

MOPACMAYOR OF LONDON
OFFICE FOR POLICING AND CRIME

MPS-MOPAC JOINT AUDIT PANEL

8 January 2020

Accounting policies and key judgements in preparing the 2019/20 Statements of Accounts

Report by: The Interim MOPAC Chief Finance Officer and MPS Director of Finance

Report Summary

Overall Summary of the purpose of the Report

This report updates Audit Panel on proposed changes to the accounting policies and key judgements of MOPAC and CPM for the 2019/20 statements of accounts.

Key Considerations for the Panel

There are no key changes to accounting policies required to comply with the 2019/20 CIPFA Code of Practice. A change has been made to the accounting policy on componentisation of fixed assets in response to findings from the external audit.

There are significant future changes resulting from the adoption of *IFRS 16 Leases* which comes into effect from 1 April 2020.

Recommendations

The Audit Panel is recommended to:

- a. Note the changes outlined in this report for current and future years; and
- b. Approve the accounting policies for the Group for the 2019/20 production of the statement of accounts outlined in detail in Annex 1 and 2.

1 Supporting Information

Changes to Accounting Policies

- 1.1. There have been no significant changes to the CIPFA Code of Practice 2019/20 from last year that require revisions to the accounting policies of MOPAC and the CPM to ensure continued compliance with the Code.
- 1.2. However, as part of the annual review of the accounting policies, and in response to audit findings, a revision has been made to the accounting policy on componentisation of fixed assets (see Annex 1 MOPAC 2.8), in order to remove restrictive parameters which are not required to ensure that the accounts are materially correct. This will allow MOPAC to apply greater judgement when deciding whether to componentise fixed assets whilst remaining compliant with the Code.
- 1.3. There is a further significant change to the accounting policies from the policies presented to Audit Panel last year in respect of general principles (Annex 1 - MOPAC 2.1 and Annex 2 - CPM 2.1). This covers the treatment of the past service costs which were recognised in the 2018/19 accounts relating to the McCloud pensions judgement. The strict interpretation of the Code would have required that the costs were allocated across service segments. The rationale for creating a new service segment to recognise these costs rather than allocate the costs across service segments as prescribed by the Code was to ensure that the costs of policing disclosed in the Comprehensive Income and Expenditure Statement (CIES) remained understandable to users of the accounts and therefore achieved a true and fair presentation within the accounts. This has been clearly explained in the accounting policies (as it was in the published 2018/19 accounts) as a departure from the requirements of the Code in order to ensure that the 2018/19 final accounts presented a true and fair view.
- 1.4. Proposed accounting policies for MOPAC and the CPM to be applied in 2019/20 are disclosed in Annex 1 and Annex 2.
- 1.5. These accounting policies have been approved by the CPM and MOPAC CFOs respectively.

Key judgements and accounting estimates

- 1.6. There are no proposed changes to key judgements or methodology for significant accounting estimates, however there are some updates to note below.
- 1.7. There have been further developments in respect of the legal cases (McCloud and Sargeant) relating to transitional protections provided in the move to new career average pension schemes across the public sector. The government has announced that it accepts that the judgment in these two cases applies to all the main public sector pension schemes including the police pension scheme. There is still significant uncertainty over the remedy to those members who did not receive the transitional protection in 2015 in order that they do not unfairly lose out. A hearing has been scheduled for February 2020 to explore this further,

however the remedy is likely to involve additional changes to the pension scheme to eliminate the discrimination.

- 1.8. The IAS19 pension liability at 31 March 2019 in the 2018/19 accounts included an assumption that there would be a remedy based on providing transitional protection to all active members. The effect of this was to increase the value of the pension liability in the accounts by £1.4bn. Given the current position there is no need to change this assumption in the actuarial calculations which will be undertaken to value the IAS19 pension liability at 31 March 2020, although our actuaries are keeping developments under close scrutiny. The MPS are leading the work of NPCC to ensure that the accounting for the impact of McCloud is appropriate and agreed with stakeholders.
- 1.9. There is a further possibility that claimants who were discriminated against under the pension changes may also lodge claims for compensation including injury to feelings. Such claims would have to be made on an individual basis. No provision has been created in the accounts for this as it is not clear at this stage that there exists a liability for the MPS (or other employers).
- 1.10. There will be similar impacts on the Civil Service Pension Scheme (and all other public sector schemes), however, this scheme is recognised as a defined contribution scheme in the CPM/MOPAC accounts, so there is no IAS19 impact.
- 1.11. In the 2018/19 MOPAC accounts, a contingent liability was recognised in relation to HMRC's assertion that Forensic Medical Examiners (FMEs) should be treated as employees for tax purposes. The estimated liability in unsettled income tax and National Insurance contributions could have been up to £21m. The MPS and HMRC have negotiated an agreement from 1 October 2019 to treat FMEs as employees for tax and NIC purposes only. Any tax due will be paid on account and will be prospectively applied from this date – therefore there will be no retrospective settlement required in relation to arrangements in place prior to this date. As a result, we will no longer disclose a contingent liability for this issue.

