Northern Joint Police Board

Statement of Accounts 2012/2013

(unaudited)

CONTENTS

EXPLANATORY FOREWORD BY THE TREASURER TO THE BOARD

Statement of Accounts

The Statement of Accounts reports on the financial performance of the Northern Joint Police Board for the year ended 31 March 2013. This is the final Statement of Accounts for the Board following the merger of Police Services across Scotland to form Police Scotland from 1 April 2013

The Statement of Accounts (the Accounts) comprise:

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Board, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The surplus or deficit on the Provision of Services line shows the true economic cost of providing the Board's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance. The Net Increase/Decrease before Transfers to Statutory Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from statutory reserves undertaken by the Board.

Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with international financial reporting standards (IFRS), rather than the amount to be funded from requisitions from constituent authorities. The funding position is shown in the Movement in Reserves Statement.

Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Board. The net assets of the Board (assets less liabilities) are matched by the reserves held by the Board. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Board may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example, the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the Board is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example, the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Board during the reporting period. The statement shows how the Board generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Board are funded by way of requisitions and grant income or from the recipients of services provided by the Board. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Board's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Board.

Accounting Policies and Notes to the Accounts

Explanations are provided for the basis of the figures included within the Accounts and the policies adopted particularly where there is more than one acceptable basis. Notes are included to provide detail of certain aspects contained within the core financial statements.

Summary of financial results

The movements and balances on the Board's revenue reserves for 2012/13 are summarised below:

	Balance at 01/04/12 £000	Use of earmarked balances £000	Surplus 2012/13 £000	Balance at 31/03/13 £000
Non-earmarked balances	1,075	(1,075)	-	-
Earmarked balances				
Contribution to National Projects	500	(500)	-	-
Operational Incidents	350	(350)	-	
Ill Health Retirals	300	(300)	-	-
Police houses/residential development	1,401	(1,401)	-	-
Redundancy/Early Retirement costs	300	(300)	-	-
Total earmarked balances	2,851	(2,851)	-	-
General Fund total	3,926	(3,926)	-	-

Revenue Budget Performance

The Board's financial results for the year, compared against budget are as shown below. This presentation differs from that shown in the Comprehensive Income and Expenditure Statement on page 20, which is set out in accordance with IFRS.

BUDGET PERFORMANCE 2012/13

	Budget £000	Actual £000	Variance £000
Direct staff costs	43,506	43,576	70
Pensions costs	15,758	15,758	-
Indirect staff costs	1,098	2,485	1,387
Property costs	3,997	4,037	40
Supplies and services	4,645	7,367	2,722
Transport and plant	1,936	1,988	52
Capital charges	1,582	1,517	(65)
Capital funded from current revenue	-	-	-
Gross expenditure	**72,522**	**76,728**	**4,206**
Pension contributions and transfer values	(3,832)	(3,832)	-
Interest on revenue balances	(20)	(70)	(50)
Specific grants	(2,227)	(4,892)	(2,665)
Other income	(2,945)	(5,241)	(2,296)
Gross income	**(9,024)**	**(14,035)**	**(5,011)**
Net operating expenditure	**63,498**	**62,693**	**(805)**
Pensions Grant	(11,926)	(11,926)	-
Police grant	(26,246)	(26,287)	(41)
Requisitions	(25,326)	(19,591)	5,735
Other Local Authority Contributions	-	(963)	(963)
Transfer (from) / to reserves	-	(3,926)	(3,926)
Total funding	**(63,498)**	**(62,693)**	**805**

The Comprehensive Income and Expenditure statement on page 20 shows net cost of services of £59.647m. The difference of £3.046m from the £62.693m reported above is explained in note 17 to the financial statements.

Budget Variances

In 2012/13 most of the budget lines above show expenditure approximately on budget at the end of the year. The exceptions are in Indirect Staff Costs, Supplies and Services, Specific Grants and Other Income.

The additional income has been received for services of Police at local music festivals and dealing with wide road escorts. Grant income for Seconded Officers is also higher than budget due to secondments extending beyond the expected period and specialist work to ensure maximum income is received from the rental of radio site rents has also contributed to the favourable budget variance. However expenditure associated with these extra income streams has led to over spends in overtime and consultancy fees.

The variances shown on the Requisitions; Other Local Authority Contributions and the Transfer from Reserves budgets relate to the closing of the Northern Joint Police Board and the distribution of the available reserves at the end of the financial year in line with Scottish Government Finance Circular 4/2013.

Expenditure to be met by Constituent Authorities

	Budget	Actual	Variance
	£000	£000	£000
Net expenditure	51,572	50,767	(805)
Funded by Police Grant	(26,246)	(26,287)	(41)
Transfer from reserves	-	(3,926)	(3,926)
Net expenditure to be met by constituent authorities for the year	**25,326**	**20,554**	**(4,772)**

Balances

As 2012/13 is the final year of the Northern Joint Police Board the balances in reserves at the year end have been distributed to the Scottish Government and the Constituent Authorities; the Local Government Finance Circular 4/2013 details the approach required to affect this. The following paragraphs describe how the provisions in the circular have been implemented for Northern Joint Police Board.

Funding for commitments not delivered by 31 March 2013, to complete Fort William Police station (£3.602m) and the Police Housing Project (£0.569m) will be transferred to the Scottish Government. £1.668m of this will be paid directly to the Scottish Government and funded from the balance in the Capital Receipts Reserve; the balance (£2.503m) will be funded from the final General Fund reserve.

The Scottish Government's 51% share of the General Fund reserve (£3.855m) will be transferred to the Scottish Government by forwarding this balance to Highland Council. Following this a downward redetermination of Highland Council's Revenue Support Grant later in 2013/14 will have the effect of moving this funding to the Scottish Government.

The Constituent Authorities will receive 49% (£1.880m) of the General Fund reserve in the same proportion as the requisition budgets set for 2012/13.

The net expenditure of the Board's service is funded by Police Grant, specific grants and requisitions from Constituent Authorities. Requisitions are allocated between the constituent authorities in the same proportion as their agreed budgeted requisition and are as follows for 2012/13:

Actual requisition 2011/12 £000	%	Constituent authority	Actual requisition 2012/13 £000	%
18,974	81.37	Highland Council	18,507	78.85
1,815	7.78	Comhairle Nan Eilean Siar	2,147	9.15
1,119	4.80	Orkney Islands Council	1,264	5.44
1,412	6.05	Shetland Islands Council	1,528	6.56
		Highland Council (Scottish Government share of reserves)	(3,855)	
23,320	100.00		19,591	100.00

Statement of Requisitions and Distribution of Reserves 2012/13

Constituent authority	Budgeted Requisition £000	Actual Requisition £000	Due to/(from) authority £000
Highland Council	19,990	18,507	1,483
Comhairle Nan Eilean Siar	2,319	2,147	172
Orkney Islands Council	1,366	1,264	102
Shetland Islands Council	1,651	1,528	123
Scottish Government		(3,855)	3,855
	25,326	19,591	5,735

Capital Expenditure and Borrowing

The Board uses the Highland Council and Shetland Islands Council Loans Funds for their borrowing requirements, and had £16.545m (£17.234m 2011/12) outstanding advances from Highland Council as at 31 March 2013.

From 1 April 2008, Police Capital Grant is paid by the Scottish Government to the constituent authorities and passported on to the Police Board. In addition the Board can incur the most appropriate level of capital expenditure, guided by the Prudential Code, which requires the Board to ensure that any capital borrowing is affordable, prudent and sustainable.

As shown in note 28 to the accounts, in 2012/13 the Board incurred capital expenditure of £3.677m and this was funded by capital receipts and the use of the capital receipts reserve.

After funding capital expenditure in 2012/13, the remaining balance on the capital receipt reserve of £1.668m is to be transferred to the Scottish Government to meet part of the cost of undelivered capital commitments of £4.171.

Capital grant of £0.923m, which was requisitioned from the constituent authorities was not required to fund capital expenditure and has been added to the balances to be distributed to the Scottish Government and the Constituent Authorities.

During the year capital expenditure was incurred to provide a replacement station at Fort William, upgrade police houses to meet Social Housing Standards and to replace fleet vehicles.

From 1 April 2004, provisions in the Local Government Scotland Act 2003, replaced the Section 94 consents with cash grants. In addition the Police Board is able to determine the most appropriate level of capital expenditure for the Board's circumstances, being guided by the Prudential Code, which requires the Board to ensure that any borrowing is affordable, prudent and sustainable. To date the Board has not used Prudential Borrowing.

From 1 April 2008, Police Capital Grant is paid by the Scottish Government to the constituent authorities and passported on to the Police Board. In addition the Board can incur the most appropriate level of capital expenditure, guided by the Prudential Code, which requires the Board to ensure that any capital borrowing is affordable, prudent and sustainable.

International Accounting Standard 19 (IAS 19) "Employee Benefits"

IAS 19 prescribes how employing organisations are to account for pension benefits earned by employees in the year and the associated pension assets and liabilities.

The Board participates in two pension schemes:

a) The Police Officers' Pension Scheme – this is an unfunded scheme which means that no investment assets are built up to fund future liabilities. Instead, the net cost of pensions and other benefits (after allowing for contributions from police officers) is borne annually by the Board.

From 1 April 2010 new funding arrangements have been put in place with an employer's contribution of 24.7% being introduced. The Scottish Government have provided additional funding to cover this.

b) The Local Government Pension Scheme - this is a funded scheme which means that the Board and employees pay contributions into a fund, calculated at a level to balance the pension liabilities with the investment assets.

Note 20 to the Accounts details the expenditure charged to the Comprehensive Income and Expenditure Statement under IAS 19 in respect of both the Police Officers' Pension Scheme and the Local Government Scheme, based upon actuarial valuations.

Note 20 to the Accounts also shows that the Board has a net pension liability of £405.898m as at 31 March 2013 (31 March 2012 £381.762m), comprising net liabilities of £391.317m (31 March 2012 £368.283m) in respect of Police Officers and £14.581m (31 March 2012 £13.479m) in respect of civilian staff. This liability is accounted for within the balance sheet in the pension reserve.

