

# SCOTTISH POLICE AUTHORITY



## ANNUAL REPORT & ACCOUNTS 2016/17

Improving policing for Scotland's communities.

# CONTENTS

<b>Chair's Foreword</b>	3
<b>Performance Report</b>	
Overview	5
Chief Executive's Statement	6
Purpose and Activities of the Organisation	8
Key Issues and Risks	10
Performance Summary & Analysis	15
<b>Accountability Report</b>	
<b><i>Corporate Governance Report</i></b>	
Overview	34
Directors' Report	35
Statement of Accountable Officer's Responsibilities	38
Governance Statement	39
<b><i>Remuneration &amp; Staff Report</i></b>	
Overview	56
Remuneration Report	56
Staff Report	62
<b><i>Parliamentary Accountability &amp; Audit Report</i></b>	
Overview	67
Statement of Resource Outturn	67
Independent Auditor's Report	73
<b>Financial Statements of the Scottish Police Authority</b>	
Statement of Comprehensive Net Income & Expenditure	76
Statement of Financial Position	77
Statement of Cash Flows	78
Statement of Changes in Taxpayers' Equity	79
Notes to the Accounts	80
<b>Direction by the Scottish Ministers</b>	128

## CHAIR'S FOREWORD

The Annual Report and Accounts for the year ended 31 March 2017 cover the operational and financial performance of the Police Service of Scotland (Police Scotland) and the Scottish Police Authority (SPA).

It is the SPA's assessment that, throughout the year, Police Scotland continued to deliver quality and consistency in policing across Scotland. We are reassured that the statistics for 2016/17 demonstrate that crime continues to reduce across most categories. While it is our assessment that more needs to be done to ensure all crimes are reported to the police, we are reassured by Police Scotland's efforts to address this in collaboration with others.



The delivery of a quality police service is again thanks, in no small part, to the continued commitment and determination of our police officers and police staff. The loyalty and professionalism shown by the police workforce is widely acknowledged, and greatly appreciated. The support and contribution of the entire workforce will be essential as we progress with the transformation of the police service.

Increasing demands on policing were a notable feature in year with online and digital crime evolving rapidly and significant demands placed on the service relating to vulnerable and missing persons. Meeting these higher demands is the key driver behind the development of **Policing 2026**, the 10-year strategy for policing progressed during this period. The strategy represents a significant step in preparing for and initiating the next important phase of service transformation and will address both service development and financial sustainability.

The financial picture for 2016/17 reflects the challenges anticipated and documented throughout the year. The overall outturn for the year was a £16.9m overspend. Notwithstanding this, savings were achieved in year by reducing duplication, increasing efficiency, and we remain on target to meet savings expected from the creation of the single service by 2026.

The period saw substantial steps undertaken to restructure and strengthen the capabilities of policing's financial management following the 2015/16 audit. We continued throughout the period to make improvements to processes and to strengthen SPA's oversight of the financial function. A number of audit recommendations remain outstanding, however work continues to address these.

During the period, the SPA also significantly enhanced its oversight, assurance and performance of Police Scotland's C3 Modernisation Programme. The development of a robust reporting mechanism to monitor performance levels and assess the quality of service provided to users was reported by HMICS to parliament in year as significantly improved.

A major refresh of Police Scotland's leadership during 2016/17 was undertaken, drawing in the skills and experience required to drive forward the next phase of transformation. The appointments of a new Deputy Chief Constable, a Deputy Chief Officer with responsibility for service transformation and a number of new Assistant Chief Constables were progressed.

Four Board members resigned or stood down at the end of their appointment term during the year. On behalf of the Board, I wish to acknowledge and record our thanks to Moi Ali, Ian Ross, Lisa Tennant and Douglas Yates for their contribution while serving as SPA Board members. As a

result, a number of new members were appointed to the SPA Board with knowledge and skills in the areas of finance, audit, IT and human rights.

Further improvements to the SPA's governance and oversight of policing will be informed by the outcome of the review requested by the Cabinet Secretary in summer 2017, expected to report by the end of the year and HMICS's phase 2 review of the SPA.

SPA Forensic Sciences continues to make a valuable contribution to the criminal justice system with advances in technology proving vital. The Board initiated a number of steps in year to strengthen the leadership, visibility and governance of the services informed by professional advice from HMICS. The introduction of a dedicated Forensic Services Committee, from autumn 2017, will enhance oversight and performance of the service.

Volunteers for the SPA's Independent Custody Visiting Scheme made almost 1,600 unannounced visits to Police Scotland custody facilities during 2016/17. The ICVS Annual Report for 2016/17 was published in summer 2017 highlighting the assurance provided to the Board that detainees are held in appropriate conditions and our international obligations to respect their human rights are met. The scheme continues to make an invaluable contribution to our national confidence and the overall governance and assurance of policing.

Reflecting on 2016/17, the development and publication of the **Policing 2026** strategy marks a pivotal point on the reform journey for policing. I am confident that the year represents a solid platform from which to build an even better service for the people of Scotland and begin to implement the changes necessary to transform policing, making it more flexible and sustainable for the future.

In the summer of 2017 I announced my intention to stand down as Chair of the SPA. Improvements announced to the board's governance and oversight of Forensic Services have also led John Foley, SPA Chief Executive to seek early retirement upon completion of these accounts. I am grateful to John Foley for the contribution and valued service he has given to the SPA and policing over what has been a period of unprecedented change. I also take personal pride in being a part of this chapter of policing history in Scotland. I am confident that the board of the SPA, under a new Chair and supported by an interim chief officer for the year ahead, will continue to strengthen its oversight of policing and in turn drive improvement in the service delivered.

**Andrew Flanagan**  
**Chair**  
**28 November 2017**

# PERFORMANCE REPORT

## OVERVIEW

It is now a full four years since the establishment of the single Police Service of Scotland, under the Police and Fire Reform (Scotland) Act 2012 (The Act). Recognising that change has been constant, the SPA and Police Scotland are now demonstrating their commitment to setting a clear path towards improvement and sustainability over the coming decade, strengthening our operational and financial sustainability as well as increasing our relevance and validity.

The purpose of the SPA and Police Scotland is not limited to responding to crimes, it is also about working with people and communities to prevent crime, reduce harm and improve safety and wellbeing. To do this effectively, we must understand and respond to the accelerating pace of change in society. As Scotland changes, in order to remain relevant, legitimate and effective, policing must do the same.

We will continue to deliver policing based on fairness, integrity and respect, enshrining these values in our decision-making and behaviours. Alongside these values, we recognise the police service is unique in the public service landscape, having coercive powers and the ability to remove people's liberty. Our direction will emphasise our commitment to rights-based approaches, anchoring our duties in the Police and Fire Reform (Scotland) Act 2012.

## CHIEF EXECUTIVE'S STATEMENT

As the Chief Executive and Accountable Officer for the Scottish Police Authority (SPA), I would wish to begin by paying tribute to the commitment of our hard-working police officers and staff. Since the creation of the new single service there has been continual change, and I recognise that this can be challenging for our workforce and I appreciate their efforts in this regard.

2016/17 was the first full year that both Chief Constable Phil Gormley and Chair of the SPA Andrew Flanagan served in their respective roles. They oversaw changes in personnel within the Force Executive and SPA Board, as well as some new additions which I believe will strengthen both organisations. The new additions to the Senior Members of the Force Executive were Deputy Chief Constable Johnny Gwynne, and David Page who took up the new civilian role of Deputy Chief Officer.



We also saw changes in the membership of the SPA Board with a number of members leaving in February 2017, being replaced by a number of new SPA Board Members after the end of the financial year. I would like to take this opportunity to thank those who have left us for their respective contributions to Police Scotland and the SPA. With such changes in personnel during the year, it presented an opportunity to pause and take stock of where we are as an organisation, and indeed, where we want to go in the future.

The focus in these early years of Police Scotland has been on ensuring that operational policing has been effective throughout a significant period of re-organisation, and that national capabilities have been developed to provide a higher level of specialist policing uniformly across the country. The work undertaken in this regard has been successful to date, and has resulted in a significant increase in organisational capability, as evidenced for example with the creation of the Scottish Crime Campus at Gartcosh. However, following this successful merging of the legacy organisations, it is important to now look ahead to the future of policing in Scotland to ensure that the organisation is able to re-shape itself to meet the demands and challenges in the years ahead.

The organisation is still on track to deliver the targeted £1.1 billion of cumulative savings set out in the original business case by 2026, which is detailed within the Performance Summary and Analysis section of this report. It is clear that financial challenges remain, and that is borne out by the financial results for 2016/17. It is also clear that a greater focus is now required on addressing corporate services functions in the next 2 to 3 years to ensure that there is an effective model to support operational policing.

It is for these reasons that during 2016/17 the SPA and Police Scotland have been working together on the development of a 10-year strategy, **Policing 2026**, which for the first time, sets out a clear strategic direction for policing in Scotland over the next decade. This strategy was approved in June 2017 and a 3-year Implementation Plan is currently under development which will set out how the strategy will be translated into real changes from 2017/18.

Alongside the strategy and 3-year Implementation Plan sits a 10-year Long Term Financial Strategy and a 3-year Financial Plan. The financial plans will be critical for firstly bringing the organisation into a financially sustainable position, and maintaining this throughout the period, as well as setting out the investment required to deliver the **Policing 2026 Strategy**.



The operational performance of Police Scotland remains strong. This is evident from the performance report in this Annual Report and Accounts, which shows overall crime continuing to fall. However, it has been a challenging year financially, with the 2016/17 budget incorporating an unidentified savings target of £37.1million to deliver a policing service which operated within its funding allocation. This extensive savings target was only partly achieved, resulting in an overall resource outturn of £16.9million over-spend after an offset of £12.6million of reform funding was applied.

Clearly this is not a sustainable position. As a result the SPA, Police Scotland and the Scottish Government have been working closely together to understand the challenges and develop a process for addressing the revenue operating deficit over the coming three years. It is for this reason that financial planning will be critical over this period.

The SPA is also committed to delivering continuous improvement in relation to the governance of policing in Scotland. In August 2017, the SPA board announced improvements to its governance and oversight of Forensic Services – an approach I have been fully supportive of.

Strengthened oversight of the forensic service, and new reporting lines have resulted in significant changes to the CEO role I currently hold. Following discussions with the board since the start of the year, I have opted to seek early retirement following the submission of these 2016/17 accounts. It has been an honour and privilege to have served as the first permanent CEO of the SPA for the past four years and I am proud of what has been achieved during this time. I would like to thank all the police officers and staff within the SPA, Police Scotland and Forensic Services for their valued support throughout my tenure as CEO, and I wish everyone well for what I firmly believe will be a successful future.

Going forward, partnerships will continue to be the building blocks in delivering real benefits to communities. Only together, in collaboration with communities and other agencies, will policing be able to deliver the best possible outcomes. Regular local, regional and national-level engagements will play a vital part in our approach in the coming years.

**John Foley**  
**Chief Executive and Accountable Officer**  
**28 November 2017**

## PURPOSE AND ACTIVITIES OF THE ORGANISATION

The SPA was established under the Police and Fire Reform (Scotland) Act 2012 to maintain the Police Service, promote policing principles, promote and support the continuous improvement in the policing of Scotland, to keep under review the policing of Scotland and to hold the Chief Constable to account for the policing of Scotland.

The main purpose of policing is to improve the safety and wellbeing of people, places and communities in Scotland; and the Police Service, working in collaboration with others where appropriate, should seek to achieve that main purpose by policing in a way which is accessible to,



and engaged with, local communities, promoting measures to prevent crime, harm and disorder.

### **Our focus is on Keeping People Safe.**

Understanding and responding to the needs of our communities remains the highest priority of Police Scotland. Currently, 75% of all police officers are directly aligned to our local policing divisions and the reality is that every officer, special constable, staff member and Police Scotland Youth Volunteer plays a vital role in the provision of a locally focused professional service to every locality and community across the country.

We cover some 28,168 square miles and are the second largest police service in the UK after the Metropolitan Police. We have a number of local policing divisions, each headed by a Local Divisional Commander who ensures that local policing in each area is responsive, accountable and tailored to meet local needs. Each division encompasses response officers, community officers, local crime investigation, road policing, public protection and local intelligence.

Alongside the local policing divisions, there are a number of national specialist divisions.

- The Specialist Crime Division (SCD) provides skilled investigative and intelligence functions such as Major Crime Investigation, Public Protection, Organised Crime, Counter Terrorism, Intelligence and Safer Communities. These specialist functions are of particular importance when a serious crime takes place, or public safety is under threat from criminals, and ensure that the most professional response is available, regardless of where you live.
- The Operational Support Division provides specialist support functions such as Road Policing and Air Support. The primary focus of any policing organisation is to provide an effective and efficient service to protect those at risk.

A key benefit of the creation of Police Scotland was the ability to match the level of response needed with appropriately skilled and trained resources anywhere in Scotland, and to respond to changing demands more swiftly than previous legacy arrangements. To understand the current and future demands, Police Scotland conducts an annual strategic assessment which is used to ensure that the resource mix is best deployed to meet local demands and more specialist requirements.



We are committed to protecting the public and focussing on those crimes that victimise the most vulnerable within our communities. We relentlessly pursue offenders, working in partnership to develop innovative techniques to both protect victims and target those responsible. In terms of sexual crime, we prevent and investigate while working with partners to provide support to victims and build their confidence to report sexual crimes.

Human Trafficking (HT) is a grave violation of human rights and dignity. By its clandestine nature, it is often hidden from view; however, human traffickers operate in Scotland. We support victims and target those who abuse, exploit and coerce victims into trafficking.

The abuse and neglect of children has devastating, often lifelong, consequences for victims, their families and communities. We work collaboratively with partners to effectively prevent and investigate the abuse or neglect of children. The physical abuse of children often takes place locally and can be perpetrated by family members and friends. However, technology is a critical central enabler for such crime, allowing perpetrators to groom, share and view information. Our role is to safeguard and support those most at risk under our PREVENT strategy.

Cybercrime takes on a number of additional guises from cyberbullying to cyberattacks on businesses. This growth in Cybercrime is likely to continue over the coming decade. The nature of cybercrime means its prevention, investigation and detection produces evolving difficulties. We work in partnership to prevent online abuse and attacks by employing victim risk reduction techniques and targeting potential perpetrators whether physically present or over an internet connection.

The threat of terrorism looms large in the current climate and we are fully prepared to mitigate the impact of any terrorist incident on our communities. We collaborate with our national and local partners in pursuit of those who are intent on committing acts of terrorism while supporting vulnerable individuals who may be susceptible to radicalisation. We also deliver a coordinated programme of protective security advice and support to key stakeholders, businesses and the public.

Serious and organised crime has an insidious effect in our communities and often benefits from human trafficking, cybercrime and terrorism. The SPA is committed to supporting Police Scotland in preventing the threat it poses, diverting people from becoming involved in serious organised crime and using its products, deterring Serious Organised Crime Groups (SOCGs) by supporting private, public and third sector organisations to protect themselves and identifying, detecting and prosecuting those involved. We disrupt SOCGs in any way that we can.

Vulnerability is multi-faceted, and the needs of individuals or communities are not always immediately apparent. The growing pressure from mental ill health requires ever greater collaboration and it is essential that earlier and more effective intervention from all key agencies is seen as a joint priority; tackling need while ensuring the most effective use of scarce specialist resources.

Our response to natural disasters or other traumatic non-crime events is both mandated by law and required by our communities. Our ability to act in a locality with a national response has never been greater. To maintain this national infrastructure with a local delivery capability is key in our relationships with other statutory and third sector partners who all come together to deliver these emergency responses to events.

# **KEY ISSUES AND RISKS FACING THE SPA AND POLICE SCOTLAND**

## **SPA Governance Arrangements**

The Chair of the SPA carried out an extensive governance review which was published in the spring of 2016. The Board approved the implementation of the recommendations contained within the review in December 2016. There was criticism over aspects of governance changes, particularly in relation to holding all committee meetings in private session. The intention was that there would be an increased number of public Board meetings where decisions would be taken in an open forum. However, this view was not universally shared by all members of the Board, nor by key stakeholders such as COSLA, staff associations and trade unions. Scottish Parliamentarians also raised concerns which resulted in the Chair, Board members and the CEO being invited to give evidence before Justice Sub-Committee and the Public Audit and Post Legislative Scrutiny Committee of the Scottish Parliament in relation to the new governance arrangements. Whilst the introduction of additional public Board meetings was welcomed, the principal matter of governance concern centered on a widely held belief that committee meetings being held in private session resulted in reduced openness and transparency. In May 2017, the CEO presented a paper to the Board of the SPA seeking approval to revert to the previous arrangements whereby committee meetings were held in open session; except in circumstances which warranted private discussion due to sensitivity or confidentiality.

In June, Her Majesty's Inspectorate of Constabulary in Scotland (HMICS) published the results of their inspection into openness and transparency within the Scottish Police Authority. The report recognized positive signs of improvement in SPA Board operations over the preceding eighteen months, significantly improved relationships between the SPA and Police Scotland and other improvements in financial reporting and investment in change management. The report also highlighted good progress in governance of police call handling and the implementation of Board and committee work plans. However, the inspection also found that the SPA had taken a narrow interpretation of the legislation in support of its decision to hold committee meetings in private. The Chief Inspector also highlighted that he had advised SPA in writing regarding his concerns over holding committee meetings in private before the Board approved the new governance framework. The Chief Inspector also referred to the criticism of the Board's decision to restrict the publication of papers until the same day as its meetings. This decision was also reversed by the Board's approval of the CEO's paper in May.

The HMICS report contained eleven recommendations which were accepted in full by the SPA. A review into how the SPA Executive Team can best support the SPA Board and work effectively with Police Scotland and other stakeholders has been requested by the Cabinet Secretary for Justice. This work is being led by the Deputy Chair of the SPA and the Chief Executive of Comhairle nan Eilean Siar (Western Isles Council) and the findings and recommendations will be reported in late Autumn 2017.

## **Going Concern**

The Statement of Financial Position reports that the SPA had total net assets before pension liabilities of £374million, however after pension liabilities, the total net liabilities is over £16billion as at 31 March 2017. This position is driven by the fact that the organisation has estimated pension liabilities totalling £16.6billion. Over 98% of that pension liability relates to the Police Officers pension scheme, with the remainder relating to staff who are members of the various Local Government Pension Schemes throughout Scotland. The net asset position, before

pension liabilities, demonstrates that the underlying operating model continues to be a going concern.

It is important to recognise that as a result of the pension benefits provided to officers and staff, an estimated liability exists that equates to approximately half of the Scottish Government's annual budget. Given the trend towards longer life expectancies and changing demographics, it is likely that the pension's liability will increase over time unless there were to be future changes to the pension schemes.

Future Grant in Aid from the Scottish Government will cover all ongoing pension contributions. However, the overall pension liability will not be met from the SPA's sources of income, in line with public sector organisations.

Therefore the SPA considers it appropriate to adopt a going concern basis for the preparation of these financial statements.

## Risk Areas

### Financial Sustainability

A key risk identified in 2015/16 surrounded the lack of medium and long-term financial strategies, as a meaningful long-term strategy is an essential first step in understanding the financial sustainability and ensuring effective long-term financial planning for the organisation.

An outline 3-year Financial Strategy was presented to the SPA Board on 22 June, with the **Policing 2026 Strategy** presented to the SPA Board on 28 September.

The 2016/17 Statement of Resource Outturn within the Parliamentary Accountability and Audit Report confirms that there is still an approved transfer of £20.5m capital underspending against revenue overspend during the year. Regular management reporting has clearly distinguished between the distinct funding resources of revenue, capital and reform monies throughout the financial year.

During 2016/17, a total of £52.6million Reform funding was available (2015/16: £67.9million), of which £40.0million (2015/16: £60.3million) was utilised for reform purposes, with further detail on this in the financial performance section of this report. The greatest element of the Reform funding continues to represent the costs of VAT which cannot be recovered by the SPA which amounted to £23.6million during the year (2015/16: £24.8million). VAT is a recurring cost resulting from the creation of Police Scotland and does not contribute to the reform process.

An analysis of the benefits of the expenditure on reform is currently being undertaken in order to capture the change and modernisation initiatives which have produced ongoing efficiencies within the organisation, and to inform the **Policing 2026 Strategy** going forward.

The 2017/18 budget was approved by the SPA Board in March 2017, showing detailed analysis by segmental area of costs, savings and pressures.

### Financial Management

During 2015/16, both Internal and External Auditors identified control weaknesses within our financial processes and systems which have been or are being addressed. Details of these reviews are included within the Governance Statement in the Accountability Report. The Annual Report & Accounts for 2015/16 received a modified opinion largely based around non-current

assets and matters associated with property, plant and equipment. Since then, the existing structure of the SPA and Police Scotland finance departments have been under a period of review.

The provision of additional temporary resources was approved in October 2016 by the SPA Audit & Risk Committee, which enabled additional temporary staff to be recruited in the areas of Financial Accounting, Capital Accounting and Management Accounting. This has enabled significant improvements to be made in processes and procedures over the last quarter of the year.

The internal audit service contract was extended until 30 June 2018. The SPA Audit & Risk Committee approved the 2016/17 Annual Internal Audit Plan on 22 March 2016, and approval from the full SPA Board was received on 31 March 2016.

## **Financial Leadership**

A new post of Chief Financial Officer (CFO) was created in June 2016 to lead the finance function within Police Scotland, reporting to both the Deputy Chief Officer of Police Scotland the SPA CEO & Accountable Officer. This reporting line to the Accountable Officer did not exist previously. This appointment was key to addressing weaknesses and risks arising due to the complex nature of the financial reporting structure which previously existed.

James Gray was temporarily appointed as Interim Chief Financial Officer on 6 June 2016. The recruitment exercise for the permanent position progressed in the first quarter of 2017/18, and Mr Gray became the new permanent Chief Financial Officer on 1 July 2017.

## **The Transformation Programme**

### **Change & Transformation Management**

Police Scotland, overseen by SPA, is embarking upon a period of unprecedented change in its short history. There are significant changes required in order to stabilise the day to day corporate support activities in order to achieve the level of professional standards expected for an organisation of its size and nature. In addition tactical work is required to quickly deliver efficiencies by focussing on automation, and finally there are 22 key strategic transformation projects to support the first 3 years of the Policing 2026 Strategy that will be running concurrently. When all of this activity is taken together it is clear that there is a significant risk of non-delivery if this activity is not managed effectively and governed appropriately.

As a result of the volume of change activity underway, Police Scotland is in the process of establishing a central change function for the first time, which will be appropriately resourced with a team of Programme Managers, Project Managers and Business Analysts under the direction of a newly appointed Director of Change. A robust governance framework has been developed to support the programmes of work and individual projects. In addition professional support services are being bolstered, such as in Project Finance to ensure that all projects are effectively supported.

### **Pay Harmonisation**

There is an ongoing Staff Pay and Reward Modernisation Project, which is reviewing pay, terms and conditions and benefits for all the SPA staff. It will deliver a set of products that will ensure fairness and equity in relation to terms and conditions of employment including a standard working week, standard leave, public holidays and a standard approach to pay and grading roles. At

present, there are staff performing similar duties and similar roles at different legacy rates of pay, which has affected staff morale, but there has also been a high risk of challenge over equal pay claims.

The challenges of implementing a single pay and grading structure are complex and require a strong employee relations and engagement strategy, dedicated and technically proficient resourcing, and it is to be progressed at a time of wider ongoing organisational change.

Once complete, this could potentially add a significant cost pressure to the already challenging cost base. Coupled with the potential public sector pay freeze being lifted, this could become a significant additional risk to the organisation's financial sustainability in the future.

## **Payroll Provision**

The payroll systems in operation for all police officers and staff, were inherited from the legacy organisations on 1 April 2013, and have yet to be modernised or consolidated into one cohesive system. The systems include some operating in-house, other operating through payroll software providers, and others being provided in part or in full by local councils as part of historic arrangements. These Service Level Agreements have not been updated for some time, and there are inconsistent processes and procedures across the differing payroll models throughout the organisation.

This has resulted in a high level of control weaknesses, lack of verification checks, and lack of exception reporting which could result in potential errors in payments, with a lack of comparability across the legacy systems to inform the budgeting and forecasting of payroll.

A procurement programme is now underway to seek an interim one-system solution in order to consolidate the many different systems currently in use across the country. This interim solution will achieve efficiencies in the corporate services procedures, reduce duplication and will enable more detailed analysis of payroll through the management reporting cycle. As the wages and salaries costs of the organisation represent a significant part (over 90%) of the SPA and Police Scotland budget, it is crucial that these improvements are made.

## **ICT Modernisation**

The i6 programme was intended to provide a cohesive system for managing, investigating and reporting crime. The failure of the programme means that benefits which should have arisen from implementing the system have been delayed.

There was already a need to modernise police ICT systems and invest in key ICT resource before Police Scotland began in 2013. It has been recognised that there is now an urgent need to determine what the next steps should be, in order to ensure that the organisation has the ICT capability required, to support operational policing effectively. The ICT strategy will be aligned to the 3-year implementation plan, which will be reported to the SPA Board in early 2018. It is worthy of note, that the ICT team has delivered 30 new applications since the inception of Police Scotland, including the roll out of a National Custody System and they have also removed a number of former legacy systems through consolidation and rationalisation.

## Future Developments

### **Integration of British Transport Police (BTP) into Police Scotland**

The Railway Policing (Scotland) Act 2017 makes provision for the integration of the functions of the BTP into Police Scotland, and Ministers have agreed a target date of 1 April 2019. There are significant challenges to be addressed such as ensuring that assets and liabilities and costs are appropriately transferred to ensure that there is no financial detriment to the SPA and Police Scotland. In addition the officers and staff of BTP have different employment conditions to those of Police Scotland so agreement will be required on how to address this.

In order to manage these risks the integration work is being run as a formal project within Police Scotland with appropriate governance arrangements in place to support this which includes an SPA working group chaired by an SPA Board member. The project is being led by a Joint Programme Board and Mobilisation, Transition and Transformation (MTT) Programme currently being established by both Police Scotland and the BTP Authority. A due diligence programme will be undertaken before the integration is executed.



# PERFORMANCE SUMMARY & ANALYSIS

## 1) Policing Performance

The Board has 4 key priorities against which it measures performance for the year. The analysis below sets out what has been achieved across the Policing control priorities, sustainability goals and the financial outturn for the year.

### Priority 1 - Make communities safer:

- Violence, Disorder & Antisocial Behaviour
- Serious Organised Crime (SOC)
- Domestic Abuse
- Protecting People at Risk of Harm
- Road Safety & Road Crime
- Domestic Housebreaking
- Hate Crime

### Total Crime Summary

The main performance measures for Police Scotland relate to the level of crime. The following sections of this report provide a more detailed analysis of operational performance drawn from Police Scotland management information.

Overall recorded crime statistics are available on the Scottish Government website at:

<http://www.gov.scot/Publications/2017/09/3075/345310>

### Violence, Disorder & Antisocial Behaviour

**Overarching Outcome:** Our communities are safer because of Police Scotland's preventative and partnership initiatives at local and nation level.

**KPI:** Prevent harm to communities by monitoring the level of overall violent crime.  
Overall violent recorded crimes are down 63,548 from last year.

### Hate Crime

#### National - Hate Crime Campaign

Police Scotland launched a 'Hate Crime Destroys Lives' campaign on Monday 27 March 2017, focussing on the impact that hate crime can have on people's lives and encouraging reporting by both victims and bystanders. Hate crime covers all types of discriminatory behaviour such as Disablist, Sexual Orientation, Racist, Religion and Transgender. The volume of Hate Crimes has decreased by 4.7%. The detection rate for Hate Crimes also reduced by 8.9%. While it is not possible to be absolutely clear on the reasons for a fall in detection rate due to there being over 12,000 Hate crimes in the comparison period, one factor perhaps for consideration is the increasing use of social media, such as Facebook and Twitter. These forums arguably provide greater opportunity for hate incidents to occur and can offer an element of perceived anonymity for offenders.

There has been an increase this year in the number of reported hate crimes identified as Transgender hate crimes. Working in partnership with the Equality Network, a national Lesbian, Gay, Bisexual, Transgender and Intersex (LGBTI) equality and human rights charity, Police Scotland delivered bespoke training to 91 officers. This resulted in the officers having an

enhanced knowledge and skill base, to work proactively with our LGBTI community. The Chief Executive Officer (CEO) of a leading LGBTI rights agency, recently reported an increase in LGBTI confidence in police response and subsequently an increase in reports of homophobic and transphobic incidents. The CEO was clear that this increase was linked to greater confidence in the police.

## Domestic Abuse

**Overarching Outcome:** Our communities are safer because of Police Scotland's preventative and partnership initiatives at local and national level.

**KPI:** Protect vulnerable members of the community by monitoring the number of Domestic Abuse incidents recorded.

The number of reported domestic abuse incidents in 2016/17 increased by 706 incidents compared to 2015/16.

## Serious Organised Crime

**Overarching Outcome:** Scotland's communities are safer, healthier and more attractive places to do business because of Police Scotland's contribution to the 4 Ds of the National SOC strategy – Divert, Deter, Detect and Disrupt – to tackle serious organised criminality.

**KPI:** Prevent harm to communities by detecting and disrupting Serious Organised Crime.

The number of Serious Organised Crime Groups (SOCGs) on the map has continued to decrease during 2016/17 and are down 49 SOCGs from the end of 2015/16.

The number of SCCG principal nominals arrests are down 47 from previous year.

## Protecting People at Risk of Harm

**Overarching Outcome:** Our communities are safer because of Police Scotland's positive impact on all forms of neglect, abuse and sexual crime.

**KPI:** Protect communities by robustly investigating all sexual crime reported.

The number of sexual crimes reported in 2016/17 has increased to 10,822 from previous year. Recorded sexual crime detection rate is down to 62.3% for 2016/17.

## Road Safety & Road Crime

**Overarching Outcome:** Our communities are safer because of Police Scotland's contribution to the Government's Road Safety Framework, resulting in reducing road casualties and preventing road crime.

**KPI:** Protect communities by monitoring the number of people killed and seriously injured on Scotland's Roads, working towards the Scottish Road Safety 2020 targets.

The number of people killed on Scotland's Roads has decreased by 5 to 174 compared to the same period last year and the people seriously injured decreased by 101 to 1,468 compared to the same period last year.

## Domestic Housebreaking

**Overarching Outcome:** Our communities are safer because of Police Scotland's work to prevent and tackle housebreaking and support its victims.

**KPI:** Protect communities by preventing domestic housebreaking and robustly investigating all reports received.

Domestic housebreaking crime is down this year by 641 to 8,169. Domestic housebreaking detection rate is down to 24% for 2016/17.

## **Priority 2: Strengthen Scotland's reputation as a successful and safe country**

### **Counter Terrorism**

**Overarching Outcome:** Our communities are stronger due to Police Scotland's work to reduce and mitigate the risks of terrorism and domestic extremism.

**KPI:** Protect communities and work with partners in supporting the CONTEST strategy. The threat level from international terrorism remains at SEVERE meaning an attack is highly likely. The threat level from Northern Ireland related terrorism (NIRT) remains at SUBSTANTIAL meaning an attack is a strong possibility.

### **Preparedness for Terrorist Incident**

Scottish Police Information and Co-ordination Centre (SPICC) continues to report on capability and capacity in relation to Operational Support Division specialisms to ensure readiness to respond to any major incident or event.

### **Major Events and Resilience**

**Overarching Outcome:** Police Scotland is prepared and ready to deliver successful major events and respond effectively and collaboratively to major incidents across the country.

**KPI:** Protect communities by monitoring preparedness to respond to major incidents.

#### **Emergency Events and Resilience Planning (EERP)**

Emergency Planning has taken part in the Regional Risk & Preparedness Sub group which met on 13 January 2017. The West Critical Infrastructure Resilience workshop met for the first time on 31 January 2017, with partners fully engaged. EERP supported the military run tri-service Defence Contribution to Resilience Course at Winterbourne Gunner. Similar support continues to be provided across industry in Scotland with a Training & Exercising regime that includes the Oil & Gas Industry, Nuclear Industry and a variety of Control of Major Accident Hazard (COMAH) sites.

