----------------------|
| • | quoted securities | - | current bid price |
| • | unquoted securities | - | professional estimate |
| • | unitised securities | - | current bid price |
| • | property securities | - | current bid price |
| • | property | - | market value |

16.3.3 Net Pensions Liability Analysed

The change in the net pension's liability for the Pension Schemes is analysed into the following components:

Service cost comprising:

- current service cost - the increase in liabilities as a result of years of service earned this year – allocated in the comprehensive income and expenditure statement to the services for which the employees worked. Current service cost includes interest on the current service cost which is excluded from net interest on the net defined liability.
- past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years - debited to the surplus or deficit on the provision of services in the comprehensive income and expenditure statement.
- net interest on the net defined benefit liability (asset), i.e. net interest expense for the Group - the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the financing and investment income and expenditure line of the comprehensive income and expenditure statement - this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

Remeasurements comprising:

- the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the pensions reserve as other comprehensive income and expenditure (only applicable to the Local Government Pension Scheme).
- actuarial gains and losses - changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions - charged to the pensions reserve as other comprehensive income and expenditure.

Benefits paid (only applicable to the Police Officer Pension Schemes):

- cash paid to pensioners including injury pension payments.

Contributions paid (only applicable to the Local Government Pension Scheme):

- cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

16.3.4 Police Officers' Injury Benefits

The Group makes payment under the Police Injury Benefits Regulations. These payments are accounted for in the same way as payments under the main police officers' pension schemes. The figures are included within the unfunded pension calculation as the injury benefits may be financially significant with volatile actuarial gains and losses. These have been estimated by the independent actuary.

16.3.5 Impact on Reserves

For all of the Pension Schemes, statutory provisions require the general fund balance to be charged with the amount payable by the Group to the pension fund in the year, not the amount

calculated according to the relevant accounting standards. In the movement of reserves statement, this means that there are transfers to and from the pensions reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end. The negative balance that arises on the pensions reserve thereby measures the beneficial impact to the general fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

16.4 Discretionary Benefits

The Group also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

17. Provisions

Provisions are made where an event has taken place that gives the Group a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the appropriate service line in the comprehensive income and expenditure statement when the Group has an obligation and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation taking into account the relevant risks and uncertainties.

When payments are eventually made they are charged to the provision carried in the balance sheet. Estimated settlements are reviewed at the end of each financial year. Where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed (or reduced) and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as the income for the relevant service if it is virtually certain that the reimbursement will be received if the Group settles the obligation.

Provision is made for termination payments due to staff resulting from restructuring when the Group has raised a valid expectation to the staff affected that it will carry out restructuring by starting to implement a particular restructuring plan or announcing its main features to those affected by it. Each element of the Force restructuring plan will be treated separately and provision made of the estimated termination payments as and when each element of the plan is announced.

18. Reserves

The Group sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by transferring amounts out of the general fund balance. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the surplus or deficit on the provision of services in the comprehensive income and expenditure statement. The reserve is then transferred back to the general fund balance so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, local taxation, retirements and employee benefits and do not represent usable resources for the Group – these reserves are explained in the relevant policies.

19. Property, Plant and Equipment

Assets that have physical substance and are held for use in the supply of services or for administrative purposes and that are expected to be used during more than one financial year are classified as property, plant and equipment.

19.1 Recognition

Expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Group for more than one year and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense as it is incurred.

19.2 Measurement

Assets are initially measured at cost, comprising: purchase price and any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The Group does not capitalise borrowing costs incurred whilst the assets are under construction.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the taxation and non-specific grant income and expenditure line of the comprehensive income and expenditure statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the donated assets account. Where gains are credited to the comprehensive income and expenditure statement, they are reversed out of the general fund balance to the capital adjustment account in the movement in reserves statement.

Assets are then carried in the balance sheet using the following measurement bases:

- assets under construction - depreciated historical cost
- specialised assets - depreciated replacement cost (DRC)
- non-property assets - depreciated historical cost
- surplus assets - fair value, estimated at highest and best use from a market participant's perspective

Assets included in the balance sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year end but as a minimum every three years. Increases in valuations are matched by credits to the revaluation reserve to recognise unrealised gains. [Exceptionally, gains might be credited to the surplus or deficit on the provision of services where they arise from the reversal of a loss previously charged to a service.]

- where decreases in value are identified, they are accounted for by:
- where there is a balance of revaluation gains for the asset in the revaluation reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the revaluation reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the comprehensive income and expenditure statement.