Future changes to accounting policies

- 1.12. IFRS 16 Leases was issued to replace IAS 17, effective for accounting periods commencing after January 2019. It was therefore due to be incorporated into the Code for the 19/20 accounts. However, CIPFA deferred the implementation date until 1 April 2020, a decision driven largely by the desire to ensure there is consistency across the public sector, particularly on issues such as subsequent measurement of leased assets. In July 2019 CIPFA issued the proposed text for the adoption of IFRS 16 into the 2020/21 Code.

IFRS 16 removes the previous lease classifications of operating and finance leases for lessees and requires that a right-of-use asset be recognised for all leases, with exemptions for short-term and low value leases. There are no changes to the classifications for lessors. Depreciation and interest will need to be charged to the Surplus or Deficit on provision of services and there will be impacts on the capital financing requirements for leased assets as the cost on recognition will meet the definition of capital expenditure.

Our initial data gathering exercise has identified in the region of 250 existing property operating leases which may potentially be captured by this standard. We are undertaking a detailed data capturing exercise on these leases in conjunction with colleagues in Property Services Department to assess whether to recognise a right to use asset and liability for these leases. As part of this exercise leases are being grouped into types with similar characteristics to assist judgments required around treatment. Once all the required data has been captured on these operating leases, we can model the impact on budgets and the accounts. From April 2020 a software solution will be implemented to record future leases information to enable compliance with IFRS 16.

As part of considering the impacts, we will look at related accounting policies such as our current capitalisation threshold which is relatively low compared to other forces. Our capitalisation threshold is what we will use to assess which leases are considered low value and therefore exempt from IFRS 16 requirements.

- 1.13. The leasing standard also applies to non-property leased assets. There are exemptions available for short life and low value leases. However, it is likely that no exemptions would be available for leased vehicles. There is currently a mixed approach to vehicle purchases under the fleet strategy which includes purchase and hire purchase. However, fleet services have confirmed that the anticipation is to move away from hire purchase (leasing) arrangements within the next two years. As such, the impact of IFRS 16 for vehicles will disappear in the next two years. In order to avoid the resource intensive exercise of obtaining the data required to report on existing vehicle leasing, it is proposed that vehicles continue to be recognised as an 'operating lease' from 1 April 2020. There are currently approximately 50 leased vehicles in scope of IFRS 16 with outstanding lease obligations of c£500k. This departure from the Code would not be material.

2. Equality and Diversity Impact

There are no equality and diversity implications directly arising from this report.

3. Financial Implications

There are no direct financial implications arising from the proposals in this paper.

4. Legal Implications

There are no direct legal implications arising from the report.

5. Risk Implications

Two of the proposals (past service costs and leases) are not code compliant and may result in adverse comment from our auditors. However, the treatment of past service costs was included in the 2018/19 accounts which were signed off by the auditors, and the treatment of vehicle leases is both expected to not be material and be short term in nature.

6. Contact Details

Report author – Paul Oliffe, Chief Accountant, MPS, Director Ian Percival,
Director of Commercial and Finance
Email: paul.oliffe@met.police.uk

7. Appendices and Background Papers

Annex 1 – draft MOPAC Accounting Policies 2019/20
Annex 2 – draft CPM Accounting Policies 2019/20

Annex 1: Accounting policies for MOPAC for 2019/20

2.1 General principles

These financial statements have been prepared in accordance with the Code of Practice (the Code) on Local Authority Accounting in the United Kingdom 2019/20 issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Accounts and Audit Regulations 2015. The accounting policies contained in the Code apply International Financial Reporting Standards (IFRS) as adapted for the public sector by the International Public Sector Accounting Standards (IPSAS).

The Accounts have been prepared on a going concern basis using an historic cost convention, modified to account for the revaluation of certain categories of tangible fixed assets and financial liabilities.

Following the passing of the Police Reform and Social Responsibility Act 2011 the Metropolitan Police Authority (MPA) was replaced on 16 January 2012 with two 'corporations sole', the Mayor's Office for Policing And Crime (MOPAC) and the Commissioner of Police of the Metropolis (CPM). Both bodies are required to prepare a separate Statement of Accounts. The Narrative Report which accompanies the Accounts sets out the roles and responsibilities of each in more detail.

The Financial Statements included here represent the accounts for MOPAC and also those for the MOPAC Group, consolidating the financial activities of MOPAC and the CPM. The Financial Statements cover the 12 months to the 31 March 2020 (with prior year as a comparative year). The term 'Group' is used to indicate combined transactions and policies of MOPAC and its subsidiary and CPM for the year ended 31 March 2020. The identification of MOPAC as the holding organisation and the requirement to produce group accounts stems from the powers and responsibilities of MOPAC under the Police Reform and Social Responsibility Act 2011.