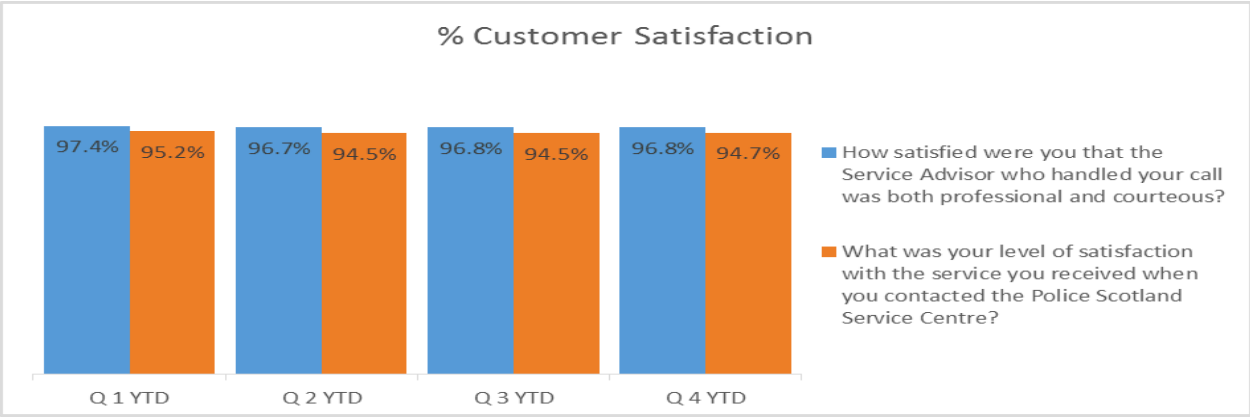
## **Priority 3: Provide an efficient, effective service focused on protecting frontline services, delivering the benefits of police reform and promoting continuous improvement.**

### **Contact, Command & Control**

**Overarching Outcome:** Our communities are confident that Police Scotland is delivering a high quality service that is continually improving, efficient and responsive to local needs. Over 2016/17, the average Grade of Service for answering 999 and 101 calls has consistently remained above the 90%.

Following approval from members at the SPA Board meeting on 22 March 2017, business from Aberdeen Service Centre and Area Control Room (ACR) was successfully transitioned to the Police Scotland Service Centre (PSSC) and ACR North, on Tuesday 28 March 2017. Staff were fully supported throughout, with 'floorwalkers' being on hand to answer any queries which arose. Both the programme team and the Division are keen to learn lessons from this process, and as such a thorough debrief will be held, with this process including staff workshops for Service Centre, ACR and A Division staff.

Planning for the transition of business from Inverness ACR and Service Centre is ongoing, with programme resources now being completely focussed upon this.



Key activity includes identifying and revising processes as required, the recruitment and training of staff, ICT change, and engagement. Lessons learned from Aberdeen will of course be factored into planning. In April 2016, Police Scotland implemented a process to capture C3 Notable Incidents (NI). A notable incident is defined as “any incident or event where the effectiveness of the C3 Division response is likely to have a significant impact on the reputation of the Division, Police Scotland or our partners and from which learning could potentially be obtained or best practice shared.” A continuous development approach is being applied and additional process training including mapping training, has been identified based on the NI recorded to date.

Risk and Vulnerability Assessment training courses were delivered to staff across C3 Division. This new training, one of the recommendations from HMICS Independent Assurance Review in relation to Call Handling, is designed to ensure that at the very first point of contact for a member of the public, an informed and bespoke assessment can be made for every call, enabling the right support to be given and the appropriate policing resources to be deployed.

**Priority 4: Make communities stronger and improve wellbeing by increasing public confidence and reducing fear of crime, making the new Police Service of Scotland an exemplar of visible, ethical and responsive policing.**

**Scottish Crime & Justice Survey (SCJS)**

The SCJS will be considered an independent baseline measure alongside the User Satisfaction Survey.



The Scottish Government’s Scottish Crime and Justice Survey is the recommended source for Official Statistics on a range of crime and policing questions. This survey collects data using a systematic random sample of adults in private households and produces results that are representative of the Scottish adult population and comparable over time. The SCJS provides data on a range of topics including;

- (i) confidence in the police;
- (ii) risk of crime;
- (iii) worry about different crime types;
- (iv) perceptions of the national and local crime rates.

Given the sound methodology related to this form of data capture, this source of information will be considered our baseline measure of public confidence moving forwards. This will be a static measure, updated annually, with the next anticipated update due in November 2017.

What does it tell us? In 2014/15, the majority of SCJS respondents said that the police were doing a good or excellent job in their local area, however this had fallen slightly from 61% in 2012/13 to 58% in 2014/15. Victims of crime were less likely than non-victims to say the police were doing a good or excellent job in their local area (48% and 60% respectively). Those living in the 15% most deprived areas also provided less positive responses than those living elsewhere in Scotland (53% and 59% respectively). In every police division, the majority of respondents said that the police were doing a good or excellent job in their local area, although this proportion varied across the country.

The SCJS asked how confident respondents were in the ability of the police in their local area to undertake six specific aspects of police work and found that the majority of adults had confidence in their local police force across all six measures (investigate incidents, deal with incidents, respond quickly, solve crimes, catch criminals and prevent crime).

## 2) Corporate Performance

### Financial Performance

#### Outturn Summary

The 2016/17 financial year was another challenging one for SPA and Police Scotland. There was significant pressure on the revenue budget throughout the year largely as a result of the £37.1million savings targets built into the budget, for which there were no plans as to how these savings would be delivered. Whilst some savings were made against this target, they were insufficient to bring the budget into balance by the end of the financial year.

The table below sets out the final budget outturn position of net expenditure for each funding stream against the available funding.

	Revenue £m	Capital £m	Overall Position £m	Reform £m
<b>Net Expenditure:</b>	<b>1,033.5</b>	<b>18.2</b>		<b>-</b>
Reform funding transfer	36.9	3.1		40.0
<b>Expenditure including Reform</b>	<b>1,070.4</b>	<b>21.3</b>	<b>1,091.7</b>	<b>40.0</b>
<b>Funding:</b>				
Grant-in-aid	(1,004.0)	(18.2)		-
Reform funding	(34.8)	(17.8)		(52.6)
Transfer	(20.5)	20.5		-
<b>Total Funding</b>	<b>(1,059.3)</b>	<b>(15.5)</b>	<b>(1,074.8)</b>	<b>(52.6)</b>
<b>Over/(Under) Spend</b>	<b>11.1</b>	<b>5.8</b>	<b>16.9</b>	<b>(12.6)</b>

When revenue, capital and reform are taken together there was a net over-spend of £16.9million in 2016/17 (excluding ODEL funding for pre 2004/05 loan interest).

### Revenue Outturn

When the budget was approved for 2016/17, a savings target of £54.5million was agreed. This included specific savings proposals which totalled £17.4million and £37.1million of savings targets for which plans had yet to be developed. The main reason for the £11.1million revenue over-spend above (£31.6m before capital to revenue transfer) was as a result of not achieving the savings target.

The table below indicates the outturn over Police Scotland, the SPA and Forensic services.

	Budget £m	Outturn £m	Variance £m
Police Officer Costs	750.7	753.9	(3.2)
Police Staff Costs	170.0	169.8	0.2
Holiday Pay Accrual Adjustment	(1.0)	(3.6)	2.6
Non-Pay Costs	147.4	180.6	(33.2)
Income	(44.0)	(61.7)	17.7
<b>Police Scotland Net Expenditure</b>	<b>1,023.1</b>	<b>1,039.0</b>	<b>(15.9)</b>
Forensic Services	27.8	27.7	0.2
SPA Corporate	4.0	3.7	0.2
<b>SPA Net Expenditure</b>	<b>1,054.9</b>	<b>1,070.4</b>	<b>(15.5)</b>
<b>Budget movements</b>	<b>(1.4)</b>	<b>-</b>	<b>(1.4)</b>
<b>Total SPA Net Expenditure</b>	<b>1,053.5</b>	<b>1,070.4</b>	<b>(16.9)</b>

### Police Officer Costs

Salaries and National Insurance were overspent by £3.9m (0.5%) largely due to officer numbers averaging above the budgeted 17,234 in the earlier part of the financial year. This overspend was partially offset by an overtime underspend of £0.7m. An underspend on allowances of £0.6m was offset by an overspend on police pension costs of the same sum.

### Police Staff Costs

There were underspends on overtime, allowances and special constable payments totalling £0.8m. This was partially offset by an overspend of £0.6m in salaries and on-costs (largely due an under-achievement of savings targets in Police Staff reductions).

### Release of Holiday Pay Accrual

Untaken annual leave entitlement at the end of the financial year was significantly reduced from the budgeted level resulting in a total credit of £3.6m (against a budgeted release of £1m).

### Non-Pay Costs

This overspend was largely attributable to unidentified savings of £28.7m not being achieved at the end of the financial year. In addition, there were significant overspends in relation to accident damage of £1m (impact of no capital investment until late in the year resulting in greater repair costs); uniform costs of £2.1m (the significant in-year savings target set at 60% of budget was not



realised); professional services £1.6m (professional fees incurred in relation to the Policing 2026, Commercial Excellence and Pay Modernisation projects). Further cost pressures included transportation of deceased persons, premises repairs/ health and safety related expenditure and Specialist Crime Division (SCD) specialist equipment.

## Income

The greatest element of the increased income relates to the 'i6' one-off compensation payment in 2016/17 as well as additional income from Services of Police recharges.

## Forensic Services & SPA Corporate

No material variances have arisen.

## Capital

The table below sets out the capital expenditure and the capital funding including capital receipts for 2016/17 which gave rise to a £5.8million over-spend against budget:

	Budget £m	Outturn £m	Variance £m
<b>Expenditure</b>			
ICT Blueprint	8.8	10.2	1.4
C3 Stage 7 Procurement	1.2	1.6	0.4
National Cybercrime	1.9	1.1	(0.8)
Building Works Programme	5.1	3.3	(1.8)
Additional Capital (Estates & CJ Works)	1.4	2.0	0.6
Fleet Replacement	7.3	4.8	(2.5)
Misc. income Forensic Services	0.7	0.6	(0.1)
<b>Total Expenditure</b>	<b>26.4</b>	<b>23.6</b>	<b>(2.8)</b>
<b>Funding</b>			
Scottish Government Grant	16.2	18.2	(2.0)
Transfer to revenue	-	(20.5)	20.5
Capital receipts	5.8	2.3	3.5
Reform funding (Capital inc. 3.1m VAT)	4.4	17.8	(13.4)
<b>Total Funding</b>	<b>26.4</b>	<b>17.8</b>	<b>8.6</b>
<b>Net Outturn Position</b>	<b>-</b>	<b>5.8</b>	<b>5.8</b>

ICT Blueprint and C3 Stage 7 ICT costs of £1.8million were brought forward due to progress key infrastructure required for 2026 due to an expected projected underspend in January 2017.

Fleet replacement expenditure was £2.5m higher and building works was £1.8m higher. This was the result of a decision taken late in the financial year to progress capital spending in these key areas which will also take revenue pressure away from the 2017-18 budget

The announcement of an additional £2million of funding by the First Minister in autumn 2016 allowed additional expenditure to improve the condition of the police estate, which will also alleviate some ongoing revenue pressures in the future.

Capital receipts were £3.5m lower than forecast due to slippage in the sale of properties during the year, most notably the former police property on Chambers Street in Edinburgh. Additional receipts will now be realised in 2017/18.

### Savings Commitment

A commitment has now been made by the SPA and Police Scotland to put in place robust plans to eradicate this revenue deficit by the end of 2019/20. This will be achieved through the development and delivery of a 3-year Financial Plan which was presented to the SPA Board and approved in September 2017. This accompanied the Long Term Financial Strategy which was also approved, which set out various scenarios across the longer term horizon to enable decision makers to ensure that, once financially sustainable, the organisation will be able to operate effectively and within budget in future years.

An underlying revenue deficit remains in 2017/18 and has manifested itself in the budget which was agreed by the SPA Board on 22 March 2017 with an operating revenue deficit of £47million.

As a result, the issue of financial sustainability is set out under the 'Key Issues and Risks facing the SPA and Police Scotland' section of this annual report within the 'Purpose and Activities of the Organisation' section of the Performance Report.

Although recurring cost reductions have taken place, the cost pressures within the budget continue to be higher than the savings made.

The original outline business case for creating a single national Police Service set out a target of £1.1billion cost savings by 2026. Although the table below demonstrates the reduction in the cost base since 2012/13, there have been significant additional cost pressures over the last four years which have resulted in the operating deficit.

Year	2012/13 Cost Reduction £m	2013/14 Cost Reduction £m	2014/15 Cost Reduction £m	2015/16 Cost Reduction £m	2016/17 Cost Reduction £m	Total Cost Reduction £m	Cumulative Cost Reduction £m
15 2025/26	8.7	63.9	54.7	25.2	16.7	169.2	2,094.2
14 2024/25	8.7	63.9	54.7	25.2	16.7	169.2	1,925.0
13 2023/24	8.7	63.9	54.7	25.2	16.7	169.2	1,755.8
12 2022/23	8.7	63.9	54.7	25.2	16.7	169.2	1,586.6
11 2021/22	8.7	63.9	54.7	25.2	16.7	169.2	1,417.4
10 2020/21	8.7	63.9	54.7	25.2	16.7	169.2	1,248.2
9 2019/20	8.7	63.9	54.7	25.2	16.7	169.2	1,079.0
8 2018/19	8.7	63.9	54.7	25.2	16.7	169.2	909.8
7 2017/18	8.7	63.9	54.7	25.2	16.7	169.2	740.6
6 2016/17	8.7	63.9	54.7	25.2	30.1	182.6	571.4
5 2015/16	8.7	63.9	54.7	39.4	-	166.7	388.8
4 2014/15	8.7	63.9	68.2	-	-	140.8	222.1
3 2013/14	8.7	63.9	-	-	-	72.6	81.3
2 2012/13	8.7	-	-	-	-	8.7	8.7
<b>Total</b>	<b>121.8</b>	<b>830.7</b>	<b>669.9</b>	<b>291.4</b>	<b>180.4</b>	<b>2,094.2</b>	<b>-</b>

### Reform Funding

Since 2013/14, the SPA and Police Scotland Resource Budget has included an element of non-recurring Police Change Fund (Reform) funding, which has been used to support the change and transformation of Policing in Scotland.

Until 2016/17 the SPA put forward a list of potential projects which could deliver the required transformation and the Scottish Government then approved the release of the reform funding,

based on this. However, from 2017/18, this funding will only be released on the approval of a submitted business case for each project. Each business case will be in line with Green Book guidance.

	2016/17		Description
	Revenue Spend £m	Capital Spend £m	
VAT	20.5	3.1	This element of Reform funding was used for irrecoverable VAT costs, both on revenue and capital expenditure
Voluntary redundancy / early retirement costs	7.8	-	This relates to the in-year costs of paying out redundancy and early retirement costs
C3 project	1.2		The salary costs for SPA police officers and staff who had been working on project designed to bring about modernisation including police staff pay harmonisation
Pay & rewards	0.9		
Risk & Concern	0.6		
Criminal Justice (Scotland) Bill	0.6		
National Intelligence System	0.4		
Estates Strategy	0.4		
Air weapons & licensing	0.4		
Projects under £0.2m each	2.8		
Modernisation projects	7.3		
<b>Policing 2026</b> project	1.3		The costs involved in the developments of the <b>Policing 2026 Strategy</b> which aims to transform the service over the next ten years.
	36.9	3.1	Allocated in year
<b>Total reform funding Expenditure</b>	40.0		
<b>Total reform funding allocation</b>	(52.6)		
<b>Over/(Under) spend</b>	(12.6)		<b>Utilised against in year-end overspends</b>

During 2016/17, a total of £52.6million of reform funding was made available (2015/16: £67.9m), of which £16.4million was applied to reform projects and £23.6million was applied to irrecoverable VAT costs, leaving a £12.6million underspend. Following discussions with the Scottish Government, it was agreed that the reform funding underspend could be used to offset the overall overspends.

The implications of this are that the SPA and Police Scotland are not currently operating in a financially sustainable position, and have not been using the reform funding in its entirety to deliver the change and transformation which is required to deliver future financial sustainability. At its meeting in June 2017, the Board approved a medium term 3-year financial plan to deliver financial sustainability by the end of that period along with the 10-year Long Term Financial Strategy which underpins the delivery of Policing 2026.

On the following table, the full detail of how reform funding has been spent over the first four year of policing is set out. The following bullet points provides an overview of the key areas.

- on the creation of the SPA and Police Scotland the VAT status of the organisation changed and so VAT could no longer be recovered. This resulted in an ongoing cost pressure across the service. VAT has been the most significant element of the reform spend accounting for over 40% of the available funding at over £100million during the first 4 years.
- £41million has been spent on exit packages for Police Staff leaving the organisation under the Voluntary Redundancy/Early Retirement policy. This has resulted in the number of staff working at Police Scotland being over 1,000 fewer now than at the creation of the new organisation.
- investment in ICT, Forensic services and the Gartcosh Crime Campus accounted for another £26.5m.
- organisational development, restructuring and redeployment costs have amounted to £12m to date.
- Capital Investment programmes in 2013/14 - 2015/16 of £29m.
- the modernisation programme is now underway and £22.8m has been invested over a number of projects to create a service fit for its future purpose.
- moving forward the aim of reform funding will be to support the transformation plans which are associated with the successful delivery of Policing 2026.

## Use of Reform Monies 2013/14 to 2016/17

The table below sets out transparently how Reform funding has been used during the first 4 years of the SPA and Police Scotland:

	2013/14	2014/15	2015/16	2016/17	TOTAL		Description of Expenditure
	£'000	£'000	£'000	£'000	£'000	%	
<b>Total Funding Available</b>	<b>73,792</b>	<b>67,500</b>	<b>67,900</b>	<b>52,600</b>	<b>261,792</b>	<b>100</b>	
Irrecoverable VAT	25,052	26,706	24,775	23,593	<b>100,126</b>	38.2	The SPA is unable to recover VAT on its costs ( <i>recurring costs</i> ).
VR VER Costs	27,830	4,224	1,206	7,783	<b>41,043</b>	15.7	In-year costs of paying voluntary redundancy and voluntary early retirement costs (VE/VER).
Capital Investment Programme	14,117	10,000	5,000	-	<b>29,117</b>	11.1	Supporting the capital investment programme.
Redeployment Costs	630	1,005	1,308	-	<b>2,943</b>	1.1	Costs associated with staff displaced from jobs as a result of organisational re-design.
Delay on Restructuring Savings	-	6,901	-	-	<b>6,901</b>	2.6	Planned savings arising from the staff release programme did not materialise when expected as a result of delays.
Organisational Change Resources	-	-	2,364	-	<b>2,364</b>	1.0	The costs of running the Organisational Development department in 2015/16.
Additional Police Officer Commitment	-	-	1,767	-	<b>1,767</b>	0.7	In order to maintain the SG's commitment of a minimum of 17,234 officers, a higher figure was required to provide flexibility to ensure that the minimum target is not breached.
Gartcosh Crime Campus	1,444	4,179	4,180	-	<b>9,803</b>	3.7	Additional running costs of the new crime campus.
Policing 2026 Project	-	-	-	1,234	<b>1,234</b>	0.5	Costs to develop the 2026 Strategy.
ICT – Revenue costs of i6	1,068	2,591	3,419	-	<b>7,078</b>	2.7	The revenue costs per the approved i6 business case.
ICT – Revenue costs of C3 improvements	-	1,048	1,777	-	<b>2,825</b>	1.1	The ICT revenue costs of the C3 restructuring programme.
ICT – under projects under 1%	-	2,443	969	-	<b>3,412</b>	1.3	The revenue costs of the ICT Blueprint. This related to the development of the ICT strategy which generated project ADEL, Alliance and C3IR.
Forensic Services Transformation Costs	-	2,038	1,439	-	<b>3,477</b>	1.3	Costs associated with the transformation work within Forensic Services during the year as part of modernisation.
Estates Rationalisation Costs	-	-	2,995	156	<b>3,151</b>	1.2	These were costs associated with the process of estates rationalisation including lease dilapidation, moving costs and to exit expensive leases.
Misc. projects under 1% each	1,851	455	1,285	-	<b>3,591</b>	1.4	
Modernisation Projects	1,800	-	-	-	<b>1,800</b>	0.7	
DCC Local Policing	-	76	374	25	<b>475</b>	0.2	
DCC Crime & Operational Support	-	2,471	3,000	4,188	<b>9,659</b>	3.7	Mostly staff costs relating to reform projects
DCC Designate	-	100	13	-	<b>113</b>	-	
DCO	-	3,263	4,385	3,027	<b>10,675</b>	4.1	
<b>TOTAL Reform Costs</b>	<b>73,792</b>	<b>67,500</b>	<b>60,256</b>	<b>40,006</b>	<b>241,554</b>	<b>92.3</b>	
<b>Under/(Over) spend</b>	<b>-</b>	<b>-</b>	<b>7,644</b>	<b>12,594</b>	<b>20,238</b>	<b>7.7</b>	<b>Utilised against Resource Outturn overspends</b>

## Statement of Financial Position

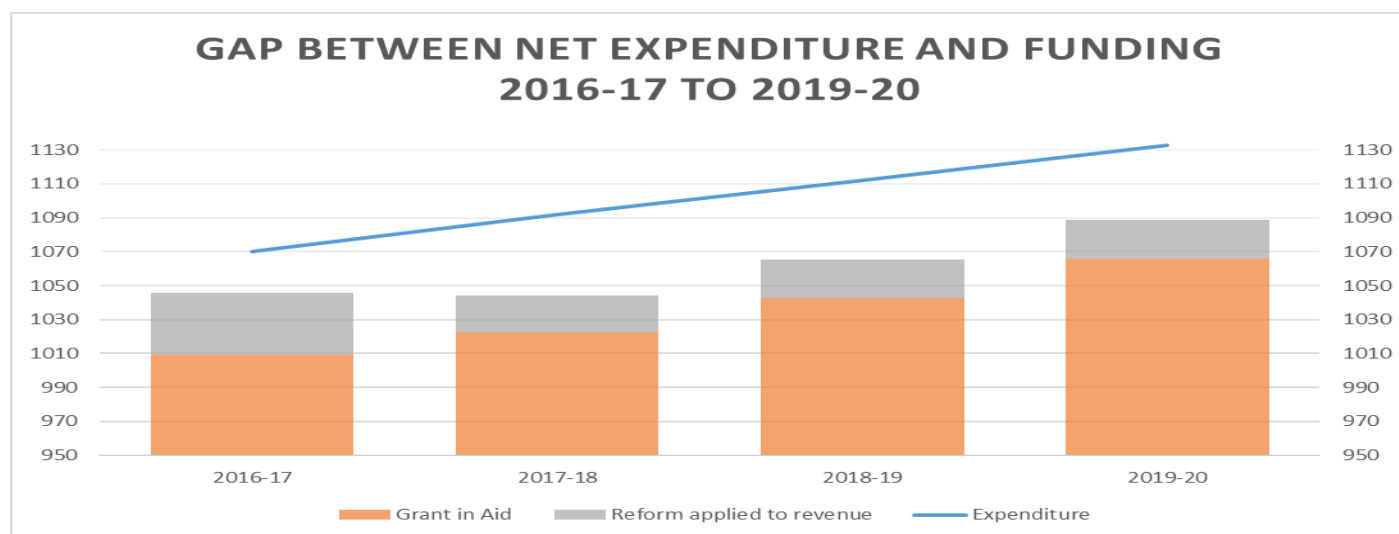
The statement of financial position is dominated by the pension liability which totalled £16.6billion (2015/16: £12.8billion). Whilst this would normally present a significant question regarding going concern, the Scottish Government's commitment to meet future liabilities as they fall due mean that the SPA can prepare its accounts on a going concern basis. The risk around going concern is set out more fully within the Performance Report.

The pension liability increased by £3.7billion between 2015/16 and 2016/17. This significant increase arose as a result of changes to the actuarial assumptions detailed in notes 23 to 25 to the Accounts.

## Forward Financial Outlook

### • Financial sustainability

The financial outlook for the SPA and Police Scotland is extremely challenging over the medium term. As reported, the underlying revenue budget deficit was £65.8million in 2016/17, and will reduce to £47.2million in 2017/18 if the budget is delivered. However, this assumes that reform funding will remain available. The table below sets out the forecast gap between expenditure (blue line) and funding (orange and grey bars) over the next 3 years, based on the existing cost base i.e. before savings or new income opportunities are taken into consideration.



The graph shows that whilst funding is anticipated to rise as result of the Scottish Government's commitment to increase the Policing budget by £100million during the lifetime of the current Parliament, it is not sufficient to close the existing revenue gap, because expenditure is forecast to rise at almost the same rate as the increase in funding over the next 3 years. As a result, the revenue budget gap is forecast to remain at the mid-£40million mark (assuming VAT continues to be funded), unless action is taken to deliver cost reductions or generate additional income.

The table below is an extract from the Scottish Police Authority Draft 3-year Outline Financial Strategy which sets out the forecast revenue gap numerically over the next 3 years.



	2017/18 £m	2018/19 £m	2019/20 £m
<b>Expenditure</b>			
Police officer costs	767.9	776.0	783.9
Police staff costs	195.0	200.4	207.8
Non pay costs	172.4	177.1	180.5
<b>Gross Expenditure</b>	<b>1,135.3</b>	<b>1,153.5</b>	<b>1,172.2</b>
Income	(43.7)	(41.5)	(39.5)
<b>Net Expenditure</b>	<b>1,091.6</b>	<b>1,112.0</b>	<b>1,132.7</b>
<b>Funding</b>			
Core revenue grant	(1,022.4)	(1,042.8)	(1,065.7)
Reform VAT Allocation	(22.0)	(22.6)	(23.0)
<b>Total Funding</b>	<b>(1,044.4)</b>	<b>(1,065.4)</b>	<b>(1,088.7)</b>
<b>Budget Deficit</b>	<b>47.2</b>	<b>46.6</b>	<b>44.0</b>

- **Modernisation Projects**

To bring the on-going costs down, a series of modernisation projects are underway. The 10-year strategy is based upon the successful implementation of 22 key projects which are currently in various stages of development.

The overall project plan to deliver these projects is under development and work is still required to scope, prioritise and articulate the benefits of each project. These in turn will deliver the 2026 Strategy and the table below sets out the high level details of a number of these projects:

Key Projects	High-Level Benefit	Duration
<b>Productions management:</b> Better managing of the large number of productions received and stored. Reduce the current volume of productions, and identify better ways of capturing, managing and storing.	Reduce cost More efficient management	2 years
<b>National Cybercrime Infrastructure:</b> We will deliver a consolidated and resilient Cybercrime service across Scotland that is more cost effective, mitigates risks and better serves existing demand. <b>Cyber capability:</b> We will scale our cyber capability and train our workforce to respond to emerging cyber related crimes. We will proactively build understanding of cyber threat and build skills in the community and in businesses to prevent cyber-crime.	Improved cybercrime analytical capability Improved quality of cyber forensic services. Enhanced threat assessment Improved assessment, tasking and coordination	3 years  TBC
<b>Automatic number plate recognition (ANPR) -</b> Enhance Police Scotland's ANPR capabilities, coverage and intelligence. It will result in a more efficient and reliable ANPR service that increases our ability to prevent crime and protect individuals.	Better targeting of criminals Improved management of risk	2 years
<b>Digitally enabling policing – core systems:</b> Implement integrated systems that allow for the efficient recording, management and analysis of operational information. <b>Digitally enabled policing – mobile technology:</b> Capture, access and input of information to core systems through mobile technology will significantly improve the productivity and effectiveness of police officers.	Service improvement and Increased flexibility Reduction administrative burden Improved effectiveness of policing: Improved management of information:	3 years
<b>Body worn video:</b> Body worn video will provide added protection and evidence for officers.	Increased protection for officers Increased guilty pleas	2 years
<b>Emergency Services Mobile Communication Programme (ESMCP):</b> Replace the Airwave system. Will enable applications to be developed for use on hand held/ vehicle devices.	Improved service delivery Enhanced access to information	TBC
<b>Data &amp; analysis:</b> A data and information management plan will set out how we will invest in our use of data to support delivery of the 10-year Strategy. Data architecture and principles will be clearly articulated and help inform other investments.	Strategic Governance Data Governance & Master Data Index	2 years
<b>National network &amp; Adel:</b> National Network will continue to consolidate 11 separate networks, into a single national network that is stable and resilient, has appropriate levels of encryption.	Improved service to members the public, officers and staff. Reduction in ICT support costs.	3 years
<b>New corporate services model:</b> The objective is to create a more effective and efficient set of corporate services that is aligned to the changing nature of Police Scotland.	Creation of more efficient and agile corporate functions Shared service support function	3 years
<b>Corporate services technology enablement:</b> Our shared services corporate services model will be underpinned by technology which helps to drive efficiency and effectiveness.	Efficient Reduced rework	3 years
<b>National payroll:</b> A national payroll solution which addresses the internal and external audit criticisms, delivers economies of scale and aligns to the timelines of the Staff Pay and Reward Modernisation Project.	Risk mitigation and audit compliance A more efficient payroll service	
<b>Fleet management (Telematics):</b> We will implement a modern telematics solution that provides real time data on fleet utilisation, accidents, fuel usage & increased control of service maintenance/ repair (SMR).	A lower overhead for fleet Real-time vehicle utilisation of fleet.	2 years
<b>Commercial Excellence:</b> We will seek to establish and embed a culture of commercial excellence to deliver best value, a sustainable cost base and underpin organisational transformation.	Delivery of Cashable cumulative Savings Establish a Sustainable Supply Chain	3 years
<b>People &amp; leadership:</b> Our leadership development will establish a roadmap for developing leaders at all levels, from Constable to Executive, which embeds our values and helps leaders move from theory to practice.	Engage and lead Diversity, develop & grow	2 years
<b>Staff pay &amp; reward modernisation:</b> A single pay and grading structure, a common set of Terms and Conditions and a common set of People and Development policies for all SPA and Police Scotland staff will be created.	Increased fairness and equality Streamlined HR functions Improved workforce planning	3 years
<b>Local Approaches to Policing:</b> We will define and trial new approaches to local policing based on areas which present the highest risk, and where successful roll these out across the country	Improved local service delivery Improved operational resilience	3 years

Key Projects	High-Level Benefit	Duration
<b>THRIVE:</b> We will define and introduce a new policing model that enables more appropriate response based on Threat, Harm, Risk, Investigation, Vulnerability and Engagement (THRIVE).	Reduction in vulnerability More effective resolution of incidents Improved management of demand	2 years
<b>Criminal Justice and Custody:</b> Develop a national end-to-end process for Custody Services in an Urban, Rural and Remote context.	Minimise the need for "backfill" from local policing	2 years
<b>Mental Health and Vulnerability:</b> We will proactively look for ways to improve prevention/ enhance our approach to Community triage & Distressed Brief Interventions, and closer working for appropriate support.	Quicker, more appropriate response Improve information sharing to maximise interventions	3 years
<b>C3IR:</b> focussed upon delivering improved Contact, Command and Control Services, by leading ongoing national incidents from a single location, with full visibility of the issues and resources across the country.	Equal access to systems and improved risk assessment. Command incidents across boundaries.	1 year
<b>Estates:</b> The estates strategy vision is to enhance service delivery by transforming the estate into one which is modern, flexible and fit for future policing across Scotland.	Provide professional and flexible workspace Reducing floor space and reducing carbon footprint.	3 years
<b>Transformation Support and Capability:</b> We are reshaping and developing skills in our workforce to deliver change. We are investing in specialist capabilities to support the Transformation Portfolio.	Effective and efficient corporate services Capacity and capability to improve organisational health and corporate stability.	3 years








## Conclusion

SPA and Police Scotland require a significant level of savings in order to secure financial sustainability. This is well recognised and understood at the most senior levels within both organisations and there is commitment to remove the deficit altogether, by the end of year 3, so that the 2020/21 revenue budget is balanced.

