The Police and Crime Commissioner for Merseyside

ANNUAL FINANCIAL REPORT
2013 - 2014

Contents

Foreword by the Chief Finance Officer

By the Chief Finance Officer

The annual financial report includes the Statement of Accounts and the Annual Governance Statement for 2013/14.

INTRODUCTION

The purpose of this foreword is to provide a concise and understandable guide to the most significant aspects reported in the accounts. It also explains the purpose of the financial statements that follow and provides a summary of the Police and Crime Commissioner's (PCC) and the Group (i.e. PCC and Chief Constable) financial activities during 2013/14 and its financial position as at 31st March 2014.

BACKGROUND

The Police Reform and Social Responsibility Act 2011 (PRSR Act) established two separate legal entities as 'corporations sole, i.e. the PCC for Merseyside and the Chief Constable of Merseyside Police Force. Under the PRSR Act the PCC is responsible for producing its own set of accounts, along with the consolidated Group accounts. In addition, the Chief Constable is also required to produce a separate set of accounts. The Statement of Accounts for 2013/14 shows the financial position of the PCC and the consolidated Group.

STATEMENT OF ACCOUNTS

The purpose of the Statement of Accounts is to provide details of the PCC and the Group financial activities for the year ending 31st March 2014. The accounts are prepared in accordance with the Code of Practice on Local Authority Accounting. The statements may not always appear straightforward since they have to meet technical, legal and professional standards. This foreword provides a brief explanation and overview of the financial performance of the PCC and the Group and highlights any significant features.

The accounts that follow this foreword provide further detail of the financial affairs of the PCC and the Group and are comprised of:-

- **Independent Auditor's Report**, this sets out the opinion of the external auditor, Grant Thornton UK LLP, on whether the PCC and Group accounts presented give a 'true and fair view' of the financial position and operations of the PCC and the Group for 2013/14;

- **Statement of Responsibilities for the Statement of Accounts**, this statement sets out the responsibilities of the PCC and the PCC Chief Finance Officer;

- **the Movement in Reserves Statement**, this statement shows the movement in the year on the different reserves held by the PCC and the Group, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce the council tax precept) and unusable reserves (i.e. those that the PCC and the Group are not able to use to provide services);

- **the Comprehensive Income and Expenditure Statement**, this statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Elected Policing Bodies, i.e. PCC's, raise taxation to cover expenditure in accordance with regulations, this may be different from the accounting cost;

- **the Balance Sheet**, this statement shows the value as at the Balance Sheet date of the assets and liabilities recognised by the PCC and the Group. The net assets of the PCC and Group (assets less liabilities) are matched by the reserves held by the PCC and the Group;

- **the Cash Flow Statement** shows the changes in cash and cash equivalents of the PCC and the Group during the reporting period. The statement shows how the PCC and the Group generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities;

- **notes to the Financial Statements**, these notes include a Statement of the Accounting Policies used as the basis of preparing the financial statements, information required by the Code of Practice that is not presented elsewhere in the financial statements, i.e. notes that break down lines presented on the face of the financial statements into their significant components (e.g. sub-classifications of property, plant and equipment) and information that is not provided elsewhere in the financial statements, but is relevant to an understanding of any of them (e.g. transactions with related parties); and

- **the Pension Fund Account,** which summarises the amounts received into and paid out of the police officer pension fund operated by the PCC and the Group during the year.

A glossary of terms has also been prepared and is included at the end of the Statement of Accounts to assist readers in understanding the technical accounting terminology.

Significant Changes to the Accounting Policies

Accounting policies are the principles applied to show the effect of transactions and events on the financial statements. The financial statements for 2013/14 have been prepared in accordance with The Code of Practice on Local Authority Accounting in the UK 2013/14 (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), which is recognised by statute as representing proper accounting practice. This Code of Practice is based on International Financial Reporting Standards (IFRS) and also draws on approved accounting standards issued by the International Public Sector Accounting Standards Board and the UK Accounting Standards Board where these provide additional guidance.

The PCC, the Chief Constable and the Group accounts have adopted consistent accounting policies. It is noted that the policies remain largely unchanged from those applied in 2012/13. However, the following significant changes have been made:-

- **Application of Sections 21 and 22 of the Local Government Act 2003 (accounts)**

The PRSR Act 2011 did not permit Chief Constables to apply Sections 21 and 22 of the Local Government Act 2003 (accounts) to their transactions as they would apply in relation to a Local Authority.

Therefore, at the time of the preparation of the 2012/13 financial statements Chief Constables lacked the statutory power to remove the notional debits and credits for retirement benefits through an unusable reserve and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. This meant that the Chief Constable's pensions reserve, traditionally an unusable reserve, was included in the financial statements as a usable reserve.

Similarly, statutory provisions required the police fund to be charged with employee compensated absences earned not taken in the year, (e.g. annual leave entitlement carried forward at 31st March 2013) and this charge is then reversed out through an unusable reserve in the Movement in Reserves Statement so that accounting entries would not impact on the requirement to raise council tax.

As stated above, the Chief Constable did not have Local Authority status and therefore the Chief Constable's accumulated absences account, traditionally an unusable reserve, was included in the 2012/13 financial statements as a usable reserve.

Since the publication of the 2012/13 financial statements the status of the Chief Constable has changed. The PRSR Act 2011 (Transitional Provision) Order 2013 was laid before Parliament on the 17th September 2013 and is effective from 31st March 2014. This permits Chief Constables to apply Sections 21 and 22 of the Local Government Act 2003 (accounts) to their transactions as they would apply to a Local Authority. The Chief Constable's pensions reserve and the Chief Constable's accumulated absences account have therefore been restated from a usable reserve to an unusable reserve.

- **Employee Benefits**

These accounting policies have been amended to reflect the technical changes introduced on the 1st January 2013 by the International Accounting Standards Board with regard to International Accounting Standard (IAS) 19 'Employee benefits'.

- **Carbon Reduction Commitment Scheme**

This policy has been removed as both organisations are no longer required to participate in the scheme.

ANNUAL GOVERNANCE STATEMENT

The Annual Governance Statement explains how the PCC has complied with its own Code of Corporate Governance, and also provides assurance on the system of internal control that the PCC maintains and on the way it conducts its affairs (this will be included in the final audited version of the accounts).

FINANCIAL PERFORMANCE FOR THE YEAR 2013/14

Revenue Outturn

The PCC Budget for 2013/14 was constructed under the principle of financial devolution, which allows budget holders to better manage the resources at their disposal and improve accountability to the Chief Constable, and ultimately the PCC.

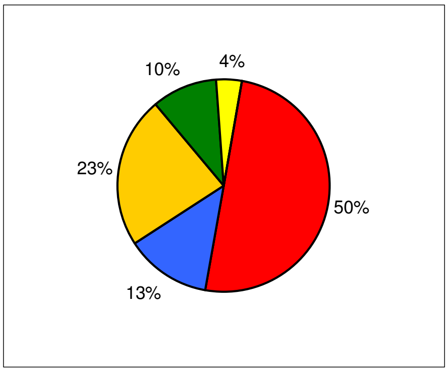
The net revenue expenditure of the Group during 2013/14 amounted to £334.876m. In broad terms the following charts show where the PCC and the Group's money came from and how it was spent.

Foreword by the Chief Finance Officer

This table analyses Group spending over the main types of expenditure

	£000	%
Police Pay	168,325	50
Police Pensions	43,310	13
Support Staff Pay	76,379	23
Other Income/Expenditure	34,747	10
Net Operating Expenditure	**322,761**	
Contributions to Reserves	11,991	4
Contribution to General Balances	124	0
TOTAL Expenditure	**334,876**	**100**

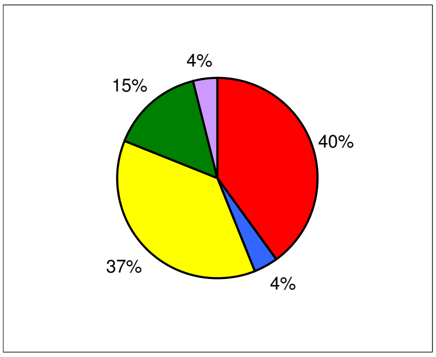
How the money was spent



This table sets out where the PCC and the Group's resources came from

	£000	%
General Police Grant	134,729	40
Council Tax Support Funding	14,058	4
DCLG Formula Funding	124,038	37
Precepts	50,579	15
Collection Fund	124	
Specific Grants	11,348	4
Total Government Grants and Taxation	**334,876**	**100**

Where the money came from



As can be seen from above, the Group received the majority of its income from Government Grants (85%) and the precept (15%), which is raised locally and is collected by the District Councils along with their council tax.

Foreword by the Chief Finance Officer

The outturn position for 2013/14 shows total net operating expenditure of £322.761m. This represents an under-spend on the revenue budget of £7.068m, i.e. 2.0%, compared to the 2013/14 budget. The under-spend is made up of a number of factors including:-

- revenue savings achieved across service departments within the Force, through a more efficient use of resources, scrutiny of spending and the holding of vacancies to provide greater flexibility to enable the Force to re-engineer its service;
- revenue savings on the Police Community Support and Traffic Officers (PCS&TOs) budget as a result of vacancies arising as a consequence of the successful recruitment of PSC&TOs into police officer posts;
- continuing improvements in quality control around forensic submissions has resulted in revenue savings;
- a lower than anticipated capital expenditure, particularly on the Estate Strategy has resulted in a reduction in capital charges due to the PCC and Group; and
- the suspension of the PCC carry over rules to aid financial resilience in 2014/15.

The majority of the underspend has been transferred to the Estate Strategy Reserve to help finance the Estate Strategy in future years. In addition, contributions have been made to the Chief Constables Priority Fund, the Proceeds of Crime Income (POCA) Reserve and the Crime and Disorder Reduction Reserve.

The budget for 2013/14 included a savings target of £10.181m to balance the budget. As a consequence of this, the PCC and Chief Constable undertook a series of reviews under the Strategic Excellent Policing programme aimed at identifying savings to meet this shortfall whilst minimising the impact on performance. During the year £15.407m of savings were achieved, some £5.226m above the original savings target. The excess of savings were achieved due to savings being realised ahead of schedule, consequently these savings will be carried forward against the savings targets in 2014/15. The excess savings made in 2013/14 have enabled the PCC to create an Invest to Save Reserve to be used by the Chief Constable and to make a further contribution to the Estate Strategy Reserve.

The outturn position for 2013/14 provides a financially resilient outcome and helps the financial position going forward by identifying significant recurring budgetary savings. In addition, the utilisation of the 2013/14 net revenue under spend will help to fund essential investment in the estate and enable the PCC and Chief Constable to invest in initiatives that will assist the achievement of the Police and Crime plan priorities.

Capital Programme

A significant capital programme was also undertaken in the year with actual expenditure amounting to £10.372m. The major items of capital expenditure in the year included the construction of the Joint Command and Control Centre, the on-going vehicle replacement programme and the continuation of strategic IT developments. Expenditure on the capital programme was less than originally budgeted due to lower than anticipated expenditure on the Estate Strategy programme in 2013/14. In order to finance the capital programme the PCC received Home Office funding of £3.138m, other contributions of £0.120m, utilised £5.024m of reserves and £0.518m of capital receipts, with the balance of £1.572m being financed through internal borrowing.

In addition to the £10.372m of capital expenditure detailed above, the PCC has incurred £3.689m of expenditure on purchasing and refurbishing a building to accommodate staff and officers within the regional Titan unit. This expenditure has been fully reimbursed by a capital grant from the Home Office.

The PCC did not need to undertake any long term borrowing during the year to fund its capital programme.

Loans and Investments

The PCC is directly responsible for loans, investments and for borrowing money as she holds the Police Fund. The Chief Constable is not able to borrow money. Short-term borrowing and lending, which are defined as for less than 365 days, are undertaken by the PCC to ensure that there are sufficient funds available each day to cover its outgoings. Long-term borrowing can only be taken out to fund capital projects for which the PCC has no other funds to cover.

All investments and borrowing are undertaken in accordance with the Prudential Code. One of the requirements of the Prudential Code is that the PCC adopts the CIPFA Code of Practice for Treasury Management in Local Authorities, which it has done. In addition, the PCC approves a Treasury Management Strategy annually and then monitors performance against this and the Prudential Indicators.

During 2013/14 the PCC did not take out any long-term borrowing. However, short-term borrowing and lending was undertaken and all these were undertaken within the PCC's approved Prudential Indicators and in line with the Treasury Management Strategy.

External debt

At 31st March 2014 the PCC had total external borrowing of £23.0m to cover short-term cash flow requirements. This figure is well within the Authorised Limit for external debt for 2013/14 of £45.0m, as approved by the PCC. The cash flow position and the market rates for borrowing are monitored to decide the appropriate time to externally borrow funds.

General Balances, Earmarked Reserves and Provisions

The PCC maintains General Balances, Earmarked Reserves and Provisions in order to ensure that adequate financial resilience is maintained. As at the 31st March 2014 the PCC General Balances stood at £9.574m, earmarked Reserves totalled £38.629m and Provisions £7.286m. In order to ensure that the level of the General Balances are robust and prudent the Chief Finance Officer and Chief Constable have undertaken a review of the level of these balances, taking account of the risks included within the Force risk registers. The risk based review undertaken concluded that by the end of 2014/15 General Balances should be £9.650m. In 2014/15 the PCC will receive £0.911m from the declared 2013/14 Collection Fund Surplus by the Local Authorities, thus leaving a balance of £10.485m at the year end. The level of General Balances will be reviewed during 2014/15.

Pension Liabilities

Police Officers and Police Staff are offered retirement benefits by the PCC and Group as part of their terms and conditions of employment. In accordance with International Accounting Standard (IAS) 19, the PCC and Group are required to ensure that its accounts reflect the fair value of the assets and liabilities of the schemes and that benefits earned are recognised in the accounting periods in which they arise. As at the 31st March 2014 the PCC and Group had the following net pension liabilities:-

	£m
Police Pension Scheme (i.e. Police Officers)	3,700.990
Local Government Pension Scheme (i.e. PCC and Police Staff)	97.690
Total	**3,798.680**

In accordance with IAS 19 the PCC and Group's accounts incorporate a negative pensions reserve to show the estimated liability in relation to the retirement benefits. However, considering the above liability and the overall impact it has on the Balance Sheet, it must be taken into account that;-

- The police officer pension scheme is a statutory scheme, as specified by Police Regulations, whereby the Group pays an employer's contribution of 24.2% of pensionable pay for all serving police officers into the Police Pension Fund Account. If there is insufficient money in the Pension Fund Account to meet all expenditure commitments in any particular year, the Home Office will fund the deficit. In practice, therefore, the significant liability of £3.701 billion will be covered by future employer contributions and the receipt of Home Office grant monies.

- PCC and Police Staff are entitled to join the Local Government Pension Scheme (LGPS) as administered by Wirral Metropolitan Borough Council. The disclosed liability of £97.690m in respect of LGPS is likely to be funded in a number of ways, including potential changes to contribution rates and improved performance of the Fund’s investments.

Further information on pension liabilities is provided in the pension notes.

2014/15 AND BEYOND

In 2014/15 the PCC was able to set a balanced budget, with the delivery of £13.4m of savings by the Force, along with £0.1m of savings from her own office, the utilisation of £4.6m of reserves and by raising £52.375m through the council tax requirement. The budget in 2014/15 will provide sufficient resources to enable the Chief Constable to maintain a budgeted establishment of 3,945 Police Officers and protect frontline operations as far as possible in 2014/15. In addition, the resources will assist the Chief Constable in achieving the priorities set out in the PCC’s Police and Crime plan.

However, the latest Medium Term Financial Strategy (MTFS) forecasts that the PCC and Force will be required to identify £15.7m of savings in 2015/16 and potentially a further £17.7m in 2016/17 and £6.8m in 2017/18, giving an anticipated overall savings requirement of £40.2m over the MTFS period. Consequently, the PCC and Force face a very significant financial and policing challenge in the years ahead. A strategy aimed at addressing the deficit in 2015/16 and beyond is currently being developed by the Chief Constable, in partnership with the PCC.

Overall, the PCC and Group is currently in a sound financial position, with some resilience to meet unforeseen circumstances, a major issue with regard to an emergency service such as the Police Service. Within a tight financial regime, the PCC and Chief Constable have protected, as much as possible operational performance through investing in the operational priorities set out by the PCC in the Police and Crime Plan.

FURTHER INFORMATION

This publication provides a review of the financial performance of the PCC for 2013/14. A summary set of accounts will also be produced and published on the PCC’s website, at *www.merseysidepcc.info*. Comments are invited on the usefulness and readability of the Statement of Accounts, the summary document and the Annual Governance Statement through the website.

The Foreword by The Chief Finance Officer was signed by John Riley on 24th September 2014

John Riley
Chief Finance Officer to the Office of the Police and Crime Commissioner
24th September 2014

STATEMENT OF ACCOUNTS
2013 - 14

Independent Auditor's Report to the Police and Crime Commissioner for Merseyside

Opinion on the financial statements

We have audited the financial statements for the Police and Crime Commissioner for Merseyside for the year ended 31 March 2014 under the Audit Commission Act 1998. The financial statements comprise the Police and Crime Commissioner Single Entity and Group Movement in Reserves Statement, the Police and Crime Commissioner Single Entity and Group Comprehensive Income and Expenditure Statement, the Police and Crime Commissioner Single Entity and Group Balance Sheet, the Police and Crime Commissioner Single Entity and Group Cash Flow Statement and the related notes and include the police pension fund financial statements comprising the Pension Fund Account, the Net Assets Statement and the related notes 9.1 to 9.24 The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

This report is made solely to the Police and Crime Commissioner for Merseyside in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Police and Crime Commissioner for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Finance Officer and auditor

As explained more fully in the Statement of the Chief Finance Officer's Responsibilities, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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 Police and Crime Commissioner Single Entity and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the foreword by the Chief Financial Officer 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 us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of the Police and Crime Commissioner for Merseyside as at 31 March 2014 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial position of the Group as at 31 March 2014 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and applicable law.

Independent Auditor's Report to the Police and Crime Commissioner for Merseyside

Opinion on other matters

In our opinion, the information given in the foreword by the Chief Financial Officer for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Police and Crime Commissioner to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

Conclusion on the Police and Crime Commissioner's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Police and Crime Commissioner and the auditor

The Police and Crime Commissioner is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Police and Crime Commissioner has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Police and Crime Commissioner has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Police and Crime Commissioner's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Independent Auditor’s Report to the Police and Crime Commissioner for Merseyside

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2013, as to whether the Police and Crime Commissioner has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Police and Crime Commissioner put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014. We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Police and Crime Commissioner had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2013, we are satisfied that, in all significant respects, the Police and Crime Commissioner for Merseyside put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

Certificate

We certify that we have completed the audit of the financial statements of the Police and Crime Commissioner for Merseyside in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

The Independent Auditor’s Report to the Police and Crime Commissioner for Merseyside was signed by Fiona Blatcher on 25th September 2014.

Fiona Blatcher
Engagement Lead
for and on behalf of Grant Thornton UK LLP, Appointed Auditor
Royal Liver Building
Liverpool
L3 1PS
25 September 2014

Statement of Responsibilities for the Statement of Accounts

1. The Police and Crime Commissioner's responsibilities

The Police and Crime Commissioner is required to:-

- make arrangements for the proper administration of its financial affairs and to ensure that one of its officers (i.e. the Chief Finance Officer) has the responsibility for the administration of those affairs;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- approve the Statement of Accounts.

I approve these Statement of Accounts.

The Statement of Responsibilities was signed by Jane Kennedy on 24th September 2014.

Rt Hon Jane Kennedy
Police and Crime Commissioner
24th September 2014

2. The Chief Finance Officer's responsibilities

The Chief Finance Officer is responsible for the preparation of the Statement of Accounts of the Police and Crime Commissioner (PCC) and the PCC Group in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing these Statement of Accounts the Chief Finance Officer has:-

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent; and
- complied with the Code of Practice on Local Authority Accounting.

The Chief Finance Officer has also:-

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

I certify that the Statement of Accounts presents a 'true and fair view' of the financial position of the PCC and the Group at the accounting date and of the Income and Expenditure for the year ended 31st March 2014.

The Statement of Responsibilities was signed by John Riley on 24th September 2014.

John Riley CPFA
Chief Finance Officer to the Office of the Police and Crime Commissioner
24th September 2014

The Group Movement in Reserves Statement 2012/13 (comparatives Restated)

This statement shows the movement in the 2012/13 financial year on the different reserves held by the Group, analysed into 'usable' reserves (i.e. those that can be applied to fund expenditure or reduce local taxation) and 'unusable' reserves. The 'deficit on the provision of services' line shows the true economic cost of providing the Group's services, more details of which are shown in the Comprehensive Income and Expenditure Statement (**CIES**). These are different from the statutory amounts charged to the General Fund Balance for council tax setting. The 'net increase or (decrease) before transfers to earmarked reserves' line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves are undertaken by the Group. An analysis of the unusable reserves for 2012/13 can be found in **note 3.4**.

Group	Note	General Fund Balance	Earmarked Reserves	Capital Receipts Reserve	Capital Grants Unapplied Account	Total Usable Reserves	Total Unusable Reserves	Total Group Reserves
		£000	£000	£000	£000	£000	£000	£000
Balance as at 1st April 2012		**9,217**	**28,804**	**551**	**19**	**38,591**	**(3,198,916)**	**(3,160,325)**
Deficit on provision of services on an accounting basis		(193,330)	0	0	0	**(193,330)**	**0**	**(193,330)**
Remeasurements of the net defined benefit liability	**9.21**	0	0	0	0	**0**	**(327,963)**	**(327,963)**
Loss on revaluation of non-current assets	**5.1**	0	0	0	0	**0**	**(6,278)**	**(6,278)**
Total Comprehensive Income and Expenditure		**(193,330)**	**0**	**0**	**0**	**(193,330)**	**(334,241)**	**(527,571)**
Adjustments between accounting basis and funding basis under regulations:								
Depreciation,impairment,amortisation and revaluations charged to the CIES		24,054	0	0	0	**24,054**	**(24,054)**	**0**
Capital grants and contributions credited to the CIES	**4.3**	(3,559)	0	0	0	**(3,559)**	**3,559**	**0**
Net gain on sale of non current assets		(134)	0	446	0	**312**	**(312)**	**0**
Use of capital receipts to fund capital expenditure	**5.6**	0	0	(969)	0	**(969)**	**969**	**0**
Actual amounts charged against the Pension Fund for the year	**9.6**	(60,215)	0	0	0	**(60,215)**	**60,215**	**0**
Difference in pension costs between accounting basis (IAS 19) and funding basis	**9.6**	238,754	0	0	0	**238,754**	**(238,754)**	**0**
Difference in council tax income (between accounting and funding basis)		14	0	0	0	**14**	**(14)**	**0**
Difference in employee remuneration costs (between accounting and funding basis)		(545)	0	0	0	**(545)**	**545**	**0**
Statutory provision for repayment of debt (minimum revenue provision)	**5.6**	(1,784)	0	0	0	**(1,784)**	**1,784**	**0**
Repayment of inherited debt	**5.6**	(235)	0	0	0	**(235)**	**235**	**0**
Capital expenditure charged to the General Fund Balance	**5.6**	(262)	0	0	0	**(262)**	**262**	**0**
Total adjustments		**196,088**	**0**	**(523)**	**0**	**195,565**	**(195,565)**	**0**
Net increase or (decrease) before transfers to earmarked reserves		**2,758**	**0**	**(523)**	**0**	**2,235**	**(529,806)**	**(527,571)**
Transfers to and from earmarked reserves	3.3	**(2,525)**	**2,260**	**0**	**0**	**(265)**	**265**	**0**
Balance as at 31st March 2013		**9,450**	**31,064**	**28**	**19**	**40,561**	**(3,728,457)**	**(3,687,896)**

The comparative figures have been restated from the 2012/13 Statement of Accounts. See **notes 1.1** and **1.2** and **Appendix 2** for details of the restatements.

The Group Movement in Reserves Statement 2013/14

This statement shows the movement in the 2013/14 financial year on the different reserves held by the Group, analysed into ‘usable’ reserves (i.e. those that can be applied to fund expenditure or reduce local taxation) and ‘unusable’ reserves. The ‘deficit on the provision of services’ line shows the true economic cost of providing the Group’s services, more details of which are shown in the Comprehensive Income and Expenditure Statement (**CIES**). These are different from the statutory amounts charged to the General Fund Balance for council tax setting. The ‘net increase or (decrease) before transfers to earmarked reserves’ line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves are undertaken by the Group. An analysis of the unusable reserves for 2013/14 can be found in **note 3.5**.

Group	Note	General Fund Balance	Earmarked Reserves	Capital Receipts Reserve	Capital Grants Unapplied Account	Total Usable Reserves	Total Unusable Reserves	Total Group Reserves
		£000	£000	£000	£000	£000	£000	£000
Balance as at 1st April 2013		**9,450**	**31,064**	**28**	**19**	**40,561**	**(3,728,457)**	**(3,687,896)**
Deficit on provision of services on an accounting basis		(191,302)	0	0	0	**(191,302)**	**0**	**(191,302)**
Remeasurements of the net defined benefit liability	**9.21**	0	0	0	0	**0**	**232,118**	**232,118**
Surplus on revaluation of non-current assets	**5.2**	0	0	0	0	**0**	**11,707**	**11,707**
Total Comprehensive Income and Expenditure		**(191,302)**	**0**	**0**	**0**	**(191,302)**	**243,825**	**52,523**
Adjustments between accounting basis and funding basis under regulations:								
Depreciation,impairment,amortisation and revaluations charged to the CIES		12,251	0	0	0	**12,251**	**(12,251)**	**0**
Capital grants and contributions credited to the CIES	**4.3**	(7,066)	0	0	0	**(7,066)**	**7,066**	**0**
Net loss on sale of non current assets		244	0	491	0	**735**	**(735)**	**0**
Use of capital receipts to fund capital expenditure	**5.6**	0	0	(518)	0	**(518)**	**518**	**0**
Actual amounts charged against the Pension Fund for the year	**9.6**	(57,038)	0	0	0	**(57,038)**	**57,038**	**0**
Difference in pension costs between accounting basis (IAS 19) and funding basis	**9.6**	260,565	0	0	0	**260,565**	**(260,565)**	**0**
Difference in council tax income (between accounting and funding basis)		(1,220)	0	0	0	**(1,220)**	**1,220**	**0**
Difference in employee remuneration costs (between accounting and funding basis)		(1,139)	0	0	0	**(1,139)**	**1,139**	**0**
Statutory provision for repayment of debt (minimum revenue provision)	**5.6**	(1,319)	0	0	0	**(1,319)**	**1,319**	**0**
Repayment of inherited debt	**5.6**	(235)	0	0	0	**(235)**	**235**	**0**
Capital expenditure charged to the General Fund Balance	**5.6**	(1,029)	0	0	0	**(1,029)**	**1,029**	**0**
Total adjustments		**204,014**	**0**	**(27)**	**0**	**203,987**	**(203,987)**	**0**
Net increase or (decrease) before transfers to earmarked reserves		**12,712**	**0**	**(27)**	**0**	**12,685**	**39,838**	**52,523**
Transfers to and from earmarked reserves	3.3	**(12,588)**	**7,565**	**0**	**0**	**(5,023)**	**5,023**	**0**
Balance as at 31st March 2014		**9,574**	**38,629**	**1**	**19**	**48,223**	**(3,683,596)**	**(3,635,373)**

The PCC Movement in Reserves Statement 2012/13 (comparative figures)

This statement shows the movement in the 2012/13 financial year on the different reserves held by the PCC, analysed into 'usable' reserves (i.e. those that can be applied to fund expenditure or reduce local taxation) and 'unusable' reserves. The 'deficit on the provision of services' line shows the true economic cost of providing the PCC's services, more details of which are shown in the PCC's Comprehensive Income and Expenditure Statement (**CIES**). These are different from the statutory amounts charged to the General Fund Balance for council tax setting. The 'net increase or (decrease) before transfers to earmarked reserves' line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves are undertaken by the PCC. An analysis of the unusable reserves for 2012/13 can be found in **note 3.6**.

