Item 2

ETAP 27 March 2019

Accounting Policies 2019-20

Staffordshire Commissioner

And

Chief Constable of Staffordshire Police

Approval Date:	
Approved by OPCC:	
Approved by Chief Constable:	

Contents

1. Introduction

1.1 In addition to his existing role overseeing Staffordshire Police, the Staffordshire Commissioner became responsible for the governance of the Staffordshire Fire and Rescue Service from August 2018. However both remain separate organisations, with separate budgets, staff and governance processes.

1.2 Although the Staffordshire Commissioner controls both organisations, for accounting purposes three sets of accounts will continue to be prepared for the Corporations sole:

- Office of the Police and Crime Commissioner
- Staffordshire Chief Constable
- Staffordshire Fire and Rescue Authority and Service

1.3 This report will detail the Accounting Policies which apply for the Staffordshire Police and Crime Commissioner and Chief Constable accounts; a separate report will follow for the Staffordshire Fire and Rescue Authority and Service. When reference is made to the Commissioner as part of this report, this represents his Staffordshire Policing role only.

1.4 The Office of the Police and Crime Commissioner (OPCC) and Chief Constable (CC) are required by statute to prepare Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. The Statement of Accounts are underpinned by applying the relevant accounting policies. The accounting policies used in this paper relate to both entities which are the OPCC and CC.

1.5 A draft Statement of Accounts must be prepared and certified by the responsible financial officer by 30th May 2020.

1.6 The External Auditors (Ernst & Young) have advised that, in accordance with best practice, the draft accounting policies should be reviewed by "those charged with governance" and ETAP before the start of the new financial year.

2. Analysis

2.1 The draft 2019/20 accounting policies changes are included in Appendix A. There are no material changes to the accounting policies from financial year 2018/19.

2.2 As stated in paragraph 1.3 the Accounting Policies will be reviewed by the external auditors and therefore are still subject to change before the draft accounts are produced. Any significant changes will be highlighted in as part of the report presenting the draft accounts.

3. Recommendations

3.1 The Accounting Policies at Appendix A are reviewed and recommended by ETAP for agreement by the Chief Constable and Commissioner.

3.2 The Chief Constable and Commissioner agree to adopt the Accounting Policies at Appendix A as amended for any recommendations by ETAP.

Appendix A

Accounting Developments and Changes 2019/20

The proposed developments for the 2019/20 Code are:

1. Narrow scope amendments to International Financial Reporting Standards
2. Legislative and Policy developments

1.	**<u>Narrow scope amendments to International Financial Reporting Standards</u>**	
	Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement The IASB issued IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement in February 2018. The amendments require that when a plan amendment, curtailment or settlement occurs during a reporting period entities use updated actuarial assumptions to determine current service cost and net interest for the remaining annual reporting period.	No substantial change but the disclosures will be completed as recommended in the guidance / LAAP bulletins when issued. No change to the policies is required.
	Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation The IASB has amended IFRS 9 to allow financial assets with negative compensation prepayment features to be measured at amortised cost or fair value through other comprehensive income. The amendments confirm in the Basis of Conclusions of the standard that most modifications of financial liabilities will result in immediate recognition of a gain or loss.	No substantial change but the disclosures will be completed as recommended in the guidance / LAAP bulletins when issued. No change to the policies is required.
	IAS 40 Investment Property: Transfers of Investment Property. The amendment to IAS 40 Investment Property provides clarification on transfers to or from the investment property classification.	N/A to Staffordshire Police or Commissioner
	Annual Improvements to IFRS Standards 2014 – 2016 Cycle The amendments under this set of annual improvements that may apply to local authorities relate to scope changes for the disclosure requirements of interests in other entities and measuring an associate or joint venture at fair value.	N/A to Staffordshire Police or Commissioner

