

The Chief Constable of Merseyside Police

Annual Financial Report 2014 - 2015

Contents

	Page
Foreword by the Chief Finance Officer	1 - 4
The Statement of Accounts	
Independent Auditor's Report to the Chief Constable of Merseyside Police.....	5 - 7
Statement of Responsibilities for the Statement of Accounts.....	8
The Movement in Reserves Statement.....	9
The Comprehensive Income and Expenditure Statement.....	10
The Balance Sheet.....	11
The Cash Flow Statement.....	12
Notes to the Statement of Accounts:-	
1. Statement of Accounting Policies.....	13 - 18
2. Notes to the Movement in Reserves Statement.....	19
3. Notes to the Comprehensive Income and Expenditure Statement.....	20 - 27
4. Notes to the Balance Sheet.....	28
5. Other Notes to the Core Financial Statements.....	29 - 34
6. Amounts Reported for Resource Allocation Decisions.....	35 - 36
Pension Fund Account.....	37
7. Pensions Notes.....	38 - 46
Annual Governance Statement	47 - 57
Glossary of Terms	58 - 60

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 2014/15.

INTRODUCTION

The Police Reform and Social Responsibility Act 2011 (PRSR Act) established two separate legal entities as 'corporations sole', i.e. the Police and Crime Commissioner for Merseyside (PCC) and the Chief Constable of Merseyside Police (CC). These accounts set out the overall financial position of the CC. The financial position of the PCC and of the consolidated Group of the PCC and CC are set out in the Statement of Accounts of the PCC.

STATEMENT OF ACCOUNTS

The purpose of the Statement of Accounts is to provide details of the CC's financial activities for the year ending 31st March 2015. 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 CC and highlights any significant features.

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

- **Independent Auditor's Report**, this sets out the opinion of the external auditor, Grant Thornton UK LLP, on whether the CC accounts presented give a 'true and fair view' of the financial position and operations of the CC for 2014/15;
- **Statement of Responsibilities for the Statement of Accounts**, this statement sets out the responsibilities of the Chief Constable and the Chief Constable's Chief Finance Officer;
- **the Movement in Reserves Statement**, this statement shows the movement in the year on the reserves held by the CC;
- **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. It summarises the resources that have been generated and consumed in providing policing and crime reduction services during the year;
- **the Balance Sheet**, this statement shows the value as at the Balance Sheet date of the assets and liabilities recognised by the CC. The CC is not responsible for the acquisition, disposal or maintenance of assets, however the CC does make use of assets in the discharge of policing duties. Details of assets utilised as well as information on other categories of assets and liabilities can be found in the 2014/15 PCC and Group Statement of Accounts. Whilst the CC does not own any long-term assets it does recognise in its balance sheet, assets and liabilities relating to police officers and police staff under the direction and control of the CC. The net assets of the CC (assets less liabilities) are matched by reserves held by the CC;
- **the Cash Flow Statement**, this statement shows the changes in cash and cash equivalents of the CC during the reporting period. However as all payments were made from the Police Fund which is held by the PCC, and similarly all income and funding is received by the PCC, the CC does not have any cash flows from operating activities;

Foreword by the Chief Finance Officer

- **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 and information that is not provided elsewhere in the financial statements, but is relevant to an understanding of any of them; and
- **the Pension Fund Account**, which summarises the amounts received into and paid out of the police officer pension fund which the CC is responsible for administering. All payments and receipts are made to and from the Police Fund via the PCC.

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 2014/15 have been prepared in accordance with The Code of Practice on Local Authority Accounting in the UK 2014/15 (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, CC and the Group accounts have adopted consistent accounting policies. It is noted that the policies remain largely unchanged from those applied in 2013/14. However, there are new requirements for collaborative arrangements under the amended provisions of the 2014-15 Code of Practice (the Code) following the issue of five new (or amended) accounting standards.

There were previously three options to consider for joint arrangements: jointly controlled operations, jointly controlled assets and jointly controlled entities. Under the 2014-15 Code there are just two options: joint operations and joint ventures.

It has been necessary to undertake a review of all collaborative arrangements to ensure the correct accounting treatment in the 2014-15 Statement of Accounts, and to consider the potential impact on the financial statements of any changes in the accounting requirements.

This review has assessed the CC's collaborative arrangements (with the exception of the Joint Control Centre and the National Police Air Service) to be jointly controlled operations. The Comprehensive Income and Expenditure Statement has been debited with the CC's share of expenditure incurred. As the PCC receives all income and funding, the income receivable from the structure of the arrangement is credited to the Comprehensive Income and Expenditure Statement of the PCC. The PCC then credits the CC with an equivalent amount through the intra-group funding. Assets and liabilities arising from the activities of the operation are held on the PCC's balance sheet.

The new requirements for collaborative arrangements has not had any impact upon the net expenditure reported for collaborations.

Foreword by the Chief Finance Officer

FINANCIAL PERFORMANCE FOR THE YEAR 2014/15

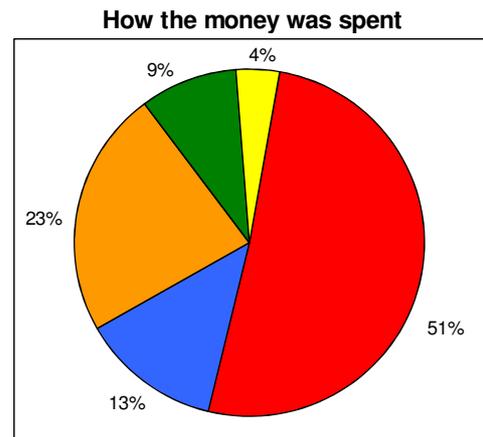
Revenue Outturn

The CC Budget for 2014/15 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 CC, and ultimately the PCC.

The net revenue expenditure of the CC during 2014/15 amounted to £318.586m. The following chart shows how the CC's money was spent.

This table analyses CC spending over the main types of expenditure

	£000	%
Police Pay	170,281	51
Police Pensions	42,393	13
Support Staff Pay	74,322	23
Other Income/Expenditure	29,842	9
Net contributions To Reserves	1,748	4
Net Operating Expenditure	318,586	



It is noted that the accounting cost of providing the Police Service on Merseyside, excluding all PCC expenditure and income, in accordance with generally accepted accounting practices was £992.336m as detailed within the Comprehensive Income and Expenditure Statement. This figure is different to the Net Operating Expenditure figure of £318.586m highlighted above due to the accounting requirement to include non-cash items, such as pension adjustments and notional charges for the use of assets, within the Comprehensive Income and Expenditure Statement. These non-cash items are notional and therefore are not budgeted for and not reflected within the reported outturn position.

Pension Liabilities

Police Officers and Police Staff are offered retirement benefits by the CC and Group as part of their terms and conditions of employment. Pension liabilities in respect of the officers and staff, whose costs have been recognised in the CC's Comprehensive Income and Expenditure Statement, have been recognised in the Balance Sheet of the CC. As at 31st March 2015 the CC recognised net pension liabilities of £4,385.334m. In accordance with IAS19 the CC's accounts incorporate a negative pensions reserve to show the estimated liability in relation to retirement benefits. However when considering this liability it must be taken into account that:

- The police officer scheme (pension liabilities of £4,219.820m) is a statutory scheme as specified by Police Regulations. 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 will be met by future employer contributions and Home Office grant monies.
- The Local Government Pension Scheme (net pension liabilities of £165.514m) 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 pensions liabilities is provided in the pension notes.

Foreword by the Chief Finance Officer

2015/16 AND BEYOND

In 2015/16 the PCC was able to set a balanced budget as the result of the Force having delivered £15.396m of savings and the use of £6.131m of reserves and balances. This budget will provide sufficient Resources to enable the CC to maintain a budgeted establishment of 3,678 Police Officers and protect frontline operations during the year.

However, the Medium Term Financial Strategy (MTFS) contained within the 2015/16 Budget Report forecasts further savings requirements over the subsequent three years to 2018/19 of £47.412m. A strategy aimed at addressing this deficit is currently being developed by the CC in partnership with the PCC.

FURTHER INFORMATION

This publication provides a review of the financial performance of the CC for 2014/15. A summary set of accounts has also been produced and published on the CC's website, at www.merseyside.police.uk. The PCC and Group Statement of Accounts can be viewed on the PCC's website, at www.merseysidepcc.info.

The Foreword by the Chief Finance Officer was signed by Geoff Broadhead on 26th June 2015

**Geoff Broadhead, CPFA
Chief Finance Officer to the Chief Constable
26th June 2015**

Independent Auditors Report to the Chief Constable of Merseyside Police

We have audited the financial statements of the Chief Constable for Merseyside Police for the year ended 31 March 2015 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and the related notes and include the Merseyside Police Pension Fund financial statements comprising the Pension Fund Account, the Net Assets Statement and related notes. 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 2014/15.

This report is made solely to the Chief Constable for Merseyside Police, as a body, in accordance with Part II of the Audit Commission Act 1998 and as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our audit work has been undertaken so that we might state to the Chief Constable those matters we are required to state to the Chief Constable in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Chief Constable as a body, 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 Responsibilities for the Statement of Accounts, 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 2014/15, 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 also 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 Chief Constable'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 Finance 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 Chief Constable for Merseyside Police as at 31 March 2015 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 2014/15 and applicable law.

Independent Auditors Report to the Chief Constable of Merseyside Police

Opinion on other matters

In our opinion, the information given in the Foreword by the Chief Finance 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 are required to 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; or
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998; or
- we designate under section 11 of the Audit Commission Act 1998 a recommendation as one that requires the Chief Constable 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 Chief Constable's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Chief Constable and the auditor

The Chief Constable 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 Chief Constable 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 in October 2014.

We report if significant matters have come to our attention which prevent us from concluding that the Chief Constable 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 Chief Constable's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Independent Auditors Report to the Chief Constable of Merseyside Police

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2014, as to whether the Chief Constable 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 Chief Constable put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

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 Chief Constable 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 2014, we are satisfied that, in all significant respects, the Chief Constable for Merseyside Police put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

Certificate

We certify that we have completed the audit of the financial statements of the Chief Constable for Merseyside Police 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 Chief Constable of Merseyside Police was signed by Fiona Blatcher on 23rd September 2015

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

23 September 2015

Statement of Responsibilities for the Statement of Accounts

The Chief Constable's responsibilities

The Chief Constable is required to:

- make arrangements for the proper administration of its financial affairs and to ensure that one of its officers (the Chief Finance Officer) has 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.

APPROVAL OF STATEMENT OF ACCOUNTS

I approve this Statement of Accounts

The Statement of Responsibilities was signed by Sir Jon Murphy on 18th September 2015.