19.3 Impairment

Assets are assessed at each year end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the revaluation reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the revaluation reserve or an insufficient balance, the carrying amount of the asset is written down in the comprehensive income and expenditure statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the comprehensive income and expenditure statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

19.4 Depreciation

Depreciation is provided for on all property, plant and equipment assets by spreading the cost over their useful working life. An exception is made for assets without a determinable finite useful life (i.e. land) and assets that are not yet available for use (i.e. asset under construction).

- Depreciation is calculated on the following bases:
- Vehicles – are depreciated monthly over the forecast useful life of the vehicle and the depreciation in the first year will reflect the number of months that the vehicle has been registered.
- Land and Buildings – the useful life of each building is assessed by the value and depreciated individually from the first of the month of acquisition; the land value is not depreciated. Where an asset comprises two or more major components with substantially different useful lives, each component is accounted for separately.
- Enhancements/Adaptions to leasehold buildings – are depreciated monthly over the life of the lease.
- Information Computer Technology – Depreciation is charged monthly from the first of the month of acquisition starting in the year of acquisition. The asset life of individual groups of assets has been assessed and each group is depreciated individually according to asset life.
- Plant and Equipment – These assets are given specific asset lives and are depreciated monthly.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable

based on their historical cost being transferred each year from the revaluation reserve to the capital adjustment account.

19.5 Disposals

When an asset is disposed of or decommissioned, the carrying amount of the asset in the balance sheet is written off to the comprehensive income and expenditure statement as part of the gain or loss on disposal. Receipts from disposals are credited to the same line in the comprehensive income and expenditure statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the revaluation reserve are transferred to the capital adjustment account.

Amounts received for a disposal in excess of £10k are categorised as capital receipts. Receipts are credited to the usable capital receipts reserve. Receipts are appropriated to the reserve from the general fund balance in the movement in reserves statement.

The written off value of disposals is not charged against council tax as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the capital adjustment account from the general fund balance in the movement in reserves statement.

19.6 Non-Current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an asset held for sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the other operating expenditure line in the comprehensive income and expenditure statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the surplus or deficit on the provision of services. Depreciation is not charged on assets held for sale.

If assets no longer meet the criteria to be classified as assets held for sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as assets held for sale and their recoverable amount at the date of the decision not to sell.

19.7 Surplus Assets

Non-current assets which are surplus to service needs, but which do not meet the criteria required to be classified as investment property, or assets held for sale are classified as surplus assets within property, plant and equipment. Surplus assets can be categorised as either non-current assets or current assets, depending on their nature. These assets are depreciated.

20. Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Group as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Group. Software that is integral to the operating of hardware is capitalised as part of the relevant item of property, plant and equipment.

20.1 Measurement

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Group can be determined by reference to an active market. No intangible asset held by the Group meets this criterion, and they are therefore carried at amortised cost.

20.2 Amortisation

The depreciable amount of an intangible asset is amortised over its useful life and charged to the comprehensive income and expenditure statement.

20.3 Impairment

Where there is an indication that the asset might be impaired – any losses recognised are posted to the comprehensive income and expenditure statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to other operating expenditure in the comprehensive income and expenditure statement.

21. VAT

VAT payable is included as an expense only to the extent that it is not recoverable from HMRC. VAT receivable is excluded from income.

22. Inventories

Inventories are included in the balance sheet at the lower of cost and net realisable value. The cost of inventories is assigned using an average cost formula.

23. Long Term Contracts

Long term contracts are accounted for on the basis of charging the surplus or deficit on the provision of services with the value of works and services received under the contract during the financial year.

24. Exceptional Items

When items of expenditure are outside the normal type of expenditure incurred by the Group they will be disclosed separately on the face of the comprehensive income and expenditure statement if they are material and a separate disclosure would be made to aid the understanding of the Group's financial performance.

25. Charges to Revenue Non-Current Assets

The comprehensive income and expenditure statement is debited with the following amounts to record the real cost of holding non-current assets during the year:

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the revaluation reserve against which the losses can be written off
- amortisation of intangible assets attributable to the service.

The Group is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue to contribute towards the reduction in its overall borrowing requirement (calculated on a prudent basis determined by the Group in accordance with statutory guidance). Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the general fund balance, by way of an adjusting transaction with the capital adjustment account in the movement in reserves statement for the difference between the two.

26. Investment Property

Investment properties are those that are used solely to earn rentals. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

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Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the financing and investment income and expenditure line in the comprehensive income and expenditure statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the financing and investment income line and result in a gain for the general fund balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the general fund balance. The gains and losses are therefore reversed out of the general fund balance in the movement in reserves statement and posted to the capital adjustment account and (for any sale proceeds greater than £10,000) the capital receipts reserve.