The Code requires that the Expenditure and Funding Analysis (Note 1) and the CIES allocate costs of services across service segments. These service segments are based on the MOPAC and CPM internal management reporting arrangements. A new service segment was added in the 2018/19 Statement of Accounts to reflect the past service costs that were recognised in relation to McCloud pensions judgement. The decision was taken that these costs were to be recognised at a corporate level, rather than allocated across existing service segments as required by the Code. This decision to depart from the requirements of the code was made to ensure that the costs of policing disclosed in the CIES remained understandable to users of the accounts, and therefore to achieve a true and fair presentation in the accounts. Were the costs to be allocated across service segments, the £1.34bn of past service costs would have been allocated across service segments based on police officer numbers within each segment. See note 12.1 for more details of the impact of McCloud pensions judgement.

The significant accounting policies adopted are set out below.

2.2 Revenue and expenditure recognition

Revenue is recognised in a way that reflects the pattern in which goods and services are transferred to service recipients. It is transferred at an amount that reflects the consideration that the Group expects to be entitled to in exchange for those goods and services. Whilst all expenditure is funded by MOPAC (as the body responsible for maintaining the Police Fund for London) including the wages of police staff and officers, the actual recognition in the respective MOPAC and CPM Accounts is based on which organisation receives the economic benefit from the transactions.

Consideration received in advance is recognised as deferred revenue in the Balance Sheet and released as income is earned. Interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable.

2.3 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 obligation 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 services are received rather than when payments are made;
- Where income and expenditure has been recognised (using estimates when appropriate) but cash has not been received or paid, a debtor or creditor for the relevant year is recorded in the Balance Sheet;
- Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to CIES for the income that might not be collected.

2.4 Provisions

Provisions are recognised on the Balance Sheet when a present legal or constructive obligation exists for a future liability in respect of a past event and where the amount of the obligation can be estimated reliably. Provisions are charged to the CIES in the year the Group becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are eventually made, they are charged to the provision set up in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year. Where it becomes more likely than not that a transfer of economic benefits will not be required, the provision is reversed and credited back to the CIES.

Third party liabilities – to make provision for realistic estimates of the future settlement of third party claims, the liability for which already exists at the date of the Balance Sheet, in so far as they will not be met by external insurance. The figure shown on the Balance Sheet does not include any adjustment to discount the total liability to present day terms in line with IAS 39 Financial Instruments because the claims involved are deemed to be estimates based on present day values.

Police officer pension liability (intra-group) - to make provision to reflect the continuing requirement on an elected local policing body as required under the Police Reform and Social Responsibility Act 2011, to provide funds to the CPM from the Police fund for the payment of police pensions. The intra-group balances will not appear in the Group Accounts.

2.5 Reserves

Reserves consist of two elements: usable and unusable. Usable reserves are those which can be applied to fund expenditure. They are made up of the General Reserves, Earmarked Reserves, Capital Receipts Reserve and the Capital Grants Unapplied Account. Earmarked reserves are established from time to time to meet specific expected revenue or capital costs as determined by MOPAC. Unusable reserves cannot be applied to fund expenditure. They include the Capital Adjustment Account, Pension Reserve, Accumulated Absences Account, Revaluation Reserves and Deferred Capital Receipts Reserve. These accounts do not form part of the cash resources available to the Group.

Reserves are created by appropriating amounts in the CIES. When expenditure to be financed from a reserve is incurred, it is charged to the CIES against the Net Cost of Policing Services. The reserve is then appropriated back in the MIRS so that there is no net charge for the expenditure.

2.6 Government and other organisations' grants and contributions

Whether paid on account, by instalments or in arrears, revenue government grants and third party contributions are recognised as income at the date that the Group satisfies the conditions of entitlement to the grant/contribution.

The grant/contribution is recognised within the CIES as income when the conditions of entitlement are known to be satisfied. If the grant/contribution has been received in advance of need then the amount is transferred to a Grant in Advance Account.

Grants to cover general expenditure (e.g. Police Revenue Grant) are credited to the CIES within the provision of services.

2.7 Employee benefits

Benefits payable during employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave, paid sick leave, bonuses and non-monetary benefits for current employees and these benefits are recognised as an expense in the year in which the employee renders service to the Group.

IAS 19 Employee Benefits requires MOPAC to account for short-term compensating absences (these are periods during which an employee benefits continue to be earned which include time owing for annual leave and rest days) by accruing for the benefits which have accumulated but are untaken by the Balance Sheet date. Short term accumulated absences are recognised in the CPM Accounts in the period in which officers or police staff render the service which entitles them to the benefit, not necessarily when they enjoy the benefit. The cost of leave earned, but not taken by police officers and staff at the end of the financial year is recognised in the financial statements to the extent that the staff are entitled to carry forward leave into the following year. Equivalent liabilities for employee benefits are recognised on the MOPAC Balance Sheet to reflect the continuing requirement on MOPAC to provide funds from the Police Fund to meet these liabilities as they fall due. The Group Balance Sheet also reflects the liability for time owing and annual leave. The accrual for untaken leave is charged to the Net Cost of Policing Services, and reversed out through the MIRS so that the leave is charged to CIES in the financial year in which the holiday absence is earned.