Note 21 to the financial statements details the expenditure charged to the income and expenditure account under IAS 19 in respect of injury benefit for both of the Police Officers Pension Schemes. The Board has a net injury benefit liability of £9.313m as at 31 March 2013 (£9.027m as at 31 March 2012). This liability is accounted for within the balance sheet in the Employee Statutory Adjustment Account.

Going Concern

Due to the accrual of pension liabilities the balance sheet shows an excess of liabilities over assets of £379.024m (31 March 2012 £347.316m).

The pension liability represents the best estimate of the current value of pension benefits that will have to be funded by the Board. The liability relates to the benefits earned by existing or previous employees up to 31 March 2013.

The Board has adopted a going concern basis of accounting for the preparation of the statement of accounts as future actuarial valuations of the Local Government Pension

Scheme will consider the appropriate employer's rate to meet the commitments of the fund and constituent authorities are liable to fund the liabilities of the Board as they fall due.

Economic Climate

As part of the Police Reform process, where individual services become a single Scottish Police Service on 1 April 2013, significant efficiency savings are required to ensure the new service operates within the available funding in future years. Work is underway to identify such savings and ensure future financial planning takes account of these constraints.

Derek Yule B.Com, CPFA, IRRV (Hons)
Treasurer
26 June 2013

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Board's Responsibilities

The Board is required:

- to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In the Northern Joint Police Board that officer is the Treasurer to the Board

- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets

The Treasurer's Responsibilities

The Treasurer is responsible for the preparation of the Board's 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 2012/13 ('the Code').

In preparing this statement of accounts, the Treasurer has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with "the Code".

The Treasurer has also:

- kept proper accounting records which were up to date; and
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

I, Derek Yule , Treasurer to the Board, state that the Statement of Accounts for the year ended 31 March 2013 give a true and fair view of the financial position of the Board at that date and its income and expenditure for the year then ended.

Derek Yule B.Com, CPFA, IRRV (Hons)
Treasurer
26 June 2013

STATEMENT ON THE SYSTEM OF INTERNAL FINANCIAL CONTROL

This statement is given in respect of the statement of accounts for Northern Joint Police Board for the year ended 31 March 2013. I acknowledge our responsibility for ensuring that an effective system of internal financial control is maintained and operated in connection with the resources concerned.

The system of internal financial control can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.

The system of internal financial control is based on a framework of regular management information, financial regulations, administrative procedures (including segregation of duties), management supervision, and a system of delegation and accountability. Development and maintenance of the system is undertaken by management within the Board. In particular, the system includes:

- comprehensive budgeting systems;
- regular reviews of periodic and annual financial reports which indicate financial performance against the forecasts;
- setting targets to measure financial and other performance;
- the preparation of regular financial reports, which indicate actual expenditure against, forecasts;
- clearly-defined capital expenditure guidelines; and
- as appropriate, formal project management disciplines.

The Treasurer to the Board has overall responsibility for Internal Audit in Northern Joint Police Board. The Highland Council's Head of Audit and Risk Management is responsible for the day to day management of the service and reports to the Treasurer on management and performance issues. In accordance with the principles of Corporate Governance an audit working group has been established. The remit of this group includes:

- consideration of reports from the internal auditor on the adequacy of the Board's financial systems, policies and practices and their compliance with the relevant statutes, standards and guidance;
- consideration of management reports presented by the external auditor to the Audit Working Group;
- review and approval of the internal audit programme; and
- consideration of Best Value issues.

The Internal Audit Service operates in accordance with the Code of Practice for Internal Audit in Local Government in the United Kingdom and therefore the Head of Audit and Risk Management prepares an Annual Report containing a view on the adequacy and effectiveness of the system of internal control with appropriate consideration being given to risk and value for money. This report is then presented to the Audit Working Group for its consideration.

My review of the effectiveness of the system of internal control is informed by:

- the work of managers within the Board;
- the work of the internal auditors as described above; and
- the external auditors in their annual audit letter and other reports.

In 2010 CIPFA issued its Statement on the Role of the Chief Financial Officer in Local Government together with an application note enabling authorities to review the effectiveness of their own governance arrangements by reference to best practice and using self-assessment. This review has been undertaken and the arrangements within the Police Service are broadly compliant with the CIPFA Statement. One area of exception is the requirement for the Chief Financial Officer (n.b. the Treasurer) to report directly to the Chief Executive (n.b. the Chief Constable) and be a member of the leadership team. With regard to the Police Service the following arrangements are in place which contribute to delivering the same impact:

The Police Board's Financial Regulations recognise the Treasurer as being "responsible for the proper financial administration of the Board's affairs, and acts as financial adviser to the Board." In addition, the Regulations require:

- that the Chief Constable ensures that all spending conforms to proper accounting standards and will seek appropriate clarification on such matters from the Treasurer
- the accounting procedures, records of the Board and Annual Accounts to be prepared in accordance with directions provided by the Treasurer
- reports to the Board containing financial implications to be discussed with the Treasurer
- the Treasurer is represented by qualified finance staff within the Police Service

A review of the Highland Council systems used by the Board has been undertaken as part of the Council's audit; the results of this work indicate that the Board can place reliance on their effectiveness.

It is considered that the key systems operate in a sound manner and that there has been no fundamental breakdown in control resulting in material discrepancy. However as no system of control can provide absolute assurance against material loss, it is the audit opinion that reasonable assurance can be placed upon the adequacy and effectiveness of Highlands and Islands Fire & Rescue Service's internal control systems for the year to 31st March 2013.

This opinion is supported by work undertaken to examine operation of the key controls within the main financial systems; Creditors, Debtors, General Ledger, Income, Payroll and Budgetary Control. The audit approach involved reviewing the procedures in place for the key controls to ensure that these were sufficient and then selecting a sample of transactions to test that the key controls operated as expected. This work has identified some minor issues but nothing that will affect the Statement on Internal Control.

Derek Yule B.Com, CPFA, IRRV (Hons)
Treasurer
26 June 2013

REMUNERATION REPORT

Northern Joint Police Board

All information disclosed in the tables following in this Remuneration Report below will be audited by Audit Scotland. Other sections of the Remuneration Report will be reviewed by Audit Scotland to ensure that they are consistent with the financial statements.

Appointments

The appointment of the Chief Constable and Deputy Chief Constable is agreed by the Justice Secretary of the Scottish Government. The Northern Joint Police Board appoints a sub committee and delegates responsibility to this group to manage the appointment process.

Remuneration Policy

Senior Employees
The salary of senior employees is set by reference to national arrangements. The Police Negotiating Board (PNB) sets the salaries for all Chief Officer Ranks including the Chief Constables and Deputy Chief Constables across all the UK forces. PNB circular 09/9 sets the amount of salary for the Chief Constable and Deputy Chief Constable for the period with effect from 1 September 2010. Prior to the appointment of the new Chief Officer team the Chief Constable received a protected salary; the Deputy Chief Constable received 80% of the Chief Constable’s salary. This arrangement was agreed after the 2003 review of Chief Officer pay and conditions, and was reported to the Northern Joint Police Board on 24 May 2006.

Senior Councillors

The remuneration of councillors is regulated by the Local Governance (Scotland) Act 2004 (Remuneration) Regulations 2007 (SSI No. 2007/183). The Regulations provide for the grading of councillors for the purposes of remuneration, as either the Convener of the Council, The Civic Head, Senior Councillors or Councillors. These regulations also set out the amounts a councillor may be paid for being a convener or vice-convener of a Joint Board. This is inclusive of any amount payable to them either as a councillor or senior councillor.

The Board has an arrangement with Comhairle Nan Eilean Siar and The Highland Council who remunerate the Convener and Vice Convener respectively to reimburse the Council for the additional costs of that councillor from them being a Convener and Vice-Convener of the Board. The disclosures made in this report are limited to the amounts paid to the Council by the Board for remuneration and do not reflect the full value of remuneration that may be paid to the councillor.

Remuneration of Senior Employees

Senior Employee	Position	Salary, fees and allowances	Taxable expenses	Total Remuneration 2012-13	Total Remuneration 2011-12
		£	£	£	£
George Graham	Chief Constable (from 13/4/2011)	131,770 (full year equivalent salary £127,017)	-	131,770	122,841
Andrew Cowie	Depute Chief Constable (Temporary from 21/3/2011; Permanent from 24/5/2011)	112,986 (full year equivalent salary £108,873)	13	112,999	109,974

The senior employees included in the table include any employee:

- who has responsibility for the management of the Board to the extent that the person has power to direct or control the major activities of the Board (including activities involving the expenditure of money), during the year to which the report relates, whether solely or collectively with other persons;
- who hold a post that is politically restricted by reason of section 2(1) (a) (b) or (c) of the Local Government and Housing Act 1989; or
- whose annual remuneration is £150,000 or more.

The Board also receives services from the Treasurer and the Clerk under a Service Level Agreement with Highland Council. The individuals involved receive no additional payments for carrying out these roles and are included in the Council's remuneration report.

The table below provides information on the number of persons whose remuneration was £50,000 or more. The remuneration is for actual remuneration paid to any person. Any starters or leavers in the year are recorded in the remuneration bands that match their actual remuneration in the year.

General Disclosure by Pay Band

Remuneration Bands	Number of Employees	
£	2012-13	2011-12
50,000 - 54,999	65	59
55,000 - 59,999	29	31
60,000 - 64,999	8	8
65,000 - 69,999	2	3
70,000 - 74,999	4	2
75,000 - 79,999	4	2
80,000 - 84,999	1	2
85,000 - 89,999	2	1
90,000 - 94,999	-	-
95,000 - 99,999	-	-
100,000 - 104,999	1	-
105,000 - 109,999	-	-
110,000 - 114,999	1	-
115,000 - 119,999	-	1
120,000 - 124,999	-	-
125,000 - 129,999	-	1
130,000 - 134,999	1	-
135,000 - 139,999	-	-
140,000 - 144.999	-	-

Exit Disclosure

From 31 March 2013 Northern Police Service ceases to exist and merges with other Scottish Police Services to form Police Scotland with an expectation of significant savings in staff costs. Consequently in March 2012 the board approved the requirement for a Voluntary Severance Scheme during 2012/13. None of these exit packages relate to compulsory redundancy.

The following table shows the number of exit packages agreed at each cost band and the total actuarial cost for each band. The net savings from these redundancies, on an actuarial basis, are £2.396m in 2012/13 (£0.475m in 2011/12).