	Amendments to IAS 28 Interest in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures The amendments clarify that IFRS 9 applies to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. **Annual Improvements to IFRS Standards 2015-17** The amendments include clarifications of IFRS in the following areas: • IFRS 3 Business Combinations and IFRS 11 Joint Arrangements: Previously held Interest in a Joint Operation • IAS 12 Income Taxes: Income Tax consequences of Payments on Financial Instruments classified as Equity, and • IAS 23 Borrowing Costs: Borrowing Costs Eligible for Capitalisation. **IFRIC 22 Foreign Currency Transactions and Advance Consideration** IFRIC 22 provides requirements about which exchange rate to use in reporting foreign currency transactions (such as revenue transactions) when payment is made or received in advance. **IFRIC 23 Uncertainty over Income Tax Treatments** IFRIC 23 clarifies the accounting treatments for uncertainties in income taxes and may apply to local authority Group Accounts.	N/A to Staffordshire Police or Commissioner N/A to Staffordshire Police or Commissioner N/A to Staffordshire Police or Commissioner N/A to Staffordshire Police or Commissioner
2	**Legislative and policy developments** **Apprenticeship Levy** A new section is introduced to the Code to provide application guidance for the payment of the levy as an expense and a tax, the recognition of the expenditure for levy funded training and grant income for the payments into the Digital Apprenticeship Service Account.	No substantial change but the disclosures will be completed as recommended in the guidance / LAAP bulletins when issued. No change to the policies is required.

Future developments for the 2020/21 Code are:

IFRS 16 Leases

The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17 'Leases' and related interpretations and is effective for periods beginning on or after 1 January 2020.

Appendix B

Accounting Policies 2019/20

This section explains the accounting policies applied in producing the Statement of Accounts. The accounting policies apply to all of the Group, OPCC and CC single entity transactions and statements unless stated otherwise. Where the term “Group” is used below this refers to both the individual statements as well.

General Principles (IAS 8)

Statutory Guidance and Accounting Standards used

The Statement of Accounts summarises the Group’s transactions for the 2019/20 financial year and its position at 31st March 2020. It provides the reader with information about the Group's financial position and its stewardship of public funds. The accounting policies are the specific principles, bases, conventions, rules and practices applied by the Group when preparing and presenting the financial statements. The annual Statement of Accounts is a legal requirement under the Accounts and Audit Regulations 2015 and must comply with proper accounting practices. These practices are set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code) and the Service Reporting Code of Practice 2019/20 which is based on approved accounting standards. The accounts are supported by International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS).

Changes in Accounting Policies

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effects of transactions, other events and conditions in 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.

Group Accounts

Under the Police Reform and Social Responsibility Act 2011, the roles of OPCC and CC became Corporations Sole (separate legal entities) and required individual Statement of Accounts. However, the Act also recognises that the Chief Constable is a wholly owned subsidiary of the OPCC and proper accounting practices require group accounts to be produced.

Income and Cost Recognition and Intra-group Adjustment

The OPCC is responsible for the Police Fund into which all income is received including the main funding streams of Police Grant, Revenue Support Grant, National Non-Domestic Rates and Council Tax as well as income from charges and from which all costs are met.

The OPCC holds a bank account along with the Chief Constable: the OPCC transfers money to the Chief Constable bank account from where those payments can be made.

The Chief Constable's Accounts show the cost of undertaking day to day operational policing under the direction and control of the Chief Constable. Expenditure shown in the CIES include the salaries of police officers, PCSOs and police staff as well as the cost of purchases. In addition, a charge is shown for the Chief Constable's use of assets, which are strategically controlled by the PCC. The capital charge is equal to depreciation of property, plant and equipment and amortisation of intangible assets plus any charge for impairment through obsolescence or physical damage. To fund the operational expenditure, the Chief Constable's Accounts show income by way of funding or financial guarantee provided by the OPCC to the Chief Constable. This treatment forms the basis of the intra-group adjustment between the Accounts of the OPCC and the CC.

The cost of post-employment benefits accrued by serving and ex-police officers and police staff and the cost of accrued absences are shown in both set of accounts.

Revenue from Contracts with Customers (IFRS 15)

IFRS 15 determines that the Group should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services.