Termination benefits

Termination benefits are amounts payable as a result of a decision to terminate a member of staff's employment before their normal retirement date or their decision to accept voluntary redundancy. These are charged as an expense in the CIES at the earlier of when the organisation can no longer withdraw the offer of those benefits and when the organisation recognises the costs for a restructuring.

Post employment benefits

The Group operates three pension schemes for police officers and a single scheme for police staff. The CPM is the administering body for the Pension Fund. MOPAC provides funds from the Police Fund to meet the pension payments as they fall due.

Police officers

The Police Pension Schemes are contributory occupational pension schemes which are guaranteed and backed by law. A new Career Average Revalued Earnings (CARE) Scheme was introduced on the 1st April 2015, which was a change from the previous Final Salary Schemes. Officers starting after the 1st April 2015 joined the new 2015 Scheme and some members of the 1987 and 2006 Final Salary Schemes moved into the new 2015 Scheme, unless they were covered by the transitional protection arrangements. Members of the new 2015 Scheme make contributions of between 12.44% and 13.78% of pensionable pay. Protected members of the 1987 and 2006 arrangements contribute at rates of between either 14.25% and 15.05% of pensionable pay for the 1987 police pension scheme or 11% and 12.75% for the 2006 police pension scheme. The employees' contribution rate is set nationally by the Home Office and is subject to triennial revaluation. The employer contribution rate was increased to 31%, for all schemes from 1 April 2019. New financial arrangements were introduced on 1 April 2006 to administer the schemes.

The police pension schemes are defined benefit schemes paid from revenue (without managed pension assets). Following the Code's requirements, IAS 19 has been fully recognised in the Group Accounts. Scheme liabilities as shown on the Group's Balance Sheet are calculated by determining future liabilities for pension payments and applying a discount rate to reduce them to present day values. IAS 19 specifies the use of a discount rate equal to the current rate of return available on a high quality

corporate bond of equivalent currency and term to the scheme liabilities. The pension liabilities in these Accounts have been calculated accordingly at a discount rate of 2.4% for all schemes.

Recognition of the total liability has a substantial impact on the net worth of the MOPAC Group. Accrued net pension liabilities are assessed on an actuarial basis. The change in net pension liability 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 to the Group CIES to the services for which the police officers worked;
 - 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 Net Cost of Policing Services in the Group CIES;
 - Interest on the defined benefit liability - the increase during the period in the defined benefit liability which arises because the benefits are one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Group CIES;
- Re-measurements comprising actuarial gains and losses – changes in the 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 – debited or credited to the Pensions Reserve as Other Comprehensive Income and Expenditure with the exception of actuarial gains and losses in relation to injury benefits, which are debited or credited to the Net Cost of Policing Services in the CIES.
- Contributions paid to the Police Pension Fund – cash paid as employer’s contributions to the Pension Fund in settlement of liabilities, not accounted for as an expense.

The net liability for all the pension schemes is recognised initially on the CPM Balance Sheet in accordance with IAS 19 Employee Benefits. MOPAC provides the sole source of funding to meet the CPM’s costs through the budget delegated by MOPAC to the CPM. All CPM liabilities will therefore ultimately be funded by MOPAC. The pension liability is therefore offset by an intra-group adjustment between MOPAC and the CPM to reflect MOPAC’s continuing responsibility to provide funds from the Police Fund to enable the CPM to administer pension payments. This has resulted in a liability within MOPAC’s Balance Sheet for the Police Pension Schemes.

The legislation however requires the General Reserves balance to be charged with the amount payable by MOPAC to the pension fund or directly to pensioners 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 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 year end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Reserves of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Police staff

The Group joined the Principal Civil Service Pension Scheme (PCSPS) in 2002/03. The PCSPS is an unfunded defined benefit scheme which operates seven different sub schemes but only one is open to new staff joining MOPAC/CPM, the Alpha Scheme, which is a career average scheme. Additionally, there is a defined contribution alternative. The PCSPS is a multi-employer scheme whereby the underlying assets and liabilities within the Scheme are not broken down and attributed to individual employers, and therefore is defined as a multi-contribution scheme. The appropriate level of disclosure has been followed in accordance with IAS 19.

2.8 Property, plant and equipment

Property, plant and equipment are assets that have physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis. The de minimis level policy

is to capitalise all expenditure over £5,000 on an individual asset basis, and projects (or grouped assets) with a total value in excess of £5,000: expenditure on partnership assets is capitalised over £1,000.