Number of Employees 2011-12	Total Cost 2011-12		Number of Employees 2012-13	Total Cost 2012-13
	£			£
-	-	£0 - £20,000	10	129,550
-	-	£20,001 - £40,000	6	165,675
-	-	£40,001 - £60,000	4	182,572
-	-	£60,001 - £80,000	2	132,545
1	99,508	£80,001 - £100,000	2	183,139
1	126,773	£100,001 - £150,000	6	744,998
-	-	£150,001 - £200,000	1	176,685
2	**226,281**	**TOTAL**	**31**	**1,715,164**

Senior Councillors and Conveners and Vice Conveners of Joint Boards

The following table provides details of the remuneration paid to the Convener and Vice Convener of the Northern Joint Police Board.

	2012-13				2011-12
Councillor Name & Responsibility	Salary, fees and allowances	Taxable expenses	Non cash Expenses & benefits in Kind	Total Remuneration	Total Remuneration
	£	£	£	£	£
Norman Macleod Convener to 3 May 2012 and again from 6 June 2012	£11,058	-	-	£11,058	12,176
Ian Ross Vice Convener to 3 May 2012	-	-	-	-	-
Hamish Fraser Vice Convener from 6 June 2012	£4,148	-	-	£4,148	*

*no comparative year figure as post not held in 2011-12

The Vice Convener, Ian Ross, did not receive a salary for his position on the Board as he was in receipt of an allowance in respect of being chair of the Planning, Environment and Development Committee of The Highland Council.

The Board paid the following salaries, allowances and expenses to all councillors (including the senior councillors above) during the year.

Type of Remuneration	**2012-13**	**2011-12**
	£	£
Salaries	15,206	12,176
Expenses	28,438	33,593
Total	43,644	45,769

Pension Benefits

The Board participates in two different Police Officer Pension Schemes which provide members with defined benefits related to pay and service.

Pension benefits for chief officers are provided through the Police Pension Scheme. This is a scheme that covers the majority of police officers although newer entrants are now members of the new Police Officer Pension Scheme.
The Police Pension Scheme is a contributory scheme; this means that the officer contributes to the scheme from his or her salary. The members of the old scheme pay 11% (2011/12 11%) of salary and members of the new scheme pay 9.5% (2011/12 9.5%). Officers can retire under the current scheme with 30 years' service. The accrual rate guarantees a pension based on 1/60th of average pensionable service.

Police authority pensions contributions payable are set out in The Police Pension Account (Scotland) 2010 (SSI2010 No 232). With effect from 1 April 2010, there has been an employer's contribution to Police pension scheme which is currently 24.7%. Under the new arrangements, police pension costs are met through a combination of employee contributions, a new actuarially based employer's contribution calculated as a percentage of pensionable pay and as required a "top up" payment from the Scottish Government. Both the employee and employer's contribution are paid into a Service Pension account and the costs of the pensions, when they are taken, are also paid from this account with the net deficit being reimbursed by the Scottish Government. The fixed employers' contribution reflects scheme costs and is based on an agreed percentage of pensionable pay set as a result of actuarial advice following regular valuations of the schemes. The rules governing the pension scheme are contained in regulations made by Parliament and are available at www.sppa.gov.uk.

Senior Employee Pension Benefits

	In year Pension Contributions for year to 31 March 2013	In year Pension Contributions for year to 31 March 2012	Accrued Benefit 2013	Accrued Benefit 2012	Difference between Accrued benefit as at 31 March 2012 and as at 31 March 2013
Name	**£**	**£**	**£**	**£**	**£**
George Graham, Chief Constable from 13/4/11	23,530	30,342	84,678	81,755	2,923
Andrew Cowie, Assistant Chief Constable temp from 21/3/11 and perm from 24/5/11	26,892	27,164	55,162	59,148	(3,986)
Total	**50,422**	**57,506**	**139,840**	**140,903**	**(1,063)**

Senior Councillors Pension Benefits

The Convener of the Board is a member of the Comhairle Nan Eilean Siar pension scheme and the Board has made a payment of £2,006 in respect of the employer's pension contribution due.

Derek Yule
Treasurer
26 June 2013

MOVEMENT IN RESERVES STATEMENT 2011/12

	General Fund £000	Capital receipts reserve £000	**Total Usable Reserves £000**	Unusable Reserves £000	**Total Reserves £000**
Balance at 31 March 2011	**3,060**	**2,517**	**5,577**	**(297,047)**	**(291,470)**
Movement in reserves during 2011/12					
Surplus/(deficit) on provision of services (accounting basis)	(7,906)	-	**(7,906)**	-	**(7,906)**
Other Comprehensive Expenditure and Income	-	**-**	**-**	(47,940)	**(47,940)**
Total Comprehensive Expenditure and income	**(7,906)**	**-**	**(7,906)**	(47,940)	**(55,846)**
Adjustments between accounting basis and funding basis under regulations (note 5)	8,772	943	**9,715**	(9,715)	**-**
Net Increase/(decrease) before Transfers to Other Statutory Reserves	866	943	**1,809**	(57,655)	**(55,846)**
Balance at 31 March 2012	**3,926**	**3,460**	**7,386**	(354,702)	**(347,316)**

MOVEMENT IN RESERVES STATEMENT 2012/13

	General Fund £000	Capital receipts reserve £000	**Total Usable Reserves £000**	Unusable Reserves £000	**Total Reserves £000**
Balance at 31 March 2012	**3,926**	**3,460**	**7,386**	**(354,702)**	**(347,316)**
Movement in reserves during 2012/13					
Deficit on provision of services (accounting basis)	(18,748)	-	**(18,748)**	-	**(18,748)**
Other Comprehensive Expenditure and Income	-	-	-	(12,960)	**(12,960)**
Total Comprehensive Expenditure and income	**(18,748)**	-	**(18,748)**	(12,960)	**(31,708)**
Adjustments between accounting basis and funding basis under regulations (note 5)	14,822	(3,460)	**11,362**	(11,362)	-
Net Increase/(decrease) before Transfers to Other Statutory Reserves	(3,926)	(3,460)	**(7,386)**	(24,322)	**(31,708)**
Balance at 31 March 2013	-	-	-	(379,024)	**(379,024)**

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

2011/12 Gross Expenditure £000	2011/12 Gross Income £000	2011/12 Net Expenditure £000		Note	2012/13 Gross Expenditure £000	2012/13 Gross Income £000	2012/13 Net Expenditure £000
45,020	(8,435)	36,585	Local policing		50,211	(9,780)	40,431
3,281	(615)	2,666	Dealing with the public		3,641	(709)	2,932
4,331	(811)	3,520	Criminal Justice arrangements		4,807	(936)	3,871
2,528	(474)	2,054	Road policing		2,814	(548)	2,266
1,606	(301)	1,305	Specialist operations		1,784	(348)	1,436
1,367	(256)	1,111	Intelligence		1,521	(296)	1,225
4,221	(791)	3,430	Specialist investigations		4,700	(916)	3,784
172	(32)	140	Investigative support		191	(37)	154
1,814	(340)	1,474	National policing		2,025	(395)	1,630
531	-	531	Corporate and democratic core		536	-	536
236	-	236	Non distributed costs		1,382	-	1,382
65,107	(12,055)	53,052	**Net Cost of Services**		**73,612**	**(13,965)**	**59,647**
		(222)	Other operating expenditure	8			65
		17,705	Financing and investment income and expenditure	9			17,893
		(62,629)	Taxation and non-specific grant income	10			(58,857)
		7,906	**(Surplus)/deficit on the provision of services**				**18,748**
		(8,327)	Surplus on revaluation of non-current assets	12a			-
		55,462	Actuarial (gains)/losses on pension assets/liabilities	12c			12,689
		805	Actuarial losses on pension assets/(liabilities) (injury benefit)	12d			271
		47,940	**Other comprehensive income and expenditure**				**12,960**
		55,846	**Total comprehensive income and expenditure**				**31,708**

BALANCE SHEET

31/03/12 £000		Note	**31/03/13 £000**
53,463	Property, plant & equipment	24	52,336
111	Intangible Assets	26	96
53,574	**Long term assets**		**52,432**
99	Inventories	29	87
4,763	Short term debtors	30	2,596
9,834	Cash and cash equivalents	16	9,140
671	Assets held for sale	25	1,173
15,367	**Current assets**		**12,996**
(684)	Short term borrowing	34	(663)
(8,234)	Short term creditors	31	(12,696)
(8,918)	**Current liabilities**		**(13,359)**
(16,550)	Long term borrowing	34	(15,882)
-	Long term creditors		-
(381,762)	Other long term liabilities – Pensions	20	(405,898)
(9,027)	Other long term liabilities – Injury Benefits	21	(9,313)
(407,339)	**Long term liabilities**		**(431,093)**
(347,316)	**Net liabilities**		**(379,024)**
7,386	Usable reserves	11	-
(354,702)	Unusable reserves	12	(379,024)
(347,316)	**Total reserves**		**(379,024)**

The unaudited statement of accounts was issued on 26 June 2013

Derek Yule B.Com, CPFA, IRRV (Hons)
Treasurer
26 June 2013

CASH FLOW STATEMENT

31/03/12 £000		Note	31/03/13 £000
(7,906)	Net surplus/(deficit)on the provision of services		(18,748)
8,178	Adjust net surplus/(deficit) on the provision of services for non-cash movements		20,467
(1,216)	Adjust for items included in the net surplus/(deficit) that are investing and financing activities		(963)
(944)	Net cash inflow from operating activities	13	756
(249)	Net cash outflow from Investing activities	14	(1,727)
532	Net cash outflow/(inflow) from Financing activities	15	277
661)	**Net increase/(decrease) in cash and cash equivalents**		(694)
10,495	Cash and cash equivalents at 1 April 2012		9,834
9,834	**Cash and cash equivalents at 31 March 2013**	16	9,140

ACCOUNTING POLICIES AND NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES

General principles

The Statement of Accounts summarises the transactions of the Board for the 2012/13 financial year and its position at the year end of 31 March 2013. The Board is required to prepare an annual Statement of Accounts by the Local Authority Accounts (Scotland) Regulations 1985 and section 12 of the Local Government in Scotland Act 2003 requires that they be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 and the Service Code of Practice 2012/13, supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

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 the sale of goods is recognised when the Board 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 Board

- revenue from the provision of services is recognised when the Board 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 Board

- 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 those rendered by officers of the Board) are recorded as expenditure when the services are received, rather than when payments are made

- interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instruments rather than the cash flows fixed or determined by the contract

- where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where there is evidence that debts are unlikely to be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected

Cash and cash equivalents

The Highland Council loans fund provides all the day to day banking requirements of the Board. The balance of £9.140 m (2011/12 £9.815m) represents the positive balance in the Board fund that temporarily sits with the Highland Council loans fund.