**Sir Jon Murphy QPM
Chief Constable of Merseyside Police**

Chief Finance Officer

The Chief Finance Officer is responsible for the preparation of the Statement of Accounts for the Chief Constable of Merseyside Police 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 this 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 where applicable.

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 gives a true and fair view of the financial position of the Chief Constable of Merseyside Police at the accounting date and of the income and expenditure for the year ended 31st March 2015.

The Statement of Responsibilities was signed by Geoff Broadhead on 18th September 2015.

**Geoff Broadhead, CPFA
Chief Finance Officer to the Chief Constable
18th September 2015**

The Movement in Reserves Statement 2013/14 and 2014/15

This statement shows the movement in the 2013/14 and 2014/15 financial years on the different reserves held by the CC, analysed into 'usable' reserves (i.e. those that can be used to fund expenditure or reduce local taxation) and 'unusable' reserves. At present, the only transactions shown in this statement relate to the pensions reserve and the accumulated absences account (reflecting movements relating to police officers and police staff under the direction and control of the CC). All other reserves are managed by the PCC. The financial consequences of the operational activities undertaken by the CC can be seen in the Comprehensive Income and Expenditure Statement.

	Note	Usable Reserves		Unusable Reserves		Total Reserves
		General Fund Balance	Pensions Reserve	Accumulated Absences Account	Total	
		£000	£000	£000	£000	£000
Balance as at 1st April 2013		0	(3,825,991)	(6,560)	(3,832,551)	(3,832,551)
Deficit on provision of services on an accounting basis		(202,301)	0	0	0	(202,301)
Remeasurements of the net defined benefit liability	7.14	0	231,820	0	231,820	231,820
Total Comprehensive Income and Expenditure		(202,301)	231,820	0	231,820	29,519
Actual amounts charged against the Pension Fund for the year	7.6	(56,935)	56,935	0	56,935	0
Difference in pension costs between accounting basis (IAS 19) and funding basis	7.6	260,375	(260,375)	0	(260,375)	0
Difference in employee remuneration costs (between accounting and funding basis)		(1,139)	0	1,139	1,139	0
Adjustments between accounting basis and funding basis under regulations:		202,301	(203,440)	1,139	(202,301)	0
Net increase or (decrease)		0	28,380	1,139	29,519	29,519
Balance as at 31st March 2014 and 1st April 2014		0	(3,797,611)	(5,421)	(3,803,032)	(3,803,032)
Deficit on provision of services on an accounting basis		(191,063)	0	0	0	(191,063)
Remeasurements of the net defined benefit liability	7.14	0	(396,348)	0	(396,348)	(396,348)
Total Comprehensive Income and Expenditure		(191,063)	(396,348)	0	(396,348)	(587,411)
Actual amounts charged against the Pension Fund for the year	7.6	(57,904)	57,904	0	57,904	0
Difference in pension costs between accounting basis (IAS 19) and funding basis	7.6	248,210	(248,210)	0	(248,210)	0
Transfer of pension liabilities from PCC	7.2	1,069	(1,069)	0	(1,069)	0
Difference in employee remuneration costs (between accounting and funding basis)		(312)	0	312	312	0
Adjustments between accounting basis and funding basis under regulations:		191,063	(191,375)	312	(191,063)	0
Net increase or (decrease)		0	(587,723)	312	(587,411)	(587,411)
Balance as at 31st March 2015		0	(4,385,334)	(5,109)	(4,390,443)	(4,390,443)

The Comprehensive Income and Expenditure Statement (CIES)

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices. It summarises the resources that have been generated and consumed in providing policing and crime reduction services during the year. It includes all day to day expenses and related income on an accruals basis, as well as transactions measuring the value of property, plant and equipment actually consumed and the real projected value of retirement benefits earned by employees in the year.

2013/14 Restated*				Note	2014/15		
Gross Expenditure	Gross Income	Net Expenditure			Gross Expenditure	Gross Income	Net Expenditure
£000	£000	£000		£000	£000	£000	
173,079	0	173,079	Local policing		171,520	0	171,520
28,560	0	28,560	Dealing with the public		29,845	0	29,845
39,461	0	39,461	Criminal justice arrangements		33,677	0	33,677
15,708	0	15,708	Roads policing		15,937	0	15,937
41,541	0	41,541	Specialist operations		42,994	0	42,994
29,585	0	29,585	Intelligence		29,455	0	29,455
83,333	0	83,333	Investigation		74,693	0	74,693
12,160	0	12,160	Investigative support		9,894	0	9,894
18,084	0	18,084	National policing		16,947	0	16,947
6,891	0	6,891	Non-distributed costs		4,500	0	4,500
0	(410,197)	(410,197)	PCC funding for financial resources consumed	3.2	0	(404,925)	(404,925)
448,402	(410,197)	38,205	Cost of services		429,462	(404,925)	24,537
255	0	255	Other operating expenditure		261	0	261
163,841	0	163,841	Financing and investment income and expenditure	3.1	166,265	0	166,265
612,498	(410,197)	202,301	Deficit on Provision of Services		595,988	(404,925)	191,063
(231,820)	0	(231,820)	Remeasurements of the net defined benefit liability	7.14	396,348	0	396,348
380,678	(410,197)	(29,519)	Total Comprehensive Income and Expenditure		992,336	(404,925)	587,411

* The 2013/14 CIES has been restated to report the PCC funding for financial resources consumed (£410.197m) within cost of services. In the 2013/14 Statement of Accounts this income was reported below cost of services as part of the deficit on provision of services. This amendment has taken place to improve the consistency in the reporting of this income line in the financial statements of all police forces in England and Wales. The restatement has had no impact on 2013/14 total comprehensive income and expenditure.

The Balance Sheet

The Balance Sheet shows the value, as at the Balance Sheet date, of the assets and liabilities recognised by the CC. The assets and liabilities recognised relate to police officers and police staff under the direction and control of the CC. The net liabilities of the CC are matched by the reserves held.

As at 31st March 2014		Note	As at 31st March 2015
£000			£000
	Current Assets		
853	Short-term debtors	4.1	9,644
853	Total Current Assets		9,644
	Current Liabilities		
(6,274)	Short-term creditors	4.2	(14,345)
0	Provisions		(408)
(6,274)	Total Current Liabilities		(14,753)
	Long-term Liabilities		
(3,797,611)	Liability relating to defined benefit pension scheme	7.7	(4,385,334)
(3,797,611)	Total Long-term Liabilities		(4,385,334)
(3,803,032)	Net Liabilities		(4,390,443)
	Reserves		
(3,803,032)	Unusable reserves		(4,390,443)
(3,803,032)	Total Reserves		(4,390,443)
		Movement in Reserves	

The Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the CC during the reporting period. However as all payments were made from the Police Fund which is held by the PCC, and similarly all income and funding is received by the PCC, the CC does not have any cash flows from operating activities¹.

2013/14		2014/15
£000		£000
202,301	Net deficit on the provision of services	191,063
	Adjust net deficit on the provision of services for non-cash movements:	
(203,440)	Pensions movements	(191,375)
(496)	Increase/(decrease) in debtors	8,791
1,635	(Increase)/decrease in creditors and provisions	(8,479)
0	Net Cash Flows from Operating Activities	0
31st March 2014		31st March 2015
£000		£000
0	Cash and Cash equivalents	0
0		0

¹ Under the funding arrangement between the PCC and the CC, the CC does not engage in investment and financing activities and therefore all cash flows are classified as operating activities.

1. Statement of Accounting Policies

1.1 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 2014/15 (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.

The Financial Statements represent the accounts for the CC. The financial statements cover the 12 months to 31st March 2015. 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 CC have adopted consistent accounting policies, which are detailed below in alphabetical order.

1.2 Accruals of Income and Expenditure

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

- Supplies are recorded as expenditure when they are consumed; and
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.

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.

1.3 Cost and Income Recognition

All expenditure is paid for by the PCC including the wages of police staff and officers and no cash transactions take place between the two entities. Costs are however recognised within the CC accounts to reflect the financial resources consumed at the request of CC and the economic benefit this brings about. For example an economic benefit is recognised to reflect the utilisation of the PCC assets which mirrors depreciation of property, plant and equipment, amortisation of intangible assets and impairment/revaluation losses. The PCC is the recipient of all funding related to police and crime reduction. The CC recognises the provision of funding and other resources from the PCC through the PCC funding in the Comprehensive Income and Expenditure Statement.

1. Statement of Accounting Policies

1.4 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. These benefits are recognised as an expense for services in the year in which the employee renders service to the CC. 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 the Comprehensive Income and Expenditure Statement 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 CC 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.

Post Employment Benefits (Pensions)

As part of the terms and conditions of employment the CC offers retirement benefits for Police Officers and Police Staff. The schemes provide members with defined benefits 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 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 CC 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.

1. Statement of Accounting Policies

1.4 Employee Benefits (continued)

Police Staff

Police staff, subject to certain qualifying criteria, are eligible to join the Local Government Pension Scheme (LGPS), 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 Merseyside Pension Fund (MPF) are contained within the MPF 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 International Accounting Standard (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 Pension 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 CC are included at their fair value. Plan assets of the Police Pension Scheme include employer and employee's contributions with an associated experience adjustment in the form of a remeasurement to bring net assets to zero at year-end. The CC currently has a net pensions liability and this is matched on the Balance Sheet by a Pensions Reserve.

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.

1. Statement of Accounting Policies

1.4 Employee Benefits (continued)

- **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 are 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 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 CC to pensions 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 pensions 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 Comprehensive Income and Expenditure Statement along with any resulting the actuarial gains and losses (included in IAS19 remeasurements in other comprehensive income and expenditure).

Under 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 CC believes that there is significant volatility and/or materiality in the level of long-term disability payments. Where the CC rebuts 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 CC rebuts the presumption above, and has accounted for those payments in the same way as other defined benefit post-employment benefits.

1.5 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; and
- 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.

1. Statement of Accounting Policies

1.6 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 CC's financial performance.

1.7 Jointly Controlled Operations

Jointly controlled operations are joint arrangements in which the CC and other venturers have joint control of the operation. Joint control exists when the decisions about the relevant activities require the unanimous consent of the parties sharing control. The activities undertaken by the CC in conjunction with other venturers involve the use of the assets and resources of the venturers rather than the establishment of a separate entity. The parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

The Comprehensive Income and Expenditure Statement (CIES) is debited with the CC's share of expenditure incurred. As the PCC receives all income and funding any income received from the structure of the arrangement will be credited to the CIES of the PCC. The PCC then credits the CC with an equivalent amount through the intra-group funding.