PCC	Note	General Fund Balance	Earmarked Reserves	Capital Receipts Reserve	Capital Grants Unapplied Account	Total Usable Reserves	Total Unusable Reserves	Total PCC Reserves
		£000	£000	£000	£000	£000	£000	£000
Balance as at 1st April 2012		**9,217**	**28,804**	**551**	**19**	**38,591**	**127,977**	**205,159**
Deficit on provision of services on an accounting basis		(15,365)	0	0	0	**(15,365)**	**0**	**(15,365)**
Remeasurements of the net defined benefit liability	**9.22**	0	0	0	0	**0**	**(271)**	**(271)**
Loss on revaluation of non-current assets	**5.1**	0	0	0	0	**0**	**(6,278)**	**(6,278)**
Total Comprehensive Income and Expenditure		**(15,365)**	**0**	**0**	**0**	**(15,365)**	**(6,549)**	**(21,914)**
Adjustments between accounting basis and funding basis under regulations:								
Depreciation,impairment,amortisation and revaluations charged to the CIES		24,054	0	0	0	**24,054**	**(24,054)**	**0**
Capital grants and contributions credited to the CIES	**4.3**	(3,559)	0	0	0	**(3,559)**	**3,559**	**0**
Application of grants to capital financing		0	0	0	0	**0**	**0**	**0**
Net gain on sale of non current assets		(134)	0	446	0	**312**	**(312)**	**0**
Use of capital receipts to fund capital expenditure	**5.6**	0	0	(969)	0	**(969)**	**969**	**0**
Actual amounts charged against the Pension Fund for the year	**9.7**	(99)	0	0	0	**(99)**	**99**	**0**
Difference in pension costs between accounting basis (IAS 19) and funding basis	**9.7**	128	0	0	0	**128**	**(128)**	**0**
Difference in council tax income (between accounting and funding basis)		14	0	0	0	**14**	**(14)**	**0**
Statutory provision for repayment of debt (minimum revenue provision)	**5.6**	(1,784)	0	0	0	**(1,784)**	**1,784**	**0**
Repayment of inherited debt	**5.6**	(235)	0	0	0	**(235)**	**235**	**0**
Capital expenditure charged to the General Fund Balance	**5.6**	(262)	0	0	0	**(262)**	**262**	**0**
Total adjustments		**18,123**	**0**	**(523)**	**0**	**17,600**	**(17,600)**	**0**
Net increase or (decrease) before transfers to earmarked reserves		**2,758**	**0**	**(523)**	**0**	**2,235**	**(24,149)**	**(21,914)**
Transfers to and from earmarked reserves	**3.3**	**(2,525)**	**2,260**	**0**	**0**	**(265)**	**265**	**0**
Balance as at 31st March 2013		**9,450**	**31,064**	**28**	**19**	**40,561**	**104,093**	**144,654**

The PCC Movement in Reserves Statement 2013/14

This statement shows the movement in the 2013/14 financial year on the different reserves held by the PCC, analysed into 'usable' reserves (i.e. those that can be applied to fund expenditure or reduce local taxation) and 'unusable' reserves. The 'surplus on the provision of services' line shows the true economic cost of providing the PCC's services, more details of which are shown in the PCC's Comprehensive Income and Expenditure Statement (**CIES**). These are different from the statutory amounts charged to the General Fund Balance for council tax setting. The 'net increase or (decrease) before transfers to earmarked reserves' line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves are undertaken by the PCC. An analysis of the unusable reserves for 2013/14 can be found in **note 3.7**.

PCC	Note	General Fund Balance	Earmarked Reserves	Capital Receipts Reserve	Capital Grants Unapplied Account	Total Usable Reserves	Total Unusable Reserves	Total PCC Reserves
		£000	£000	£000	£000	£000	£000	£000
Balance as at 1st April 2013		**9,450**	**31,064**	**28**	**19**	**40,561**	**104,093**	**144,654**
Surplus on provision of services on an accounting basis		11,000	0	0	0	**11,000**	**0**	**11,000**
Remeasurements of the net defined benefit liability	**9.22**	0	0	0	0	**0**	**298**	**298**
Surplus on revaluation of non-current assets	**5.2**	0	0	0	0	**0**	**11,707**	**11,707**
Total Comprehensive Income and Expenditure		**11,000**	**0**	**0**	**0**	**11,000**	**12,005**	**23,005**
Adjustments between accounting basis and funding basis under regulations:								
Depreciation,impairment,amortisation and revaluations charged to the CIES		12,251	0	0	0	**12,251**	**(12,251)**	**0**
Capital grants and contributions credited to the CIES	**4.3**	(7,066)	0	0	0	**(7,066)**	**7,066**	**0**
Application of grants to capital financing		0	0	0	0	**0**	**0**	**0**
Net loss on sale of non current assets		244	0	491	0	**735**	**(735)**	**0**
Use of capital receipts to fund capital expenditure	**5.6**	0	0	(518)	0	**(518)**	**518**	**0**
Actual amounts charged against the Pension Fund for the year	**9.7**	(103)	0	0	0	**(103)**	**103**	**0**
Difference in pension costs between accounting basis (IAS 19) and funding basis	**9.7**	189	0	0	0	**189**	**(189)**	**0**
Difference in council tax income (between accounting and funding basis)		(1,220)	0	0	0	**(1,220)**	**1,220**	**0**
Difference in employee remuneration costs (between accounting and funding basis)		0	0	0	0	**0**	**0**	**0**
Statutory provision for repayment of debt (minimum revenue provision)	**5.6**	(1,319)	0	0	0	**(1,319)**	**1,319**	**0**
Repayment of inherited debt	**5.6**	(235)	0	0	0	**(235)**	**235**	**0**
Capital expenditure charged to the General Fund Balance	**5.6**	(1,029)	0	0	0	**(1,029)**	**1,029**	**0**
Total adjustments		**1,712**	**0**	**(27)**	**0**	**1,685**	**(1,685)**	**0**
Net increase or (decrease) before transfers to earmarked reserves		**12,712**	**0**	**(27)**	**0**	**12,685**	**10,320**	**23,005**
Transfers to and from earmarked reserves	3.3	**(12,588)**	**7,565**	**0**	**0**	**(5,023)**	**5,023**	**0**
Balance as at 31st March 2014		**9,574**	**38,629**	**1**	**19**	**48,223**	**119,436**	**167,659**

The Group Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services, in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. The Group raises taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

2012/13			Group	Note	2013/14		
Gross Expenditure Restated*	Gross Income	Net Expenditure Restated*			Gross Expenditure	Gross Income	Net Expenditure
£000	£000	£000			£000	£000	£000
178,180	(16,253)	**161,927**	Local policing		177,785	(12,870)	**164,915**
28,875	(270)	**28,605**	Dealing with the public		29,558	(1,367)	**28,191**
36,683	(1,921)	**34,762**	Criminal justice arrangements		40,621	(3,184)	**37,437**
16,247	(1,411)	**14,836**	Roads policing		16,038	(2,605)	**13,433**
40,751	(4,911)	**35,840**	Specialist operations		42,361	(4,023)	**38,338**
29,122	(2,639)	**26,483**	Intelligence		30,282	(3,651)	**26,631**
84,221	(652)	**83,569**	Investigation		85,297	(3,742)	**81,555**
12,000	(183)	**11,817**	Investigative support		12,446	(556)	**11,890**
18,221	(12,244)	**5,977**	National policing		18,378	(11,434)	**6,944**
6,465	0	**6,465**	Non-distributed costs		7,900	0	**7,900**
2,291	(265)	**2,026**	Corporate and democratic core		5,283	(46)	**5,237**
453,056	**(40,749)**	**412,307**	**Cost of Services**		**465,949**	**(43,478)**	**422,471**
585	(59,168)	**(58,583)**	Other operating expenditure/(income)	**4.1**	734	(62,376)	**(61,642)**
161,899	(226)	**161,673**	Financing and investment expenditure/(income)	**4.2**	164,097	(273)	**163,824**
0	(322,067)	**(322,067)**	Taxation and non specific grant income	**4.3**	0	(333,351)	**(333,351)**
615,540	**(422,210)**	**193,330**	**Deficit on Provision of Services**		**630,780**	**(439,478)**	**191,302**
6,278	0	**6,278**	Deficit/(surplus) on revaluation of non-current assets	**5.1-5.2**	(11,707)	0	**(11,707)**
327,963	0	**327,963**	Remeasurements of the net defined benefit liability*	**9.21**	(232,118)	0	**(232,118)**
334,241	**0**	**334,241**	**Other Comprehensive Income and Expenditure**		**(243,825)**	**0**	**(243,825)**
949,781	**(422,210)**	**527,571**	**Total Comprehensive Income and Expenditure**		**386,955**	**(439,478)**	**(52,523)**

* The comparative figures have been restated from the 2012/13 Statement of Accounts. See **note 1.2** and **Appendix 2** for details of the restatement.

The PCC (Single Entity) Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. The PCC raises taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement. The PCC receives all the income and funding for the Group and in turn provides funding to the CC to undertake day-to-day policing and crime reduction services during the year.

2012/13			PCC		2013/14		
Gross Expenditure	Gross Income	Net Expenditure		Note	Gross Expenditure	Gross Income	Net Expenditure
£000	£000	£000			£000	£000	£000
9,340	(25,593)	**(16,253)**	Local policing		4,705	(12,870)	**(8,165)**
2,101	(2,371)	**(270)**	Dealing with the public		998	(1,367)	**(369)**
2,155	(4,076)	**(1,921)**	Criminal justice arrangements		1,160	(3,184)	**(2,024)**
735	(2,146)	**(1,411)**	Roads policing		330	(2,605)	**(2,275)**
1,742	(6,653)	**(4,911)**	Specialist operations		820	(4,023)	**(3,203)**
1,487	(4,126)	**(2,639)**	Intelligence		697	(3,651)	**(2,954)**
4,281	(4,933)	**(652)**	Specialist investigations		1,964	(3,742)	**(1,778)**
602	(785)	**(183)**	Investigative support		286	(556)	**(270)**
568	(12,812)	**(12,244)**	National policing		294	(11,434)	**(11,140)**
1,043	0	**1,043**	Non-distributed costs		1,009		**1,009**
2,291	(265)	**2,026**	Corporate and democratic core		5,283	(46)	**5,237**
26,345	**(63,760)**	**(37,415)**	**Cost of Services**		**17,546**	**(43,478)**	**(25,932)**
362	(59,168)	**(58,806)**	Other operating expenditure/income	**4.1**	479	(62,376)	**(61,897)**
277	(226)	**51**	Financing and investment expenditure/(income)	**4.2**	256	(273)	**(17)**
0	(322,067)	**(322,067)**	Taxation and non specific grant income	**4.3**	0	(333,351)	**(333,351)**
433,602	0	**433,602**	PCC funding to CC for financial resources consumed	**4.14**	410,197	0	**410,197**
460,586	**(445,221)**	**15,365**	**Deficit/(Surplus) on Provision of Services**		**428,478**	**(439,478)**	**(11,000)**
6,278	0	**6,278**	Deficit/(Surplus) on revaluation of non-current assets	**5.1-5.2**	(11,707)	0	**(11,707)**
271	0	**271**	Remeasurements of the net defined benefit liability	**9.22**	(298)	0	**(298)**
6,549	**0**	**6,549**	**Other Comprehensive Income and Expenditure**		**(12,005)**	**0**	**(12,005)**
467,135	**(445,221)**	**21,914**	**Total Comprehensive Income and Expenditure**		**416,473**	**(439,478)**	**(23,005)**

The Group and the PCC Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Group and the PCC. The net assets/(liabilities) of the Group and the PCC (assets less liabilities) are matched by the reserves held by the Group and the PCC. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that may be used to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. The second category of reserves are those that may not be used to provide services. This category of reserves includes reserves that hold unrealised gains and losses, where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement **(MiRS)**.

PCC as at 31st March 2013	Group as at 31st March 2013 Restated		Note	PCC as at 31st March 2014	Group as at 31st March 2014
£000	£000			£000	£000
		Long-term Assets			
136,794	136,794	Property, plant and equipment	5.1 - 5.6	151,570	151,570
1,906	1,906	Intangible assets		1,620	1,620
138,700	**138,700**	**Total Long-term Assets**		**153,190**	**153,190**
		Current Assets			
1,444	1,444	Assets held for sale		730	730
0	0	Short-term investments	5.14	30,000	30,000
670	670	Inventories		631	631
29,485	29,635	Short-term debtors	5.7	26,910	27,008
17,536	17,536	Cash and cash equivalents	5.8	17,352	17,352
49,135	**49,285**	**Total Current Assets**		**75,623**	**75,721**
		Current Liabilities			
(29,183)	(35,892)	Short-term creditors	5.9	(26,018)	(31,535)
(1,509)	(1,509)	Bank Overdraft	5.10	(43)	(43)
0	0	Short-term borrowing	5.14	(23,000)	(23,000)
(235)	(235)	Short-term deferred liabilities	5.11	(235)	(235)
(3,709)	(3,709)	Provisions	5.12	(4,936)	(4,936)
(1,776)	(1,776)	Grants receipts in advance*		(920)	(920)
(36,412)	**(43,121)**	**Total Current Liabilities**		**(55,152)**	**(60,669)**
		Long-term Liabilities			
(2,820)	(2,820)	Long-term deferred liabilities	5.11	(2,585)	(2,585)
(1,280)	(3,827,271)	Liability relating to defined benefit pension scheme	9.8-9.9	(1,068)	(3,798,680)
(2,669)	(2,669)	Non-current provisions	5.12	(2,350)	(2,350)
(6,769)	**(3,832,760)**	**Total Long-term Liabilities**		**(6,003)**	**(3,803,615)**
144,654	**(3,687,896)**	**Net Assets/(Liabilities)**		**167,658**	**(3,635,373)**
		Reserves			
40,561	40,561	Usable reserves**	**MiRS**	48,223	48,223
104,093	(3,728,457)	Unusable reserves**	**3.4 - 3.7**	119,436	(3,683,596)
144,654	**(3,687,896)**	**Total Reserves**		**167,658**	**(3,635,373)**

*In the PCC and the Group 2012/13 Statement of Accounts, grant receipts in advance were reported within short-term creditors on the Balance Sheet. These current liabilities are now reported separately on the face of the Balance Sheet in accordance with the requirements of the Code of Practice. **The usable and unusable reserves of the Group have been restated from the 2012/13 Statement of Accounts. The restatement is necessary to reflect the change in the status of the CC which is effective from 31st March 2014. **Note 1.1** and **Appendix 2** provide further detail.

The Group and the PCC Cash Flow Statement

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

PCC 2012/13	Group 2012/13 Restated		Note	PCC 2013/14	Group 2013/14
£000	**£000**			**£000**	**£000**
15,365	**193,330**	Net deficit on the provision of services*		**(11,000)**	**191,302**
(34,558)	(212,523)	Adjust net deficit on the provision of services for non-cash movements*	**6.1**	(9,969)	(212,270)
3,988	3,988	Adjust net deficit on the provision of services for items that are investing and financing activities	**6.2**	7,558	7,557
(15,205)	**(15,205)**	**Net cash inflows from Operating Activities**		**(13,411)**	**(13,411)**
1,914	1,914	Net cash outflows from Investing Activities	**6.3**	34,894	34,894
235	235	Net cash (inflows)/outflows from Financing Activities	**6.4**	(22,765)	(22,765)
(13,056)	**(13,056)**	**Net increase in cash and cash equivalents**		**(1,282)**	**(1,282)**
(2,971)	**(2,971)**	**Cash/cash equivalents/bank overdraft at 1st April**		**(16,027)**	**(16,027)**
(16,027)	**(16,027)**	**Cash/cash equivalents/bank overdraft at 31st March**		**(17,309)**	**(17,309)**

(17,536)	(17,536)	Cash and cash equivalents	**5.8**	(17,352)	(17,352)
1,509	1,509	Bank Overdraft	**5.10**	43	43
(16,027)	**(16,027)**	**Total**		**(17,309)**	**(17,309)**

* The comparative figures have been restated from the 2012/13 Statement of Accounts.

The 'net deficit on the provision of services' has increased from £191.557m to £193.330m. This increase of £1.773m is broken down as follows (and is explained in **note 1.2** and **Appendix 2**):

- £0.221m increase to cost of services (interest charges on current service costs)
- £0.223m increase to other operating expenditure (IAS 19 administrative expenses)
- £1.329m increase to financing expenditure (pensions interest cost and expected return on assets)

As the adjustments above are not cash items, it has been necessary to increase the adjustment to the net deficit on the provision of services for non-cash movements by the same amount.

1. Restatement of 2012/13 Comparatives

1.1 Status of the Chief Constable

Following the Police Reform and Social Responsibility Act 2011 (PRSR Act), Merseyside Police Authority was replaced on 22nd November 2012 with two 'corporation sole' bodies – the Officer of the Police and Crime Commissioner for Merseyside (PCC) and the Chief Constable of Merseyside Police (CC).

The PRSR Act did not permit Chief Constables to apply Sections 21 and 22 of the Local Government Act 2003 (accounts) to their transactions as they would apply in relation to a Local Authority.

Therefore, at the time of the preparation of the 2012/13 financial statements the CC lacked the statutory power to remove the notional debits and credits for retirement benefits through an unusable reserve and replace them with debits for the cash paid to the pension fund and pensioners. This meant that the CC's Pensions Reserve, traditionally an unusable reserve, was included in the financial statements as a usable reserve.

Similarly, statutory provisions required the Police Fund to be charged with employee compensated absences earned not taken in the year, (e.g. annual leave entitlement carried forward at 31st March 2013). This charge is then reversed out through an unusable reserve in the Movement in Reserves Statement so that accounting entries would not impact on the requirement to raise council tax. As detailed above, the CC did not have Local Authority status and therefore the CC's Accumulated Absences Account, traditionally an unusable reserve, was included in the 2012/13 financial statements as a usable reserve.

Since the preparation of the 2012/13 financial statements the status of the Chief Constable has changed. The Police Reform and Social Responsibility Act 2011 (Transitional Provision) Order 2013 was laid before Parliament on the 17th September 2013 and is effective from 31st March 2014.

This permits CCs to apply Sections 21 and 22 of the Local Government Act 2003 (accounts) to their transactions as they would apply to a Local Authority. The CC's Pensions Reserve and the CC's Accumulated Absences Account have therefore been restated from usable reserves to unusable reserves.

Appendix 2 details the restatements.

1.2 IAS 19 Pensions changes

The International Accounting Standards Board (IASB) has amended International Accounting Standard (IAS) 19 'Employee benefits' with the changes being introduced on the 1st January 2013. The revised Standard affects the 2013/14 Annual Financial Report in the following ways:

- Actuarial gains/losses have been renamed 'remeasurements' and are now recognised in the Balance Sheet immediately, with a corresponding charge or credit to the Comprehensive Income and Expenditure Statement (other comprehensive income and expenditure) in the period in which they occur. Remeasurements are made up of actuarial gains and losses on the defined benefit obligation, the difference between actual investment returns, and the return implied by the net interest cost and the effect of the asset ceiling.

- Pensions interest costs are now calculated by applying the discount rate on the net defined benefit liability/(asset), rather than using the expected return on assets. The reduction in this charge will be offset within remeasurements (other comprehensive income and expenditure) and there will be no impact on the Balance Sheet. A new net interest cost line is also introduced, replacing two lines previously disclosed - the pensions interest cost and the expected return on plan assets. There is no change in the approach to determining the discount rate – this continues to reflect the yield on high-quality corporate bonds, or on Government debt when no market exists for corporate bonds.

- Past-service costs are now recognised in the Comprehensive Income and Expenditure Statement in the period when an entity amends a benefit plan for services in prior periods, rather than allowing that entity to spread the cost over multiple periods.

1. Restatement of 2012/13 Comparatives

1.2 IAS 19 Pensions changes (continued)

- Liabilities for termination benefits incurred will now be recognised at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognises any related restructuring costs.

- Interest charges on current service costs are now charged with current service costs to net cost of services, with a corresponding offset within the net pensions interest cost (within financing and investment income and expenditure).

- IAS 19 administrative expenses are now shown separately within other operating expenditure (previously shown within expected return on plan assets).

A significant number of enhanced disclosures are now required to explain the characteristics of benefit plans. The new disclosures highlight the risks, and the actions being taken to address them, and include sensitivity analysis to changes in the assumptions.

The IAS 19 pensions changes have required a restatement of the Group 2012/13 Comprehensive Income and Expenditure Statement, Movement in Reserves Statement and Cash Flow. The effect of these changes is shown in **Appendix 2**.

The impact of these restatements on the General Fund Balance is nil.

2. Statement of Accounting Policies for the Group and the PCC

2.1 General Principles

Accounting policies are the principles applied to show the effect of transactions and events on the financial statements. The financial statements have been prepared in accordance with The Code of Practice on Local Authority Accounting in the UK 2013/14 (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), which is recognised by statute as representing proper accounting practice. This Code of Practice is based on International Financial Reporting Standards (IFRS) and also draws on approved accounting standards issued by the International Public Sector Accounting Standards Board and the UK Accounting Standards Board where these provide additional guidance.

The accounting convention adopted is historical cost, modified by the revaluation of certain categories of property, plant and equipment.

Following the passing of the Police Reform and Social Responsibility Act 2011, Merseyside Police Authority was replaced on 22nd November 2012 with two 'corporation sole' bodies, the Police and Crime Commissioner for Merseyside (PCC) and the Chief Constable of Merseyside Police (CC). Both bodies are required to prepare separate Statements of Accounts.

The transfer from the Police Authority was accounted for under the merger accounting provisions of the Code, and the comparative figures of the PCC for the 2012/13 financial year are presented as if the functions had been performed by the Group for the twelve months ending 31st March 2013.

The Financial Statements included here represent the accounts for the PCC Group and also the PCC. The financial statements cover the 12 months to 31st March 2014. The term 'Group' is used to indicate consolidated transactions and policies of the PCC and the CC for the year ended 31st March 2014. The identification of the PCC as the holding organisation and the requirements to produce Group accounts stems from the powers and responsibilities of the PCC under the Police Reform and Social Responsibility Act 2011.

The PCC Group and the PCC have adopted consistent accounting policies, which are detailed below in alphabetical order.

2.2 Accruals of Income and Expenditure

The revenue accounts are maintained on an accruals basis, which means that the sums due to or from the Group during the year are included, whether or not the cash has actually been received or paid in the year. In particular:

- Where income and expenditure has been recognised but cash has not yet been received or paid, a debtor or creditor for the relevant amount is included in the Balance Sheet.
- Supplies are recorded as expenditure when they are consumed. Supplies received but not yet consumed are held as inventories in the Balance Sheet.
- Fees, charges and rents due from customers are accounted for as income at the date the relevant goods or services are provided.
- Interest payable on borrowings and receivable on investments is accounted for in the year to which it relates.

Whilst all expenditure is paid for by the PCC including the wages of police staff and officers, the actual recognition in the respective PCC and CC Financial Statements is based on economic benefit.

2.3 Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with an insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Group's cash management.

2.4 Council Tax Income

In accordance with the Code, the Council Tax Income included in the Comprehensive Income and Expenditure Statement is the accrued income for the financial year. The difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The Group recognises its share of the Council Tax debtor and creditor balances and impairment allowances in its Balance Sheet. The Group also recognises:

- a creditor in its Balance Sheet for cash received from the Billing Authority in advance of the Billing Authority receiving the cash from Council Tax debtors or;

- a debtor in its Balance Sheet for its attributable share of net cash collected from Council Tax debtors by the Billing Authority but not paid over to it at the Balance Sheet date.

2.5 Employee Benefits

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which the employee renders service to the Group. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Group to terminate an employee's employment before the normal retirement date or an employee's decision to accept voluntary redundancy. They are charged on an accruals basis to the appropriate service line in the Comprehensive Income and Expenditure Statement at the earlier of when the authority can no longer withdraw the offer of those benefits or when the authority recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

2.5 Employee Benefits (continued)

Post Employment Benefits (Pensions)

As part of the terms and conditions of employment the Group offers retirement benefits for Police Officers and Police Staff. The schemes provide members with defined benefits related to pay and service as follows:-

Police Officers

The original Police Pension Scheme (PPS) is governed by the Police Pensions Regulation 1987 (as amended) and related regulations that are made under the Police Pensions Act 1976. The new Police Pension Scheme (NPPS) is also governed by the Police Pensions Act 1976 (as amended by the Police Pension Regulations 2006).

The 1987 and 2006 Police Pension Schemes (PPS) for police officers are unfunded schemes, which means that there are no investment assets built up to meet the pensions liabilities, and cash has to be generated to meet the actual payments as they fall due. The Group is required by legislation to operate a Pension Fund with the amounts that must be paid into or out of the Pension Fund being specified by regulation. The former Police Authority set up a Pension Fund on 1st April 2006 from which pensions payments are made and into which contributions from the PCC and employees are received. The PCC then receives a top-up grant from the Government equal to the sum by which the amount payable for pensions from the Pension Fund exceeds the amount receivable from the PCC into the Pension Fund. The Pension Fund is shown separately in the Accounts.

Police Staff

Police staff, subject to certain qualifying criteria, are eligible to join the Local Government Superannuation Scheme, which is a funded defined benefit scheme. Pensions and other retirement benefits are paid from the fund and employers and employees make regular contributions into the fund so that the liabilities are paid for evenly over the employment period. Actuarial valuations of the fund are undertaken every three years to determine the contribution rates needed to meet its liabilities, the last valuation having been at 31st March 2013. The Governance arrangements for the MPF are contained within the Merseyside Pension Fund Governance Policy, which has been prepared in accordance with the requirements of the provisions of the Local Government Pension Scheme (England and Wales) (Amendment no. 2) Regulations 2005 and is available on the MPF website.

The above schemes provide defined benefits to members (retirement lump sums and pensions), earned during employee's periods of employment. The schemes are accounted for in accordance with IAS 19 "Employee Benefits" which is based on the principle that an organisation should account for retirement benefits when it is committed to give them, even though this may be many years in the future and will not be payable until employees retire.

Adoption of IAS 19 requires a pension asset or liability to be recognised in the Balance Sheet, made up of the net position of retirement liabilities and pension scheme assets.

The liabilities of the Merseyside Superannuation Fund attributable to Merseyside Police are included in the Balance Sheet on an actuarial basis using the projected unit method, i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and estimates of projected earnings for current employees.

Pension Scheme assets (LGPS only) attributable to the PCC are included at their fair value. Plan assets of the Police Pension Scheme include employers and employees contributions with an associated experience adjustment in the form of a Remeasurement to bring net assets to zero at year-end. The PCC currently has a net pensions liability and this is matched on the Balance Sheet by a Pensions Reserve.

2. Statement of Accounting Policies for the Group and the PCC

2.5 Employee Benefits (continued)

The change in net pensions liability during the year is analysed into several components:

- **Current Service Cost** – the increase in liabilities as a result of service earned by employees in the current year. This is charged to cost of services within the Comprehensive Income and Expenditure Statement.

- **Past Service Cost** – the increase in liabilities arising from current year decisions, the effect of which relate to service in earlier years. This is charged to non-distributed costs in the Comprehensive Income and Expenditure Statement in the period when an entity amends a benefit plan.

