SCOTTISH POLICE AUTHORITY
ÙGHDARRAS POILIS NA H-ALBA

Agenda Item 4.4

Meeting	**Audit, Risk and Assurance Committee**
Date	**21 May 2025**
Location	**Online**
Title of Paper	**Accounting Policies, Judgements and Estimates**
Presented By	**John McNellis, SPA, Head of Finance Audit and Risk** **Angelo Gustinelli, Police Scotland, Head of Accounting & Control**
Recommendation to Members	**For Discussion**
Appendix Attached	**Appendix A: Proposed accounting policies**

PURPOSE

To provide members with an overview of the proposed accounting policies, judgements and estimates, prior to the preparation and approval of the SPA Annual Report and Accounts.

The paper is presented in line with the corporate governance framework of the Scottish Police Authority (SPA) and Audit, Risk and Assurance Committee (ARAC) terms of reference and is submitted for discussion.

1. BACKGROUND

1.1 It is best practice and outlined in the Scottish Government's Audit Committee handbook that the ARAC should consider significant accounting policies, any changes to them and any significant estimates and judgements.

1.2 This allows committee consideration of key matters prior to the preparation of the Annual Report and Accounts (ARA).

1.3 The full draft ARA including these accounting policies, estimates and judgements will be formally presenting for noting in August for submission to external audit. Following completion of the audit the final ARA is expected to be approved in September.

2. FURTHER DETAIL ON THE REPORT TOPIC

2.1 The ARA is prepared according to International Financial Reporting Standards (IFRSs) issued by the International Accounting Standard Board as adapted and interpreted by guidance included in the Government Financial Reporting Manual (FreM).

Accounting Policies

2.2 The Authority's accounting policies are the specific principles, conventions, rules and practices that are applied in the production and presentation of the ARA.

2.3 These policies are disclosed as the first note to the accounts. A copy of the proposed policies for 2024/25 is included at **Appendix A**.

2.4 Unless there are major changes to accounting rules and regulation, accounting policies do not change significantly between years. This also ensures the accounts are comparable from one year to the next.

2.5 There is a minor change to note 1.3 – segmental reporting. The divisions used in the monthly budget management reporting have been updated to reflect the change in reporting structure used for financial reporting during the year. There are **no other proposed changes** from the accounting policies used to prepare the ARA from the previous financial year.

Significant Judgements and Estimates

2.6 In line with IFRSs and the FReM, the SPA is required to disclose those key judgements and estimates that management have made in the process of applying the accounting policies that have the most significant effect on the financial statements.

2.7 Significant judgements include:

- Leases – in line with IFRS16 judgements are made on the estimated term of occupation;
- Provisions – for legal potential legal liabilities, legal opinion and judgement is sought to estimate the probability and amount. For significant lease dilapidations costs the judgement of qualified internal property valuers is used.

2.8 Significant estimates include:

- Property plant and equipment. Key estimates include: useful economic life and valuation. Properties are independently valued by an external qualified valuer who makes a professional estimate of the value.
- Pensions. A range of actuarial estimates are used in the valuation of the pension values recorded in the ARA. The SPA uses independent actuarial experts to carry out formal triennial valuations and provide reports to inform the disclosures at the year end.

2.9 Further detail of these significant judgements and estimates will be included as the final note to the ARA.

2.9 External audit also recognise in their plan a significant risk over the valuation of property, plant and equipment and the valuation of the pension fund net liabilities. They will undertake specific audit testing in response to these risk and report on their findings to management and the ARAC.

3. FINANCIAL IMPLICATIONS

3.1 There are no specific financial implications in this report.

4. PERSONNEL IMPLICATIONS

4.1 There are no personnel implications in this report.

5. LEGAL IMPLICATIONS

5.1 There are no legal implications in this report.

6. REPUTATIONAL IMPLICATIONS

6.1 There are no specific reputational implications in this report.

7. SOCIAL IMPLICATIONS

7.1 There are no social implications in this report.

8. COMMUNITY IMPACT

8.1 There are no community implications in this report.

9. EQUALITIES IMPLICATIONS

9.1 There are no equality implications in this report.

10. ENVIRONMENT IMPLICATIONS

10.1 There are no environmental implications in this report.

RECOMMENDATIONS

Members are invited to discuss the proposed accounting policies, judgements and estimates for the SPA Annual Report and Accounts.