Prior period adjustments and changes in accounting policies and estimates and errors

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 Board’s financial position or financial performance. Where a change is made, it is applied retrospectively by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

Charges to revenue for non-current assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

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

The Board is not required to make requisitions to cover depreciation, revaluation or impairment losses. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement equal to loans fund principal charges. Depreciation, revaluation and impairment losses are therefore replaced by loans fund principal charges in the General Fund balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Employee benefits

Benefits payable during employment

Short-term employee benefits (those that fall due wholly within 12 months of the year-end), such as wages and salaries, bonuses, paid annual leave and paid sick leave for current employees, are recognised as an expense in the year in which the employees render service to the Board. An accrual is made against services in the Surplus or Deficit on the Provision of Services for the cost of holiday entitlements and other forms of leave earned by employees but not taken before the year-end and which employees can carry forward into the next financial year. The accrual is made at the remuneration rates applicable in the following financial year and is required under statute to be reversed out of the General Fund balance by a credit to the Accumulating Compensated Absences Adjustment Account in the Movement in Reserves Statement.

Termination benefits

Termination benefits are amounts payable as a result of a decision by the Board to terminate an officer’s employment before the normal retirement date or an officer’s decision to accept voluntary redundancy and are charged on an accruals basis to the Non-Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Board is demonstrably committed to either terminating the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Board to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movements in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for termination benefits related to pensions enhancements 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.

Post Employment Benefits

Civilian Staff are admitted to the Highland Council Pension Fund which administers the Local Government Pension Scheme. This is a defined benefit final salary scheme. In addition the Board has liabilities for discretionary pension payments outside the main scheme.

Discretionary Benefits

The Board 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.

Local Government Pension Scheme

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

- the liabilities of the Highland Council Pension Fund attributable to the Board 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 projected earnings of current employees

- liabilities are discounted to their value at current prices, using a discount rate of 4.6% based on the annualised yield at the 22 year point on the Merill Lynch AA rated corporate bond curve. This approach differs from the previous approach of discounting based on the indicative rate of return on the iBOxx AA rated over 15 year corporate bond index (4.5% in 2011/12)

- the assets of the Highland Council Pension Fund attributable to the Board are included in the Balance Sheet at their fair value:
  - quoted securities – current bid price
  - unquoted securities – professional estimate
  - unitised securities – current bid price
  - property – market value

The change in the net pensions liability is analysed into seven components:

- current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked

- past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non-Distributed Costs

- interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement

- expected return on assets – the annual investment return on the fund assets attributable to the Board, based on the expected long term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement

- gains/losses on settlements and curtailments – the result of actions to relieve the Board of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited/credited to the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non-distributed costs

- 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 to the Pensions Reserve

- contributions paid to the Highland Council 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 Board to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, 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 the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact on the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Police Officers Pension Scheme

Police Officers participate in 2 schemes, the 1987 Police Officers' Pension Scheme (old scheme) and the 2006 Police Officers' Pension Scheme (new scheme). The members of the old scheme pay 11% of salary and members of the new scheme pay 9.5%. The schemes are unfunded which means that no investment assets are built up to fund future liabilities. Instead the net cost of pensions and other benefits (after allowing for contributions from police officers) is borne by the Board.

In order to assess the value of the employer's liabilities in relation to the scheme at 31 March 2013, the actuaries have undertaken pension expense calculations as at 31 March 2013.

From 1 April 2010 an employer's contribution is also made into the scheme at a rate of 24.7% of pensionable pay of the relevant officers. Funding for this is provided by the Scottish Government.

The Scheme is funded on a pay as you go basis, with the Employer paying a fixed contribution and the Government meeting the balance of emerging benefit expenditure (net of employee and employer contributions). There are no assets held to back the liabilities of the scheme.

Injury Benefit

Tax rules introduced from April 2006 prevent injury awards from being part of the pension scheme regulations where injury awards are payable irrespective of whether an officer is a member of the pension scheme. Injury awards were therefore removed from the fire pension scheme regulations and put on a separate statutory basis. The Police (Injury Benefit) (Scotland) Regulations 2007 deals with injury awards for police officers or as the case may be their qualifying surviving dependents.

When police injury benefits formed part of the police pension schemes, The Local Government Pension Reserve Fund (Scotland) regulations 2003 applied to those costs. These regulations restrict the amount chargeable to the general fund to employer contributions payable (the funded Local Government Pension Scheme) or payments to pensioners in year (the unfunded Police Officer Schemes). This cost is substantially less than the accounting provision (based on benefit entitlements earned by employees) that is required by applying accounting standards for pensions.

As injury awards no longer form part of the statutory pension scheme the 2003 Regulations no longer apply to these costs, and there is no statutory basis for them to be charged to the Pension Reserve instead of the General Fund.

The Scottish Government has issued statutory guidance which requires costs in relation to these schemes to be charged to a statutory adjustment account, i.e. Employee Statutory Mitigation Account, rather than the General Fund.

Events after the reporting period

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

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events

- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect disclosure is made in the notes of the nature of the events and their estimated financial effect

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

Exceptional items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Board's financial performance.

Financial liabilities

Financial liabilities are recognised on the Balance Sheet when the Board becomes a party to the contractual provisions of a financial instrument and initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement 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 Board has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Government grants and contributions

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

- the Board will comply with the conditions attached to the payments, and

- the grants or contributions will be received

Amounts recognised as due to the Board are not credited to the Comprehensive Income and Expenditure Account until conditions attaching to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants/contributions) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Account. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Account are transferred to the Capital Adjustment Account once they have been applied.

Inventories

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the weighted average formula.

Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases. The Board does not have any finance leases.

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

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

The Board as Lessee

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

The Board as Lessor

Operating leases

Where the Board grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

Overheads and support services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Code of Practice 2012/13 (SerCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- corporate and Democratic Core – costs relating to the Board's status as a multi-functional, democratic organisation

- non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on assets held for sale

These two cost categories are defined in SerCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Board as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Board.

Internally generated assets are capitalised where it its demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Board will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Board's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Board can be determined by reference to an active market. In practice, no intangible asset held by the Board meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over it useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and the Capital Receipts Reserve.

Property, plant and equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

All fixed assets, which exceed the de minimis level, have been identified, classified and valued. A "de minimis "level of £20,000 has been applied to "Land and Buildings" and "Non Operational Assets" with a £6,000 "de minimis" applying to the "Vehicles, Plant & Equipment".

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Board and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located

The Board does not capitalise borrowing costs incurred whilst assets are under construction.

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

A revaluation of all buildings was carried out as at 31 March 2012 by Graham & Sibbald (Chartered Surveyors).

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

- assets under construction – historical cost
- operational specialist property – depreciated replacement cost
- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV)

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost is used as an estimate of fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains.

Where decreases in value are identified, the revaluation loss is accounted for:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement

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

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

Where impairment losses are identified, they are accounted for:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)

- where there is no balance in the Revaluation Reserve or insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement

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

Disposals

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously recognised losses. 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.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal are categorised as capital receipts. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Board's underlying need to borrow. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against requisitions, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Depreciation

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 a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Deprecation is calculated on the following bases:

- operational buildings – straight-line allocation over the useful life of the property as estimated by the valuer. Assets are depreciated in year following acquisition with full year's depreciation charged in year of disposal. Based on a life span of five to forty years determined by Force Estates Unit Manager

- vehicles, plant and equipment – a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer. Assets are depreciated in year following acquisition with full year's depreciation charged in year of disposal. Based on a useful life span of four to ten years for vehicles and plant and five to seven years for IT equipment

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

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Componentisation Policy

- components of an asset will be separated where their value is significant in relation to the total value of the assets and where those components have different useful lives to the remainder of the asset for depreciation purposes

- a component may be an individual item or similar items with similar lives grouped together

- where a component is replaced or restored the carrying amount of the old component will be derecognized and the new component added. Where the carrying value of the derecognized/replaced component is not known a best estimate will be determined by reference to the current costs

- only assets with a gross book value of £0.300m and over will be considered for componentisation

- of those assets, for the purpose of determining a "significant" component of an asset, components with a value of 10% in relation to the overall value of the asset will be considered and then only if the component has a different useful life for depreciation purposes so as to result in depreciation charges that differ materially from the depreciation charges had the asset not been componentized

- on componentisation any Revaluation Reserve balances will remain with the structure of the building. Any future revaluation gains and losses will be applied across components as appropriate

Heritage Assets

The Board holds a collection of police equipment and memorabilia at its premises in Inverness, which is not recognised in the Balance Sheet as cost information is not readily available. The benefits of obtaining valuations for these items would not justify the cost. The Board makes no active acquisitions or disposals, and there have been no other transactions in police equipment and memorabilia during 2012/13.

As part of the transition to a single Scottish Police Force, a common Scottish Police Service policy is being developed on Heritage Assets.

Provisions and Contingent Liabilities

Provisions

Provisions are made where an event has taken place that gives the Board a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Board may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Board becomes aware of the obligation, and measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

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

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

Contingent liabilities

A contingent liability arises where an event has taken place that gives the Board a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Board. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Reserves

Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against requisitions for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement benefits and employee benefits that do not represent usable resources for the Board – these reserves are explained in the relevant policies see note 12 Balance Sheet - unusable reserves.

VAT

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

2. Accounting standards that have been issued but have not yet been adopted

There are none that apply to the Board.