Assets and liabilities arising from the activities of the operation are held on the PCC's balance sheet.

1.8 Overheads and Support Services

The costs 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 2014/15 (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 the cost of discretionary benefits awarded to employees retiring early.

1.9 Pension Top Up Grant

The police pension schemes are unfunded and have no investment assets. Benefits payable are funded by contributions from officers and the PCC. Any difference between benefits payable and contributions receivable is funded by an additional contribution from the PCC which is financed by a top-up grant from the Home Office.

The top-up grant income is calculated on an accruals basis and is credited to the PCC and Group Comprehensive Income and Expenditure Statement.

1.10 PCC Funding of the Chief Constable's Expenditure

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.

The PCC's funding of the CC's expenditure takes the form of 'intragroup funding' and is shown as income in the CC's CIES and expenditure in the PCC's CIES. The intragroup transactions are accounted for on an accruals basis and are eliminated on consolidation in the Group financial statements. There is no actual transfer of cash involved in this transaction as all the resources belong to the PCC.

1. Statement of Accounting Policies

1.11 Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the CC's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

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

1.12 Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the CC 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 CC 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. The CC is funded for the provision through the intra-group funding from the PCC and the provisions are held on the PCC Balance Sheet.

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 in the Balance Sheet of the PCC and the CC will receive a credit back from the PCC (through the intra-group account) to the Comprehensive Income and Expenditure Statement.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the CC 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 CC. 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 CC. The CC 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.

1.13 VAT

The CC does not submit a VAT return and the PCC submits a single VAT return on behalf of the PCC Group. 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.

2. Notes to the Movement in Reserves Statement

2.1 Unusable Reserves

Movements in the CC's reserves are detailed in the Movement in Reserves Statement **page 9**.

The CC holds the following unusable reserves:-

- **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. Statutory provisions require the police fund to be charged with the amount payable to pension funds in the year, not the amount calculated according to the relevant standards. This adjustment means that the accounting entries do not impact on the requirement to raise council tax. In the Movement in Reserves Statement therefore there are appropriations to and from an unusable pensions reserve to remove the notional debits and credits for retirement benefits and replaces them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

The negative balance that arises on the pension reserve therefore measures the beneficial impact to the police fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees. The negative balance also shows the substantial shortfall in the benefits earned by past and current employees and the resources set aside to meet them, and represents the Net Defined Benefit Obligation to the CC. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid (see pensions notes for details).

- **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 2015). 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.

3. Notes to the Comprehensive Income and Expenditure Statement

3.1 Financing and Investment Income and Expenditure

2013/14		2014/15
£000		£000
163,913	Net pensions interest cost	166,265
(72)	Total net surplus on trading undertakings	0
163,841		166,265

3.2 PCC Funding for Financial Resources Consumed

The Comprehensive Income and Expenditure Statement (**CIES**) summarises the resources that have been generated and consumed in providing policing and crime reduction services during the year. It includes all day to day expenses and related income on an accruals basis, as well as transactions measuring the value of property, plant and equipment assets actually consumed and the real projected value of retirement benefits earned by employees in the year.

The PCC provides funding to the CC for financial resources consumed. The funding provided covers the day-to-day expenses on an accruals basis as well as charges for operational assets consumed in the year. These transactions are reflected in the intra-group accounts of both entities.

The funding does not take account of:

- pension (IAS 19) charges/credits or;
- compensated absences charges/credits

These transactions, recorded in the Comprehensive Income and Expenditure Statement, are reversed in the Movement in Reserves Statement and charged/credited to the Pensions Reserve and Accumulated Absences Account in the Balance Sheet.

As the PCC funding does not take account of these charges or credits, the Comprehensive Income and Expenditure Statement has a deficit of £587.411m (2013/14: £29.519m surplus).

2013/14			2014/15	
£000	£000		£000	£000
	380,678	CIES Total Gross Expenditure		992,336
	(410,197)	PCC funding		(404,925)
	(29,519)	CIES Total Comprehensive Income and Expenditure		587,411
		Pension (IAS 19) charges		
(56,935)		Employers pensions contributions paid in year	(57,904)	
89,317		Current service cost	76,872	
6,891		Past service cost	4,500	
255		Administrative expenses	261	
0		Loss on curtailments	312	
(231,820)		IAS 19 remeasurements	396,348	
0		Transfer of pension liability	1,069	
163,913		Pensions interest cost and expected return on plan assets	166,265	
	(28,379)			587,723
		Compensated absences charges/(credits)		
(1,192)		Decrease in creditor for short term accumulating absences	(17)	
52		Decrease in debtor for short term accumulating absences	329	
	(1,140)			(312)
	(29,519)	CIES Total Comprehensive Income and Expenditure		587,411

3. Notes to the Comprehensive Income and Expenditure Statement

3.3 Joint Arrangements

The CC is party to a number of joint arrangements. The 2014/15 Code adopts IFRS 11 'Joint Arrangements', which outlines the accounting requirements of entities that jointly control an arrangement. For the preparation of the 2014/15 financial statements all joint arrangements have been reviewed to ensure that the accounting treatment is in accordance with IFRS 11.

In 2014/15 the arrangements detailed below have been accounted for as joint operations. Jointly controlled operations are joint arrangements in which the CC and other venturers have joint control. Joint control exists when the decisions about the relevant activities require the unanimous consent of the parties sharing control. The activities undertaken by the CC in conjunction with other venturers involve the use of the assets and resources of the venturers rather than the establishment of a separate entity. The parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

The Comprehensive Income and Expenditure Statement is debited with the CC's share of expenditure incurred. As the PCC receives all income and funding, the income receivable from the structure of the arrangement will be credited to the Comprehensive Income and Expenditure Statement of the PCC. The PCC credits the CC with an equivalent amount through the intra-group funding.

Assets and liabilities arising from the activities of the operation are held on the PCC's balance sheet.

TITAN

The policing bodies and Chief Constables of Cheshire, Cumbria, Greater Manchester, Lancashire, Merseyside and North Wales have agreed to collaborate in the provision of a shared Regional Organised Crime Unit. The objective of this unit is to protect the communities of the North West of England and North Wales from serious organised crime. The shared service delivered through these collaborative arrangements is known as TITAN. Merseyside is the lead Force for this arrangement.

The PCC and CC consider that there is joint control of this arrangement because the collaborative agreement entered into by the parties:-

- enables the PCC and CC, together with the other parties, to direct the activities that significantly affect the returns of the arrangement; and
- requires the unanimous consent of the parties that effectively control the arrangement.

The unit is staffed by police officers and support staff from the six constituent forces with the overall expenditure being met by those authorities.

For 2014/15 the total revenue costs of TITAN were £13.428m. The unit received Home Office funding of £4.192m and the total net cost of the collaboration was £9.236m.

At the balance sheet date the unit held property, plant and equipment of £0.345m, cash balances of £0.048m, debtors of £2.493m, creditors of £2.141m, usable reserves of £0.400m and unusable reserves of £0.345m. The share of the TITAN balance sheet balances are not considered to be individually material to any of the participating forces. These balances are accounted for within the Group and the PCC Balance Sheet.

3. Notes to the Comprehensive Income and Expenditure Statement

3.4 Joint Arrangements (continued)

The Underwater Search Unit

This 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 North West Police Motorway Group (NWPMG)

This 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.

The North West Regional Firearms Collaboration

This collaboration between Merseyside, Cheshire, Lancashire, Cumbria, GMP and North Wales achieves a collaborative approach to the provision of police firearms training and response in the North West Region.

The CC's share of net expenditure for each of the collaborations is as follows:-

2013/14		2014/15
Net Expenditure		Net Expenditure
£000		£000
1,084	TITAN	2,196
207	Underwater Search Unit	185
239	North West Police Motorway Group	224
68	North West Regional Firearms Collaboration	57
1,598	Total	2,662

3.5 Other Collaborations

Joint Control Centre (JCC)

The PCC has developed a Joint Control Centre (JCC), which is shared by Merseyside Police and Merseyside Fire and Rescue Service. This project has involved refurbishing existing buildings as well as a new build. The PCC leases the building from Merseyside Fire and Rescue Service (MFRS) for a term of 40 years. Further detail regarding this collaboration can be found in the PCC and Group Statement of Accounts.

National Police Air Service (NPAS)

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. The PCC has not accounted for this collaboration as a joint arrangement because the PCC considers that there is no joint control of the arrangement. The Group recognises the cost of this service in the Comprehensive Income and Expenditure Statement.

3. Notes to the Comprehensive Income and Expenditure Statement

3.5 Police Officers 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:

2013/14			2014/15	
196	£50,000	-	£55,000	218
93	£55,001	-	£60,000	95
24	£60,001	-	£65,000	20
6	£65,001	-	£70,000	15
5	£70,001	-	£75,000	4
14	£75,001	-	£80,000	10
6	£80,001	-	£85,000	9
7	£85,001	-	£90,000	10
3	£90,001	-	£95,000	1
1	£95,001	-	£100,000	2
0	£100,001	-	£105,000	2
1	£105,001	-	£110,000	3
1	£110,001	-	£115,000	1
0	£115,001	-	£120,000	2
1	£120,001	-	£125,000	0
0	£125,001	-	£130,000	0
1	£130,001	-	£135,000	0
1	£135,001	-	£140,000	0
1	£140,001	-	£145,000	1
0	£145,001	-	£150,000	0
0	£150,001	-	£155,000	0
0	£155,001	-	£160,000	0
0	£160,001	-	£165,000	0
0	£165,001	-	£170,000	0
1	£170,001	-	£175,000	0
0	£175,001	-	£180,000	1
362				394

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.

3. Notes to the Comprehensive Income and Expenditure Statement

3.6 Senior Officers Remuneration

The tables below show remuneration of defined senior and statutory officers for 2013/14 and 2014/15. Expenses allowances disclosed are those chargeable under UK income tax.