Recognition: Expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis, provided that they yield benefits to the Group and the services they provide are for more than one financial year. Expenditure that secures, but does not extend the previously assessed standards of performance of an asset (e.g. repairs and maintenance) is charged to revenue as it is incurred. Assets under construction are recorded in the Balance Sheet at historical cost.

Measurement: Assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use.

Assets are carried in the Balance Sheet using the following measurement bases:

- Specialised operational properties – current value, but because of their specialist nature are measured at depreciated replacement cost which is used as an estimate of current value;
- Non-specialised operational properties – current value, determined as the amount that would be paid for the asset in its existing use (existing use value EUV);
- Surplus properties and investment properties – fair value estimated at highest and best use from a market participant's perspective;
- Vehicles, plant and equipment – In such cases where non property assets have short useful lives or low values (or both), depreciated historic cost is used as a proxy for current value.
- Assets held for sale - current or fair value as appropriate

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 value at the year end. Property revaluations are based on a rolling review programme. Properties are revalued at 30 September each year; the top 20 properties in value as well as 20% of the assets are physically inspected whilst 80% are revalued on a desktop basis. A further review is carried out at 31 March each year to determine whether the value at 31 March is materially different to the value at 30 September. This approach complies with the CIPFA Code of Practice on Local Authority Accounting 2019/20 requirements on measurement of property plant and equipment.

Component assets: The Group recognises and records component assets separate from the main asset where material. Where a component asset is identified it is written down on a straight line basis over its useful economic life using a depreciated historic cost approach.

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 write down is estimated to be material, the recoverable amount of the asset is determined and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where the loss is determined for a previously revalued asset, it is written off against any revaluation gains held for the relevant asset in the Revaluation Reserve, with any excess charged to the CIES. Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line in the CIES, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Disposals: When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet is written off to the Other Operating Expenditure line in the CIES as part of the gain or loss on disposal. Receipts from disposals are credited to the same line in the CIES as part of the gain or loss on disposal. The written off carrying value of the asset is transferred from the General Reserves to the Capital Adjustment Account in the MIRS. Sale proceeds over £10,000 are categorised as capital receipts and are transferred from the General Reserves Balance to the Capital Receipts Reserve in the MIRS.

Depreciation: This is provided for all assets with a useful finite life, by allocating the value of the asset in the Balance Sheet over the periods expected to benefit from their use, on a straight-line basis.

Principal asset categories and their useful economic lives

Operational Assets	Category	Years
Property	Land	Not depreciated
	Buildings	10 - 50 years
Plant and equipment	Information Technology and communications equipment	3 - 20 years
	Software development	3 - 5 years
	Policing support vehicles including Patrol vehicles	3 - 15 years
Intangible assets	Software licences.	3 years
Non operational assets		
Assets under construction		Not depreciated
Surplus Assets		Depreciated
Assets held for sale		Not depreciated
Investment properties		Not depreciated

Grants and contributions: Grants and contributions relating to capital expenditure shall be recognised in the CIES as income except to the extent that the grant or contribution has a condition that the Group has not satisfied. In that event the amount subject to condition is transferred to the Capital Grants Receipts in Advance account. Where the conditions of the grant/contribution are satisfied, but expenditure for which the grant is given has not yet been incurred, then such sums will be transferred to the Capital Grants Unapplied Reserve.

2.9 Charges to revenue for property, plant and equipment

The Group CIES is charged 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 gains or losses on investment properties;
- Amortisation of intangible fixed assets attributable to the service.

The Group is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement. The Minimum Revenue Provision (MRP) is set on a prudent basis as determined by the Group in accordance with statutory guidance.

2.10 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 its carrying amount and fair value less costs to sell. Depreciation is not charged on Assets Held for Sale.

2.11 Investment properties

These are properties held solely by MOPAC for the purpose of generating rental income or for capital appreciation and are occupied by third parties. These properties are not used in any way to facilitate the delivery of services or held for sale.

Investment properties are measured initially at cost and subsequently at 'fair value' (as defined in the Section below). 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 Reserves Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Reserves Balance. The gains and losses are therefore reversed out of the General Reserves 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.

2.12 Surplus Assets

These are assets that are not being used to deliver services, and do not meet the CIPFA Code of Practice criteria to be classified as either investment properties or non-current assets held for sale.

The valuation at which they are held is based on an estimate of the price that would be received by selling in an orderly transaction between market participants at the valuation date.

2.13 Fair value measurement

The Group measures some of its non-financial assets such as investment properties at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- a) in the principal market for the asset or liability, or
- b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The Group measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. When measuring the fair value of a non-financial asset, the Group takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Group's financial statements are categorised within the fair value hierarchy, as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date;

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;

Level 3 – unobservable inputs for the asset or liability.