Appendix A – Proposed Accounting Policies

Introduction

Accounting policies for the Authority are as detailed below at 1.1 to 1.25.

The accounts are prepared in accordance with the Accounts Direction issued by the Scottish Government under provisions of the 2012 Act, and in a form directed by Scottish Ministers, in accordance with the Scottish Public Finance Manual (SPFM), the 2022-23 Government Financial Reporting Manual (FReM) issued by HM Treasury, which follows International Financial Reporting Standards (IFRS) as adopted by the United Kingdom, IFRIC Interpretations and the Companies Act 2006 to the extent that they are meaningful and appropriate to the public sector. They have been applied consistently in dealing with items considered material in relation to the accounts.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 31.

The Authority is expected to satisfy the conditions and requirements set out in the memorandum to accountable officers drawn up by the Scottish Government's Justice Portfolio, together with all the relevant requirements in the SPFM and such other conditions as Scottish Ministers may from time to time, impose.

The accounts are prepared on a historical cost basis, as modified by the revaluation of Property, Plant and Equipment, Investment Properties, Financial Assets and Financial Liabilities at their fair value, see note 1.2.

1.1 Going concern

The Authority is classified by the Scottish Government as an "Other Significant National Body", charged with the responsibility to provide policing services to the people of Scotland.

The accounts continue to be prepared on a going concern basis.

The accounts have been prepared incorporating the requirements of international accounting standards (IAS) and include an actuarial valuation of the various pension schemes' liabilities as explained in notes 22-24 to the accounts. These valuations reflect liabilities falling due in future years in respect of pension liabilities arising from the application of IAS19. The appointed actuaries have calculated the liability as at 31 March 2025.

Police Pension Scheme

The Government Actuary's Department (GAD) usually conducts a review every four years of the funding basis of the Police Pension Scheme, and in the intervening years, GAD rolls forward the scheme's liabilities in a desk top review. A roll-forward approach allows for:

- changes in financial assumptions;
- additional benefit accrual;

- actual cash flows over the year and estimated where necessary; and
- updated membership information.

The last formal valuation of the Police Pension Scheme was conducted on 31 March 2020. The other main assumptions are set out in the notes to the accounts.

The pension deficit will not be met from the Authority's sources of income, but will be met as it falls due by future monthly specific Grant payments from the sponsoring department, the Scottish Government's Justice Portfolio.

1.2 Fair value

IFRS 13 applies when fair value measurements are permitted. Fair value is the price that would be received to sell an asset or paid to transfer a liability, in an orderly transaction, between market participants, at the measurement date. The standard seeks to increase consistency and comparability in fair value measurements and related disclosures through a fair value hierarchy.

The hierarchy categorises the inputs used in valuation techniques into three levels:

- **Level 1 inputs** which are quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date.

- **Level 2 inputs** are inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include:
  - quoted prices for similar assets or liabilities in active markets;
  - quoted prices for identical or similar assets or liabilities in markets that are not active;
  - inputs other than quoted prices that are observable for the asset or liability, for example interest rates and yield curves observable at commonly quoted intervals.

- **Level 3 inputs** are unobservable inputs for the asset or liability. Unobservable inputs are used to measure fair value to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. An entity develops unobservable inputs using the best information available in the circumstances, which might include the entity's own data, taking into account all information about market participant assumptions that is reasonably available.

Where an asset or liability is valued at fair value, the hierarchy level will be disclosed in the appropriate note.

1.3 Segmental reporting

The divisions used in the monthly budget management reporting were as follows:

SPA Corporate;
Forensic Services;
Reform;

DCC (Deputy Chief Constable) Local Policing;
DCC Crime & Operational Support;
DCC Professionalism, Strategy & Engagement; and
DCC Corporate.

The above segmental structure is reflective of budget management reporting used during the year, notwithstanding portfolio restructures that took place late in the year.

Assets are shared across the operating segments and segmental information on assets and liabilities is not reported internally. As a result, segmental disclosure of these is not necessary, and costs such as depreciation and amortisation have been allocated to DCC level.

1.4 Revenue recognition

Revenue is recognised net of recoverable VAT to the extent that it is probable that the economic benefits will flow to the Authority and the revenue can be reliably measured. Recognition is in line with IFRS15 requirements where performance obligations are present and capable of assessment.