It is the intention of the SPA and Police Scotland to continue to develop a robust Financial Strategy and financial plan to address the financial sustainability issue, whilst simultaneously supporting the delivery of the new Policing 2026 Strategy, which was approved in June 2017.

The 3-year Business Implementation Plan will see a number of the above projects move from scoping and development into their implementation phase. They are key to delivering the change programme in line with the Strategy.

The key benefits that these projects are expected to deliver are:

-  Service improvement
-  Increasing wellbeing and satisfaction levels among our people
-  Enhancing officer productivity
-  Freeing up officers from corporate support duties to deploy into operational policing roles
-  Bringing in new skills to operational policing to address changing demands with more specialist staff
-  Creating more efficient corporate services and business support units
-  Reducing the budget deficit to £47m during 2017/18 and removing it by the beginning of 2020/21.

In addition a 10-year Long Term Financial Strategy (LTFS) has been developed and sets out a number of possible scenarios, making clear the financial parameters that it is anticipated that the organisation will be operating under. Sensitivity analysis will be applied to demonstrate the financial impact of a change in the underlying assumptions.

Both the 3-year and 10-year financial plans will be reviewed 6-monthly and updated on an annual basis to ensure that they reflect the most up to date information, and they will be used as a framework for annual budget development to ensure that the organisation becomes financial sustainable, and remains so into the longer term.

## Sustainability

Climate change is one of the most significant challenges facing society. The Climate Change (Scotland) Act 2009 introduced ambitious targets and legislation to reduce CO<sub>2</sub> emissions by 42% by 2020 and 80% by 2050 when compared to 1990 emissions levels.

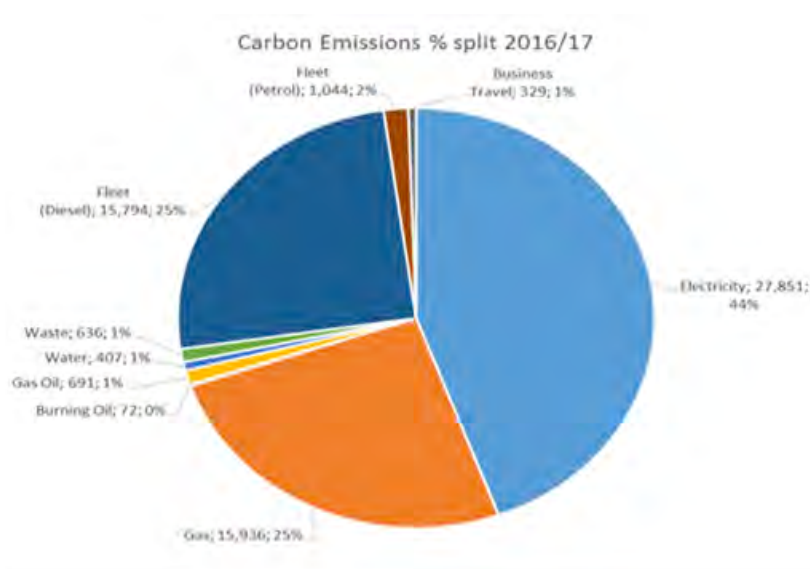
The Carbon Management Plan (CMP) sets out the ambitions and a roadmap for progress. By 2020, the aim is to reduce carbon emissions by 25%\*, by 2030 by 50%\* and by 2050 will strive to be a carbon neutral police service (\* based on 2013/14 levels). Reducing carbon emissions is not just about a commitment to the environment. The same processes used to identify carbon emissions reductions will also identify and realise financial savings through improved efficiency in

the procurement and operation of buildings and transport.

Total emissions from all sources (energy for building, waste, business miles, fleet operations and water) amounted to a reduction of 14.3% between 2011/12 to 2016/17.

The CO<sub>2</sub> (tonnes) emissions for the SPA and Police Scotland for 2016/17 have been calculated below:

	Tonnes 2016/17	Cost (£) 2016/17	Tonnes 2015/16	Cost (£) 2015/16	Tonnes 2015/16 – using 13/14 conversion factors	Tonnes 2014/15
Electricity	27,851	8,121,983	32,462	7,460,038	31,378	35,381
Gas	15,936	2,154,902	17,208	3,090,101	17,208	16,683
Burning Oil	72	10,160	94	11,409	94	57
Gas Oil	691	119,384	727	116,440	733	682
Water	407	1,568,055	282	1,391,443	282	282
Fleet – Diesel	15,794	8,297,064	15,556	9,711,445	15,532	14,176
Fleet – Petrol	1,044		1,185		1,192	1,361
Business Travel	329	626,065	551	1,019,084	802	799
Waste	636	977,741	295	747,768	620	448
<b>Totals</b>	<b>62,760</b>	<b>21,875,354</b>	<b>68,360</b>	<b>23,547,728</b>	<b>67,841</b>	<b>69,869</b>



It can be seen that the CO<sub>2</sub> emissions have reduced over the last year from 68,360 tonnes to 62,760 tonnes. Importantly, as it potentially has the most impact on carbon emissions, the emissions from electricity consumption has reduced by 14.2%.

In the absence of formal internal guidance, organisations must apply the Department for Business, Energy and Industrial Strategy conversion factors to convert consumption to CO<sub>2</sub> tonnage use. For 2016/17 the conversion factor for Commercial Waste Disposal has

increased significantly from 2015/16 factors – from 93 kgCO<sub>2</sub>e/tonne to 199 kgCO<sub>2</sub>e/tonne. This has the effect to amplify our waste carbon emissions by nominally 114%.

From 2013 moving forwards, the decision was taken to switch to an annual, i.e. a non-rolling average with the intention of providing an emission factor which was as close to the actual usage as possible. Whilst waste to landfill is included within the above calculations, recyclable waste is not. The current waste contracts are fulfilled by different local authorities and private contractors who report to different standards. It is anticipated that a single waste contract will be awarded in the future which will improve the quality of data available.

Following approval of the Property Asset Management Plan in October 2013, considerable work was undertaken to develop a Transformational Brief to inform a new Estate Strategy which was approved by the SPA Board in June 2015. It is anticipated that the roll-out of the Estates Strategy will be implemented over a 3-5 year period.

The fleet replacement programme replaces older inefficient vehicles with more fuel efficient ones and ICT projects include a number of initiatives to reduce energy consumption from IT equipment such as Project Alliance (desktop replacement programme) and individual server / data centre consolidation.

Resource Efficient Scotland has been supporting the development and ongoing progress of the CMP over the past few years through a number of the ways:

- working with SPA and Police Scotland to support the internal launch and implementation of the CMP
- providing “Green Champion” training and Handbook for Business Support Co-ordinators to assist with employee engagement
- providing a range of specialist technical support/ feasibility studies for specific energy use.
- supporting SPA and Police Scotland in developing a Waste Strategy.

### SPA Forensic Services

This has been a challenging year financially for Forensic Services due in part to an increased demand for forensic activity, in particular requests for increased volumes of and urgent analysis in drug and biology functions.

Forensic Services is now in its third year at the Scottish Crime Campus at Gartcosh. Tangible benefits of partnership working across all the agencies located within the facility are beginning to materialise, with additional opportunities anticipated in the future.

2016/17 saw significant advances in service provision with the roll-out of new services and the extensions to the Scope Management System as part of the SPA Forensic Services’ externally accredited quality management system.

HM Inspectorate of Constabulary in Scotland (HMICS) carried out an assessment of the effectiveness and efficiency of the leadership, governance, management and delivery of forensic services provided by the SPA, entitled A Thematic Inspection of the Scottish Police, published in June 2017.

It scrutinises how the SPA is meeting its statutory obligations under Section 31 of the Police and Fire Reform (Scotland) Act 2012 by providing forensic services to Police Scotland, the Police Investigations and Review Commissioner and the Lord Advocate and Procurators Fiscal.



Forensic Services is a single national service which plays a key role in supporting the justice system in Scotland in the investigation, detection and prosecution of crime. Whilst it is a relatively small service when compared with Police Scotland, Forensic Services is widely recognised as a scientific leader in employing the latest technologies and in obtaining quality accreditation for its services.

The report highlighted that generally, there has been a lack of progress across the majority of improvement areas which were previously highlighted to both the SPA and Police Scotland. These can be attributed to a lack of resource to progress improvements, weaknesses in strategic leadership, a lack of effective support from the SPA Board and its partners. The report contained 23 recommendations which should improve the service.

<https://www.hmics.scot/publications/thematic-inspection-scottish-police-authority-forensic-services>

Science starts at the scene and Forensic Services continues to provide a responsive, flexible response at incidents. It is recognised that there is a need to prioritise and deploy proportionately to meet the needs of policing; this can present challenges which in turn necessitates improvement and innovation. A swifter “footwear intelligence workflow” using a national Image Management System (IMS) was put in place in 2016/17, and is seeing a positive impact on the investigation of volume crime in Scotland.

The requirement and complexity of forensic science is also influenced by the changing nature of crime. Two key examples of this have been the:

- use of New Psychoactive Substances which is changing the nature of forensic analysis in drugs casework
- increased reporting of sexual crime which means that today more samples and submissions for biological analysis involve searching for invisible fluids rather than the analysis of blood.

**John Foley**  
**Chief Executive and Accountable Officer**  
**28 November 2017**

# ACCOUNTABILITY REPORT

## CORPORATE GOVERNANCE REPORT

### OVERVIEW

The Police and Fire Reform (Scotland) Act 2012 (The 2012 Act) sets out the framework within which SPA, Police Scotland, the Police Investigations & Review Commissioner (PIRC) and Her Majesty's Inspectorate of Constabulary in Scotland (HMICS) will operate to provide policing for the people of Scotland. SPA is the governance body for Police Scotland, and was established as an Other Significant Public Body under the 2012 Act.

The SPA Accountable Officer is accountable to the SPA Board for how money has been spent within SPA and Police Scotland, and has reported to the Public Audit and Post-Legislative Scrutiny Committee (PAPLS) within the Scottish Parliament during the course of the year. The PAPLS committee also invited the Chair, some SPA members and the CEO to give evidence in relation to governance matters which have been previously referred to within this annual report. Parliamentarians raised concerns over matters such as holding SPA committee meetings in private session and publishing papers for meetings only on the day of the meeting. Those concerns, and those of other stakeholders, were taken on board and the issues were addressed by approval of a paper presented to the SPA Board in May 2017.

SPA's Corporate Governance Report describes how our governance works and its various committees. The report also includes an overview of the governance activities operating within Police Scotland.

Each of the SPA committees has submitted an annual assurance statement to the SPA Board detailing its activities during the year and how they have satisfied their governance responsibilities. The Audit Committee conducts regular self-assessments based on the Chartered Institute of Public Finance and Accountancy in order to provide additional assurance on its governance activities. The self-assessment was conducted in March 2016, and the next will be carried out during 2017/18.

## DIRECTORS' REPORT

### Introduction

The Members of the SPA present its Annual Report & Accounts for the year to 31 March 2017 incorporating the results of both the SPA and Police Scotland.

### SPA Board

Further details regarding the Board composition, its committees and its operation are on the SPA website at <http://www.spa.police.uk>. Board appointments have been made in accordance with guidelines issued by the Commissioner for Ethical Standards in Public Life in Scotland. These require appointments to be made on merit after a fair and open competition.

Board Members are appointed by Scottish Ministers for a period set out in their terms and conditions which must not exceed four years. Appointments are renewable for further fixed terms if both parties agree. In the event of early termination there is no contractual provision for compensation.

The appointments for the Board Members who were in office during the period are as follows:

Name	Date of Current Appointment	
	From	To
Andrew Flanagan, Chair***	7 September 2015	6 September 2019
Moi Ali	17 October 2012	15 February 2017*
George Graham	4 May 2015	3 May 2019
Graham Houston	17 October 2012	16 October 2018**
David Hume	17 October 2012	16 October 2018**
Nicola Marchant	4 May 2015	3 May 2019
Robin McGill	11 July 2016	10 July 2020
Ian Ross, OBE	17 October 2012	16 October 2016
Lisa Tennant	17 October 2012	17 January 2017*
Iain Whyte	17 October 2012	16 October 2018**
Elaine Wilkinson	4 May 2015	3 May 2019
Douglas Yates	17 October 2012	16 October 2016

\* These Board Members had an expected appointment end date of 16 October 2018, however they resigned early.

\*\* These Board Members have had their appointments extended by two years.

\*\*\*The SPA announced on 14 June 2017 that Andrew Flanagan intended to stand down from his role as Chair, however he will remain in post until a successor is appointed by Scottish Ministers.

### Register of Interests

A Register of Interests for the Board along with Board Members' biographies are held on the SPA website at <http://www.spa.police.uk/about-us/the-board>.

A Register of Interests for Senior Management of the SPA can be accessed via Executive Support, SPA, 1 Pacific Quay, Glasgow G51 1DZ.

## SPA Senior Management

Name	Status
John Foley	Chief Executive and Accountable Officer
John McCroskie	Director of Communications and Relationships
Amy McDonald	Director of Financial Accountability
Tom McMahon	Director of Strategy and Performance (to 31 May 2017)
Lindsey McNeill	Director of Governance and Assurance
Tom Nelson	Director of Forensic Services
Karen Kelly	Interim Chief Financial Officer (to 22 Dec 2016)

## Police Scotland Force Executive

Scottish Ministers approved the appointment of Mr Gormley as Chief Constable of Police Scotland on 5 January 2016 on recommendation by the SPA, for a term of three years.

A Register of Interests for the Force Executive of Police Scotland can be accessed via Executive Support, Police Scotland, Tulliallan Castle, Kincardine, FK10 4BE.

A Register of Gifts and Hospitality for the Police Scotland Force Executive is held on the Police Scotland website at <http://www.scotland.police.uk/about-us/finance/gifts-gratuities-hospitality-and-sponsorship-register>.

The members of the Force Executive who were in office during the period are as follows:

Name	Status
Phil Gormley, QPM	Chief Constable
Iain Livingstone, QPM*	Deputy Chief Constable Designate (from 7 May 2016)
Neil Richardson, OBE QPM	Deputy Chief Constable Designate (to 6 May 2016)
Rose Fitzpatrick, QPM	Deputy Chief Constable, Local Policing
Johnny Gwynne	Deputy Chief Constable, Crime & Operational Support (from 10 Oct 2016)
Ruaraidh Nicolson	Deputy Chief Constable, Crime & Operational Support (from 7 May to 9 Oct 2016)
Iain Livingstone, QPM	Deputy Chief Constable, Crime & Operational Support (to 6 May 2016)
John Gillies	Director of People & Development (to 11 Dec 2016)
James Gray**	Interim Chief Financial Officer (from 6 Jun 2016 to 30 Jun 2017)
	Chief Financial Officer (from 1 Jul 2017)
Louise Haggerty	Interim Director of People & Development (from 28 Nov 2016 to 29 Jun 2017)
Martin Leven	Director of ICT
Janet Murray	Director of Financial Services (to 31 May 2016)
David Page	Deputy Chief Officer (from 19 Sep 2016)

\* The Deputy Chief Constable Designate post was transferred to Iain Livingstone on 7 May 2016, however due to accrued holiday entitlement, Neil Richardson did not leave the organisation until 25 July 2016.

\*\* A new post was created to head up the finance function within Police Scotland which was temporarily filled by James Gray, who was contracted from PwC. After a full recruitment process, James became the permanent Chief Financial Officer on 1 July 2017.

## Personal Data-related Incidents

The number of information security incidents recorded during the year totalled 68. There were 30 incidents across Police Scotland and the SPA relating to a loss of a technology asset, 12 incidents of loss of paper documents and a further 26 over a number of categories such as email misuse, and a failure to follow procedure.

Cyber Defence and Integrated Security dealt with 59 cyber incidents during the year. These were fully mitigated either by encryption, remotely disabling, or the items were found before there was any exposure.

One incident (2015/16: nil) was deemed sensitive enough to provide a report to the Information Commissioner (ICO). The response from the ICO was no further action required.

## STATEMENT OF ACCOUNTABLE OFFICER'S RESPONSIBILITIES

Under the Police and Fire Reform (Scotland) Act 2012, Scottish Ministers have directed the SPA to prepare, for each financial year, a statement of accounts in the form and on the basis set out in their Accounts Direction on the final page of this report. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the SPA and Police Scotland and of its net expenditure, changes in taxpayers' equity and cash flows for the financial year.

In preparing the accounts, the Accountable Officer is required to comply with the requirements of the 2016/17 FReM and in particular to:

- observe the Accounts Direction issued by Scottish Ministers, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis.
- make judgements and estimates on a reasonable basis.
- state whether applicable accounting standards as set out in the 2016/17 FReM have been followed, and disclose and explain any material departures in the financial statements.
- prepare the financial statements on a going concern basis.

The responsibilities of an Accountable Officer are set out in the Memorandum to Accountable Officers of Other Public Bodies issued by the Scottish Government and published as part of the Scottish Public Finance Manual (SPFM). These include:

- responsibility for the propriety and regularity for the public finances for which the Accountable Officer is answerable.
- for keeping proper records and for safeguarding the SPA's assets.
- confirming that, as far as he is aware, there is no relevant audit information of which the entity's auditors are unaware, and the Accountable Officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the entity's auditors are aware of that information.
- confirming that the Annual Report & Accounts as a whole is fair, balanced and understandable and that he takes personal responsibility for the annual report and accounts and the judgements required for determining that it is fair, balanced and understandable.

As Accountable Officer, I can confirm that these responsibilities have been discharged.

**John Foley**  
**Chief Executive and Accountable Officer**  
**28 November 2017**

# GOVERNANCE STATEMENT

## 1. Scope of Responsibility

As Accountable Officer for the SPA, I have overall responsibility for maintaining sound systems of internal control which support the achievement of the organisation's policies, aims and objectives. This responsibility was assigned to me by Scottish Ministers. These systems of internal control provide reasonable assurance regarding the reliability of financial information used by the business, whilst safeguarding the public funds and assets, for which I am personally responsible in accordance with the responsibilities assigned to me. As Accountable Officer I have been granted delegated powers to approve routine operational property transactions.

### 2.1 Governance Framework of the Organisation

The Scottish Public Finance Manual (SPFM) is issued by Scottish Ministers to provide guidance to the Scottish Government and other relevant bodies on the proper handling and reporting of public funds. It sets out the relevant statutory, parliamentary and administrative requirements, emphasises the need for economy efficiency and effectiveness, and promotes good practice and high standards of propriety.

The SPA and Police Scotland's organisational structures have clear lines of delegated responsibility for both financial and operational management.

There is a budgeting and reporting system in place, with monthly management accounts being reported to the Board's Finance Committee. Significant variances from budget are investigated, and financial forecasts are revised throughout the year in order to meet the requirements of the SPFM and to report cash-flow requirements to Scottish Ministers.

### 2.2 Governance of the SPA

As stated above in the Directors' Report, members of the SPA were appointed by Scottish Ministers under the 2012 Act. The SPA Board's main functions are to maintain the police service, promote the policing principles, promote and support continuous improvement in the policing of Scotland, keep the policing of Scotland under review, and to hold the Chief Constable to account for the policing of Scotland. The SPA Board must also hold the Chief Executive of the SPA to account for his role as employer of staff, and delivery of services to the Board and policing.

A new post to lead the finance function within Police Scotland was created in June 2016, reporting directly to the SPA CEO & Accountable Officer for the first time, as well as being an integral part of the Police Scotland Force Executive.

The SPA Board has responsibility for the governance of the SPA. Section 34 of the 2012 Act states that the SPA must prepare a Strategic Police Plan which sets out the main objectives for the SPA and for policing of Scotland. SPA published its Strategic Police Plan and laid it before Parliament in March 2013, which has recently been updated with the development and publication of the Policing 2026 Strategy in June 2017.

The Chief Constable retains operational independence and cannot be directed by the SPA Board in respect of either operational matters, or the investigation of criminal enquiries. There is a protocol of early engagement with the SPA on matters of policy and public interest and Police Scotland reports to the SPA Board and Committees both informally and formally through the SPA's governance structure.



The following illustrates the governance structure supporting the SPA Board, with Board meetings being held in public. Provisions exist for the SPA Board and its committees to meet in private as required.

## 2.3 Review of Governance in Policing

The SPA Chair's Review of Governance in Policing was published on 23 March 2016, with a total of 30 recommendations.

The report recommended improvements to ensure representatives of local communities feel sufficiently listened to regarding local policing, are able to input effectively into the development of national policy issues, and have a way of recording their 'voice' on the quality and effectiveness of Police Scotland's engagement with them.

The report's other main findings included:

- SPA to strengthen its governance procedures and review with the Scottish Government and Police Scotland how working arrangements and protocols reinforce the positioning and authority of the SPA
- clearer definition of the SPA's areas of responsibilities and how it conducts its business
- review of the underlying systems and processes used by Police Scotland to provide information with a view to improving clarity and enhancing the quality of analysis and benchmarking

Following extensive public consultation, the Policing 2026 Strategy was approved in June 2017, and will provide clear direction on the long-term outcomes that the Chief Constable is responsible for delivering. A performance framework is being developed in 2017/18, alongside this, to ensure the service's progress can be regularly and publicly scrutinised. This will bring much-needed clarity to the Chief Constable's accountability to the SPA, and performance measurement.

SPA has created a dedicated policing committee. This will ensure changes and new ideas in policing, which could impact on the public, are identified and consulted on to ensure upfront engagement which will, in turn, strengthen public confidence.

Relationships between governance and operational policing are now stronger. There is more openness, better flows of information, and there is more confidence that when issues arise they are escalated from Police Scotland to the SPA quickly and effectively.

Where before there was some lack of clarity on when and how the SPA could intervene on financial matters within Police Scotland, we now have agreed protocols in place and have streamlined the organisation within the finance function to strengthen tactical and strategic oversight.

The SPA has also enhanced its governance of major programmes. In its January report to Parliament, HMICS described the SPA governance on call handling modernisation as 'significantly improved'.

The Board of the SPA has changed too. We have now welcomed four new members for 2017/18 to bring additional experience in areas such as technology, audit and human rights to a Board already strengthened in the areas of Finance, HR and Policing.

As we progress towards achieving strategic and financial sustainability by 2020, we expect Police

Scotland to take a clear lead on workforce developments, ensuring a strong alignment with the development of policing priorities. The SPA will exercise a key accountability role on this providing appropriate support and challenge.

We have put in place an approach that will see more public Board meetings of the SPA – 8 this year compared with 6 last. It will be the Board as a whole that will make its decisions, in public rather than delegated to a small group of members in committees.

However, there have also been a number of challenges and criticism of the SPA's new Governance arrangements during the year, particularly in the area of transparency. This has led to one Board Member resigning as a result, as well as the Chair and the Chief Executive of the SPA being required to provide oral evidence at a number of the Scottish Parliament committee meetings. The SPA came under criticism by committee Members for the implementation of the new governance arrangements and also for the handling of the situation which led to a Board member resigning.

Following the announcement of the resignation of the SPA Chair in June 2017 a review on how the executive of the SPA can most effectively support the Board to deliver its statutory functions was commissioned by the Cabinet Secretary for Justice. The work on organisational structure is being led by the Deputy Chair of the SPA and the Chief Executive of Comhairle nan Eilean Siar (Western Isles Council) and will report back in Autumn 2017. It will be important that any recommendations made for improving the organisation's structure are implemented on a timely basis.

A separate review of governance arrangements in relation to openness and transparency is being carried out by Her Majesty's Inspector of Constabulary in Scotland (HMICS). The Inspectorate published a "phase 1" report in June 2017 which highlighted areas of weakness in matters associated with openness and transparency, resource capacity and stakeholder engagement. The HMICS review will report in full in 2017/18. Prior to receiving the findings of the phase 1 review, the SPA Board took a decision at their public meeting in May 2017 to cease the practice of holding committee meeting entirely in private session and revert to holding such meeting in open session whenever practical, with agenda's and papers for all public meetings published in advance so that stakeholders are well informed and have time for review. This decision has now been actioned.

## 2.4 SPA Board

The SPA Board met eight times during 2016/17, including one extraordinary meeting. The SPA Board minutes and papers are published on the SPA website at:

<http://www.spa.police.uk/meetings-events/board-meetings>

The Board has a robust governance approach focused on ensuring public accountability of both the SPA and Police Scotland, assuring integrity, allocating resources, monitoring performance, and reviewing and assisting in managing risk.

The Board is accountable to Scottish Ministers and the Scottish Parliament for the delivery of policing and will ensure that policing contributes to the Scottish Government's National Purpose of creating a more successful country with opportunities for all to flourish through sustainable economic growth.

Board meetings attended by members during 2016/17 are detailed in the following table:

Name of Board Member	Possible Number of Meetings	Number of Meetings Attended
Andrew Flanagan (Chair)	8	8
Moi Ali (to 15 Feb 2017)	6	5
George Graham	8	5
Graham Houston	8	7
David Hume	8	8
Nicola Marchant	8	8
Ian Ross, OBE (to 16 Oct 2016)	2	2
Iain Whyte	8	8
Elaine Wilkinson	8	8
Robin McGill (from 11 Jul 2016)	7	6
Douglas Yates (to 16 Oct 2016)	2	2
Lisa Tennant * (to 17/1/17)	8	2

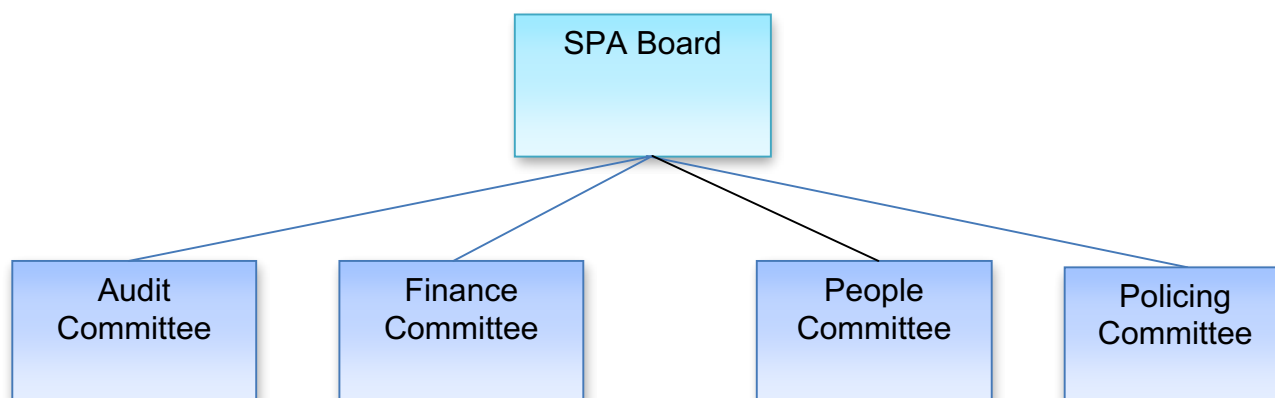
*\*On maternity leave for 6 of the Board dates*

The Scottish Government determines Strategic Police Priorities for the SPA Board, who then in turn determine how best to support the delivery of policing and to drive the SPA and policing in Scotland forward. These objectives then inform the Annual Police Plan and the SPA Annual Plan.

The eight Board meetings held during 2016/17 reviewed and scrutinised the financial position of the SPA, approved the 2015/16 Annual Report and Accounts, and approved the 2017/18 budget for the SPA and Police Scotland. The Board also oversaw the work of the supporting Committees of the SPA.

## 2.5 Committees of the Board

In 2016/17, the Board of the SPA established committees, as at the year end, were as follows:



## 2.6 Audit Committee (previously the Audit & Risk Committee)

In line with sound governance principles, an Annual Assurance Report was submitted from the Audit Committee to the Board. Audit Committee based its opinion for the year on:

- the audit processes undertaken;
- review and scrutiny of reports presented;
- the information, explanation and assurances provided by Senior Officers;

- reports brought forward for Committee approval; and
- identification and closure of known issues.

It is the Audit Committee's opinion that the SPA's governance in relation to audit matters requires continuing improvement. The controls in place within the SPA are not yet robust enough to provide complete assurance regarding the efficient and effective achievement of objectives. The Committee has brought high risk audit findings to the Board's attention where required.

During the year there were changes to the operation of the Audit Committee following the SPA Governance review. These changes saw the committee change its name from the Audit & Risk Committee to the Audit Committee from January 2017. Meetings moved from public sessions to closed-only sessions from October 2016, with the committee also becoming non-decision making at that time.

In order to improve visibility of committee business, a report from the most recent Audit Committee is taken to each SPA Board meeting. All audit, risk and assurance decisions are now deferred to either the SPA Board or the appropriate senior executive as per the new SPA Scheme of Delegation which was approved by the SPA Board on 15 December 2016.

The Committee Terms of Reference were also updated to reflect the scope of work and the new Governance arrangements. Apart from a revision to the delegated authority, there were no other significant changes which impacted the Audit Committee.

The Audit Committee is chaired by Board member, David Hume, with the support of two other members. Other invitations may be extended as follows to:

- authority staff
- Police Scotland representatives
- external stakeholders
- partner organisations
- Chair and Chief Executive of the SPA have standing invitations.

During the year, the Audit Committee met formally 7 times, and also held a development day. Meetings attended by members during 2016/17 are detailed in the table below:

Name of Board Member	Possible Number of Meetings	Number of Meetings Attended
David Hume (Chair)	8	8
Moi Ali (to 15 Feb 2017)	7	5
Iain Whyte (to 12 Dec 2016)	7	7
Elaine Wilkinson	8	8
Robin McGill (from 11 Jul 2016)	5	3

The Audit Committee (and previously the Audit & Risk Committee) exists to provide oversight, scrutiny and assurance to the Board:

- on all significant audit and risk matters, concerning the SPA and Police Scotland
- that the appropriate levels of internal controls are in place both across Police Scotland and the SPA

- on any other specific items which the SPA Board requests in relation to audit, risk and assurance.

During the year the main work the Committee has undertaken, in line with the Committee Terms of Reference, was as follows:

- reviewing the progress of the response to the National Fraud Initiative
- monitoring the progress on the draft Annual Report & Accounts completion, reviewing and recommending them for Board approval
- appraising the SPA Financial Regulations for Board Approval
- overseeing Whistleblowing & Integrity Matters procedures
- monitoring organisational risk, data loss, recent ICT incidents, fraud and theft reporting
- reviewing, and monitoring the progress on the Internal Audit Plan and recommending the Board's approval of the Internal Audit Plan
- reviewing progress on Audit Scotland Annual Audit Plan, reviewing reports received, implementing audit recommendations and follow-up of outstanding audit recommendations

## 2.7 Complaints & Conduct Committee (*ceased November 2016*)

In line with sound governance principles, an Annual Assurance Report was submitted from the Complaints & Conduct Committee to the Board. The Police and Fire Reform (Scotland) Act 2012 outlines the statutory obligations relating to relevant complaints. The SPA Complaints and Conduct Committee enabled the Authority to fulfil its statutory obligations in terms of complaint handling.

The Complaints & Conduct Committee was chaired by Board member Ian Ross until his departure from the SPA on 16 October 2016 and thereafter the Committee was chaired by George Graham. In addition to the Chair, two other Board Members were required to ensure a quorum for meetings.

The SPA Corporate Governance Framework, approved by the Board in December 2016, impacted upon the roles and responsibilities of the SPA in terms of work previously discharged by the Complaints & Conduct Committee. The significant difference is that there is no longer a Complaints & Conduct Committee, and the SPA Chief Executive now has delegated authority to make most decisions on behalf of the SPA in terms of the Police Service of Scotland (Senior Officers)(Conduct) Regulations 2013.

Senior Officers are defined as those who hold the rank of Assistant Chief Constable and above. Police Scotland has responsibility to address complaints and conduct matters for police officers for ranks below Assistant Chief Constable. The final Complaints & Conduct Committee meeting was held in November 2016.