Post Holder Information	Notes	Salaries (including Fees and Allowances)	Expenses Allowances	Honorarium	Benefits in Kind	Total Remuneration excl. Pension Contributions	Pension Contributions	Total Remuneration incl. Pension Contributions
		£	£	£	£	£	£	£
Chief Constable - J Murphy	1	158,177	16,723	0	0	174,900	0	174,900
Deputy Chief Constable	2	138,092	0	0	3,158	141,250	31,654	172,904
Director of Resources		88,734	0	0	10,197	98,931	8,831	107,762
Deputy Chief Constable	3	128,644	0	0	6,763	135,407	29,591	164,998
Assistant Chief Constable	4	126,138	0	0	4,919	131,057	14,922	145,979
Assistant Chief Constable	5	102,046	0	0	7,957	110,003	24,261	134,264
Assistant Chief Constable	5	103,594	0	0	5,712	109,306	24,542	133,848
Assistant Chief Constable	6	91,864	0	0	0	91,864	21,494	113,358
Chief Superintendent x 20	7	1,532,952	0	0	2,768	1,535,720	341,557	1,877,277
Total 2013/14 restated*		2,470,241	16,723	0	41,474	2,528,438	496,852	3,025,290
Chief Constable - J Murphy	1	159,758	16,647	0	0	176,405	0	176,405
Deputy Chief Constable	8	95,078	0	12,042	2,661	109,781	13,509	123,290
Director of Resources		91,247	0	0	10,660	101,907	11,177	113,084
Deputy Chief Constable		138,849	0	0	5,811	144,660	31,897	176,557
Assistant Chief Constable		110,675	0	0	4,912	115,587	0	115,587
Assistant Chief Constable		103,648	0	0	7,717	111,365	24,484	135,849
Assistant Chief Constable	9	103,872	0	0	3,264	107,136	24,484	131,620
Assistant Chief Constable	10	97,969	0	0	5,444	103,413	23,056	126,469
Chief Superintendent x 19	11	1,538,101	0	0	2,533	1,540,634	357,269	1,897,903
Total 2014/15		2,439,197	16,647	12,042	43,002	2,510,888	485,876	2,996,764

* The 2013/14 analysis has been restated to include 20 Chief Superintendents who are classed as senior officers.

3. Notes to the Comprehensive Income and Expenditure Statement

3.6 Senior Officers Remuneration (continued)

Note	Detail
1	The expenses allowance paid to the Chief Constable is a car allowance.
2	The Deputy Chief Constable was seconded to Cumbria Police in the role of temporary Chief Constable and all costs are fully recharged.
3	Temporary Deputy Chief Constable with effect from 5/08/2013, permanent Deputy Chief Constable with effect from 05/09/2013 (full years remuneration included).
4	Temporary Deputy Chief Constable to 04/08/2013 (full years remuneration included).
5	Permanent with effect from 29/04/2013 (full years remuneration included).
6	Temporary ACC to 05/08/2014 (full years remuneration included).
7	Chief Superintendent posts have not been included individually due to numbers (20 posts in total). Individual salaries were in the ranges £8,775 to £90,330 and benefits in kind ranged from £0 to £442. Individual employer pension contributions ranged from £634 to £19,141.
8	The Deputy Chief Constable was seconded to Cumbria Police until July 2014. During this period an honorarium payment was made. All costs were fully recharged to Cumbria Police. The Deputy Chief Constable retired on 30/11/2014.
9	The Assistant Chief Constable was seconded to NATO from April 2014 to October 2014. All costs were fully recharged for this period.
10	The Assistant Chief Constable was seconded to the Regional Collaboration Project from October 2014. All costs are shared between the participating Forces (Cheshire, Greater Manchester, Merseyside, Lancashire, Cumbria and North Wales).
11	Chief Superintendent posts have not been included individually due to numbers (19 posts in total). Individual salaries were in the ranges £18,911 to £97,100 and benefits in kind ranged from £0 to £551. Individual employer pension contributions ranged from £4,148 to £21,669.

3. Notes to the Comprehensive Income and Expenditure Statement

3.7 Termination Benefits

The CC terminated the contracts of a number of employees in 2014/15 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	
	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15
							£	£
£0 - £20,000	0	0	78	15	78	15	829,334	200,959
£20,001 - £40,000	0	0	48	18	48	18	1,316,998	520,636
£40,001 - £60,000	0	0	11	12	11	12	515,362	559,858
£60,001 - £80,000	0	0	5	7	5	7	333,534	482,807
£80,001 - £100,000	0	0	1	3	1	3	83,708	266,646
£100,001 - £150,000	0	0	2	2	2	2	235,410	281,542
Total	0	0	145	57	145	57	3,314,346	2,312,448

The total cost of £2.312m (£3.314m 2013/14) in the table above represents the charge for exit packages that have been agreed, accrued for, and charged to the Comprehensive Income and Expenditure Statement for the current year. Accrued costs for 2014/15 included above are £2.191m and are based on the estimated cost to the CC.

3. Notes to the Comprehensive Income and Expenditure Statement

3.8 Audit Costs

2013/14		2014/15
£000		£000
25	Fees payable to Grant Thornton UK LLP	25
25	Total	25

3.9 Charges 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.

3.10 Related Parties

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

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 significant influence over the general operations of the CC. It is responsible for providing the statutory framework within which the CC operates and provides the majority of funding in the form of grants to the PCC. Grants received from government departments are set out in the PCC Group and the PCC Statement of Accounts 2014/15.

Local Authorities

Funding from Local Authorities in the Merseyside area is set out in the PCC Group and the PCC Statement of Accounts 2014/15.

Officers

The CC has considered transactions with senior officers of the Force and has concluded that there are no material transactions to disclose.

4. Notes to the Balance Sheet

4.1 Short-term Debtors

31st March 2014		31st March
£000		£000
97	Short term accumulating absences	80
756	Intra-group account	9,564
853	Total	9,644

4.2 Short-term Creditors

31st March 2014		31st March
£000		£000
(756)	Bodies external to general government	(4,271)
0	HM Revenue and Customs	(4,885)
(5,518)	Short term accumulating absences	(5,189)
(6,274)	Total	(14,345)

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.

4.3 Contingent Liability

The CC recognises a contingent liability in respect of the Pensions Ombudsman's determination in a case concerning the lump sum paid to a fire-fighter on his retirement. The details of this case are given in **note 5.4**. The Pensions Ombudsman determination has been recognised as a contingent liability because the amount of the obligation cannot be measured reliably.

5. Other Notes to the Core Financial Statements

5.1 Stage 2 Transfer

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. 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; and
- the PCC and the CC have agreed that property, plant and equipment assets would remain under the ownership and control of the PCC.

There has been therefore a change in the employment status of the majority of police civilian staff from 1st April 2014. However the financial statements prepared in 2012/13 and 2013/14 reflected the substance of the transactions and not just the legal form. As the majority of police civilian staff were considered to be employed to support the operational policing role of the CC, their employment costs were recorded in the CC's Comprehensive Income and Expenditure Statement.

The implementation of the stage 2 transfer has therefore not had a significant impact on the presentation of the 2014/15 single entity financial statements for the PCC and CC. The only significant change is that short term employee related creditors such as amounts owed to HMRC for PAYE and national insurance are now reported on the balance sheet of the CC and are funded by a short term debtor from the PCC.

5.2 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 2015 but will not be adopted by the Code until 2015/16.

International Financial Reporting Standard (IFRS) 13 Fair Value Measurement

IFRS 13 defines fair value and introduces a single framework for measuring fair value. It also introduces enhanced disclosure requirements around fair value measurement. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Property Plant and Equipment (PPE) assets are measured at the highest and best use. Under IFRS 13 operational plant and equipment is measured at service potential and there will be no change in the measurement requirements. Surplus assets (i.e. PPE that is not being used to supply goods and services and does not meet the criteria of assets held for sale) are currently measured at existing use valuation based on their use as an operational asset. However, the 2015/16 Code requires that such assets must now be measured at fair value in accordance with IFRS 13.

The impact of this revised standard has been considered and it is not expected to have any material impact on the accounts of the CC as the CC does not recognise PPE assets on the balance sheet.

International Financial reporting Interpretations Committee (IFRIC) 21 Levies

IFRIC 21 provides guidance on when to recognise a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and those where the timing and amount of the levy is certain.

5. Other Notes to the Core Financial Statements

5.2 Accounting Standards That Have Been Issued but Have Not Yet Been Adopted (continued)

The Interpretation covers the accounting for outflows imposed on entities by governments (including government agencies and similar bodies) in accordance with laws and/or regulations. However, it does not include income taxes (see IAS 12 Income Taxes), fines and other penalties, liabilities arising from emissions trading schemes and outflows within the scope of other Standards.

IFRIC 21 identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation. The Interpretation clarifies that 'economic compulsion' and the going concern principle do not create or imply that an obligating event has occurred.

IFRIC 21 provides guidance on the recognition of a liability to pay levies. The liability is recognised progressively if the obligating event occurs over a period of time. If an obligation is triggered on reaching a minimum threshold, the liability is recognised when that minimum threshold is reached. As neither the PCC nor CC are subject to any material levies this change is not expected to have any material impact on their financial statements

Annual Improvements to IFRSs 2011-2013 cycle

In December 2013, the International Accounting Standards Board (IASB) issued Annual Improvements to IFRSs 2011-2013 Cycle, a collection of amendments to IFRSs.

The issues included in this cycle are:-

- **IFRS 1: Meaning of effective IFRSs** – the amendment clarifies the meaning of 'each IFRS effective at the end of an entity's first reporting period'. This is not relevant to the PCC or CC as they have been preparing accounts under IFRS for a number of years.
- **IFRS 3: Scope exceptions for joint ventures** – the amendment clarifies that IFRS 3 Business Combinations does not apply to joint arrangements. This clarification will not have any impact on the accounts of the CC.
- **IFRS 13 Fair Value Measurement: Scope of paragraph 52 (portfolio exception)** - paragraph 52 of IFRS 13 includes a scope exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis. This is referred to as the portfolio exception. It is anticipated that this amendment will not have any impact on the accounts of the CC.
- **International Accounting Standard (IAS) 40: Clarifying the interrelationship of IFRS 3 Business Combinations and IAS 40 Investment Property when classifying property as investment property or owner-occupied property** - the objective of this amendment is to clarify that judgement is needed to determine whether the acquisition of investment property is the acquisition of an asset, a group of assets or a business combination in the scope of IFRS 3 and that this judgement is based on the guidance in IFRS 3. As the CC does not hold any investment assets this clarification will not have any impact on the financial statements.

5. Other Notes to the Core Financial Statements

5.3 Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in **note 1**, the CC has had to make certain judgements about complex transactions or those involving uncertainty about future events.

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 CC 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 CC has considered the substance of the transaction and not just solely 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 grants and precepts 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.

5. Other Notes to the Core Financial Statements

5.3 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. Provisions relating to insurance risks 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. Provisions relating to officers and staff under the direction and control of the CC are recognised on the CC's balance sheet.
Long-term liabilities	YES	YES*	The PCC and CC each recognise pension liabilities relating to staff under their direction and control. The treatment of other long term liabilities and provisions is consistent with the treatment of current liabilities outlined above.
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.