- Revenue recognised from contracts with customers, including the disaggregation of revenue into appropriate categories
- Contract balances, including the opening and closing balances of receivables, contract assets and contract liabilities
- Performance obligations, including when the entity typically satisfies its performance obligations and the amount of the transaction price that is allocated to the remaining performance obligations in a contract
- Significant judgements, and changes in judgements, made in applying the requirements, and
- Assets recognised from the costs to obtain or fulfil a contract with a customer.

Accruals of Income and Expenditure

The revenue and capital accounts of the Group are maintained on an accrual basis. This means that income and expenditure are recognised in the accounts in the period in which they are earned or incurred and not when money is received or paid. Further details are given below:

Revenue from the sale of goods is recognised when the Group transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Group.

Revenue from the provision of services is recognised when the Group can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Group.

Where income and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Cash received or paid and not yet recognised as income or expenditure is shown as a creditor (receipt in advance) or debtor (payment in advance) in the Balance Sheet and the Comprehensive Income and Expenditure Statement (CIES) adjusted accordingly. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Fees, charges and rents due from customers are accounted for as income at the date that the associated goods or services are provided.

For significant accruals such as pay awards, estimates are made based on the best information available at the time. Cost of pay awards not yet settled but likely to apply to part of the financial year to which the accounts relate are based on forecasted cost.

Interest payable on borrowings and interest receivable on investments is accounted for as income and expenditure based on the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

Income and expenditure are credited and debited to the relevant service revenue account in the CIES. Capital expenditure creates a fixed asset which is shown on the Balance Sheet.

Specifically the Council Tax precept on billing authorities is accounted for on an accruals basis. As a preceptor the Group recognises its share of collection fund debtors and creditors with each billing authority. Entries are therefore included within the Balance Sheet to represent the Group's share of the following:

- Council Tax arrears (debtor)
- Impairment allowance for bad/doubtful debts (debtor)
- Council tax overpayments and prepayments (creditor)
- Cash Balances (debtor or creditor as appropriate)

Accruals have been made on the basis of the known value of the transaction wherever possible. Where estimates have been required to be made, they are based on appropriate and consistently applied methods. Where there has been a change to an estimation method from that applied in previous years and the effect is material, a description of the change and if practicable, the effect on the results for the current period is separately disclosed.

Manual accruals of revenue or expenditure are not made where the value of the item is less than £100.

Prior Period Adjustments, Changes in Accounting Policies and 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.

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 otherwise stated) by adjusting opening balances and comparative amounts for the prior period as if the new policy has always been applied. Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

Events after the Balance Sheet Date (IAS 10)

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the Balance Sheet date of 31 March and the date when the Statement of Accounts is authorised for issue. The two types of events and the accounting treatment are given below:

For any material events after the balance sheet date which provide additional evidence regarding conditions existing at the balance sheet date, an adjustment has been made to the Statement of Accounts.

Material events after the balance sheet date which concerned conditions not existing at 31 March have been disclosed as a separate note to the accounts.

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

Government Grants and Contributions (IAS 20)

Government grants and other contributions are recognised as due to the Group when the attached conditions have been satisfied and there is reasonable assurance that the grant or contribution will be received.

Grants and contributions are credited to income when there is reasonable assurance that the attached conditions will be met. Any grants received where conditions have not been met are carried in the Balance Sheet as creditors. When all conditions are satisfied, the grant is credited to the relevant service line and non-ring fenced grants and capital grants are credited to Taxation and Non-specific grant income in the CIES.

Where capital grants are credited to the CIES, they are reversed out of the General Fund Balance in the MIRS. 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 Adjustment Account once they have been applied to fund capital expenditure.

Leases (IAS 17)

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.

Operating Lease - Receivable (Group as lessor)

Where the Group has granted 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 CIES. Credits are made on a straight line basis over the life of the lease and any direct costs incurred in negotiating and arranging the lease are added to the carrying amount and charged as an expense over the lease term on the same basis as rental income.

Operating Lease - Payable (Group as lessee)

Rentals paid under operating leases are charged to the service benefiting from use of the leased asset in the CIES. Charges are made on a straight-line basis over the life of the lease, regardless of the pattern of payments.

Finance Lease – (Group as lessor)

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 this is 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 Financing and Investment Income and Expenditure line in 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 (where the ownership of the asset does not transfer to the Group at the end of the lease period).