Meetings attended by members during 2016/17 are detailed in the table below:

Name of Board Member	Possible Number of Meetings	Number of Meetings Attended
Ian Ross, OBE (Chair) (to 16 Oct 2016)	4	4
George Graham (Chair) (from 16 Oct to Dec 2016)	5	5
Moi Ali (to 15 Feb 2017)	5	4
Douglas Yates (to 16 Oct 2016)	4	4
Iain Whyte (to 13 Apr 2016)	1	1
Graham Houston (to 22 Nov 2016)	1	1

The specific role of the Complaints & Conduct Committee was to:

- consider and approve arrangements, including policies, protocols and agreements with other bodies
- consider and make a determination on complaints related to the Authority
- Monitor and scrutinise the manner in which complaints are dealt with by Police Scotland
- consider and approve cases relating to senior officers' conduct
- ensure appropriate and relevant scrutiny and oversight is maintained of internal and external policies, procedures and strategies to ensure compliance with statute and other regulations

During 2016/17 the key work undertaken by the committee, in line with the Committee Terms of Reference, was as follows:

- monitoring and scrutinising of the manner in which complaints were dealt with by Police Scotland
- considering complaints relating to senior police officers
- approving guidance in relation to the Police Service of Scotland (Senior Officers) (Performance) Regulations 2016
- approving procedures for dealing with requests for assistance with legal expenses

## 2.8 Finance Committee *(previously the Finance & Investment Committee)*

In line with sound governance principles, an Annual Assurance Report was submitted from the Finance Committee to the Board. The Finance Committee based its opinion for the year on:

- review and scrutiny of financial performance reports presented
- the information, explanation and assurances provided by Senior Officers
- reports brought forward for Committee approval; and
- the longer term financial strategy

It is the Finance Committee's opinion that during the year the SPA's governance in relation to financial matters is adequate. While the financial information provided to the committee has developed and the Finance Committee Annual Report improved, complete assurance cannot be provided regarding the efficient and effective achievement of financial objectives.

Following approval and implementation of recommendations from the SPA Governance Review, a number of changes were made to the operation of the Finance Committee during the year. From September 2016 Committee meetings moved to closed-only sessions. From December 2016 the Committee's name changed from Finance & Investment to Finance Committee and the Terms of

Reference were amended to make it a non-decision making committee and to provide greater clarity on the business of the Committee. From this date all financial decisions were taken by the SPA Board or appropriate senior executive in line with the revised SPA Scheme of Delegation. In order to ensure visibility of Committee business the Finance Committee provides a regular report to the SPA Board meeting.

Meetings attended by members during 2016/17 are detailed in the table below. There were also two workshops held by the committee during the year.

Name of Board Member	Possible Number of Meetings	Number of Meetings Attended
Elaine Wilkinson (Chair)	8	8
David Hume	8	8
Iain Whyte	8	8

The Finance Committee exists to:

- provide oversight and scrutiny on all significant financial matters, including financial planning and performance, stewardship, and service improvement
- provide advice and assurance to the Board on the above, and any other specific items which the SPA board requests of it in relation to financial management and sustainability
- seek to ensure that continuous improvement is embedded within financial processes and procedures in line with Best Value principles

During the year the main work undertaken by the committee, in line with the Committee Terms of Reference, was as follows:

- scrutinising and challenging financial expenditure, both in revenue and capital, performance and results
- reviewing the capital plan for 2016/17 and considering remaining commitments from 2015/16
- reviewing and improving the financial reporting
- focus on budget savings action plan and monitoring of progress to deliver financial balance
- considering the 3-year and 10-year Financial Strategy
- considering and reviewing the 2017/18 proposed budget, the assumptions contained within and financial options which can be considered for a financial balance in the future year
- assessing the organisations' financial risks

## 2.9 People Committee (*previously the Human Resources & Remuneration Committee (HRRC)*)

In line with sound governance principles, an Annual Assurance Report is submitted from the People Committee to the Board setting out that, based on those reports, explanations from senior officers and assurances received, that it is assured that significant progress is being made towards ensuring the SPA and Police Scotland are responsible and sustainable organisations and that the SPA's governance in relation to People Governance is adequate and operating effectively.

During the year there were changes to the operation of the HRRC/People Committee following the SPA Governance review. These changes saw committee meetings move to closed meetings from



14 February, with the committee becoming non-decision making. In order to improve visibility of committee business, a report from the most recent People Committee is taken to each SPA Board meeting. All people decisions are now deferred to the SPA Board or appropriate senior executive as per the new SPA Scheme of Delegation which was Board approved on 15 December 2016.

The Committee Terms of Reference were also updated to reflect the scope of work and new Governance arrangements. The changes sought to ensure a strategic focus on progress of people related matters.

The committee was chaired by Nicola Marchant, with three other members being Graham Houston, Ian Ross and Douglas Yates. During 2016/17 Douglas Yates and Ian Ross left the SPA with their last meeting being 13 October 2016. During the year, the committee met formally 7 times, and held two planning workshops. Meetings attended by members during 2016/17 are detailed in the table below:

Name of Board Member	Possible Number of Meetings	Number of Meetings Attended
Nicola Marchant (Chair)	7	7
Ian Ross, OBE (to 16 Oct 2016)	4	2
Douglas Yates (to 16 Oct 2016)	4	4
Graham Houston (from 16 Oct 2016 to 31 Mar 17)	3	3
Lisa Tennant (from 16 Oct 2016 to 17 Jan 17)	1	1

The People Committee (previously HRRC) exists to:

- provide oversight, scrutiny and assurance to the Board on all significant people related matters
- provide oversight and assurance on any other specific items which the SPA Board requests of it in relation to employee related aspects of Police Scotland and the SPA
- seek evidence of Police Scotland and SPA operating as responsible employers
- provide assurance that continuous progress is being made towards mainstreaming of equality, diversity and human rights, as well as the development of Police Scotland and SPA as sustainable organisations.

Members of SPA staff and Police Scotland representatives may be invited to attend committee meetings. The Chair of the SPA and the Chief Executive Officer have standing invitations to attend meetings. Any other Board Member may attend after consultation with the committee chair. The committee chair may also invite representatives from external stakeholders or partner organisations for consideration of specific agenda items/subject areas.

During the year the main work undertaken by the committee, in line with the Committee Terms of Reference, was as follows:

- approved the introduction of a revised national appraisal process (performance development conversations) for all police officers and staff
- approved the future approach to job evaluation, following receipt of comprehensive SPA and independent legal advice

This HRRC met for the last time on 1 December 2016. Since the Board approval of the revised Scheme of Delegation, the SPA CEO now makes these decisions, and a report is provided to the People Committee in relation to the decisions made.

## 2.10 Policing Committee (commenced 1 January 2017)

Meetings attended by members during 2016/17 are detailed in the table below:

Name of Board Member	Possible Number of Meetings	Number of Meetings Attended
George Graham (chair) (From 1 Jan 2017)	2	2
Moi Ali (From 1 Jan to 15 Feb 2017)	1	1
Graham Houston (From 1 Jan 2017)	2	2

A committee planning meeting took place in January to agree the Committee Terms of Reference and work plan, with the first committee meeting taking place on the 16 February.

The Policing Committee operated for a 3 month period during the 2016/17 year and based on their review and scrutiny of reports presented, and the information, explanation and assurances provided by Senior Officers, it is the Policing Committee's opinion that the SPA's governance, in relation to policing matters, has been given adequate consideration in the period of time the committee has been in operation.

The Policing Committee exists to:

- provide oversight, scrutiny of policing performance; monitoring and reviewing policing strategy; and reviewing policy and performance in relation to policing matters
- the Committee will seek to provide advice and assurance to the Board on these matters and any other specific items which the SPA Board requests of it in relation to policing performance, policy and strategy. The Policing Committee is chaired by board member George Graham with the support of 2 other members, as above

During the year the work the Committee has undertaken, in line with the Committee Terms of Reference, is as follows:

- consideration of Committee Terms of Reference
- overseeing the **Policing 2026 Strategy**
- reviewing the 2026 Strategy performance framework
- reviewing Police Scotland performance data
- review of Local Police Plans
- review of SPA Stop and Search Assurance Report
- review of C3 integration and re-modelling programme

In 2017/18, the Board has established a new committee to improve governance over Forensic Services.

### 3. Risk and Control Framework

The Board, Senior Management Group of the SPA and Force Executive of Police Scotland are committed to ensuring effective risk management and reporting for both the SPA and Police Scotland from an operational level up to the Executive and Board.

These risks are contained within Risk Registers which are monitored internally by the risk management team and risks are escalated up through the organisation depending on residual risk level.

The Corporate Risk Register seeks to assist in the achievement of the organisation's policies, aims and objectives to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. The Corporate Risk Register is reported to the SPA Audit Committee and Board.

Separate risk registers exist for the SPA and Police Scotland and measurement is based on an established standard matrix and consistent scoring criteria based on likelihood and impact. Each risk has a designated risk owner, the seniority of whom is determined by the severity of the risk. Significant risks of the SPA and Police Scotland are reported to the Audit Committee and the Board.

Aside from operational policing risks, significant corporate risks highlighted and managed throughout the year included:

- lack of long-term Financial Strategy to support future financial sustainability
- lack of resourcing to address issues of financial management and control
- lack of permanent financial leadership
- lack of payroll and ICT modernisation programmes
- pay & reward modernisation programme delays

The risk management process within the organisation has followed guidance from the Scottish Ministers provided in the SPFM and has been in place throughout the financial year.

The system of internal control has not been operating adequately during the 2016-17 financial year, which has been highlighted through numerous audit and regulators reports, and is recognised by management. A considerable effort is being made both within the SPA and Police Scotland to strengthen the system of internal control. This includes a review of the governance arrangements of both organisation, with a view to adopting clear, appropriate and transparent arrangements in the future, a concerted effort to address outstanding audit recommendations, and a significant strengthening of the finance department's capability and capacity.

### 4. Good Practice

#### Procurement & Best Value

Accountable Officers appointed by the Principal Accountable Officer for the Scottish Administration (PAO) have a specific responsibility to ensure that arrangements have been made to secure Best Value. In accordance with these principles, the Board and supporting Committees of the SPA adopt a culture of continuous improvement. This also follows as part of the management approach of Police Scotland, who are encouraged to review the use of resources and deliver efficiencies in their areas of responsibility. This work is carried out against the background of the Scottish Government priorities for policing.

The Scottish Ministers expect all Accountable Officers to comply with the duty of Best Value placed upon them. In addition organisations have corporate responsibility for promoting the efficient and effective use of staff and other resources by the organisations in accordance with the principles of Best Value. Arrangements have been made to ensure Best Value can be demonstrated through:

- the scrutiny applied to investment and expenditure decisions through the Finance Committee
- procurement contracts being awarded through competitive tender processes
- staff structures reviewed and appraised by the People Committee
- A policy of Voluntary Redundancy (VR) and Voluntary Early Retirement (VER) in place for Police Staff

There is a continual challenge on the budget and expenditure of policing to deliver Best Value. SPA carries out all of its duties in a way that is proportionate, accountable, transparent and consistent with the principles of good governance.

## 5. Audit Arrangements

A significant part of the overall governance arrangements, is the reliance placed upon external and internal audit findings and recommendations.

### External Audit

Audit Scotland identified a number of recommendations during their 2015/16 audit which have been reported within the key risks and issues in the Performance Report. For the third year running, the Auditor General for Scotland also prepared a report to the Public Audit & Post Legislative Scrutiny committee under Section 22 of the Public finance & Accountability (Scotland) Act 2000. The Report clearly outline a number of areas where significant improvement in Police Scotland's financial governance, capacity and control arrangements is required.

The steps that have already been taken, and the further work that is currently ongoing, to address these areas for improvement is as follows:

#### a) Financial Leadership & Capacity

A new Chief Financial Officer within Police Scotland has been appointed and is accountable to both the Chief Constable, through the Deputy Chief Officer of Police Scotland, and the SPA's Chief Executive Officer. A recruitment exercise was progressed during early 2017 which has resulted in this post being filled on a permanent basis from 1 July 2017.

The Senior Leadership Team of Police Scotland was strengthened in September 2016, with the appointment of a Deputy Chief Officer. This is a new position which has responsibilities covering all Corporate Services function including Finance. This is the most senior civilian appointment ever made in a policing organisation in Scotland, highlighting the Chief Constable's commitment to enhancing the Corporate Services division within Police Scotland.

The Interim Chief Financial Officer of Police Scotland undertook a review of the finance function in autumn 2016 to assess issues with the level of capacity and skills within the current structure, following which the Deputy Chief Officer successfully made a case to the SPA Board in October 2016 and secured funding to recruit temporary additional posts. The recruitment exercise for these 15 posts took until the end of February 2017 to fill with suitable candidates. These additional resources have brought stability to the finance function, and are addressing the areas of

weakness which were identified by Audit Scotland, establishing consistent policies and procedures, and providing experience in technical financial support for areas such as the Annual Report & Accounts and capital accounting. In addition, a project management approach has been adopted for the preparation of the draft 2016/17 Annual Report & Accounts for the first time, to ensure that the quality issues highlighted in the 2015/16 Audit Report are fully addressed.

## **b) The 2015/16 Final Outturn and the Use of Reform Funding**

Audit Scotland highlighted the fact that a £19.4million under-spend on capital had been used towards offsetting a £20.5million overspend on revenue in 2015/16. In addition, to this reform funding had been used in part, to support recurring revenue expenditure.

In order to improve the transparency of the Scottish Government funding allocation against Revenue, Capital and Reform, the 2016/17 budget was developed, with a clear separation of revenue, capital and reform funding. There was clear and transparent reporting on the use of these 3 funding streams throughout the financial year.

## **c) Financial Control & Budgeting**

The information that was presented with regard to the 2016/17 budget was limited, and this was highlighted in the Section 22 Report. In response to this, a completely fresh approach was taken to the development and public reporting of the 2017/18 budget. The quality and level of publicly available information on the budget, which was presented to the SPA Board on 22 March 2017, was significantly improved.

The improvements that have been undertaken to strengthen financial management in the organisation around the governance and control of spending are:

- a transparent and clear Budget Report setting out how the budget was developed for 2017/18 which was reported publicly
- improved reporting templates for financial monitoring in 2017/18
- a formal budget monitoring guidance pack for budget holders, which documents the framework under which they must operate
- development of a business partnering model, to ensure that budget holders have the right level of financial support to provide advice on financial decision-making
- the development of a training plan for budget holders which identifies and addresses training needs
- a refreshed Investment Governance Process, supported by new business case templates, to ensure that all investment decisions are aligned to the corporate strategy, and that a robust process has been undertaken, in line with “Green Book” principles, for all business cases seeking investment
- month-end procedures have been revised to achieve a faster close, which will result in a flash finance report 5 working days after month end, and a detailed analysis of the results each month, which will be 10 working days faster than 2016/17
- a refreshed Police Scotland Finance Board with a new terms of reference, and strengthened arrangements for ensuring that budget holders are held to account for their budgets
- an annual work-plan for the Board, which is aligned with the SPA Finance Committee both in terms of content, but also timing, to ensure smoother reporting arrangements in the future.

#### **d) Financial Sustainability and Long Term Financial Strategy**

In December 2016, the Auditor General for Scotland estimated that the SPA and Police Scotland were facing a cumulative deficit of approximately £200million in real terms over the current parliamentary session. Our own assessment was broadly in line with that presented by the Auditor General for Scotland and, in order to have clarity around the extent of the financial challenge, there is greater transparency of this within the revenue budget. For the first time, the revenue budget clearly highlights an operating deficit of £47million in 2017/18. This is the remaining deficit after the inclusion of savings; the first draft of the budget indicating a deficit of £64million before savings options were applied. The savings requirement for the forthcoming year incorporates an efficiency challenge (consistent with normal practice within the public sector) which was accepted by the Deputy Chief Constables and Deputy Chief Officer. They are currently working on plans to deliver the required savings in-year. Whilst the budget sets out the plans in place to deliver a £47million deficit in 2017/18, the SPA, Police Scotland and the Scottish Government will work together in-year to manage this position, and all action possible will be taken by management to reduce the deficit down as far as possible.

It is important to note that the termination of the i6 programme, and the loss of expected savings, has already been factored into our financial modelling, and does not increase the size of the financial challenge that is currently being reported.

As a result of the challenging financial position, Police Scotland has focused on developing a Long Term Financial Strategy (LTFS) in order to support the organisation's move towards financial sustainability, a significant issue highlighted in the Section 22 Report. In September 2017, the SPA Board approved a 3 year medium term financial plan to deliver financial balance by 2020, and also a 10-year LTFS to provide future financial sustainability which will underpin the Policing 2026 Strategy.

Both the 3-year and 10-year financial plans will be reviewed 6-monthly and updated on an annual basis to ensure that they reflect the most up to date information, and they will be used as a framework for annual budget development to ensure that the organisation becomes financial sustainable, and remains so into the longer term.

#### **e) The SPA's Annual Report & Accounts 2015/16**

The SPA Accounts were unqualified, and it was noted that overall internal controls in key financial systems had improved relative to the prior year. However, the auditor expressed a modified opinion, noting that 'aspects of the accounting records and access to information and explanations in the area of property plant and equipment, were of poor quality.' It was found that there was insufficient identification of surplus assets, and errors in the categorisation and valuation of assets.

The investment in additional resources to the Capital Accounting Team, since the start of 2017 has enabled the finance team to improve the recording of such assets using the dedicated asset system. A full reconciliation to the fleet management system was undertaken, and this work will now continue on a quarterly basis as part of a business as usual process.

A review of classifications of assets and a desktop impairment review was conducted by the finance senior management. The Capital Accounting Policy was put in place during the year, and improved procedures followed. By 31 March 2018, all land and building assets will have been subject to a revaluation on the 5-year rolling review programme, enabling a greater level of assurance on the valuation of property assets within the organisation's Statement of Financial Position.



At the start of 2017, a programme of identification and registration of all Heritage Assets had begun, and Heritage Assets held across Scotland are now adequately recorded. Whilst an overarching Capital Accounting Policy was developed and in place for 2016/17, a dedicated policy for the ongoing care and stewardship of heritage assets will be approved in 2017/18, with detailed processes and procedures in place for the identification, ongoing assessment, and strategic forward plan for the stewardship of these assets.

Since the year-end, as part of the transformation programme, a highly experienced Interim Capital Systems Transformation (ICST) Lead has been appointed. The ICST lead will review the use of the asset recording system, improve records, and ensure the Capital Accounting Team are equipped with the right knowledge and training, in order to provide an end-to-end Capital Accounting function in the coming months.

## Internal Audit

The 2016/17 Internal Audit Plan was approved in advance of the start of the financial year, which allowed a full and broad programme of audits to be completed in time to allow the Chief Audit Executive to form an opinion on the framework of internal controls. The opinion expressed was as follows:

*“In our opinion SPA had significant weaknesses in its framework of internal controls in place during the 2016/17 financial year. As a result, the internal control environment operated by SPA during 2016/17 cannot be fully relied upon to provide an appropriate level of assurance regarding the effective and efficient achievement of objectives and the management of key risks. Arrangements to promote value for money and deliver best value are adequate, with scope for improvement”.*

However the Internal Auditors reported that they have observed an improvement in management's capacity and commitment to address internal control issues raised in internal audit reports covering a number of years. They went on to add that there remains a significant challenge to address key underlying issues, particularly around corporate resources and skills, to achieve longer term sustainable improvement in the internal control environment within Police Scotland and the SPA.

In this context of a generally improving internal control environment, the Internal Auditors set out the following key findings from its work in 2016/17:

- one Grade 5 finding in its review of Payroll, relating to lack of adequate and effective controls over the Glasgow payroll system
- inconsistent processes and controls across Police Scotland and SPA, which have contributed to the poor quality of financial management information. These were impacted by resource challenges affecting Police Scotland's capacity to effectively consolidate information from multiple sources
- a need to invest further in the continuing development of financial skills, resources, systems, policies and processes
- the need for business areas across SPA and Police Scotland to liaise with ICT in developing their business continuity plans. Plans were being developed without full knowledge of resilience arrangements and recovery timescales for key business applications
- a number of ICT processes are still maturing which is resulting in controls still being defined and inconsistency in practice. Specific areas where improvement is needed include software



development testing, capacity planning, configuration management and IT disaster recovery

- a number of prior year agreed actions to improve internal control, some dating back to 2014 and 25 rated as priority 4 or 5, have yet to be implemented
- the total number of outstanding internal audit recommendations stood at 67 in June 2017, as reported to the SPA Audit Committee. Whilst this is a significant number, management has committed to dedicating more resources to address these issues, and it is pleasing to see that this number has come down by 15% since the beginning of the financial year
- a significant body of work to develop standard processes to be rolled out across the organisation particularly within Corporate Services has commenced. The large volume of transformation projects has put pressure on staff completing day-to-day activities and project work. However, in the latter part of 2016/17 and early part of 2017/18, there has been additional temporary recruitment to facilitate these transformation activities.

Management within both the SPA and Police Scotland recognise and acknowledge these findings and are working on each point raised to ensure that they are appropriately addressed. The one Grade 5 audit finding in relation to payroll is currently being addressed through an upgrading of the Glasgow payroll system as well as re-designing the process and controls for providing the payroll service in Glasgow.

However, it is pleasing to note that the Internal Auditors note the commitment and engagement of management, and are beginning to see a level of progress with addressing outstanding issues, in a much more engaged way than previously.

## **6. Review of Effectiveness and Significant Issues**

Under the SPFM as Accountable Officer I am required to prepare a Governance Statement as part of the Annual Report & Accounts. In order to prepare this statement, I require assurances on the maintenance and review of internal control systems within each part of the organisation.

The systems are designed to manage rather than eliminate the risk of failure to achieve the SPA and Police Scotland's policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness. Internal control systems comprise the whole network of systems established within SPA and Police Scotland to provide assurance that organisational objectives will be achieved, with particular reference to:

- risk management
- the effectiveness of operations
- the economical and efficient use of resources
- safeguards against losses, including those arising from fraud, irregularity or corruption
- the integrity and reliability of information and data

It is the responsibility of each DCC, Director, and equivalent to provide assurances me as Accountable Officer via the Chief Financial Officer in relation to the financial year that systems of Internal Control have been working well within their area of responsibility, the following have been highlighted: A number of internal audit reports covering Payroll, Fixed asset and core financial control have highlighted weaknesses. These are being reviewed and appropriate actions taken to resolve, strengthen and enhance the controls environment. These are regularly followed up by internal audit as required.

My review is also informed by:

- the managers within the organisation who have responsibility for the development and maintenance of the internal control framework
- comments made by the external auditors, Audit Scotland, in their management letters and other reports
- internal audit reviews and reports conducted throughout the year by HMICS and Scott Moncrieff

The conclusion of my review is that although improving, the internal control environment operated by SPA and Police Scotland during 2016/17 cannot be fully relied upon to provide an appropriate level of assurance regarding the effective and efficient achievement of objectives and the management of key risks. However, I am satisfied that appropriate arrangements and resources are now in place to address the weaknesses in internal control as quickly as possible.

**John Foley**  
**Chief Executive and Accountable Officer**  
**28 November 2017**

# REMUNERATION AND STAFF REPORT

## OVERVIEW

In line with sound governance principles, and in accordance with the Public Finance and Accountability (Scotland) Act 2000 and the SPFM, the SPA HRRC/People Committee provides assurance to the SPA Board, Scottish Ministers and the Scottish Parliament around the remuneration and associated policies in operation throughout SPA and Police Scotland.

## REMUNERATION REPORT

### Remuneration policy

SPA and Police Scotland are together committed to being a responsible, attractive and inclusive employer fulfilling all statutory and moral obligations. Against a very challenging financial background, we aim to support processes to ensure resources are efficiently deployed in line with public sector spending guidelines through being:

- **Fair & Equitable** – An organisation that has a fair, equitable and affordable pay policy with appropriate terms and conditions which support policing priorities. All pay scales comply with the Scottish Living wage requirement
- **Sustainable** – A financially sustainable organisation which attracts, retains and develops skills, experience and talent
- **Modern** – An organisation that has an agile and flexibly deployed workforce where staff feel motivated, empowered and valued

The key principles of this policy:

- ensure our pay and reward package reflects the commitment to being a responsible employer and sustainable organisation
- promote development of fair and transparent reward and recognition mechanisms
- enable SPA/Police Scotland to compete for, invest in and retain individuals who possess the skills and specialisms required to support future delivery
- develop, inform and integrate innovative practices and procedures into the total reward packages

Through agreed consultative and negotiating forums, SPA/Police Scotland will:

- modernise and standardise staff terms and conditions of employment
- promote the benefits of a diverse workforce through the provision of attractive, inclusive and responsible working practices
- integrate the various elements of the overall reward package for staff to help them to respond effectively and efficiently to changing or emerging priorities
- Secure Best Value through evidence based reviews

There are no provisions within the current pay scales for bonus or performance related payments for any Police staff.

## Board Members

Fees for Board Members were determined in accordance with guidelines prescribed by the Scottish Government - Public Sector Pay Policy information applicable to Senior Public Appointments, including Chief Executives, Chairs and Members.

As stated in the SPA Board Standing Orders, the members shall meet in public not less than six times in each year.

## Board Members' Interests

During the year, apart from their appointments detailed within the Accountability Report, no Board Member has undertaken any material transactions with the SPA.

## SALARY AND PENSION ENTITLEMENTS (*audited*)

### Remuneration of Board Members

The Board Members received the following remuneration for their services during the year ended 31 March 2017 as follows:

	2016/17 £'000	2015/16 £'000
Andrew Flanagan**	53	38
Vic Emery**	-	22
Moi Ali* (to 15 Feb 2017)	10	13
Brian Barbour**	-	7
Jeane Freeman**	-	10
George Graham	10	13
Graham Houston*	12	13
David Hume	13	16
Nicola Marchant	18	15
Robin McGill* (from 11 Jul 2016)	5	-
Morag McLaughlin** (to 11 Jul 2016)	-	13
Paul Rooney**	-	11
Ian Ross OBE* (to 16 Oct 2016)	11	18
Lisa Tennant* (to 17 Jan 2017)	2	13
Iain Whyte	14	16
Elaine Wilkinson	20	18
Douglas Yates* (to 16 Oct 2016)	6	13
<b>Total</b>	<b>174</b>	<b>249</b>

\* denotes those Board Members who only served for part of 2016/17

\*\* denotes those Board Members who only served for part of 2015/16.

Details of all Board Members' appointments are held within the Accountability Report.

## Remuneration of Senior Management Group of the SPA and Police Scotland Force Executive

The total remuneration of the SPA Senior Management Group and Police Scotland Force Executive are shown in the tables below, with full details of their appointment in the Directors' Report within the Corporate Governance Report. Apart from the Chief Constable and Deputy

Chief Constables, the officials covered by this report hold appointments which are open-ended. Full time equivalent salary figures are shown where appropriate.

The salary of Directors is set by the SPA. The pay and terms and conditions for staff members is negotiated through the Joint Negotiating and Consultative Committee (JNCC). Pay, terms and conditions for police officers are negotiated through the Police Negotiating Board (PNB). PNB Circular 2016-2 set out the salaries for senior officers within the Police Scotland Executive Team. Benefits in kind estimates relate to the provision of vehicles, with values to the nearest £100, unless stated otherwise.

The value of the pension benefits in the below tables is calculated as the real increase in pensions multiplied by HMRC methodology multiplier of 20, plus the real increase in any lump sum. The real increase in pensions excludes increases due to inflation and are net of contributions made by the individual. The valuation does not represent actual payments made to the individuals during the course of the year.

The SPA and Police Scotland employees and officers are entitled to membership of two types of pension scheme:

- The Police Pension Schemes for Police Officers (both pre 2006 and post 2006)
- A Local Government Pension Scheme for Police Staff Employees

Information on these schemes are held within 1.18 of the notes to the accounts, with full disclosure of the pension accounting liabilities for the SPA and Police Scotland summarised within notes 23-25 of the Financial Statements. Salaries, accrued pensions and lump sums are disclosed in bands of £5,000, and real increases in pensions and lump sums are disclosed in bands of £2,500.

### The SPA Senior Management Group

Total Remuneration	2016/17				2015/16			
	Salary £'000	Benefits in Kind £	Pension Benefits £'000	Total £'000	Salary £'000	Benefits in Kind £	Pension Benefits £'000	Total £'000
John Foley	115-120	-	29	145-150	115-120	-	39	155-160
John McCroskie	85-90	-	25	110-115	85-90	-	31	115-120
Amy McDonald	95-100	-	29	125-130	95-100	-	31	125-130
Tom McMahan	85-90	-	27	115-120	85-90	-	28	115-120
Lindsey McNeill	85-90	-	-	85-90	85-90	-	-	85-90
Tom Nelson	95-100	-	*	95-100	95-100	-	72	170-175
Karen Kelly <sup>1</sup>	35-40	-	-	35-40	5-10	-	-	5-10
Full-year equivalent	90-95				90-95			

Pension Information	Accrued Pension at 31 March 2017 £'000	Accrued Lump sum at 31 March 2017 £'000	Real Increase in Pension £'000	Real Increase in Lump sum £'000	CETV as at 31 March 2016 £'000	CETV as at 31 March 2017 £'000	Real Increase in CETV 2016/17 £'000
John Foley	5-10	-	0-2.5	-	68	100	18
John McCroskie	10-15	0-5	0-2.5	-	135	166	19
Amy McDonald	5-10	-	0-2.5	-	31	52	11
Tom McMahan	0-5	-	0-2.5	0-2.5	27	46	10
Lindsey McNeill**	-	-	-	-	-	-	-
Tom Nelson	45-50	100-105	-	-	861	912	22

\* Where the real movement in pension benefits is negative, a nil amount has been inserted in accordance with the SPFM/ FReM guidance

\*\*Lindsey McNeill opted out of the pension scheme during 2015/16, receiving a refund of the contributions made.

<sup>1</sup>Karen Kelly was employed as temporary Interim Chief Finance Officer on a part-time basis within the Senior Management Team of SPA from 9 February 2016 to 22 December 2016, being paid a total of £39,127 for the year ended 31 March 2017.

## Police Scotland Force Executive

Total Remuneration	2016/17				
	Salary £'000	Compensation for loss of office £'000	Benefits in Kind £	Pension Benefits £'000	Total £'000
Phil Gormley	210-215	-	2,600	-	215-220
Iain Livingstone	175-180	-	4,600	67	245-250
Neil Richardson (to 25 Jul 16)	65-70	-	1,200	-	65-70
Full-year equivalent	200-205				
Rose Fitzpatrick <sup>1</sup>	170-175	-	105,200	38	310-315
Johnny Gwynne (from 10 Oct 16)	80-85	-	4,800	-	85-90
Full-year equivalent	165-170				
Ruaraidh Nicolson (to 31 Oct 16)	95-100	-	2,100	-	95-100
Full-year equivalent	165-170				
John Gillies (to 11 Dec 16)	75-80	-	5,300	16	100-105
Full-year equivalent	105-110				
Martin Leven	100-105	-	5,200	29	135-140
Janet Murray (to 31 May 16)	40-45	140-145	1,200	*-	180-190
Full-year equivalent	105-110				
Louise Haggerty <sup>2</sup>	105-110	-	-	-	105-110
Full-year equivalent	320-325				
James Gray <sup>3</sup>	195-200	-	-	-	195-200
Full-year equivalent	240-245				
David Page (from 19 Sep 16)	90-95	-	-	28	120-125
Full-year equivalent	175-180				

<sup>1</sup>Rose Fitzpatrick received relocation expenses of £49k (before National Insurance £13k and Tax £40k) in 2016/17, the total costs are included within the table above within the benefits in kind total. The payments represent a re-imbursement of expenses in relation to her relocation from England to Scotland.

<sup>2</sup>Louise Haggerty joined the organisation on a temporary basis as Interim Director of People & Development through Badenoch & Clark until the full recruitment process for a new Director of People & Development was undertaken. She was in post from 6 December 2016 to 31 March 2017 with the agency being paid £106,192 (including VAT) for the period. This amount does not represent her salary but the invoiced agency day-rate. She continued in the post until Judith Helliker was appointed on 12 June 2017, and left shortly thereafter.