Grant in Aid
The Authority is funded by the Scottish Government. Grant in Aid is received throughout the year and is intended to meet the estimated expenditure. The Scottish Government does not allow funding to be available in advance of need, nor does it allow unused funding to be carried forward into future financial years. Grant in Aid is accounted for as financing on a cash basis, not as income and is therefore credited to the Authority's reserves and not incorporated within the organisation's Statement of Comprehensive Net Expenditure.

Revenue grants
All revenue grants are matched with the expenditure to which they relate. Specific grants are accounted for on an accruals basis where conditions for receipt have been met. Monies advanced as grants and contributions for which conditions have not been satisfied are recognised in the Statement of Financial Position as deferred income.

Capital grants
Capital grants are accounted for in accordance with IAS20 'Accounting for Government Grants & Disclosure of Government Assistance' and recognised in the Statement of Comprehensive Net Expenditure once conditions have been met. Where carry forward of capital grant is permitted and any conditions attached have not been met, the grant is treated as a capital grant receipt in advance.

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

Rental Income
Rental income from operating leases is recognised on a straight-line basis over the terms of the lease. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis.

1.5 Property, plant and equipment (PPE)

Recognition

Property, plant and equipment are tangible items held for use by the Authority in the provision of services and are expected to be in use for more than one financial year.

All PPE assets will be accounted for as non-current assets provided that the future economic benefits or service potential associated with the item has been transferred to the Authority, unless they are deemed to be held-for-sale.

The policy on right of use assets is disclosed at note 1.10.

Capitalisation
Expenditure is capitalised when the asset is ready for use, provided that the PPE will yield a benefit to the Authority for a period of more than one year and is subject to the application of a de minimis level of £5,000 (exclusive of VAT). Expenditure on qualifying grouped assets (in line with the Authority's Capital Accounting Guidance) will also be capitalised.

IT development costs
IT projects such as significant capital upgrades and items in development will be included. Costs of such items will include not only purchase price of equipment and direct construction costs, but also other costs directly attributable in bringing an asset to a condition ready to use. Such costs will include professional fees and salary costs where directly attributable to an asset.

Valuation – land & buildings (excepting those under policies 1.7 and 1.8)
Operational assets are carried in the Statement of Financial Position at current value in existing use, 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 (DRC) is used as an estimate of fair value. The land and building category is separated, within the asset register, between land, buildings and dwellings for disclosure purposes only.

Revaluation reserve
Assets included in the Statement of Financial Position at fair value are revalued regularly at a minimum of every 5 years by appropriately qualified Royal Institute of Chartered Surveyors (RICS) to ensure the carrying value is not materially different from the fair value. Specialised buildings will be subject to an annual review. Any subsequent increase in valuation is taken to a Revaluation Reserve except where, and to the extent that they reverse an impairment previously recognised in the Statement of Comprehensive Net Expenditure, in which case they are recognised as income.

Any decrease in the value of an asset will be set against any credit balance held in each asset's specific revaluation reserve until this credit is exhausted and thereafter to net operating cost as an impairment charge in the Statement of Comprehensive Net Expenditure.

Valuation – plant & equipment
Non-property assets are carried at valuation in existing use. Depreciated historical cost is used as a proxy for current value for the following classes of assets as they have short useful economic lives and/or low values: ICT systems, plant and machinery, fixtures and fittings and motor vehicles.

Valuation – surplus assets
An item of property, plant and equipment which is surplus with no plan to bring it back into use will be valued at fair value in accordance with IFRS 13 if it does not meet the

requirements of IAS 40 or IFRS 5 as either an Investment Property or an Asset Held for Sale per 1.7 and 1.8 below.

Donated assets
Assets classified as donated are measured at fair value on receipt. The funding element is recognised as income and taken to the Statement of Comprehensive Net Expenditure. Any subsequent revaluations are taken to a Revaluation Reserve.

Loaned assets
Assets classified as loaned are measured at cost or valuation on receipt. These are recorded in the loaned asset register and do not feature on the Statement of Financial Position.

Componentisation of assets
In accordance with IAS16 a componentisation policy has been adopted where appropriate. The Authority has separated the valuation of land and buildings and implemented a policy of component accounting for material assets. These are considered to be assets with a carrying value of £1 million or higher, with components accounted for separately if their cost or value is in excess of 20% of the carrying value.

This is subject to review with material assets componentised upon acquisition, scheduled revaluation or significant enhancement expenditure.