Employee Benefits (IAS 19)

Benefits Payable during Employment

Under IAS19 short term employee benefits are those to be settled within 12 months of the year end. They include such benefits as salaries and wages, paid annual leave, paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for the service in the year in which employees render service to the Group. An accrual is made for the cost of holiday entitlements, flexi leave and time off in lieu earned by employees but not taken before the year end, which employees can carry forward into the next financial year. The accrual is made at the salary rates applicable at year end. The accrual is charged to the Surplus or Deficit on the Provision of Services but then reversed out through the MIRS so that such benefits are charged to revenue in the financial year in which the benefit occurs. The accumulated cost is carried to the Chief Constable's Balance Sheet where is it held as a liability and is matched by an unusable reserve.

Termination Benefits

This policy only applies to members of police staffs including PCSOs. Termination benefits are amounts payable as a result of a decision by the Group to terminate an employee's employment before the normal retirement date or an employee's decision to accept voluntary redundancy. These benefits are charged on an accruals basis to the Non Distributed Costs line in the Group's CIES. They are charged when the Group is demonstrably committed to the termination of the employment of an employee or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the Police 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. In the MIRS, 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.

Defined Benefit Schemes (Post-Employment Benefits)

Employees of the Group are members of one of two separate defined benefit pension schemes which provide lump sums and pensions upon retirement:

- <u>Police Officers – Police Pension Scheme (PPS)</u>

From 1 April 2015 the Police Pension Scheme 2015 was introduced which changed accrued pension entitlements from a final salary basis to career average. All new police recruits will join this scheme from April 2015. Police Officers in post before this date will be members of the previous 1987 and 2006 schemes or may have transferred to the 2015 scheme dependent upon protection and transitional arrangements for the previous schemes.

Under the Police Pensions Regulations 1987 (as amended) the schemes have no investment assets and the Pension Fund is balanced to nil each year by a transfer from the Police Fund. The Home Office then pay a top-up grant, not exceeding the amount of the transfer, back into the Police Fund. In accordance with IAS19, the charge to the CIES represents the increase in the benefits earned by officers in the current period, including the related finance costs and any changes in the value of the unfunded liabilities.

International Accounting Standard (IAS) 19 requires the nominal discount rate to be set by reference to market yields on high quality corporate bonds or where there is no deep market in such bonds then by reference to government bonds. The PPS liabilities are discounted using the nominal discount rate based or government bond yield of appropriate duration plus an additional margin. Discount rates used by the actuaries and other assumptions are sent out in Appendix XX in the accounts.

- <u>Police Staff - the Local Government Pension Scheme (LGPS), Administered by Staffordshire County Council</u>

In accordance with IAS19 the charge to the CIES represents the increase in the benefits earned by employees in the current period, including the related finance costs and any changes in the value of the assets and liabilities of the scheme.

The liabilities of the pension fund attributable to the Group 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 anticipated earnings for current employees.

Liabilities are discounted to their value at current prices in line with the actuary's agreed discount rate as stated in the relevant Note to the Accounts. The assets attributable to the Group are also included in the Balance Sheet at fair value:

- Quoted securities – current bid price

- Unquoted securities – professional valuation

- Utilised securities – current bid price

- Property – market value

The change in the net pensions' liability is analysed as follows:

Current service cost – the increase in liabilities as a result of years of service earned this year. This is charged to the CIES and is apportioned across service headings according to numbers of employees.

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 and charged to the CIES as part of the Non-Distributed Costs.

Net Interest – on the net defined benefit liability (asset), i.e. the 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 CIES. 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.

The re-measurements comprise of:

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.

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.

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

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Group to the pension fund or directly to pensioner in the year, not the amount calculated according to the relevant accounting standards. In the MIRS, this means that there are appropriations to and from the IAS19 Pension Reserve to remove the notional debits and credits for the 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 IAS19 Pension Reserve thereby measures the beneficial impact to the General Fund of being required to account for the retirement benefits on the basis of cash flows rather than as benefits that are earned by employees.

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.