5. Other Notes to the Core Financial Statements

5.3 Critical Judgements in Applying Accounting Policies (continued)

Collaborations

The CC and PCC are involved in a widening range of ways of working to provide policing services. It has therefore been necessary to consider carefully the accounting implications of collaboration covering all circumstance where the Group is working co-operatively with other policing bodies and chief constables.

The CC has carefully considered all collaborative activity. The judgements and accounting treatment of collaborative activity can be found in **note 3.3** Joint Arrangements.

5.4 Pension Ombudsman Determination

On 15th May 2015 the Pensions Ombudsman published his determination in a case concerning the lump sum paid to a fire-fighter on his retirement. The case will have relevance to many fire-fighters and police officers who retired in the early 2000s. The commutation factors under the Fire and Police Schemes are reviewed from time to time in accordance with their governing legislation. These reviews take account of factors affecting the actuarial equivalent value, such as changes in the discount rate used to value the benefits and the future life expectancy of retirees. At the 1998 review, the Government Actuaries Department (GAD) had recommended that the commutation factors should be reviewed in three years' time. However, no review took place in 2001. The focus of the complaint was that GAD ought to have reviewed the commutation factors earlier than 2006 and that, had it done so, more beneficial terms would have applied giving him a higher cash sum on retirement or a higher residual pension for the same amount of lump sum. The determination found that "an opportunity to review the commutation factors was lost in 2001/2 and then again between 2002 and 2004".

The indications are that 757 retired officers will be impacted by this determination. As it has not been possible to make a reliable estimate of the liability a provision has not been raised and this obligation has been noted as contingent liability (**note 4.3**).

The majority of the costs will not fall on individual Forces. The costs will initially be met from within the Pension Fund Account. The PCC will then be reimbursed via the pension top up grant from the Home Office. The PCC will provide funding to the CC for this expenditure via the intragroup account.

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

The Statement of Accounts contains estimated figures that are based upon assumptions made by the CC about the future or that are otherwise 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 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 CC and the Group use 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 shown in **note 7.9**.

5. Other Notes to the Core Financial Statements

5.6 Events after the Balance Sheet Date

The Statement of Accounts was authorised for issue by Geoff Broadhead, Chief Finance Officer to the Chief Constable of Merseyside Police on 18th September 2015.

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

Where events have taken place on or before 18th September 2015 which provide information about conditions existing at 31st March 2015, 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 18th September 2015 which are indicative of conditions that arose after the reporting period.

On 15th May 2015 the Pensions Ombudsman published his determination in a case concerning the lump sum paid to a fire-fighter on his retirement. The details of this case are given **in note 5.4**. The Pensions Ombudsman determination has been recognised as a contingent liability (**note 4.3**) because the amount of the obligation cannot be measured reliably.

6. Amounts Reported for Resource Allocation Decisions

6.1 Amounts Reported for Resource Allocation Decisions

The analysis of income and expenditure by service on the face of the CC Comprehensive Income and Expenditure Statement is that specified by the Service Reporting Code of Practice (SeRCOP). However, decisions about resource allocation are taken by the CC 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, 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.

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 6.2** below.

6.2 Reconciliation of FAU Net Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement

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

2013/14 Restated*		Note	2014/15
£000			£000
346,736	Net Expenditure in the FAU Analysis	6.3 & 6.4	343,138
(313,871)	Amounts not reported in FAU net expenditure		(323,241)
(404)	Amounts reported below net cost of services in the Comprehensive Income and Expenditure Statement		0
5,744	Amounts not reported in the Comprehensive Income and Expenditure Statement		4,640
38,205	Cost of Services in Comprehensive Income and Expenditure Statement		24,537

6.3 Reconciliation of FAU Net Expenditure to Subjective Analysis 2013/14 (comparative figures restated*)

	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
PCC funding for financial resources consumed	0	(410,197)	0	0	(410,197)	0	(410,197)
Total Income	0	(410,197)	0	0	(410,197)	0	(410,197)
Employee expenses	278,152	96,326	(232)	2,998	377,244	164,168	541,412
Other expenses	68,584	0	(244)	2,746	71,086	0	71,086
Total Expenditure	346,736	96,326	(404)	5,744	448,402	164,096	612,498
(Surplus)/Deficit	346,736	(313,871)	(404)	5,744	38,205	164,096	202,301

* It has been necessary to restate the 2013/14 comparatives to adjust for the reclassification of PCC funding which is now reported within cost of services (**page 10**).

6. Amounts Reported for Resource Allocation Decisions

6.4 Reconciliation of FAU Net Expenditure to Subjective Analysis 2014/15

	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
PCC funding for financial resources consumed	0	(404,925)	0	0	(404,925)	0	(404,925)
Total Income	0	(404,925)	0	0	(404,925)	0	(404,925)
Employee expenses	275,674	81,684	0	4,544	361,902	166,526	528,428
Other expenses	67,464	0	0	96	67,560	0	67,560
Total Expenditure	343,138	81,684	0	4,640	429,462	166,526	595,988
(Surplus)/Deficit	343,138	(323,241)	0	4,640	24,537	166,526	191,063

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 2014 to 31st March 2015 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, the CC 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 CC Statement of Accounts.

2013/14	Pension Fund Account	2014/15
£000		£000
	Income	
	Contributions Receivable	
(33,563)	Police employers pension contribution income	(33,338)
(14,515)	Employees pension contributions (Police Pension Scheme 1987)	(13,867)
(3,485)	Employees pension contributions (Police Pension Scheme 2006)	(4,869)
	Other	
(1,288)	Police transfer value receivable	(1,105)
(2,772)	Capital equivalent income - ill health pensions	(1,700)
(55,623)	Total Income	(54,879)
	Expenditure	
	Benefits Payable	
93,447	Police pensions	96,264
4,484	Police ill health commutations	3,994
19,355	Police ordinary commutations	16,262
495	Police death in service grant	319
	Other	
4	Refunds of contributions	14
214	Police transfer value payable	474
117,999	Total Expenditure	117,327
62,376	Net Amount Payable/(Receivable) before top-up grant	62,448
(62,376)	Additional contribution from the PCC	(62,448)
0	Net Amount Payable/(Receivable)	0
31st March 2014	Net Assets Statement	31st March 2015
£000		£000
	Net Current Assets and Liabilities	
	Creditors/Receipts in Advance	
0	Unpaid pension benefits	0
0	Employers contributions received in advance	0
0	Employees contributions received in advance	0
0	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
0	Refund of pension benefits	0
0	Total Net Assets	0

7. Pensions Notes

7.1 Pension Fund Account (Police Officers)

The Pension Fund Account records all the items of 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 of between 11% and 15.05% of their salary (depending on which scheme they are in and their annual earnings). In total £18.736m (2013/14: £18.000m) of contributions have been netted off against retirement benefits payable to pensioners.

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 22 years for the Old 1987 Police Pension Scheme, and at around 34 years for the New 2006 Police Pension Scheme.

As part of the terms and conditions of employment of its officers and other employees, the CC offers retirement benefits. Although these benefits will not actually be payable until employees retire, the CC 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 police officers are shown at **note 7.7**.

7.2 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 CC and employees pay contributions into a fund, calculated at a level intended to balance the pensions liability with investment assets. In addition, the CC has made arrangements for the payment of added years to certain retired employees outside the provision of the scheme. The cost of employer's contributions for police staff was £12.116m (2013/14: £9.282m). Details of liabilities for police staff are shown at **note 7.7**.

In 2013/14, the actuaries of the LGPS provided a pension valuation which covered all PCC and CC staff in the scheme. An estimate was therefore made of the share of the total LGPS assets and liabilities that were attributable to staff employed in the Office of the PCC. For the 2014/15 valuation the actuaries have performed a separate valuation for PCC and CC staff. This has resulted in a net transfer of £1.068m of pension liabilities from the PCC to the CC (transfer of assets of £2.032m and liabilities of £3.100m).

The duration of the defined benefit obligation for the Police Staff Pension Scheme is estimated at 22 years. Expected contributions for the 2015/16 financial year are £10.475m.

7.3 Sensitivity Analysis of Actuarial Assumptions

A sensitivity analysis has been included showing the possible impact on the net defined benefit obligation of changes in the actuarial assumptions (see **note 7.9**). 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.

7. Pensions Notes

7.4 Pensions Risk – Police Staff Pensions Scheme

Wirral Borough Council is the administering authority for Merseyside Pension Fund (MPF) (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 of MPF 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.

7.5 Pensions Risk – Police Pensions 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).

7. Pensions Notes

7.6 Pension Costs

The CC recognises the cost of retirement benefits in the cost of services when employees earn them rather than when they are eventually paid as pensions. The following transactions have been made during the year:

	Local Government Pension Scheme		Police Pension Scheme						TOTAL
	2013/14 £000	2014/15 £000	2013/14 OLD SCHEME £000	2013/14 NEW SCHEME £000	2013/14 TOTAL £000	2014/15 OLD SCHEME £000	2014/15 NEW SCHEME £000	2014/15 TOTAL £000	2014/15 GRAND TOTAL £000
Net Cost of Services									
Current service cost	10,667	9,522	62,360	16,290	78,650	50,450	16,900	67,350	76,872
Past service cost	1,251	0	5,000	640	5,640	3,950	550	4,500	4,500
Administrative Expenses	255	261	0	0	0	0	0	0	261
Net Operating Expenditure									0
Interest cost	16,247	16,964	154,110	4,910	159,020	156,460	5,590	162,050	179,014
Expected return on assets	(11,355)	(12,749)	0	0	0	0	0	0	(12,749)
Loss on curtailments	0	312	0	0	0	0	0	0	312
Net charge to the Comprehensive Income and Expenditure Statement	17,066	14,310	221,470	21,840	243,310	210,860	23,040	233,900	248,210
Movement in Reserves Statement									
Reversal of net charges made for retirement benefits in accordance with IAS19	(17,066)	(14,310)	(221,470)	(21,840)	(243,310)	(210,860)	(23,040)	(233,900)	(248,210)
Actual amount charged against revenue:									
Employers contributions and direct payments to pensioners payable in the year	9,282	12,116	40,143	7,510	47,653	36,678	9,110	45,788	57,904
IAS 19 Remeasurements charged against Other Comprehensive Income and Expenditure	26,993	(65,630)	202,307	2,520	204,827	(298,188)	(32,530)	(330,718)	(396,348)

7. Pensions Notes

7.7 The Net Defined Benefit Obligation (Liability)

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

	Local Government Pension Scheme		Police Pension Scheme						Total	
	31st March 2014	31st March 2015	31st March 2014	31st March 2014	31st March 2014	31st March 2015	31st March 2015	31st March 2015	31st March 2014	31st March 2015
	£000	£000	OLD SCHEME £000	NEW SCHEME £000	TOTAL £000	OLD SCHEME £000	NEW SCHEME £000	TOTAL £000	£000	£000
Estimated liabilities in scheme	(367,864)	(480,229)	(3,585,060)	(115,930)	(3,700,990)	(4,057,430)	(162,390)	(4,219,820)	(4,068,854)	(4,700,049)
Estimated assets in scheme	271,242	314,715	0	0	0	0	0	0	271,242	314,715
Net liability	(96,622)	(165,514)	(3,585,060)	(115,930)	(3,700,990)	(4,057,430)	(162,390)	(4,219,820)	(3,797,612)	(4,385,334)

The liabilities show the underlying commitments that the CC has in the long run to pay retirement benefits. The total liability of £4.385m has a substantial impact on the net worth of the CC as recorded in the Balance Sheet, resulting in a net liability of £4.390m. However, statutory arrangements for funding the deficit means that the financial position of the CC 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 the Group.