- **Net Pensions Interest Cost** - replacing the interest cost and the expected return on assets (previously disclosed separately). The net interest expense or income on the net pension liability or asset represents the financing cost or income of deferring payment or pre paying employee services. It is calculated by multiplying the net pension liability or the net pension asset by the discount rate used to measure the pension liability. If the interest on the pension liability exceeds the interest on the plan assets, it will be net interest expense. If the interest on the plan assets exceeds the interest on the pension liability, it will be net interest income. Net interest income or expense will be presented in financing and investment income and expenditure.

- **Remeasurements** – these are changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because actuaries have updated their assumptions. Remeasurements are made up of actuarial gains and losses on the defined benefit obligation, differences between actual investment returns and the return implied by the net interest cost, and the effect of the asset ceiling. Remeasurements are recognised in the Balance Sheet immediately, with a corresponding charge or credit to the Comprehensive Income and Expenditure Statement in the period in which they occur.

- **Administration Costs and Other Expenses** – administration costs directly related to the management of plan assets and any tax payable by the plan itself, other than tax included in the actuarial assumptions used to measure the defined benefit obligation, are recognised as a reduction in the return on plan assets and recorded in other comprehensive income and expenditure. Other administration costs must not be deducted from the return on plan assets and are recognised in the surplus or deficit on the provision of services.

Statutory provisions require that the amount charged to the General Fund Balance is the amount paid by the Group to pension funds rather than that calculated under IAS 19. This means that an appropriation to or from the Pensions Reserve is necessary within the Movement in Reserves Statement to replace the notional sums for retirement benefits with the actual pension costs.

Long Term Employee Benefits

Long Term Employee Benefits are paid for officers retiring on ill health grounds, and are termed as long term disability benefits paid out under the regulations contained in the Police (Injury Benefit) Regulations 2006. These injury awards are charged to the surplus / deficit on provision of services, with actuarial gains and losses being recognised in other comprehensive income and expenditure.

Under Chapter 6.2 of the Code, long-term disability benefits are usually accounted for as ‘other long-term benefits’ because they are not seen to be subject to the same degree of uncertainty as the measurement of post-employment benefits. However, International Public Sector Accounting Standard 25 (IPSAS25) allows this presumption to be rebutted where the PCC believes that there is significant volatility and/or materiality in the level of long-term disability payments. Where the PCC rebutts the presumption the Code allows long-term disability payments to be treated in the same way as defined benefit post-employment benefits. Due to the materiality and significant volatility in the payment of injury pensions the PCC rebutts the presumption above, and has accounted for those payments in the same way as other defined benefit post-employment benefits.

2.6 Events After the Balance Sheet Date

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

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

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

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

2.7 Exceptional Items

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

2.8 Financial Assets and Liabilities

All financial instruments are included in the Balance Sheet at amortised cost. For borrowings this means that the amount presented in the Balance Sheet is the outstanding principal repayment, and the interest charged to the Comprehensive Income and Expenditure Statement is the amount payable in the year. Likewise investments are included in the Balance Sheet as the outstanding principal receivable, and the interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable in the year.

2.9 Government Grants and Contributions

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

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

- the grants or contributions will be received.

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

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

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

2.10 Group Accounts

Following the Police Reform and Social Responsibility Act 2011 (PRSR Act), Merseyside Police Authority was replaced on 22nd November 2012 with two 'corporation sole' bodies – the Police and Crime Commissioner for Merseyside (PCC) and the Chief Constable of Merseyside Police (CC). The identification of the PCC as the holding organisation and the requirements to produce Group accounts stems from the powers and responsibilities of the PCC under the Police Reform and Social Responsibility Act 2011.

The transactions and balances of the PCC and the CC have been consolidated into the Group Accounts using the line-by-line method.

2.11 Intangible Property, Plant and Equipment

Intangible assets are identifiable non-monetary assets without physical substance. They are recognised only when they are controlled by the Group as a result of past events (e.g. software licences), and where it is probable that future economic or service benefits will flow from the intangible asset to the Group and where the cost of the asset can be measured reliably.

Intangible assets are recognised initially at cost, comprising all directly attributable costs needed to produce and prepare the asset to the point that it is capable of operating in the manner intended by management. Thereafter, intangible assets are valued at depreciated historical cost as a proxy for fair value.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

Expenditure on purchasing computer software has been capitalised as an intangible asset. Amortisation is charged to the Comprehensive Income and Expenditure Statement on a straight-line basis (usually over four years).

2.12 Interest Charges

External interest charges are paid on the inherited debt brought forward at 1st April 1986. This is administered by Wirral Metropolitan Borough Council and is being repaid on a straight-line basis in compliance with the Debt Redemption Order 1986.

2.13 Interest Receivable

During the year interest receivable on surplus cash is credited to revenue.

2.14 Inventories

Inventories are included in the Balance Sheet at the lower of cost and net realisable value.

2.15 Jointly Controlled Operations and Jointly Controlled Assets

Jointly controlled operations are activities undertaken by the Group in conjunction with other venturers that involve the use of the assets and resources of the venturers rather than the establishment of a separate entity. The Comprehensive Income and Expenditure Statement is debited and credited with the expenditure it incurs and the share of income it earns from the activity of the operation. If material, the Group recognises on its Balance Sheet its share of the assets that it controls and the liabilities that it incurs.

2.15 Jointly Controlled Operations and Jointly Controlled Assets (continued)

Jointly controlled assets are items of property, plant or equipment that are jointly controlled by the Group and other venturers, with the assets being used to obtain benefits for the venturers. The joint venture does not involve the establishment of a separate entity. The Comprehensive Income and Expenditure Statement is debited with the expenditure it incurs and credited with the share of income earned from the activity of the operation. If material, the Group recognises on its Balance Sheet its share of the assets that it controls and the liabilities that it incurs.

2.16 Leases

Leases are classified as finance leases when substantially all the risks and rewards of ownership are transferred to the lessee. All other leases are classified as operating leases.

Property, Plant and Equipment held under finance leases are initially recognised at the inception of the lease at fair value or, if lower, present value of the minimum lease payments, with a matching liability for the lease obligation to the lessor.

Finance lease payments are apportioned between:

- A charge for the acquisition of the interest in the property applied to the writing down of the lease liability; and

- A finance charge debited to the Comprehensive Income and Expenditure Statement.

Where leases are classified as operating leases, the annual rentals are charged to revenue. The value of assets and related liability for future rental are not shown in the Balance Sheet.

2.17 Overheads and Support Services

The cost of overheads and support services are charged to those operations that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2013/14 (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the PCC's status as a multi-functional, democratic organisation.
- Non-Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on non-operational properties.

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

2.18 Police Property Act Fund

The Group maintains a Police Property Act Fund, which is shown in the earmarked reserves (**Note 3.3)**. The requirement to maintain a Police Property Act Fund was laid down in the Police (Property) Act, 1897 and governed by subsequent regulations issued in 1898 and 1975. The monies in the Police Property Act Fund are generated by the disposal of property, which remains in police possession, in connection with their investigations into a suspected offence, and the owner cannot be ascertained (and no order of a competent court has been made regarding such property) or the disposal of property of offenders in certain cases, which have been confiscated.

Under the terms of the Police (Disposal of Property) Regulations 1975, 7(c) the Group is able to dispose of funds, to make payments of such amounts as the PCC may determine for such charitable purposes as they may select, and also to meet the expenses incurred in the conveyance, storage, safe custody and sale of the property.

2. Statement of Accounting Policies for the Group and the PCC

2.19 Property, Plant and Equipment

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

Recognition

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

Measurement and Valuation

Assets are initially measured at cost, comprising:

- The purchase price.
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

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

- **Assets under construction**: historical cost.
- **Land and buildings**: fair value, determined as the amount that would be paid for the asset in its existing use (Existing Use Value – EUV).
- Where there is no market-based evidence of the fair value of land and buildings because of their specialist nature, Depreciated Replacement Cost (DRC) is used as an estimate of fair value.
- **Helicopter**: the helicopter is currently being leased on a short-term basis to an external organisation and will transfer to the National Police Air Service (NPAS) in May 2014. The recoverable amount of the helicopter is considered to be the present value of the cash flows receivable under the operating lease and therefore the helicopter has been valued on this basis.
- Other **non-property assets** such as vehicles and IT hardware have short useful lives or low values (or both), and depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. (Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service).

Where decreases in value are identified, they are accounted for as follows:

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

2.19 Property, Plant and Equipment (continued)

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Where a large asset, for example a building, includes a number of components with significantly different assets lives then these components are treated as separate assets and depreciated over their own economic lives.

The costs arising from financing the construction of the long-term assets are not capitalised but are charged to the Comprehensive Income and Expenditure Statement in the year to which they relate.

Subsequent Expenditure

Where subsequent expenditure enhances an asset beyond its original specification, the directly attributable cost is added to the assets carrying value. Where subsequent expenditure is simply restoring the asset to the specification assumed by its economic useful life then the expenditure is charged to the Comprehensive Income and Expenditure Statement. Where a component of an asset is replaced, the cost of the replacement is capitalised if it meets the criteria for recognition above. The carrying amount of the part replaced is de-recognised.

Impairment

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

Where impairment losses are identified, they are accounted for as follows:

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

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

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

Componentisation

The Group identifies any properties where it is considered that componentisation is appropriate and provides separate valuation of such components. Componentisation will only be applied routinely to new buildings or refurbishments completed after 1st April 2010 onwards and will not apply to historical assets that have not been refurbished.

Specifically componentisation is considered for properties which have been the subject of significant refurbishment or improvement during the year. In this context significant expenditure is defined as 'greater than 25% of the total cost of the asset; and greater than £100,000'.

2.19 Property, Plant and Equipment (continued)

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land) and assets that are not yet available for use (i.e., assets under construction).

Depreciation is calculated on the following bases:

- **Buildings**: straight-line allocation over the useful life of the property as estimated by the valuer.
- **Vehicles, plant and equipment**: straight-line allocation over the estimated useful life of the asset.
- **Helicopter**: the helicopter has not incurred a depreciation charge in 2013-14 as the current valuation is considered to approximate to the residual value to the Group.

Where a property, plant and equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

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

Disposals and Non-Current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any losses previously recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on assets held for sale.

Assets that are to be abandoned or scrapped are not reclassified as assets held for sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether property, plant and equipment or assets held for sale) is written off to the other operating expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. They are required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment (or set aside to reduce the PCC's underlying need to borrow - the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

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

2.19 Property, Plant and Equipment (continued)

Charges to Revenue for Property, Plant and Equipment

The Comprehensive Income and Expenditure Statement is debited with the following amounts to record the real costs of holding property, plant and equipment during the year:

- Depreciation attributable to the assets used
- Revaluation and impairment losses on assets used where there are no accumulated gains in the Revaluation Reserve against which the losses can be written
- Amortisation of intangible assets attributable to the service

The PCC charges the CC for operational assets consumed in the year. This charge is made at fair value. The annual depreciation charge and impairments and downward valuations chargeable to the PCC's Comprehensive Income and Expenditure Statement are considered to be a reasonable proxy for fair value.

The Group is not required to raise council tax to cover depreciation, revaluation and impairment losses or amortisations. However it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement (Minimum Revenue Provision). Depreciation, impairment losses and amortisations are therefore replaced by the revenue provision in the Movement in Reserves Statement, by way of an adjusting transaction within the Capital Adjustment Account for the difference between the two.

The Group is also charged with the principal element of transferred debt taken over from the former Merseyside County Council, and managed by Wirral Metropolitan Borough Council on its behalf. This charge is included as another adjusting transaction between the General Fund Balance and the Capital Adjustment Account.

2.20 Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Group a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation.

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

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

Full details of provisions can be found at **note 5.12** to the Balance Sheet.

2.20 Provisions, Contingent Liabilities and Contingent Assets (continued)

Contingent Liabilities

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

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

Contingent Assets

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. The Group does not recognise a contingent asset in the financial statements but discloses as a note to the accounts where an inflow of economic benefits or service potential is probable.

2.21 Redemption of Debt

Under the Local Government Act 1985, outstanding loan debt relating to police services was transferred to the Merseyside Police Authority on 1st April 1986. This debt is administered by Wirral Metropolitan Borough Council (WMBC). Loan charges are reimbursed by the PCC to WMBC.

Loan debt incurred from 1st April 1986 is directly administered by the Group.

2.22 Reserves and The General Fund Balance

The Group sets aside specific amounts as reserves for future policy purposes (earmarked reserves) or to cover general contingencies (The General Fund Balance). The earmarked reserves maintained by the Group are shown at **note 3.3**. Other reserves are held to manage the accounting processes for property, plant and equipment and retirement benefits and are explained elsewhere in the statement of accounting policies and notes to the core financial statements.

2.23 VAT

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue and Customs and all VAT paid is recoverable from them.

3. Notes to the Group and the PCC Movement in Reserves Statement

3.1 Usable Reserves

Movements in the Group's and the PCC's usable reserves are detailed in the Movement in Reserves Statements (**pages 13 - 16**). The Group holds the following usable reserves:

- **The General Fund Balance** is the amount set aside to cover general contingencies.

- **Earmarked Reserves** are amounts set aside for future policy purposes. The movement on earmarked reserves can be found in **note 3.3** to the financial statements.

- **The Capital Receipts Reserve** represents the proceeds of sale on long-term assets. This reserve may only be used to fund capital expenditure or repay debt.

- **The Capital Grants Unapplied Account** holds the grants and contributions received towards capital projects for which the Group has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure.

3.2 Unusable Reserves

Movements in the Group's and the PCC's unusable reserves are shown in the Movement in Reserves Statements and in detail in **notes 3.4 to 3.7**. The Group holds the following unusable reserves:

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

- **The Collection Fund Adjustment Account** manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from taxpayers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

- **The Accumulated Absences Account** absorbs the differences that would otherwise arise on the General Fund Balance for accruing for compensated absences earned but not taken in the year (e.g. annual leave entitlement carried forward at 31st March 2014). Statutory arrangements require that the impact on the General Fund Balance is neutralised and this charge is reversed out through an unusable reserve in the Movement in Reserves Statement so that accounting entries would not impact on the requirement to raise council tax.

- **The Revaluation Reserve** contains the gains made by the Group arising from increases in the value of Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:
    - revalued downwards or impaired and the gains are lost.
    - used in the provision of services and the gains are consumed through depreciation.
    - disposed of and the gains are realised.

3. Notes to the Group and the PCC Movement in Reserves Statement

3.2 Unusable Reserves (continued)

- **The Pensions Reserve** absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Group accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the cost. However, the charge made against the precept is based upon the Group's contributions to pension funds in the financial year and retirement benefits paid to pensioners.

  The debit balance on the Pensions Reserve shows a shortfall in the benefits earned by past and current employees and the resources the Group has set aside to meet them, and represents the Net Defined Benefit Obligation to the PCC and Group. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid (**note 9.8**).

3. Notes to the Group and the PCC Movement in Reserves Statement

3.3 The Group and the PCC Earmarked Reserves

This note sets out the amounts set aside from the General Fund to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure.

Group and PCC		Transfers			Transfers		
Reserve	Balance as at 31st March 2012	In	Out	Balance as at 31st March 2013	In	Out	Balance as at 31st March 2014
	£000	£000	£000	£000	£000	£000	£000
Helicopter	357	103	0	460	0	0	460
Internal Trading	189	35	0	224	72	0	296
Earmarked Capital	26	0	0	26	0	0	26
PCS & TO's *	5,861	3,151	0	9,012	0	0	9,012
Carry Over Reserve	0	303	0	303	495	(302)	496
Other	402	39	(178)	263	101	(141)	223
Section 152	1,141	446	(289)	1,298	501	(308)	1,491
Target Hardening	569	44	(54)	559	0	(381)	178
Police Property Act Fund	446	76	(385)	137	49	(78)	108
Earmarked Pensions	3,837	0	(2,700)	1,137	0	0	1,137
Restructure	5,627	6,237	(4,194)	7,670	0	(400)	7,270
Estate Strategy	7,024	502	(366)	7,160	6,954	(4,581)	9,533
Taser	128	0	(28)	100	0	(90)	10
Insurance	1,225	0	(569)	656	0	0	656
Road Camera Safety P'ship	0	0	0	0	645	0	645
Crime & Disorder Reduction	0	0	0	0	634	(27)	607
Invest to Save Reserve	0	0	0	0	4,318	0	4,318
Migration Fund	281	0	(156)	125	50	(133)	42
Civil Litigation Fund	296	205	(93)	408	175	(280)	303
Operational Contingency	1,395	0	(369)	1,026	0	0	1,026
Helicopter Indemnity Reserve	0	500	0	500	0	0	500
POCA Reserve	0	0	0	0	292	0	292
Unconditional Grants	0	0	0	0	0	0	0
	28,804	11,641	(9,381)	31,064	14,286	(6,721)	38,629

Within the earmarked reserves above is £42k (2012/13: £125k) held for use on national initiatives, and held on behalf of the Home Office.

* Police Community Support and Traffic Officers.

Details of reserves with individual balances of more than £1.000m are provided below.

- **The Police Community Support and Traffic Officers Reserve (PCS & TO's)** holds unutilised grant received from the Home Office which arises from the profile and timing of recruitment.

- **The Section 152 Reserve** is used to hold proceeds of vehicle auction sales where the vehicle has been seized under Section 152 legislation, and the funds may be repayable to the vehicle's owner.

- **The Earmarked Pensions Reserve** was created to minimise the financial impact in financial years where a high number of ill health retirements are paid out of revenue.

3. Notes to the Group and the PCC Movement in Reserves Statement

3.3 The Group and the PCC Earmarked reserves (continued)

- **The Restructure Reserve** is to be utilised to fund the potential redundancy or redeployment protection costs associated with the work of the Sustaining Excellence Programme (SEP). The utilisation of this reserve allows for the immediate release of savings from the revenue account. This has proved to be a successful strategy in reducing the estimated base budget savings requirement, thus ensuring continued financial resilience.

- **The Estate Strategy Reserve** was created to assist towards the capital financing of implementing the Estate Strategy, and so help cushion the impact on the Revenue Account.

- **The Insurance Reserve** is a contingency which is an estimate of claim events which have occurred but have not yet come to the attention of the Force or the PCC, inclusive of the win/loss ratio.

- **The Invest to Save Reserve** has been established to reinvest underspends in support of initiatives that will generate future savings. All bids from the reserve are authorised by the PCC, and are overseen operationally by the Sustaining Excellence Programme Board.

- **The Operational Contingency Reserve** has been established to provide some resilience to the devolved budget holders against the cost of policing potential public order and major incidents and events.

3.4 The Group Unusable Reserves 2012/13 (comparative figures Restated)

Unusable reserves are those which the Group is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences (for example the Capital Adjustment Account). **Note 3.2** provides a narrative description of the unusable reserves.

Group	Note	Capital Adjustment Account	Collection Fund Adjustment Account	Accumulated Absences Account	Revaluation Reserve	Pensions Reserve (IAS 19)	Total Unusable Reserves
		£000	£000	£000	£000	£000	£000
Balance as at 1st April 2012		**93,850**	**313**	**(7,105)**	**34,795**	**(3,320,769)**	**(3,198,916)**
Remeasurements of the net defined benefit liability	**9.21**	0	0	0	0	(327,963)	**(327,963)**
Deficit on revaluation of non-current assets		6	0	0	(6,284)	0	**(6,278)**
Total Comprehensive Income and Expenditure		**6**	**0**	**0**	**(6,284)**	**(327,963)**	**(334,241)**
Adjustments between accounting basis and funding basis under regulations:							
Depreciation,impairment,amortisation and revaluations charged to the CIES		(24,054)	0	0	0	0	**(24,054)**
Capital grants and contributions credited to the CIES	**4.3**	3,559	0	0	0	0	**3,559**
Net gain on sale of non current assets		(312)	0	0	0	0	**(312)**
Use of capital receipts to fund capital expenditure	**5.6**	969	0	0	0	0	**969**
Actual amounts charged against the Pension Fund for the year	**9.6**	0	0	0	0	60,215	**60,215**
Difference in pension costs between accounting basis (IAS 19) and funding basis	**9.6**	0	0	0	0	(238,754)	**(238,754)**
Difference in council tax income (between accounting and funding basis)		0	(14)	0	0	0	**(14)**
Difference in employee remuneration costs (between accounting and funding basis)		0	0	545	0	0	**545**
Statutory provision for repayment of debt (minimum revenue provision)	**5.6**	1,784	0	0	0	0	**1,784**
Repayment of inherited debt	**5.6**	235	0	0	0	0	**235**
Capital expenditure charged to the General Fund Balance	**5.6**	262	0	0	0	0	**262**
Transfer of the excess current cost depreciation over historical cost depreciation		584	0	0	(584)	0	**0**
Total adjustments		**(16,973)**	**(14)**	**545**	**(584)**	**(178,539)**	**(195,565)**
Net increase or (decrease) before transfers to earmarked reserves		**(16,967)**	**(14)**	**545**	**(6,868)**	**(506,502)**	**(529,806)**
Transfers to and from earmarked reserves		**265**	**0**	**0**	**0**	**0**	**265**
Balance as at 31st March 2013		**77,148**	**299**	**(6,560)**	**27,927**	**(3,827,271)**	**(3,728,457)**

The comparative figures have been restated from the 2012/13 Statement of Accounts. See **notes 1.1 and 1.2** and **Appendix 2** for details of the restatements.

3. Notes to the Group and the PCC Movement in Reserves Statement

3.5 The Group Unusable Reserves 2013/14

Unusable reserves are those which the Group is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences (for example the Capital Adjustment Account). **Note 3.2** provides a narrative description of the unusable reserves.

Group	Note	Capital Adjustment Account	Collection Fund Adjustment Account	Accumulated Absences Account	Revaluation Reserve	Pensions Reserve (IAS 19)	Total Unusable Reserves
		£000	£000	£000	£000	£000	£000
Balance as at 1st April 2013		**77,148**	**299**	**(6,560)**	**27,927**	**(3,827,271)**	**(3,728,457)**
Remeasurements of the net defined benefit liability	**9.21**	0	0	0	0	232,118	**232,118**
Surplus on revaluation of non-current assets		17	0	0	11,690	0	**11,707**
Total Comprehensive Income and Expenditure		**17**	**0**	**0**	**11,690**	**232,118**	**243,825**
Adjustments between accounting basis and funding basis under regulations:							
Depreciation,impairment,amortisation and revaluations charged to the CIES		(12,251)	0	0	0	0	**(12,251)**
Capital grants and contributions credited to the CIES	**4.3**	7,066	0	0	0	0	**7,066**
Net loss on sale of non current assets		(735)	0	0	0	0	**(735)**
Use of capital receipts to fund capital expenditure	**5.6**	518	0	0	0	0	**518**
Actual amounts charged against the Pension Fund for the year	**9.6**	0	0	0	0	57,038	**57,038**
Difference in pension costs between accounting basis (IAS 19) and funding basis	**9.6**	0	0	0	0	(260,565)	**(260,565)**
Difference in council tax income (between accounting and funding basis)		0	1,220	0	0	0	**1,220**
Difference in employee remuneration costs (between accounting and funding basis)		0	0	1,139	0	0	**1,139**
Statutory provision for repayment of debt (minimum revenue provision)	**5.6**	1,319	0	0	0	0	**1,319**
Repayment of inherited debt	**5.6**	235	0	0	0	0	**235**
Capital expenditure charged to the General Fund Balance	**5.6**	1,029	0	0	0	0	**1,029**
Transfer of the excess current cost depreciation over historical cost depreciation		589	0	0	(589)	0	**0**
Total adjustments		**(2,230)**	**1,220**	**1,139**	**(589)**	**(203,527)**	**(203,987)**
Net increase or (decrease) before transfers to earmarked reserves		**(2,213)**	**1,220**	**1,139**	**11,101**	**28,591**	**39,838**
Transfers to and from earmarked reserves		**5,023**	**0**	**0**	**0**	**0**	**5,023**
Balance as at 31st March 2014		**79,958**	**1,519**	**(5,421)**	**39,028**	**(3,798,680)**	**(3,683,596)**

3. Notes to the Group and the PCC Movement in Reserves Statement

3.6 The PCC Unusable Reserves 2012/13 (comparative figures)

Unusable reserves are those which the PCC is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences (for example the Capital Adjustment Account). **Note 3.2** provides a narrative description of the unusable reserves.

PCC	Note	Capital Adjustment Account	Collection Fund Adjustment Account	Revaluation Reserve	PCC Pensions Reserve (IAS 19)	Total Unusable Reserves
		£000	£000	£000	£000	£000
Balance as at 1st April 2012		**93,850**	**313**	**34,795**	**(981)**	**127,977**
Remeasurements of the net defined benefit liability	**9.22**	0	0	0	(271)	**(271)**
Deficit on revaluation of non-current assets		6	0	(6,284)	0	**(6,278)**
Total Comprehensive Income and Expenditure		**6**	**0**	**(6,284)**	**(271)**	**(6,549)**
Adjustments between accounting basis and funding basis under regulations:						
Depreciation,impairment,amortisation and revaluations charged to the CIES		(24,054)	0	0	0	**(24,054)**
Capital grants and contributions credited to the CIES	**4.3**	3,559	0	0	0	**3,559**
Application of grants to capital financing		0	0	0	0	**0**
Net gain on sale of non current assets		(312)	0	0	0	**(312)**
Use of capital receipts to fund capital expenditure	**5.6**	969	0	0	0	**969**
Actual amounts charged against the Pension Fund for the year	**9.7**	0	0	0	99	**99**
Difference in pension costs between accounting basis (IAS 19) and funding basis	**9.7**	0	0	0	(128)	**(128)**
Difference in council tax income (between accounting and funding basis)		0	(14)	0	0	**(14)**
Statutory provision for repayment of debt (minimum revenue provision)	**5.6**	1,784	0	0	0	**1,784**
Repayment of inherited debt	**5.6**	235	0	0	0	**235**
Capital expenditure charged to the General Fund Balance	**5.6**	262	0	0	0	**262**
Transfer of the excess current cost depreciation over historical cost depreciation		584	0	(584)	0	**0**
Total adjustments		**(16,973)**	**(14)**	**(584)**	**(29)**	**(17,600)**
Net increase or (decrease) before transfers to earmarked reserves		**(16,967)**	**(14)**	**(6,868)**	**(300)**	**(24,149)**
Transfers to and from earmarked reserves		**265**	**0**	**0**	**0**	**265**
Balance as at 31st March 2013		**77,148**	**299**	**27,927**	**(1,281)**	**104,093**

3.7 The PCC Unusable Reserves 2013/14

Unusable reserves are those which the PCC is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences (for example the Capital Adjustment Account). **Note 3.2** provides a narrative description of the unusable reserves.