Injury Awards

Injury awards under The Police (Injury Benefits) Regulations 2006 are not part of the Police Pensions Scheme and are funded direct from the CIES. However, liabilities in respect of injury awards are disclosed in the Statement of Accounts as part of the Group overall liability and are measured on an actuarial basis, using the projected unit method.

Charges to Service Revenue Accounts for Non-Current Assets

Service revenue accounts, support services and trading accounts are 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 attributable to the clear consumption of economic benefits on tangible fixed assets used by the service, and other losses where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.
- Amortisation of intangible fixed assets attributable to the service.

The Group is not required to raise council tax (via precept) to fund depreciation, revaluation and impairment losses or amortisation. However, he is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement in accordance with the Local Authorities (Capital Finance & Accounting) (England) Regulations 2003, as amended, known as the Minimum Revenue Provision.

Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the Minimum Revenue Provision contribution in the General Fund Balance by way of an adjusting transaction within the Capital Adjustment Account in the MIRS for the difference between the two.

Jointly Controlled Operations (IAS 31)

Jointly controlled operations are activities undertaken by the Group in conjunction with other ventures that involve the use of the assets and resources of the ventures rather than the establishment of a separate entity. The Group recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the CIES with the expenditure it incurs and the share of income it earns from the activity of the operation. Jointly controlled assets are items of property, plant or equipment that are jointly controlled by the Group and other ventures, with the assets being used to obtain benefits for the ventures. The joint venture does not involve the establishment of a separate entity. The Group accounts for only its share of the jointly controlled assets, the liabilities and expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

Exceptional Items

Normally any material exceptional items are separately identified on the face of the CIES, in order to give a fair presentation of the accounts. Where these items are less significant they are included within the relevant line of the CIES, however, details of all exceptional items are given in the Explanatory Foreword.

Cash and Cash Equivalent (IAS 39)

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 highly liquid investments that mature in no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In both the Balance Sheet and 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 cash management.

Financial Instruments (IFRS9)

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 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 most of 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.

The Group has not entered into the repurchase or early settlement of borrowing.

Financial Assets

Financial assets are classified into two types:

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
- Available for sale' assets – assets that have a quoted market price and/or do not have fixed or determinable payments

Loans and receivables 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 loans the Group has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable plus accrued interest, and the interest credited to the CIES is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made in the CIES. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

'Available for sale' assets are recognised on the Balance Sheet when the Group becomes a party to a contractual provision of a financial instrument and is initially measured and carried at fair value.

When the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the CIES for interest receivable are based on amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income is credited to the CIES when it becomes receivable by the Group.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- Instruments with quoted market prices – the market price
- Other instruments with fixed and determinable payments – discounted cash flow analysis
- Equity shares with no quoted market prices – independent appraisal of company valuations

The inputs to the measurement techniques are categorised in accordance with the following three levels

- Level 1 – inputs are quoted prices in active markets for identical assets and liabilities
- Level 2 – inputs are other than quoted prices in Level 1 that are observable for the asset or liability either directly or indirectly
- Level 3 – inputs are unobservable inputs for the asset or liability

Changes in fair value are balanced by an entry in the 'Available for sale' Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of 'Available for sale' Financial Assets. The exception is where impairment losses have been incurred and are debited to the Financing and Investment Income and Expenditure line in the CIES, along with any net gain or loss for the asset accumulated in the 'Available for sale' Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event; that payments due under the contract will not be made (fixed or determinable payments); or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the CIES. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gain and losses that arise on the de-recognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES along with any accumulated gains or losses previously recognised in the 'Available for sale' Reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost less any impairment losses.

Property, Plant and Equipment (PPE) (IAS 16) and Intangible Assets (IAS 38)

PPE - Recognition

General

All expenditure on the acquisition, creation or enhancement of PPE is capitalised on an accruals basis, provided that it brings benefits to the Group for more than one financial year. Expenditure that maintains but does not extend the previously assessed standards of performance of an asset (e.g. repairs and maintenance) is charged to revenue as an expense when it is incurred.