7. Pensions Notes

7.8 Actuarial Assumptions

The main assumptions used in the calculations have been:

	Local Government Pension Scheme		Police Pension Scheme	
	31st March 2014	31st March 2015	31st March 2014	31st March 2015
Rate of inflation	2.4%	2.1%	2.5%	2.2%
Rate of increase in salaries	3.9%	3.6%	4.5%	4.2%
Rate of increase in pensions	2.4%	2.1%	2.5%	2.2%
Rate for discounting scheme liabilities	4.6%	3.4%	4.4%	3.3%
<u>Mortality Rates (in years)</u>				
Longevity at 65 for future pensioners (Men)	24.7	24.8	25.6	25.4
Longevity at 65 for future pensioners (Women)	28.0	28.1	28.0	27.9
Longevity at 65 for current pensioners (Men)	22.3	22.4	23.4	23.3
Longevity at 65 for current pensioners (Women)	25.2	25.3	25.9	25.7

7.9 Actuarial Assumptions – Sensitivity Analysis

Change in Actuarial Assumption	2014/15	2014/15	2014/15	2014/15
	Police Staff Pension Scheme	Police Pension Scheme	Police Pension Scheme	TOTAL
		OLD SCHEME	NEW SCHEME	
	£000	£000	£000	£000
Unadjusted deficit	(165,514)	(4,057,430)	(162,390)	(4,385,334)
+0.1% change in discount rate	10,531	85,400	5,860	101,791
+0.1% change in pay growth (salaries)	(10,768)	(10,200)	(2,520)	(23,488)
+0.1% change in inflation (pensions)	(3,692)	(70,600)	(2,680)	(76,972)
+1 year increase in life expectancy	(9,002)	(97,000)	(3,000)	(109,002)

7. Pensions Notes

7.10 Reconciliation of Present Value of Scheme Liabilities

	LGPS Funded Liabilities		Police Pension Scheme Unfunded Liabilities						TOTAL
	2013/14	2014/15	2013/14	2013/14	2013/14	2014/15	2014/15	2014/15	2014/15
	£000	£000	OLD SCHEME £000	NEW SCHEME £000	TOTAL £000	OLD SCHEME £000	NEW SCHEME £000	TOTAL £000	GRAND TOTAL £000
As at 1st April	(371,880)	(367,864)	(3,606,040)	(104,120)	(3,710,160)	(3,585,060)	(115,930)	(3,700,990)	(4,068,854)
Transfer of liabilities from PCC	0	(3,100)	0	0	0	0	0	0	(3,100)
Current service costs	(10,667)	(9,522)	(62,360)	(16,290)	(78,650)	(50,450)	(16,900)	(67,350)	(76,872)
Interest costs	(16,247)	(16,964)	(154,110)	(4,910)	(159,020)	(156,460)	(5,590)	(162,050)	(179,014)
Members contributions	(3,363)	(3,455)	(14,510)	(3,480)	(17,990)	(13,860)	(4,870)	(18,730)	(22,185)
IAS 19 remeasurements	26,927	(86,823)	134,670	13,510	148,180	(371,500)	(18,620)	(390,120)	(476,943)
Benefits paid	8,617	7,811	122,290	0	122,290	123,850	70	123,920	131,731
Past service costs	(1,251)	0	(5,000)	(640)	(5,640)	(3,950)	(550)	(4,500)	(4,500)
Loss on curtailments	0	(312)	0	0	0	0	0	0	(312)
As at 31st March	(367,864)	(480,229)	(3,585,060)	(115,930)	(3,700,990)	(4,057,430)	(162,390)	(4,219,820)	(4,700,049)

7.11 Reconciliation of Present Value of Scheme Assets

	LGPS Funded Assets		Police Pension Scheme Unfunded Assets						TOTAL
	2013/14	2014/15	2013/14	2013/14	2013/14	2014/15	2014/15	2014/15	2014/15
	£000	£000	OLD SCHEME £000	NEW SCHEME £000	TOTAL £000	OLD SCHEME £000	NEW SCHEME £000	TOTAL £000	GRAND TOTAL £000
As at 1st April	256,049	271,242	0	0	0	0	0	0	271,242
Transfer of assets from PCC	0	2,032	0	0	0	0	0	0	2,032
Expected return on assets	11,355	12,749	0	0	0	0	0	0	12,749
Administrative expenses	(255)	(261)	0	0	0	0	0	0	(261)
Employers contributions	9,282	12,116	40,143	7,510	47,653	36,678	9,110	45,788	57,904
Members contributions	3,363	3,454	14,510	3,480	17,990	13,860	4,870	18,730	22,184
Benefits paid	(8,617)	(7,811)	(122,290)	0	(122,290)	(123,850)	(70)	(123,920)	(131,731)
IAS 19 remeasurements	65	21,194	67,637	(10,990)	56,647	73,312	(13,910)	59,402	80,596
As at 31st March	271,242	314,715	0	0	0	0	0	0	314,715

7. Pensions Notes

7.12 Fair Value of Plan Assets

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:

	Expected Return on Assets as at 31st March 2014	Assets as at 31st March 2014		Expected Return on Assets as at 31st March 2015	Assets as at 31st March 2015	
	%	£000	%	%	£000	%
Equity investments	7.0%	154,292	56.9%	6.5%	169,883	54.0%
Government bonds	3.4%	11,444	4.2%	2.2%	15,736	5.0%
Other bonds	4.3%	32,973	12.2%	2.9%	38,867	12.3%
Property	6.2%	21,754	8.0%	5.9%	25,996	8.3%
Cash/liquidity	0.5%	7,193	2.7%	0.5%	9,536	3.0%
Other	n/a	43,586	16.1%	6.5%	54,697	17.4%
Total		271,242	100.0%		314,715	100.0%

The asset values in the Local Government Pension Scheme were calculated as at 31st March 2015. 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.

7.13 Scheme History

	2010/11	2011/12	2012/13	2013/14	2014/15
	£000	£000	£000	£000	£000
Present Value of Scheme Liabilities					
Local Government Pension Scheme	(289,897)	(309,812)	(371,882)	(367,864)	(480,229)
Police Pension Scheme	(3,029,010)	(3,231,130)	(3,710,160)	(3,700,990)	(4,219,820)
	(3,318,907)	(3,540,942)	(4,082,042)	(4,068,854)	(4,700,049)
Fair Value of Assets (LGPS)					
Local Government Pension Scheme	212,383	221,153	256,049	271,242	314,715
Deficit in Scheme					
Local Government Pension Scheme	(77,514)	(88,659)	(115,833)	(96,622)	(165,514)
Police Pension Scheme	(3,029,010)	(3,231,130)	(3,710,160)	(3,700,990)	(4,219,820)
	(3,106,524)	(3,319,789)	(3,825,993)	(3,797,612)	(4,385,334)

7. Pensions Notes

7.14 Remeasurements of the Net Defined Benefit Liability

	2010/11		2011/12		2012/13		2013/14		2014/15	
	£000	%	£000	%	£000	%	£000	%	£000	%
Local Government Scheme										
Difference between the expected and actual return on assets	7,369	3.5	(8,852)	4.0	18,199	6.4	12,775	4.7	21,193	6.8
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	13,727	4.7	0	0.0	(40,972)	16.0	14,218	5.2	(86,823)	27.7
	<u>21,096</u>		<u>(8,852)</u>		<u>(22,773)</u>		<u>26,993</u>		<u>(65,630)</u>	
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	66,973	0.9	83,428	1.1	194,511	4.8	97,367	2.4	131,322	2.8
Changes in the demographic and financial assumptions used to estimate liabilities	42,470	1.4	(92,370)	2.9	(499,430)	12.2	107,460	2.6	(462,040)	9.8
	<u>109,443</u>		<u>(8,942)</u>		<u>(304,919)</u>		<u>204,827</u>		<u>(330,718)</u>	
Total IAS 19 Remeasurements	<u>130,539</u>		<u>(17,794)</u>		<u>(327,692)</u>		<u>231,820</u>		<u>(396,348)</u>	

7. Pensions Notes

7.15 Plan Asset Fair Value Disaggregation

Asset Classification	2013/14			2014/15		
	£000 Quoted Market price	£000 No Quoted Market price	£000 TOTAL	£000 Quoted Market price	£000 No Quoted Market price	£000 TOTAL
Equities						
UK	71,700	0	71,700	75,091	0	75,091
Global	82,592	0	82,592	94,792	0	94,792
	154,292	0	154,292	169,883	0	169,883
Bonds						
UK Government	11,444	0	11,444	15,736	0	15,736
UK Corporate	7,157	0	7,157	8,151	0	8,151
UK Index Linked	25,816	0	25,816	30,716	0	30,716
	44,417	0	44,417	54,603	0	54,603
Property						
UK Direct Property	0	13,243	13,243	0	17,624	17,624
UK Property Managed	1,673	4,293	5,966	1,039	4,186	5,225
Global Property Managed	0	2,545	2,545	0	3,147	3,147
	1,673	20,081	21,754	1,039	24,957	25,996
Other						
UK Private Equity	195	6,974	7,169	126	9,410	9,536
Global Private Equity	0	6,579	6,579	0	8,623	8,623
UK Hedge Funds	767	11,105	11,872	787	1,699	2,486
Global Hedge Funds	0	406	406	0	9,599	9,599
Global Infrastructure	822	2,154	2,976	850	2,612	3,462
UK Infrastructure	0	2,457	2,457	0	4,406	4,406
UK Opportunities	3,957	3,782	7,739	5,759	6,452	12,211
Global Opportunities	2,333	2,055	4,388	944	3,430	4,374
	8,074	35,512	43,586	8,466	46,231	54,697
Cash						
Cash Instruments	7,193	0	7,193	9,536	0	9,536
	215,649	55,593	271,242	243,527	71,188	314,715

1. Scope of Responsibility

- 1.1 The Chief Constable of Merseyside Police is responsible for maintaining the Queen's Peace and has direction and control over the officers and staff operating within the Merseyside Police Service. The Chief Constable of Merseyside holds office² under the Crown and is appointed by the Police and Crime Commissioner of Merseyside (PCC).
- 1.2 The Chief Constable of Merseyside Police is accountable to the law for the exercise of police powers, and to the PCC for the delivery of efficient and effective policing, management of resources and expenditure by the police force. At all times the Chief Constable, police officers and staff, remain operationally independent in the service of the communities that they serve. In discharging his overall responsibilities, the Chief Constable of Merseyside is responsible for establishing and maintaining appropriate governance arrangements, risk management processes and ensuring that there is a sound system of internal control, which facilitates the effective exercise of these functions.
- 1.3 Merseyside Police established a Corporate Governance Framework through which the Chief Constable can be assured that the force's systems, policies and people are operating in a way that is driving the delivery of agreed corporate objectives, are focused on the key risks to the delivery of those objectives and are economic, efficient and effective.
- 1.4 This statement meets the requirements of Accounts and Audit (England) Regulations 2011, Regulation 4(3), which requires all relevant bodies to prepare an Annual Governance Statement.