Impairments
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 the carrying amount of an asset exceeds its recoverable amount due to a loss in the economic benefit or service potential of the asset, a charge to the net operating cost as an impairment is made to the Statement of Comprehensive Net Expenditure.

Where the carrying amount of an asset exceeds its recoverable amount due to a fall in market price, they are accounted for as follows:

- Any decreases in the value of an asset will be set against any credit balance held in each asset's specific revaluation reserve until this credit is exhausted and thereafter to net operating cost as an impairment charge in the Statement of Comprehensive Net Expenditure; and
- Where an impairment loss is reversed subsequently, the reversal is credited to the Statement of Comprehensive Net Expenditure, up to the amount of the original loss.

Disposals
When an asset is disposed of or decommissioned, any residual carrying amount is removed from the Statement of Financial Position with the difference between the carrying amount and the proceeds received charged to the Statement of Comprehensive Net Expenditure.

Capital receipts from the sale of non-current assets are recorded for each type of asset and subsequent utilisation of receipts is subject to approval by the Scottish Government.

1.6 Depreciation

Depreciation is provided on property, plant and equipment at rates calculated to write off the valuation, less estimated residual values, of each asset evenly over its expected useful life. Depreciation charges commence in the first full month following the addition to the relevant non-current asset category. Asset lives in general are as follows:

Asset	Years
Buildings & Dwellings	15 - 60
Plant, Machinery & Equipment	3 - 20
Vehicles	4 - 10
Fixtures & Fittings	5 - 10
IT Systems	3 - 10
Radio Masts	15 - 49
Leased Assets	Assessed Term of the lease

1.7 Investment properties

Investment properties are properties that are used solely for the purpose of generating income either by Licence / rental agreements, or capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of policing services.

The investment properties are mainly radio stations and masts, which are no longer required for operational radio communications, and are made available to telecommunication providers, generating income.

Measurement and depreciation
Investment properties are measured initially at cost and subsequently at fair value based on the amount at which the asset could be exchanged between knowledgeable parties at arm's length.

The fair value of the Authority's investment properties is measured annually at each reporting date. All valuations are carried out in accordance with the methodologies and basis for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

The gain or loss arising from a change in the fair value of investment property shall be recognised in the Statement of Comprehensive Net Expenditure for the period in which it arises. Investment properties held at fair value are not depreciated.

De-recognition
Investment properties are derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential is expected from its disposal. The gain or loss arising from the disposal is in the Statement of Comprehensive Net Expenditure.

1.8 Assets held for sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale.

The asset is immediately valued before reclassification and then carried at the lower of this amount and fair value less costs to sell. Any impairment is recognised per 1.5 above. There is no depreciation on assets held for sale. Any subsequent increases or decreases in fair value are then recognised up to the amount of any previously recognised losses within the Statement of Comprehensive Net Expenditure. Assets which are to be abandoned or scrapped are not classified as Assets Held for Sale.

1.9 Assets under construction

Assets classified as under construction are recognised in the Statement of Financial Position at cost on an accruals basis. The asset is not depreciated until fully commissioned and brought into full operational use, and is re-categorised within the classifications in 1.6 above.

1.10 Leases

Assumptions
In line with Financial Reporting Manual (FReM, HM Treasury (HMT)) guidance, the definition of a contract is expanded to include intra-UK government agreements. This includes, for example, Memorandum of Terms of Occupation (MOTO) agreements.

Arrangements with £nil, or nominal, consideration are also included. Peppercorn leases are examples of these, and they are defined by HMT as lease payments significantly below market value. These assets are assessed at fair value on initial recognition. Any differences between the lease liability and the right of use asset for new peppercorn leases after implementation of IFRS 16, are recorded as capital grant in kind income in the Statement of Comprehensive Net Expenditure (SOCNE).

Right of use assets and lease liabilities are not recognised for the following leases:

- intangible assets;
- non-lease components of contracts where applicable;
- low value assets (the underlying value of the assets leased is below the Authority's existing threshold for assets); and
- leases with a lease term of 12 months or less.

At inception of a contract, a contract is assessed to determine whether it is, or contains, a lease. A contract is, or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time. This includes assets for which there is no consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Authority assesses whether:

- The contract involves the use of an identified asset;
- The Authority has the right to obtain substantially all of the economic benefit from the use of the asset throughout the period of use; and
- The Authority has the right to direct the use of the asset.