3. Critical judgements in applying accounting policies

In applying the accounting policies set out in Note 1, the Board has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- there is a high degree of uncertainty about future levels of funding for local government. However the Board has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Board might be impaired as a result of a need to close facilities and reduce levels of service provision

4. Assumptions made 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 Board 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 items in the Board's Balance Sheet at 31 March 2013 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

	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 difficult for the Board 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 increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by £0.06m for every year that useful lives had to be reduced.
Pension 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 Board with expert advice about the assumptions to be applied.	The effects on the net pensions liability of changes in individual assumptions can be measured. For example a 0.1% increase in the discount rate assumption would result in a decrease of approximately £9.788m in the pension liability.

	Uncertainties	Effect if Actual Results Differ from Assumptions
Injury Benefits Liability	Estimation of the net liability to pay injury benefits 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 and mortality rates. A firm of consulting actuaries is engaged to provide the Board with expert advice about the assumptions to be applied.	The effect on the net injury benefits liability of changes in individual assumptions can be measured. For example a 0.1% increase in the discount rate assumption would result in a decrease of approximately £0.128m in the pension liabilities.
Arrears	At 31 March 2013 the Board had a balance of sundry debtors for £0.529m. A review of significant balances suggested that an allowance for doubtful debts of £0.019m was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.	If collection rates were to deteriorate, a doubling of the amount of doubtful debts would require an additional £0.019m to be set aside as an allowance.

5. Movement in Reserves Statement – adjustments between accounting basis and funding basis under regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Board in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Board to meet future capital and revenue expenditure.

Adjustments in 2012/13

	General Fund £000	Capital receipts reserve £000	Total Usable Reserves £000	Unusable reserves £000	**Total 2012/13 £000**
Adjustments involving the Capital Adjustment Account					
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement					
Charges for depreciation and impairment of non-current assets	2,428	-	2,428	(2,428)	**-**
Amortisation of Intangible assets	29	-	29	(29)	**-**
Capital grants and contributions that have been applied to capital financing	(89)	-	(89)	89	**-**
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	65	-	65	(65)	**-**
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement					
Statutory provision for the financing of capital investment	(682)	-	(682)	682	**-**
Capital expenditure funded from revenue	1,668	(1,668)	-	-	**-**
Adjustments involving the Capital Receipts Reserve					
Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-	1,884	1,884	(1,884)	**-**
Use of capital receipts reserve to finance capital expenditure	-	(3,676)	(3,676)	3,676	**-**

	General Fund £000	Capital receipts reserve £000	Total Usable Reserves £000	Unusable reserves £000	**Total 2012/13 £000**
Adjustments involving the Pensions Reserve					
Reversal of items relating to post employment benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement (see note 20)	(2,726)	-	(2,726)	2,726	**-**
Employers' pension contributions and direct payments to pensioners payable in the year	14,203	-	14,203	(14,203)	**-**
Adjustments involving the Employee Statutory Mitigation Account					
Reversal of items relating to injury benefits are debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement (see note 21)	(504)	-	(504)	504	**-**
Injury payments to pensioners payable in the year	489	-	489	(489)	**-**
Adjustments involving the Accumulating Compensated Absences Adjustment Account					
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(59)	-	(59)	59	**-**
Total adjustments	**14,822**	**(3,460)**	**11,362**	**(11,362)**	**-**

Adjustments in 2011/12

	General Fund £000	Capital receipts reserve £000	Movement in unusable reserves £000	**Total 2011/12 £000**
Adjustments involving the Capital Adjustment Account				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement				
Charges for depreciation and impairment of non-current assets	2,323	-	(2,323)	**-**
Amortisation of Intangible assets	38	-	(38)	**-**
Capital grants and contributions that have been applied to capital financing	(1,216)	-	1,216	**-**
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(222)	-	222	**-**
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement				
Statutory provision for the financing of capital investment	(684)	-	684	**-**
Capital expenditure funded from revenue	(175)	-	175	**-**
Adjustments involving the Capital Receipts Reserve				
Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-	943	(943)	**-**
Adjustments involving the Pensions Reserve				
Reversal of items relating to post employment benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement (see note 20)	21,989	-	(21,989)	**-**
Employers' pension contributions and direct payments to pensioners payable in the year	(13,325)	-	13,325	**-**

	General Fund £000	Capital receipts reserve £000	Movement in unusable reserves £000	**Total 2011/12 £000**
Adjustments involving the Employee Statutory Mitigation Account				
Reversal of items relating to injury benefits are debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement (see note 21)	437	-	(437)	**-**
Injury payments to pensioners payable in the year	(323)	-	323	**-**
Adjustments involving the Accumulating Compensated Absences Adjustment Account				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(70)	-	70	**-**
Total adjustments	**8,772**	**943**	**(9,715)**	**-**

6. Comprehensive Income and Expenditure Statement – Corporate and democratic core costs

Corporate and democratic core costs include the costs of democratic representation and management relating to corporate policy making and all other elected member based activities. It also includes the costs of corporate management relating to the activities of the general running of the Board.

2011/12 Net £000		2012/13 Expenditure £000	2012/13 Income £000	2012/13 Net £000
49	Democratic representation and management	47	-	47
482	Corporate management	489	-	489
531	Total	536	-	536

7. Comprehensive Income and Expenditure Statement – Non- distributed costs

Non-distributed costs are excluded from individual services and comprise:

2011/12 £000		2012/13 £000
153	Pension fund past service contributions/(gains)	785
-	Injury Benefit past service contributions/(gains)	-
83	Pension fund settlements and curtailments	597
236		1,382

8. Comprehensive Income and Expenditure Statement – Other operating expenditure

2011/12 £000		2012/13 £000
(222)	(Gain)/loss on the disposal of non-current assets	65

9. Comprehensive Income and Expenditure Statement – Financing and investment income and expenditure

2011/12 £000		2012/13 £000
851	Interest payable and similar charges	835
16,497	Pensions interest cost and expected return on pension assets	16,724
437	Pensions interest cost and expected return on injury benefits	404
(80)	Interest and investment income	(70)
17,705		17,893

10. Comprehensive Income and Expenditure Statement – Taxation and non specific grant income

2011/12 £000		2012/13 £000
(23,320)	Requisitions	(19,591)
(26,302)	Police Grant	(26,287)
(11,791)	Police Pension Grant	(11,927)
(1,216)	Capital Grants	(1,052)
(62,629)		(58,857)

11. Balance Sheet – usable reserves

	General Fund	Capital Receipts Reserve	Total
Summary 2012/13	£000	£000	£000
Balance at 1 April 2012	3,926	3,460	7,386
Movement in the year	(3,926)	(3,460)	(7,386)
Balance at 31 March 2013	**-**	**-**	**-**
Summary 2011/12			
Balance at 1 April 2011	3,060	2,517	5,577
Movement in the year	866	943	1,809
Balance at 31 March 2012	**3,926**	**3,460**	**7,386**

Movements in usable reserves are detailed in the movement in reserves statement on page 19 and in note 5.

The Boards reserves have been distributed to The Scottish Government and Constituent Local Authorities in line with the provisions of The Local Government Finance Circular 4/2013, produced by the Scottish Government.

12. Balance Sheet – unusable reserves

31/03/12 £000		31/03/13 £000
11,227	Revaluation reserve (a)	10,836
25,760	Capital adjustment account (b)	26,192
(381,762)	Pensions reserves (c)	(405,898)
(9,027)	Employee Statutory Mitigation Account (d)	(9,313)
(900)	Accumulating compensated absences adjustment account (e)	(841)
(354,702)	**Total unusable reserves**	(379,024)

(a) Revaluation reserve

The Revaluation reserve contains the gains made by the Board arising from increases in the value of its property, plant and equipment. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised

The reserve contains revaluation gains which have accumulated since the creation of the reserve on 1 April 2007. Accumulated gains arising up to 31 March 2007 are consolidated into the balance on the Capital Adjustment Account.

2011/12 £000		2012/13 £000
2,794	Balance at 1 April 2012	11,227
8,327	Upward revaluation of assets	-
106	Difference between fair value depreciation and historical cost depreciation	(391)
11,227	Balance at 31 March 2013	10,836

(b) Capital adjustment account

The Capital adjustment account absorbs timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Account (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by the Board as finance for the costs of acquisition, construction and enhancement.

The account contains accumulated gains and losses on investment properties and also revaluation gains accumulated on property, plant and equipment prior to the creation of the account on 1 April 2007.

Note 5 provides details of the source of all the transactions posted to the account, apart from any involving the Revaluation Reserve.

2011/12 £000		2012/13 £000
26,874	Balance at 1 April 2012	25,760
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement	
(2,323)	Charges for depreciation and impairment of non-current assets	(2,428)
(38)	Amortisation of Intangible Assets	(29)
(648)	Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(1,949)
(106)	Adjusting amounts written out of the Revaluation reserve	391
	Capital financing applied in the year	
-	Use of the Capital Receipts Reserve to finance new capital expenditure	
1,142	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	3,765
684	Statutory provision for the financing of capital investment charged against the General Fund	682
175	Capital expenditure charged against the General Fund balance	-
25,760	Balance at 31 March 2013	26,192

(c) Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Board accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. Statutory arrangements require benefits earned to be financed as the Board makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Board has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

2011/12 £000		2012/13 £000
(317,636)	Balance at 1 April 2012	(381,762)
(55,462)	Actuarial gains or losses on pension assets and liabilities	(12,689)
(21,989)	Reversal of items relating to retirement benefits debited or credited to the Surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement	(25,650)
13,325	Employer's pension contributions and direct payments to pensioners payable in the year	14,203
(381,762)	Balance at 31 March 2013	(405,898)

d) Employee Statutory Mitigation Account

The Employee Statutory Mitigation Account absorbs the timing differences arising from the different arrangements for accounting for injury benefits following accounting standards and for funding benefits in accordance with statutory provisions. The Board accounts for the full cost of future injury benefits as they are awarded and updates post retirement liabilities accordingly. However, injury benefits are financed on a pay as you go basis and this results in timing differences. The debit balance on the Employee Statutory Mitigation Account shows the difference between the amount of benefit awarded and the amount paid. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

2011/12 £000		2012/13 £000
(8,108)	Balance at 1 April 2012	(9,027)
(805)	Actuarial gains(losses) on pension assets and liabilities	(271)
(437)	Interest cost to retirement benefits debited or credited to the Surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement	(504)
323	Injury and direct payments to pensioners in the year	489
(9,027)	Balance at 31 March 2013	(9,313)

(e) Accumulating compensated absences adjustment account

The Accumulating compensated absences adjustment account absorbs the differences that would otherwise arise on the general fund balance from accruing for compensated absences earned but not taken in the year. Statutory arrangements require that the impact on the general fund balance is neutralised by transfers to or from the account.