2. The Purpose of the Governance Framework

- 2.1 The Governance Framework comprises the systems, processes, culture and values by which the force is directed and controlled, and the activities through which it accounts to and engages with the community. It enables the force to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services, including achieving value for money.
- 2.2 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 absolute, assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the force'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

- 3.1 The Chief Constable of Merseyside Police 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 Police and Crime Commissioner for Merseyside 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.

² Definition of Office of Constable – "an independent and impartial officer, the holder of whom operates within and is accountable to the rule of law. Any holder of the office of constable is tasked with upholding and enforcing the law".

3.2 The key elements of the system and processes that comprise the force's governance arrangements are detailed in this section. The elements are based on the approved Code of Corporate Governance, which incorporates the six core principles of good governance in the local context, and sets out the arrangements for reviewing their effectiveness. The key elements of the systems and processes that comprise the governance arrangements within the force are detailed below under the appropriate core principles of good governance:

(i) **Focusing on the purpose of the PCC and the force, on outcomes for the community, and creating and implementing a vision for the local area.**

To demonstrate compliance with this core principle, the force:

- supports **delivery of the PCC's Police and Crime Plan** for Merseyside through regular monitoring of performance via the force's performance framework and various governance meetings as outlined in the force's Assurance Framework.
- has developed a number of strategies, including:
 - a **Serious & Organised Crime Strategy**, which embraces the national strategy and utilises the four strands of Pursue, Prevent, Protect and Prepare in order to build stronger communities whilst reducing threat and vulnerability.
 - a **Local Policing Strategy**, which details what is delivered through local policing, The aim of the strategy is to provide excellent policing for the communities of Merseyside.
 - a **Force Prevention Strategy**, which represents the commitment of Merseyside Police to ensure that Prevention is effectively embedded into core business.
- in conjunction with the PCC, regularly **consults and engages** with communities about policing, the prevention of crime and ASB. There is a dedicated section on each of the force's neighbourhood pages to enable members of the public to see what the current local policing priorities are and also the ability for the public to provide feedback through 'Have Your Say'.
- has established a joint **Corporate Governance Group**, consisting of senior members of the force and OPCC. This group is responsible for reviewing the Corporate Governance Framework on an annual basis and overseeing its implementation.
- has a number of **Community Safety Partnerships**, which are the umbrella arrangements that govern our approach to partnership working. All local partnership arrangements feed into this umbrella framework in a variety of ways.
- has focused its savings programme to enable the force to meet the ongoing Government spending cuts. It is expected that the budget for the force will be reduced by a further £48m between April 2016 and April 2019.
- is proactive in understanding and dealing with failure in service delivery. As part of the drive for **continuous improvement** the force is focusing on understanding demand in an effort to ensure that everything that we do adds value to the customer/user.

Annual Governance Statement

- Balances **value for money** considerations against organisational risk and underpin planning and performance management processes, including those activities delivered in partnership.
- publishes its **budget and statement of accounts**, which communicates its activities, achievements, financial position and performance. In addition, the Chief Constable has jointly developed a Medium Term Financial Strategy with the PCC.
- has developed governance and approval processes around the **Estate Strategy** to ensure the correct mechanisms are in place and auditable for delivering estate projects.
- has developed effective arrangements to **monitor force performance**, which is reported to the PCC via the Performance and Scrutiny Group. The relevant data is published on the PCC's website.

(ii) **Leaders, officers and partners working together to achieve a common purpose with clearly defined functions and roles.**

To demonstrate compliance with this core principle, the force:

- is fully compliant with the requirements of the **Policing Protocol** in terms of the respective statutory roles of the Chief Constable, PCC and senior staff.
- provides each member of staff (including senior officers) with **clear job descriptions**, setting out the principal accountabilities for each role.
- produces regular updates and publishes an **organisation chart**, which sets out each portfolio and the senior officers and staff within each BCU and department.
- has developed a **Scheme of Delegation**, which provides personnel with the legal authority to carry out appropriate duties of the Chief Constable.
- controls the **force establishment and movement of staff** via the Origin IT system, which provides tight control over organisational structure.
- has established a number of **formal and informal lines of communication** in conjunction with the OPCC to ensure smooth running of business. The Chief Constable and PCC have regular one to one meetings and a force/OPCC Liaison Meeting has been set up to resolve any issues around governance.
- has produced a '**Chief Officer Local Arrangements**' document, which aims to establish a consistent understanding of local arrangements - what is expected of chief officers, what they are entitled to, and the relevant policies and procedures for achieving this.
- follow the **nationally agreed arrangements for remuneration** of Police Officer (Superintending and Federated ranks) and Police Staff. Pay and conditions are negotiated and set nationally.
- contributes to a **regular update against each of the priorities outlined in the Police and Crime Plan**. The PCC presents this on a regular basis to the Police and Crime Panel.

Annual Governance Statement

- governs **significant partnerships** via protocols set amongst the various Community Safety Partnership arrangements.

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

To demonstrate compliance with this core principle, the force:

- and Chief Constable's overriding priority is to uphold **high standards of conduct and behaviour**. This is achieved via a number of separate but connected initiatives, eg Just Trilogy, Chief Constable's Roadshows, Standards and Values Policy and the Integrity and Anti-Corruption Strategy.
- has developed a **Force Strategy for 2015-2018**, promoting excellent policing for the communities of Merseyside. This focuses on adapting the highest of standards, doing the right thing and demonstrating honesty and integrity.
- has introduced the **Integrity and Anti-Corruption Board** to oversee delivery of the Integrity and Anti-Corruption Strategy, which is chaired by the Deputy Chief Constable.
- actively promotes **Authorised Professional Practice**, as the official source of policing practice. This is produced by the College of Policing, to help inform decision-making across all areas of policing.
- has fully embedded the **statutory Code of Ethics** produced by the College of Policing.
- has developed and introduced **numerous policies**, specifically designed to address any potential to undermine the Chief Constable's efforts to uphold high standards of conduct and behaviour. These include:
 - Business Interests Policy
 - Doing The Right Thing Policy (Whistleblowing Policy)
 - Gifts & Hospitality Policy
 - Notifiable Associations Policy
 - Referred Officer Policy
 - Service Confidence Policy
 - Standards & Values Policy (recently amended to reflect introduction of statutory Code of Ethics)
 - Substance Misuse Policy
 - Vetting Policy
- has **supporting policies** designed to deliver high standards and values:
 - Email & Electronic Messaging
 - Internet
 - IT Acceptable Use
 - Mobile Phone
 - Pocket Notebook
 - Remote Working

(iv) **Taking informed and transparent decisions, which are subject to effective scrutiny and managing risk.**

To demonstrate compliance with this core principle, the force:

Annual Governance Statement

- has developed effective **arrangements to monitor force performance**, both operational and organisational, which is reported to the PCC via the Performance and Scrutiny Group.
 - has a number of corporate meetings, designed collectively to ensure that **strategic decisions are well informed**. These meetings are recorded and actions published to provide a record of decision-making.
 - in conjunction with the PCC, has established a **joint 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.
 - has well developed **risk management arrangements**, with risks being managed at force and portfolio level, as well as within the change programme.
 - has developed a comprehensive **review and inspection programme**, which takes into account the force's strategic risks. It is a programme of BCU/Departmental inspections resulting in action plans and improved performance.
 - **publishes outcomes and actions from corporate decision-making meetings**, in accordance with the force's publication scheme.
 - has a **dedicated department to deal with complaints**. The complaints process has been reviewed to fall in line with the changes to the police complaints system introduced by the Police Reform and Social Responsibility Act 2011.
 - has developed a **Scheme of Delegation**, which provides personnel with the legal authority to carry out appropriate duties of the Chief Constable.
 - has a **Scheme of Corporate Governance**, which highlights the parameters for key roles in the corporations sole including consents or delegations from the Commissioner and Chief Constable, financial regulations, contract standing orders and limits.
- (v) **Developing the capacity and capability of the PCC, officers of the PCC and the Force to be effective.**

To demonstrate compliance with this core principle, the force:

- is committed to achieving its vision of Excellent Policing for the Communities of Merseyside. The **People Strategy for 2012-2016** underpins our vision by supporting the strategic, cultural and functional changes, which will transform the organisation.
- regularly undertakes **succession planning for senior officers**, which identifies potential operational gaps in the future and develops individuals to ensure those gaps are filled.
- has **implemented a training plan**, which has been constructed using a prioritisation model.

Annual Governance Statement

- has developed **local induction programmes**, supported by a force induction pack for all new starters.
- has introduced a **simplified PDR process**, which has reduced bureaucracy, freeing up line managers' time.
- has implemented the College of Policing **Fast Track Programme**, which is a development programme and promotion mechanism to enable the most talented to advance to the rank of inspector within two years for serving constables and three years for police staff, special constables and external graduates.