The Authority assesses whether it is reasonably certain to exercise break options or extension options at the lease commencement date. This will be reassessed if there are significant events or changes in circumstances that were not anticipated.

Authority as a lessee

Right of use assets
The Authority recognises a right of use asset and lease liability at the commencement date. The right of use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for initial direct costs, prepayments or incentives, and costs related to restoration at the end of a lease.

The right of use assets are subsequently measured at either fair value or current value in existing use in line with property, plant and equipment assets. The cost measurement model in IFRS 16 is used as an appropriate proxy for current value in existing use or fair value for the majority of leases.

The right of use asset is depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right of use asset or the end of the lease term. The estimated useful lives of the right of use assets are determined on the same basis as those of property, plant and equipment assets.

Lease liabilities
The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, or if that cannot be readily determined, the rate provided by HMT.

The lease payment is measured at amortised cost using the effective interest method. It is re-measured when there is a change in future lease payments arising from a change in the index or rate, or if the Authority changes its estimates of any residual value guarantee, or its assessment of whether it will exercise a purchase, extension or termination option in the lease.

Lease payments included in the measurement of the lease liability comprise the following where applicable:

- Fixed payments, including in-substance fixed payments;
- Variable lease payments that depend on an index or a rate, initially measured using the index rate as at the commencement date;
- Amounts expected to be payable under a residual value guarantee; and
- The exercise price under a purchase option that the Authority is reasonably certain to exercise, lease payments in an optional renewal period if the Authority is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Authority is reasonably certain not to terminate early.

When the lease liability is re-measured, a corresponding adjustment is made to the right of use asset or recorded in the SOCNE, if the carrying amount of the right of use asset is £nil.

The Authority presents right of use assets that do not meet the definition of investment properties (per IAS 40 Investment Properties) as right of use assets on the SoFP. The lease liabilities are included within current and non-current liabilities on the SoFP.

Authority as a lessor
When the Authority acts as a lessor, it determines at lease inception whether each lease is a finance or operating lease.

To classify each lease, the Authority assesses whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease, if not then it is an operating lease.

The Authority recognises lease payments under operating leases as income on a straight line basis over the length of the lease terms.

The accounting policies applicable to the Authority as lessor are largely unchanged by IFRS 16 except for reviews of intermediate lessor arrangements. The changes for IFRS 16 were not material for lessor arrangements.

1.11 Private Finance Initiative (PFI)

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Authority is deemed to control the services that are provided under its PFI schemes in accordance with IFRIC 12 Service Concession Arrangements, the assets used are carried under the contracts on its Statement of Financial Position as part of property, plant and equipment.

PFI assets are recognised on the Statement of Financial Position and revalued and depreciated in the same way as property, plant and equipment owned by the Authority. The amounts payable to the PFI operators each year are analysed into three elements:

- fair value of the services received during the year – debited to the relevant service in the Statement of Comprehensive Net Expenditure;
- finance cost – an interest charge on the outstanding Statement of Financial Position liability, debited to the PFI Interest line in the Statement of Comprehensive Net Expenditure; and
- payment towards liability – applied to write down the Statement of Financial Position liability to the PFI operator (the profile of write-downs is calculated using the same principles as for a Finance Lease).

1.12 Intangible assets

Intangible assets are separately identifiable and owned by the Authority, mainly in relation to software, licences and elements of IT systems. They are recognised where a future economic benefit or service potential can be identified as receivable.

Intangible assets are valued at depreciated replacement cost. Amortisation is applied at rates calculated to write off the cost by equal instalments over the shorter of the term of the licence (where appropriate) and their estimated useful life.

Future economic benefit has been used as the criteria in assessing whether an intangible asset meets the definition and recognition criteria of IAS38 where assets do not generate income. IAS38 defines future economic benefit as, 'revenue from the sale of products or services, cost savings, or other benefits resulting from the use of the asset by the entity.'

The estimated useful life for intangible assets is 3 to 5 years.

1.13 Heritage assets

The Authority are the custodians of a large number of small value Heritage items, the majority of which reside at the Police College, Tulliallan. The items are recorded in the museum's archive register. The archive register records owned, loaned and donated assets. These assets are held at valuation, based on the curators' professional knowledge of the items within the current market place and any Heritage assets valued over £5,000 are identified within the register.