Surplus Assets

Assets that are surplus to service needs but that do not meet the classification of Investment Property or Assets Held for Sale are classified as PPE 'Surplus', pending a decision on the future use of the asset.

Intangible assets

Assets that do not have physical substance, but are identifiable and controlled by the Group. e.g. software licences

De Minimis

The Group has agreed a de Minimis level of £10,000 for the acquisition, renewal or replacement of buildings, plant and machinery or other equipment to count as prescribed capital expenditure.

Measurement

Assets are initially measured at cost, i.e. purchase price plus any costs incurred in bringing the asset into working condition for its intended use and the initial estimate of the costs dismantling and removing the items and restoring the site on which it is located.

The Group does not capitalise borrowing costs.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Group). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Group.

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 line in the CIES unless the donation has been made conditionally. In such cases until the conditions are satisfied the gain is held in the Donated Assets Account. Where gains are credited to the CIES 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 Group Balance Sheets at fair value, determined as the amount that would be paid for the asset in its existing use, with the exception of assets under construction which are depreciated on a historical cost basis.

Assets included in the Balance Sheet at current value are revalued, as a minimum, every 5 years. However, if there is evidence that there have been material changes in the value a further valuation will be undertaken. Increases in valuations are matched by credits to the Group Revaluation Reserves to recognise unrealised gains.

Any revaluation losses are firstly written down against any previous revaluation gains held in the Revaluation Reserve. Where there are no previous revaluation gains, the losses are charged to the relevant service line of the CIES.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment (IAS 39)

Asset values are assessed at the end of each financial year for evidence of reductions in value. If identified either as part of this review or as a result of a valuation exercise, they are accounted for as follows:

- Where there is a balance of revaluation gains on the Revaluation Reserve for the relevant asset the impairment loss is charged against that balance until it is used up. Thereafter, or if there is no balance of revaluation gains the impairment loss is charged to the relevant service line of the CIES.
- For intangible assets there will be no Revaluation Reserve balance, so impairment losses are charged to the relevant service line of the CIES only.

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

Depreciation and Amortisation (IAS 16/38)

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without determinable finite useful life (i.e. freehold) and assets that are not yet available for use (i.e. assets under construction). Assets are not depreciated or amortised in the year of acquisition, but a full year's charge is made in the year of disposal.

Depreciation is calculated on the following bases:

- Buildings – straight line allocation over the useful life of the property as estimated by the Valuer;
- Vehicles, plant, furniture and equipment (including Information Technology) – a percentage of the value of each class of assets in the Group's Balance Sheet, as advised by a suitably qualified officer.
- Intangible Assets – amortised on a straight line basis over the life of the licences ranging over a number of years dependent on the license agreement.

Where an item of Property, Plant and Equipment has major components whose cost is significant in relation to the total cost of the item, the components are separated from the main item and depreciated separately.

The Revaluation Reserve is also reduced for the depreciation relating to revaluation gains with a corresponding credit to the Capital Adjustment Account.

Disposals

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Group Balance Sheets is written off to the Other Operating Expenditure line in the CIES as part of the gain or loss on disposal. This line is also netted off for any receipts from disposals. Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Gains and Losses on Sale of Assets

Where sale proceeds are in excess of £10,000, the gain or loss on sale or disposal (including finance leases) is removed from the CIES and adjusted with the Usable Capital Receipts Reserve (for sale proceeds) and the Capital Adjustment Account (for carrying value in the Balance Sheet).

The Usable Capital Receipts Reserve can then only be posted against the Capital Adjustment Account when financing new capital expenditure. In the meantime the Reserve is included as a reduction in the calculation of the Capital Financing Requirement.

Assets Held for Sale (IFRS 5)

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 the fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to Other Operating Expenditure line in the PCC and OPCC Group's 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 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 Held for Sale, and their recoverable amount at the date of the decision not to sell. Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

Inventories/Stocks (IAS 2)

Stock is valued at the lower of cost or current replacement cost where it is held for distribution at no charge. The stock reflected in the Balance Sheet relates predominantly to uniforms and equipment which is distributed to officers as appropriate.