2011/12 £000		2012/13 £000
(971)	Balance at 1 April 2012	(900)
971	Settlement or cancellation of accrual made at the end of the preceding year	900
(900)	Amounts accrued at the end of the current year	(841)
(900)	Balance at 31 March 2013	(841)

13. Cash flow statement – operating activities

The cash flows for operating activities include the following items:

2011/12 £000		2012/13 £000
(80)	Interest received	(70)
851	Interest paid	835

14. Cash flow statement – investing activities

2011/12 £000		2012/13 £000
1,119	Purchase of property, plant and equipment	3,677
(870)	Proceeds from the sale of property, plant and equipment	(1,949)
249	Net cash outflows from investing activities	1,727

15. Cash flow statement - Financing activities

2011/12 £000		2012/13 £000
(1,216)	Capital Grants Received	(963)
684	Repayments of amounts borrowed	686
(532)	Net cash outflows/ (inflows) from financing activities	277

16. Cash flow statement – cash and cash equivalents

The balances of cash and cash equivalents comprise:

2011/12 £000		2012/13 £000
9,815	Temporary advances to Highland Council Loans Fund	9,140
19	Cash on hand	-
9,834	Total cash and cash equivalents	9,140

17. Amounts reported for resource allocation decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Account is that specified by the Service Code of Practice. However, decisions about resource allocation are taken by the Board on the basis of monitoring reports analysed across the various services. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- the budget performance statement on page 5 gives details in the format reported to Board meetings
- no charges are made in relation to capital expenditure (whereas depreciation, impairment losses and amortisation are charged to services in the Comprehensive Income and Expenditure Account)
- the cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year
- expenditure on some support services is budgeted for centrally and not charged to services

Reconciliation of Service Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement

This reconciliation shows how the figures in the analysis of service income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

2011/12 £000		2012/13 £000
60,547	Net expenditure in the service analysis	62,693
	Net expenditure of services and support services not included in the analysis	
(5,867)	Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the analysis	(3,367)
(1,628)	Amounts included in the analysis not included in the Comprehensive Income and Expenditure Statement	221
53,052	**Cost of services in Comprehensive Income and Expenditure Statement**	**59,547**

Reconciliation to subjective analysis

This reconciliation shows how the figures in the analysis of service income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement:

Comparative figures 2012/13	Service analysis	Amounts not reported to management	Amounts not included in I & E	**Cost of services**	Corporate amounts	**Total**
	£000	£000	£000	**£000**	£000	**£000**
Fees, charges & other service income	(12,122)	-	-	**(12,122)**	-	**(12,122)**
Pension contributions and transfers in	(3,832)	-	-	**(3,832)**	-	**(3,832)**
Interest and investment income	(70)	-	70	**-**	(70)	**(70)**
Income from requisitions	-	-	-	**-**	(19,591)	**(19,591)**
Government grants and contributions	(4,892)	-	-	**(4,892)**	(39,266)	**(44,158)**
Total Income	(20,916)	-	70	**(20,846)**	(58,927)	**(79,773)**
Employee expenses	68,699	(5,724)	-	**62,975**	17,128	**80,103**
Other service expenses	14,910	-	151	**15,061**	835	**15,896**
Depreciation, amortisation and impairment	-	2,457	-	**2,457**	-	**2,457**
Gain or loss on disposal of non current assets	-	-	-	**-**	65	**65**
Total expenditure	83,609	(3,267)	151	**80,493**	18,028	**98,521**
(Surplus) or deficit on the provision of services	62,693	(3,267)	(221)	**59,647**	(40,899)	**18,748**

Comparative figures 2011/12	Service analysis	Amounts not reported to management	Amounts not included in I & E	**Cost of services**	Corporate amounts	**Total**
	£000	£000	£000	**£000**	£000	**£000**
Fees, charges & other service income	(4,724)	-	-	**(4,724)**	-	**(4,724)**
Pension contributions and transfers in	(3,195	-	-	**(3,195)**	-	**(3,195)**
Interest and investment income	(80)	-	80	**-**	(80)	**(80)**
Income from requisitions	-	-	-	**-**	(23,320)	**(23,320)**
Government grants and contributions	(4,136)	-	-	**(4,136)**	(39,308)	**(43,444)**
Total Income	(12,135)	-	80	**(12,055)**	(62,708)	**(74,763)**
Employee expenses	57,661	(8,228)	-	**49,433**	16,934	**66,367**
Other service expenses	15,021	-	(1,708)	**13,313**	850	**14,163**
Depreciation, amortisation and impairment	-	2,361	-	**2,361**	-	**2,361**
Gain or loss on disposal of non current assets	-	-	-	**-**	(222)	**(222)**
Total expenditure	72,682	(5,867)	(1,708)	**65,107**	17,562	**82,669**
(Surplus) or deficit on the provision of services	60,547	(5,867)	(1,628)	**53,052**	(45,146)	**7,906**

18. Agency Services

The Scottish Police Services Authority came into operation on 1 April 2007 and provides the ICT services to the Board. With the transfer of services from the Board to the SPSA, agreement was reached with all of the Scottish Police Forces over the amount of budget which needed to be released. The funding for the purchase of ICT goods and services transferred to the Scottish Government. It was agreed that the SPSA would purchase the goods and services in conjunction with each force, with the force incurring the expenditure in the first instance with the funding being drawn down from the Scottish Government. A total of £1.906m was paid in respect of revenue expenditure and £0.177m in respect of capital expenditure.

19. External audit costs

The Board has incurred the following external audit costs.

2011/12		2012/13
£		£
27,210	Fees payable to Audit Scotland with regard to external audit services carried out by the appointed auditor for the year	26,000

20. Defined benefit pension schemes

Participation in pension schemes

As part of the terms and conditions of employment of its officers, the Board makes contributions towards the cost of post employment benefits. Although these benefits will not actually be payable until employees retire, the Board has a commitment to make the payments and this needs to be disclosed at the time that employees earn their future entitlement.

The Board participates in three post employment schemes:

- The Local Government Pension Scheme, administered locally by the Highland Council Pension Fund – this is a funded defined benefit final salary scheme, meaning that the Board and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets

- Police Officers Pension Scheme. Pension benefits for officers are provided through the 1987 Police Pension Scheme which covers the majority of police officers although newer entrants are now members of the 2006 Police Officer Pension Scheme. The Scheme is a contributory scheme; this means that the officer contributes to the scheme from his or her salary. The Schemes are unfunded which means that no investment assets are built up to fund future liabilities. Instead the net cost of pensions and other benefits (after allowing for contributions from police officers) is borne by the Board

- Injury Benefits. Injury awards are payable irrespective of whether an officer is a member of the pension scheme. Injury awards were therefore removed from the police pension scheme regulations and put on a separate statutory basis. The Police (Injury Benefit) (Scotland) Regulations 2007 deals with injury awards for police officers, or as the case may be their qualifying surviving dependents. The Scheme is funded on a pay as you go basis, with the employer paying a fixed contribution and the Government meeting the balance of emerging benefit expenditure (net of employee and employer contributions). There are no assets held to back the liabilities of the scheme

Arrangements for the award of discretionary post retirement benefits upon early retirement – this is an unfunded defined benefit final arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet the pensions liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due

With effect from 1 April 2011 public service pensions are up-rated in line with the Consumer Price Index (CPI) rather than the Retail Prices Index (RPI).

Transactions relating to post employment benefits

The Board recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge that is required to be made against requisitions is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year.

Total 2011/12 £000		Support Staff 2012/13 £000	Uniformed Schemes 2012/13 £000	Total 2012/13 £000
	Comprehensive Income and Expenditure Statement			
	Cost of services			
5,256	Current service cost	1,621	3,831	5,452
153	Past service cost	785	-	785
83	Settlements and curtailments	597	-	597
5,492		3,003	3,831	6,834
	Financing and investment income and expenditure			
18,947	interest cost	2,184	16,660	18,844
(2,450)	expected return on scheme assets	(2,120)	-	(2,120)
16,497		64	16,660	16,724
21,989	Total post employment benefits charged to the surplus or deficit on the provision of services	3,067	20,491	23,558
55,462	Actuarial (gains)/losses	(120)	12,809	12,689
77,451	Total post employment benefits charged to the Comprehensive Income and Expenditure Statement	2,947	33,300	36,247
	Movement in reserves statement			
(21,989)	Reversal of net charges made to the Surplus or deficit on the provision of services for post employment benefits in accordance with the code	(3,067)	(20,491)	(23,558)
13,325	Employers contributions payable to the scheme	1,845	12,358	14,203

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement for the period 1 April 2005 to 31 March 2013 is a loss of £11.537m.

Assets and liabilities in relation to post employment benefits

Reconciliation of present value of scheme liabilities (defined benefit obligation)

2011/12 £000		Police Officers Pension Scheme £000	LGPS £000	2012/13 Total £000
352,299	Opening value	368,283	48,037	416,320
5,256	Current service cost	5,923	1,621	7,544
18,947	Interest cost	16,660	2,184	18,844
52,648	Actuarial loss/(gain)	12,809	2,283	15,092
(16,302)	Estimated benefits paid (net of transfers in)	(15,643)	(1,413)	(17,056)
3,322	Contributions by scheme participants	3,285	353	3,638
(86)	Unfunded pension payments	-	(354)	(354)
153	Past service cost	-	785	785
83	Losses on curtailments	-	597	597
416,320	Closing value	391,317	54,093	445,410

Reconciliation of fair value of the scheme assets

31/03/12 £000		Police Officers Pension Scheme £000	LGPS £000	31/03/13 Total £000
34,663	Opening value	-	34,558	34,558
2,450	Expected return on Scheme assets	-	2,120	2,120
(2,814)	Actuarial (loss)/gain	-	2,403	2,403
1,392	Contributions by employer	-	1,845	1,845
349	Contributions by Scheme participants	-	353	353
(1,482)	Estimated benefits paid (net of transfers in)	-	(1,767)	(1,767)
34,558	Closing value	-	39,512	39,512
381,762	Net Pension Liability	391,317	14,581	405,898

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was £4.523m (2011/12 £0.701m).