2.14 Leases

All leases are evaluated at inception in accordance with IAS 17 'Leases', to determine whether they are a finance lease or an operating lease. Leases are classified as finance leases when substantially all the risks and rewards of ownership are transferred to the lessee. All other leases are classified as operating leases. Where a lease is for land and buildings, the land and building components are separated. The land element is usually treated as an operating lease, unless it is for 125 years or more, in which instance the land is deemed to be a finance lease. Where the building element is a finance lease it is

depreciated over its lease term. A de minimis of £5,000 is applied to the annual rental of leases to determine their treatment as a finance lease. All major contracts are reviewed under IFRIC 4 to determine whether an arrangement contains an embedded lease.

Finance leases

Property, plant and equipment held under finance leases is initially recognised at the inception of the lease at fair value or, if lower, at the present value of the minimum lease payments, with a matching liability for the lease obligation to the lessor. Lease payments are apportioned between finance charges (charged to the CIES) and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

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 ownership of the asset does not transfer to the organisation at the end of the lease period).

Operating leases

Leases that do not meet the definition of finance leases are accounted for as operating leases. The Group has a large number of operating leases, mainly in respect of property, but also vehicles. Rentals payable are charged to the CIES.

The Group as lessor

There are a number of short-term operating leases for property where the Group acts as lessor. Where the organisation 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 CIES. Credits are made on a straight line basis over the life of the lease, even if this does not match the pattern of payments (e.g. where there is a premium paid at the commencement of the lease).

There are no finance leases where the Group is a lessor.

2.15 Value Added Tax (VAT)

Income and expenditure excludes any amounts relating to VAT as VAT is remitted to/from the HM Revenue & Customs.

2.16 Financial liabilities

Financial liabilities are recognised on the Balance Sheet when the MOPAC becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual charges to the CIES for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For most of the borrowings, this means that the amount presented in the Balance Sheet is the outstanding principal repayable. Interest charged to the CIES is the amount payable for the year according to the loan agreement.

2.17 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's business model is to hold investments to collect contractual cash flows. The contractual payments of the financial assets of the Group are solely payment of principal and interest – therefore the Group's financial assets are classified as amortised cost.

Financial assets measured at amortised cost are recognised when the Group becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are then subsequently carried at their amortised cost. Interest and other income received is based on the capital value of the investment multiplied by the effective rate of interest. For most of the loans that MOPAC has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable. Interest is credited to the CIES with the amount receivable for the year defined in the loan agreement. The loans made by MOPAC are short-term investments consisting of fixed term deposits.

The Group recognises expected credit losses on all of its financial assets held at amortised cost, either on a 12 month or lifetime basis. Only lifetime losses are recognised for trade receivables 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 estimated on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

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

2.18 Contingent assets and liabilities

The Group recognises material contingent liabilities as either:

- Possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the organisation, or
- Present obligations that arise from past events but are not recognised because;
 - a) it is not probable that outflows of resources embodying economic benefits or service potential will be required to settle the obligations, or
 - b) the amount of the obligations cannot be measured with sufficient reliability.

A material contingent liability is not recognised within the accounts as an item of expenditure. It is, however, disclosed in a note unless the possibility of a transfer of economic benefits or service potential in settlement is remote (in which case no action is needed).

The Group may also disclose a contingent asset as 'a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the organisation'.

2.19 Private Finance Initiative

MOPAC has two long term contractual agreements under PFI whereby the contractor is responsible for the design, construction, finance and maintenance of four police stations in south-east London (Police Stations PFI) and a public order and firearms training centre (Training Ground PFI). These contracts are deemed to be under the control of MOPAC and as such the accounting treatment has been to include them on the Balance Sheet in accordance with the Code.

In addition to the assets created for the PFI buildings on the Balance Sheet, long term liability accounts are also disclosed on the Balance Sheet to reflect future payments to the contractor. Payments made by MOPAC under contract are charged in part to revenue to reflect the value of services received and cost of financing and in part to the Balance Sheet, to reflect repayment of the outstanding liability over the remaining period of the lease agreement.

2.20 Cash and cash equivalents

Cash is cash in hand and deposits with MOPAC's main banker and a number of other banks. Cash equivalents are investments that mature in 3 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.

2.21 Events after the reporting period

When an event occurs after the Balance Sheet date which provides evidence of conditions that existed at the Balance Sheet date an adjusting event occurs and the amounts recognised in the Statement of Accounts will be adjusted to take into account any values that reflect the adjusting event. Where an event occurs after the Balance Sheet date that is indicative of conditions that arose after the Balance Sheet date, the amounts recognised in the Statement of Accounts are not adjusted but disclosed as a separate note to the Accounts. Events after the Balance Sheet date are reflected up to the date when the Statement of Accounts is authorised for issue.

2.22 Overhead costs

The costs of overheads and support services are charged to service segments within the Group CIES in accordance with the Group's arrangements for accountability and financial performance. In practice this means support costs other than Corporate and Democratic Core (CDC) are recognised in the intra-group funding - policing line of the MOPAC CIES on the basis that all services to which support costs are allocated were delivered by the CPM in 2019/20.