Provisions (IAS 37)

Provisions have only been recognised in the accounts where there is a legal or constructive obligation to transfer economic benefits as a result of a past event and where such an amount can be reliably estimated. Provisions are charged to the CIES and, depending on their materiality, are either disclosed as a separate item on the Balance Sheet or added to the carrying balance of an appropriate current liability. When expenditure is eventually incurred, it is charged to the provision set up in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year. Where it is apparent that the provision is not required or is lower than originally anticipated, the provision is reversed and credited back to the relevant part of the CIES.

The force restructuring provision was established to meet the costs of voluntary redundancies and early retirements on the grounds of voluntary redundancy, agreed during the current financial year (and charged to the CIES in that year) but falling into the following financial year. The costs are charged directly to the provision when they are actually paid out.

The insurance provision was established to meet liability claims which are not covered by external insurers. The balance reflects the Group's independent external insurance advisor's assessment of the level of outstanding liabilities. The provision represents non-current amounts which are expected to be recovered or settled over more than 12 months. No amounts are expected within one year.

Contingent Liabilities

Where a potential provision cannot be accurately estimated or an event is not considered sufficiently certain, it has not been included in the accounts but is instead disclosed in the notes as a contingent liability. A contingent liability also occurs where a liability may arise but is dependent upon the outcome of future events before it can be confirmed.

Contingent Assets

A contingent asset occurs where a possible asset may arise but is dependent upon the outcome of future events before it can be confirmed Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Reserves

The Group sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Transfers to and from reserves are shown in the MIRS and not within services. Expenditure is charged to the CIES and not directly to any reserve. Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement, and employee benefits and are not usable resources for the Group.

Revenue Expenditure Funded from Capital under Statute (REFCUS)

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the CIES in the year. Where the PCC has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the MIRS from the General Fund Balance to the CAA then reverses out the amounts charged so that there is no impact on the level of council tax.

Value Added Tax

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue & Customs and all VAT paid is recoverable from it.

Assumptions about the Future and other Major Sources of Estimation Uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Group about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. The assumptions made about future and other major sources of estimation and uncertainty are in the following table:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Group will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation would increase and the carrying amount of the assets would fall, however, the assets are revalued on a rolling three year basis so the lives of the assets are regularly adjusted to allow for actual maintenance schedules. This, along with the increase in disposals, should negate the need to reduce lives further in the coming year.
Insurance Reserve	The Insurance Fund was subject to a full revaluation in 2018/19. This review confirmed that there were sufficient funds for future liabilities. The only uncertainly is the potential increase in claims as a result of the current economic climate, e.g. increase in fraud claims.	The fund evaluation in 2018/19 reassured OPCC that there were sufficient funds in the insurance reserves for outstanding current and potential liabilities.
Insurance Provisions	The insurance provision is based on estimates for all claims/liabilities known to the Group. Each claim is assessed and estimated based on experience and knowledge from previous similar claims and from information provided by the insurance company. These insurance provisions are updated for any known changes as and when required internally and on a monthly basis by the insurance company.	It is difficult to predict the actual outcome of most claims until they are finalised, however for these items the risk is clearly identified to the Group. A bigger risk is for any unforeseen, unusual insurance claims successfully made against the force. However, the Group has a £100,000 limit on each and every incident before the insurance company will then cover all other costs. Therefore, this is the maximum risk for every incident.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Group with expert advice about the assumptions to be applied.	The effects on the net pension’s liability of changes in individual assumptions can be measured and are shown in section 10.

Accounting Policies not relevant or not material

The accounting policies are reviewed each year to assess whether it is appropriate for individual policies to be included. There are a number of accounting policies that have not been included above, because the statements are not materially affected by their implementation. These policies include:

- Acquisitions and Discontinued Operations
- Restructuring of loan portfolios and treatment of bonds
- Use of capital receipts to fund disposal costs
- Foreign Currency Translation
- Intangible Assets – Recognition of website development and other internally generated assets
- Long term contracts
- Interests in companies and other entities
- Investment properties (IAS 40)
- Private Finance Initiatives and Similar Contracts.
- Heritage Assets
- Financial Instruments – soft loans