Scheme history

Year ended	31/03/13	31/03/12	31/03/11	31/03/10	31/03/09
	£000	£000	£000	£000	£000
Present value of liabilities	(445,410)	(416,320)	(352,299)	(507,988)	(324,944)
Fair value of assets	39,512	34,558	34,663	31,509	21,904
Deficit	(405,898)	(381,762)	(317,636)	(476,479)	(303,040)

Assets prior to 31 March 2009 are shown at bid price (estimated where necessary).

The liabilities show the underlying commitments that the Board has in the long run to pay post employment (retirement) benefits. The net liability of £405.898m has a substantial impact on the net worth of the Board as recorded in the Balance Sheet, resulting in a negative overall balance of £379.024m. However statutory arrangements for funding the deficit mean that the financial position of the Board remains healthy. The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary.

From 2010/11 new arrangements for Police Officer Pensions have come into effect whereby there is now in addition to the employee contributions of 11% for the old scheme and 9.5% for the new scheme, an actuarially based employer contribution calculated as a percentage of pensionable pay of 24.7% funded by the Scottish Government. In addition a top up payment from the Scottish Government is paid if required.

The total contributions expected to be made to the Local Government Pension Scheme by the Scottish Police Service in the year to 31 March 2014 is £1.061m.

The total contributions expected to be made to the 2 Police Officer Pension Schemes by the Scottish Government in the year to 31 March 2014 is £11.971m.

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The Local Government Pension Scheme has been assessed by Barnett Waddingham LLP, an independent firm of actuaries, estimates for the Highland Council Pension Fund being based on the latest full valuation of the scheme as at 31 March 2011.

The uniformed police officers pension schemes are based on the latest valuation of the scheme for IAS 19 purposes as at 31 March 2013.

The principal actuarial assumptions adopted as at 31 March 2013 are as follows:

Long term expected rate of return on assets in the scheme

For accounting years beginning on or after 1 January 2013, the expected return and the interest cost will be replaced with a single net interest cost, which will effectively set the expected return equal to the IAS19 discount rate.

For the year to 31 March 2013, the expected return was 6.1% per annum, which has been used to determine the profit and loss charge for the year ended 31 March 2013.

Longevity assumptions

Police Board Support Staff
Longevity at age 65 for current pensioners

2011/12		**2012/13**
21.3	Men	21.3
23.5	Women	23.6

Longevity at age 65 for future pensioners

22.6	Men	22.6
25.1	Women	25.1

Police Officers 1987 and 2006 Scheme
Longevity at age 65 for current pensioners

21.5	Men	21.6
24.1	Women	24.2

Longevity at age 65 for future pensioners

23.4	Men	23.5
25.9	Women	26.0

Financial assumptions

Police Board Support Staff

3.3%	RPI Increases	3.4%
2.5%	CPI Increases	2.6%
4.8%	Rate of increase in salaries	4.8%
2.5%	Rate of increase in pensions	2.6%
4.6%	Rate for discounting scheme liabilities	4.5%
50.0%	Take up of option to convert annual pension into retirement lump sum	50.0%

Police Officers

3.3%	RPI Increases	3.4%
2.5%	CPI Increases	2.6%
4.8%	Rate of increase in salaries	4.8%
2.5%	Rate of increase in pensions	2.6%
4.6%	Rate for discounting scheme liabilities	4.5%
50.0%	Take up of option to convert annual pension into retirement lump sum	50.0%

The Local Government Pension Scheme's assets consist of the following categories, by proportion of the total assets held.

2011/12		2012/13
76%	Equities	77%
7%	Gilts	7%
7%	Bonds	7%
9%	Property	8%
1%	Cash	1%
100%	Total	100%

History of experience gains and losses

The actuarial gains identified as movements on the Pensions Reserve in 2012/13 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2013.

Support Staff LGPS

	2012/13	2011/12	2010/11	2009/10	2008/09
	%	%	%	%	%
Experience adjustments on scheme liabilities	(1.8%)	4.7	(0.1)	(1.0)	(5.5)
Experience adjustments on scheme assets	6.1%	(8.1)	0.8	24.0	(40.7)

Police Officers Scheme

	2012/13	2011/12	2010/11	2009/10	2008/09
	%	%	%	%	%
Experience gains and losses on liabilities	-	-	(39.9)	-	-
Differences between the expected and actual return on assets	-	-	-	-	-

21. Injury benefit

2011/12 £000		2012/13 £000
	Comprehensive Income and Expenditure Statement	
-	Cost of services	100
-	Past service cost	-
-		100
437	Financing and investment income and expenditure interest cost	404
437	Total post employment benefits charged to the surplus or deficit on the provision of services	504
805	Actuarial losses	271
1,242	Total post employment benefits charged to the Comprehensive Income and Expenditure Statement	775

2011/12 £000		2012/13 £000
	Movement in reserves statement	
(437)	Reversal of net charges made to the Surplus or deficit on the provision of services for post employment benefits in accordance with the code	(404)
323	Employers contributions payable to the scheme	489

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement for period 1 April 2005 to 31 March 2013 is a loss of £5.763m.

Assets and liabilities in relation to Injury Benefits

Reconciliation of present value of scheme liabilities (defined benefit obligation)

31/03/12 £000		31/03/13 £000
(8,108)	Opening value	(9,027)
(437)	Interest cost	(404)
-	Current Service Cost	(100)
(805)	Actuarial loss	(271)
-	Estimated benefits paid (net transfers in)	-
-	Past service cost	-
323	Injury Pension Payments	489
(9,027)	Closing value	(9,313)

Scheme history

Year ended	31/03/13 £000	31/03/12 £000	31/03/11 £000	31/03/10 £000	31/03/09 £000
Present value of liabilities	(9,313)	(9,027)	(8,108)	(5,601)	(4,688)
Fair value of assets	-	-	-	-	-
Deficit	(9,313)	(9,027)	(8,108)	(5,601)	(4,688)

Assets prior to 31 March 2009 are shown at bid price (estimated where necessary).

The liabilities show the underlying commitments that the Board has in the long run to pay post employment (retirement) benefits. The total liability of £9.313m impacts on the net worth of the Board as recorded in the Balance Sheet, resulting in a negative overall balance of £379.024m. However statutory arrangements for funding the deficit mean that the financial position of the Board remains healthy.

Injury Benefit Scheme

	2012/13	2011/12	2010/11	2009/10	2008/09
	%	%	%	%	%
Experience adjustments on scheme liabilities	0.2%	-	45.7	-	-
Experience adjustments on scheme assets	-	-	-	-	-

22. Related parties

The Board is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Board or to be controlled or influenced by the Board. Disclosure of these transactions allows readers to assess the extent to which the Board might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Board.

The Highland Council

The Highland Council provided £18.507m representing 78.85% of the funding of the Board and holds 16 of the 24 seats on the Board. In addition the Highland Council provides administrative and financial services. The Board pays £0.294m in respect of these functions; this cost includes the charges for the statutory functions provided by the Clerk and Treasurer. In addition the authority provided £0.728m towards funding of capital expenditure due to the Police Capital Grant being paid directly to constituent authorities by the Scottish Government.

Comhairle Nan Eilean Siar

The Comhairle Nan Eilean Siar provided £2.147m representing 9.15% of the funding of the Board and holds 4 of the 24 seats on the Board. In addition the authority provided £0.084m towards funding of capital expenditure due to the Police Capital Grant being paid directly to constituent authorities by the Scottish Government.

Orkney Islands Council

The Orkney Islands Council provided £1.264 representing 5.44% of the funding of the Board and holds 2 of the 24 seats on the Board. In addition the authority provided £0.050m towards funding of capital expenditure due to the Police Capital Grant being paid directly to constituent authorities by the Scottish Government.

Shetland Islands Council

The Shetland Islands Council provided £1.528m representing 6.56% of the funding of the Board and holds 2 of the 24 seats on the Board. In addition the authority provided £0.061m towards funding of capital expenditure due to the Police Capital Grant being paid directly to constituent authorities by the Scottish Government.

The Scottish Government

The Scottish Government provided £26.287m as Police Grant.

Pension Schemes

The employees of the Board are eligible to join either the Local Government Pension Scheme or the Police Officers Pension Schemes, both of which are locally administered by the Highland Council.

23. Operating Leases

Board as Lessor

The Board leases out radio masts under operating leases

The future minimum lease payments receivable under non-cancellable leases in future years are:

31/03/12 £000		31/03/13 £000
1,827	Not later than one year	1,740
8,229	Later than one year and not later than five years	9,602
10,056		11,342

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews.