<sup>3</sup>During June 2016, James Gray was seconded from PwC as Interim Chief Finance Officer on a temporary basis. He was seconded from 6 June 2016 to 31 March 2017 with PwC being paid £199,500 for the period. This amount does not represent his salary but the invoiced day-rate from

PwC. His secondment continued after the year-end. After a full recruitment process, James Gray became the permanent Chief Financial Officer on 1 July 2017.

The new post of CFO to lead the finance function within Police Scotland was created in June 2016. This post has a direct reporting line into the Accountable Officer and also reports to the Deputy Chief Officer. As a result, the Director of Finance of Police Scotland post (held by Janet Murray) was deleted from the structure and she left the organisation through the SPA approved voluntary redundancy scheme. Therefore, in addition to the disclosed salary payments, Janet Murray received a Redundancy Payment, and her payment details are included within the 156 staff who left the organisation in 2016/17, as disclosed in the Exit Packages note. Following completion of a redundancy consultation, the post of Director of Financial Accountability has also been deleted.

Total Remuneration	2015/16				
	Salary £'000	Compensation for loss of office £'000	Benefits in Kind £	Pension Benefits £'000	Total £'000
Phil Gormley	50-55	-	2,400	-	55-60
Full-year equivalent	210-215				
Sir Stephen House	140-145	-	1,800	-	145-150
Full-year equivalent	210-215				
Iain Livingstone	175-180	-	4,400	95	275-280
Neil Richardson (to 25 Jul 16)	185-190	-	2,100	56	245-250
Rose Fitzpatrick	170-175	-	1,300	26	200-205
Stephen Allen	120-125	-	2,400	58	180-185
Full-year equivalent	175-180				
John Gillies (to 11 Dec 16)	110-115	-	7,200	39	155-160
Martin Leven	95-100	-	4,900	45	150-155
Susan Mitchell	80-85	-	5,500	30	115-120
Full-year equivalent	105-110				
Janet Murray (to 31 May 16)	100-105	-	7,300	72	180-185

\* Where the real movement in pension benefits is negative, a nil amount has been inserted

\*\* The full year equivalent of the pension benefits has been taken as the actual pension benefits for these individuals

Pension benefits are calculated on an actuarial basis, using the assumptions set out in notes 23-25. These benefits can go up or down depending on the financial assumptions used.

In addition to those listed above, 8 Assistant Chief Constables are also part of the Force Executive and report directly into the DCCs above, who are the main decision-makers.



Pension Information	Accrued Pension at 31 March 2017 £'000	Accrued Lump sum at 31 March 2017 £'000	Real Increase in Pension £'000	Real Increase in Lump sum £'000	CETV as at 31 March 2016 £'000	CETV as at 31 March 2017 £'000	Real Increase in CETV 2016/17 £'000
Neil Richardson**	110-115	-	-	-	2,649	-	-
Rose Fitzpatrick***	10-15	20-25	2.5-5	*-	185	227	15
Iain Livingstone	80-85	-	2.5-5	-	1,181	1,312	77
Stephen Allen	-	-	-	-	-	-	-
John Gillies	20-25	10-15	0-2.5	*-	217	239	9
Martin Leven	5-10	-	0-2.5	-	75	102	15
Johnny Gwynne	90-95	90-95	-	-	2,174	2,153	*-
Ruaraidh Nicholson**	75-80	-	-	-	1,628	-	-
Susan Mitchell	-	-	-	-	244	-	-
Janet Murray	35-40	75-80	*-	*-	541	558	4
David Page	0-5	-	0-2.5	-	n/a	24	14

\* Where the real movement is negative, a nil amount has been inserted in accordance with the SPFM

\*\* Retired during 2016/17 or opted out of the scheme after reaching maximum service

\*\*\* An error was found in the 2015/16 calculation and the comparatives have now been updated to reflect the correction

Phil Gormley and Sir Stephen House were not active members of the pension schemes in either the year ended 31 March 2017 or 31 March 2016. Johnny Gwynne was an active member of the pension scheme until 1 May 2016.

During 2016/17, Mr Gormley has resided within accommodation in the Police Scotland estate, paying rent, council tax and service charge of £789.30 per month, from July 2016. He resided in the accommodation from January 2016 and so the previous 6 months charge has been disclosed as a benefit in kind, partially in 2015/16 and 2016/17 (3 months).

James Gray, Louise Haggerty and Karen Kelly were not employees and therefore not in the pension scheme.

### Median and Fair Pay (audited)

The highest paid member of the organisation was the Chief Constable. His annualised remuneration before pension benefits was £214,404 (2015/16: £212,280). This was 6.1 times (2015/16: 6.1 times) the median remuneration paid to the SPA and Police Scotland's police officers and staff, which was £35,127 (2015/16: £34,779). Remuneration ranged from £16,550 to £214,404 (2015/16: £15,126 to £212,280) during the year. James Gray, Louise Haggerty and Karen Kelly are not included within these calculations.

## STAFF REPORT

### Staff Analysis by Gender (audited)

The table below summarises the number of Board Members, employees and officers by gender:

Category of Staff	As at 31 March 2017				As at 31 March 2016			
	Male	Female	%*	Total	Male	Female	%*	Total
Board Members	6	2	25	8	7	4	36	11
SPA Senior Management Group	4	2	33	6	4	2	33	6
Police Scotland Force Executive	6	2	25	8	5	2	29	7
SPA and Police Scotland Staff	2,061	3,575	63	5,636	2,171	3,715	63	5,886
Police Officers	12,214	5,273	30	17,487	12,313	5,222	30	17,535
Special Constables	489	235	32	724	556	281	34	837
<b>Total</b>	<b>14,780</b>	<b>9,089</b>	<b>38</b>	<b>23,869</b>	<b>15,056</b>	<b>9,226</b>	<b>38</b>	<b>24,282</b>

\* indicates the percentage of females as a percentage of the total of each category of staff

In the previous years, the disclosure has been on the basis of full time equivalent police officers and staff. Therefore the key disclosures showed 14,997 male police officers and staff and 8,673 female police officers and staff, showing that female police officers and staff represented an overall 37% of total police officers and staff, which is similar to those figures disclosed above. Of the above total members of staff, 173 (2015/16: 235) are staff who have been recruited on a temporary basis, 45 of which were recruited through an agency.

### Total Staff Costs analysis (audited)

2016/17	Board Members £'000	Staff £'000	Officers £'000	Agency Staff £'000	Total £'000
Wages and salaries	174	152,697	662,508	1,540	816,919
Social security costs	12	14,524	71,784	-	86,320
Pension costs		31,826	17,845	-	49,671
	<b>186</b>	<b>199,047</b>	<b>752,137</b>	<b>1,540</b>	<b>952,910</b>
Staff provision	-	(6,600)	-	-	(6,600)
IAS19 pension adj. (note 23)	-	8,038	(103,900)	-	(95,862)
	<b>186</b>	<b>200,485</b>	<b>648,237</b>	<b>1,540</b>	<b>850,448</b>

2015/16	Board Members £'000	Staff £'000	Officers £'000	Agency Staff £'000	Total £'000
Wages and salaries	249	162,706	658,560	1,560	823,075
Social security costs	22	11,078	55,185	-	66,285
Pension costs	-	29,754	17,414	-	47,168
	<b>271</b>	<b>203,538</b>	<b>731,159</b>	<b>1,560</b>	<b>936,528</b>
IAS19 pension adj. (note 23)	-	15,522	37,300	-	52,822
	<b>271</b>	<b>219,060</b>	<b>768,459</b>	<b>1,560</b>	<b>989,350</b>

Officers' wages and salaries include such items as basic pay, allowances, parental pay, redundancy costs, sick pay, toil and any long-service awards. It also incorporates annual allowances paid to Special Constables of £476,600 (2015/16: £703,000) during the year. Officers' pension costs includes both ill health and injury pensions. Staff and officer pay levels are compliant with the UK Living Wage.

### Additional Staff Details (audited)

There were 5 officers (2015/16: 3), 5 staff members (2015/16: 11), and 1 special constable (2015/16: nil) who died during the year. There were also 104 officers (2015/16: 106), and 20 members of staff (2015/16: 24) who retired through ill health.

### Exit Packages (audited)

In recognition of the ongoing programme of organisational change, the Scottish Government agreed to extend the terms of the current SPA VR/VER scheme until 31 March 2017. As in the previous year, there continues to be a Scottish Government Public Sector Pay Policy of no compulsory redundancies. Reform funds were made available to maximize sustainable organisational benefits. VR/VER releases represent a significant cost, and must be balanced with other change investments.

	2016/17 Total Employees	2015/16 Total Employees
£0 - £25,000	79	51
£25,000 - £50,000	39	48
£50,000 - £75,000	17	16
£75,000 - £100,000	6	5
£100,000 - £125,000	3	4
£125,000 - £150,000	6	2
£150,000 - £175,000	2	-
£175,000 - £200,000	2	-
£200,000 - £250,000	2	1
£250,000 - £300,000	-	-
<b>Total number of exit packages</b>	<b>156</b>	<b>127</b>

	£'000	£'000
<b>Total Costs of Agreed Departures during the year</b>	<b>6,384</b>	<b>5,617</b>

The VR/VER scheme is open to all SPA and Police Scotland employees, who are permanent employees, however some temporary members of staff with a minimum of 2 years continuous service can apply. Employees working in functions which have a critical role to play in any new structure, are unlikely to be released unless they can be backfilled by staff whose posts are at risk of redundancy.

The National Voluntary Release Panel (NVRP) reviewed the applications submitted in line with the process agreed by the SPA Board and approved 156 during 2016/17.

The values of the individual packages, approved under the Voluntary Severance scheme, for staff members accrued during the year, including pension payments, are shown above.

During the financial year a settlement agreement was entered into with an employee, the cost of which is included in the £25,000-50,000 range above. The payment was made for loss of office

and was outside the VE/VER policy.

## Attendance Management

The absence management figures for both the SPA and Police Scotland combined, shown as a percentage of days available, are as follows:

	Short term	Long Term	2016/17 Total	Short term	Long Term	2015/16 Total
Staff	2.3%	2.8%	5.1%	2.1%	2.8%	4.9%
Officers	1.7%	2.5%	4.2%	1.7%	2.5%	4.2%

## Agency and Consultancy Fees

In addition to the staff paid through an agency disclosed in Wages and Salaries above at £1.54million (2015/16: £1.56m), there was an additional £3million (2015/16: £2.7m) of consultants' fees which were capitalised within additions in ICT Assets Under Construction. Other consultancy fees can be found in note 4 to these accounts.

## Off-Payroll Working

From time to time, Police Scotland and SPA may choose to engage the services of self-employed contractors using the Scottish Government Framework agreements for the completion of isolated or short term projects, or those which are funded on a short term basis. It is important that the contractors are engaged in compliance with relevant tax and employment law. During the last quarter of the year, a cross-divisional team led by the Head of Resource Management in People & Development was established to review the engagement of self-employed contractors by Police Scotland and SPA in preparation of the new IR35 tax legislation coming into effect on 6 April 2017. Three individuals, including the Interim Director of People & Development were found to be inside the scope of IR35. From April 2017, the provision of services by the three contractors were delivered via umbrella companies who apply PAYE. Principles in order to meet the organisation's obligations were established in consultation with our tax and legal advisors. HMRC attended the premises in May 2017 in order to review the principles in place and were satisfied with Police Scotland and SPA's compliance at that time.

## Employee Relations

Corporate information for police officers and staff of both organisations is available to all and presented through a suite of corporate internal communications channels including; The Beat magazine, divisional bulletins, shift briefings, memos, briefing sites, internal marketing campaigns, and the SPA and Police Scotland linked intranet for all staff, video messages, posters, booklets and briefings.

Detailed communication strategies are developed for specific, large scale and complex projects to ensure information is distributed accurately and effectively to target audiences. This includes identifying stakeholder groups, ensuring relevant key messages and effective and practical time scales.

SPA and Police Scotland delivered an organisation-wide pulse survey as part of its wider programme of engagement, which commenced with the publication of its inaugural staff survey

carried out in early 2015. The main staff survey will be undertaken on a circa two year basis with an additional pulse survey in between to continually monitor trends in employee opinions. In line with the response to the first staff survey People & Development have launched the new PDC (Performance and Development Conversation) within Police Scotland ensuring that all police officers and staff have an opportunity to discuss their performance with their line managers. The People & Development Team are monitoring progress towards completion of the PDC process – with significant completion rates having been achieved to date.

Staff association and trade union representatives have been encouraged to feed into the public consultation on the 2026 Strategy during the public consultation, and will be fully engaged as the programme of change progresses.

## Equality & Diversity

Police Scotland and SPA recognise and value difference. Diversity enriches our organisations and provides the potential to be more creative and dynamic. Whether it is exploring new forms of community engagement to identify people's needs, or considering how to get the best from our staff through flexible working conditions, equality & diversity issues are at the core of our business.

As a public body, we are committed to providing a service that is designed around people as individuals, ensures their safety and security and treats them with Integrity, Fairness and Respect – our core values.

Police Scotland and the SPA also recognise the benefits of developing a diverse workforce that is reflective of the communities we serve, and an organisational culture where all our police officers and staff are treated fairly and feel valued and respected. In 2015 we celebrated 100 years of women in Scottish policing and, in January 2017, Police Scotland was ranked 20th in the Stonewall Workplace Equality Index Top 100 UK Employers. Both landmarks are worthy of pride.

Police Scotland and SPA remain committed to mainstreaming equality across policing in Scotland, by integrating equality and diversity into all our functions.

Much progress has been made in regard to disability in the workplace. A paper to the People & Development Senior Management Team in May 2016, highlighted challenges and risks relating to the management of disability and dyslexia in SPA/Police Scotland. Following this input, work has been undertaken to mitigate some of the immediate risks and a Disability Short Life working group chaired by Steve Simpson, Head of Strategy and Specialist Services, was established to inform future work.

It is accepted however, that much more still remains to be done on our journey to ensure equality, including equality of opportunity for all. We will continue to build on the positive progress made in the four years since the publication of our first Equality Outcomes.

## Health & Wellbeing

Significant activities undertaken during 2016/17 have included a substantial piece of work on the management of Asbestos including Asbestos Surveys of property and this has been carried out in conjunction with Estates colleagues.

A review of Water Management has also been carried out with an improvement in record keeping on site. New COSHH Assessments are now being carried out for Chemicals with a training package ready to be rolled out and a programme of noise monitoring to assist in the review of the

Police Scotland Noise Risk Assessment is taking place this summer. A training package is now ready for delivery at Executive and Board levels.

Work continues in respect of Fire Safety with SPA/Police Scotland moving to a rolling programme of Fire Risk Assessments carried out on our behalf by Mitie. The oversight of this and the management of technical aspects of the work will remain the responsibility of the Health & Safety Team.

A National Health & Wellbeing group has been established, chaired by DCC Livingstone and is responsible for the governance of all wellbeing proposals and initiatives.

Our Health, Safety and Wellbeing performance has been regularly reported to the SPA throughout the year, and progress in terms of key performance indicators has been noted as follows;

Accident Type	2016/17	2015/16	RAG* Status	% Increase / (Decrease)
Injuries due to Assault	908	895		1%
Injuries During Arrest	579	562		3%
Manual Handling	52	56		(7%)
Slips, Trips and falls	241	267		(10%)
Training Accidents	91	123		(26%)
RTC Injuries	99	99		-
Other Incidents	451	420		7%
Near-miss Reports	1,724	1,666		4%
Occupational Health Referrals	3,937	5,226		(25%)
Employee Assistant Programme	955	708		35%
<b>RIDDORs</b>	<b>181</b>	<b>151</b>		

\* A green RAG status denotes a decrease since the prior year, an amber status indicates a rise of up to 10%, and a red status shows an increase of more than 10%.

Referrals to OH has declined. In 2015/16, 5226 management referrals were submitted compared to 3,937 in 2016/17 which is a reduction of approximately 25%. The Management Information (MI) demonstrates an improved knowledge of services and support. The number of referrals into Occupational Health has not only decreased, but are more accurate and relevant in nature and the number of individuals accessing the services of the EAP has risen. This can be attributed to the education programme being undertaken across the organisation.

**John Foley**  
**Chief Executive and Accountable Officer**  
**28 November 2017**

# PARLIAMENTARY ACCOUNTABILITY AND AUDIT REPORT

## OVERVIEW

SPA and Police Scotland are held to account by Parliament through statutory arrangements put in place through the Public Finance and Accountability (Scotland) Act 2000.

Our spending and use of resources are examined by our external auditor, Stephen Boyle (Audit Scotland), who reports to the Scottish Police Authority (SPA), the Auditor General for Scotland (AGS) and the Scottish Parliament (SP).

SPA and Police Scotland have developed the financial monitoring reports throughout the financial year. This has improved the transparency of reporting our performance in accordance with the funding streams available from the Scottish Government, in order to provide assurance to the people of Scotland, that public money is spent in accordance with Parliamentary accountability.

The below Statement of Resource Outturn and associated Reconciliation of Statement of Resource Outturn to Statement of Comprehensive Net Income & Expenditure, and Statements of Non-Cash and AME funding overleaf are presented in order to provide transparency to the people of Scotland that public money is spent properly, and in accordance with the principles of best value.

## Statement of Resource Outturn

	<b>Funding</b>	<b>2016/17 Outturn</b>	<b>Funding vs Outturn</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Revenue Grant in Aid	1,004,010	1,033,504	(29,494)
Reform-funded Revenue Funding	34,834	36,958	(2,124)
<b>Total Revenue Funding</b>	<b>1,038,844</b>	<b>1,070,462</b>	<b>(31,618)</b>
Approved Transfer of Capital Funding to Resource Funding	20,500	-	20,500
<b>Total Revenue Outturn</b>	<b>1,059,344</b>	<b>1,070,462</b>	<b>(11,118)</b>
Capital Grant in Aid	18,200	18,267	(67)
Reform-funded Capital Funding	17,800	3,048	14,752
<b>Total Capital Funding</b>	<b>36,000</b>	<b>21,315</b>	<b>14,685</b>
Approved Transfer of Capital Funding to Resource Funding	(20,500)	-	(20,500)
<b>Total Capital Outturn</b>	<b>15,500</b>	<b>21,315</b>	<b>(5,815)</b>
<b>Resource under/ (over) spend for RDEL and CDEL</b>	<b>1,074,844</b>	<b>1,091,777</b>	<b>(16,933)</b>
<b>*ODEL Funding – pre 2004/05 loan interest</b>	<b>5,404</b>	<b>5,036</b>	<b>368</b>
<b>Resource under/ (over) spend including ODEL</b>	<b>1,080,248</b>	<b>1,096,813</b>	<b>(16,565)</b>



	<b>Funding</b>	<b>2015/16 Outturn</b>	<b>Funding vs Outturn</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Revenue Grant in Aid	987,405	1,012,967	(25,562)
Reform-funded Revenue Funding	57,856	50,256	7,600
<b>Total Revenue Outturn</b>	<b>1,045,261</b>	<b>1,063,223</b>	<b>(17,962)</b>
Capital Grant in Aid	28,100	8,730	19,370
Reform-funded Capital Funding	10,000	10,000	-
<b>Total Capital Funding</b>	<b>38,100</b>	<b>18,730</b>	<b>19,370</b>
<b>Resource under/(over)spend for RDEL and CDEL</b>	<b>1,083,361</b>	<b>1,081,953</b>	<b>1,408</b>
<b>*ODEL Funding – pre 2004/05 loan interest</b>	<b>5,404</b>	<b>5,230</b>	<b>174</b>
<b>Resource under/(over)spend including ODEL</b>	<b>1,088,765</b>	<b>1,087,183</b>	<b>1,582</b>

### Reconciliation of Statement of Resource Outturn to Statement of Comprehensive Net Income & Expenditure

	<b>2016/17 £'000</b>	<b>2015/16 £'000</b>
<b>Net Comprehensive Expenditure</b>	<b>1,473,010</b>	<b>1,653,491</b>
<b>Non-Cash Costs</b>		
Depreciation & amortisation	(34,367)	(38,082)
Loss on Impairment of assets	(6,209)	(11,933)
Pension fund interest	(460,458)	(482,174)
IAS19 Pension Adjustment	95,862	(52,822)
Provisions (non-cash)	2,624	(5,257)
<b>Total Non-Cash Costs</b>	<b>(402,548)</b>	<b>(590,268)</b>
<b>Net Comprehensive Expenditure attributed to Revenue budgets</b>	<b>1,070,462</b>	<b>1,063,223</b>

	<b>2016/17 £'000</b>	<b>2015/16 £'000</b>
Finance Lease Repayment	770	758
PFI Repayment	709	628
*Long-term Loan Repayment	6,295	6,602
	<b>7,774</b>	<b>7,988</b>

*\*Additional guidance was received from the Scottish Government during the financial year regarding funding for repayments of loans per note 21 to the Accounts. As a result, the Statement of Resource Outturn and associated reconciliation for 2015/16 above have been revised to exclude the Additional Cash Outflow from Financing Activities within the Scottish Government budgeting as detailed below which are designated to be outwith funding. The original outturn published for 2015/16 showed Revenue Outturn of £1,065.8million with ODEL Outturn of £5.4million. This total of £1,071.2million has now been reduced by the adjustment below for capital repayments of £8million to £1,063.2million above.*

## Statement of Resource Outturn – ODEL

	2016/17 £'000	2015/16 £'000
Total non-cash expenditure*	5,036	5,230
ODEL Funding received (note 26)	5,404	5,404
<b>Total non-cash underspend</b>	<b>368</b>	<b>174</b>

\* The amount which relates to capital repayments for loans awarded before the 2004/05 financial year are financed separately as ODEL expenditure, and as such are shown separately as part of the Statement of Resource Outturn above.

Cash Grant in Aid funding from the Scottish Government is allocated each year to SPA under 'Resource (cash) funding' from the original Departmental Expenditure Limit (DEL) which consists of two separate budgets controlled through DEL, represented by:

- net resource spending (resource DEL)
- net capital expenditure (capital DEL)
- Outside DEL expenditure (ODEL) which represents a sum allocated, by HM Treasury, against loan repayments for borrowings agreed and held by councils prior to 2005.

The cash element of the funding of DEL and ODEL, including Reform funding for the year to 31 March 2017 was £1.080billion (2015/16: £1.089bn), representing a drop in cash resources of £8.5million (0.8%) compared to the drop of £16.7million (1.5%) received in the 2015/16 financial year.

Fees and charges (audited), see note 3, relates to income raised by Police Scotland to offset against expenditure.

Scottish Government has agreed an annual recurring cost of £941,250 (2015/16: £941,250) for the cost of SPPA's role as Scheme Manager of the Police Officer's Pension Scheme. This amount is transferred from the SPA baseline budget to SPPA and cash is not released to SPA for this amount. Therefore the £941,250 is not included within the cash grant in aid figure within the SPA Annual Report & Accounts.

## Non-Cash Funding

Non-cash funding is allocated as follows:

- ring-fenced DEL which comprises non-cash expenditure such as depreciation,
- Annual Managed Expenditure (AME) which is a separate budget covering expenditure such as pension adjustments, and some provisions and impairments, which cannot be fully controlled.

## Statement of Resource Outturn – Annual Managed Expenditure (AME) Funding

	Note	2016/17 £'000	2015/16 £'000
(Decrease)/ Increase in AME Provisions		(2,624)	5,257
**IAS 19 Pension Adjustment in Pension Interest for staff	23	4,458	10,974
**IAS 19 Pension Adjustment in Staff Costs	23	8,038	15,522
Impairment Loss	9	4,855	2,713
<b>Total AME Expenditure</b>		<b>14,727</b>	<b>34,466</b>
<b>Total AME Funding received</b>	26	<b>44,000</b>	<b>20,000</b>
<b>Total AME under/ (over) spend</b>		<b>29,273</b>	<b>(14,466)</b>

*\*\* Additional guidance was received from the Scottish Government during the financial year regarding funding for the IAS 19 pension adjustments for Local Government Pension Schemes. Funding for such adjustments will now be attributed to the AME funding stream from the Scottish Government. As a result, the Statement of Resource Outturn for AME Funding for 2015/16 above has been revised to include this expenditure.*

## Statement of Resource Outturn – Non-Cash Funding

	Note	2016/17 £'000	2015/16 £'000
Depreciation	9-11	34,367	38,082
Impairment Loss	9	1,354	9,220
<b>Total non-cash Expenditure</b>		<b>35,721</b>	<b>47,302</b>
<b>Total non-cash GIA received</b>	26	<b>50,000</b>	<b>50,000</b>
<b>Total non-cash underspend</b>		<b>14,279</b>	<b>2,698</b>

## National Fraud Initiative

Every two years, the UK Cabinet Office initiates a National Fraud Initiative (NFI), collating electronic data across the public sector in order to identify possible fraudulent transactions. In Scotland, this work is led by Audit Scotland, and overseen by the Cabinet Office. SPA provided purchase ledger and payroll data for this exercise in October 2016. The NFI team are working to have all matches investigated and reported on by 31 January 2018. No incidents of suspected fraud have been identified to date.

## Losses, Special Payments and Write-offs

In line with the SPA Governance and Accountability Framework document, the SPA Board agreed to writing off 1,332 invoices (2015/16: 872) totalling £772,000 (2015/16: £225,087) during the year. Furthermore, the Scottish Government approved the write-off of two individual debtor accounts with balances exceeding £25,000.

The £772,000 included ten invoices totalling £350,109 which relate to Give Goodwind (UK) Ltd, for escorting abnormal loads. The company has gone into liquidation and a winding up order was issued on the 22 December 2016. The order states that company is unable to pay its debts. On

this basis, the debt has been written off as irrecoverable.

A detailed bad debt review has resulted in the provision for bad debts within trade receivables reducing from £1,499,000 in 2015/16 to £823,000, therefore reversing a total of £676,000 of the provision in the prior year. (2015/16: £1,499,000). This reduction has decreased the bad debt expenditure detailed in note 4 to the accounts from £485,000 in 2015/16 to £96,000 in 2016/17.

Legal fees have arisen during the normal course of operations and are taken into account within note 4 of the accounts, with a provision for litigation provided for within note 22 of the accounts. The increase in legal fees from 2015/16 to 2016/17 is due to the net increase in legal provisions of £3,213,000 (2015/16: net decrease of £2,086,000)

Payments to individuals who have taken voluntary redundancy are disclosed under the Remuneration Report. During the financial year a settlement agreement was entered into with an employee, the cost of which is included in the £25,000-50,000 range above. The payment was made for loss of office and was outside the VE/VER policy.

There have been no other material losses, special payments or write-offs during the year.

## **Donations**

Small donations were made during the year to volunteering organisations and community safety fund partnerships. Overall these payments amounted to less than £110,000 (2015/16: less than £100,000) and included donations to the Scottish Police Memorial Trust £10,000 (2015/16: £6,000), and the Mountain Rescue Service of £96,000 (2015/16: £63,000).

Separately, the Choices for Life Programme also received funding from the Scottish Government, which was fully paid out to third parties during the course of the year.

## **Auditors**

Under the Public Finance and Accountability (Scotland) Act 2000, the SPA's auditors are appointed by the Auditor General. Stephen Boyle has been appointed as auditor from Audit Scotland for the 2016/17 financial year. The auditors were remunerated the sum of £187,114 (2015/16: £210,000) in respect of statutory audit services for the financial year.

No additional payments were made to Audit Scotland for non-audit services.

## **REMOTE CONTINGENT LIABILITIES**

### **Provision for Legal Fees for Unreported Claims**

The SPA and Police Scotland are aware of one remote contingent liability regarding a provision for legal fees. In line with prior years, the actuarial provision valuation of £8.2million summarised in note 22, does not include an amount in reserve for associated claims which had not been reported at the data gathering date of 28 February 2017. Such a reserve could add an additional £9.9million to the estimated provision (2015/16: £2.5m).

## **Unpaid Overtime**

The claimants in the case 'Allard vs Chief Constable, Devon & Cornwall Constabulary' were police handlers who managed police informants. They worked their normal hours but were sometimes

contacted, through an automated telephone system, by the informants outside these hours. If the designated police handler was not available, a text would be directed to another police handler until one was available to respond.

The judge found that officers in this position were required to deal with the calls as and when they came in and were not at liberty simply to ignore a text. The Chief Constable's appeal against the ruling was dismissed. The judges allowed a cross-appeal by the former officers over the amount of overtime they should receive.

On 6 February 2015 the Scottish Police Federation wrote to the then Chief Constable of Police Scotland, Mr Stephen House, highlighting the above decision, and raising the possibility of similar claims being made by Scottish police officers who handle Covert Human Intelligence Sources (CHIS). The time and cost of providing an accurate determination of the on-call commitments of every CHIS handler in Police Scotland for the last 5 years is prohibitive.

Currently, there are 142 officers at the rank of Constable and Sergeant who perform the On-Call handling function. The maximum total exposure, after applying the Prescription and Limitation (Scotland) Act 1973 reducing the scope of claims to 5 years, would be between £20,890 and £23,281 for each officer. The cumulative totals would therefore be between £3 - 3.3million.

### **Supplier Payment Policy**

The SPA aims to comply with the Government's Better Payment Practice Code. Unless otherwise stated in the contract, the SPA aims to pay within 10 working days from either the receipt of goods or the presentation of a valid invoice, whichever is the later.

74% of supplier invoices were paid within the normal trading terms of 30 days (2015/16: 70%). The number of invoices taking longer than 10 working days has improved from 79% in 2015/16 to 67%. The trade creditor level as at 31 March 2017 was 11 days, a 4 day improvement on the previous year (31 March 2016: 15 days).

**John Foley**  
**Chief Executive and Accountable Officer**  
**28 November 2017**

## INDEPENDENT AUDITOR'S REPORT

### Independent Auditor's Report to the Members of the Scottish Police Authority, the Auditor General for Scotland, and the Scottish Parliament

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice approved by the Auditor General for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

### Report on the audit of the financial statements

#### Opinion on financial statements

I have audited the financial statements in the annual report and accounts of the Scottish Police Authority for the year ended 31 March 2017 under the Police and Fire Reform (Scotland) Act 2012. The financial statements comprise the Statement of Comprehensive Net (Income) / Expenditure, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Taxpayers' Equity and notes to the financial statements, including the statement of accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the 2016/17 Government Financial Reporting Manual (the 2016/17 FReM).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with the Police and Fire Reform (Scotland) Act 2012 and directions made thereunder by the Scottish Ministers of the state of the body's affairs as at 31 March 2017 and of its net expenditure for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2016/17 FReM; and
- have been prepared in accordance with the requirements of the Police and Fire Reform (Scotland) Act 2012 and directions made thereunder by the Scottish Ministers.

#### Basis of opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK and Ireland (ISAs (UK&I)). My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my report. I am independent of the body in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standards for Auditors, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

#### Responsibilities of the Accountable Officer for the financial statements

As explained more fully in the Statement of Accountable Officer's Responsibilities, the Accountable Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Accountable Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## **Auditor's responsibilities for the audit of the financial statements**

My responsibility is to audit and express an opinion on the financial statements in accordance with applicable legal requirements and ISAs (UK&I) as required by the Code of Audit Practice approved by the Auditor General for Scotland. Those standards require me to comply with the Financial Reporting Council's Ethical Standards for Auditors. An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the body's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accountable Officer; and the overall presentation of the financial statements.

My objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK&I) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

## **Other information in the annual report and accounts**

The Accountable Officer is responsible for the other information in the annual report and accounts. The other information comprises the information other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on matters prescribed by the Auditor General for Scotland to the extent explicitly stated later in this report.

In connection with my audit of the financial statements in accordance with ISAs (UK&I), my responsibility is to read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

## **Report on regularity of expenditure and income**

### **Opinion on regularity**

In my opinion in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

### **Responsibilities for regularity**

The Accountable Officer is responsible for ensuring the regularity of expenditure and income. I am responsible for expressing an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

## **Report on other requirements**

### **Opinions on other prescribed matters**

I am required by the Auditor General for Scotland to express an opinion on the following matters.