2.23 Prior period adjustments, changes in accounting policies, 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 organisation's financial position or financial performance. When 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 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.

2.24 Interests in Companies and Other Entities

The Group has material interests in a company that has the nature of a subsidiary and require it to prepare group accounts. In MOPAC's own single-entity accounts, the interests in the company is recorded as fair value.

Annex 2: Accounting policies for CPM for 2019/20

2.1 General principles

These financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code), issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) 2019/20 and the Accounts and Audit [England] Regulations 2015. The accounting policies apply EU adopted International Financial Reporting Standards (IFRS) as amended by International Public Sector Reporting Standards (IPSAS) for the public sector.

The Accounts have been prepared on a going concern basis using an historic cost convention, modified to account for the revaluation of the long term asset and the pension liabilities.

The accounting policies below also reflect the powers and responsibilities of the Commissioner of Police of the Metropolis (CPM) as designated by the Police Reform and Social Responsibility Act 2011 and the Home Office Financial Management Code of Practice for the Police Service, England and Wales 2013. The accounting policies defined here are consistent with local regulations, local agreement and practice as well as the MOPAC Group policies.

The Code requires that the Expenditure and Funding Analysis (Note 1) and the CIES, allocate costs of services across service segments. These service segments are based on the MOPAC and CPM internal management reporting arrangements. A new service segment was added in the 2018/19 Statement of Accounts to reflect the past service costs that were recognised in relation to McCloud pensions judgement. The decision was taken that these costs were to be recognised at a corporate level, rather than allocated across existing service segments as required by the Code. This decision to depart from the requirements of the code was made to ensure that the costs of policing disclosed in the CIES remained understandable to users of the accounts, and therefore to achieve a true and fair presentation in the accounts. Were the costs to be allocated across service segments, the £1.34bn of past service costs would have been allocated across service segments based on police officer numbers within each segment. See note 10.1 for more details of the impact of McCloud pensions judgement.

The Accounts cover the 12 months to 31 March 2020.

2.2 Cost and intra-group income recognition

All external income is received by MOPAC, which holds the Police Fund for London and all related financial reserves and cash balances. MOPAC provides an annual budget to the CPM. All resources consumed at the request of the Commissioner are funded by MOPAC, including the wages of police staff and officers, and no actual cash transactions or events take place between the two entities. From an accounting perspective costs are recognised within the CPM Accounts to reflect the financial resources consumed at the request of the CPM and the economic benefit and service potential this brings about. For instance, an economic benefit is recognised to reflect the utilisation of MOPAC owned fixed assets which mirrors depreciation of property, plant and equipment (amortisation in respect of intangible assets), and impairment from obsolescence or physical damage. Income is recognised in the Comprehensive Income and Expenditure Statement of the CPM Accounts, to reflect the funding by MOPAC for expenditure incurred by the CPM.

2.3 Accruals of income and expenditure

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

- Intra-group income is recognised when it is probable that the associated economic benefit or service potential will flow to the CPM;
- Supplies are recorded as expenditure when they are consumed;
- Expenses relating to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made;

- Short term compensated absences - these are periods during which an employee does not provide services to the employer, but employee benefits continue to be earned (such as periods of annual leave and rest days). Short term accumulated absences are recognised in the Comprehensive Income and Expenditure Statement in the period in which officers or police staff render the service which entitles them to the benefit, not necessarily when they enjoy the benefit. An accrual to reflect the cost of leave earned, but not taken by police officers and staff at the end of the financial year recognised on the CPM Balance Sheet, is offset by an intra-group debtor to reflect the responsibility placed on MOPAC to provide funds from the Police Fund to meet this liability.

2.4 Provisions

Provisions are made where an event has taken place that gives an obligation where it is probable that settlement by a transfer of economic benefits will be required and where the amount of the obligation can be estimated reliably, but where the timing of the transfer is uncertain. Under the MOPAC/CPM Financial Regulations, the revenue charge for provisions recognised on the MOPAC Balance Sheet is recognised in the CIES of the CPM. Estimated provisions are reviewed at the end of each financial year. Where it is likely that a provision will not be required, the relevant amount is reversed in the CIES of CPM.

2.5 Employee benefits

Benefits payable during employment

Short-term employee benefits are those due to be settled 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 for current employees. The financial consequences of these benefits are recognised in the CPM CIES in the year in which the employee renders service to the CPM. IAS 19 Employee Benefits requires CPM to account for short-term compensating absences (these are periods during which an employee benefits continue to be earned which include time owing for annual leave and rest days), by accruing for the benefits which have accumulated but are untaken by the Balance Sheet date.