PCC	Note	Capital Adjustment Account	Collection Fund Adjustment Account	Revaluation Reserve	PCC Pensions Reserve (IAS 19)	Total Unusable Reserves
		£000	£000	£000	£000	£000
Balance as at 1st April 2013		**77,148**	**299**	**27,927**	**(1,281)**	**104,093**
Remeasurements of the net defined benefit liability	**9.22**	0	0	0	298	**298**
Surplus on revaluation of non-current assets		17	0	11,690	0	**11,707**
Total Comprehensive Income and Expenditure		**17**	**0**	**11,690**	**298**	**12,005**
Adjustments between accounting basis and funding basis under regulations:						
Depreciation,impairment,amortisation and revaluations charged to the CIES		(12,251)	0	0	0	**(12,251)**
Capital grants and contributions credited to the CIES	**4.3**	7,066	0	0	0	**7,066**
Application of grants to capital financing		0	0	0	0	**0**
Net loss on sale of non current assets		(735)	0	0	0	**(735)**
Use of capital receipts to fund capital expenditure	**5.6**	518	0	0	0	**518**
Actual amounts charged against the Pension Fund for the year	**9.7**	0	0	0	103	**103**
Difference in pension costs between accounting basis (IAS 19) and funding basis	**9.7**	0	0	0	(189)	**(189)**
Difference in council tax income (between accounting and funding basis)		0	1,220	0	0	**1,220**
Statutory provision for repayment of debt (minimum revenue provision)	**5.6**	1,319	0	0	0	**1,319**
Repayment of inherited debt	**5.6**	235	0	0	0	**235**
Capital expenditure charged to the General Fund Balance	**5.6**	1,029	0	0	0	**1,029**
Transfer of the excess current cost depreciation over historical cost depreciation		589	0	(589)	0	**0**
Total adjustments		**(2,230)**	**1,220**	**(589)**	**(86)**	**(1,685)**
Net increase or (decrease) before transfers to earmarked reserves		**(2,213)**	**1,220**	**11,101**	**212**	**10,320**
Transfers to and from earmarked reserves		**5,023**	**0**	**0**	**0**	**5,023**
Balance as at 31st March 2014		**79,958**	**1,519**	**39,028**	**(1,069)**	**119,436**

4. Notes to the Group and the PCC Comprehensive Income and Expenditure Statement

4.1 Other Operating Income and Expenditure

PCC 2012/13	Group 2012/13		PCC 2013/14	Group 2013/14
£000	**£000**		**£000**	**£000**
(59,034)	(59,034)	Home Office grant payable towards retirement benefit costs	(62,376)	(62,376)
(134)	(134)	(Gains)/losses on the disposal of non-current assets	244	244
362	362	Seconded officers	232	232
0	223	IAS 19 administrative fees	3	258
(58,806)	**(58,583)**		**(61,897)**	**(61,642)**

4.2 Financing and Investment Income and Expenditure

PCC 2012/13	Group 2012/13		PCC 2013/14	Group 2013/14
£000	**£000**		**£000**	**£000**
244	244	Interest payable and similar charges	202	202
33	161,690	Net pensions interest cost	54	163,967
(226)	(226)	Interest income	(273)	(273)
0	(35)	Net surplus on internal trading undertakings	0	(72)
51	**161,673**		**(17)**	**163,824**

4.3 Taxation and Non-Specific Grant Income

Group and PCC 2012/13		Group and PCC 2013/14
£000		**£000**
(63,684)	Precepts	(50,579)
(219)	Surplus on collection fund	(1,344)
(1,537)	Council tax freeze grant 2011/12	(1,537)
(126,975)	Specific police grant	(134,729)
(2,428)	Revenue support grant	0
(123,665)	National non domestic rate income	0
0	Council tax support funding	(14,058)
0	DCLG formula funding	(124,038)
(3,559)	Capital grants and contributions	(7,066)
(322,067)		**(333,351)**

4. Notes to the Group and the PCC Comprehensive Income and Expenditure Statement

4.4 Grant Income

The Group credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2013/14:

Group and PCC 2012/13		Group and PCC 2013/14
£000		£000
	Credited to Taxation and Non Specific Grant Income	
(126,975)	Police specific revenue grant	(134,729)
(2,428)	Revenue support grant	0
(123,665)	National non-domestic rate income	0
(63,684)	Precepts	(50,579)
(219)	Surplus on collection fund	(1,344)
0	Council tax support funding	(14,058)
0	DCLG formula funding	(124,038)
(1,537)	Council tax freeze grant	(1,537)
(3,559)	Capital grants and contributions	(7,066)
(322,067)		**(333,351)**
	Credited to Cost of Services	
(3,978)	Terrorism grant	(5,199)
(1,792)	Regional grants	(1,974)
(10,530)	Neighbourhood policing fund (including PCS & TO's)	0
0	Community safety fund	(3,114)
0	Victim services grant	(415)
0	Council tax transition grant	(144)
0	Restorative justice services grant	(95)
(3,453)	Other grants	(911)
(19,753)		**(11,852)**

4. Notes to the Group and the PCC Comprehensive Income and Expenditure Statement

4.5 Regional Collaborations

The Group is party to a number of regional collaborations listed below. In all instances the Group's accounts reflect their share of the income, expenditure and cash flows arising from the structure of the arrangement. As the PCC receives all income and funding, any income receivable from the structure of the arrangement will be credited to the Comprehensive Income and Expenditure Statement of the PCC. As the Comprehensive Income and Expenditure Statement of the CC contains the expenditure arising from these collaborations the PCC credits the CC with an equivalent amount through the intra-group funding.

The Underwater Search Unit serves the areas of Cheshire, Greater Manchester, Merseyside, Lancashire, Cumbria and North Wales and is staffed by police officers from the six constituent Police and Crime Commissioners with the overall expenditure being met by those Commissioners. The expenditure is apportioned on the basis of the 2013/14 police grant allocations.

The Regional Crime Unit serves the areas of Cheshire, Greater Manchester, Merseyside, Lancashire, Cumbria and North Wales and exists to increase operational capacity and capability to tackle the organised crime threat in the North West through the establishment of a regional task force.

The Regional Intelligence Unit serves the areas of Cheshire, Greater Manchester, Merseyside, Lancashire, Cumbria and North Wales and plays a key role in tackling cross-border crime. The RIU identifies the types of crime and organised crime groups that represent a threat to the region and builds intelligence pictures that it relays to the Regional Crime Unit and/or other strategic partners for subsequent investigation.

The Regional Asset Recovery Team serves the areas of Cheshire, Greater Manchester, Merseyside, Lancashire, Cumbria and North Wales and aims to provide focused multi-agency operational capability with responsibility for investigating money laundering and asset recovery. Merseyside Police became the lead force for the unit in April 2012.

The North West Police Motorway Group (NWPMG) collaboration between Merseyside, Cheshire, Lancashire, and the Highways agency commenced in October 2008. The network covered by the Group consists of 552 carriageway miles, 13% of which are in Merseyside. The collaboration was instigated to ensure a co-ordinated approach to tackle key priorities.

National Police Air Service (NPAS) provides air support throughout England and Wales, and has operated in the Merseyside area since January 2013. West Yorkshire police are the lead force.

Cyber Crime Unit (PECU) provides support to local forces on tackling cyber crime.

North West Protected Person Unit (PPU) supports prevention and detection of serious and organised crime by protecting crucial witnesses in serious and complex cases.

4. Notes to the Group and the PCC Comprehensive Income and Expenditure Statement

4.5 Regional Collaborations (continued)

Group	2012/13			2013/14		
	Income	Exp	Net	Income	Exp	Net
	£000	£000	£000	£000	£000	£000
Underwater Search Unit	(157)	368	**211**	(142)	349	**207**
Regional Crime Unit	(3,307)	4,129	**822**	(3,307)	4,129	**822**
Regional Intelligence Unit	(1,060)	1,174	**114**	(1,012)	1,125	**113**
Regional Asset Recovery Team	(1,081)	1,081	**0**	(1,094)	1,094	**0**
Protected Persons Unit (PPU)	0	0	**0**	(935)	1,084	**149**
Cyber Crime (PECU)	0	0	**0**	(261)	261	**0**
NWPMG	(294)	539	**245**	(294)	533	**239**
NWAOG	0	1,488	**1,488**	0	0	**0**
NPAS (replaces NWAOG 13/14)	0	300	**300**	(1,362)	3,183	**1,821**
Total	**(5,899)**	**9,079**	**3,180**	**(8,407)**	**11,758**	**3,351**

Purchase of Regional Building

In this financial year the PCC has incurred £3.689m of capital expenditure on the purchase and refurbishment of a building to accommodate the Regional Crime Unit, the Regional Intelligence Unit and the Regional Asset Recovery Team. The cost of this asset has been fully funded by a £3.689m capital grant received from the Home Office.

The premises have been purchased in the name of and are owned by the PCC for Merseyside and the full cost of this asset (£3.689m) is reported as an asset under construction at the balance sheet date (**note 5.5**).

If the regional arrangements are ever terminated, the Home Office has the option of recovering the £3.689m grant received to fund the building. If this option was not exercised, the sale proceeds would be divided between the participating Forces (Cheshire, Greater Manchester, Merseyside, Lancashire, Cumbria and North Wales).

The building became operational in May 2014.

4.6 Other Collaborations

The PCC is developing a Joint Control Centre (JCC), which is to be shared by Merseyside Police and Merseyside Fire and Rescue Service. This project has involved refurbishing existing buildings as well as a new build. Total expenditure incurred as at the Balance Sheet date amounted to £5.138m. It is envisaged that the JCC will be in operation by Summer 2014. Once completed, the PCC will lease the building from Merseyside Fire and Rescue Service (MFRS) for a term of 40 years (**note 5.5** provides further detail).

As at 31st March 2014 capital commitments under this scheme amounted to £1.836m.

4. Notes to the Group and the PCC Comprehensive Income and Expenditure Statement

4.7 Police Officer and Police Staff Remuneration

The number of police officers and staff whose remuneration, excluding employer's pension contributions, was £50,000 or more in bands of £5,000 were:

PCC 2012/13	Group 2012/13				PCC 2013/14	Group 2013/14
3	235	£50,000	-	£55,000	0	196
0	120	£55,001	-	£60,000	1	94
1	19	£60,001	-	£65,000	1	25
0	11	£65,001	-	£70,000	0	6
0	13	£70,001	-	£75,000	0	5
0	18	£75,001	-	£80,000	0	14
1	17	£80,001	-	£85,000	1	7
1	9	£85,001	-	£90,000	0	7
0	2	£90,001	-	£95,000	0	3
0	1	£95,001	-	£100,000	0	1
0	2	£100,001	-	£105,000	0	0
0	0	£105,001	-	£110,000	0	1
0	0	£110,001	-	£115,000	0	1
0	0	£115,001	-	£120,000	0	0
0	0	£120,001	-	£125,000	0	1
0	1	£125,001	-	£130,000	0	0
0	0	£130,001	-	£135,000	0	1
0	0	£135,001	-	£140,000	0	1
0	0	£140,001	-	£145,000	0	1
0	0	£145,001	-	£150,000	0	0
0	0	£150,001	-	£155,000	0	0
0	0	£155,001	-	£160,000	0	0
0	0	£160,001	-	£165,000	0	0
0	0	£165,001	-	£170,000	0	0
0	1	£170,001	-	£175,000	0	1
0	0	£175,001	-	£180,000	0	0
0	0	£180,001	-	£185,000	0	0
1	1	£185,001	-	£190,000	0	0
0	0	£190,001	-	£195,000	0	0
0	0	£195,001	-	£305,000	0	0
1	1	£305,001	-	£310,000	0	0
8	**451**				**3**	**365**

Remuneration covers all amounts paid to, or receivable by, an employee and includes sums due by way of expenses allowance and the estimated money value of any other benefits received by an employee other than in cash. The table above also includes employees whose basic remuneration was below £50k, however their total remuneration for the year exceeded £50k as a result of redundancy payments made.

4.8 Senior Officers Remuneration 2012/13 (comparative figures)

The table below shows remuneration for senior employees for the year 2012/13. Senior officers are classed as 'relevant police officers' being the Chief Constable or any other police officer whose salary is £150,000 per year or more, and 'senior employees', being any employee whose salary is more than £150,000 per year, or one whose salary is at least £50,000 and has responsibility for the management of the relevant body, to the extent that the person has power or control over the major activities of the body. Expenses allowances disclosed are those chargeable under UK income tax.

Post Holder Information	Notes	Salaries (including Fees and Allowances)	Bonuses	Expenses Allowances	Compensation for Loss of Office (note 5)	Benefits in Kind	Total Remuneration excl. Pension Contributions 2012/13	Pension Contributions	Total Remuneration incl. Pension Contributions 2012/13
PCC		£	£	£	£	£	£	£	£
Police & Crime Commissioner - J Kennedy	1	30,458	0	0	0	0	30,458	3,015	**33,473**
Chief Executive and Monitoring Officer	2	115,152	0	10,366	182,363	0	307,881	12,503	**320,384**
Interim Chief Executive	3	9,006	0	0	0	0	9,006	868	**9,874**
Deputy Chief Executive		81,611	0	6,011	99,860	0	187,482	9,402	**196,884**
Assistant Treasurer	4	60,779	0	1,454	0	0	62,233	6,017	**68,250**
Performance and Policy Manager		51,645	0	1,406	0	0	53,051	5,113	**58,164**
Total PCC single entity statements		**348,651**	**0**	**19,237**	**282,223**	**0**	**650,111**	**36,918**	**687,029**
Chief Constable (CC)									
Chief Constable - J Murphy	6	157,388	0	16,283	0	0	173,671	0	**173,671**
Deputy Chief Constable	7	66,565	0	0	0	2,405	68,970	18,325	**87,295**
Director of Resources		81,599	0	0	0	4,186	85,785	8,084	**93,869**
Assistant Chief Constable		95,732	0	0	0	3,959	99,691	22,104	**121,795**
Assistant Chief Constable		124,212	0	0	0	3,649	127,861	28,601	**156,462**
Assistant Chief Constable		93,129	1,573	0	0	5,505	100,207	22,003	**122,210**
Assistant Chief Constable		92,035	917	0	0	0	92,952	21,956	**114,908**
Assistant Chief Constable		80,807	1,310	0	0	0	82,117	21,008	**103,125**
Total CC single entity statements		**791,467**	**3,800**	**16,283**	**0**	**19,704**	**831,254**	**142,081**	**973,335**
Total Group		**1,140,118**	**3,800**	**35,520**	**282,223**	**19,704**	**1,481,365**	**178,999**	**1,660,364**

4. Notes to the Group and the PCC Comprehensive Income and Expenditure Statement

4.8 Senior Officers Remuneration 2012/13 (continued)

Note 1 – The Police and Crime Commissioner commenced her role on the 22nd November 2013, her full year salary is £85,000.
Note 2 – With effect from the 15th November 2012 the post of Chief Executive and Treasurer was redesignated to that of Chief Executive and Monitoring Officer.
Note 3 – With effect from 11th February 2013 an officer was seconded from St. Helens MBC as Interim chief Executive.
Note 4 – With effect from the 15th November 2013 the Assistant Treasurer received an Honoraria for acting up as Interim Chief Finance Officer
Note 5 – The 'compensation for loss of office' column includes payments made to or receivable by the person in connection with their termination of employment i.e. voluntary early retirement, voluntary redundancy, compensation for loss of office, payment in lieu of notice, accrued salary and holiday pay.
Note 6 – The expenses allowance paid to the Chief Constable is a car allowance.
Note 7 – Costs for the Deputy Chief Constable are included for the part year whilst he was working for Merseyside Police (now seconded to Cumbria Police).

4. Notes to the Group and the PCC Comprehensive Income and Expenditure Statement

4.9 Senior Officers Remuneration 2013/14

The table below shows remuneration for senior employees for the year 2013/14. Senior officers are classed as 'relevant police officers' being the Chief Constable or any other Police Officer whose salary is £150,000 per year or more, and 'senior employees', being any employee whose salary is more than £150,000 per year, or one whose salary is at least £50,000 and has responsibility for the management of the relevant body, to the extent that the person has power or control over the major activities of the body. Expenses allowances disclosed are those chargeable under UK income tax.

Post Holder Information	Notes	Salaries (including Fees and Allowances)	Bonuses	Expenses Allowances	Compensation for Loss of Office (note 10)	Benefits in Kind	Total Remuneration excl. Pension Contributions 2013/14	Pension Contributions	Total Remuneration incl. Pension Contributions 2013/14
PCC		£	£	£	£	£	£	£	£
Police & Crime Commissioner - J Kennedy		85,000	0	0	0	0	85,000	8,415	**93,415**
Chief Executive and Monitoring Officer		49,111	0	399	0	0	49,510	4,862	**54,372**
Interim Chief Exec. & Monitoring Officer	1	27,403	0	558	0	0	27,961	2,641	**30,602**
Chief Finance Officer	2	59,958	0	867	0	0	60,825	5,936	**66,761**
Performance and Policy Manager		18,827	0	206	37,637	0	56,670	687	**57,357**
Total PCC single entity statements		**240,299**	**0**	**2,030**	**37,637**	**0**	**279,966**	**22,541**	**302,507**
Chief Constable (CC)									
Chief Constable - J Murphy	3	158,177	0	16,723	0	0	174,900	0	**174,900**
Deputy Chief Constable	4	138,092	0	0	0	3,158	141,250	31,654	**172,904**
Director of Resources		88,734	0	0	0	10,197	98,931	8,831	**107,762**
Deputy Chief Constable	5	128,644	0	0	0	6,763	135,407	29,591	**164,998**
Assistant Chief Constable	6	126,138	0	0	0	4,919	131,057	14,922	**145,979**
Assistant Chief Constable	7	102,046	0	0	0	7,957	110,003	24,261	**134,264**
Assistant Chief Constable	8	103,594	0	0	0	5,712	109,306	24,542	**133,848**
Assistant Chief Constable	9	91,864	0	0	0	0	91,864	21,494	**113,358**
Total CC single entity statements		**937,289**	**0**	**16,723**	**0**	**38,706**	**992,718**	**155,295**	**1,148,013**
Total Group		**1,177,588**	**0**	**18,753**	**37,637**	**38,706**	**1,272,684**	**177,836**	**1,450,520**

4. Notes to the Group and the PCC Comprehensive Income and Expenditure Statement

4.9 Senior Officers Remuneration 2013/14 (continued)

Note 1 - An officer was seconded from St Helens MBC as Interim Chief Executive until 31st August 2013.
Note 2 - Officer received an honoraria for acting up as Interim Chief Finance Officer until the 30th June 2013.
Note 3 – The expenses allowance paid to the Chief Constable is a car allowance.
Note 4 - The Deputy Chief Constable is currently seconded to Cumbria Police in the role of Temporary Chief Constable and all costs are fully recharged.
Note 5 - Temporary Deputy Chief Constable with effect from 05/08/2013, permanent Deputy Chief Constable with effect from 05/09/2013 (full years remuneration included).
Note 6 - Temporary Deputy Chief Constable to 04/08/2013 (full years remuneration included).
Note 7 - Permanent with effect from 29/04/2013 (full years remuneration included).
Note 8 - Permanent with effect from 29/04/2013 (full years remuneration included).
Note 9 - Temporary ACC to 05/08/2014 (full years remuneration included).
Note 10 - The compensation for the 'loss of office column' includes payments made or receivable by the person in connection with their termination of employment, i.e. voluntary early retirement, voluntary redundancy, compensation for loss of office, payment in lieu of notice, accrued salary and holiday pay.

4.10 Termination Benefits - PCC

The PCC terminated the contracts of a number of employees in 2013/14 and the total number of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below.

Exit Package Cost Band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		TOTAL number of exit packages by cost band		TOTAL cost of exit packages in each band	
	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14
							£	**£**
Less than £20,000	0	0	4	1	4	1	**26,104**	**14,639**
£20,001 - £40,000	0	0	3	2	3	2	**90,427**	**66,998**
£40,001 - £60,000	0	0	2	0	2	0	**99,707**	**0**
£60,001 - £80,000	0	0	1	0	1	0	**63,570**	**0**
More than £80,000	0	0	2	0	2	0	**417,403**	**0**
Total PCC	**0**	**0**	**12**	**3**	**12**	**3**	**697,211**	**81,637**

The total cost of £0.082m (£0.697m in 2012/13) in the table above represents the charge for exit packages that have been agreed, accrued for, and charged to the PCC Comprehensive Income and Expenditure Statement for the current year.

4. Notes to the Group and the PCC Comprehensive Income and Expenditure Statement

4.11 Termination Benefits - Group

The Group terminated the contracts of a number of employees in 2013/14 and the total number of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below.

Exit Package Cost Band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		TOTAL number of exit packages by cost band		TOTAL cost of exit packages in each band	
	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14
							£	**£**
Less than £20,000	3	1	13	78	16	79	**174,696**	**843,973**
£20,001 - £40,000	2	0	21	50	23	50	**690,562**	**1,383,996**
£40,001 - £60,000	0	0	9	11	9	11	**430,163**	**515,362**
£60,001 - £80,000	0	0	3	5	3	5	**208,655**	**333,534**
More than £80,000	0	0	4	3	4	3	**605,351**	**319,118**
Total Group	**5**	**1**	**50**	**147**	**55**	**148**	**2,109,427**	**3,395,983**

The total cost of £3.396m (£2.109m 2012/13) in the table above represents the charge for exit packages that have been agreed, accrued for, and charged to the Group Comprehensive Income and Expenditure Statement for the current year.   Accrued costs for 2013/14 included above are £0.756m and are based on the estimated cost to the Group.

4. Notes to the Group and the PCC Comprehensive Income and Expenditure Statement

4.12 Audit Costs

PCC 2012/13	Group 2012/13		PCC 2013/14	Group 2013/14
£000	£000		£000	£000
57	82	Fees payable to Grant Thornton UK LLP	51	76
57	**82**	**Total**	**51**	**76**

4.13 Related Parties

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

Police and Crime Commissioner

The PCC has direct control over the Group's finances, including responsibility for funding of all pensions' liabilities, and is responsible for setting the Police and Crime Plan. The Chief Constable retains operational independence and operates within the budget set by the PCC, to deliver the aims and objectives set out in the Police and Crime Plan. Section 28 of the Police Reform and Social Responsibility Act 2011 requires that the local authorities covered by the police area must establish a Police and Crime Panel (PCP) for that area. The PCP scrutinises the decisions of the PCC, reviews the Police and Crime Plan and has a right of veto over the precept.

Central Government

Central Government has effective control over the general operations of the Group and the PCC – it is responsible for providing the statutory framework within which the Group and the PCC operate and provides the majority of funding in the form of grants. Grants received from government departments are set out in **note 4.4** Grant Income.

Local Authorities

Funding from Local Authorities in the Merseyside area has been included on the basis of materiality:

Group and PCC 2012/13		Group and PCC 2013/14
£000		£000
	Precepts	
15,974	Wirral MBC	13,384
14,026	Sefton MBC	11,755
18,865	Liverpool City Council	13,639
8,455	St. Helens MBC	7,104
6,364	Knowsley MBC	4,697
63,684		**50,579**

4.13 Related Parties (continued)

Senior Officers of the Chief Constable and the Police and Crime Commissioner

The Group and the PCC have considered transactions with:

- the PCC;
- the CC;
- senior officers of the CC; and
- senior officers of the PCC.

and have concluded that there are no material transactions to disclose.

4.14 PCC Funding for Financial Resources Consumed by the CC

As the Chief Constable has no resources with which to fulfil his devolved responsibilities to provide a policing service, the expenditure is funded by the PCC.

These transactions are reflected in the intra-group accounts of both entities.

The funding provided covers the day to day expenses on an accruals basis as well as charges for operational assets consumed in the year. The funding does not cover pension (IAS 19) charges and charges for compensated absences as these charges (in the CC's Comprehensive Income and Expenditure Statement) are reversed in the CC's Movement in Reserves Statement and charged to the CC's unusable Pensions Reserve and unusable Accumulated Absences Account.

Intra-group Account	PCC	CC	Group
	£000	£000	£000
Opening balance as at 1st April 2012	**(375)**	**375**	**0**
2012/13 transactions			
PCC resources consumed at the request of the CC	433,602	(433,602)	0
PCC funding for resources consumed at the request of the CC	(433,602)	433,602	0
PCC funding for employee liabilities	(825)	825	
Closing balance as at 31st March 2013	**(1,200)**	**1,200**	**0**
2013/14 transactions			
PCC resources consumed at the request of the CC	410,197	(410,197)	0
PCC funding for resources consumed at the request of the CC	(410,197)	410,197	0
PCC funding for employee liabilities	444	(444)	
Closing balance as at 31st March 2014	**(756)**	**756**	**0**

4. Notes to the Group and the PCC Comprehensive Income and Expenditure Statement

4.15 Charge to CC for Assets Consumed in the Year

The PCC charges the CC for operational assets consumed in the year. This charge is made at fair value. The annual depreciation charge, impairments and downward valuations chargeable to the PCC's Comprehensive Income and Expenditure Statement are considered to be a reasonable proxy for fair value. The following charges have been made:

PCC 2012/13		PCC 2013/14
£000		**£000**
7,585	Depreciation	7,197
13,853	Impairment and downward valuations	2,859
1,573	Amortisation	1,198
23,011		**11,254**

5. Notes to the Group and the PCC Balance Sheet

5.1 Property, Plant and Equipment – Movement on Balances 2012/13

Group and PCC	Land & Buildings	Plant & Equipment	Vehicles	Assets Under Construction	Surplus Assets	Total
	£000	£000	£000	£000	£000	£000
Gross Value as at 1st April 2012	**150,964**	**22,442**	**20,105**	**29**	**3,184**	**196,724**
Additions	73	1,062	2,598	442	0	**4,175**
Transfers	0	0	(16)	16	0	**0**
Revaluation decreases recognised in the Revaluation Reserve	(7,766)	0	0	0	0	**(7,766)**
Revaluation decreases recognised in the Surplus/Deficit on Provision of Services	(14,442)	0	0	0	(189)	**(14,631)**
Derecognition - disposals	0	(70)	(1,956)	0	(57)	**(2,083)**
Derecognition - other	0	(4,326)	0	0	0	**(4,326)**
Assets reclassified to held for sale	0	0	0	0	(1,517)	**(1,517)**
Other movements in cost or valuation	0	228	48	0	0	**276**
Gross Value as at 31st March 2013	**128,829**	**19,336**	**20,779**	**487**	**1,421**	**170,852**
Depreciation and Impairment as at 1st April 2012	**(2,118)**	**(20,134)**	**(11,385)**	**0**	**(48)**	**(33,685)**
Depreciation charge for year	(3,040)	(1,474)	(3,070)	0	(38)	**(7,622)**
Depreciation written out to the Revaluation Reserve	1,489	0	0	0	0	**1,489**
Depreciation written out to the Surplus/Deficit on Provision of Services	578	0	0	0	10	**588**
Impairment losses recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0	(816)	**(816)**
Derecognition - disposals	0	70	1,721	0	1	**1,792**
Derecognition - other	0	4,255	0	0	0	**4,255**
Assets reclassified to held for sale	0	0	0	0	74	**74**
Other movements in depreciation or impairment	0	(133)	0	0	0	**(133)**
Depreciation and Impairment as at 31st March 2013	**(3,091)**	**(17,416)**	**(12,734)**	**0**	**(817)**	**(34,058)**
Carrying Value as at 31st March 2013	**125,738**	**1,920**	**8,045**	**487**	**604**	**136,794**
Carrying Value as at 31st March 2012	**148,846**	**2,308**	**8,720**	**29**	**3,136**	**163,039**

5. Notes to the Group and the PCC Balance Sheet

5.2 Property, Plant and Equipment – Movement on Balances 2013/14

Group and PCC	Land & Buildings	Plant & Equipment	Vehicles	Assets Under Construction	Surplus Assets	Total
	£000	£000	£000	£000	£000	£000
Gross Value as at 1st April 2013	**128,829**	**19,336**	**20,779**	**487**	**1,421**	**170,852**
Additions	537	1,766	3,110	8,714	0	**14,127**
Transfers	232	(97)	45	(277)	0	**(97)**
Revaluation increases recognised in the Revaluation Reserve	5,905	0	0	0	0	**5,905**
Revaluation decreases recognised in the Surplus/Deficit on Provision of Services	(3,008)	0	0	0	0	**(3,008)**
Derecognition - disposals	(301)	0	(3,543)	0	(8)	**(3,852)**
Derecognition - other	0	(1,950)	0	0	0	**(1,950)**
Gross Value as at 31st March 2014	**132,194**	**19,055**	**20,391**	**8,924**	**1,413**	**181,977**
Depreciation and Impairment as at 1st April 2013	**(3,091)**	**(17,416)**	**(12,734)**	**0**	**(817)**	(34,058)
Depreciation charge for year	(3,062)	(1,075)	(3,065)	0	0	**(7,202)**
Transfers	0	80	0	0	0	**80**
Depreciation written out to the Revaluation Reserve	5,802	0	0	0	0	**5,802**
Depreciation written out to the Surplus/Deficit on Provision of Services	214	0	0	0	0	**214**
Impairment losses recognised in the Surplus/Deficit on the Provision of Services	0	0	0	(61)	(363)	**(424)**
Derecognition - disposals	24	0	3,209	0	0	**3,233**
Derecognition - other	0	1,948	0	0	0	**1,948**
Depreciation and Impairment as at 31st March 2014	**(113)**	**(16,463)**	**(12,590)**	**(61)**	**(1,180)**	**(30,407)**
Carrying Value as at 31st March 2014	**132,081**	**2,592**	**7,801**	**8,863**	**233**	**151,570**
Carrying Value as at 31st March 2013	**125,738**	**1,920**	**8,045**	**487**	**604**	**136,794**

5. Notes to the Group and the PCC Balance Sheet

5.3 Property, Plant and Equipment – Capital Commitments

As at 31st March 2014, the Group and the PCC had entered into a number of capital contracts (with values in excess of £0.100m) for the construction, purchase or enhancement of Property, Plant and Equipment budgeted to cost £2.024m.