Board as Lessee

The future minimum lease payments due under non-cancellable leases in future years are

31/03/12 £000		31/03/13 £000
84	Not later than one year	89
197	Later than one year and not later than five years	213
296	Later than five years	349
577		651

The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was

31/03/12 £000		31/03/13 £000
130	Minimum lease payments	170

24. Property, plant and equipment

Movements in 2012/13

	Other land and buildings £000	Vehicles, plant and equipment £000	Assets under construction £000	**Total Property, plant and equipment £000**
Cost or valuation				
At 1 April 2012	50,481	9,348	672	**60,501**
Additions	1,015	1,146	1,494	**3,655**
Revaluation increases/(decreases)recognised in the revaluation reserve	-	-	-	**-**
Revaluation decreases recognised in the deficit on the provision of services	-	-	(212)	**(212)**
Derecognition – disposals	(1,440)	(1,094)		**(2,534)**
Assets reclassified (to)/from assets held for sale	(853)			**(853)**
At 31 March 2013	**49,203**	**9,400**	**1,954**	**60,557**
At 1 April 2012	455	6,583	-	**7,038**
Depreciation charge	1,277	807	-	**2,084**
Depreciation written out to the revaluation reserve	-	-	-	**-**
Depreciation written out to the surplus/deficit on the provision of services			-	**-**
Derecognition - disposals	**(38)**	**(860)**		**(898)**
Assets reclassified (to)/from assets held for sale	**(3)**			**(3)**
At 31 March 2013	**1,691**	**6,530**	**-**	**8,221**
Net book value				
At 31 March 2013	**47,512**	**2,870**	**1,954**	**52,336**
At 1 April 2012	50,026	2,765	672	53,463

Comparative movements in 2011/12

	Other land and buildings £000	Vehicles, plant and equipment £000	Assets under construction £000	**Total Property, plant and equipment £000**
Cost or valuation				
At 1 April 2011	48,522	8,555	621	**57,698**
Adjustment to opening balance	(16)	-	-	**(16)**
Revised opening balance	48,506	8,555	621	**57,682**
Non current assets transferring in	-	27	51	**78**
Additions	179	1,012	-	**1,191**
Revaluation increases/(decreases)recognised in the revaluation reserve	2,554	-	-	**2,554**
Revaluation decreases recognised in the deficit on the provision of services	(758)	(3)	-	**(761)**
Derecognition – disposals	-	(243)	-	**(243)**
Assets reclassified (to)/from assets held for sale	-	-	-	**-**
At 31 March 2012	**50,481**	**9,348**	**672**	**60,501**
Accumulated depreciation				
At 1 April 2011	5,300	6,078	-	**11,378**
Adjustment to opening balance	(16)	-	-	**(16)**
Revised opening balance	5,284	6,078	-	**11,362**
Depreciation charge	1,271	673		**1,944**
Depreciation written out to the revaluation reserve	(5,717)	-	-	**(5,717)**
Depreciation written out to the surplus/deficit on the provision of services	(383)	-	-	**(383)**
Derecognition - disposals	**-**	**(168)**	**-**	**(168)**
At 31 March 2012	**455**	**6,583**	**-**	**7,038**
Net book value				
At 31 March 2012	**50,026**	**2,765**	**672**	**53,463**
At 1 April 2011	43,222	2,477	621	46,320

25. Assets Held for Sale

2011/12		2012/13
£000		£000
1,189	Balance at 1 April 2012	671
-	Assets newly classified as held for sale	851
-	Other	-
56	Revaluation (losses)/gains	-
-	Impairment losses	(127)
(574)	Assets sold	(222)
671	Balance at 31 March 2013	1,173

26. Intangible Assets

The Board accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets are purchased licenses.

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Board. The useful lives assigned to the major software suites used by the Board are as follows:

- there are no internally generated assets
- other assets have a useful life of 5 years

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £0.033m charged to revenue in 2012/13 was charged to the IT Administration cost centre and then absorbed as an overhead across all the service headings in the Net Expenditure of Services. It is not possible to quantify exactly how much of the amortisation is attributable to each service heading.

The movement on Intangible Asset balances during the year is as follows

2011/12 £000		2012/13 £000
	Gross book value	
194	At 1 April 2012	242
48	Additions	18
242	At 31 March 2013	260
	Accumulated amortisation	
93	At 1 April 2012	131
38	Charge for the year	33
131	At 31 March 2013	164
111	Net book value	96

There are two items of capitalised software that are individually material to the financial statements:

	Carrying Amount		Remaining Amortisation Period
	31/03/2013	31/03/2012	
Winscribe system transcription software for voice banking from airwave	-	8	0 year
E-mail archive solution	18	24	3 years

27. Capital commitments

At 31 March 2013 the Board has entered into a number of contracts for the construction or enhancement of property, plant and equipment in 2012/13 and future years. The outstanding commitments total £4.171m in respect of police stations at Fort William and upgrading of police houses and hostels. Similar commitments at 31 March 2012 were £4.448m.

28. Capital expenditure and capital financing

The total amount of capital expenditure incurred in the year is shown in the table below, together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Board, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Board that has yet to be financed. The CFR is analysed in the second part of this note.

2011/12 £000		2012/13 £000
17,918	Opening Capital Financing Requirement	17,234
	Capital investment	
1,239	Property, plant and equipment	3,677
	Sources of finance	
-	Capital receipts	(3,677)
(1,064)	Government grants and other contributions	-
	Sums set aside from revenue	
(175)	- direct revenue contributions	-
(684)	- loans fund principal	(682)
17,234	Closing Capital Financing Requirement	16,552
	Explanation of movements in the year	
(684)	Repayment of Loans Fund Principal	(682)
(684)	Decrease in Capital Financing Requirement	(682)

29. Inventories

2011/12 £000		2012/13 £000
99	Raw Materials and Consumables	87

30. Short term Debtors

31/03/12 £000		31/03/13 £000
1,958	Central government bodies	77
486	Other local authorities	2
2,319	Other entities and individuals	2,517
4,763	Total	2,596

The Board does not generally have negotiable credit terms for customers as any overdue amount is payable immediately. Sundry debtors can be analysed by age as follows:

	Sundry Debtors £000
Less than three months	144
Three to six months	364
Six to twelve months	2
More than twelve months	38
	548
Provision for impairment	(19)
Total sundry debtors	529

31. Short term Creditors

31 March 2012 £000		31 March 2013 £000
3,171	Central government bodies	2,833
917	Other local authorities	6,195
7	NHS bodies	-
-	Public Corporations	15
4,139	Other entities and individuals	3,653
8,234	Total	12,696

A creditor figure of £0.164m relates to the mobile data project the funding for which is held by Northern Police on behalf of the Scottish forces and is committed for the on-going delivery of the project.

32. Police Officers' Pension Account

As from 1 April 2010 the Scottish Government introduced a requirement for each Scottish police authority to maintain a Police Pension Account in respect of its police pension schemes. The requirements are specified in the Police Pension Account (Scotland) Regulations 2010 (SSI232/2010). The regulations specify that a Police Pension Account must be maintained to record the payments made and income received in respect of police pensions.

The Scottish Government now specifically differentiates between funding for "core" police activities and funding for police pensions. For the police authority, however, all Scottish Government funding is credited to the police authority General Fund. The regulations refer to the core (non pension) police activities as the Police Operating Account. Ultimately it remains the responsibility of the police authority to support its pension obligations from the funding it receives.

2010/11 was the first year in which the Police Pension Account has operated. In the first year of operation any balance in the General Fund in respect of pensions is to be contributed to the Police Pension Account. This is most likely to relate to balances earmarked for commuted sums. This requirement exists because the Government has already provided funding for these future pension costs but the General Fund has not yet been charged for these costs. As such, this contribution recognises that the Scottish Government regards this funding as being generally available to meet any pension costs that are chargeable to the General Fund.

This initial contribution which occurred only in the first year is shown under Contributions Receivable - Other.

Where a refund of contributions has been made to an employee, a refund is also due to the Police Operating Account. Such refunds are shown under Contributions Receivable – Other.

2011/12 £000		2012/13 £000
	Contributions Receivable:	
	Police Authority	
(6,896)	Contributions based on pensionable pay	(6,881)
-	Other	-
(3,125)	Officers Contributions	(3,721)
(10,021)		(10,602)
(70)	Transfers in from other police authorities	(111)
	Benefits payable:	
10,987	Pensions	12,056
3,994	Commutations and lump sum retirement benefits	3,691
-	Lump sum death benefits	-
14,981		15,747
	Payments to and on account of leavers:	
4	Refunds of contributions to employees	11
4,894	Sub-total for the year before transfer from the Police Operating Account of an amount equal to the deficit	5,045
(4,894)	Deficit to be met by Government funding	(5,045)
-	**Net Amount payable/ receivable for the year**	-

33. Grant income

The Board credited the following specific grants to the Comprehensive Income and Expenditure Statement in 2012/13

2011/12 £000 (restated)		**2012/13 £000**
	Credited to Services	
1,755	Additional officers	1,657
52	Highlands & Islands Emergency Co-ordinating Group	49
8	ADSAT Funding Choices for Life Extravaganza	5
1,158	ICT Funding	1,136
-	Gaelic Language Act Implementation Fund - Corporate	11
-	Alcohol, Drugs and Smoking Action Team – Drugs Dog	2
732	Mobile Data Project	1,594
1	Rockness	1
430	Counter Terrorism Security Adviser	417
-	Adult Support and Protection	15
-	Chemical, Biological, Radiological and Nuclear	5
4,136		4,892
	Credited to Taxation and Non Specific Grants	
26,302	Police Specific Grant	26,287
1,216	Capital Grants	963
11,791	Police Pension Contributions	11,926
39,309		39,176
43,445	Total	44,068

34. Borrowing

The borrowings disclosed in the Balance Sheet are made up of the following categories of financial instruments:

As at 31 March 2012				**As at 31 March 2013**		
Long term £000	Current £000	Total £000		**Long term £000**	**Current £000**	**Total £000**
			Borrowings			
16,550	684	17,234	Financial liabilities at amortised cost	15,882	663	16,545

The Board has access to the Highland Council's Loans Fund and Shetland Islands Council's Loans Fund. As a result there is no significant risk that the Board will be unable to raise finance to meet its commitments under financial instruments. The Board has safeguards in place to ensure that a significant proportion of its borrowing does not mature for repayment at any one time in the future to reduce the financial impact of re-borrowing at a time of unfavourable interest rates.

The maturity structure of the borrowing is as follows:

31/03/12 £000	Loans outstanding	**31/03/13 £000**
17,224	Highland Council Loans Fund	16,545
7	Shetland Islands Council Loans Fund	-
17,231	Total	**16,545**
681	Less than 1 year	663
650	Between 1 and 2 years	493
1,509	Between 2 and 5 years	1,499
2,422	Between 5 and 10 years	2,285
11,969	More than 10 years	11,605
17,231	Total	**16,545**

A loan agreement between Highland Council and the Northern Joint Police Board will transfer to the new Police Authority and provide for the continuing repayment of the outstanding loan debt to the Highland Council.

35. Events after the Balance Sheet Date

The Statement of Accounts was issued by the Treasurer on 26 June 2013. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2013, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

The Police and Fire Reform (Scotland) Act 2012 received Royal Assent on 7 August 2012. Responsibility for Police and Fire and Rescue Services will transfer from local government to new central government bodies on 1 April 2013. In 2013/14 Northern Police will cease to exist as a corporate body and the Board will no longer be responsible for service provision.