In my opinion, the auditable part of the Remuneration and Staff Report has been properly prepared in accordance with the Police and Fire Reform (Scotland) Act 2012 and directions made thereunder by the Scottish Ministers.

In my opinion, based on the work undertaken in the course of the audit

- the information given in the Performance Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Police and Fire Reform (Scotland) Act 2012 and directions made thereunder by the Scottish Ministers; and
- the information given in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Police and Fire Reform (Scotland) Act 2012 and directions made thereunder by the Scottish Ministers.

### **Matters on which I am required to report by exception**

I am required by the Auditor General for Scotland to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the auditable part of the Remuneration and Staff Report are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

Stephen Boyle  
Assistant Director  
Audit Scotland  
102 Westport  
Edinburgh  
EH3 9DN

29 November 2017

# FINANCIAL STATEMENTS OF THE SCOTTISH POLICE AUTHORITY

## Statement of Comprehensive Net (Income) / Expenditure (SCNIE) Year ended 31 March 2017

	Note	2016/17 £'000	2015/16 '000
<b>Expenditure</b>			
Staff costs	RR*	850,448	989,350
Other expenditure	4	177,093	173,708
		<b>1,027,541</b>	<b>1,163,058</b>
Depreciation & amortisation	9 -11	34,367	38,082
<b>Operating Expenditure</b>	2	<b>1,061,908</b>	<b>1,201,140</b>
<b>Income from Activities</b>	3	(62,789)	(49,529)
		<b>(62,789)</b>	<b>(49,529)</b>
<b>Net Expenditure before Interest</b>		<b>999,119</b>	<b>1,151,611</b>
Loss on impairment of assets	9	6,209	11,933
<b>Interest Payable</b>			
Pension fund interest	23	460,458	482,174
PFI interest		2,305	2,387
Finance lease interest		387	433
Loan and other Interest		4,532	4,953
		<b>467,682</b>	<b>489,947</b>
<b>Net Expenditure</b>		<b>1,473,010</b>	<b>1,653,491</b>

<b>Other Comprehensive Expenditure</b>	Note	2016/17 £'000	2015/16 £'000
These items will not be reclassified to net expenditure			
Net (gain) / loss on revaluation reserve		(6,558)	5,425
Net (gain) on revaluation of Investment Properties	10	(425)	(867)
IAS19 actuarial loss / (gain)	23	3,354,609	(2,730,536)
<b>Total Other Comprehensive Losses / (Gains)</b>		<b>3,347,626</b>	<b>(2,725,978)</b>

<b>Total Comprehensive Net Expenditure / (Income)</b>	<b>4,820,636</b>	<b>(1,072,487)</b>
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\* Remuneration Report – Staff salaries note including IAS19 adjustment

The notes on pages 80 to 128 form part of these accounts.

## Statement of Financial Position As At 31 March 2017

		31 March 2017	31 March 2016
	Note	£'000	£'000
<b>Non-current Assets</b>			
Property, plant and equipment	9	500,933	507,570
Investment properties	10	8,483	8,394
Intangible assets	11	6,914	7,635
<b>Total Non-current Assets</b>		<b>516,330</b>	<b>523,599</b>
<b>Current Assets</b>			
Cash and cash equivalents	13	43,907	62,344
Inventories	14	3,233	3,754
Trade and other receivables	15	32,366	34,302
Assets held for sale	16	9,584	7,035
<b>Total Current Assets</b>		<b>89,090</b>	<b>107,435</b>
<b>Total Assets</b>		<b>605,420</b>	<b>631,034</b>
<b>Current Liabilities</b>			
Trade and other payables	17	(111,764)	(114,847)
<b>Total Current Liabilities</b>		<b>(111,764)</b>	<b>(114,847)</b>
<b>Total Assets less Net Current Liabilities</b>		<b>493,656</b>	<b>516,187</b>
<b>Non-current Liabilities</b>			
Finance lease liabilities	19	(5,211)	(6,016)
PFI liabilities	20	(16,992)	(17,793)
Long-term loan liabilities	21	(87,368)	(92,720)
Provisions	22	(10,452)	(12,400)
<b>Total Non-current Liabilities</b>		<b>(120,023)</b>	<b>(128,929)</b>
<b>Total Net Assets before Pension Liabilities</b>		<b>373,633</b>	<b>387,258</b>
<b>Pension liabilities</b>	23	(16,563,091)	(12,843,886)
<b>Assets Less Liabilities</b>		<b>(16,189,458)</b>	<b>(12,456,628)</b>
<b>Taxpayers' Equity</b>			
General fund		275,489	299,762
Revaluation reserve		98,144	87,496
<b>Taxpayers' Equity before Pension Liabilities</b>		<b>373,633</b>	<b>387,258</b>
<b>Pension Reserve</b>	24	(16,563,091)	(12,843,886)
<b>Total Taxpayers' Equity</b>		<b>(16,189,458)</b>	<b>(12,456,628)</b>

**John Foley**

**Chief Executive and Accountable Officer**

**28 November 2017 and Authorised for issue on 28 November 2017**

The notes on pages 80 to 128 form part of these accounts.

## Statement of Cash Flows - Year ended 31 March 2017

		31 March 2017	31 March 2016
	Note	£'000	£'000
<b>Cash flows from operating activities</b>			
Net deficit from operating activities		(1,473,010)	(1,653,491)
Adjustments for non-cash transactions	8	407,293	589,493
Decrease / (increase) in inventories	14	521	607
Decrease / (increase) in trade and other receivables	15	1,936	(18,216)
Increase / (decrease) in trade and other payables	17	(8,069)	(10,500)
Increase / (decrease) in provisions	22	(1,948)	(83)
<b>Net cash outflow from operating activities</b>		<b>(1,073,277)</b>	<b>(1,092,190)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	9	(15,671)	(27,470)
Purchase of intangible assets	11	(2,338)	(4,822)
Proceeds of disposal of property, plant, equipment	9	2,197	18,405
<b>Net cash outflow from investing activities</b>		<b>(15,812)</b>	<b>(13,887)</b>
<b>Cash flows from financing activities</b>			
Grant in Aid from the Scottish Government	26	1,080,248	1,088,765
Payments to repay finance leases – interest	19	(387)	(433)
Payments to repay PFI agreements - interest	20	(2,305)	(2,387)
Payments to repay long-term loans - interest	21	(1,085)	(4,953)
Payments to repay finance leases - capital	19	(770)	(758)
Payment to repay PFI agreements – capital	20	(709)	(628)
Payments to repay long-term loans – capital	21	(4,340)	(4,101)
<b>Net financing</b>		<b>1,070,652</b>	<b>1,075,505</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(18,437)</b>	<b>(30,572)</b>
Cash / cash equivalents at the beginning of the year		62,344	92,916
<b>Cash / cash equivalents at the end of the year</b>	13	<b>43,907</b>	<b>62,344</b>

The notes on pages 80 to 128 form part of these accounts

## Statement of Changes in Taxpayers' Equity - Year ended 31 March 2017

	Note	General Fund £'000	Pension £'000	Revaluation Reserve £'000	Total £'000
<b>Balance as at 31 March 2016</b>		<b>299,762</b>	<b>(12,843,886)</b>	<b>87,496</b>	<b>(12,456,628)</b>
Revaluations during the year	9	-	-	14,116	14,116
Transfer on reclassification		765	-	(765)	-
Revaluation reserve on disposals		445	-	(445)	-
Amortisation of revaluation reserve		2,258	-	(2,258)	-
Revaluation of Investment properties	10	425	-	-	425
Net expenditure for the year		(1,108,414)	(364,596)	-	(1,473,010)
IAS19 actuarial gain/ (loss)	23	-	(3,354,609)	-	(3,354,609)
<b>Cash Grant in Aid</b>	26	<b>1,080,248</b>	<b>-</b>	<b>-</b>	<b>1,080,248</b>
<b>Balance as at 31 March 2017</b>		<b>275,489</b>	<b>(16,563,091)</b>	<b>98,144</b>	<b>(16,189,458)</b>

	Note	General Fund £'000	Pension £'000	Revaluation Reserve £'000	Total £'000
<b>Balance as at 31 March 2015</b>		<b>320,977</b>	<b>(15,039,426)</b>	<b>92,921</b>	<b>(14,625,528)</b>
Revaluations during the year		-	-	2,223	2,223
Transfer on reclassification		1,030	-	(1,030)	-
Revaluation reserve on disposals		1,349	-	(1,349)	-
Amortisation of revaluation reserve		4,592	-	(4,592)	-
Revaluation of Investment properties	10	867	-	-	867
Transfer of Investment property reserve		677	-	(677)	-
Net expenditure for the year		(1,118,495)	(534,996)	-	(1,653,491)
IAS19 actuarial gain/ (loss)	23	-	2,730,536	-	2,730,536
<b>Cash Grant in Aid</b>	26	<b>1,088,765</b>	<b>-</b>	<b>-</b>	<b>1,088,765</b>
<b>Balance as at 31 March 2016</b>		<b>299,762</b>	<b>(12,843,886)</b>	<b>87,496</b>	<b>(12,456,628)</b>

The notes on pages 80 to 128 form part of these accounts.

## NOTES TO THE ACCOUNTS

1	Statement of Accounting Policies	81
2	Analysis of Net Expenditure by Segment	95
3	Other Operating Income	96
4	Other Operating Expenditure	97
5	Commitments under Operating Leases	97
6	Income from Operating Leases	98
7	Corporation Tax	98
8	Adjustment to Cash Flows for non-cash items	99
9	Property, Plant & Equipment	99
10	Investment Properties	103
11	Intangible Assets	103
12	Heritage Assets	104
13	Cash and Cash Equivalents	104
14	Inventories	105
15	Trade and Other Receivables	105
16	Assets Held for Sale	105
17	Trade and Other Payables	106
18	Pension Account	107
19	Commitments under Finance Lease	108
20	Commitments under PFI Arrangement	109
21	Long-term Loans	109
22	Provisions	110
23	IAS 19 Pension Liability - Summary	111
24	IAS 19 - Police Pension and New Police Pension Scheme	114
25	IAS 19 - Local Government Pension Schemes	118
26	Scottish Government Funding	123
27	Contingent Liabilities	124
28	Financial Commitments	125
29	Related Party Transactions	125
30	Financial Instruments	125
31	Events after the reporting period	126
32	Key sources of judgement and estimation uncertainty	126
33	Direction by Scottish Ministers	128

## **1. Statement of Accounting Policies**

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 SPFM, the 2016/17 Government Financial Reporting Manual (FReM) issued by HM Treasury, which follows International Financial Reporting Standards as adopted by the European Union (IFRS as adopted by the EU), 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 32.

The SPA is expected to satisfy the conditions and requirements set out in the financial memorandum 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 1.2.

### **1.1 Going Concern**

The accounts continue to be prepared on a going concern basis as an Other Significant Public Body charged with the responsibility to provide policing services to the people of Scotland.

The accounts have been prepared incorporating the requirements of international accounting standards and include an actuarial valuation of the various pension schemes' liabilities as explained in notes 23-25 to the accounts. These valuations reflect liabilities falling due in future years in respect of pension liabilities arising from the application of IAS19. The actuaries have calculated the liability as at 31 March 2017.

#### **Police Pension Scheme**

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

- changes in financial assumptions
- additional benefit accrual
- actual cash flows over the year and estimated where necessary
- updated membership information.

The last formal valuation of the Police Pension Scheme was conducted on 31 March 2017. The other main assumptions are set out in the notes to the accounts.

The pension deficit will not be met from the SPA's sources of income, but will be met as it falls due by future Grant in Aid from the SPA's sponsoring department, the Scottish Government's Justice



Portfolio. This is because, under the normal conventions applying to parliamentary control over income and expenditure, such grants may not be paid in advance of need.

## 1.2 Fair Value valuation

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:

- a) **Level 1 inputs** which are quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date.
- b) **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.
- c) **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 primary format used for segmental reporting since 1 April 2013 was by division however, these divisions were subject to review during the course of the financial year in order to better reflect the revised Police Scotland Executive Team and its corresponding budget reporting structure. These new divisions are represented as the following:

SPA Corporate Services  
Deputy Chief Officer (DCO)  
DCC Designate

Forensic Services  
DCC Local Policing  
DCC Crime and Operation Support

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 DCO.

DCO encompasses the Police Scotland Corporate Services including Analysis & Performance, Corporate Communications, Corporate Governance, Organisational Development, Physical Resources, Procurement, Finance and Resources, ICT and People & Development.

An analysis of Net Expenditure by Segment is provided in note 2 to the accounts.

## **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 SPA and the revenue can be reliably measured.

### **Grant in Aid**

The SPA is funded by the Scottish Government. Grant in Aid is received throughout the year and is intended to meet the SPA's 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 SPA's Reserves and not incorporated within the organisation's Statement of Comprehensive Net Income / 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 carried in the Statement of Financial Position as creditors.

### **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 Income / 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 SPA 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 SPA 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 SPA, unless they are deemed to be held-for-sale.

### **Capitalisation**

Expenditure is capitalised provided that the PPE yields a benefit to the SPA for a period of more than one year and is subject to the application of a de-minimis level of £5,000 (inclusive of VAT).

### **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 RICS surveyors to ensure the carrying value is not materially different from the fair value. 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 Income / 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 Income & 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 is valued at current net book value, 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 Income / 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.

### **Componentisation of Assets**

In accordance with IFRS 15 a componentisation policy has been adopted where appropriate. SPA 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 phased introduction 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 Income / 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 Income / Expenditure
- Where an impairment loss is reversed subsequently, the reversal is credited to the Statement of Comprehensive Net Income / Expenditure, up to the amount of the original loss

## Disposals

When an asset is disposed of or decommissioned, the 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 Income / Expenditure.

Capital receipts from the sale of long-term assets are recorded for each type of asset and distribution is determined 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. Asset lives are as follows:

Asset	Years
Buildings & Dwellings	15 - 50
Plant, Machinery & Equipment	3 - 20
Vehicles	3 - 10
Fixtures & fittings	3 - 10
IT Systems	3 - 10
Radio Masts	15
Leased assets	Life of the lease

## 1.7 Investment Properties

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

The investment properties are mainly radio stations and masts, which are no longer required for operational radio communications, and are leased by telecommunication providers. Rental income is received for these properties.

## **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 SPA'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.

Any gain or loss arising from a change in the fair value of investment property shall be recognised in Statement of Comprehensive Net Income / 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 recognised in Financing and Investment Income and Expenditure in the Statement of Comprehensive Net Income/ 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 Income & 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 Finance Leases**

#### **Lessor**

Where a finance lease is granted over a property or an item of plant or equipment, the relevant asset is written out of Non-Current Assets as a disposal and transferred to create a Lease Debtor within the Statement of Financial Position.

Lease rentals receivable are apportioned between:

- A charge for the acquisition of the interest of the property – applied to write down the lease debtor
- Finance income – credited to the Statement of Comprehensive Net Income / Expenditure.

#### **Lessee**

Where substantially all the risks and rewards of ownership of a leased property are borne by the SPA, it is recorded as a non-current asset and a corresponding creditor recorded in respect of the

debt due to the lessor, with the interest element of the finance lease payment charged to the Statement of Comprehensive Net Income / Expenditure.

### **Subsequent Cost**

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the SPA and the cost of the item can be measured reliably. The carrying amount of any replaced parts is derecognised. All other repairs and maintenance are charged to the Statement of Comprehensive Net Income / Expenditure during the financial year in which they are incurred.

## **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 SPA 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 SPA. 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 Income / Expenditure
- finance cost – an interest charge on the outstanding Statement of Financial Position liability, debited to the Financing and Investment Income and Expenditure line in the Statement of Comprehensive Net Income / Expenditure
- payment towards liability – applied to write down the Statement of Financial Position liability towards 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 SPA, 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 by the SPA.

Intangible assets are valued on a historic cost basis. 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**

SPA are the custodians of a large number of small Heritage Assets, the majority of which reside at the Police College, Tulliallan. The items are recorded in the museums archive system, however a

small number are valued above £5k and are also recorded within an asset register. The archive system 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.

## **1.14 Financial Instruments**

### **Financial Assets**

#### **Classification**

The Board classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

##### **(a) Financial assets at fair value through profit or loss:**

Financial assets at fair value through profit or loss comprise derivatives. Assets in this category are classified as current assets. The Board does not trade in derivatives and does not apply hedge accounting.

##### **(b) Loans and receivables:**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables comprise trade and other receivables and cash at bank and in hand in the balance sheet.

##### **(c) Available-for-sale financial assets;**

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. Available for sale financial assets comprise investments.

#### **Recognition and measurement**

Financial assets are recognised when the Board becomes party to the contractual provisions of the financial instrument.

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

##### **(a) Financial assets at fair value through profit or loss**

Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the Statement of Comprehensive Net Income / Expenditure.

Financial assets carried at fair value through profit or loss are subsequently measured at fair value. Gains or losses arising from changes in the fair value are presented in the Statement of Comprehensive Net Income / Expenditure.

##### **(b) Loans and receivables**

Loans and receivables are recognised initially at fair value and subsequently measured at



amortised cost using the effective interest method, less provision for impairment.

A provision for impairment of loans and receivables is established when there is objective evidence that the Board will not be able to collect all amounts due according to the original terms of the receivables.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the loan and receivable is impaired.

The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the Statement of Comprehensive Net Income/ Expenditure.

When a loan or receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited in the Statement of Comprehensive Net Income / Expenditure.

### **(c) Available-for-sale financial assets**

Available-for-sale financial assets are initially recognised and subsequently carried at fair value. Changes in the fair value of financial assets classified as available for sale are recognised in equity in other reserves.

When financial assets classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the Statement of Comprehensive Net Income / Expenditure.

If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the Statement of Comprehensive Net Income / Expenditure.

Trade receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the SPA provides services directly to a customer with no intention of trading the receivable.

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

The SPA 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 per 1.16.

## **Financial Liabilities**

### **Classification**

The Board classifies its financial liabilities in the following categories: at fair value through profit or

loss, and other financial liabilities. The classification depends on the purpose for which the financial liabilities were issued. Management determines the classification of its financial liabilities at initial recognition.

**(a) Financial liabilities at fair value through profit or loss**

Financial liabilities at fair value through profit or loss comprise derivatives. Liabilities in this category are classified as current liabilities. The Board does not trade in derivatives and does not apply hedge accounting.

**(b) Other financial liabilities**

Other financial liabilities are included in current liabilities, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current liabilities. The Board's other financial liabilities comprise trade and other payables in the balance sheet.

**Recognition and measurement**

Financial liabilities are recognised when the Board becomes party to the contractual provisions of the financial instrument.

A financial liability is removed from the balance sheet when it is extinguished, that is when the obligation is discharged, cancelled or expired.

**(a) Financial liabilities at fair value through profit or loss**

Financial liabilities carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement.

Financial liabilities carried at fair value through profit or loss are subsequently measured at fair value. Gains or losses arising from changes in the fair value are presented in the Statement of Comprehensive Net Income / Expenditure.

**(b) Other financial liabilities**

Other financial liabilities are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

The SPA's financial liabilities are classified as trade payables. 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 SPA receives goods or services directly from a supplier with no intention of trading the liability.

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 SPA's operations. Operational consumables, vehicle parts, fuel and equipment are stated at cost using either the latest invoice price or an average cost price.

## **1.16 Cash and Cash Equivalents**

The SPA operates as part of the Scottish Government banking contract with Government Banking Service (GBS). GBS is a shared banking service for government departments. SPA's 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
- investments maturing in three months or less of the date of the Statement of Financial Position and that are readily convertible to known amounts of cash with insignificant risk of change in value. SPA 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 shown as a balance within cash and bank on the Statement of Financial Position, with a corresponding creditor shown within trade payables.

Where the SPA 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 SPA has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation and the amount has been 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, and the amount of the obligation cannot be reliably measured.

### **1.19 Pensions**

The SPA and Police Scotland officers and employees are members of two distinct types of pension scheme.

- **The Police Pension Schemes for Police Officers (both pre 2006 and post 2006).**  
These are unfunded defined benefit final salary schemes. There are no investment assets built up to meet the pension liabilities, and funding has to be received to meet actual pension payments as they eventually fall due.
- **The Local Government Pension Schemes for Police Staff Employees.**  
These are defined benefit pension schemes providing benefits based on final pensionable pay, which are contracted out of the State Second Pension. Assets and liabilities of the schemes are held separately from those of the SPA and Police Scotland, and are held within the individual pension schemes. The schemes' assets are measured using market values and the schemes' 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 SPA and Police Scotland. 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 Income / 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 SPA and Police Scotland 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 Income / Expenditure.
- **Past service cost**  
This is the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years. This is debited to the Surplus or Deficit on the Provision of Services in the Statement of Comprehensive Net Income / 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 SPA, 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 SPA 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 Income / 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 Operating Leases**

Rentals payable under operating leases are charged to the Statement of Comprehensive Net

Income & Expenditure over the term of the lease. Incentive payments receivable in respect of operating leases are allocated to match the effect of increased rentals payable in future periods.

Rental income from operating sub-leases is recognised in the Statement of Comprehensive Net Income / Expenditure on a straight line basis over the term of the lease.

## **1.21 Taxation**

### **VAT**

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

### **Corporation Tax**

The income from Grant in Aid and charging schemes is not chargeable to tax. However, HMRC have declared that profit generated from commercial contract work undertaken by the SPA and Police Scotland will be chargeable to Corporation Tax.

Income tax for the year 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 Income / Expenditure. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the Statement of Financial Position date. As there have been no profits, there has been no corporation tax payable since 1 April 2013.

### **Deferred Tax**

Deferred income tax is provided, using the liability method, on all temporary differences at the Statement of Financial Position 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 Statement of Financial Position date.

## **1.22 Insurance**

Expenditure included in the Statement of Comprehensive Net Income / 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.

## **1.23 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 & 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 Overview where material). Events which occur after the date of authorisation for issue are not reflected in these Accounts.

## **1.24 Accounting Standards that have been issued but have not yet been adopted**

A number of new accounting standards have been issued, and amendments have been made to

existing standards. These have not yet been applied in the Annual Report & Accounts for the SPA. The standards considered relevant and the anticipated impact are detailed below:

A number of standards will be coming into effect for accounting periods commencing on or after 1 January 2017 (therefore 2017/18 Annual Report & Accounts).

- **IFRS 9 – Financial Instruments** - relates to the methods of disposal of assets within the Annual Report & Accounts. This will continue to affect the Annual Report & Accounts during the transformation process, and will be subject to scrutiny by Audit Scotland. The impact is expected to be low.
- **IFRS 15 – Revenue from Contracts with Customers** - recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled to, in exchange for those goods or services. The impact is expected to be low.
- **IFRS 16 – Leases** - removes the distinction between operating and finance leases and introduces a single lessee accounting model. Bodies should be considering the operating leases commitments currently held and whether these are material to the financial statements, the nature of the assets being leased and whether they may be classed as short term or low value leases. The impact is expected to be medium/ high.
- **IFRIC 22 – Foreign Currency Transactions** – clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. SPA and Police Scotland have not entered into such transactions. The impact is expected to be low.
- **IAS 40 – Transfers of Investment Property** – clarifies transfers between classifications of property to/from Investment Property (such as from Assets Under Construction/Inventory to Investment Property). This is unlikely to have an effect on the accounting for such items in the SPA Annual Report & Accounts, however, the Capital Accounting Policy will be updated to reflect this before it takes effect. The impact is expected to be low.
- **IAS 7 - Statement of Cash Flows** requires an entity to present a statement of cash flows as an integral part of its primary financial statements. Cash flows are classified and presented into operating activities (either using the 'direct' or 'indirect' method), investing activities or financing activities, with the latter two categories generally presented on a gross basis. The impact is expected to be low.

### 1.25 Key sources of judgement and estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Board makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The Board makes judgements in applying accounting policies. The estimates, assumptions and judgements 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 included within note 32.

## 2. Analysis of Net Expenditure by Segment

2016/17	SPA £'000	Forensic Services £'000	Deputy Chief Officer £'000	DCC Local Policing £'000	DCC Crime & Operation Support £'000	DCC Designate £'000	Total £'000
Staff Costs	2,779	22,284	100,302	627,038	173,120	27,387	952,910
VR provision release	-	-	-	-	-	(6,600)	(6,600)
*IAS 19 pension cost	-	-	(95,862)	-	-	-	(95,862)
<b>**Total Staff Costs</b>	<b>2,779</b>	<b>22,284</b>	<b>4,440</b>	<b>627,038</b>	<b>173,120</b>	<b>20,787</b>	<b>850,448</b>
Other Expenditure	1,746	5,481	121,666	15,481	20,248	7,625	172,247
*Legal provisions	(150)	-	4,996	-	-	-	4,846
<b>Total Other Expenditure</b>	<b>1,596</b>	<b>5,481</b>	<b>126,662</b>	<b>15,481</b>	<b>20,248</b>	<b>7,625</b>	<b>177,093</b>
<b>*Depreciation/Amortisation</b>	<b>-</b>	<b>-</b>	<b>34,367</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>34,367</b>
<b>Operating Expenditure</b>	<b>4,375</b>	<b>27,765</b>	<b>165,469</b>	<b>642,519</b>	<b>193,368</b>	<b>28,412</b>	<b>1,061,908</b>
<b>Income from Activities</b>	<b>(1,107)</b>	<b>(88)</b>	<b>(22,080)</b>	<b>(15,689)</b>	<b>(20,970)</b>	<b>(2,855)</b>	<b>(62,789)</b>
<b>Net Exp. before Interest</b>	<b>3,268</b>	<b>27,677</b>	<b>143,389</b>	<b>626,830</b>	<b>172,398</b>	<b>25,557</b>	<b>999,119</b>
<b>*Impairment of assets</b>	<b>-</b>	<b>-</b>	<b>6,209</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,209</b>
Interest payable	-	-	7,224	-	-	-	7,224
*IAS 19 pension interest	-	-	460,458	-	-	-	460,458
<b>Total Interest Payable</b>	<b>-</b>	<b>-</b>	<b>467,682</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>467,682</b>
<b>Total Expenditure</b>	<b>3,268</b>	<b>27,677</b>	<b>617,280</b>	<b>626,830</b>	<b>172,398</b>	<b>25,557</b>	<b>1,473,010</b>

2015/16	SPA £'000	Forensic Services £'000	Deputy Chief Officer £'000	DCC Local Policing £'000	DCC Crime & Operation Support £'000	DCC Designate £'000	Total £'000
Staff Costs	3,322	22,075	100,161	618,041	166,306	26,623	936,528
*IAS 19 pension cost	-	-	52,822	-	-	-	52,822
<b>Total Staff Costs</b>	<b>3,322</b>	<b>22,075</b>	<b>152,983</b>	<b>618,041</b>	<b>166,306</b>	<b>26,623</b>	<b>989,350</b>
Other Expenditure	3,090	5,686	128,990	15,945	18,404	3,679	175,794
*Legal provisions	(1,570)	-	(516)	-	-	-	(2,086)
<b>Total Other Expenditure</b>	<b>1,520</b>	<b>5,686</b>	<b>128,474</b>	<b>15,945</b>	<b>18,404</b>	<b>3,679</b>	<b>173,708</b>
<b>*Depreciation/Amortisation</b>	<b>-</b>	<b>-</b>	<b>38,082</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>38,082</b>
<b>Operating Expenditure</b>	<b>4,842</b>	<b>27,761</b>	<b>319,539</b>	<b>633,986</b>	<b>184,710</b>	<b>30,302</b>	<b>1,201,140</b>
<b>Income from Activities</b>	<b>(1,097)</b>	<b>(330)</b>	<b>(17,925)</b>	<b>(12,651)</b>	<b>(16,560)</b>	<b>(966)</b>	<b>(49,529)</b>
<b>Net Exp. before Interest</b>	<b>3,745</b>	<b>27,431</b>	<b>301,614</b>	<b>621,335</b>	<b>168,150</b>	<b>29,336</b>	<b>1,151,611</b>
<b>*Impairment of assets</b>	<b>-</b>	<b>-</b>	<b>11,933</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>11,933</b>
Interest payable	-	-	7,773	-	-	-	7,773
*IAS 19 pension interest	-	-	482,174	-	-	-	482,174
<b>Total Interest Payable</b>	<b>-</b>	<b>-</b>	<b>489,947</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>489,947</b>
<b>Total Expenditure</b>	<b>3,745</b>	<b>27,431</b>	<b>803,494</b>	<b>621,335</b>	<b>168,150</b>	<b>29,366</b>	<b>1,653,491</b>

\* This denotes items of non-cash expenditure

\*\* Full details of this can be found within Total Staff Costs in the Remuneration Report

As in prior years, assets are shared across the operating segments which are geographically spread across the entire country in over 14 local policing divisions and various corporate services offices. As a result, segmental information on assets and liabilities is not reported internally and segmental disclosure of these is not necessary.

The appointment of the new Deputy Chief Officer in September 2016 resulted in a realignment of the reporting segments in SPA and Police Scotland. Therefore, the 2015/16 figures have been restated in order to provide like for like comparisons for this new monthly reporting regime.

Key changes from the previous year are as follows:

- income and expenditure which were previously attributable to the DCC – Designate have now been reallocated to the Deputy Chief Officer. These include expenditure within ICT, People & Development, Financial Services, Corporate Services, Policy Support, Professional Standards, Counter Corruption Unit, Executive Support and Projects.
- non-cash depreciation of £38,082,000 and impairment costs of £11,933,000 have been reallocated from DCC Designate to Deputy Chief Officer.
- all interest charges of £489,487,000 have been attributed to the Deputy Chief Officer as opposed to the previous treatment of such costs being attributed to SPA.

### 3. Other Operating Income

	2016/17 £'000	2015/16 £'000
<b>Fees and Charges</b> <i>(detailed below)</i>	43,311	24,841
Grant income received - external to GIA	16,211	20,316
Seconded police officers and staff	2,441	2,579
Insurance	49	37
Donations and Sponsorship	58	51
(Loss) / Profit on Disposal of Assets	(310)	790
Interest Received	21	-
Other Income	1,008	915
	<b>62,789</b>	<b>49,529</b>

<b>Fees and Charges – categories over £1m</b>	2016/17 £'000	2015/16 £'000
Accident report fees	1,233	1,125
Aerials/ masts income	3,596	3,490
Disclosure fees	1,204	1,189
Licences & certificates	1,658	1,259
i6 compensation	13,557	-
Rental income	2,408	2,384
Police Officer Services – Events & concerts	1,294	1,386
Police Officer Services – Football matches	1,399	1,113
Police Officer Services – Airports	4,675	4,687
Police Officer Services – Abnormal load escorts	3,570	551
Police Officer Services – Operation ailey	3,047	1,087
Police Officer Services – Other	977	2,020
Police Officer Services – Non-football events	865	1,020
Training / CPD income	1,273	788
Other	2,555	2,742
	<b>43,311</b>	<b>24,841</b>

EU funding was not directly received during the year.