Similar commitments at 31st March 2013 were £5.826m.

5.4 Revaluations

Land and Buildings

The Group and the PCC carry out a rolling programme that ensures that all land and buildings are revalued at least once every five years. The valuations have been undertaken by an external valuer during the period January 2014 to March 2014. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

The significant assumptions applied in estimating fair values for land and buildings are:

- That all required valid planning permissions and statutory approvals for the buildings and for their use, including any extensions or alterations, have been obtained and complied with;
- That no deleterious or hazardous materials or techniques have been used, that there is no contamination in or from the ground, and it is not landfilled ground;
- That the properties are not subject to any unusual or especially onerous restrictions, encumbrances or outgoings and that good title can be shown;
- That the properties and their values are unaffected by any matters which would be revealed by local searches, replies to the usual pre-contract enquiries, or by any statutory notices which may indicate that neither the properties, nor their condition, use, or intended use, is or will be unlawful;
- That inspections of those parts that have not been inspected, or a survey inspection, would not reveal material defects or cause the Valuers to alter the valuations materially;
- That the properties are connected to, and there is a right to use, the reported mains services on normal terms; and
- That sewers, main services and the roads giving access to the property have been adopted.

The majority of operational properties (99% by value) have been revalued in the financial year. Full valuations were undertaken on nine properties (valuation £34.685m) and a further thirty-seven properties were subject to a desktop review (valuation £96.535m). The majority of the buildings are valued on a Depreciated Replacement Cost (DRC) basis.

Operational properties represent 94% of the total portfolio, with assets under construction making up the majority of the remainder (5%).

Helicopter

In May 2012 the helicopter transferred to an external organisation under an operating lease for the period May 2012 to May 2014. The helicopter will transfer to the National Police Air Service on 23rd May 2014. IAS 36 Impairment of Assets has the objective of ensuring that assets are not carried in the Balance Sheet at more than their recoverable amount. Whilst the helicopter is not an investment asset, its value in use to the Force at the current time is as a cash generating asset and therefore it is considered prudent to calculate the recoverable amount based on the present value of future cash flows. This has resulted in an impairment loss amounting to £0.363m.

Vehicles, Plant and Equipment

All other vehicles and plant, furniture and equipment are valued at depreciated historical cost as this valuation is deemed to be a reasonable estimate of fair value.

5. Notes to the Group and the PCC Balance Sheet

5.4 Revaluations (continued)

Group and PCC	Land & Buildings	Plant & Equipment	Vehicles	Assets Under Construction	Surplus Assets	Total
	£000	£000	£000	£000	£000	£000
Carried at historical cost	435	19,055	20,391	8,924	0	**48,805**
Valued at fair value as at:						
31st March 2011	35	0	0	0	8	**43**
31st March 2012	504	0	0	0	1,405	**1,909**
31st March 2013	0	0	0	0	0	**0**
31st March 2014	131,220	0	0	0	0	**131,220**
Total cost or valuation as at 31st March 2014	**132,194**	**19,055**	**20,391**	**8,924**	**1,413**	**181,977**

5.5 Assets Under Construction

The majority of assets under construction relate to the purchase and refurbishment of the regional accommodation (£3.689m **Note 4.5**) and the development of a Joint Control Centre (JCC) shared by Merseyside Police and Merseyside Fire and Rescue Service (£5.138m).

The project has involved refurbishing existing buildings as well as a new build. It is envisaged it will be in operation by Summer 2014. Once completed, the PCC will lease the building from Merseyside Fire and Rescue Service (MFRS) for a term of 40 years. As the PCC is making capital contributions to MFRS towards the building works, the liability for the payment of the lease will be considered paid in full at its inception.

5. Notes to the Group and the PCC Balance Sheet

5.6 Capital Financing Requirement

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

Group and PCC 31st March 2013		Group and PCC 31st March 2014
£000		£000
37,010	**Opening Capital Financing Requirement**	**35,070**
	Capital Investment	
5,055	Operational assets	15,029
	Sources of Finance	
(3,559)	Government grants and other contributions	(7,066)
(262)	Revenue financing	(1,029)
(265)	Use of reserves	(5,023)
(969)	Capital receipts	(518)
(1,784)	Minimum revenue provision	(1,319)
(235)	Repayment for inherited debt	(235)
79	Other CFR adjustments	23
35,070	**Closing Capital Financing Requirement**	**34,932**
	Explanation of Movements in Year	
(1,940)	Decrease in underlying need to borrow	(137)
(1,940)	**Decrease in Capital Financing Requirement**	**(137)**

5.7 Debtors

The amounts owed to the Group and the PCC in respect of general sundry debtors are kept continually under review and particularly in respect of the likelihood that some debts may not be paid. As at 31st March 2014 the impairment allowance for doubtful debtors was £0.092m (2013: £0.137m).

PCC 31st March 2013	Group 31st March 2013		PCC 31st March 2014	Group 31st March 2014
£000	£000		£000	£000
12,592	**12,592**	**Government Departments**	**15,920**	**15,920**
20,311	20,311	Other Local Authorities	20,442	20,442
(14,395)	(14,395)	Impairment allowance for (council tax) doubtful debtors	(13,583)	(13,583)
5,916	**5,916**	**Other Local Authorities (net of impairment)**	**6,859**	**6,859**
1,556	1,556	Sundry debtors	2,144	2,144
(137)	(137)	Impairment allowance for doubtful debtors	(92)	(92)
1,419	**1,419**	**Sundry debtors (net of impairment)**	**2,052**	**2,052**
9,558	**9,558**	**Prepayments**	**2,079**	**2,079**
0	**150**	**Short term accumulating absences**	**0**	**98**
29,485	**29,635**	**Total Debtors**	**26,910**	**27,008**

5. Notes to the Group and the PCC Balance Sheet

5.8 Cash and Cash Equivalents

The balance of cash and cash equivalents is made up of the following elements:

Group and PCC 31st March 2013		Group and PCC 31st March 2014
£000		£000
51	Impersts	41
25	Bank current accounts	21
500	Indemnity account*	500
16,960	Short term investments*	16,790
17,536	**Total Cash and Cash Equivalents**	**17,352**

* The 2012/13 comparatives have been restated to separately disclose the indemnity account of £0.500m.

As at 31st March 2014, the Group and the PCC held a total of £2.362m (2012/13: £2.321m) under the Proceeds of Crime Act 2002, representing cash seized by Police and retained as evidence in support of crimes or cash handed into the Police as found property awaiting claim by the owner or finder.

The amount is not under the ownership of the Group or the PCC which acts as steward on behalf of various parties, and as such does not form part of the accounts of the Group or the PCC.

Within the accounts of the Group and the PCC, there is £0.108m (2012/13: £0.137m) held under the Police Property Act 1997 which applies to property that is in the possession of police where the owner of the property cannot be identified and where no order of a competent court has been made. This amount is shown in **note 3.3**, earmarked reserves, under the heading Police Property Act Fund. The Fund is used to meet expenses incurred in the conveyance, storage, safe custody and sale of the property and to make payments for charitable purposes.

5.9 Creditors

PCC 31st March 2013	Group 31st March 2013		PCC 31st March 2014	Group 31st March 2014
£000	£000		£000	£000
(1,467)	(1,467)	Government departments	(1,711)	(1,711)
(6,329)	(6,329)	HM Revenue & Customs	(4,932)	(4,932)
(5,893)	(5,893)	Other local authorities	(6,369)	(6,369)
(14,294)	(15,494)	Bodies external to general government	(12,250)	(13,006)
0	(6,709)	Short term accumulating absences	0	(5,517)
(1,200)	0	Intra-group account	(756)	0
(29,183)	**(35,892)**	**Total External Creditors**	**(26,018)**	**(31,535)**

The short term accumulating absences accrual reflects the cost of any form of leave (e.g. annual leave, time off in lieu, rest days in lieu) earned by employees but not taken before the year-end.

The accrual raised in the 2012/13 financial year allowed for all leave earned by employees but not taken before the year end. For the 2013/14 financial year, the accrual has been restricted to the amount of time which is allowable under the employees/officers terms and conditions of employment.

5. Notes to the Group and the PCC Balance Sheet

5.10 Bank Overdraft

Group and PCC 31st March 2013		Group and PCC 31st March 2014
£000		£000
(1,509)	Bank Overdraft	(43)
(1,509)	**Total Bank Overdraft**	**(43)**

5.11 Deferred Liabilities

The figure for deferred liabilities in the Group and the PCC Balance Sheets relates to inherited debt administered by Wirral Metropolitan Borough Council. Similar debts are administered on behalf of all Authorities comprising the former Merseyside County Council. As such it is not possible to provide an analysis of the amount outstanding for an individual Authority by lender category and maturity, the overall debt being managed as a single sum. However, in line with the Redemption of Debt Order (1986), the loans are being repaid on a straight line basis over 40 years.

Group and PCC 31st March 2013		Group and PCC 31st March 2014
£000		£000
(3,290)	**Balance brought forward**	**(3,055)**
235	Repayment of principal	235
(3,055)	**Balance carried forward**	**(2,820)**
(235)	Payable within one year	(235)
(2,820)	Payable in more than one year	(2,585)
(3,055)		**(2,820)**

5. Notes to the Group and the PCC Balance Sheet

5.12 Provisions

The Group and the PCC hold provisions in respect of:
- potential insurance claims;
- pension commutations payable; and
- building dilapidations.

Insurance Provision

In 2013/14 the Group and the PCC made a contribution of £3.352m to the Insurance Provision. The contributions made each year are based upon best advice received from the Group's insurance brokers. This takes account of the previous claims history and the anticipated outcomes of known claims. Self-insurance currently substantially assumes the risk in respect of public, employer and motor liabilities.It is noted during the year that the Group and the PCC paid £0.569m from the Insurance Provision in respect of its liability regarding the former insurance company Municipal Mutual Insurance Ltd **(Note 5.13)**. The level of the Insurance Provision is continually reviewed to ensure it is at an appropriate level.

Other Provisions

The Group and the PCC have made a provision of £1.702m in respect of estimated pension commutations payable to police officers who had given notice of their intention to retire as at the 31st March 2014. Provisions for potential dilapidation charges on leased buildings amount to £0.152m.

Group and PCC 31st March 2013		Group and PCC 31st March 2014
£000	**Insurance provision**	**£000**
(5,449)	**Balance brought forward**	**(6,378)**
(3,254)	Additional provisions made in the financial year	(3,352)
(569)	Transfer from Insurance Reserve	0
2,894	Amounts used in the financial year	4,298
(6,378)	**Total Insurance Provision**	**(5,432)**
	Other Provisions	
0	Provision for pension commutations payable to retiring police officers	(1,702)
0	Provision for building dilapidations	(152)
(6,378)	**Total Provisions**	**(7,286)**
(3,709)	Estimated to be payable within one year	(4,936)
(2,669)	Estimated to be payable in more than one year	(2,350)
(6,378)	**Total Provisions**	**(7,286)**

5.13 Contingent Liability

The PCC's former insurance company, MMI Limited, ceased trading in September 1992. A 'Scheme of Arrangement' was agreed in case of insolvency, involving clawback of claims paid. Up until November 2012 the scheme had been held in reserve, since the agreed claims continued to be paid in full. However, in November 2012 the Municipal Mutual Insurance Board of Directors decided to trigger the Scheme of Agreement as a solvent run-off could no longer be foreseen. The Scheme of Arrangement was enacted in 1992 following Municipal Mutual Insurance ceasing to operate and entering a process of "run-off" and settling the company's agreed liabilities. This process was predicted to last at least 20 years. Whilst it was initially believed that a solvent run-off was achievable, there was always a risk that solvency could be adversely affected by market fluctuations, including increases in liabilities and estimated future claim values. The latter aspect has been significantly adversely affected by the increase in mesothelioma claims. After completing discussions with their professional advisors, the Directors concluded that there was no other alternative to insolvent liquidation. Control of the company subsequently passed to the Scheme Administrator (Ernst and Young), in accordance with the terms of the Scheme. A financial review of the company was undertaken and, in consultation with the Scheme Creditors Committee, the extent to which any levy was to be imposed upon Scheme Creditors was considered.

5. Notes to the Group and PCC Balance Sheet

5.13 Contingent Liability (continued)

In April 2013 the PCC received notification by Ernst and Young of the outcome of their review. They advised that they proposed to raise an initial Levy of 15% based on a mid point estimate of MMI's remaining liabilities to ensure that a solvent run-off is achieved. At the time it was estimated that the PCC's liabilities with Municipal Mutual Insurance were £3.793m, which equated to a levy of £0.569m. This amount was set aside within the Insurance Provision in 2012/13 when the liability was made known to the PCC. In January 2014 the levy was confirmed and payment was subsequently made in February 2014 by the PCC from the Insurance Provision.

As the financial projections for run-off remain subject to uncertainty the Scheme of Arrangement will be reviewed annually. As appropriate, any further Levy will be called upon as the financial position becomes clearer. Based upon the worst case scenario in respect of MMI's remaining liabilities, the PCC may be called upon to pay additional levies up to £0.493m. This sum has been set aside within the Insurance Reserve.

In addition, the PCC recognises that it potentially has a contingent liability of some £1.030m for insurable accidents, i.e. the risk in respect of motor, public and employees liabilities that have been incurred but as of yet, the PCC/Force have not yet received an insurance claim. The assessment has been made on the basis of historical insurance patterns and adjusted to reflect the fact that the PCC/Force will not be liable for all claims reported.

5.14 Financial Instruments Balances

The definition of a financial instrument is 'any contract that gives rise to a financial asset of one entity and a financial liability, or equity instrument of another entity'. The term 'financial instrument' covers both financial assets and liabilities. The definition is broad and covers instruments used in treasury management including the borrowing and lending of money and making of investments. However it also extends to include such items as trade receivables (debtors) and trade payables (creditors). The following categories of financial instruments are carried in the Balance Sheets of the PCC and the Group:

PCC 31st March 2013	Group 31st March 2013		PCC 31st March 2014	Group 31st March 2014
£000	**£000**		**£000**	**£000**
		Investments		
0	0	Loans and Receivables*	30,000	30,000
0	**0**	**Total Investments**	**30,000**	**30,000**
		Cash and cash equivalents		
17,536	17,536	Loans and Receivables	17,352	17,352
17,536	**17,536**	**Total Cash and Cash Equivalents**	**17,352**	**17,352**
		Debtors		
16,507	16,657	Loans and Receivables	20,718	20,815
16,507	**16,657**	**Total Debtors**	**20,718**	**20,815**
		Creditors		
(28,146)	(36,055)	Financial liabilities at amortised cost**	(46,631)	(52,904)
(28,146)	**(36,055)**	**Total Creditors**	**(46,631)**	**(52,904)**

* The PCC invested £30.000m of surplus cash balances in July 2013 for a period of 12 months. This investment will be realised in July 2014.

** In March 2014 the PCC arranged a number of short-term fixed interest loans amounting to £23.000m. The loans are included within the creditors balances above and they will mature in July 2014.

5.14 Financial Instruments Balances (continued)

The following assets/liabilities are excluded from the financial instruments balances because they arise under legislation and are therefore statutory in nature rather then contractual:

- Transferred debt arising from local government reorganisation in 1986 that is administered by Wirral MBC on behalf of the Group and;
- Amounts included within debtors and creditors for the Group's share of Council Tax debtors and overpaid/pre-paid Council Tax.

Prepayments are also excluded because they are contractual rights to receive goods or services rather than to receive cash or another financial asset (*the 2012/13 debtor comparatives have been restated to exclude £9.558m of prepayments).

The 2012/13 comparatives have been restated to reclassify £1.507m of bank overdrafts from cash and cash equivalents to creditors.

5.15 Financial Instruments Gains and Losses

The Comprehensive Income and Expenditure Statements of the Group and the PCC recognise £0.273m (£0.226m 2012/13) of gains relating to interest income and £0.002m (£0.002m) of losses relating to interest expenses. These gains and losses have been incurred in relation to Financial Instruments.

5.16 Fair Value of Assets and Liabilities carried at Amortised Cost

Financial liabilities and financial assets represented by loans and receivables are included in the Balance Sheets at amortised cost. For borrowings this means that the amount presented in the Balance Sheet is the outstanding principal repayment and the interest charged to the Comprehensive Income and Expenditure Statement is the amount payable in the year. Likewise, investments held are included in the Balance Sheet as the outstanding principal receivable and the interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable in the year.

Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments under the following assumptions:

- No early repayment or impairment is recognised;
- Where an instrument will mature in the next 12 months, the Balance Sheet carrying amount is assumed to approximate fair value and;
- The fair value of trade receivables and payables are assumed to be the invoiced or billed amount.

The carrying value of current financial assets and liabilities is deemed to be a reasonable approximation of fair value because of the relatively short period to maturity. The balances are shown in **Note 5.14**.

5. Notes to the Group and the PCC Balance Sheet

5.17 Financial Instruments – Nature and Extent of Risks Arising

Knowsley MBC Treasury Management Section undertakes the Treasury Management function for the Group and the PCC. The Group's activities expose it to a variety of financial risks:

Credit Risk

This is the risk that other parties may fail to pay amounts due and arises from the short term lending of surplus funds to banks and financial institutions as well as credit exposure to customers. The Group and the PCC have adopted CIPFA's Code of Practice for Treasury Management and this is enshrined in the Financial Regulations. This code includes key controls in respect of investment and borrowing in line with CIPFA's Prudential Code. The amounts owed to the Group and the PCC in respect of general sundry debtors are kept continually under review and particularly in respect of the likelihood that some debts may not be repaid. The Group and the PCC provide for bad debts each year, as at 31st March 2014 the provision was £0.092m.

Liquidity Risk

This is the risk that the Group or the PCC may not have funds available to meet its commitments to make payments. The Group produces cash flow projections on a regular basis to mitigate this risk. The projections allow for cash management including the repayment profile of any borrowings. Knowsley MBC Treasury Management Section is able to secure access to overdraft facilities and short term borrowing through Money Markets on behalf of the Group and the PCC.

Market Risk

This is the risk that financial loss might arise as a result of changes in such measures as interest rates or stock market movements. Investments and borrowings held in the Balance Sheet are at fixed interest rates and therefore the Group and the PCC are not exposed to movements in interest payable/receivable on investments and borrowings. The Group and the PCC have no financial assets or liabilities denominated in foreign currencies, and therefore has no exposure to loss arising from movements in exchange rates.

6. Notes to the Group and the PCC Cash Flow Statement

6.1 Adjust for Non Cash Movements

PCC 2012/13	Group 2012/13		PCC 2013/14	Group 2013/14
£000	£000		£000	£000
(7,623)	(7,623)	Depreciation	(7,202)	(7,202)
(14,858)	(14,858)	Impairment and downward valuations	(3,856)	(3,856)
(1,573)	(1,573)	Amortisation	(1,193)	(1,193)
(29)	(29)	(Increase)/decrease in impairment for bad debts	44	44
(8,517)	(7,668)	Decrease in debtors	(2,606)	(2,658)
(1,539)	(1,843)	(Increase)/decrease in creditors and provisions	5,954	7,145
(77)	(77)	Decrease in inventories	(39)	(39)
(313)	(313)	Carrying amount of non-current assets sold or derecognised	(735)	(735)
(29)	(178,539)	Movement in pensions liability	(87)	(203,527)
0	0	Other non cash adjustments	(249)	(249)
(34,558)	**(212,523)**		**(9,969)**	**(212,270)**

6.2 Adjust for Investing Activities

PCC 2012/13	Group 2012/13		PCC 2013/14	Group 2013/14
£000	£000		£000	£000
447	447	Proceeds from sale of property plant and equipment	491	491
3,541	3,541	Capital grants received for financing capital expenditure	7,066	7,066
3,988	**3,988**		**7,557**	**7,557**

6.3 Investing Activities

The cash flows for investing activities include the following items:

PCC 2012/13	Group 2012/13		PCC 2013/14	Group 2013/14
£000	£000		£000	£000
(447)	(447)	Proceeds from sale of property plant and equipment (PPE)	(677)	(677)
(3,541)	(3,541)	Receipt of capital grants	(5,609)	(5,609)
0	0	Net cash outflows from short-term investments	30,000	30,000
5,761	5,761	Purchase of PPE and Intangible Assets	11,980	11,980
141	141	Other investing activities	(800)	(800)
1,914	**1,914**		**34,894**	**34,894**

6. Notes to the Group and the PCC Cash Flow Statement

6.4 Financing Activities

The cash flows for financing activities include the following items:

PCC 2012/13	Group 2012/13		PCC 2013/14	Group 2013/14
£000	**£000**		**£000**	**£000**
0	0	Net cash inflows from short-term borrowing	(23,000)	(23,000)
235	235	Repayment of long-term borrowing	235	235
235	**235**		**(22,765)**	**(22,765)**

6.5 Interest received and paid

Cash flows from operating activities include £0.201m of interest paid and £0.100m of interest received.

7. Other Notes to the Core Financial Statements

7.1 Accounting Standards That Have Been Issued But Have Not Yet Been Adopted

The following sets out amendments to accounting standards or new accounting standards that have been issued on or before 1st January 2014 but will not be adopted by the Code until 2014/15.

IFRS 10 Consolidated Financial Statements

IFRS 10 outlines the requirements for the preparation and presentation of consolidated financial statements, requiring an entity to consolidate entities it controls. IFRS 10 replaces the existing control test; which is the power to govern financial and operating policies so as to obtain benefits from the entities' activities.

The new control test to be applied is all three of:

- power over the investee and;
- exposure or rights to variable returns and;
- ability to use the power to affect the amount of the investor's return.

Although this new control test will need to be applied to any entities that potentially fall within the PCC Group, it is not expected to change the accounts consolidated into the PCC Group at this stage.

IFRS 11 Joint Arrangements

IFRS 11 outlines the accounting by entities that jointly control an arrangement. Joint control involves the contractually agreed sharing of control and arrangements subject to joint control are classified as either a joint venture (representing a share of net assets and equity accounted) or a joint operation (representing rights to assets and obligations for liabilities, accounted for accordingly).

This adoption of IFRS 11 is expected to make it easier to define and account for joint arrangements. The main difference, other than the change from the original three types of arrangement (jointly controlled operations, jointly controlled assets and jointly controlled entities) to the two new categories (joint operations and joint ventures) is that the focus is no longer on the legal structure but on how the rights and obligations are shared by parties to the arrangement.

Again, this will mean a review of current joint arrangements but, on the basis of the arrangements the PCC is currently a party to, there is unlikely to be any impact to the accounts of the PCC.

IFRS 12 Disclosure of Interests in Other Entities

The objective of this standard is to require an entity to disclose information that enables users of its financial statements to evaluate:

- the nature of, and risks associated with, its interests in other entities;
- the effects of those interests on its financial position, financial performance and cashflows.

The aim is to improve disclosure of interests in other entities, particularly structured entities e.g. special purpose vehicles.

Apart from the Chief Constable, who is a 100% subsidiary of the PCC, the PCC does not currently have any interests in any other entities. The only possible impact on the accounts of the PCC/PCC Group would be in the narrative description of the arrangement with the CC.

7. Other Notes to the Core Financial Statements

7.1 Accounting Standards That Have Been Issued But Have Not Yet Been Adopted (continued)

IAS 27 Separate Financial Statements (amendments May 2011)

The objective of IAS 27 (as amended in 2011) is to enhance the relevance, reliability and comparability of the information that a parent entity provides in its separate financial statements and in its consolidated financial statements for a group of entities under its control. The Standard specifies:

- the circumstances in which an entity must consolidate the financial statements of another entity (being a subsidiary);
- the accounting for changes in the level of ownership interest in a subsidiary;
- the accounting for the loss of control of a subsidiary; and
- the information that an entity must disclose to enable users of the financial statements to evaluate the nature of the relationship between the entity and its subsidiaries.

Again, this will mean a review of current joint arrangements but, on the basis of the arrangements the PCC is currently a party to, there is unlikely to be any impact to the accounts of the PCC.

IAS 28 Investments in Associates and Joint Ventures (amendments May 2011)

The objective of IAS 28 (as amended in 2011) is to prescribe the accounting for investments in associates and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IAS 28 applies to all entities that are investors with joint control of, or significant influence over, an investee (associate or joint venture).

As no such arrangements currently fall within the PCC group boundaries this is not expected to have an impact on the accounts of the PCC Group

IAS 32 Financial Instruments: Presentation (amendments December 2011)

IAS 32 outlines the accounting requirements for the presentation of financial instruments, particularly as to the classification of such instruments into financial assets, financial liabilities and equity instruments. The standard also provides guidance on the classification of related interest, dividends and gains/losses, and when financial assets and financial liabilities can be offset.

The PCC does not currently hold any complex financial instruments. Financial instruments held consist of cash balances, trade debtors and creditors and short-term investments and borrowings. It is anticipated therefore that the impact of the adoption of this accounting standard will be minimal.

Annual Improvements to IFRS 2009-2011 Cycle

The IASB has issued the Annual Improvements to IFRS 2009-2011 Cycle which contains amendments to five standards which will be adopted in 2014/15.

IFRS 1 First-time adoption of International Financial Reporting Standards – the amendments relate to repeated applications of IFRS and capitalised borrowing costs. Neither of these scenarios apply to the PCC and therefore there will be no impact to the financial statements.

IAS 1 Presentation of Financial Statements – the amendments clarify the requirements for comparative information. This amendment will require an authority to present an opening balance sheet (known as a third balance sheet) when an entity changes its accounting policies; makes retrospective restatements or makes reclassifications, and that change has a material effect on the balance sheet.

Currently a third balance sheet is presented only if there is a prior year adjustment and therefore this amendment will impact upon future financial statements if material restatements or reclassifications are made.

7. Other Notes to the Core Financial Statements

7.1 Accounting Standards That Have Been Issued But Have Not Yet Been Adopted (continued)

IAS 16 Property Plant and Equipment – the amendment provides clarification on the classification of major spare parts and servicing equipment. The PCC does not hold significant assets of this nature and therefore the financial statements are unlikely to be impacted by the amendments.

IAS 32 Financial Instruments Presentation – the amendment clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes. This does not apply to the PCC and therefore there will be no impact on the financial statements.