1.14 Financial instruments

Financial assets

Financial assets are recognised when the Authority becomes party to the contractual provisions of the financial instrument. Management determines the classification of its financial assets at initial recognition. Amortised cost assets are recognised initially at fair value and subsequently measured at amortised cost, on the basis that they are only held to collect contractual cash flows on specified dates that contain payments of principal and interest.

Financial assets are derecognised when the rights to receive cash flows from the asset have expired or have been transferred and the Authority has transferred substantially all risks and rewards of ownership.

Cash and Cash Equivalents:
Cash and cash equivalents are amounts held with the Government Banking Service and UK commercial bank current accounts, or cash in hand.

The Authority relies primarily on Grant in Aid from the Scottish Government's Justice Portfolio for its cash requirements and is therefore not exposed to liquidity risks. There is no difference between book value and fair value for the cash and cash equivalents shown in the Statement of Financial Position, and there are no balances held in foreign currencies within the cash and bank balance apart from within confiscation accounts held on behalf of third parties.

Trade and other receivables:
Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Authority provides services directly to a customer with no intention of trading the receivable, and are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

Financial Liabilities

Financial liabilities are recognised when the Authority becomes party to the contractual provisions of the financial instrument and initially measured at fair value and carried at their amortised cost. Financial liabilities are removed from the SOFP when the contractual obligations are discharged, cancelled or expire.

Annual charges to interest payable to the SOCNE 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 Authority has, this means that the amount presented in the SOFP is the outstanding principal repayable (plus accrued interest, if applicable) and interest charged to the SOCNE is the amount payable for the year according to the loan agreement.

Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Trade payables are typically non-derivative financial liabilities with fixed or determinable payments that are not quoted in an active market. They arise when the Authority receives goods or services directly from a supplier with no intention of trading the liability.

Long Term Loans
The long-term loans recognised represent those from the Public Works Loans Board and the debt is managed by the local Councils' Consolidated Loans Funds. Full disclosure is provided within the notes to the accounts.

1.15 Inventories

Inventories are assets in the form of material or supplies which are consumed or distributed in the ordinary course of the service's operations. Operational consumables, vehicle parts, fuel and equipment are stated at lower of cost and net realisable value.

1.16 Cash and cash equivalents

The Authority operates as part of the Scottish Government banking contract with Government Banking Service (GBS). GBS is a shared banking service for government departments. Transactional services are provided by NatWest, with corporate banking arrangements held with The Royal Bank of Scotland.

Cash and cash equivalents include:

- cash in hand;
- deposits held at call with banks repayable without penalty on notice of not more than 24 hours; and
- investments maturing in three months or less of the balance sheet date and that are readily convertible to known amounts of cash with insignificant risk of change in value. The Authority currently holds no such investments.

Warrant accounts represent cash received for fines which are repaid to the relevant organisations.

Confiscation bank accounts represent monies seized under the Proceeds of Crime Act (POCA). Monies are held on behalf of Crown Office and Procurator Fiscal Service (COPFS) until the outcome of the relevant court cases are known. Monies are then returned either to COPFS and / or to the individual from whom the monies were originally seized.

Balances on confiscation and warrant accounts are disclosed as third party assets.

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

1.17 Provisions

Provisions are recognised when the Authority has a liability of uncertain timing or amount, and where: a present legal or constructive obligation is recognised as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount of the obligation can be reliably estimated.

1.18 Contingent liabilities

A contingent liability arises if there is a possible obligation arising from a past event at the date of signature of the Statement of Financial Position, or the amount of an obligation cannot be reliably measured.

1.19 Pensions

Officers
From 1 April 2022, officers can only be active members of the Police Pension Scheme (Scotland) 2015. This means that pension contributions can now only be applied by the employer for this scheme going forward, for any individual officer.

The 2015 pension scheme is an unfunded defined benefit career average earnings scheme.

Before 1 April 2022, as well as officers who were already members of the 2015 pension scheme, some officers with earlier commencement dates were members of either of two earlier police pension schemes:

- 1987 Police Pension Scheme (PPS)
- 2006 New Police Pension Scheme (NPPS)

From 1 April 2022, this means that some officers will retire with benefits accruing from a combination of the 2015 pension scheme and one of the earlier schemes.

The 1987 and 2006 pension schemes are also unfunded defined benefit final salary schemes.

As unfunded schemes, there are no investment assets built up to meet the pension liabilities, and funding (from Scottish Government) has to be received to meet actual payments as they eventually fall due.

Staff
Staff can be members of local government pension schemes.