#### 4. Other Operating Expenditure

	2016/17 £'000	2015/16 £'000
Animal costs	527	538
Bad debts	96	485
Catering costs	1,432	1,503
Clothing & uniform	3,396	3,651
Conference / meeting expenses	150	304
Consultancy	1,984	578
Equipment costs	29,107	28,622
Legal fees	5,795	767
National Crime Agency	5,212	5,212
Other fees & charges	4,016	4,040
Other staff costs	2,827	2,580
Premises costs	63,785	61,723
Printing, stationery & postage	3,509	4,553
Prison charges	922	1,061
Professional fees	434	407
Promotional costs	197	425
Public protection unit	304	263
Recruitment costs	30	230
Securing premises	450	573
Subscriptions	145	357
Supplies and services	4,168	4,302
Telecom and Airwave costs	17,349	19,709
Third party payments	6,922	6,936
Transport costs	24,336	24,889
	<b>177,093</b>	<b>173,708</b>

#### 5. Commitments under Operating Leases

Total future minimum lease payments under operating leases are given in the table below:

2016/17	Land £'000	Buildings £'000	Other £'000	Total £'000
Not later than one year	491	1,072	25	1,588
Between one and five years	247	1,360	23	1,630
Later than five years	1,367	2,633	-	4,000
	<b>2,105</b>	<b>5,065</b>	<b>48</b>	<b>7,218</b>

2015/16	Land £'000	Buildings £'000	Other £'000	Total £'000
Not later than one year	473	1,215	26	1,714
Between one and five years	183	2,022	33	2,238
Later than five years	1,342	2,846	-	4,188
	<b>1,998</b>	<b>6,083</b>	<b>59</b>	<b>8,140</b>

Operating lease payments made during the year were as follows:

	2016/17 £'000	2015/16 £'000
Minimum lease payments	1,834	2,468
Contingent rents	33	46
Sub-lease payments	(6)	(50)
	<b>1,861</b>	<b>2,464</b>

Contingent rents relate to payments over and above the minimum lease payment in respect of income generated through use by the lessee or in respect of rent reviews.

## 6. Income from Operating Leases - Buildings

Total future minimum lease payments under operating leases are given in the table below:

2016/17	2016/17 £'000	2015/16 £'000
Within 12 months	688	680
2-5 years	226	309
Later than 5 years	71	102
	<b>985</b>	<b>1,091</b>

Payments received during the year were as follows:

	2016/17 £'000	2015/16 £'000
Minimum lease payments	609	646
Contingent rents	-	-
	<b>609</b>	<b>646</b>

## 7. Corporation Tax

The SPA is subject to corporation tax on any profits arising from trading activities, investment income, chargeable gains and property income.

Operational policing activities are not subject to corporation tax, as these activities do not constitute a trade for corporation tax purposes, and do not fall within the other categories of income.

Profits arising from the provision of goods and services under s86 and s87 Police and Fire Reform (Scotland) Act 2012 ("PFRSA") will be taxed as trading profits. It is likely that in most years these services taken together will result in a trading loss. This trading loss can be offset against total profits arising in the same period and carried forward for offset against future trading profits only.

## 8. Adjustments to Cash Flows for non-cash items

	Note	2016/17 £'000	2015/16 £'000
Depreciation of property, plant & equipment	9	31,987	35,551
Amortisation of intangible assets	11	2,380	2,531
Interest payable – PFI interest	20	2,305	2,387
Interest payable – finance lease	19	387	433
Interest payable – loan and other interest	21	(881)	2,452
IAS19 pension adjustment to staff costs	23	(95,862)	52,822
IAS19 interest on pension scheme obligations	23	460,458	482,174
Asset impairment	9	6,209	11,933
Loss / (profit) on sale of property, plant & equipment	3	310	(790)
<b>Adjustments to non-cash costs</b>		<b>407,293</b>	<b>589,493</b>

## 9. Property, Plant & Equipment (PPE)

During the year, revaluations were carried out on a number of properties across the Police estate, by valuers qualified by the Royal Institute of Chartered Surveyors, both in-house and external. The names and qualification of the valuers can be found within their individual reports and are too numerous to include within this note. Valuations were conducted on operational buildings, on the basis of Existing Use Value, except in the circumstances of specialised properties, where Depreciated Replacement Cost Valuation was used. The non-operational properties were valued on the basis of Market Value with vacant possession.

All valuations were carried out as at the 31 March 2017, except where related to Assets held for Sale. These took place on the date the property was declared surplus and made available.

Valuations during the year resulted in a net increase in the value of Property, Plant & Equipment of £7.9million (2015/16: a decrease of £11.9million), an increase in the value of investment properties of £425,000 (2015/16: an increase of £867,000) per note 10, and a net decrease in Assets Held for Sale of £7,000 (2015/16: a decrease of £26,000) per note 16 and a net increase in intangibles £33,000 (2015/16: nil) per note 11.

			Revaluation Movement		
			up £'000	down £'000	net £'000
PPE	note 9	(a)	*16,500	(8,619)	7,881
AHFS	note 16	(b)	-	(7)	(7)
Investment Properties	note 10	(c)	670	(245)	425
Intangibles	note 11	(d)	*33	-	33
			<b>17,203</b>	<b>(8,871)</b>	<b>8,332</b>
Revaluation Reserve utilised				*(1,974)	Fair Value
Reversal of Previous Impairments				*(443)	Decrease
NDEL Funded impairments				**(1,354)	(7,272)
SCNIE Investment properties				(245)	
AME Funded Impairments				**(4,855)	
					<b>Revaluation *14,116</b>
					<b>Impairment **6,209</b>

The downward valuation of PPE was mostly related to a decrease in the fair value of £7.3million, however 14 properties triggered impairment reviews, due to their presenting condition. The

majority of the properties have been identified as below the acceptable state of repairs and small number have been described as derelict. This resulted in an impairment of £1.354million (2015/16: £9.2m) being charged to the Non-cash Delegated Expenditure Limit (NDEL).

There were also 9 properties where there was a reversal of the previous impairment charge this amounted to £0.443million. A number of the impaired properties had revaluations reserves and so £1.974million was charged against the revaluation reserve.

The overall impact of the revaluation process resulted in a charge of £4.855m (2015/16: £2.7m) to the Annually Managed Expenditure budget (AME).

The net book value of disposals was £2.5million (2015/16: £17.6m) which together with the loss on disposal of assets of £310,000 (2015/16: £790,000 profit) per note 3 results in a total cash proceeds on disposal of property, plant and equipment of £2.2million (2015/16: £18.4m).

Details of the Finance Lease and PFI Contract, related to assets, as at 31 March 2017 are held within notes 19 and 20 respectively.

An additional 6 properties within Land and Buildings have been made vacant as at 31 March 2017, however these have not been recognised as surplus within the organisation. These properties have not been valued at market valuation as they are not included within the disposal schedule for 2017/18. They are included at Net Book Value in the overleaf table at £297,574. It is anticipated that these will be revalued at fair value during the 2018/19 financial year in line with IFRS 13 and transferred to Assets Held for Sale for sale, once they have been officially declared surplus.

There are a number of listed buildings within the Land & Buildings category, which could be regarded as Heritage Assets, if they were no longer in operational use. There are:

- Category A 3
- Category B 9
- Category C 8

Fair Value Hierarchy Level 2 inputs as stated in 1.2, have been used as the valuation technique applied in respect of the fair value of Land & Buildings where the current valuation is in existing use using market-based evidence of fair value. Any Land & Buildings of a specialist nature are valued under depreciated replacement cost. The inputs used took the form of analysed and weighted market evidence such as sales, rentals and yields in respect of comparable properties in the same of similar locations at or around the valuation date.

Fair Value Hierarchy Level 3 has been applied to Non-property assets carried at valuation in existing use, using depreciated historical cost as a proxy for current value for assets with short useful economic lives and/or low values.

## 9. Property, Plant & Equipment – analysis

2016/17	**Land & Buildings £'000	*Dwellings £'000	IT £'000	Plant & Machinery £'000	Furniture & Fittings £'000	***Motor Vehicles £'000	Assets Under Construction £'000	Total £'000
<b>Cost or Valuation:</b>								
As at 1 April 2016	496,428	-	128,744	59,612	6,329	60,103	2,725	753,941
Additions	4,119	-	7,308	270	7	4,845	4,935	21,484
Disposals	(39)	-	(29,788)	(12,976)	(630)	(5,190)	(13)	(48,636)
Revaluation	(3,350)	(1,758)	-	(2)	-	-	-	(5,110)
Impairment	(2,148)	-	(326)	-	-	-	-	(2,474)
Reclassification	(11,332)	8,977	(1,604)	187	-	(32)	(931)	(4,735)
<b>As at 31 March 2017</b>	<b>483,678</b>	<b>7,219</b>	<b>104,334</b>	<b>47,091</b>	<b>5,706</b>	<b>59,726</b>	<b>6,716</b>	<b>714,470</b>
<b>Depreciation:</b>								
As at 1 April 2016	50,146	-	98,384	51,316	2,783	43,742	-	246,371
Charged in year	11,925	270	10,534	2,537	767	5,954	-	31,987
Depreciation on disposals	(19)	-	(29,621)	(12,776)	(628)	(4,976)	-	(48,020)
Depreciation on revaluation	(13,698)	(630)	(7)	(10)	-	-	-	(14,345)
Depreciation on impairment	(903)	-	(217)	-	-	-	-	(1,120)
Depreciation on reclassification	(940)	940	(1,336)	29	-	(29)	-	(1,336)
<b>As at 31 March 2017</b>	<b>46,511</b>	<b>580</b>	<b>77,737</b>	<b>41,096</b>	<b>2,922</b>	<b>44,691</b>	<b>-</b>	<b>213,537</b>
<b>NBV as at 31 March 2017</b>	<b>437,167</b>	<b>6,639</b>	<b>26,597</b>	<b>5,995</b>	<b>2,784</b>	<b>15,035</b>	<b>6,716</b>	<b>500,933</b>

	Revaluation Impact £'000		Impairment £'000	Net Impact of Revaluation £'000
<b>Costs Revaluation</b>	(5,110)	<b>Cost Impairment</b>	(2,474)	(7,584)
<b>Depreciation Revaluation</b>	14,345	<b>Cost Depreciation</b>	1,120	15,465
<b>Increase/ (Decrease) (a)</b>	<b>9,235</b>		<b>(1,354)</b>	<b>7,881</b>

\*Dwellings were reclassified from buildings during the year

\*\*Land and Buildings include 1 building financed by PFI with a current NBV £13.8m (2015/16 £14.3m) and 7 buildings utilised via finance leases with a current NBV £3.9m (2015/16 £4.5m)

\*\*\*Safety Camera Partnership vans, funded by Transport Scotland, the currently have a NBV of £8.3k (2015/16 £18.7k)

Loaned assets do not form part of the note above, and have a value of £261k

2015/16	Land & Buildings £'000	IT £'000	Plant & Machinery £'000	Furniture & Fittings £'000	Motor Vehicles £'000	Assets Under Construction £'000	Total £'000
<b>Cost or Valuation:</b>							
As at 1 April 2015	503,135	107,009	54,070	11,557	58,057	30,976	764,804
Additions	4,933	11,491	1,329	392	7,235	6,143	31,523
Disposals	(354)	-	(19)	-	(5,195)	(11,219)	(16,787)
Revaluation	(5,389)	-	-	-	-	-	(5,389)
Impairment	-	-	-	-	-	(9,220)	(9,220)
Reclassification	(5,897)	10,244	4,232	(5,620)	6	(13,955)	(10,990)
<b>As at 31 March 2016</b>	<b>496,428</b>	<b>128,744</b>	<b>59,612</b>	<b>6,329</b>	<b>60,103</b>	<b>2,725</b>	<b>753,941</b>
<b>Depreciation:</b>							
As at 1 April 2015	43,680	86,013	44,338	7,382	40,268	-	221,681
Charged in year	12,226	11,082	2,985	773	8,485	-	35,551
Depreciation on disposals	(354)	-	(19)	-	(5,016)	-	(5,389)
Depreciation on revaluation	(4,928)	-	-	-	-	-	(4,928)
Depreciation on impairment	-	-	-	-	-	-	-
Depreciation on reclassification	(478)	1,289	4,012	(5,372)	5	-	(544)
<b>As at 31 March 2016</b>	<b>50,146</b>	<b>98,384</b>	<b>51,316</b>	<b>2,783</b>	<b>43,742</b>	<b>-</b>	<b>246,371</b>
<b>NBV as at 31 March 2016</b>	<b>446,282</b>	<b>30,360</b>	<b>8,296</b>	<b>3,546</b>	<b>16,361</b>	<b>2,725</b>	<b>507,570</b>

## 10. Investment Properties

Investment properties are spread across Scotland and so the valuation exercise requires a number of surveyors to carry out the valuation exercise, all of which were qualified with the Royal Institute of Chartered Surveyors. The surveyors are instructed to carry out the valuations on a market value basis, as at 31 March 2017. As stated in the Statement of Accounting Policies, valuations of the fair values of investment properties were based on the market value approach, using prices and other information generated by market transactions involving identical or comparable assets.

Fair Value Hierarchy Level 2 inputs as stated in 1.2 have been disclosed where the current valuation is market value using market-based evidence of fair value. The inputs used took the form of analysed and weighted market evidence such as sales, rentals and yields in respect of comparable properties in the same or similar locations at or around the valuation date.

There were no transfers between Hierarchy Levels for Investment Properties which remained within the category during the year.

	31 March 2017 £'000	31 March 2016 £'000
<b>Valuation:</b>		
As at 1 April	8,394	4,391
Disposal	(1)	-
Gain/(loss) from fair value adjustment (c)	425	138
Reclassification	(335)	3,865
<b>Valuation as at 31 March</b>	<b>8,483</b>	<b>8,394</b>
<b>Depreciation:</b>		
As at 1 April	-	-
Gain/(loss) from fair value adjustment	-	(729)
Reclassification	-	729
<b>Valuation as at 31 March</b>	<b>-</b>	<b>-</b>
<b>Net Book Value As at 31 March</b>	<b>8,483</b>	<b>8,394</b>

## 11. Intangible Assets

Intangible non-current assets represent purchased software, licences and other assets developed in-house with a life of more than one year. As stated in the Statement of Accounting Policies, the valuation technique applied in respect of the fair value of Intangible assets was on a historic cost basis. 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.

Fair Value Hierarchy Level 3 inputs as stated in 1.2 were used. In this case the purchase price has been used as its the only data available to value the asset. There were no transfers between Hierarchy Levels for Intangible Assets during the year.

	Software £'000	Licences £'000	Other £'000	2016/17 Total £'000	2015/16 Total £'000
As at 1 April	17,763	1,604	3,060	22,427	16,835
Disposals	(6,375)	-	(2,813)	(9,188)	-
Additions	2,158	-	180	2,338	4,822
Reclassification	706	94	3	803	770
<b>Cost as at 31 March</b>	<b>14,252</b>	<b>1,698</b>	<b>430</b>	<b>16,380</b>	<b>22,427</b>
As at 1 April	11,330	733	2,729	14,792	12,261
Charged in year	2,015	336	29	2,380	2,531
Disposals	(6,366)	-	(2,643)	(9,009)	-
Revaluations (d)	(33)	-	-	(33)	-
Reclassification	1,201	85	50	1,336	-
<b>Amortisation as at 31 March</b>	<b>8,147</b>	<b>1,154</b>	<b>165</b>	<b>9,466</b>	<b>14,792</b>
<b>Net Book Value As at 31 March</b>	<b>6,105</b>	<b>544</b>	<b>265</b>	<b>6,914</b>	<b>7,635</b>

## 12. Heritage Assets

The SPA are the custodians of a large number of small Heritage Assets, valued below £5,000 each. The items are recorded in a separate Heritage Asset Register as none reach the required level for capitalisation within the accounts. Of these, a small number have been identified that are valued above £5,000, however these are items on long term loan to the SPA and do not belong to the organisation. These mostly relate to ceremonial gold chains and silverware.

Fair Value Hierarchy Level 3 has been applied using in-house data and the experienced judgement of the Police Museum curator.

## 13. Cash and Cash Equivalents

	2016/17 £'000	2015/16 £'000
Balance as at 1 April	62,344	92,916
Net change in cash and cash equivalent balance	(18,437)	(30,572)
<b>Balance as at 31 March</b>	<b>43,907</b>	<b>62,344</b>

The balances held as at 31 March were held as follows:	2016/17 £'000	2015/16 £'000
Balance within the Government Banking Service	40,620	59,604
Cash at commercial banks and cash in hand	1,392	1,492
<b>Total cash</b>	<b>42,012</b>	<b>61,096</b>
Cash held within warrant and confiscation accounts*	1,895	1,248
	<b>43,907</b>	<b>62,344</b>

\* This balance is held on behalf of third parties, with a creditor balance held within Other Payables (note 17).



## 14. Inventories

Inventories include equipment, uniforms, other operational consumables, fuel and vehicle parts, and are included in the Statement of Financial Positions at the lower of cost or net realisable value. Stock levels reduced during the year as part of an on-going efficiency programme to reduce the number of locations of stock holdings.

	2016/17 £'000	2015/16 £'000
Balance as at 1 April (Decrease)/increase in inventories and stock during year	3,754 (521)	4,361 (607)
<b>Balance as at 31 March</b>	<b>3,233</b>	<b>3,754</b>

## 15. Trade and Other Receivables

Analysis by type of receivable is as follows:	2016/17 £'000	2015/16 £'000
<b>Amounts falling due within one year:</b>		
Trade receivables*	9,382	7,379
Other receivables	901	558
Prepayments and accrued income	22,083	26,365
<b>Total amounts falling due within one year</b>	<b>32,366</b>	<b>34,302</b>

Analysis by category of supplier is as follows:	2016/17 £'000	2015/16 £'000
<b>Amounts falling due within one year:</b>		
Balances with other central government bodies	5,297	3,506
Balances with local authorities	2,303	1,845
Balances with NHS bodies	217	225
<b>Intra-governmental balances</b>	<b>7,817</b>	<b>5,576</b>
Balances with bodies external to government	24,549	28,726
<b>Total amounts falling due within one year</b>	<b>32,366</b>	<b>34,302</b>

\*Trade receivables of £9.3m (2015/16: £7.3m) includes a provision for bad debts of £823,000 (2015/16: £1,499,000).

## 16. Assets Held for Sale

	2016/17 £'000	2015/16 £'000
Balance brought forward as at 1 April	7,035	6,739
Reclassifications from Property, plant and equipment	4,267	6,540
Revalued during the year	-	(176)
Reversal of Impairments/(impairments) during the year (b)	(7)	150
Assets sold	(1,711)	(6,218)
<b>Balance as at 31 March</b>	<b>9,584</b>	<b>7,035</b>

Fair Value Hierarchy Level 2 inputs as stated in 1.2 have been disclosed where the current valuation is market value using market-based evidence of fair value. The inputs used took the

form of analysed and weighted market evidence such as sales, rentals and yields in respect of comparable properties in the same of similar locations at or around the valuation date.

## 17. Trade and Other Payables

<b>(a) Analysis by type of payable is as follows:</b>	<b>2016/17 £'000</b>	<b>2015/16 £'000</b>
<b>Amounts falling due within one year:</b>		
VAT	3,218	2,763
Other taxation and social security	21,852	19,468
Trade payables	13,740	12,174
Other payables*	2,655	2,774
Pension creditor ( <i>note 18</i> )	461	9,153
Accruals and Deferred Income	62,886	60,737
<b>Sub-total amounts falling due within one year</b>	<b>104,812</b>	<b>107,069</b>
Current part of finance leases	806	770
Current part of PFI agreements	801	709
Current part of long-term loans	5,345	6,299
<b>Total amounts falling due within one year</b>	<b>111,764</b>	<b>114,847</b>

	<b>2016/17 £'000</b>	<b>2015/16 £'000</b>
<b>Amounts falling due after more than one year:</b>		
Finance leases	5,211	6,016
PFI agreements	16,992	17,793
Long-term loans	87,368	92,720
<b>Total amounts falling due after more than one year</b>	<b>109,571</b>	<b>116,529</b>

\* £1,895,000 (2015/16: £1,248,000) of the balance within other payables represents confiscation and warrant accounts, is held on behalf of third parties, and has a corresponding entry within note 13.

<b>(b) Analysis by category of supplier is as follows:</b>	<b>2016/17 £'000</b>	<b>2015/16 £'000</b>
<b>Amounts falling due within one year:</b>		
Balances with other central government bodies	43,339	51,623
Balances with local authorities	16,062	14,559
Balances with NHS bodies	46	84
<b>Intra-governmental balances</b>	<b>59,447</b>	<b>66,266</b>
Balances with bodies external to government	52,317	48,581
<b>Total amounts falling due within one year</b>	<b>111,764</b>	<b>114,847</b>

	2016/17 £'000	2015/16 £'000*
<b>Amounts falling due after more than one year:</b>		
Balances with other central government bodies	4,947	4,951
Balances with local authorities	82,497	87,849
Balances with NHS bodies	-	-
<b>Intra-governmental balances</b>	<b>87,444</b>	<b>92,800</b>
Balances with bodies external to government	22,127	23,729
<b>Total amounts falling due after more than one year</b>	<b>109,571</b>	<b>116,529</b>

## 18. Pension Account

The Scottish Government requires the SPA to maintain a Police Pension Account in respect of its police pension schemes. During the transfer of legacy pension arrangements, the Scottish Government has effected guidance to the SPA to follow the requirements specified in the previously required Police Pension Account (Scotland) Regulations 2010 and the 2013 update to the 2010 Guidance. 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 funding for police pension payments is made through a Police Specific Grant paid to the SPA that takes into account the funding to meet the cost of the employer contributions.

	2016/17 £'000	2015/16 £'000
<b>Receivable:</b>		
Employer Contributions	137,620	140,060
Officers' Contributions	81,996	83,670
Other receivables	8,514	7,639
Transfer values received	3,334	3,170
<b>Total Receivable</b>	<b>231,464</b>	<b>234,539</b>
<b>Payable:</b>		
Pensions	308,444	292,057
Refund & Transfer values paid	2,391	5,328
Lump sum payments	80,523	95,190
Commutation Factor payments*	-	41,046
<b>Total Payable</b>	<b>391,358</b>	<b>433,621</b>
<b>Deficit before funding</b>	<b>159,894</b>	<b>199,082</b>
<b>Funding Received from the Scottish Government:</b>		
Brought forward surplus	(9,153)	(15,416)
Police Pension Grant	(151,201)	(151,624)
Funding for Commutation Factors*	-	(41,195)
<b>Carried forward surplus funding received</b>	<b>(460)</b>	<b>(9,153)</b>

A determination was made by the Pensions Ombudsman in May 2015 concerning historic commutation factors in the Firefighters' Pension Scheme, and applies similarly to the Police Pension Scheme 1987.

The Scottish Government holds a provision for this pension liability within their own Annual Report & Accounts which incorporates a provision for any sums falling due under both the Police and Fire Pension Schemes. Funds for these payments are paid to SPA by the Scottish Government for onward payment to the Scottish Police Pensions Authority and are shown at \* above.

## 19. Commitments under Finance Leases

Total future minimum lease payments under 7 finance leases are given in the table below for each of the following periods:

	2016/17		2015/16	
	Buildings £'000	Other £'000	Buildings £'000	Other £'000
Within 12 months	1,146	-	1,157	-
2-5 years	4,474	-	4,571	-
6-10 years	1,755	-	2,804	-
	<b>7,375</b>	<b>-</b>	<b>8,532</b>	<b>-</b>
<b>Less:</b> Interest element	(1,358)	-	(1,746)	-
<b>Present Value of Obligations</b>	<b>6,017</b>	<b>-</b>	<b>6,786</b>	<b>-</b>

Present value of obligations under finance leases for the following periods comprise:

	2016/17		2015/16	
	Buildings £'000	Other £'000	Buildings £'000	Other £'000
Within 12 months	<b>805</b>	-	<b>770</b>	-
2-5 years	3,635	-	3,516	-
6-10 years	1,576	-	2,500	-
	<b>5,211</b>	<b>-</b>	<b>6,016</b>	<b>-</b>
	<b>6,016</b>	<b>-</b>	<b>6,786</b>	<b>-</b>

The assets held under Finance Leases are recognised on the Statement of Financial Position and included within the Land and Buildings as follows:

	2016/17 £'000	2015/16 £'000
Cost brought forward as at 1 April	14,961	14,961
Aggregate depreciation brought forward as at 1 April	(10,384)	(9,734)
Depreciation during year	(613)	(650)
<b>Net Book Value as at 31 March</b>	<b>3,964</b>	<b>4,577</b>
<b>Revaluation Reserve as at 31 March</b>	<b>-</b>	<b>-</b>

## 20. Commitments under PFI Arrangement

This note brings together various disclosure requirements relating to PFI/PPP Contracts and similar schemes. A 25-year PFI contract with Strathclyde Limited was established in 2002 for the construction, maintenance and operation of the Training & Recruitment Centre at Jackton. In accordance with the HM Treasury application of IFRIC 12 principles, the PFI/PPP property is an asset of the Board and the liability to pay for the property is, in substance, a finance lease obligation. There are no additional rights and obligations around the property. The estimated future payments in respect of the PFI contract are as follows.

	2016/17				2015/16
	Capital Repayment £'000	Interest £'000	Service Charge £'000	Total £'000	Total £'000
Within 12 months	801	2,213	1,542	4,556	4,511
2-5 years	4,388	7,669	6,644	18,701	18,508
6-10 years	12,604	5,253	8,553	26,410	24,285
11-15 years	-	-	-	-	6,876
	16,992	12,922	15,197	45,111	49,669
	17,793	15,135	16,739	49,667	54,180

The asset is recognised on the Statement of Financial Position and included within the Land and Buildings as follows:

	2016/17 £'000	2015/16 £'000
Cost brought forward as at 1 April	17,350	17,350
Aggregate depreciation brought forward as at 1 April	(3,036)	(2,515)
Depreciation during year	(521)	(521)
<b>Net Book Value as at 31 March</b>	<b>13,793</b>	<b>14,314</b>
<b>Revaluation Reserve as at 31 March</b>	<b>402</b>	<b>459</b>

## 21. Long-term Loans

	2016/17				2015/16
	Capital Repayment £'000	Interest £'000	Service Charge £'000	Total £'000	Total £'000
Within 12 months	5,345	4,613	25	9,983	11,375
2 - 5 years	19,533	15,052	80	34,665	37,719
6 - 15 years	36,711	24,123	93	60,927	65,090
16 - 25 years	22,548	9,616	24	32,188	37,330
26 - 35 years	3,852	3,775	3	7,630	8,545
36 - 45 years	4,724	1,229	1	5,954	6,612
	87,368	53,795	201	141,364	155,296
<b>As at 31 March 2017</b>	<b>92,713</b>	<b>58,408</b>	<b>226</b>	<b>151,347</b>	<b>166,671</b>

The loans which were transferred as at 1 April 2013 represent loans from the Public Works Loans Board and the debt is managed by the local Councils' Consolidated Loans Funds.

## 22. Provisions

	Legal Provision £'000	Other Provisions £'000	Provision for Voluntary Redundancy £'000	2016/17 Total £'000	2015/16 Total £'000
Opening Balance as at 1 April	5,800	-	6,600	12,400	12,483
Provision During the year	5,737	1,439	-	7,176	5,257
Release of Prior Year provision	(2,524)	-	(6,600)	(9,124)	(5,340)
<b>As at 31 March</b>	<b>9,013</b>	<b>1,439</b>	<b>-</b>	<b>10,452</b>	<b>12,400</b>

Legal provisions are made up of specific provisions of £0.85m (2015/16: £1m) within the SPA and an actuarial valuation of £8.16m (2015/16: £4.8m) for Employers' Liability, Public Liability and Third Party Motor Liability within Police Scotland.

An additional £1.4m dilapidations provision for obligations under repairing leases has been created, this will be built up to cover the estimated costs, over the remaining life of the lease.

The SPA and Police Scotland are self-insured in accordance with the Scottish Government SPFM. Estimates of the reserve for claims outstanding and ultimate losses are not discounted to allow for the time value of money. No allowance has been made for claims handling expenses except for those expenses included in the claims data.

The methods used rely on a number of assumptions, many of which cannot be tested in carrying out our investigations. Amongst these every method relies, at least to some extent, on the assumption that patterns observed in the past will be repeated in the future. In adopting these methods we are assuming that the extent of departure from these assumptions will not have a material effect on our estimates.

In line with prior years, the above actuarial provision valuation of £8.16m summarised in the table above does not include an amount in reserve for associated claims which had not been reported at the data gathering date of 28 February 2017. Such a reserve could add an additional £9.9m to the estimated provision (2015/16: £2.5m). Therefore this has been disclosed as a contingent liability.

## 23. IAS19 Pension Liability – Reconciliation of All Schemes including PPS, NPPS, Injury and Local Government Pension Schemes

### (a) Reconciliation of Pension Reserve

	Ref	2016/17 Income and Expenditure Analysis			2016/17 Statement of Financial Position	2015/16 Statement of Financial Position
		Actuarial Gain/(loss) £'000	Interest on Pension Scheme Obligations £'000	Staff Costs £'000	Total £'000	Total £'000
Opening position as at 1 April	A	-	-	-	(12,843,886)	(15,039,426)
Actuarial gain/(loss) in year	B	(3,354,609)	-	-	(3,354,609)	2,730,536
Interest on obligation	C	-	(499,815)	-	(499,815)	(517,243)
Expected return on assets	D	-	39,357	-	39,357	35,069
Total service costs	E	-	-	(331,509)	(331,509)	(467,783)
Other movements	F	-	-	427,371	427,371	414,961
<b>As at 31 March 2017</b>		<b>(3,354,609)</b>	<b>(460,458)</b>	<b>95,862</b>	<b>(16,563,091)</b>	<b>(12,843,886)</b>
<b>As at 31 March 2016</b>		<b>2,730,536</b>	<b>(482,174)</b>	<b>(52,822)</b>		

The full non-cash adjustment for IAS19 disclosed within the Summary of Resource Outturn for the year ended 31 March 2017 is made of the following:

	2016/17			2015/16		
	Police Officers £'000	Staff £'000	Total £'000	Police Officers £'000	Staff £'000	Total £'000
Interest on obligations	456,000	4,458	460,458	471,200	10,974	482,174
Staff costs	(103,900)	8,038	(95,862)	37,300	15,522	52,822
<b>As at 31 March 2017</b>	<b>352,100</b>	<b>12,496</b>	<b>364,596</b>	<b>508,500</b>	<b>26,496</b>	<b>534,996</b>

## (b) Change in the Fair Value of Plan Assets, Defined Benefit Obligations and Net Liability

Below shows the change in the Fair Value of Plan Assets, Defined Benefit Obligation and Net Liability for all pension schemes combined:

		2016/17			2015/16		
	Ref	PPS NPPS & Injury (note 24) £'000	LGPS (note 25) £'000	Total Net (liability)/asset £'000	PPS NPPS & Injury (note 25) £'000	LGPS (note 26) £'000	Total Net (liability)/asset £'000
Fair value of employer assets		-	1,118,717	1,118,717	-	1,075,482	1,075,482
Present value of unfunded liabilities		(12,345,200)	(33,204)	(12,378,404)	(14,085,200)	(30,595)	(14,115,795)
Present value of funded liabilities		-	(1,208,899)	(1,208,899)	-	(1,375,313)	(1,375,313)
Present value of injury liabilities		(375,300)	-	(375,300)	(623,800)	-	(623,800)
<b>Opening position as at 1 April</b>	<b>A</b>	<b>(12,720,500)</b>	<b>(123,386)</b>	<b>(12,843,886)</b>	<b>(14,709,000)</b>	<b>(330,426)</b>	<b>(15,039,426)</b>
Current service cost		(293,800)	(35,091)	(328,891)	(416,200)	(40,971)	(457,171)
Past service cost (including curtailments)		-	(2,618)	(2,618)	(6,100)	(4,512)	(10,612)
<b>Total service cost</b>	<b>E</b>	<b>(293,800)</b>	<b>(37,709)</b>	<b>(331,509)</b>	<b>(422,300)</b>	<b>(45,483)</b>	<b>(467,783)</b>
Interest income on plan assets	<b>D</b>	-	39,357	39,357	-	35,069	35,069
Interest cost on defined benefit obligation	<b>C</b>	(456,000)	(43,815)	(499,815)	(471,200)	(46,043)	(517,243)
<b>Total net interest</b>		<b>(456,000)</b>	<b>(4,458)</b>	<b>(460,458)</b>	<b>(471,200)</b>	<b>(10,974)</b>	<b>(482,174)</b>
<b>Total defined benefit cost</b>		<b>(749,800)</b>	<b>(42,167)</b>	<b>(791,967)</b>	<b>(893,500)</b>	<b>(56,457)</b>	<b>(949,957)</b>



		2016/17			2015/16		
	Ref	PPS NPPS & Injury (note 24) £'000	LGPS (note 25) £'000	Total Net (liability)/asset £'000	PPS NPPS & Injury (note 25) £'000	LGPS (note 26) £'000	Total Net (liability)/asset £'000
Employer contributions		-	28,126	28,126	-	28,355	28,355
Net transfers in from other authorities		(2,400)	-	(2,400)	2,100	-	2,100
Contributions in respect of unfunded benefits		-	1,545	1,545	-	1,606	1,606
Pensions and lump sum expenditure		390,400	-	390,400	373,600	-	373,600
Injury award expenditure		9,700	-	9,700	9,300	-	9,300
Benefits paid		-	-	-	-	-	-
Unfunded benefits paid		-	-	-	-	-	-
<b>Other movements</b>	<b>F</b>	<b>397,700</b>	<b>29,671</b>	<b>427,371</b>	<b>385,000</b>	<b>29,961</b>	<b>414,961</b>
<b>Expected closing position</b>		<b>(13,072,600)</b>	<b>(135,882)</b>	<b>(13,208,482)</b>	<b>(15,217,500)</b>	<b>(356,922)</b>	<b>(15,574,422)</b>
Change in demographic assumptions		-	-	-	(149,300)	-	(149,300)
Change in financial assumptions		(2,828,200)	(368,928)	(3,197,128)	2,101,200	229,100	2,330,300
Other experience		(376,300)	6,595	(369,705)	135,900	9,716	145,616
Return on assets excl amounts in net interest		-	212,224	212,224	-	(5,280)	(5,280)
change in mortality assumptions		-	-	-	409,200	-	409,200
<b>Total re-measurements</b>	<b>B</b>	<b>(3,204,500)</b>	<b>(150,109)</b>	<b>(3,354,609)</b>	<b>2,497,000</b>	<b>233,536</b>	<b>2,730,536</b>
Fair value of employer assets		-	1,381,939	1,381,939	-	1,118,717	1,118,717
Present value of unfunded liabilities		(15,787,900)	(39,801)	(15,827,701)	(12,345,200)	(33,204)	(12,378,404)
Present value of funded liabilities		-	(1,628,129)	(1,628,129)	-	(1,208,899)	(1,208,899)
Present value of injury liabilities		(489,200)	-	(489,200)	(375,300)	-	(375,300)
<b>Closing position as at 31 March</b>		<b>(16,277,100)</b>	<b>(285,991)</b>	<b>(16,563,091)</b>	<b>(12,720,500)</b>	<b>(123,386)</b>	<b>(12,843,886)</b>

## 24. Police Pension Scheme (PPS) & New Police Pension Scheme (NPPS)

### (a) Financial and Demographic Assumptions in the Valuation

The below valuation, carried out by the Government Actuary's Department (GAD), has been based on the latest actuarial valuation of the schemes at 31 March 2012. Full membership data as at 31 March 2015 was provided by the Scottish Public Pensions Agency (SPPA). Sufficient additional data was supplied by SPA and the SPPA (assessed by GAD for reasonableness) to enable the liability at the 31 March 2017 to be assessed, based on the calculated liability as at the 31 March 2015.