IAS 34 Interim Financial Reporting – this accounting standard has not been adopted by the Code and therefore does not apply.

7. Other Notes to the Core Financial Statements

7.2 Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in **note 2**, the PCC has had to make certain judgements about complex transactions or those involving uncertainty about future events.

Complex Transactions

The PCC and the CC have needed to consider very carefully the income and expenditure, assets and liabilities and reserves that they each recognise in their single entity financial statements. To achieve this, the PCC has followed the relevant section of the Code in relation to the recognition of these items in the financial statements, and has also considered any informal arrangements between the PCC and the CC. The PCC has considered the substance of the transaction, not just its legal form.

Comprehensive Income and Expenditure Statement (CIES)	Recognised in PCC CIES	Recognised in CC CIES	Judgement
Income	**YES**	**NO**	The Financial Management Code of Practice (FMCP) for the Police Service, issued by the Secretary of State, makes it clear that the PCC is the recipient of funding relating to policing and crime reduction, including government grant and precept and other sources of income. This is supported in the PCC's Scheme of Corporate Governance which states that 'all funding to the Chief Constable must come via the Commissioner'. Therefore the PCC recognises all income receivable in its single entity financial statements and in turn provides funding to the CC to undertake day-to-day policing and crime reduction services during the year.
Expenditure - employee costs of police officers	**NO**	**YES**	In recognising employee costs the PCC has considered the requirements of IAS 19. This does not use control of risks and rewards in determining recognition but rather considers which body is responsible for incurring employee expenditure. In making this judgement however, the underlying substance of who the employment is incurred for has been considered and not just the legal form. Police officers are employees of the Crown and they represent the most significant cost of operational policing which the CC is solely responsible for. The full IAS 19 costs of police officers are therefore reflected in the CC's financial statements
Expenditure - employee costs of civilian staff	**YES (for staff in Office of PCC)**	**YES (for all other staff)**	The majority of police civilian staff are employed by the CC. These staff are considered to be employed to support the operational policing role of the CC and this expenditure is recorded in the CC's financial statements. The employee costs reported in the financial statements of the PCC relate to staff employed in the Office of the PCC who support the strategic role of the PCC.
Other Direct Expenditure	**YES (for costs relating to the Office of the PCC)**	**YES (for all other direct costs)**	The majority of other direct expenditure is employee driven (e.g. rent, rates, building maintenance, power, light, heat, telephones, transport etc). The costs are recognised in the financial statements of the entity which recognises the employee's costs.
Interest payable/receivable	**YES**	**NO**	The PCC holds all cash balances, loans and investments. The CC does not hold a bank account and no cash transactions take place between the two bodies.

7.2 Critical Judgements in Applying Accounting Policies (continued)

Balance Sheet	Recognised in PCC Balance Sheet	Recognised in CC Balance Sheet	Judgement
Property Plant and Equipment (including assets held for sale)	**YES**	**NO**	The PCC has legal title to long term assets, the power to determine whether the assets are sold and receives all the sales proceeds. The PCC controls the services provided through the long term assets, who they are provided to and controls the residual value at the end of the contractual arrangement. It is therefore considered that the PCC will receive the future benefits from the assets. The PCC charges the CC a fair value for the assets which reflects depreciation and impairment/revaluation losses chargeable to the CIES.
Current Assets	**YES**	**YES ***	The majority of current assets are recognised on the PCC's balance sheet. Inventories are recognised on the PCC's Balance Sheet as the PCC controls the services provided through the assets. The majority of debtors are recognised on the PCC's balance sheet as the PCC is the recipient of all funding and is therefore considered to receive the future benefits. Cash and cash equivalents and short-term investments are recognised on the PCC's balance sheet as the PCC is in receipt of all income and funding and makes all payments. The CC does not hold a bank account and no cash transactions take place between the two bodies.
Current Liabilities	**YES**	**YES***	The majority of the current liabilities are recognised on the PCC's balance sheet. The PCC has the responsibility for managing financial relationships with third parties and has legal responsibility for discharging the contractual terms and conditions of suppliers. The deferred liabilities relate to inherited debt which is a liability of the PCC. The provisions relate to insurance risks which are recognised in full on the PCC's balance sheet. Whilst the PCC and the CC are jointly responsible for approving risk management and strategy, the PCC is ultimately responsible for financial liabilities affecting the Police Fund.
Long-term liabilities	**YES**	**YES***	The PCC and CC each recognise pension liabilities relating to staff under their direction and control. The treatment of provisions and deferred liabilities are explained above in current liabilities (and are recognised on the balance sheet of the PCC).
Usable Reserves	**YES**	**NO**	The PCC has the responsibility of deciding upon the level of general balances and earmarked reserves. The CC must present a business case to the PCC for one-off expenditure items to be funded from earmarked reserves and/or general balances.
Unusable Reserves	**YES**	**YES***	The PCC and CC each recognise the pensions reserve and accumulated absences account balances relating to staff under their direction and control. The remaining unusable reserves are held in relation to property, plant and equipment and are therefore recorded on the balance sheet of the PCC.

* Balances reported on the CC's balance sheet relate to assets/liabilities/reserves arising from officers/staff under the direction and control of the CC.

Uncertainty about future events

There is a high degree of uncertainty about future levels of funding for the Group. However the PCC has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the PCC and the Group might be impaired as a result of a need to reduce levels of service provision.

7. Other Notes to the Core Financial Statements

7.3 Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The Statement of Accounts for the PCC and the Group contains estimated figures that are based upon assumptions made by the Group about the future, or that are uncertain. Estimations are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. The items in the PCC and Group Balance Sheets at 31st March 2014 for which there is a potential significant risk of material adjustment in the forthcoming financial year are as follows:

Uncertainty	Effect if Actual Results Differ from Assumptions
Provisions	
The PCC and Group have an insurance provision and this represents an amount of £5.432m of known obligations based on insurance company reserves amounts, inclusive of a win/loss ratio.	An increase in known obligations or a reduction on the win/loss ratio over the forthcoming year will result in consideration being given to making additional contributions to the provision to ensure that the level of known obligations are met. Alternatively, if the known obligations fall and the win/loss ratio increases consideration will be given to reducing the amount in the provision.
The General Fund Balance and Earmarked Reserves	
The PCC and Group retain a number of reserves in order to ensure that adequate financial resilience is maintained over the longer term. The Police Service, as one of the major emergency services is required to respond to incidents of an unexpected nature over which it has little or no control. A major incident or a series of events could put extraordinary pressure on the financial resources in a particular year.	The Group has set aside £1.026m to form an Operational Contingency Reserve to recognise the potential operational and financial risk attached to policing public order and major incidents. If a major incident(s) occurred which exceeded the level of this reserve the PCC would be required to meet the excess from other funds or reserves.
Pensions Liability	
The pension liability is recognised on the CC and Group Balance Sheet. Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality and expected returns on pension fund assets. The Group uses an independent firm of actuaries to assess the Local Government Pension Scheme assets and liabilities and the Government Actuaries Department to assess the Police Scheme liabilities.	The effects on the net pensions liability of changes in individual assumptions are detailed in the actuarial assumptions sensitivity analysis (**note 9.11**). The Group recognises the cost of retirement benefits in the cost of services when the benefits are eventually paid as pensions. However, the charge required to be made against the precept is based on the cash payable in the year, so the real cost of retirement benefits is reversed out in the Movement in Reserves Statement. Any revisions to the estimation of the net liability to pay pensions would not impact upon the Revenue Account of the Group.
Valuations of Operational Properties	
Land and building assets are held on the PCC and the Group Balance Sheet. In the 2013/14 financial year 26% of properties (by value) have been subject to a full valuation and 73% have been subject to a desktop valuation.	The properties with an estimated desktop valuation will be subject to a full valuation as part of the rolling programme of valuation of assets. Should the actual results differ from the estimated results the balance sheet values of Property, Plant and Equipment will increase or decrease accordingly, however there will be no overall impact to the Revenue Account of the PCC or the Group due to the statutory overrides to reverse the impact of depreciation, impairment and revaluation losses.

7. Other Notes to the Core Financial Statements

7.4 Events After the Balance Sheet Date

The Statement of Accounts was authorised for issue by John Riley, Chief Finance Officer to The Police & Crime Commissioner for Merseyside on 24th September 2014.

Events taking place after this date are not reflected in the financial statements or notes.

Where events have taken place before 24th September 2014 which provided information about conditions existing at 31st March 2014, the figures in the financial statements have been adjusted in all material respects to reflect the impact of this information.

The Statement of Accounts is not adjusted for events that have taken place between 1st April 2014 and 24th September 2014 which are indicative of conditions that arose after the reporting period.

The Police Reform and Social Responsibility Act 2011 provided for a Stage 2 transfer where the PCC agrees with the CC which assets, police staff, rights and liabilities are transferred to the CC. The Stage 2 Transfer Scheme was presented to the Home Secretary in September 2013 and became effective from 1st April 2014. This has been accounted for as a non- adjusting post balance sheet event. The approach of the PCC was that all Merseyside Police staff would transfer to the employment of the CC, other than those currently employed within the Office of the PCC under her direction and control to directly support the exercise of her functions. The PCC and the CC have agreed that property, plant and equipment assets would remain under the ownership and control of the PCC.

The judgements and decisions made in the Stage 2 transfer provide further evidence for the substance of the transactions at Stage 1 as detailed in **note 7.2**.

8. Amounts Reported for Resource Allocation Decisions

8.1 Amounts Reported for Resource Allocation Decisions

The analysis of income and expenditure by service on the face of the Group and the PCC Comprehensive Income and Expenditure Statements is that specified by the Service Reporting Code of Practice (SeRCOP). However, decisions about resource allocation are taken by the Group and the PCC on the basis of net expenditure reports analysed across Financially Accountable Units (FAUs). These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- Specific grants are credited to net cost of services in the Comprehensive Income and Expenditure Statement, however they are not reported as part of net expenditure in the FAU Income and Expenditure Statement.
- The cost of retirement benefits is based on cash flows (payment of employer's pension contributions and retirement benefits payable direct to pensioners) rather than the current service cost of benefits accrued in the year.

The FAU net expenditure reports used for resource allocation decisions are shown at **notes 8.3 and 8.4** for the Group and **notes 8.6 and 8.7** for the PCC**.** A reconciliation between the FAU net expenditure report and the net cost of services in the Comprehensive Income and Expenditure Statement is detailed in **note 8.2** for the Group and **note 8.5** for the PCC.

8.2 Reconciliation of Group FAU Net Expenditure to Cost of Services in the Group Comprehensive Income and Expenditure Statement (CIES)

This reconciliation shows how the figures in the analysis of Financially Accountable Unit (FAU) Income and Expenditure relate to the amounts included in the Group Comprehensive Income and Expenditure Statement.

2012/13	Group	Note	2013/14
£000			**£000**
349,594	**Net Expenditure in the FAU Analysis**	8.3 & 8.4	328,356
60,569	Amounts not reported in FAU net expenditure		85,483
3,366	Amounts reported below net cost of services in the Comprehensive Income and Expenditure Statement		6,662
(1,222)	Amounts not reported in the Comprehensive Income and Expenditure Statement		1,969
412,307	**Cost of Services in Comprehensive Income and Expenditure Statement**		**422,470**

8. Amounts Reported for Resource Allocation Decisions

8.3 Reconciliation of Group Financially Accountable Unit (FAU) Net Expenditure to Subjective Analysis 2012/13 (comparative figures)

Group	FAU Net Exp. Statement	Amounts not reported in FAU Net Exp. Statement	Amounts reported below Cost of Services in CIES	Amounts not reported in CIES	Cost of Services	Corporate Amounts	Total
	£000	£000	£000	£000	£000	£000	£000
Fees, charges & other service income	(21,577)	0	0	0	**(21,577)**	0	**(21,577)**
Interest and investment income	0	0	0	0	**0**	(226)	**(226)**
Precept	0	0	0	0	**0**	(63,903)	**(63,903)**
National non-domestic rate income	0	0	0	0	**0**	(123,665)	**(123,665)**
Government grants	(7,156)	(17,147)	3,559	0	**(20,744)**	(193,533)	**(214,277)**
Total Income	**(28,733)**	**(17,147)**	**3,559**	**0**	**(42,321)**	**(381,327)**	**(423,648)**
Employee expenses	295,886	76,620	(362)	(960)	**371,184**	162,275	**533,459**
Other expenses	82,441	1,096	134	(262)	**83,409**	0	**83,409**
Loss on disposal of PPE	0	0	35	0	**35**	(134)	**(99)**
Net surplus on trading activities	0	0	0	0	**0**	(35)	**(35)**
Interest payments	0	0	0	0	**0**	244	**244**
Total Expenditure	**378,327**	**77,716**	**(193)**	**(1,222)**	**454,628**	**162,350**	**616,978**
(Surplus)/Deficit	**349,594**	**60,569**	**3,366**	**(1,222)**	**412,307**	**(218,977)**	**193,330**

8. Amounts Reported for Resource Allocation Decisions

8.4 Reconciliation of Group Financially Accountable Unit (FAU) Net Expenditure to Subjective Analysis 2013/14

Group	FAU Net Exp. Statement	Amounts not reported in FAU Net Exp. Statement	Amounts reported below Cost of Services in CIES	Amounts not reported in CIES	Cost of Services	Corporate Amounts	Total
	£000	£000	£000	£000	£000	£000	£000
Fees, charges & other service income	(18,522)	0	0	0	**(18,522)**	0	**(18,522)**
Interest and investment income	0	0	0	0	**0**	(273)	**(273)**
Precept	0	0	0	0	**0**	(51,923)	**(51,923)**
National non-domestic rate income	0	0	0	0	**0**	(124,038)	**(124,038)**
Government grants	(6,481)	(11,852)	7,066	0	**(11,267)**	(219,766)	**(231,033)**
Total Income	**(25,003)**	**(11,852)**	**7,066**	**0**	**(29,789)**	**(396,000)**	**(425,789)**
Employee expenses	280,706	96,326	(232)	2,998	**379,798**	164,458	**544,256**
Other expenses	72,653	1,009	0	(1,029)	**72,633**	0	**72,633**
Loss on disposal of fixed assets	0	0	(244)	0	**(244)**	244	**0**
Net deficit on trading activities	0	0	72	0	**72**	(72)	**0**
Interest payments	0	0	0	0	**0**	202	**202**
Total Expenditure	**353,359**	**97,335**	**(404)**	**1,969**	**452,259**	**164,832**	**617,091**
(Surplus)/Deficit	**328,356**	**85,483**	**6,662**	**1,969**	**422,470**	**(231,168)**	**191,302**

8. Amounts Reported for Resource Allocation Decisions

8.5 Reconciliation of FAU Net Expenditure to Cost of Services in the PCC Comprehensive Income and Expenditure Statement (CIES)

This reconciliation shows how the figures in the analysis of Financially Accountable Unit (FAU) Income and Expenditure relate to the amounts included in the PCC Comprehensive Income and Expenditure Statement.

2012/13	PCC	Note	2013/14
£000			£000
(26,443)	**Net Expenditure in the FAU Analysis**	8.6 & 8.7	(20,137)
(16,104)	Amounts not reported in FAU net expenditure		(10,843)
3,559	Amounts reported below net cost of services in the Comprehensive Income and Expenditure Statement		7,066
1573	Amounts not reported in the Comprehensive Income and Expenditure Statement		(3,775)
(37,415)	**Cost of Services in Comprehensive Income and Expenditure Statement**		**(27,689)**

8.6 Reconciliation of PCC Financially Accountable Unit (FAU) Net Expenditure to Subjective Analysis 2012/13 (comparative figures)

PCC	FAU Net Exp. Statement	Amounts not reported in FAU Net Exp. Statement	Amounts reported below Cost of Services in CIES	Amounts not reported in CIES	Cost of Services	Corporate Amounts	Total
	£000	£000	£000	£000	£000	£000	£000
Fees, charges & other service income	(21,577)	0	0	0	**(21,577)**	0	**(21,577)**
Interest and investment income	0	0	0	0	**0**	(226)	**(226)**
Precept	0	0	0	0	**0**	(63,903)	**(63,903)**
National non-domestic rate income	0	0	0	0	**0**	(123,665)	**(123,665)**
Government grants	(7,156)	(17,147)	3,559	0	**(20,744)**	(193,533)	**(214,277)**
Total Income	**(28,733)**	**(17,147)**	**3,559**	**0**	**(42,321)**	**(381,327)**	**(423,648)**
Employee expenses	1,170	0	0	0	**1,170**	395	**1,565**
Other expenses	1,120	1,043	0	1,573	**3,736**	0	**3,736**
Loss on disposal of PPE	0	0	0	0	**0**	(134)	**(134)**
Net surplus on trading activities	0	0	0	0	**0**	0	**0**
Interest payments	0	0	0	0	**0**	244	**244**
Total Expenditure	**2,290**	**1,043**	**0**	**1,573**	**4,906**	**505**	**5,411**
(Surplus)/Deficit	**(26,443)**	**(16,104)**	**3,559**	**1,573**	**(37,415)**	**(380,822)**	**(418,237)**

8. Amounts Reported for Resource Allocation Decisions

8.7 Reconciliation of PCC Financially Accountable Unit (FAU) Net Expenditure to Subjective Analysis 2013/14

PCC	FAU Net Exp. Statement	Amounts not reported in FAU Net Exp. Statement	Amounts reported below Cost of Services in CIES	Amounts not reported in CIES	Cost of Services	Corporate Amounts	Total
	£000	£000	£000	£000	£000	£000	£000
Fees, charges & other service income	(18,522)	0	0	0	**(18,522)**	0	**(18,522)**
Interest and investment income	0	0	0	0	**0**	(273)	**(273)**
Precept	0	0	0	0	**0**	(51,923)	**(51,923)**
National non-domestic rate income	0	0	0	0	**0**	(124,038)	**(124,038)**
Government grants	(6,481)	(11,852)	7,066	0	**(11,267)**	(219,766)	**(231,033)**
Total Income	**(25,003)**	**(11,852)**	**7,066**	**0**	**(29,789)**	**(396,000)**	**(425,789)**
Employee expenses	797	0	0	0	**797**	289	**1,086**
Other expenses	4,069	1,009	0	(3,775)	**1,303**	0	**1,303**
Loss on disposal of PPE	0	0	0	0	**0**	244	**244**
Net deficit on trading activities	0	0	0	0	**0**	0	**0**
Interest payments	0	0	0	0	**0**	202	**202**
Total Expenditure	**4,866**	**1,009**	**0**	**(3,775)**	**2,100**	**735**	**2,835**
(Surplus)/Deficit	**(20,137)**	**(10,843)**	**7,066**	**(3,775)**	**(27,689)**	**(395,265)**	**(422,954)**

Pension Fund Account

The CC is responsible for administering the Police Pension Fund in accordance with the Police Reform and Social Responsibility Act 2011. During the year all payments and receipts are made to and from the Police Fund. The Pension Fund Account reflects the pensions arrangements from 1st April 2013 to 31st March 2014 and does not take account of liabilities to pay pensions or other benefits after the period end. The pension transactions are split between two separate accounts. The Pension Fund Account has no investment assets and all of its transactions are reimbursed by a contribution from the PCC that the PCC recoups from central Government through the Pensions Top-Up Grant. The remainder of Pensions expenditure resides within the Group, and can be found in the PCC and Group Statement of Accounts. The Pension Fund Account has been prepared in line with similar accounting policies to the PCC and Group. This statement does not form part of the PCC or Group Statement of Accounts.

2012/13	Pension Fund Account	2013/14
£000		**£000**
	Income	
	Contributions Receivable	
(34,850)	Police employers pension contribution income	(33,563)
(14,170)	Employees pension contributions (Police Pension Scheme 1987)	(14,515)
(2,875)	Employees pension contributions (Police Pension Scheme 2006)	(3,485)
	Other	
(251)	Police transfer value receivable	(1,288)
(4,689)	Capital equivalent income - ill health pensions	(2,772)
(56,835)	**Total Income**	**(55,623)**
	Expenditure	
	Benefits Payable	
87,031	Police pensions	93,447
7,118	Police ill health commutations	4,484
20,354	Police ordinary commutations	19,355
208	Police death in service grant	495
	Other	
4	Refunds of contributions	4
1,154	Police transfer value payable	214
115,869	**Total Expenditure**	**117,999**
59,034	**Net Amount Payable/(Receivable) before top-up grant**	**62,376**
(59,034)	Additional contribution from the PCC	(62,376)
0	**Net Amount Payable/(Receivable)**	**0**

31st March 2013	Net Assets Statement	31st March 2014
£000	**Net Current Assets and Liabilities**	**£000**
	Creditors/Receipts in Advance	
0	Unpaid pension benefits	0
0	Employers contributions received in advance	0
0	Employees contributions received in advance	0
(98)	Amount to be reimbursed to PCC for refund of pension benefits	0
	Debtors/Prepayments	
0	Owed to pension fund from PCC for unpaid pension benefits	0
98	Refund of pension benefits	0
0	**Total Net Assets**	**0**

9. Pensions Notes

9.1 Pension Fund Account (Police Officers)

The Pension Fund Account records all the income and expenditure that is specified by regulations released on 1st August 2007. These Regulations relate to police officer pensions, police staff have a separate scheme which is described below.

The Police Pension Scheme is a defined benefit scheme, governed by the Police Pensions Regulations 1987 and related regulations. It is an unfunded scheme meaning that there are no investment assets built up to meet the pensions liabilities. Following the introduction of the new financial arrangements for police officer payments, a top up grant is received from the Home Office to meet the costs of pensions. The amounts remaining to be paid from the Police Grant are the notional employer contributions, charges for ill health retirements and injury awards.

The police officers make a contribution equivalent to 11% or 9.5% of their salary (depending on which scheme they are in). In April 2006 a revised scheme was introduced for new officers with contributions of 9.5%. In total £18.000m (2012/13: £17.045m) of contributions have been netted off against retirement benefits payable to pensioners in the Group financial statements. The PCC does not recognise the cost of employing police officers and therefore does not recognise any associated pension costs.

The fund is drawn up in accordance with the policies in the Statement of Accounting Policies. The fund's financial statements do not take into account liabilities to pay pensions and other benefits after the period end. The weighted average duration of the defined benefit obligation is estimated at around 20 years for the Old 1987 Police Pension Scheme, and at around 40 years for the New 2006 Police Pension Scheme.

As part of the terms and conditions of employment of its officers and other employees, the Group offers retirement benefits. Although these benefits will not actually be payable until employees retire, the Group has a commitment to make the payments which need to be disclosed at the time that the employees earn their future entitlement. Details of liabilities for both police officers and police staff for the Group and the PCC are shown at **notes 9.7 and 9.8**.

9.2 Police Staff Pensions

The Local Government Pension Scheme for police staff is administered by Merseyside Superannuation Fund. This is a defined benefit scheme, which is funded by a dedicated portfolio of assets to fund any liabilities of the scheme. The Group and employees pay contributions into a fund, calculated at a level intended to balance the pensions liability with investment assets. In addition, the Group has made arrangements for the payment of added years to certain retired employees outside the provision of the scheme. The cost to the Group of employer's contributions for police staff was £9.385m in 2013/14 (2012/13: £9.026m). The cost to the PCC of employer's contributions for police staff was £0.103m in 2013/14 (2012/13: £0.099m).

The duration of the defined benefit obligation for the Police Staff Pension Scheme is estimated at 22 years. Expected contributions for the 2014/15 financial year are £10.231m.

9.3 Sensitivity Analysis of Actuarial Assumptions

For the first time in 2013/14, a Sensitivity Analysis has been included showing the possible impact on the Net Defined Benefit Obligation of changes in the Actuarial assumptions (see **note 9.11/9.12**). The Sensitivity Analysis has been calculated by assessing changes in the Actuarial assumptions, including projected income and expenditure figures for the following year. No assessment has been allowed for the effects of changes in the yields on corporate bonds, as this would have an immaterial effect on the figures. It is important to note that all figures provided are approximate only and would be expected to change were the figures fully recalculated.

9. Pensions Notes

9.4 Pensions Risk - Police Staff

Wirral Borough Council is the administering authority for Merseyside Pension Fund (a Local Government Pension Scheme – LGPS) and has delegated responsibility and accountability for overseeing the Fund to the Pensions Committee who have identified the following risks:

Financial Risks

- Investment markets failing to perform in line with expectations
- Market yields move at variance with assumptions
- Investment Fund Managers fail to achieve targets
- Pay and Price inflation is significantly more or less than anticipated

Demographic Risks

- Longevity horizons continue to expand
- Deteriorating pattern of early retirements

Regulatory Risks

- Changes to Regulations
- Changes to national pension requirements and/or HMRC rules

These risks are managed through the MPF Pensions Committee which meet 4 or 5 times a year and has set up an Investment Monitoring Working Party which meets at least 6 times a year to monitor investment performance and developments. The Committee has delegated powers to the Director of Finance for the day to day running of the Fund.

Risks are actively monitored between the full triennial actuarial valuations and the funding strategy is reviewed between valuations if there are significant movements such as significant change in market conditions and/or deviation in the progress of the funding strategy, if there are significant changes to the Fund membership, or LGPS benefits, or other changes of circumstances.