Termination benefits

Termination benefits are amounts payable as a result of a decision to terminate a member of staff's employment before their normal retirement date or their decision to accept voluntary redundancy. These are recognised in the CIES of the CPM at the earlier of when the organisation can no longer withdraw the offer of those benefits or when the organisation recognises the costs for a restructuring.

Post employment benefits

There are three pension schemes for police officers and a single scheme for police staff.

Police officers

The Police Pension Schemes are contributory occupational pension schemes which are guaranteed and backed by law. A new Career Average Revalued Earnings (CARE) Scheme was introduced on the 1st April 2015, which was a change from the previous Final Salary Schemes. Officers starting after the 1st April 2015 joined the new 2015 Scheme and some members of the 1987 and 2006 Final Salary Schemes moved into the new 2015 Scheme, unless they were covered by the transitional protection arrangements. Members of the new 2015 Scheme make contributions of between 12.44% and 13.78% of pensionable pay. Protected members of the 1987 and 2006 arrangements contribute at rates of between either 14.25% and 15.05% of pensionable pay for the 1987 police pension scheme or 11% and 12.75% for the 2006 police pension scheme. The employees' contribution rate is set nationally by the Home Office and is subject to triennial revaluation. The employer contribution rate was increased to 31%, for all schemes from 1 April 2019. New financial arrangements were introduced on 1 April 2006 to administer the schemes.

The Police Pension schemes are defined benefit schemes paid from revenue (without managed pension assets). The liability for the Pension Schemes is recognised initially on the CPM Balance Sheet in accordance with IAS 19 Employee Benefits. All liabilities are ultimately the responsibility of MOPAC as MOPAC provides the sole source of funding to meet the CPM's costs, so at year end the pension

liability for police pensions is offset by an intra-group debtor, reflecting MOPAC's continuing responsibility to provide funds from the Police Fund to enable the CPM to administer pension payments.

Recognition of the total liability has a substantial impact on the net worth of the CPM and by virtue of the funding arrangement the net worth of MOPAC. Accrued net pension liabilities are assessed on an actuarial basis. The change in net pension liability can be broken down 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 to the CPM Comprehensive Income and Expenditure Statement to the services for which the police officers worked;
- Past service cost – the increase in liabilities arising as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Net Cost of Services in the Comprehensive Income and Expenditure Statement;
- Interest on the defined benefit liability – the increase during the period in the defined benefit liability which arises because the benefits are one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Re-measurements comprising of 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 – debited or credited to the Pensions Reserve with the exception of actuarial gains and losses in relation to injury benefits, which are debited or credited to the Net Cost of Policing Services in the CIES.

Transfers into and out of the Scheme representing joining and leaving police officers, are recorded on a cash basis in the Pension Fund, because of the length of time taken to finalise the sums involved.

Police staff

The CPM joined the Principal Civil Service Pension Scheme (PCSPS) in 2002/03. The PCSPS is an unfunded defined benefit scheme but police staff may opt for a defined contribution alternative. The PCSPS is deemed to be a multi-employer scheme and as such the underlying assets and liabilities within the Scheme are not broken down and attributed to individual employers. The appropriate level of disclosure has been followed in accordance with IAS 19.

2.6 Value Added Tax (VAT)

The CPM does not submit a VAT return and MOPAC submits a single VAT return on behalf of the MOPAC Group. Expenditure in the CPM CIES excludes any amounts relating to VAT as all VAT is remitted to/from the HM Revenue & Customs.

2.7 Contingent assets and liabilities

The CPM recognises material contingent liabilities as either:

- Possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the organisation, or
- Present obligations that arise from past events but are not recognised because;
 - a) it is not probable that outflows of resources embodying economic benefits or service potential will be required to settle the obligations, or
 - b) the amount of the obligations cannot be measured with sufficient reliability.

A material contingent liability is not recognised within the accounts as an item of expenditure. It is, however, disclosed in a note unless the possibility of a transfer of economic benefits or service potential in settlement is remote (in which case no action is needed).

The CPM may also recognise contingent assets as 'a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the organisation'.

2.8 Events after the reporting period

When an event occurs after the Balance Sheet date which provides evidence of conditions that existed at the Balance Sheet date an adjusting event occurs and the amounts recognised in the Statement of Accounts will be adjusted to take into account any values that reflect the adjusting event. Where an event occurs after the Balance Sheet date that is indicative of conditions that arose after the date, the amounts recognised in the Statement of Accounts are not adjusted but disclosed as a separate note to the Accounts. Events after the Balance Sheet date are reflected up to the date when the Statement of Accounts is authorised for issue.

2.9 Overhead costs

The costs of overheads and support services are charged to service segments within the CPM CIES in accordance with the CPM's arrangements for accountability and financial performance. Support service costs identified as Corporate and Democratic Core costs are not charged to service segments within the CPM CIES.

2.10 Prior period adjustments, changes in accounting policies, 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 organisation's financial position or financial performance. When 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 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.