#### Pay inflation

Promotional salary scales have been set in accordance with the published police pay scales in line with the 2012 valuation, with short-term general pay increases calculated taking pay restraint into consideration until 2020/21.

Year	31 March 2017	31 March 2016
2012-13	n/a	0% plus promotional scale
2013-14	n/a	1% plus promotional scale
2014-15	n/a	1% plus promotional scale
2015/16	1% plus promotional scale	1% plus promotional scale
2016/17	1% plus promotional scale	1% plus promotional scale
2017-18	1% plus promotional scale	1% plus promotional scale
2018-19	1% plus promotional scale	1% plus promotional scale
2019-20	1% plus promotional scale	1% plus promotional scale
2020-21	4.55% plus promotional scale	4.2% plus promotional scale

It has been assumed that serving officers in the PPS retire at the earlier of attaining 30 years' service, or after 25 years' service at the age 50 and above or at age 55. It has also been assumed that serving officers in the NPPS will retire at age 55, with some additional allowances for some premature retirements on the grounds of ill-health. Financial assumptions are summarised below:

	31 March 2017	31 March 2016
Pension increase rate	2.55%	2.20%
Salary increase rate	4.55%	4.20%
Discount rate	2.80%	3.60%

#### Mortality rates

Average future life expectancies at aged 60 are summarised as follows. The assumptions are the same as those adopted for 2015/16 and are in line with the ONS 2014-based population projections. The post-retirement mortality assumptions are based on S1NMA Mortality rates with future improvements based on the ONS 2014.

	31 March 2017		31 March 2016	
	Males	Females	Males	Females
Current normal health pensioners	26.9 years	30.0 years	26.8 years	28.9 years
Future Pensioners	28.5 years	30.5 years	28.4 years	30.4 years
Dependants	27.0 years	29.0 years	26.9 years	28.9 years

## (b) Sensitivity Analysis

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

	31 March 2017		31 March 2016	
	Change in Employer Liability %	Approximate Monetary amount £'000	Increase to Employer Liability %	Approximate Monetary amount £'000
0.5% increase in real discount rate	(10.5)	(1,710,000)	8.5	1,080,000
1 year increase in member life expectancy	2.5	410,000	2.5	320,000
0.5% increase in salary increase rate	1.5	240,000	1.5	190,000
0.5% increase in the pensions increase rate (CPI)	9	1,460,000	8	1,020,000

The liability is very sensitive to the assumed discount rate and the pension increase rate. The discount rate has fallen from 3.6% to 2.8%, resulting in an actuarial adjustment of £1.7bn, a movement of £2.8bn from 2015/16. The pension increase also had a significant impact, increasing the liability by £1.46bn. The combined effects of the financial assumptions can be seen in movements above.

The pension scheme's Current Service Cost (inclusive of member contributions) for the year ended 31 March 2018 is estimated to be 67.40% (48.4% 2015/16) of pensionable salaries, with the injury benefit scheme's equivalent Current Service Cost being estimated at 1.35% (0.97% 2015/16).

## (c) Change in the Fair Value of Plan Assets, Defined Benefit Obligations and Net Liability

The tables overleaf show the change in the Fair Value of Plan Assets, Defined Benefit Obligation and Net Liability for both the PPS and NPPS combined. The pension scheme's Current Service Cost (inclusive of member contributions) for the year ended 31 March 2018 is estimated to be 67.4% of pensionable salaries, with the injury benefit scheme's equivalent Current Service Cost being estimated at 1.35%.

	2016/17 Net (liability) / asset			2015/16 Net (liability)/asset		
	PPS/NPPS £'000	Injury £'000	Total £'000	PPS/NPPS £'000	Injury £'000	Total £'000
Fair value of employer assets	-	-	-	-	-	-
Present value of unfunded liabilities	(12,345,200)	-	(12,345,200)	(14,085,200)	-	(14,085,200)
Present value of injury liabilities	-	(375,300)	(375,300)	-	(623,800)	(623,800)
<b>Opening position</b>	<b>(12,345,200)</b>	<b>(375,300)</b>	<b>(12,720,500)</b>	<b>(14,085,200)</b>	<b>(623,800)</b>	<b>(14,709,000)</b>
Current service cost	(288,000)	(5,800)	(293,800)	(396,400)	(19,800)	(416,200)
Past service cost (including curtailments)	-	-	-	(6,100)	-	(6,100)
<b>Total service cost</b>	<b>(288,000)</b>	<b>(5,800)</b>	<b>(293,800)</b>	<b>(402,500)</b>	<b>(19,800)</b>	<b>(422,300)</b>
Interest income on plan assets	-	-	-	-	-	-
Interest cost on defined benefit obligation	(442,600)	(13,400)	(456,000)	(451,100)	(20,100)	(471,200)
<b>Total net interest</b>	<b>(442,600)</b>	<b>(13,400)</b>	<b>(456,000)</b>	<b>(451,100)</b>	<b>(20,100)</b>	<b>(471,200)</b>
<b>Total defined benefit cost</b>	<b>(730,600)</b>	<b>(19,200)</b>	<b>(749,800)</b>	<b>(853,600)</b>	<b>(39,900)</b>	<b>(893,500)</b>
Net transfers in from other authorities	(2,400)	-	(2,400)	2,100	-	2,100
Contributions in respect of injury benefits	-	-	-	-	-	-
Pensions and lump sum expenditure	390,400	9,700	400,100	373,600	9,300	382,900
<b>Other movements</b>	<b>388,000</b>	<b>9,700</b>	<b>397,700</b>	<b>375,700</b>	<b>9,300</b>	<b>385,000</b>
<b>Expected closing position</b>	<b>(12,687,800)</b>	<b>(384,800)</b>	<b>(13,072,600)</b>	<b>(14,563,100)</b>	<b>(654,400)</b>	<b>(15,217,500)</b>

	2016/17 Net (liability) / asset			2015/16 Net (liability) / asset		
	PPS/NPPS £'000	Injury £'000	Total £'000	PPS/NPPS £'000	Injury £'000	Total £'000
Change in demographic assumptions	-	-	-	(358,800)	209,500	(149,300)
Change in financial assumptions	(2,743,200)	(85,000)	(2,828,200)	2,039,200	62,000	2,101,200
Other experience	(356,900)	(19,400)	(376,300)	140,400	(4,500)	135,900
Change in mortality assumptions	-	-	-	397,100	12,100	409,200
<b>Total re-measurements</b>	<b>(3,100,100)</b>	<b>(104,400)</b>	<b>(3,204,500)</b>	<b>2,217,900</b>	<b>279,100</b>	<b>2,497,000</b>
Fair value of employer assets	-	-	-	-	-	-
Present value of unfunded liabilities	(15,787,900)	-	(15,787,900)	(12,345,200)	-	(12,345,200)
Present value of injury liabilities	-	(489,200)	(489,200)	-	(375,300)	(375,300)
<b>Closing position as at 31 March</b>	<b>(15,787,900)</b>	<b>(489,200)</b>	<b>(16,277,100)</b>	<b>(12,345,200)</b>	<b>(375,300)</b>	<b>(12,720,500)</b>

## 25. Local Government Pension Schemes

The latest formal valuations of the Scottish LGPS funds was at 31 March 2014. In order to assess the value of the SPA's assets and liabilities in the funds as at 31 March 2017 for the purposes of IAS19, the value of the SPA's liabilities has been rolled forward, allowing for different financial assumptions required under IAS19, the investment returns obtained and contributions paid into and estimated benefits paid from the Fund. In calculating the service cost, allowance has been made for changes in the pensionable payroll as estimated from contribution information provided.

Below shows the assumptions, sensitivity analysis, projected defined benefit cost and change in the Fair Value of Plan Assets, Defined Benefit Obligation and Net Liability for the year for all of the LGPS schemes combined.

Calculations were carried out in accordance with the Pensions Technical Actuarial Standard adopted by the Financial Reporting Council, which came into effect on 1 January 2013, and adopting paragraphs 94 of IAS19 which recognises actuarial gains and losses in the period in which they occur. The current service cost includes an allowance for administration expenses of 0.2% of payroll. The valuations were conducted by Hymans Robertson.

### (a) Financial and Demographic Assumptions in the Valuation

Financial assumptions are summarised below:

	31 March 2017	31 March 2016
Pension increase rate	2.4%	2.2%
Salary increase rate	3.4%	3.2%
Discount rate	2.6%	3.5%

Average future life expectancies at 65 are summarised as follows:

Life expectancy is based on the VitaCurves as applied to the Strathclyde Pension Fund with improvements in line with the CMI 2012 model assuming that the current rate of improvement has reached a peak and will converge to a long term rate of 1.5% for males and 1.25% for females. Based on these assumptions, the average future life expectancy at the age of 65 would be:

	31 March 2017		31 March 2016	
	Males	Females	Males	Females
Current pensioners	22.1 years	23.6 years	22.1 years	23.6 years
Future pensioners	24.8 years	26.2 years	24.8 years	26.2 years

Default accounting assumptions 31 March 2017:

Weighted average duration	Discount Rate	RPI/ CPI
Less than 17 years (short)	2.5%	3.4% / 2.4%
Between 17 and 23 years (medium)	2.6%	3.4% / 2.4%
More than 23 years (long)	2.7%	3.4% / 2.4%

## (b) Sensitivity Analysis

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

	31 March 2017		31 March 2016	
	Increase to Employer Liability %	Approximate Monetary amount £'000	Increase to Employer Liability %	Approximate Monetary amount £'000
0.5% decrease in real discount rate	12	205,155	12	144,953
1 year increase in member life expectancy	3	50,038	3	37,263
0.5% increase in salary increase rate	4	73,389	4	47,324
0.5% increase in the pensions increase rate (CPI)	7	123,427	8	95,012

To quantify the uncertainty around life expectancy, the difference in the cost to the employer of a year increase in life expectancy has been calculated. For sensitivity purposes, this is assumed to be an increase in the costs of benefits of broadly 3%.

The figures have been derived based on the membership profile of the employer at the date of the most recent actuarial valuation.

## (c) Projected defined benefit cost for the year to 31 March 2018

	Assets	Obligations	Net (liability) / asset	
	£'000	£'000	£'000	%
Projected current service cost*	-	49,791	(49,791)	(36.1%)
Past service cost including curtailments	-	-	-	-
Effect of Settlements	-	-	-	-
<b>Total Service Cost</b>	-	<b>49,791</b>	<b>(49,791)</b>	<b>(36.1%)</b>
Interest income on plan assets	36,074	-	36,074	26.1%
Interest cost on defined benefit obligation	-	43,481	(43,481)	(31.5%)
<b>Total Net Interest Cost</b>	<b>36,074</b>	<b>43,481</b>	<b>(7,406)</b>	<b>(5.4%)</b>
<b>Total included in Profit or Loss</b>	<b>36,074</b>	<b>93,271</b>	<b>(57,197)</b>	<b>(41.4%)</b>

\*The current service cost includes an allowance for administration expenses of 0.2% of payroll

The estimated employers' contributions for the year to 31 March 2018 will be approximately £26,528,000.

#### (d) Split of the fund assets

	Period ended 31 March 2017				Period ended 31 March 2016			
	Quoted Prices	Not Quoted	Total	Percentage of Total Assets	Quoted Prices	Not Quoted	Total	Percentage of Total Assets
	£'000	£'000	£'000	%	£'000	£'000	£'000	%
<b>Equity Securities:</b>								
Consumer	132,313	4	132,317	9.6%	106,594	12	106,606	9.5%
Manufacturing	106,068	108	106,176	7.7%	74,398	463	74,861	6.7%
Utilities	47,726	-	47,726	3.5%	37,856	-	37,856	3.4%
Financial Institutions	85,065	1	85,066	6.2%	71,224	3	71,227	6.4%
Healthcare	53,772	4	53,776	3.9%	43,272	13	43,285	3.9%
IT	81,971	14	81,985	5.9%	67,651	47	67,698	6.1%
Other	66,379	24,001	90,380	6.5%	56,179	22,512	78,691	7.0%
<b>Debt securities</b>								
Corporate bonds (investment grade)	4,841	2,989	7,830	0.6%	8,297	2,891	11,188	1.0%
Corporate bonds (non-investment grade)	-	6	6	0.0%	-	1	1	0.0%
UK Government	20,569	-	20,569	1.5%	23,631	3,001	26,632	2.4%
other	27,954	-	27,954	2.0%	8,759	60	8,819	0.8%
<b>Private Equity:</b>								
All	5,525	97,888	103,413	7.5%	6,309	64,654	70,963	6.3%
<b>Real estate:</b>								
UK Property	27,361	108,813	136,174	9.9%	30,261	78,259	108,520	9.7%
Overseas property	862	288	1,150	0.1%	977	145	1,122	0.1%
<b>Investment funds &amp; unit trusts:</b>								
Equities	110,122	228,600	338,722	24.5%	103,010	135,267	238,277	21.3%
Bonds	16,765	56,134	72,899	5.3%	12,053	82,081	94,134	8.4%
Hedge funds	-	-	-	0.0%	-	-	-	0.0%
Commodities	1,251	-	1,251	0.1%	711	-	711	0.1%
Infrastructure	1,616	937	2,553	0.2%	987	12,826	13,813	1.2%
Other	9,640	13,667	23,307	1.7%	12,022	11,819	23,841	2.1%
<b>Derivatives:</b>								
Inflation	-	-	-	0.0%	-	-	-	0.0%
Interest rate	-	-	-	0.0%	-	-	-	0.0%
Foreign exchange	(181)	92	(89)	0.0%	(186)	-	(186)	0.0%
Other	(52)	-	(52)	0.0%	135	-	135	0.0%
<b>Cash:</b>								
All	47,684	1,142	48,826	3.5%	39,948	575	40,523	3.6%
<b>Total</b>	<b>847,251</b>	<b>534,688</b>	<b>1,381,939</b>	<b>100.0%</b>	<b>704,088</b>	<b>414,629</b>	<b>1,118,717</b>	<b>100.0%</b>

It is important to note that the accounting standard requires the discount rate to be set with reference to the yields on high quality corporate bonds, irrespective of the actual investment strategy of the fund. As a result, the figures illustrated are unlikely to reflect either the actual eventual cost of providing the benefits or the likely level of contributions to fund the employer's obligations to the fund.

#### (e) Change in the Fair Value of Plan Assets, Defined Benefit Obligations and Net Liability

Whilst the liabilities calculated in the table below include an allowance for some premature retirement on the grounds of ill health, there is no allowance for early retirements on the grounds of redundancy or efficiency, other than those actual cases notified to the actuary.



	2016/17			2015/16		
	Assets	Obligations	Net (liability)/ asset	Assets	Obligations	Net (liability)/ asset
	£'000	£'000	£'000	£'000	£'000	£'000
Fair value of employer assets	1,118,717	-	1,118,717	1,075,482	-	1,075,482
Present value of unfunded liabilities	-	33,204	(33,204)	-	30,595	(30,595)
Present value of funded liabilities	-	1,208,899	(1,208,899)	-	1,375,313	(1,375,313)
<b>Opening position as at 1 April</b>	<b>1,118,717</b>	<b>1,242,103</b>	<b>(123,386)</b>	<b>1,075,482</b>	<b>1,405,908</b>	<b>(330,426)</b>
Current service cost	-	35,091	(35,091)	-	40,971	(40,971)
Past service cost (inc. curtailments)	-	2,618	(2,618)	-	4,512	(4,512)
<b>Total service cost*</b>		<b>37,709</b>	<b>(37,709)</b>		<b>45,483</b>	<b>45,483</b>
Interest income on plan assets	39,357	-	39,357	35,069	-	35,069
Interest cost on defined benefit obligation	-	43,815	(43,815)	-	46,043	(46,043)
<b>Total net interest</b>	<b>39,357</b>	<b>43,815</b>	<b>(4,458)</b>	<b>35,069</b>	<b>46,043</b>	<b>(10,974)</b>
<b>Total defined benefit cost recognised in P&amp;L</b>	<b>39,357</b>	<b>81,524</b>	<b>(42,167)</b>	<b>35,069</b>	<b>91,526</b>	<b>(56,457)</b>
Plan participants' contributions	8,828	8,828	-	8,727	8,727	-
Employer contributions	28,126	-	28,126	28,355	-	28,355
Transfers in from other authorities	-	-	-	-	-	-
Contributions re unfunded benefits	1,545	-	1,545	1,606	-	1,606
Pensions and lump sum expenditure	-	-	-	-	-	-
Benefits paid	(25,313)	(25,313)	-	(23,636)	(23,636)	-
Unfunded benefits paid	(1,545)	(1,545)	-	(1,606)	(1,606)	-
<b>Other movements*</b>	<b>11,641</b>	<b>(18,030)</b>	<b>29,671</b>	<b>13,446</b>	<b>(16,515)</b>	<b>29,961)</b>
<b>Expected closing position</b>	<b>1,169,715</b>	<b>1,305,596</b>	<b>(135,882)</b>	<b>1,123,997</b>	<b>1,480,919</b>	<b>(356,922)</b>

	2016/17			2015/16		
	Assets	Obligations	Net (liability)/ asset	Assets	Obligations	Net (liability)/ asset
	£'000	£'000	£'000	£'000	£'000	£'000
Change in financial assumptions	-	368,928	(368,928)	-	(229,100)	299,100
Other experience	-	(6,595)	6,595	-	(9,716)	9,716
Return on assets excl net interest	212,224	-	212,224	(5,280)	-	(5,280)
<b>Total re-measurement recognised</b>	<b>212,224</b>	<b>362,333</b>	<b>(150,109)</b>	<b>(5,280)</b>	<b>(238,816)</b>	<b>233,536</b>

Fair value of employer assets	1,381,939	-	1,381,939	1,118,717	-	1,118,717
Present value of unfunded liabilities	-	39,801	(39,801)	-	33,204	(33,204)
Present value of funded liabilities	-	1,628,129	(1,628,129)	-	1,208,899	(1,208,899)
<b>Closing position as at 31 March</b>	<b>1,381,939</b>	<b>1,667,930</b>	<b>(285,991)</b>	<b>1,118,717</b>	<b>1,242,103</b>	<b>(123,386)</b>

## 26. Scottish Government Funding

The cash and non-cash Grant in Aid received from the Scottish Government is detailed below, and shown within the Statement of Resource Outturn analysis within the Financial Overview within the Performance Report.

Grant in Aid	2016/17 £'000	2015/16 £'000
Grant in Aid	1,004,010	987,405
Reform funding - revenue*	34,834	57,856
Transfer from capital	20,500	-
	<b>1,059,344</b>	<b>1,045,261</b>
Additional grant in aid to cover loan capital repayments**	<b>5,404</b>	<b>5,404</b>
Resource and ODEL Grant in Aid	<b>1,064,748</b>	<b>1,050,665</b>
Capital Grant funding	18,200	28,100
Reform funding – capital*	17,800	10,000
Transfer to revenue	(20,500)	-
	<b>15,500</b>	<b>38,100</b>
<b>Total cash received</b>	<b>1,080,248</b>	<b>1,088,765</b>
Non-cash GIA received	<b>50,000</b>	<b>50,000</b>
AME funding***	<b>44,000</b>	<b>20,000</b>
<b>Total non-cash received</b>	<b>94,000</b>	<b>70,000</b>
<b>Total Grant in Aid</b>	<b>1,174,248</b>	<b>1,158,765</b>

Additional funding is received each year from the Scottish Government per the schedule below. Annex D and Pension Funding is shown within note 18, and other grant income received is shown within Other Operating Income in note 3.

Non-Grant in Aid	2016/17 £'000	2015/16 £'000
Annex D and Pension Funding (note 18)****	288,672	332,879
Safety Camera Partnership	2,925	3,481
Violence Reduction Unit	1,308	1,097
Resilience Funding	-	314
Choices for Life	135	135
Other	306	246
<b>Non-Grant in Aid funding</b>	<b>293,346</b>	<b>338,152</b>

\* Reform Funding received during the year from the Scottish Government amounted to £52,634,000 (2015/16: £67,856,000).

\*\* This is cash Grant in Aid received which covers outside DEL expenditure (ODEL) for HM Treasury for borrowings agreed and held by councils prior to 2004/05.

\*\*\* Annual Managed Expenditure (AME) covers expenditure for items such as pension adjustments, some provisions and impairments which cannot be fully controlled.

\*\*\*\* this is made up of Employer Contributions of £137.6million (2015/16: £140million), Police Pension Grant of £151.2million (2015/16: £151.6million) and the Funding for Commutation Factors of £nil (2015/16: £41,195,000).

## **27. Contingent Liabilities**

There are a number of potential liabilities facing SPA and Police Scotland, which are as yet to crystallise and for which estimated amounts are included below:

### **Age Discrimination - Pensions**

In January 2017, an Employment Tribunal ruled that a group of claimant judges had been subject to age discrimination when they were transferred to the New Judicial Police Pension Scheme established in April 2015, while under transitional provisions older colleagues were able to remain in the existing final salary scheme. The Government is currently appealing that judgement. In a similar age discrimination case brought by members of the Firefighters Pension Scheme, the Employment Tribunal ruled that the transitional provisions were a proportionate means of achieving a legitimate aim and so do not give rise to unlawful age discrimination. It is not possible to quantify the impact as this time or predict the outcome of the judgement.

### **Holiday Pay accrual**

Under the current law anyone who believes that their holiday pay has not included all elements of pay they would normally receive when they are working - such as commission or overtime payments – can make a claim to tribunal. If the amount the worker receives varies depending on the amount of work he does, or when he does it, a week's pay is averaged over the previous 12 weeks.

Within the England and Wales Forces, the settlement was calculated on a 12-month (365 days) basis, rather than a 12-week period and is compliant with Police Regulations. However, a number of Local authorities calculate this on a working days (241 days) basis. Agreement on the method to be used has not yet been settled in Scotland and is with Legal Services.

An estimate of potential costs has been made using both methods, taking both claimants and non-claimants in to account and amounts to £580k (365 method) to £880k (241 method).

### **Overtime Payments**

Guaranteed contractual overtime payments and some commission payments have always been included if they fall within the 12 week period. However, overtime and commission payments that do not fall within these categories have been excluded and a number of cases have been brought which challenge this. This may result in additional holiday pay liability for the organisation with regards to non-contractual overtime. Given the uncertain nature of the number of staff who may fall under this category, and the scale of the calculation required over many payrolls, an estimate of the amount or timing of any cash outflow is not available at present.

### **Legal Costs**

The SPA and Police Scotland are self insuring for Motor insurance, Employers liability and public liability. In line with prior years, the above actuarial provision valuation of £8.2m summarised in note 22 does not include an amount in reserve for associated claims which had not been reported at the data gathering date of 28 February 2017. Such a reserve could add an additional £9.9m to the estimated provision (2015/16: £2.5m). Therefore this is disclosed as a contingent liability.

## 28. Financial Commitments

The SPA had capital commitments as at 31 March 2017 of £46,400 (31 March 2016: £980,000), and commitments under operating leases are detailed in note 5 to the Accounts of £7,218,000 (31 March 2016: £8,140,000).

## 29. Related Party Transactions

The SPA is an Other Significant Public Body sponsored by the Scottish Government. The Scottish Government is regarded as a related party. During the year, the SPA has had various material transactions with the Scottish Government and with other entities for which the Scottish Government is regarded as a parent body, in particular regarding property transactions such as the rental of Gartcosh from the Scottish Government. In addition, the SPA has had a small number of material transactions with other government departments, central government bodies, local government, non-departmental public bodies and similar organisations.

During the year, apart from their service contracts, no Board Members or members of senior management or their related parties have undertaken any material transactions with the SPA. Board Members' interests are detailed within the Remuneration Report. Transactions with bodies in which they hold interests have been examined and no transactions found.

The SPA is a member of Community Safety Glasgow (CSG), a company limited by guarantee and not having share capital, and during the course of the financial year received funding from CSG of £202,392 (2015/16: £437,533) and also provided goods and services to CSG of £234,514 (2015/16: £76,394). Chief Superintendent Brian McNulty was a member of the CSG Board.

## 30. Financial Instruments

As detailed in note 26 to the Accounts, the SPA and Police Scotland is funded through Grant in Aid which is set by Scottish Ministers in advance of the following year. Cash Grant in Aid is released throughout the year in order that the organisation can meet its financial responsibilities as they fall due throughout the year and maintain an adequate level of working capital.

Working Capital Analysis	Note	31 March 2017 £'000	31 March 2016 £'000
Cash and cash equivalents	13	43,907	62,344
Inventories	14	3,235	3,754
Trade and other receivables within one year	15	32,366	34,302
Assets held for sale*	16	9,584	7,035
Trade and other payables within one year, excluding financing	17	(104,812)	(107,069)
<b>Balance as at 31 March</b>		<b>(15,720)</b>	<b>366</b>

\* This value represents the lower of current value in existing use and the fair value less costs of sale.

The SPA and Police Scotland have no power to borrow funds, however there are long term loans payable by the organisations, see note 21. These loans, from the Public Works Loans Board, were transferred from the Local Councils on the creation of the SPA and Police Scotland and are managed by the local Councils' Consolidated Loans Funds.

All surplus funds are held in non-interest-bearing accounts and therefore exposure to interest rate fluctuations is low. Bank balances are not held in foreign currency, although the organisation transacts in foreign currency with some creditors. Therefore any shortfall or surplus in currency

transactions is minimal.

Financial assets and liabilities are generated through day-to-day operational activities and there are no additional financial instruments held. Because of the nature of its activities and the way in which the SPA and Police Scotland are financed, there is little exposure to the degree of financial risk faced by business entities.

### **Fair Value Hierarchy**

- Cash and cash equivalents are measured at fair value constituting Hierarchy Level 1 input.
- All other Assets and Liabilities are measured at fair value constituting Hierarchy Level 2 input.
- There were no transfers between Hierarchy Levels for Assets and Liabilities during the year.

### **31. Events after the Reporting Period**

The following have occurred after the reporting period which would have an effect on the Annual Report & Accounts for 2016/17, but which have not been disclosed:

- Since the approval of the Policing 2026 Strategy, the Police Scotland Estate has been reviewed in line with the approved Estate Strategy. Following this review, 54 stations/premises have been identified as empty or soon to become empty, and are assessed as no longer being required for service delivery or operational need. On 28 September 2017, approval was given by the SPA Board to commence formal engagement with communities, partners and stakeholders in relation to these properties. However, there has been no approval given to dispose of any of these properties at this stage.
- A specific legal provision for legal Assistance of £500k was made at the year end. Although a decision has still to be made, additional information has resulted in the estimate being increased to £1million.

### **32. Key sources of judgement and estimation uncertainty**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The estimates, assumptions and judgements that have a significant risk of a causing material adjustment to the carrying amounts of assets and liabilities within the financial statements, are addressed below.

- Impairment of PPE, Investments properties: The Board has used estimated impairment figures within the reported figures. These are based upon the valuation reports produced by suitably RICs qualified surveyors (both in-house and external), market conditions and other available data.
- Provisions: The Board has a number of provisions within the accounts for obligations existing at the year-end. These have been provided by in-house solicitors and where appropriate an actuarial valuation has been sought. AON Risk Solutions has valued the Legal provision liability. These estimates were based on the information available at the year end date.

- The Fair Value of PPE: Assumptions regarding the fair value of PPE and Investment Properties are based upon information provided in valuation reports produced by suitably RICs qualified surveyors (both in-house and external), market conditions and other available data.
- Post-Employment Benefits Estimates including the IAS 19 adjustment: Actuarial assumptions and valuations in respect of post-employment benefits are provided by the Government Actuary's Department and Hymans Robertson LLP.
- Accruals: Accruals are based on invoices received after the year-end but for which the goods or services were received before the year-end. These estimates have been made by the finance team using best accounting practices.

The estimates and valuations provided are a "point in time" assessment of the potential liability and these are assessed annually for any movements. The assumptions used are based on the expert knowledge of the advisors and signed off by the Chief Finance Officer.

There has been no indication that any of the above estimates have been subject to any material change since the year-end, unless specifically mentioned elsewhere within these accounts. All risks and assumptions related to the valuations are listed within the individual reports and where appropriate have been summarised in the notes above.



**THE SCOTTISH POLICE AUTHORITY**  
**DIRECTION BY THE SCOTTISH MINISTERS**

1. The Scottish Ministers, in pursuance of section 5 (1) of chapter 1 of the Police and Fire Reform (Scotland) Act 2012 hereby give the following direction.
2. The statement of accounts for the financial period ended 31 March 2013, and subsequent years, shall comply with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual (FRM) which is in force for the year for which the statement of accounts are prepared.
3. The accounts shall be prepared so as to give a true and fair view of the income and expenditure, recognised gains and losses and cash flows for the financial period and of the state of affairs at the end of the Financial period.
4. This direction shall be reproduced as an appendix to the statement of accounts.

Gillian Russell  
Head of Police Division  
Signed by the authority of the Scottish Ministers

Dated: 1<sup>st</sup> March 2013