9.5 Pensions Risk – Police Pension Scheme

This situation is different for the Police Pension Scheme for which all future Pensions obligations are effectively under-written in full by Legislation in the form of the Police Pension Fund Regulations 2007, which commits the Government to funding all ongoing liabilities of the Police Pension Scheme 1987 and 2006 (through the reimbursement mechanism of the Police Top Up Grant)

9.6 Pensions Costs Group

The Group recognises the cost of retirement benefits in the Cost of Services when employees earn them rather than when they are eventually paid as pensions. However, the charge required to be made against the precept is based on the cash payable in the year, so the real cost of retirement benefits is reversed out in the Movement in Reserves Statement. The following transactions have been made during the year:

Group	Local Government Pension Scheme		Police Pension Scheme					
	2012/13 £000	2013/14 £000	2012/13 OLD SCHEME £000	2012/13 NEW SCHEME £000	2012/13 TOTAL £000	2013/14 OLD SCHEME £000	2013/14 NEW SCHEME £000	2013/14 TOTAL £000
Net Cost of Services								
Current service cost	8,658	10,785	52,200	10,340	**62,540**	62,360	16,290	**78,650**
Past service cost	12	1,265	5,300	110	**5,410**	5,000	640	**5,640**
Administrative expenses	223	258	0	0	**0**	0	0	**0**
Net Operating Expenditure								
Interest cost	16,108	16,427	153,860	3,490	**157,350**	154,110	4,910	**159,020**
Expected return on assets	(11,547)	(11,480)	0	0	**0**	0	0	**0**
Net charge to the Comprehensive Income and Expenditure Statement	**13,454**	**17,256**	**211,360**	**13,940**	**225,300**	**221,470**	**21,840**	**243,310**
Movement in Reserves Statement								
Reversal of net charges made for retirement benefits in accordance with IAS19	**(13,454)**	**(17,256)**	**(211,360)**	**(13,940)**	**(225,300)**	**(221,470)**	**(21,840)**	**(243,310)**
Actual amount charged against revenue for pensions in the year:								
Employers contributions payable to the scheme	**9,026**	**9,385**						
Actual amounts charged to revenue - retirement benefits paid to pensioners and employers contributions payable to the scheme	**0**	**0**	**44,519**	**6,670**	**51,189**	**40,143**	**7,510**	**47,653**
IAS 19 remeasurements charged against other comprehensive income and expenditure	**(23,044)**	**27,291**	**(272,759)**	**(32,160)**	**(304,919)**	**202,307**	**2,520**	**204,827**

9. Pensions Notes

9.7 Pensions Costs PCC

The PCC recognises the cost of retirement benefits in the Cost of Services when employees earn them rather than when they are eventually paid as pensions. However, the charge required to be made against the precept is based on the cash payable in the year, so the real cost of retirement benefits is reversed out in the Movement in Reserves Statement. The following transactions have been made during the year:

PCC	Local Government Pension Scheme		Police Pension Scheme					
	2012/13 £000	2013/14 £000	2012/13 OLD SCHEME £000	2012/13 NEW SCHEME £000	2012/13 TOTAL £000	2013/14 OLD SCHEME £000	2013/14 NEW SCHEME £000	2013/14 TOTAL £000
Net Cost of Services								
Current service cost	95	118	0	0	**0**	0	0	**0**
Past service cost	0	14	0	0	**0**	0	0	**0**
Administrative Expenses	0	3	0	0	**0**	0	0	**0**
Net Operating Expenditure								
Interest cost	176	180	0	0	**0**	0	0	**0**
Expected return on assets	(143)	(125)	0	0	**0**	0	0	**0**
Net charge to the Comprehensive Income and Expenditure Statement	**128**	**190**	**0**	**0**	**0**	**0**	**0**	**0**
Movement in Reserves Statement								
Reversal of net charges made for retirement benefits in accordance with IAS19	**(128)**	**(190)**	**0**	**0**	**0**	**0**	**0**	**0**
Actual amount charged against revenue for pensions in the year:								
Employers contributions payable to the scheme	**99**	**103**						
Actual amounts charged to revenue - retirement benefits paid to pensioners and employers contributions payable to the scheme	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
IAS 19 Remeasurements charged against Other Comprehensive Income and Expenditure	**(271)**	**298**	**0**	**0**	**0**	**0**	**0**	**0**

9. Pensions Notes

9.8 The Net Defined Benefit Obligation (Liability) Group

The underlying assets and liabilities for retirement benefits attributable to the Group are as follows:

The liabilities show the underlying commitments that the Group has in the long-run to pay retirement benefits. The total liability of £3,799m has a substantial impact on the net worth of the Group as recorded in the Balance Sheet, resulting in a net liability of £3,365m. However, statutory arrangements for funding the deficit means that the financial position of the Group remains healthy:

- The deficit on the Local Government Scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary
- From 1st April 2006 the payments made in the year for police pensions are partly funded from a Home Office grant under new funding arrangements

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. The Local Government Scheme liabilities have been assessed by Mercer Ltd, an independent firm of actuaries. Estimates for the Local Government Scheme are based on the latest full valuation of the scheme as at 31st March 2013. The Police Scheme liabilities have been assessed by the Government Actuaries Department using data provided by Group.

Group	Local Government Pension Scheme		Police Pension Scheme						Total	
	31st March 2013	31st March 2014	31st March 2013	31st March 2013	31st March 2013	31st March 2014	31st March 2014	31st March 2014	31st March 2013	31st March 2014
	£000	£000	OLD SCHEME £000	NEW SCHEME £000	TOTAL £000	OLD SCHEME £000	NEW SCHEME £000	TOTAL £000	£000	£000
Estimated liabilities in scheme	(375,990)	(371,930)	(3,606,040)	(104,120)	(3,710,160)	(3,585,060)	(115,930)	(3,700,990)	(4,086,150)	(4,072,920)
Estimated assets in scheme	258,879	274,240	0	0	0	0	0	0	258,879	274,240
Net liability	(117,111)	(97,690)	(3,606,040)	(104,120)	(3,710,160)	(3,585,060)	(115,930)	(3,700,990)	(3,827,271)	(3,798,680)

9. Pensions Notes

9.9 The Net Defined Benefit Obligation (Liability) PCC

The underlying assets and liabilities for retirement benefits attributable to the PCC are as follows:

PCC	Local Government Pension Scheme		Police Pension Scheme						Total	
	31st March 2013	31st March 2014	31st March 2013	31st March 2013	31st March 2013	31st March 2014	31st March 2014	31st March 2014	31st March 2013	31st March 2014
	£000	£000	OLD SCHEME £000	NEW SCHEME £000	TOTAL £000	OLD SCHEME £000	NEW SCHEME £000	TOTAL £000	£000	£000
Estimated liabilities in scheme	**(4,110)**	**(4,066)**	0	0	**0**	0	0	**0**	**(4,110)**	**(4,066)**
Estimated assets in scheme	**2,830**	**2,998**	0	0	**0**	0	0	**0**	**2,830**	**2,998**
Net liability	(1,280)	(1,068)	**0**	**0**	0	**0**	**0**	**0**	(1,280)	(1,068)

9. Pensions Notes

9.10 Actuarial Assumptions

The main assumptions used in the calculations for the Group and the PCC have been:

	Local Government Pension Scheme		Police Pension Scheme	
	31st March 2013	31st March 2014	31st March 2013	31st March 2014
Rate of inflation	2.4%	2.4%	2.5%	2.5%
Rate of increase in salaries	3.9%	3.9%	4.8%	4.5%
Rate of increase in pensions	2.4%	2.4%	2.5%	2.5%
Rate for discounting scheme liabilities	4.4%	4.6%	4.3%	4.4%
Mortality Rates (in years)				
Longevity at 65 for future pensioners (Men)	23.7	24.7	25.7	25.6
Longevity at 65 for future pensioners (Women)	26.6	28.0	27.9	28.0
Longevity at 65 for current pensioners (Men)	21.8	22.3	23.4	23.4
Longevity at 65 for current pensioners (Women)	24.7	25.2	25.8	25.9

9.11 Actuarial Assumptions Sensitivity Analysis Group

Group	2013/14	2013/14	2013/14	2013/14
Change in Actuarial Assumption	Police Staff Pension Scheme	Police Pension Scheme	Police Pension Scheme	TOTAL
		OLD SCHEME	NEW SCHEME	
	£000	£000	£000	£000
Unadjusted deficit	(97,689)	(3,585,060)	(115,930)	(3,798,679)
+0.1% change in discount rate	(8,197)	(71,000)	(4,700)	(83,897)
+0.1% change in pay growth (salaries)	2,865	12,400	2,600	17,865
+0.1% change in inflation (pensions)	8,382	58,600	2,100	69,082
+1 year increase in life expectancy	6,971	12,800	320	20,091

9.12 Actuarial Assumptions Sensitivity Analysis PCC

PCC	2013/14	2013/14	2013/14	2013/14
Change in Actuarial Assumption	Police Staff Pension Scheme	Police Pension Scheme	Police Pension Scheme	TOTAL
		OLD SCHEME	NEW SCHEME	
	£000	£000	£000	£000
Unadjusted deficit	(1,068)	0	0	(1,068)
+0.1% change in discount rate	(90)	0	0	(90)
+0.1% change in pay growth (salaries)	31	0	0	31
+0.1% change in inflation (pensions)	92	0	0	92
+1 year increase in life expectancy	76	0	0	76

9. Pensions Notes

9.13 Reconciliation of Present Value of Scheme Liabilities Group

Group	LGPS Funded Liabilities		Police Pension Scheme Unfunded Liabilities					
	2012/13	2013/14	2012/13	2012/13	2012/13	2013/14	2013/14	2013/14
			OLD SCHEME	NEW SCHEME	TOTAL	OLD SCHEME	NEW SCHEME	TOTAL
	£000	£000	£000	£000	£000	£000	£000	£000
As at 1st April	(313,235)	**(375,990)**	(3,166,440)	(64,690)	**(3,231,130)**	(3,606,040)	(104,120)	**(3,710,160)**
Current service costs	(8,879)	**(10,785)**	(52,200)	(10,340)	**(62,540)**	(62,360)	(16,290)	**(78,650)**
Interest costs	(15,887)	**(16,427)**	(153,860)	(3,490)	**(157,350)**	(154,110)	(4,910)	**(159,020)**
Members contributions	(3,683)	**(3,401)**	(14,170)	(2,880)	**(17,050)**	(14,510)	(3,480)	**(17,990)**
IAS 19 remeasurements	(41,386)	**27,225**	(334,150)	(22,610)	**(356,760)**	134,670	13,510	**148,180**
Benefits paid	7,092	**8,712**	120,080	0	**120,080**	122,290	0	**122,290**
Past service costs	(12)	**(1,264)**	(5,300)	(110)	**(5,410)**	(5,000)	(640)	**(5,640)**
As at 31st March	**(375,990)**	**(371,930)**	**(3,606,040)**	**(104,120)**	**(3,710,160)**	**(3,585,060)**	**(115,930)**	**(3,700,990)**

9.14 Reconciliation of Present Value of Scheme Assets Group

Group	LGPS Funded Assets		Police Pension Scheme Unfunded Assets					
	2012/13	2013/14	2012/13	2012/13	2012/13	2013/14	2013/14	2013/14
			OLD SCHEME	NEW SCHEME	TOTAL	OLD SCHEME	NEW SCHEME	TOTAL
	£000	£000	£000	£000	£000	£000	£000	£000
As at 1st April	**223,596**	**258,879**	0	0	**0**	0	0	**0**
Expected return on assets	**11,546**	**11,480**	0	0	**0**	0	0	**0**
Administrative expenses	**(223)**	**(258)**	0	0	**0**	0	0	**0**
Employers contributions	**9,026**	**9,385**	44,519	6,670	**51,189**	40,143	7,510	**47,653**
Members contributions	**3,684**	**3,399**	14,170	2,880	**17,050**	14,510	3,480	**17,990**
Benefits paid	**(7,092)**	**(8,712)**	(120,080)	0	**(120,080)**	(122,290)	0	**(122,290)**
IAS 19 remeasurements	**18,342**	**67**	61,391	(9,550)	**51,841**	67,637	(10,990)	**56,647**
As at 31st March	**258,879**	**274,240**	**0**	**0**	**0**	**0**	**0**	**0**

9. Pensions Notes

9.15 Fair Value of Plan Assets Group

Group	Expected Return on Assets as at 31st March 2013	Assets as at 31st March 2013		Expected Return on Assets as at 31st March 2014	Assets as at 31st March 2014	
	%	£000	%	%	£000	%
Equity investments	7.0%	147,413	56.9%	7.0%	155,993	56.9%
Government bonds	3.1%	13,155	5.1%	2.8%	11,570	4.2%
Other bonds	4.1%	34,939	13.5%	3.9%	33,336	12.2%
Property	6.0%	20,489	7.9%	5.7%	21,993	8.0%
Cash/liquidity	0.5%	5,095	2.0%	0.5%	7,281	2.7%
Other	7.0%	37,788	14.6%	7.0%	44,067	16.1%
Total		**258,879**	**100.0%**		**274,240**	**100.0%**

9. Pensions Notes

9.16 Reconciliation of Present Value of Scheme Liabilities PCC

PCC	LGPS Funded Liabilities		Police Pension Scheme Unfunded Liabilities					
	2012/13	2013/14	2012/13	2012/13	2012/13	2013/14	2013/14	2013/14
	£000	£000	OLD SCHEME £000	NEW SCHEME £000	TOTAL £000	OLD SCHEME £000	NEW SCHEME £000	TOTAL £000
As at 1st April	(3,424)	(4,110)	0	0	0	0	0	0
Current service costs	(95)	(118)	0	0	0	0	0	0
Interest costs	(176)	(180)	0	0	0	0	0	0
Members contributions	(40)	(38)	0	0	0	0	0	0
IAS 19 remeasurements	(452)	298	0	0	0	0	0	0
Benefits paid	78	95	0	0	0	0	0	0
Past service costs	(0)	(13)	0	0	0	0	0	0
As at 31st March	(4,110)	(4,066)	0	0	0	0	0	0

9.17 Reconciliation of Present Value of Scheme Assets PCC

PCC	LGPS Funded Assets		Police Pension Scheme Unfunded Assets					
	2012/13	2013/14	2012/13	2012/13	2012/13	2013/14	2013/14	2013/14
	£000	£000	OLD SCHEME £000	NEW SCHEME £000	TOTAL £000	OLD SCHEME £000	NEW SCHEME £000	TOTAL £000
As at 1st April	2,444	2,830	0	0	0	0	0	0
Expected return on assets	143	125	0	0	0	0	0	0
Administrative expenses	0	(3)	0	0	0	0	0	0
Employers contributions	99	103	0	0	0	0	0	0
Members contributions	40	37	0	0	0	0	0	0
Benefits paid	(78)	(95)	0	0	0	0	0	0
IAS 19 remeasurements	181	1	0	0	0	0	0	0
As at 31st March	2,830	2,998	0	0	0	0	0	0

9.18 Fair Value of Plan Assets PCC

The Police Pension Scheme has no investment assets to cover its liabilities. Assets in the Local Government Pension Scheme are valued at fair value – principally market value for investments, and consist of the following categories by proportion of the total asset:

PCC	Expected Return on Assets as at 31st March 2013	Assets as at 31st March 2013		Expected Return on Assets as at 31st March 2014	Assets as at 31st March 2014	
	%	£000	%	%	£000	%
Equity investments	7.0%	1,611	56.9%	**7.0%**	**1,701**	**56.7%**
Government bonds	2.8%	143	5.1%	**3.4%**	**126**	**4.2%**
Other bonds	3.9%	381	13.5%	**4.3%**	**363**	**12.1%**
Property	5.7%	223	7.9%	**6.2%**	**239**	**8.0%**
Cash/liquidity	0.5%	60	2.1%	**0.5%**	**88**	**2.9%**
Other	7.0%	412	14.6%	**n/a**	**481**	**16.0%**
Total		**2,830**	**100.0%**		**2,998**	**100.0%**

The asset values in the Local Government Pension Scheme were calculated as at 28th February 2014 and adjusted (based on gross market indices) for the one month to 31st March 2014. A deduction of 0.25% in respect of expenses is made in calculating the expected return for the year.

The expected return on assets represents the allowance made, calculated at the start of the accounting year for the anticipated investment return to be earned on assets during the year.

9.19 Scheme History Group

Group	2009/10	2010/11	2011/12	2012/13	2013/14
	£000	£000	£000	£000	£000
Present Value of Scheme Liabilities					
Local Government Pension Scheme	(299,797)	(292,899)	(313,235)	(375,991)	**(371,930)**
Police Pension Scheme	(3,283,010)	(3,029,010)	(3,231,130)	(3,710,160)	**(3,700,990)**
	(3,582,807)	**(3,321,909)**	**(3,544,365)**	**(4,086,151)**	**(4,072,920)**
Fair Value of Assets (LGPS)					
Local Government Pension Scheme	**188,262**	**214,528**	**223,596**	**258,879**	**274,240**
Deficit in Scheme					
Local Government Pension Scheme	(111,535)	(78,371)	(89,639)	(117,112)	**(97,690)**
Police Pension Scheme	(3,283,010)	(3,029,010)	(3,231,130)	(3,710,160)	**(3,700,990)**
	(3,394,545)	**(3,107,381)**	**(3,320,769)**	**(3,827,272)**	**(3,798,680)**

9. Pensions Notes

9.20 Scheme History PCC

PCC	2009/10	2010/11	2011/12	2012/13	2013/14
	£000	£000	£000	£000	£000
Present Value of Scheme Liabilities					
Local Government Pension Scheme	(2,998)	(3,002)	(3,423)	(4,109)	**(4,066)**
Police Pension Scheme	0	0	0	0	**0**
	(2,998)	**(3,002)**	**(3,423)**	**(4,109)**	**(4,066)**
Fair Value of Assets (LGPS)					
Local Government Pension Scheme	**1,883**	**2,145**	**2,443**	**2,830**	**2,998**
Deficit in Scheme					
Local Government Pension Scheme	(1,115)	(857)	(980)	(1,279)	**(1,068)**
Police Pension Scheme	0	0	0	0	**0**
	(1,115)	**(857)**	**(980)**	**(1,279)**	**(1,068)**

9. Pensions Notes

9.21 Remeasurements of the Net Defined Benefit Liability Group

Group	2009/10		2010/11		2011/12		2012/13		2013/14	
Local Government Scheme	£000	%	£000	%	£000	%	£000	%	£000	%
Difference between the expected and actual return on assets	37,959	20.2	7,443	3.5	(8,941)	4.0	18,342	6.4	12,916	4.7
Differences between actuarial assumptions about liabilities and actual experience	0		0		0					
Changes in the demographic and financial assumptions used to estimate liabilities	(88,496)	29.5	13,866	4.7	0	0.0	(41,386)	16.0	14,375	-5.2
	(50,537)		21,309		(8,941)		(23,044)		27,291	
Police Pension Scheme										
Difference between the expected and actual return on assets	0		0		0		0	0.0	0	0.0
Differences between actuarial assumptions about liabilities and actual experience	69,870	2.1	66,973	0.9	83,428	1.1	194,511	4.8	97,367	2.4
Changes in the demographic and financial assumptions used to estimate liabilities	(1,003,161)	30.6	42,470	1.4	(92,370)	2.9	(499,430)	12.2	107,460	-2.6
	(933,291)		109,443		(8,942)		(304,919)		204,827	
Total IAS 19 Remeasurements	(983,828)		130,752		(17,883)		(327,963)		232,118	

9. Pensions Notes

9.22 Remeasurements of the Net Defined Benefit Liability PCC

PCC	2009/10		2010/11		2011/12		2012/13		2013/14	
Local Government Scheme	£000	%	£000	%	£000	%	£000	%	£000	%
Difference between the expected and actual return on assets	380	20.2	74	3.5	(89)	4.0	143	6.4	141	4.7
Differences between actuarial assumptions about liabilities and actual experience	0		0		0		0		0	
Changes in the demographic and financial assumptions used to estimate liabilities	(885)	29.5	139	4.7	0	0.0	(414)	16.0	157	-5.2
	(505)		213		(89)		(271)		298	
Police Pension Scheme										
Difference between the expected and actual return on assets	0		0		0		0		0	
Differences between actuarial assumptions about liabilities and actual experience	0		0		0		0		0	
Changes in the demographic and financial assumptions used to estimate liabilities	0		0		0		0		0	
	0		0		0		0		0	
Total IAS 19 Remeasurements	(505)		213		(89)		(271)		298	

9. Pensions Notes

9.23 Plan Asset Fair Value Disaggregation Group

Group	2012/13			2013/14		
Asset Classification	£000 Quoted Market price	£000 No Quoted Market price	£000 TOTAL	£000 Quoted Market price	£000 No Quoted Market price	£000 TOTAL
Equities						
UK	65,608	0	65,608	72,491	0	72,491
Global	81,805	0	81,805	83,502	0	83,502
	147,413	**0**	**147,413**	**155,993**	**0**	**155,993**
Bonds						
UK Government	13,155	0	13,155	11,570	0	11,570
UK Corporate	6,341	0	6,341	7,236	0	7,236
UK Index Linked	28,598	0	28,598	26,100	0	26,100
	48,094	**0**	**48,094**	**44,906**	**0**	**44,906**
Property						
UK Direct Property	0	12,753	12,753	0	13,389	13,389
UK Property Managed	1,494	3,983	5,477	1,691	4,340	6,031
Global Property Managed	0	2,259	2,259	0	2,573	2,573
	1,494	**18,995**	**20,489**	**1,691**	**20,302**	**21,993**
Other						
UK Private Equity	224	6,577	6,801	197	7,051	7,248
Global Private Equity	0	6,764	6,764	0	6,652	6,652
UK Hedge Funds	696	10,162	10,858	775	11,227	12,002
Global Hedge Funds	0	481	481	0	410	410
Global Infrastructure	1,008	1,545	2,553	831	2,178	3,009
UK Infrastructure	0	1,443	1,443	0	2,484	2,484
UK Opportunities	3,473	2,102	5,575	4,001	3,824	7,825
Global Opportunities	2,029	1,284	3,313	2,359	2,078	4,437
	7,430	**30,358**	**37,788**	**8,163**	**35,904**	**44,067**
Cash						
Cash Instruments	**5,095**	**0**	**5,095**	**7,281**	**0**	**7,281**
	209,526	**49,353**	**258,879**	**218,034**	**56,206**	**274,240**

9. Pensions Notes

9.24 Plan Asset Fair Value Disaggregation PCC

PCC	2012/13			2013/14		
Asset Classification	**£000 Quoted Market price**	**£000 No Quoted Market price**	**£000 TOTAL**	**£000 Quoted Market price**	**£000 No Quoted Market price**	**£000 TOTAL**
Equities						
UK	717	0	717	791	0	791
Global	894	0	894	910	0	910
	1,611	**0**	**1,611**	**1,701**	**0**	**1,701**
Bonds						
UK Government	143	0	143	126	0	126
UK Corporate	69	0	69	79	0	79
UK Index Linked	312	0	312	284	0	284
	524	**0**	**524**	**489**	**0**	**489**
Property						
UK Direct Property	0	139	139	0	146	146
UK Property Managed	16	43	59	18	47	65
Global Property Managed	0	25	25	0	28	28
	16	**207**	**223**	**18**	**221**	**239**
Other						
UK Private Equity	2	72	74	2	77	79
Global Private Equity	0	73	73	0	73	73
UK Hedge Funds	8	111	119	8	122	130
Global Hedge Funds	0	5	5	0	4	4
Global Infrastructure	11	17	28	9	24	33
UK Infrastructure	0	16	16	0	27	27
UK Opportunities	38	23	61	44	42	86
Global Opportunities	22	14	36	26	23	49
	81	**331**	**412**	**89**	**392**	**481**
Cash						
Cash Instruments	**60**	**0**	**60**	**88**	**0**	**88**
	2,292	**538**	**2,830**	**2,385**	**613**	**2,998**

Appendix 1 - Financially Accountable Unit (FAU) Outturn Statement

This statement does not form part of the statutory accounts. It is to provide details of the outturn compared to the revised estimate as reported to the PCC. It does not include the entries required for pension adjustments under IAS 19.

Group Outturn 2012/13		Group Probable Outturn 2013/14	Group Final Outturn 2013/14
£000		**£000**	**£000**
18,363	**Strategic Development**	**13,452**	**13,186**
	Citizen Focus		
21,788	Citizen Focus	21,882	21,805
13,974	Call Handling	13,228	13,032
35,762		**35,110**	**34,837**
	Administrative Support		
10,023	Personnel and Development	9,438	9,321
25,805	Resources Directorate	24,391	24,341
35,828		**33,829**	**33,662**
	Operations		
116,136	Basic Area Operations	114,152	114,686
789	Area Co-ordination	933	962
132	Special Constabulary	783	467
117,057		**115,868**	**116,115**
	Operational Support		
37,554	Operational Support	36,268	35,888
24,501	Crime and Intelligence	24,465	24,418
13,371	Force Crime Operations Unit	12,820	12,722
75,426		**73,553**	**73,028**
969	**Operational Contingency Fund**	**410**	**604**
	Office of the Police and Crime Commissioner		
2,141	Office of the Police and Crime Commissioner	**1,249**	**1,197**
0	Crime and Disorder Reduction Grants	**3,114**	**3,114**
0	Victim Services and Restorative Justice Services	**509**	**509**
	Non Rechargeable Financing Items & Levies		
45,160	Police Pensions	42,699	42,730
362	Attachments	202	232
5,961	Forcewide Services	5,375	4,964
1,147	Underwater Search Unit / Regional Units	1,304	1,323
14,165	Capital Charges	547	1,678
(2,283)	Income	(2,415)	(2,556)
0	Restructure Costs	3,376	3,486
64,512		**51,088**	**51,857**
350,058	**Net expenditure carried forward**	**328,182**	**328,109**

Appendix 1 - Financially Accountable Unit (FAU) Outturn Statement

Group Outturn 2012/13		Group Probable Outturn 2013/14	Group Final Outturn 2013/14
£000		**£000**	**£000**
350,058	**Brought Forward**	328,182	328,109
0	Contingency for Pay & Prices	0	0
0	Provision for Police Reform Pay and Conditions	0	0
(19,318)	Reversal of Depreciation & Government Grants released	(5,694)	(6,831)
2,019	Minimum Revenue Provision & Payment for MRDF	1,554	1,554
246	Interest Payable	203	202
(226)	Interest and Investment Income	(100)	(273)
332,779	**Net Operating Expenditure**	**324,145**	**322,761**
	Appropriations		
303	Contribution to/(from) Carry Over Reserve	(23)	193
3,151	Contribution to/(from) PCSO Reserve	0	0
0	Contribution to/(from) Estate Strategy Reserve	5,696	6,954
233	Contribution to/(from) General Balances (Collection Fund)	124	124
(4,194)	Contribution to/(from) Restructure Reserve	0	0
0	Contribution to/(from) Crime & Disorder Reduction Reserve	182	234
0	Contribution to/(from) Proceeds of Crime Reserve	0	292
6,464	Contribution to/(from) Restructure Reserve	4,694	0
(369)	Contribution to/(from) Operational Contingency Reserve	0	0
(2,700)	Contribution to/(from) Pensions Reserve	0	0
0	Contribution to/(from) Invest to Save Reserve	0	4,318
335,667	**Total Net Expenditure to be met from Government Grants and Taxation**	**334,818**	**334,876**
	Less: Specific Home Office Revenue Grants:		
(126,975)	General Police Grant	(134,729)	(134,729)
(17,146)	Specific Grants	(9,752)	(9,810)
(2,428)	Revenue Support Grant	(1,538)	(1,538)
(1,537)	Council Tax Freeze Grant 2011/12	0	0
(123,665)	Business Rate Income	0	0
0	Council Tax Support Funding	(14,058)	(14,058)
0	DCLG Formula Funding	(124,038)	(124,038)
(233)	Surplus on Collection Fund	(124)	(124)
(63,684)	**PRECEPT REQUIREMENTS**	**(50,579)**	**(50,579)**
(1)	**(Surplus)/deficit for the year to General Balances**	**0**	**0**
(9,217)	**General Revenue Balance Brought Forward**	(9,450)	(9,450)
0	Contribution to Revenue	0	0
(233)	Collection Fund Surplus	(124)	(124)
(9,450)	**General Revenue Balance Carried Forward**	**(9,574)**	**(9,574)**

Appendix 2 – Restatement of 2012/13 Comparatives

Restatement of The Group Movement in Reserves Statement 2012/13 (**notes 1.1** and **1.2** provide details of the requirement to restate)

Group	Reserves Per 2012/13 Statement of Accounts		Reclassify CC's Usable Pensions and Accumulated Absences Reserves to Unusable Reserves		IAS 19 changes	Restated Reserves	
	Total Usable Reserves	Total Unusable Reserves	Adjustment to Usable Reserves	Adjustment to Unusable Reserves	Adjustment to Usable Reserves	Total Usable Reserves	Total Unusable Reserves
	£000	£000	£000	£000	£000	£000	£000
Balance as at 1st April 2012	**(3,288,302)**	**127,977**	**3,326,893**	**(3,326,893)**	**0**	**38,591**	**(3,198,916)**
Deficit on provision of services on an accounting basis	(191,557)	0	0	0	(1,773)	(193,330)	0
Remeasurements of the net defined benefit liability	(329,465)	(271)	329,465	(329,465)	0	0	(329,736)
Loss on revaluation of non-current assets	0	(6,278)	0	0	0	0	(6,278)
Total Comprehensive Income and Expenditure	**(521,022)**	**(6,549)**	**329,465**	**(329,465)**	**(1,773)**	**(193,330)**	**(336,014)**
Adjustments between accounting basis and funding basis under regulations:							
Depreciation,impairment,amortisation and revaluations charged to the CIES	24,054	(24,054)	0	0	0	24,054	(24,054)
Capital grants and contributions credited to the CIES	(3,559)	3,559	0	0	0	(3,559)	3,559
Application of grants to capital financing	0	0	0	0	0	0	0
Net gain on sale of non current assets	312	(312)	0	0	0	312	(312)
Use of capital receipts to fund capital expenditure	(969)	969	0	0	0	(969)	969
Actual amounts charged against the Pension Fund for the year	(99)	99	(60,116)	60,116	0	(60,215)	60,215
Difference in pension costs between accounting basis (IAS 19) and funding basis	128	(128)	236,853	(236,853)	1,773	238,754	(236,981)
Difference in council tax income (between accounting and funding basis)	14	(14)	0	0	0	14	(14)
Difference in employee remuneration costs (between accounting and funding basis)	0	0	(545)	545	0	(545)	545
Statutory provision for repayment of debt (minimum revenue provision)	(1,784)	1,784	0	0	0	(1,784)	1,784
Repayment of inherited debt	(235)	235	0	0	0	(235)	235
Capital expenditure charged to the General Fund Balance	(262)	262	0	0	0	(262)	262
Total adjustments	**17,600**	**(17,600)**	**176,192**	**(176,192)**	**1,773**	**195,565**	**(193,792)**
Net increase or (decrease) before transfers to earmarked reserves	**(503,422)**	**(24,149)**	**505,657**	**(505,657)**	**0**	**2,235**	**(529,806)**
Transfers to and from earmarked reserves	**(265)**	**265**	**0**	**0**	**0**	**(265)**	**265**
Balance as at 31st March 2013	**(3,791,989)**	**104,093**	**3,832,550**	**(3,832,550)**	**0**	**40,561**	**(3,728,457)**

Appendix 2 – Restatement of 2012/13 Comparatives

Restatement of The Group Comprehensive Income and Expenditure Statement 2012/13 (**note 1.2** provides details of the requirement to restate)

Group	As Per 2012/13 Statement of Accounts	IAS 19 Restatements		
		Charge Current Service interest costs to Current Service costs	Change in methodology for calculation of Pensions Interest Costs	Apply IAS19 Administrative Expenses to Other Operating Expenditure
	£000	£000	£000	£000
Above Net Cost of Services				
Current Service Costs	71,198	221	0	0
Past Service Costs	5,422	0	0	0
TOTAL Effect on Cost of Services	**76,620**	**221**	**0**	**0**
Other Operating Expenditure				
IAS19 Administrative Expenses	0	0	0	223
TOTAL Effect on Other Operating Expenditure	**0**	**0**	**0**	**223**
Financing and Investment Income				
Pensions Interest Cost	173,458	(221)	0	0
Expected Return on Assets	(13,097)	0	1,550	0
TOTAL Effect on Financing and Investment Income	**160,361**	**(221)**	**1,550**	**0**
Other Comprehensive Income and Expenditure				
IAS19 Remeasurements	329,736	0	(1,550)	(223)
TOTAL Effect on Other Comprehensive Income and Expenditure	**329,736**	**0**	**(1,550)**	**(223)**
Net increase or (decrease) before transfers to earmarked reserves	**566,717**	**0**	**0**	**0**

Annual Governance Statement

1. Scope of Responsibilities

The Police and Crime Commissioner for Merseyside ('the PCC') is responsible for ensuring that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The PCC also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the PCC is also responsible for putting into place proper arrangements for the governance of its affairs and facilitating the exercise of its functions, which includes ensuring that a sound system of internal control is maintained through the year and that arrangements are in place for the management of risk. In exercising this responsibility, the PCC places reliance on the Chief Constable to support the governance and risk management processes.