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

To demonstrate compliance with this core principle, the force:

- has quarterly **'Have Your Say' neighbourhood meetings**, which are used to consult and engage with communities about policing and the prevention of crime and anti-social behaviour.
- produces quarterly **neighbourhood newsletters** to provide feedback.
- uses the website to provide vital information to the community and also provides a **mechanism for local communities to raise questions** over their local issues and concerns.
- publishes the **minutes of BCU and force meetings** on the website, along with the gifts and hospitality register and other financial reporting documents such as expenses.
- has developed a Force Twitter account to provide **information to the communities of Merseyside**. In addition, the majority of neighbourhoods within the force manage their own Twitter accounts to provide communities with news and information of local concern.
- The force's Facebook account is another mechanism by which we reach our communities.
- has an **Independent Advisory Group (IAG)** that meets every six weeks. The force consults with the group and seeks their views on matters of policy (e.g. stop search) and how policing is effecting the different communities within Merseyside.
- has an **interfaith group** with representatives from all the major religions across Merseyside. The group meets quarterly.
- has a **Lay Observation Scheme**. MIAG and YIAG members have been provided with additional training and input to view Body Worn camera footage of Stop & Search encounters. The observers watch randomly selected stop & search encounters and complete a comprehensive feedback form for the officer conducting the search on the legitimacy, necessary requirements and perception of the officer's conduct. This is then fed back via supervision. This is currently conducted quarterly.
- engages with young people through the Office of the Police and Crime Commissioner (OPCC) **Youth Advisory Group (YAG)**.
- has an **Insight (Ride Along) scheme**, which gives an opportunity for members of the community to gain insight into the work / role of a police officer and allows to provide feedback as to how we can improve our service.

Annual Governance Statement

- undertakes **surveys to obtain feedback from service users** in relation to particular issues and concerns raised both across the force and in individual neighbourhoods.
- has established **Community Focus groups** to seek the views of local communities.
- **engages with cultural and ethnic groups** at a force level and local community groups at neighbourhood level to discuss local issues and concerns.
- have staff networks with **multiple community links** and links to other stakeholders that are used to disseminate information and obtain feedback.
- publishes its **equality objectives**, at least every four years, in line with the Equality Act 2010.
- regularly **reviews its allocation and deployment of resources** to best meet the demands of the community, taking into account threat/harm/risk and directing resources to those priorities that need services most.

4. Review of Effectiveness

4.1 The Chief Constable of Merseyside 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.

4.2 The review of effectiveness for 2014-15 has been informed by the work of senior managers within the force, who have responsibility for the development and maintenance of the governance environment; the Head of Internal Audit's annual report; and also by comments made by external auditors and other review agencies and inspectorates. The review also comprises:

- An annual review of the key documents within the Chief Constable's corporate governance framework eg Financial Regulations. This provides assurance around potential vulnerability to fraud or breaches of financial regulations.
- An overarching review of the governance arrangements in place to support each of the core principles. As part of the review the Chief Constable's Code of Corporate Governance is updated to reflect changes to the governance framework and the implementation of the prior year's AGS development plan.
- A review of what has happened during the past year to evidence how the governance framework has been complied with. The process includes consideration of the questions and challenges raised within the CIPFA Good Governance Guidance Note for Police and a discussion on how well existing arrangements meet the good practice guidance within the guidance.

4.3 The following arrangements enable the force to review the effectiveness of the governance framework:

Chief Constable of Merseyside Police

The Chief Constable is responsible for approving the local Code of Corporate Governance and for undertaking an annual review of its effectiveness. The Chief Constable received and approved the Annual Governance Statement in September 2015. The Annual Governance Statement is signed by the Chief Constable and the Director of Resources (Chief Finance Officer).

Annual Governance Statement

Assurance Framework

The force has developed an Assurance Framework, which is a structured means of identifying and mapping the key sources of assurance in the organisation and comprises evidence to support the Annual Governance Statement. In addition, an Assurance Statement has been developed for each Chief Officer portfolio, which is a high level document detailing the force's statutory obligations within the overall governance framework.

Shared Internal Audit Service

The PCC and Chief Constable have a shared Internal Audit Service. This is to ensure the production and delivery of a risk based Internal Audit Plan that will be able to support two separate annual audit opinions.

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.

On the basis of the programme of planned internal audit work undertaken in 2014/15, it is the Head of Internal Audit's opinion that the Chief Constable of Merseyside has adequate and effective risk management, control and governance processes to manage the achievement of the organisation's objectives.

External Audit

The PCC and Chief Constable's 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 2014/15 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 2015 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 2014/15.

Joint Audit Committee

The PCC and Chief Constable's independent Audit Committee continues to provide independent assurance of the adequacy of the risk management framework and the associated control environment. This also provides independent scrutiny of the organisation's financial and non-financial performance to the extent that it affects the organisation's 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. The Committee has received assurances on the operation of the Commissioner's and Chief Constable's systems of governance, risk management and financial reporting and annual governance statement arrangements. Its work has not identified any significant control risks and 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 an assessment of its performance against their terms of reference and objectives. Members determined that it was effective but identified areas where improvements could be made. These included implementing 'champion' roles and understanding the wider arrangements for countering fraud and corruption risks and the

Annual Governance Statement

approach to ethical standards. The findings of the review have been reported to the Commissioner and Chief Constable and an action plan was agreed to to address the areas identified. The Committee recognises the significant challenges facing the Commissioner and the Chief Constable and aims to support good governance in developments such as the estate strategy, victim services and the continuing requirements to make cost savings.

The Committee also concluded that it has received assurances on the operation of the Commissioner's and Chief Constable's system of governance, risk management and financial reporting and annual governance statement arrangements. Its work has not identified any significant control risks and the committee concludes that the arrangements are adequate.

Force Review & Inspection Team

The force has its own Review and Inspection Team who are responsible for providing assurance to the Deputy Chief Constable (DCC) in relation to areas of risk for the force. Areas, functions and processes at risk are identified from a number of sources including the force's risk register. Reviews and inspections are undertaken and a level of assurance of compliance, fitness for purpose and risk is reported back to individual Chief Officers and action plans monitored via appropriate governance meetings.

Her Majesty's Inspectorate of Constabulary (HMIC)

The role of HMIC is to promote the efficiency and effectiveness of policing in England, Wales and Northern Ireland through inspection of police organisations and functions to ensure agreed standards are achieved and maintained; good practice is spread and performance is improved.

HMIC reports are sent to the Chief Constable and the PCC for consideration and appropriate action.

Force decision making processes

Policy and decision making within the force ultimately rests with the Chief Constable. A number of key corporate meetings exist to support him in this process:

- Chief Officer Group / Senior Management Team (COG/SMT) - the main purpose of COG/SMT is to set force strategy and provide an integrated approach to oversee its delivery.
- Change COG/SMT – the main purpose of the meeting is to provide governance and decision making to ensure work programmes are delivered to required timescales.
- Strategic Governance Meeting - the main purpose of the Governance Meeting is to provide corporate oversight and governance across Chief Officer Portfolios.
- Strategic Performance Meetings - The main purpose of the Strategic Performance Meeting is to measure outcomes against priorities. During 2014-15 the force transformed how it manages performance. The emphasis has moved away from a traditional target based culture to one that focuses on priorities based on threat, harm and risk and reports on an exceptions basis for other measures.

5. Significant Governance Issues

5.1 The following have been identified as significant governance issues for the force in 2015/16 and beyond.

Governance Issue	Action
<p>The Police & Crime Commissioner has set a budget for 2015-16, however there is a recognition that the ongoing Government spending cuts will significantly impact upon the force. It is expected that the force budget will be reduced by a further £48m between April 2016 and April 2019.</p> <p>In addition, the Home Office are consulting on reforming the formula used to distribute funding between the 43 geographic police force areas in England and Wales.</p>	<p>The force will need to ensure that robust plans are developed and in place to balance the budget in the Medium Term Financial Strategy and beyond, in line with the priorities of the organisation and the PCC.</p> <p>The force is currently developing plans for a functional model to enable the force to meet its savings requirement. The future structure will enable us to deliver the best possible service to the communities of Merseyside with the resources we have available.</p> <p>The consultation closes in September 2015 and the force will closely monitor any recommendations that come out of the consultation.</p>
<p>Staff and officer numbers will fall in line with the savings targets that the force will be required to meet over the coming years. Police Officer attrition rates and staff redundancy programmes may be stretched as these targets escalate.</p>	<p>Staff and officer numbers will be closely monitored against the savings targets and the force will place a moratorium on officer recruitment until the position becomes clear.</p>
<p>The development of the approved Estate Strategy and implementation of governance and approvals processes around the Estate Strategy.</p>	<p>The force has developed a comprehensive governance and approvals process in relation to the Estate Strategy. This is to ensure the correct mechanisms are in place and auditable for delivering estate projects. The development of a Strategic Implementation Group and Estate Strategy Steering Group will ensure development and delivery of the police estate.</p>
<p>The identification of potential and on-going collaboration with the Merseyside Fire and Rescue Authority (MFRA).</p>	<p>The PCC and the MFRA have established a Joint Fire and Rescue and Police Committee to oversee collaboration between the Fire and Police Services and consider opportunities for greater collaboration. Individual Project Teams have been established to look at possible areas of collaboration these teams will report back to the Committee.</p>

Annual Governance Statement

Signed

The Annual Governance Statement was signed by Sir Jon Murphy and Geoff Broadhead on 18th September 2015.

**Sir Jon Murphy QPM
18th September 2015
Chief Constable, Merseyside Police**

**Geoff Broadhead CPFA
18th September 2015
Chief Finance Officer, Merseyside
Police**

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 CC.

CREDITORS

Individuals or organisations to whom the CC 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 CC money at the end of the financial year.

DEFERRED LIABILITY

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

DEPRECIATION

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

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.

Glossary of Terms

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.

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.

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.

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.

NON DISTRIBUTED COSTS (PENSIONS)

This covers past service costs settlements and curtailments in respect of IAS19 pension costs. It also covers costs associated with unused assets.

THE 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 Accounting in the United Kingdom 2014/15)

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 2014.

THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

The account which summarises the costs of all the functions of the CC. It also includes notional charges for the fair use of assets and the notional cost of retirement benefits earned by employees in the year.

OPERATING ACTIVITIES (CASH FLOW)

Operating activities are the activities of the entity that are not investing or financing activities.

OPERATING LEASE

A lease where substantially all the risks and rewards of ownership remain with the lessor.

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.

Glossary of Terms

POLICE REFORM AND SOCIAL RESPONSIBILITY ACT 2011 (PRSR Act)

The Police Reform and Social Responsibility Bill was given Royal Assent on 13th September 2011. The Act changed Police accountability and governance and replaced Police Authorities with directly elected Police and Crime Commissioners.

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 gains and losses, remeasurements 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, 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).

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 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

UK GAAP (Generally Accepted Accounting Principles)

Compliance with UK company law, UK accounting standards and best practice.