

Local Government Finance Circular No. 4/2013  
Directors of Finance of Scottish Local Authorities

Our ref: A5479505  
10 April 2013

Dear Director of Finance,

## **POLICE AND FIRE REFORM – STATUTORY ACCOUNTS 2012-13**

### **Introduction**

The Police and Fire Reform (Scotland) Act 2012 (the 2012 Act) transfers responsibility for the provision of police and fire functions from local authorities to the newly formed Scottish Police Authority (SPA) and Scottish Fire and Rescue Service (SFRS) with effect from 1 April 2013. Police and fire joint boards are therefore being wound up at 31 March 2013.

### **The Legislative Framework**

Part 3 of The Police and Fire Reform (Scotland) Act 2012 (Supplementary, Transitional and Transitory Provisions) Order 2013 provides the legislative framework for the closure of joint board accounts and the publication of information as to standards of performance. The accounting process and timetable is unchanged. The provisions:

- transfer the accounting and reporting obligations from the joint board to the accounting authority (i.e. the constituent local authority where the Treasurer of the joint board is employed);
- require the accounts to be laid before a meeting of the accounting authority with copies sent to each constituent local authority and SPA/SFRS;
- provide the auditor with the right of access to any documents relating to the joint board in the possession of any constituent local authority or the SPA/SFRS;
- provide the auditor with the right to be provided with any information from anyone who was an officer of the joint board or a constituent local authority; and
- require non-financial statistics and performance information to be published, namely:
  - Provisional Outturn and Budget Estimates (POBE) [note – only provisional outturn required]

- Local Financial Returns (LFRs)
- Capital Return for Quarter 4 (CRQ4)
- Final Capital Return – (CR Final)
- Whole of Government Accounts (WGA)

The joint boards are abolished by the repeal of the Police (Scotland) Act 1967 and the relevant bits of the Fire (Scotland) Act 2005. These repeals are already in the 2012 Act and were commenced on 1 April 2013.

The financial year 2012-13 will be the final year that statutory accounts will be produced for the existing police and fire authorities.

This guidance note has been produced to assist police and fire authorities with the statutory accounts for 2012-13, being the final year. This guidance is to assist authorities' with the accounting required to meet agreed policy objectives. It is non-statutory guidance.

Further guidance is to be produced to cover year / transitional operational guidance. This will be issued separately, covering items such as the transitional arrangements for processing invoices after the year end, banking arrangements and final VAT claims.

## **General approach**

The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) and relevant statutory adjustments should be applied as usual to produce the final statutory accounts for the police and fire authorities. The Scottish Government will issue formal statutory guidance should there be any changes to the statutory adjustments to be made to those accounts.

## **Police staff voluntary redundancy / early retirement schemes in 2012-13**

A letter, dated 27 February 2013, was sent by the Scottish Government to police authorities advising that funding adding up to £7.4 million would be made available in 2012-13. The funding is made up of two components. Funding adding up to £4 million was made available as cash grant and was paid to police authorities in March 2013. The balance of £3.4 million is to be met from the share of uncommitted reserves that would otherwise have been returned to the Scottish Government.

### ***Accounting for these redundancy / early retirement scheme expenditure***

- All redundancy and early retirement costs should be accounted for in accordance with proper accounting practice. The redundancy / early retirement expenditure may therefore be actual expenditure, an accrual or a provision.
- The cash grant received from the Scottish Government should be treated as additional Police Grant. This grant should not be treated as specific grant and matched to the service expenditure.
- Do **not** make an accounting adjustment (Scottish Government Debtor) for the non cash grant funding. The Scottish Government does not recognise a liability to meet these costs in 2012-13. The cost of the redundancy / early retirement which is not funded from cash grant will increase the expenditure on the Comprehensive Income and Expenditure Statement, which, as not matched by cash grant or debtor, and if greater than the requisition and other income, will be a deficit to be met from the General Fund balance.

- The General Revenue Grant redetermination calculation will take this use of reserves into account and ensure these costs are met from only the Scottish Government share of the reserves.

### **Distribution of usable reserves**

The agreement, as set out in a joint COSLA/ Scottish Ministers letter dated 12 April 2012, is that committed reserves (capital and revenue) will be made available to the new Scottish Police Authority and the new Scottish Fire and Rescue Service to enable them to meet those commitments. The uncommitted reserves of the police authorities will be shared, with the Scottish Government share being 51% and the local authority share being 49%. All the uncommitted Fire reserves (100%) will be distributed to local authorities (constituent Councils).

It has been agreed that the distribution of the reserves to the Scottish Government will be achieved by making an adjustment to each Council's General Revenue Grant (as a redetermination) and General Capital Grant in 2013-14 (an in year adjustment). The distribution will not be made in the 2012-13 statutory accounts. For statutory accounts purposes all reserves will be distributed back to the constituent Councils.

The audited statutory accounts will be used to inform the calculation of the redetermination of grant in 2013-14. The Settlement and Distribution Group will oversee this allocation / calculation process.