In drafting the PCC Annual Governance Statement reliance has been placed on the governance processes within the Merseyside Police Service, as reflected in the Chief Constables Annual Governance Statement which is published alongside the accounts of the Chief Constable.

The PCC has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework: Delivering Good Governance in Local Government. A copy of the code is available on the PCC's website at www.merseysidepcc.info or can be obtained from the Office of the Police and Crime Commissioner for Merseyside, Allerton Police Station, Rose Lane, Liverpool, Merseyside, L18 5ED.

This statement explains how the PCC has complied with the code and also meets the requirements of Regulation 4 and 6 of the Accounts and Audit regulations 2011 in relation to effectiveness of the system of internal control and its internal audit.

2. The Purpose of the Governance Framework

The Governance Framework comprises the systems, processes, culture and values by which the PCC is directed and controlled, and the activities through which she accounts to and engages with the community. It enables the PCC to monitor the achievement of her strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services, including achieving value for money.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable and foreseeable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives. It can therefore only provide a reasonable, and not an absolute, assurance of effectiveness. The system of internal control is based on an on-going process designed to identify and prioritise the risks to the achievement of the PCC's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them effectively, efficiently and economically.

3. The Governance Framework

Although the Chief Constable is responsible for operational policing matters, the direction and control of police personnel, and for putting in place proper arrangements for the governance of the Force, the PCC is required to hold him to account for the exercise of those functions, and those of the persons under his direction and control. It therefore follows that the PCC must satisfy herself that the Force has appropriate mechanisms in place for the maintenance of good governance, and that these operate in practice.

The PCC has developed and approved a Code of Corporate Governance which incorporated the six core good governance principles in the local context, and set out the arrangements for reviewing their effectiveness. The key elements of the systems and processes that comprise the governance arrangements within the Office of the Police and Crime Commissioner and Force are detailed below under the appropriate core principles of good governance:-

(i) Focusing upon the purpose of the PCC and the Force, and on outcomes for local people, creating a vision for the local area.

To achieve this, the PCC:-

- issues a ***police and crime plan*** for one year beyond their term of office. The plan outlines the police and crime objectives (outcomes) and the strategic direction for the policing;
- publishes an ***annual report, budget*** and ***statement of accounts*** which communicate the PCC's activities and achievements, the financial position and performance;
- has entered into ***collaboration agreements*** with other Forces and Local Policing Bodies, in order to reduce cost or increase capability to protect local people;
- has jointly developed a ***medium term financial strategy*** with the Chief Constable;
- has in place a ***commissioning and award of Crime and Disorder Reduction grants framework***, which incorporate commissioning intentions and priorities; and
- has in place a ***complaints protocol*** to provide clarity over the arrangements to respond to the breadth of concerns raised by local people, whether they be allegations of organisational or individual failure/ concerns.

(ii) Taking informed and transparent decisions which are subject to effective scrutiny and risk management arrangements.

To achieve this, the PCC:-

- has developed a ***decision making protocol*** which sets out principles behind how decisions will be taken by the PCC and Chief Constable and the standards to be adopted;
- has approved a ***scheme of governance*** which highlights the parameters for decision making, including the delegations, consents, financial limits for specific matters and standing orders for contracts;
- has approved a ***risk management strategy*** which establishes how risk is embedded throughout the various elements of corporate governance of the corporations sole, whether operating solely or jointly;
- has approved a ***communication and engagement strategy*** to demonstrate how the PCC and Chief Constable will ensure that local people are involved in decision making;
- is developing an ***information scheme*** to ensure that information relating to decisions will be made readily available to local people, with those of greater public interest receiving the highest level of transparency, except where operational and legal constraints exist;
- has in place a ***forward plan of decisions***, which brings together the business planning cycles for the police and crime plan, the office of the police and crime commissioner and the force integrated business management process. This will ensure proper governance by bringing together the right information at the right time, e.g. needs assessments, costs, budgets; and
- The forward plan of decisions combined with and open and transparent information scheme will enable the ***Police and Crime Panel*** to be properly sighted on the decisions of the Police and Crime Commissioner.

(iii) Working together to achieve a common purpose with clearly defined functions and roles.

To achieve this, the PCC:-

- has in place a ***scheme of corporate governance,*** *which* highlights the parameters for key roles in the corporations sole including delegations or consents from the police and crime commissioner or chief constable, financial regulations and contract standing orders.

- has in place a ***Chief Constable*** who is responsible for the operational management of the Force;

- has in place a ***Chief of Staff*** who is responsible for the operational management of the OPCCM. In addition, the Chief Staff is the ***Monitoring Officer*** for the OPCCM and they are responsible to the PCC for ensuring that agreed procedures are followed and that all applicable statutes and regulations are complied with;

- has in place a ***Chief Finance Officer*** (the Section 151 officer) who is responsible to the PCC for ensuring that appropriate advice is given on all financial matters, for keeping proper financial records and accounts, and for maintaining an effective system of internal financial control. In addition, the role and suitability of the Chief Finance Officer complies with the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010);

- has established a ***joint Independent Audit Committee*** which operates in line with Chartered Institute of Public Finance and Accountancy (CIPFA) and within the guidance of the Financial Management Code of Practice; and

- has established a joint Internal Audit Service with the Chief Constable.

(iv) Promoting the values for the PCC and Force and demonstrating the values of good governance through upholding high standards of conduct and behaviour.

To achieve this, the PCC:-

- requires all parties to abide by the seven ***Nolan principles*** and these will be central to the conduct and behavior of all; and

- ensures compliance with The Financial Management Code of Practice to ensure that the ***good governance principles*** are embedded within the way the organisations operate.

(v) Developing the capacity and capability of all to be effective in their roles.

To achieve this, the PCC:-

- is developing a ***learning and development strategy*** to set the climate for continued development of individuals. The respective performance development review processes will ensure that these strategies are turned into reality for officers and members of staff.

(vi) Engaging with local people and other stakeholders to ensure robust public accountability.

To achieve this, the PCC:-

- has engaged with the local community in developing the ***police and crime plan*** and setting the **level of precept**;

- has published the ***police and crime plan*** and the ***annual budget*,** including details of the precept and Crime and Disorder Reduction grants;

- has established the ***Merseyside Community Safety Partnership***, with key stakeholders including the Police Service, Fire Service and local Community Safety Partnerships;

- has approved a ***communication and engagement strategy*** setting out how local people will be involved with the PCC and the Chief Constable to ensure they are part of the decision making, accountability and future direction. This will be a mixture of being part of the yearly planning arrangements and becoming involved in issues of interest to local people as they emerge; and

- has established a team of ***Community Engagement Officers*** across Merseyside to ensure that arrangements are in place to enable the PCC to engage with all sections of the community effectively.

4. Review of Effectiveness

The PCC has responsibility for conducting, at least annually, a review of the effectiveness of the Governance Framework, including:-

- the system of internal control; and
- internal audit.

The Chief Officers within the OPCCM have undertaken these reviews, taking into account the work of the Shared Audit Committee and Shared Internal Audit Service. In addition, comments made by the External Auditors Grant Thornton and the Police and Crime Panel have informed this review, as well as observations and evidence from the PCC Governance meetings.

The Police and Crime Commissioner

The PCC has responsibility for approving the local Code of Corporate Governance and for undertaking an annual review of its effectiveness. The PCC received and approved the Annual Governance Statement in September 2014. The Annual Governance Statement is signed by the PCC, the OPCCM Chief of Staff and Chief Finance Officer.

The PCC's adherence to the Code of Corporate Governance and system of Internal Control is fundamentally based compliance with the Corporate Governance Framework. In addition, the appointment of the two Statutory Officers, i.e. the **Chief of Staff** and **Chief Finance Officer**, support the PCC in ensuring compliance.

Monitoring Officer – in accordance with Section 5, Local Government and Housing Act 1989, the OPCCM Chief of Staff is appointed as the PCC's Monitoring Officer. This officer is responsible for ensuring that, at all times, the PCC acts within its legal powers.

Chief Finance Officer - similarly, in accordance with Section 151 of the Local Government Act 1972, the Chief Finance Officer is the Officer responsible for ensuring the proper administration of the PCC's financial affairs. In addition, the PCC's financial management arrangements conformed to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).

During the year there have been no reports from either the Monitoring Officer or the Chief Finance Officer with regard to illegal or inappropriate conduct. Each Chief Officer has also completed an assurance statement confirming the compliance to the Governance Framework during the year.

Shared Internal Audit Service

The primary role of Internal Audit is to give an assurance to the PCC and Chief Constable, through the Audit Committee, on the effectiveness of the controls in place to manage risks. To this end the Head of Internal Audit delivers an annual opinion on the effectiveness of the Governance, Risk Management arrangements and Internal control environment reviewed by the Shared Internal Audit Service. This annual opinion is one of the key sources of evidence in support of the Annual Governance Statement. Any issues identified during an audit were dealt with initially in the relevant audit report, with any major control weaknesses initially being reported to the Chief Finance Officers. Significant governance failures identified through general audit work are referred to the Audit Committee.

The Head of Internal Audit is responsible for the day-to-day management of the Shared Internal Audit Service, and reports directly to the Chief Finance Officers. Direct access to the PCC, Chief Constable and the Chair of the Audit Committee is also sanctioned if considered appropriate.

The terms of reference for the Internal Audit Service require that work is conducted in accordance with professional standards, including those set out in the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Internal Audit in Local Government. In addition, Internal Audit work is subject to regular reviews by the External Auditor, the findings of which are reported through their Annual Audit Letter.

Internal Audit's plans and performance are reported annually to the Audit Committee. The Internal Audit plan for 2013/14 included the reviews of the PCC Governance Framework, and arrangements relating to performance management, Risk Management and Treasury Management. In addition, a number of reviews of the Force were undertaken, including Risk Management arrangements, Forensic costs and vehicle fuel.

On the basis of the programme of planned internal audit work undertaken in 2013/14, it is the Head of Internal Audit's opinion that the OPCCM's and Chief Constable's systems of governance, risk management and internal control are generally sound and operate in a consistent way across departments and operational units.

In accordance with the Accounts and Audit Regulations 2011 the PCC once again conducted a review of the effectiveness of its system of Internal Audit. Consequently, the PCC's Internal Audit Service undertook a self assessment of compliance with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006, using the recommended self assessment checklist within the Code of Practice to form the basis of the judgment. The Head of Internal Audit has completed the self-assessment, which in turn has been reviewed by the Chief Finance Officer and his conclusion is that the Shared Internal Audit Service has complied with Internal Audit Standards contained within the Code of Practice.

External Audit

The PCC's governance arrangements and the system of internal financial control are subject to external audit review, via the audit of the PCC's statements of accounts and the outcome of its work to assess the PCC's arrangements for securing value for money in its use of resources. The PCC and Chief Constables external auditors are Grant Thornton. Grant Thornton's plans and reports, including the Annual Governance Report and the Annual Audit Letter, are considered by the PCC and the Audit Committee at appropriate times during the annual cycle of meetings.

In respect of the 2012/13 audit, Grant Thornton issued the PCC with an 'Unqualified' audit opinion, i.e. that the accounts give a 'true and fair' view of the financial position of the PCC and Group as at 31st March 2013 and of its expenditure and income for the year then ended; and confirmed that the accounts had been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

In addition, on the basis of their work, and having regard to the guidance on the specified criteria published by the Audit Commission, they were satisfied that in all significant respects the PCC had put in place proper arrangements to secure economy, efficiency and effectiveness in their use of resources for the year ending 31st March 2013.

Joint Audit Committee

The PCC and Chief Constable have a Joint Audit Committee. The purpose of the Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the organisations financial and non-financial performance to the extent that it affects the organisations exposure to risk and weakens the control environment, and to oversee the financial reporting process.

During the course of the year the Committee met five times and based on its work, which has not identified any significant control risks, and the assurances received on the operation of the Commissioner's and Chief Constable's systems of governance, risk management arrangements, control environment and financial reporting arrangements, the Committee concludes that the arrangements reviewed are adequate.

In accordance with the CIPFA's guidance to Police Audit Committees published in 2013, the Audit Committee undertook a review of its effectiveness against its terms of reference and its objectives. The Committee determined that it was effective but identified areas where improvements could be made. These included reviewing arrangements for countering fraud and corruption and value for money risks. The findings of the review have been reported to the Commissioner and Chief Constable and an action plan was agreed to address the areas identified. The implementation of this action plan, the Committee will become more effective during 2014/15. It recognises the significant challenges facing the Commissioner and Chief Constable and aims to support good governance in developments such as the estates strategy, the continuing requirements to make cost savings and the introduction of the College of Policing's Code of Ethics.

Merseyside Police and Crime Panel

In accordance with the Police Reform and Social Responsibility Act 2011 each police area has to have a Police and Crime Panel (PCP). Consequently, Merseyside PCP has been established. The PCP is made up of 10 elected representatives (Councillors plus Liverpool's elected mayor) from the local authorities within the Merseyside police force area plus two independent co-opted members. Knowsley MBC is the host authority.

The Panel's responsibilities include:-

- Reviewing the PCC draft Police and Crime Plan (or a variation of it) and submit a report/recommendation on it;
- Reviewing the PCC Annual Report and submit a report /recommendations on it (this requires the Panel to have a public meeting at which it will question the PCC on the content of the document);
- Reviewing the PCC proposed precept for the financial year and submit a report/recommendations on it – this includes the Panel having the power of veto;
- Holding confirmation hearings for the following:-
  - the PCC proposed appointment of a Chief Executive and Chief Finance Officer (two separate statutory roles); and
  - the appointment of a new Chief Constable (this includes the Panel having a power of veto over the PCC initially proposed candidate);
- Reviewing or scrutinising decisions made, or other action taken, by the PCC in connection with the discharge of the PCC functions;
- Holding a scrutiny hearing (meeting in private) where the PCC is proposing the removal or resignation of the Chief Constable;

- Appointing an Acting PCC in certain circumstances (such as where the PCC is incapacitated);
- Suspending the PCC where she is charged with an offence carrying a potential term of imprisonment; and
- Making arrangements for recording and dealing with conduct matters relating to the PCC.

During 2013/14 the Police and Crime Panel approved the appointment of the OPPCM Chief of Staff, the PCC proposed precept and endorsed the decisions taken by the PCC during the year.

5. Significant Governance Issues

The following have been identified as significant governance issues for the PCC in 2014/15 and beyond.

Governance Issue	Action
Embedding the 2014/15 revised Corporate Governance Framework.	The newly established Corporate Governance Group will annually review the framework and oversee its implementation and report any issues to the PCC and Chief Constable. In addition, independent assurance will also be obtained from the Shared Audit Committee.
The on-going identification and achievement of the savings identified in the Medium Term Financial Strategy to ensure a balance the Budget over the period.	PCC CFO, in conjunction with CC CFO, to keep the MTFS updated and report findings to PCC and Chief Constable. The PCC Business Change and Efficiency Group to oversee and approve the required savings programme over the MTFS period.
The development and introduction of the Governance arrangements around the consultation and implementation of the approved Estate Strategy.	The PCC Chief of Staff and Chief Constable to develop proposals for consideration by the PCC. The proposals should complement the existing Corporate Governance Framework, including financial regulations and contract standing orders.
The development and implementation of a Victim Services Commissioning Strategy, including Restorative Justice Services.	The PCC Chief of Staff to develop the strategy for consideration by the PCC.
Finalise the OPCCM learning and development strategy, including performance development review processes will ensure that these strategies are turned into reality for officers and members of staff.	The PCC Chief of Staff to develop the strategy for consideration by the PCC.
Improving the effectiveness of the Shared Audit Committee	Implementation of the approved action plan to address areas identified for improvement.

Over the coming year the action identified will be undertaken to address the issues above in order to further enhance the PCC governance arrangements. We are satisfied that these steps will address the need for the improvements which were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed

The Annual Governance Statement was signed by Jane Kennedy, Joanne Liddy and John Riley on the 24th September 2014.

Rt Hon Jane Kennedy	**Dr Joanne Liddy**	**John Riley**
Police and Crime Commissioner for Merseyside	**Chief of Staff Office of the Police and Crime Commissioner for Merseyside**	**Chief Finance Officer Office of the Police and Crime Commissioner for Merseyside**

Glossary of Terms

ACCOUNTING POLICIES
Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.

ACCRUALS BASIS
The accruals basis of accounting requires the non-cash effects of transactions to be reflected in the financial statements for the accounting period in which those effects are experienced and not in the period in which any cash is received or paid.

AMORTISATION
An annual charge to reflect the extent to which an intangible asset has been worn out or consumed during the financial year.

ASSET CEILING
The asset ceiling is an upper limit on what is allowed to be recognised as a defined benefit asset broadly depending on whether the employer reporting entity can either get refunds from the outside/'third party' pension scheme or a reduction in future contributions to the outside/'third party' pension scheme.

BALANCE SHEET
The Balance Sheet represents a summary of the assets, liabilities, funds and reserves of the PCC and Group.

BILLING AUTHORITY
This is an Authority which is responsible for the collection of Council Tax on behalf of Precepting Authorities, and maintains a Collection Fund for this purpose.

CAPITAL EXPENDITURE
This is expenditure on the acquisition of a fixed asset, or expenditure that adds to the value, or extends the useful life of an existing asset. Capital expenditure is not usually a direct charge to the Comprehensive Income and Expenditure Statement, being normally met by loan, grant, external contribution or capital receipts.

CAPITAL RECEIPTS
Income from the sale of assets, which can only be used to finance new capital expenditure or repay outstanding debt on assets, financed from loans.

CASH
Comprises cash on hand and demand deposits.

CASH EQUIVALENTS
Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

CHIEF CONSTABLE OF MERSEYSIDE POLICE (CC)
The Chief Constable of Merseyside Police is a separate corporation sole which was established on 22nd November 2012.

THE CODE (The Code of Practice on Local PCC Accounting in the United Kingdom 2013/14)
The Code defines proper accounting practices for local authorities in England, Wales, Scotland and Northern Ireland and applies to accounting periods commencing on or after 1st April 2012.

COLLECTION FUND
An amount received from or paid to a Billing Authority based on the actual amount of council tax collected by the Billing Authority above or below the expected collection levels.

THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT
The account which summarises the income and costs of all the functions for which the PCC/ Group is responsible. It also includes notional depreciation charges for assets and the notional cost of retirement benefits earned by employees in the year.

Glossary of Terms

CORPORATE AND DEMOCRATIC CORE
This is a definition under the Best Value Code of Practice. It shows costs on Democratic Representation & Management (DRM) and Corporate Management (CM). DRM covers all aspects of Commissioner activities.

CREDITORS
Individuals or organisations to whom the PCC/Group owes money at the end of the financial year.

CURRENT SERVICE COST (PENSIONS)
This measures the increase in the present value of pensions liabilities generated in the financial year by employees. It is an estimate of the true economic cost of employing people in the financial year, earning service that will eventually entitle them to the receipt of a lump sum and pension when they retire.

DEBTORS
Individuals or organisations who owe the PCC/Group money at the end of the financial year.

DEFERRED LIABILITY
Liabilities, which by arrangement are payable over a period of time.

DEPRECIATED REPLACEMENT COST
Depreciated replacement cost is a method of valuation which provides the current cost of replacing an asset with its modern equivalent asset less deductions for all physical deterioration and all relevant forms of obsolescence and optimisation.

DEPRECIATION
An annual charge to reflect the extent to which a tangible asset has been worn out or consumed during the financial year.

DERECOGNITION
An asset is derecognised in the Balance Sheet when it is disposed of or where no future economic benefits or service potential are expected from its use.

EXPECTED RATE OF RETURN ON PENSIONS ASSETS
This is the measure of the average rate of return expected on investment assets held by the Scheme for the year. It is not intended to reflect the actual realised return on the Scheme, but a longer-term measure, based on the fair value of the assets at the start of the year and an expected return factor. Plan assets comprise:

- assets held by a long-term employee benefit fund; and
- qualifying insurance policies (not relevant for Police)

FAIR VALUE
The amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

FINANCE LEASE
A lease where substantially all the risks and rewards of ownership are transferred to the lessee.

FINANCIAL INSTRUMENT
This is any contract that gives rise to a financial asset of one entity and a financial liability of another. The term covers both financial assets such as loans receivable and liabilities such as borrowings.

FINANCIALLY ACCOUNTABLE UNIT
A Financially Accountable Unit (FAU) is a unit of the Devolved Financial Management structure to which Budgets are allocated, and against which Income and Expenditure is charged. Each FAU has a Budget Holder responsible for managing that Budget.

FINANCING ACTIVITIES (CASH FLOW)
Financing activities are activities that result in changes in the size and composition of the principal, received from or repaid to external providers of finance.

Glossary of Terms

IMPAIRMENT
A reduction in the value of a fixed asset below its carrying amount on the balance sheet.

INTANGIBLE FIXED ASSETS
These are fixed assets such as software licences that do not have physical substance but are identifiable and controlled through legal or custody rights.

INTRA-GROUP FUNDING
Funding provided by the PCC to the CC to enable the CC to undertake day-to-day policing.

INVESTING ACTIVITIES (CASH FLOW)
Investing activities are the acquisition and disposal of long-term assets and other investments, not included in cash equivalents.

LESSEE
An organisation which holds a property by lease.

LESSOR
An organisation which lets a property by lease.

MATERIAL
Omissions or misstatements of items are considered material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements.

NATIONAL NON DOMESTIC RATE
The level of National Non Domestic Rate (Business Rate) is determined by Central Government. Amounts collected by local authorities are paid into a national pool and the total is redistributed by Central Government in proportion to the population of each PCC.

NON DISTRIBUTED COSTS (PENSIONS)
This covers past services costs settlements and curtailments in respect of IAS19 pension costs. It also covers costs associated with unused assets.

OPERATING ACTIVITIES (CASH FLOW)
Operating activities are the activities of the entity that are not investing or financing activities.

OPERATING LEASE
Any lease which is not a finance lease.

PAST SERVICE COSTS (PENSIONS)
These costs represent the increase in liabilities arising from decisions taken in the current year to improve retirement benefits, but whose financial effect is derived from service earned in earlier years.

POLICE AND CRIME COMMISSIONER FOR MERSEYSIDE (PCC)
The Police and Crime Commissioner for Merseyside is a separate corporation sole which was established on 22nd November 2012.

PRECEPT
This is the amount of Council Tax income which County Councils, Police and Crime Commissioners, the Greater London Authority, Parish Councils and some Fire Authorities need to provide their services. The amounts for all Local Authorities providing services in an area appear on one Council Tax bill, which comes from the Billing Authority.

PRECEPTING AUTHORITY
This is any body which sets a precept to be collected by billing authorities through the Council Tax bill. County councils, Police and Crime Commissioners, the Greater London Authority, some Fire Authorities and Parish Councils are all precepting authorities.

Glossary of Terms

PRESENT VALUE OF DEFINED BENEFIT OBLIGATION
The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

PROPERTY PLANT AND EQUIPMENT
Tangible assets (i.e. assets with physical substance) that are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes, and expected to be used during more than one financial year.

RELATED PARTY
Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and another entity are subject to common control.

REMEASUREMENTS
Previously called actuarial gain and losses, remeasurements represent changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because actuaries have updated their assumptions, and include actuarial gains or losses, expected rate of return on plan assets and effect on the asset ceiling.

RESERVES
Monies set aside for specific future costs (e.g. Estate Strategy) or generally held to meet unforeseen or emergency expenditure (e.g. General Balances).

RESIDUAL VALUE
The residual value of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

REVENUE ACCOUNTS
The day-to-day expenditure and income of the PCC on such items as salaries and wages of employees, running costs of services, and the purchase of consumable materials and equipment, together with the financing costs of capital assets.

REVENUE SUPPORT GRANT
A General Government Grant that supports Police and Crime Commissioners' expenditure.

SHORT TERM EMPLOYEE BENEFITS
Short-term employee benefits are employee benefits (other than termination benefits) that fall due wholly within 12 months after the end of the period in which the employees render the related service.

SPECIFIC GRANTS
Targeted or ring-fenced grants are sometimes referred to as specific grants.

SPECIFIC POLICE GRANT
A specific revenue grant that Police and Crime Commissioners' receive from the Home Office.

TERMINATION BENEFITS
Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date, or
- an employee's decision to accept voluntary redundancy in exchange for those benefits

USEFUL LIFE
The period which an asset is expected to be available for use by an entity.

UK GAAP (Generally Accepted Accounting Principles)
Compliance with UK company law, UK accounting standards and best practice.