These are defined benefit occupational schemes based on career average earnings. The schemes are funded by employer and member contributions as well as investments. Assets and liabilities of the schemes are held separately from those of the Authority, and are held within the individual pension schemes. The scheme assets are measured using market values and the scheme liabilities are measured using a projected unit method and discounted at the current rate of return.

Contributions to the schemes are calculated so as to spread the cost of pensions over employees' working lives in the Authority. The contributions are determined by an actuary on the basis of triennial valuations using the Age Attained Method. The actuaries also review the progress of the schemes in each of the intervening years. Variations from regular cost are spread over the expected average remaining working lifetime of members of the schemes after making allowances for future withdrawals. The expected cost of providing staff pensions to employees contributing to the schemes is recognised in the Statement of Comprehensive Net Expenditure on a systematic basis over the expected average remaining lives of members of the funds in accordance with IAS19: Employee Benefits and recognises retirement benefits as the benefits are earned and not when they are due to be paid.

The liabilities of the pension fund attributable to the Authority are included in the Statement of Financial Position 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, and projections of future earnings for current officers and employees.

The change in the net pension liability is analysed into the following components:

- **Current service cost**
  This is the increase in liabilities as a result of service earned this year and is allocated to cost of services in the Statement of Comprehensive Net Expenditure.

- **Past service cost**
  This is the increase in liabilities arising from current year decisions whose effect relates to service earned in earlier years. This is debited to the Surplus or Deficit on the Provision of Services in the Statement of Comprehensive Net Expenditure.

- **Interest cost**
  This is the expected increase in the present value of liabilities during the year as they move one year closer to being paid.

- **Expected return on assets**
  This is the annual investment return on the fund assets attributable to the Authority, based on an average of the expected long-term return.

- **Gains or losses on settlements and curtailments**
  This is the result of actions to relieve the Authority of liabilities or events that reduce the expected future service or accrual of benefits of employees and is debited or credited to the surplus or deficit on the provision of services in the Statement of Comprehensive Net Expenditure.

- **Actuarial gains and losses**
  This represents changes in the net pension liability arising due to events after the last actuarial valuation.

- **Contributions paid to the pension fund**
  Amounts paid as employer's contributions to the pension fund.

- **Actuarial assumptions**
  The assumptions applied by the actuary have a significant impact on the liabilities and assets of the funds, these are summarised in the detailed notes.

1.20 Taxation

VAT
Irrecoverable VAT is charged to the Statement of Comprehensive Net Expenditure or the cost of assets in the period in which it is incurred.

Corporation tax

The income from charging schemes is not chargeable to tax. However, HMRC state that profit generated from chargeable gains, or commercial contract work undertaken by the Authority, will be chargeable to corporation tax.

Deferred tax
Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. It is measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income tax
Income tax comprises current tax and movements in deferred tax assets and liabilities.

Current tax and movements in deferred tax assets and liabilities are recognised in the Statement of Comprehensive Net Expenditure. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date.

1.21 Insurance

Expenditure included in the Statement of Comprehensive Net Expenditure relates to premiums paid, policy excesses and settlement of claims. In addition, a provision is made for the self-funded elements of property, liability and motor claims which remain unsettled at the year-end, in addition to other provisions.

1.22 Events after the reporting period

Events after the reporting period represent those events which occur between the end of the reporting year and the date when the Annual Report and Accounts is authorised for issue.

Adjusting events are those providing evidence of conditions existing at the end of the reporting year, whereas non-adjusting events are indicative of conditions arising after the reporting year (the latter being disclosed in the Financial Performance Report where material). Events which occur after the date of authorisation for issue are not reflected in these Accounts.

1.23 Accounting standards that have been issued but have not yet been adopted

IFRS17: Insurance Contracts – this standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of IFRS17 is to ensure that an entity provides relevant information that faithfully represents those contracts.

In line with HM Treasury guidance, implementation for Government bodies is expected to be from April 2025.

It is expected that any effect of the new standard will be primarily on central government, with no material effect expected for the Authority. Further guidance from HM Treasury will be considered in due course, to assess any potential implications.

1.24 Key sources of judgement and estimation uncertainty

Judgements and assessments of estimation uncertainty are made in line with the requirements as laid out in IAS 1 Presentation of Financial Statements.
Judgements and areas of estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the financial statements within the next financial year are explained at Note 31: Key Sources of judgement and estimation uncertainty.