### **Accounting for revenue reserves in 2012-13**

For statutory accounts purposes the final position for each Police and Fire Board is to show a zero balance on the General Fund, the Insurance Fund and the Renewal and Repair Fund. To achieve this position the following steps should be taken:

- Complete the accounts as normal, including any agreed use of statutory reserves.
- Transfer any balance on the Insurance Fund and the Renewal and Repair Fund to the General Fund.
- The accounts will then show a final balance on the General Fund (the Insurance Fund and the Renewal and Repair fund should be zero). The police / fire authority should agree with the constituent Councils how this balance will be distributed back to the constituent Councils.
- The requisition income should then be reduced by the final balance on the General Fund, with the amount due to each constituent Council reflected in the Balance Sheet. The accounting entries will be DR Requisition Income and CR Creditors (constituent Councils). The effect of this will be a deficit to be met from reserves (General Fund). This deficit will reduce the balance on the General Fund to zero.

The constituent Councils will also need to account for a reduced requisition payment to Boards in 2012-13 (CR Requisition payment and DR Debtors (Police / Fire Board). This will have the effect of increasing Council General Fund reserves. The value of committed reserves plus any Scottish Government share of uncommitted police reserves will be reflected in the calculation of a Council's General Revenue grant in 2013-14. Council's may wish to consider whether they wish to earmark any General Fund reserves to reflect this agreement on reserves.

## ***Accounting for capital reserves in 2012-13***

For statutory accounts purposes the final position for each Police and Fire Board is to show a zero balance on the Capital Fund and the Capital Receipts Reserve.

To achieve this position for **Police** Boards the following steps should be taken.

- The funding for capital expenditure in 2012-13 should use capital receipts/ capital fund before any capital grant.
- Capital grant received should then be applied. The capital grant which a police or fire board received from a constituent Council should be applied last. Any capital grant remaining from Councils after the capital programme has been funded should be returned to the constituent Councils. The accounting entries will be DR Capital Grant unapplied and CR Creditors (constituent Councils).

The constituent Councils will also need to account for the reduced capital grant payment to Police Boards. It is likely that the capital grant payment from the Council to the Police Board was funded from the General Capital Grant (GCG) paid to Councils by the Scottish Government. Where this is the case a Council must ensure that any returned grant is applied to their own capital programmes, to comply with the GCG conditions which require all grant to be used in the year paid.

The capital grant payment made by Councils to the Police and Fire Boards is accounted as revenue expenditure, with the GCG being treated as revenue income. Councils will need to reduce both revenue expenditure and the corresponding revenue income (net expenditure should be zero) to reflect the returned / reduced grant payment to Police Boards.

The information we received from **Fire** Boards indicates that there is no expectation that any material capital reserves will remain. The exception is Strathclyde Fire. The Scottish Government will work with Strathclyde directly.

### **Statutory Adjustments**

Local authorities make a number of statutory adjustments to the statutory accounts. The Code requirement for the Balance Sheet only requires a total for “Unusable Reserves”.

The statutory guidance requires both the injury benefits and the short term accumulated absences adjustments to be held in an Employee Statutory Mitigation account. For this final year it is essential that the notes to the accounts clearly identify the different statutory adjustments made, and the balance for each type of statutory adjustment.

### ***Short Term Accumulated Absences adjustment***

The accumulated absences adjustment should be made in accordance with the statutory guidance set out in the Local Government Finance Circular 3/2010. On transition to central government accounting the balance on this statutory adjustment account will be incorporated into the General Fund balance of the SPA/ SFRS. This was the approach taken in central government on transition to the new standard.

### ***Pension / Injury Benefit adjustment***

Both the Pension and the Injury Benefit adjustment should be made in accordance with the statutory provisions contained in the Local Government Pension Reserve Fund (Scotland) Regulations 2003 and statutory guidance (Local Government Finance Circular 8/2010).

## **Financial Instruments adjustment**

The financial instrument adjustment permits an adjustment for a number of items.

Unlike the short term accumulated absences adjustment and pension /injury benefits, these adjustments relate to cash transactions. An analysis of the 2011-12 accounts for Police and Fire boards identified that statutory adjustments for financial instruments are limited to the following Boards:

Lothian and Borders Police and Lothian and Borders Fire – an adjustment for the Police and Fire share of borrowing where the loan has a stepped interest rate (Lender Option/ Borrower Option (LOBO) type loans) held by the City of Edinburgh Council.

Strathclyde Fire – an adjustment for an Icelandic bank deposit

Tayside Fire and Rescue Service – an adjustment for a loan with a stepped interest rate (LOBO)

Work is ongoing to determine the final accounting for these items.

## **Accounting for PFI and similar arrangements**

The accounting for any PFI and similar arrangements should be made in accordance with the statutory guidance set out in the Local Government Finance Circular 4/2010 (as amended by Finance Circular 6/2011).

## **Provisions**

Accounting provisions should be made in accordance with proper accounting practice.

## **Audit Fees**

An accrual should be made for external audit fees relating to the 2012-13 audit of the accounts. We understand this is usual practice, but if any Board does not currently accrue we wish them to make the accrual, even if this will mean recording two audit fees in a single financial year.

## **Police and Fire Pension Accounts**

The police and fire pension account should be calculated and disclosed in the statutory accounts as required by statute. As usual the balance on this account will be zero, with a corresponding Scottish Government creditor or debtor.

I trust this guidance is helpful. Please contact me should you wish to discuss any item.

Yours faithfully

*Hazel Black*

## **Hazel Black**

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